Financial Section

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees
Maryland State Retirement and Pension System

Report on the Financial Statements

We have audited the accompanying financial statements of the Maryland State Retirement and Pension System (the System), which is a pension trust fund of the State of Maryland, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the System's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

We have audited the accompanying financial statements of the Maryland State Retirement and Pension System (the System), which is a pension trust fund of the State of Maryland, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the System's financial statements as listed in the table of contents.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System, as of June 30, 2014 and 2013, and the respective changes in plan net position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in employers' net pension liability, schedule of employers' net pension liability and related ratios, schedule of employers' contributions and related ratios, schedule of investment returns, and notes to required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The introductory, other supplementary information, investment, actuarial, statistical and plan summary sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of fund balances, schedule of administrative expenses, schedule of plan net position by system, schedule of changes in plan net position by system, and the schedule of investment expenses are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information, as listed above, is fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedule of funding progress, the schedule of contributions from employer and other contributing entity, and the introductory, investment, actuarial, statistical, and plan summary sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

SB & Company, LLC

Hunt Valley, Maryland
November 25, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

To help facilitate a better understanding of the Maryland State Retirement and Pension System's (the "System") financial condition as of June 30, 2014, the results of its operations for the fiscal year then ended and the fiscal policies that govern its significant business operations, management has prepared this narrative analysis. This narrative is intended to supplement the System's audited financial statements and, as such should be read in conjunction with these statements, which are presented beginning on page 24.

OVERVIEW OF THE FINANCIAL STATEMENTS

As required by accounting principles generally accepted in the United States of America, the System's basic financial statements are comprised of the comparative Statements of Plan Net Position and Statements of Changes in Plan Net Position, along with the related note disclosures. In addition, the System's financial statements include certain required supplementary information (e.g., schedule of changes in employers' net pension liability, schedule of employers' net pension liability, schedule of employers' contributions, and schedule of investment returns) as well as other supplementary schedules considered relevant to the financial statement user (e.g., schedules of fund balances, administrative and investment expenses, plan net position, and related changes by system). To better understand the relevance of the information presented in the System's financial statements and related notes and supplementary information, it is helpful to first consider what purpose each component is intended to serve.

The Statements of Plan Net Position present a comparative, summary-level snapshot, as of a specific point in time (i.e., June 30th – the last day of the System's fiscal year), of the market value of the net position available to pay future pension benefits to retirees and beneficiaries. To assist the reader in understanding the composition of the System's accumulated net position the most significant components (e.g., cash and cash equivalent securities, investments) are separately disclosed. In this regard, cash and cash equivalents represent that portion of the System's assets that, as of the end of the fiscal year, reside in the form of actual cash or short-term, highly liquid, investment securities. This amount gives an indication of the System's liquidity at fiscal year-end. Conversely, the amounts shown as investments represent those funds invested in longer-term securities (e.g., stocks, bonds, real estate) held for the purpose of generating investment income. The sum of these assets, reduced by any liabilities owed by the System as of fiscal year-end, represents the net position held in trust to pay pension benefits.

By contrast, the Statements of Changes in Plan Net Position are intended to show, on a comparative basis, the major categories of income earned (additions to plan net position) and expenses incurred (deductions from plan net position) by the System during the previous fiscal year. As such, the System's net income or loss accounts for the entire change in the net position held in trust to pay pension benefits during the fiscal year as a result of System operations. As with the System's assets and liabilities, significant categories of income and expense, as reported on the Statements of Changes in Plan Net Position, are separately disclosed to help clarify the major sources and uses of the System's resources.

Finally, the note disclosures are provided as an integral component of the basic financial statements to help explain in narrative form some of the more complex or less obvious elements of the statements. Further, the notes to the financial statements provide additional information (e.g., significant accounting policies, various types of investment risk) that is essential for a comprehensive understanding of the System's financial condition and the results of its operations.

As part of the Government Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, certain new disclosures were made this year. These disclosures include information on the actuarial assumptions, long-term expected rates of return on investments, the discount rate, and the sensitivity of the net pension liability. These can be found in note 9 of the accompanying financial statements.

The Schedule of Funding Progress, while similar in scope to the Statements of Plan Net Position in that it is primarily focused on reporting on the accumulation of assets, differs from such statements both in its method for valuing such assets and in its approach to explaining their relevance to the liability they are being accumulated to satisfy. In this regard, the Schedule of Funding Progress first takes a long-term, actuarial view toward valuing the System's investment portfolio, as opposed to the market value approach reflected on the Statements of Plan Net Position. Specifically, the System's assets are valued (for funding purposes) using a methodology that distributes investment gains and losses over a five-year period in order to minimize the effects of annual market volatility on employer contribution rates.

The Schedule of Changes in Employers' Net Pension Liability, Schedule of Employers' Net Pension Liability, Schedule of Employers' Contributions, and Schedule of Investment Returns share common characteristics with data disclosed in the basic financial statements. In this regard, both the Statements of Changes in Plan Net Position and the Schedule of Contributions from Employers and Other Contributing Entity disclose the amount of contributions received from participating employers. However, the Schedule of Employer Contributions differs from the Statements of Changes in Plan Net Position in that the schedule's primary focus is to disclose the contributions required to be made in accordance with the System's funding policy and the percentage of the required contributions actually made during the fiscal years presented.

Finally, the other supplementary schedules, presented immediately after the required supplementary information, summarize the changes in fund balances, disclose major categories of operating and investment expenses, and provide combining, plan-level detail related to asset, liability, income and expense amounts summarized in the basic financial statements.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The System's overall funding objective is to accumulate sufficient assets over time to meet its long-term benefit obligations as they become due. Accordingly, collecting employer and member contributions as well as earning an adequate long-term rate of return on its investments are essential components of the System's plan for accumulating the funds needed to finance future retirement benefits.

ANALYSIS OF RECENT ACCOUNTING PRONOUNCEMENTS

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 67, *Financial Reporting for Pension Plans*, (GASB 67) that reflects substantial changes to the accounting and financial reporting of pension plans. For state and local government pension plans, GASB 67 replaces Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (GASB 25) for financial reporting. Additional, GASB 67 replaces the requirements under Statement No. 50, *Pension Disclosures*, (GASB 50) for those governments and public pension plans. GASB 67 shifts the focus of accounting for pension plans from a funding model, under GASB 25, to a cost model.

This change focuses on the measurement of the liability. GASB 25 subtracts the Actuarial Value of Assets from the Actuarial Accrued Liability to determine the Unfunded Actuarial Accrued Liability shown in the statements. GASB 67 subtracts the Fiduciary Net Position from the Total Pension Liability to determine the Net Pension Liability shown in the statements. Another key change is that GASB 25 allows for the smoothing of assets, whereas, GASB 67 uses their fair value as of the measurement date.

Fiscal Year 2014 compared to 2013

The following condensed comparative Statement of Plan Net Position for the fiscal years ended June 30, 2014 and 2013, presents an increase in the System's net position of $4.98 billion (12.3%). This increase is primarily due to positive net returns in the investment portfolio, led by public equity; private equity, real estate and debt. Additional information on our fiscal year 2014 investment activities can be found in the Investment Section of this report.

A schedule of the System's investments and changes (by type) from fiscal year 2013 to 2014 is as follows (expressed in millions):

	June 30,		Change	
	2014	**2013**	**Variance**	**%**
Cash & cash equivalents	**$2,054.2**	$2,085.1	$(30.9)	-1.5%
U.S. Government obligations	**3,422.8**	3,556.6	(133.8)	3.8%
Domestic corporate obligations	**3,803.3**	2,771.8	1,031.5	37.2%
International obligations	**1,870.1**	1,603.7	266.4	16.6%
Domestic stocks	**8,344.4**	8,255.4	89.0	1.1%
International stocks	**8,057.3**	7,827.1	230.2	2.9%
Mortgages & mortgage related securities	**1,926.7**	2,079.5	(152.8)	-7.3%
Alternative investments	**16,358.8**	12,227.2	4,131.6	33.8%
Total managed investments	**45,837.6**	40,406.4	5,431.2	13.4%
Collateral for loaned securities	**2,490.9**	2,876.4	(385.5)	-13.4%
Total investments and cash & cash equivalents	**48,328.5**	43,282.8	5,045.7	11.7%
Receivables	**848.8**	1,455.2	(606.4)	-41.7%
Total Assets	**49,177.3**	44,738.0	4,439.3	9.9%
Liabilities	**3,837.3**	4,374.8	(537.5)	-12.3%
Total Net Position, End of Year	**$ 45,340.0**	40,363.2	$4,975.8	12.3%

As depicted in the following comparative Statement of Changes in Plan Net Position for fiscal years 2014 and 2013, contributions to the System during fiscal year 2014 increased slightly as a result of an increase in covered payroll and the State's reinvestment contribution of savings as a result of the pension reform legislation passed during the 2011 General Assembly session. The System's investments experienced a positive weighted average investment return of 14.38%, recognizing $5,706.3 million in net investment income.

The System continues to pay out more benefits than contributions collected. An increase of $171.1 million in benefits paid to retirees correlates to the increase in the number of retirees and beneficiaries experienced in fiscal year 2014. This increase offset against $5,706.3 million of fiscal year 2014 investment returns resulted in a net change in pension net position of $4,976.8 million.

A schedule of the System's additions to and deductions from plan net position and related changes (by major category) from fiscal year 2013 to 2014, is as follows (expressed in millions):

	June 30,		Change	
	2014	**2013**	**Variance**	**%**
Employer contributions	**$ 1,016.6**	$959.6	$ 57.0	5.9%
Member contributions	**727.7**	710.9	16.8	2.4%
State contributions on behalf of local governments & contribution interest	**717.0**	683.5	33.5	4.9%
Net investment income	**5,706.3**	3,845.8	1,860.5	48.4%
Total additions	**8,167.6**	6,199.8	1,967.8	31.7%
Benefit payments	**3,121.8**	2,950.7	171.1	5.8%
Refunds	**42.9**	38.3	4.6	12.0%
Administrative expenses	**26.1**	26.3	(0.2)	-0.8%
Total deductions	**3,190.8**	3,015.3	175.5	5.8%
Net increase in plan net position	**$4,976.8**	$3,184.5	$ 1,792.3	56.3%

Analysis of Net Pension Liability (expressed in millions)

	June 30,		Change	
	2014	**2013**	**Variance**	**%**
Total Pension Liability	$ 63,086.7	$60,060.1	$ 3,026.6	5.04%
Plan Fiduciary Net Position	45,340.0	40,363.2	4,976.8	12.33%
Net Pension Liability	$ 17,746.7	$ 19,696.9	$ (1,950.2)	-9.90%
Ratio - Fiduciary Net Position/TPL	71.87%	67.20%		

During the year the net pension liability decreased by $1,950.2. This was mainly due to an increase of investment income of $1,860.5, which outpaced the growth in expenses of $175.5.

Fiscal Year 2013 compared to 2012

The following condensed comparative Statement of Plan Net Position for the fiscal years ended June 30, 2013 and 2012, presents an increase in the System's net position of $3.2 billion (8.6%). This increase was primarily due to positive net returns in the investment portfolio, led by domestic, international and global equity; credit and debt strategies; private equity and real estate. Additional information on our fiscal year 2013 investment activities can be found in the Investment Section of this report.

A schedule of the System's investments and changes (by type) from fiscal year 2012 to 2013 follows (expressed in millions):

	June 30,		Change	
	2013	**2012**	**Variance**	**%**
Cash & cash equivalents	**$ 2,085.1**	$ 2,171.0	$ (85.9)	-4.0%
U.S. Government obligations	**3,556.6**	3,231.4	325.2	10.1%
Domestic corporate obligations	**2,771.8**	2,808.3	(36.5)	-1.3%
International obligations	**1,603.7**	1,306.5	297.2	22.7%
Domestic stocks	**8,255.4**	7,988.3	267.1	3.3%
International stocks	**7,827.1**	8,147.7	(320.6)	-3.9%
Mortgages & mortgage related securities	**2,079.5**	2,491.8	(412.3)	-16.5%
Real estate	**-**	5.0	(5.0)	-100.0%
Alternative investments	**12,227.2**	9,614.4	2,612.8	27.2%
Total managed investments	**40,406.4**	37,764.4	2,642.0	7.0%
Collateral for loaned securities	**2,876.4**	3,452.1	(575.7)	-16.7%
Total investments and cash & cash equivalents	**43,282.8**	41,216.5	2,066.3	5.0%
Receivables	**1,455.2**	1,040.6	414.6	39.8%
Total assets	**44,738.0**	42,257.1	2,480.9	5.9%
Liabilities	**4,374.8**	5,078.4	(703.6)	-13.9%
Total Net Position, End of Year	**$ 40,363.2**	$37,178.7	$ 3,184.5	8.6%

The System continues to pay out more benefits than contributions collected. An increase of $195.6 million in benefits paid to retirees correlates to the increase in the number of retirees and beneficiaries experienced in fiscal year 2013. This increase offsets against $3,845.8 million of fiscal year 2013 investment returns resulted in a net change in pension net position of $3,184.5 million.

As depicted in the following comparative Statement of Changes in Plan Net Position for fiscal years 2013 and 2012, contributions to the System during fiscal year 2013 increased slightly as a result of an increase in covered payroll and the State's reinvestment contribution of savings as a result of the pension reform legislation passed during the 2011 General Assembly session. The System's investments experienced a positive weighted average investment return of 10.6%, recognizing $3,845.8 million in net investment income.

A schedule of the System's additions to and deductions from plan net position and related changes (by major category) from fiscal year 2012 to 2013, is as follows (expressed in millions):

	June 30,		Change	
	2013	**2012**	**Variance**	**%**
Employer contributions	**$ 959.6**	$ 697.5	$ 262.1	37.6%
Member contributions	**710.9**	703.3	7.6	1.1%
State contributions on behalf of local governments & contribution interest	**683.5**	898.2	(214.7)	-23.9%
Net investment income	**3,845.8**	104.1	3,741.7	3594.3%
Total additions	**6,199.8**	2,403.1	3,796.7	158.0%
Benefit payments	**2,950.7**	2,755.1	195.6	7.1%
Refunds	**38.3**	33.8	4.5	13.3%
Administrative expenses	**26.3**	28.2	(1.9)	-6.7%
Total deductions	**3,015.3**	2,817.1	198.2	7.0%
Net increase (decrease) in plan net position	**$ 3,184.5**	$(414.0)	$3,598.5	869.2%

Requests for Information

Members of the System's Board of Trustees and senior management are fiduciaries of the pension trust fund and, as such, are charged with the responsibility of ensuring that the System's assets are used exclusively for the benefit of plan participants and their beneficiaries. This financial report is designed to provide an overview of the System's finances and to demonstrate accountability for the resources entrusted to the System for the benefit of all of the System's stakeholders. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

State Retirement and Pension System of Maryland
Attn: Melody Countess
120 E. Baltimore Street, Suite 1660
Baltimore, Maryland 21202-1600

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

STATEMENTS OF PLAN NET POSITION
As of June 30, 2014 and 2013
(Expressed in Thousands)

	2014	2013
Assets:		
Cash & Cash Equivalents (note 3)	**$ 2,054,181**	$2,085,086
Receivables		
Contributions:		
Employers	**19,971**	23,126
Employers – long term (note 5)	**34,806**	38,040
Members	**11,003**	11,016
Accrued investment income	**57,800**	195,152
Investment sales proceeds	**725,188**	1,187,822
Total receivables	**848,768**	1,455,156
Investments, at fair value (notes 2 & 3)		
U.S. Government obligations	**3,422,824**	3,556,575
Domestic corporate obligations	**3,803,260**	2,771,786
International obligations	**1,870,144**	1,603,739
Domestic stocks	**8,344,356**	8,255,430
International stocks	**8,057,309**	7,827,082
Mortgages & mortgage related securities	**1,926,733**	2,079,512
Alternative investments	**16,358,754**	12,227,172
Collateral for loaned securities	**2,490,916**	2,876,448
Total investments	**46,274,296**	41,197,744
Total Assets	**49,177,245**	44,737,986
Liabilities:		
Accounts payable & accrued expenses (note 8)	**60,964**	57,112
Investment commitments payable	**1,285,377**	1,438,653
Obligation for collateral for loaned securities	**2,490,916**	2,876,448
Other liabilities	**-**	2,556
Total Liabilities	**3,837,257**	4,374,769
Net position held in trust for pension benefits	**$45,339,988**	$40,363,217

The accompanying notes are an integral part of these financial statements.

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

STATEMENTS OF CHANGES IN PLAN NET POSITION
for the Fiscal Years Ended June 30, 2014 and 2013
(Expressed in Thousands)

	2014	2013
ADDITIONS:		
Contributions:		
Employers	$ 1,016,653	$ 959,612
Members	727,726	710,856
State contributions on behalf of local governments	714,974	681,217
Contribution interest	2,026	2,272
Total contributions	**2,461,379**	**2,353,957**
Investment Income:		
Net appreciation (depreciation) in fair value of investments	4,185,982	2,653,978
Interest	581,186	345,218
Dividends	1,259,615	1,107,491
Real estate operating net income	-	37
Income before securities lending activity	**6,026,783**	**4,106,724**
Gross income from securities lending activity	10,945	17,863
Securities lending borrower rebates	(174)	(2,607)
Securities lending agent fees	(1,688)	(2,392)
Net income from securities lending activity	9,083	12,864
Total investment income	6,035,866	4,119,588
Investment expenses	(329,599)	(273,793)
Net investment income	5,706,267	3,845,795
TOTAL ADDITIONS	**8,167,646**	**6,199,752**
DEDUCTIONS:		
Benefit payments	3,121,823	2,950,700
Refunds	42,922	38,281
Administrative expenses	26,130	26,280
TOTAL DEDUCTIONS	**3,190,875**	**3,015,261**
Net increase (decrease) in plan position	**4,976,771**	**3,184,491**
Net Position Held in Trust for Pension Benefits		
Beginning of the fiscal year	40,363,217	37,178,726
End of the Fiscal Year	**$45,339,988**	**$40,363,217**

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL DESCRIPTION OF THE SYSTEM

A. Organization

The State Retirement Agency (the "Agency") is the administrator of the Maryland State Retirement and Pension System (the "System"). The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators, and employees of participating governmental units. Responsibility for the System's administration and operation is vested in a 15-member Board of Trustees. The System is made up of two cost-sharing employer pools: the "State Pool" and the "Municipal Pool". The "State Pool" consists of the State agencies, boards of education, community colleges, and libraries. The "Municipal Pool" consists of the participating governmental units that elected to join the System. Neither pool shares in each other's actuarial liabilities, thus participating governmental units that elect to join the System (the "Municipal Pool") share in the liabilities of the Municipal Pool only.

The State of Maryland is the statutory guarantor for the payment of all pensions, annuities, retirement allowances, refunds, reserves, and other benefits of the System. The Agency is legally authorized to use all assets accumulated for the payment of benefits to pay such obligations to any plan member or beneficiary as defined by the terms of the plan. Consequently, the System is accounted for as a single plan as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, "Financial Reporting for Pension Plans - An Amendment of GASB Statement No.25." Additionally, the System is fiscally dependent on the State by virtue of the legislative and executive controls exercised with respect to its operations, policies, and administrative budget. Accordingly, the System is included in the State's reporting entity and disclosed in its financial statements as a pension trust fund.

The System is comprised of the Teachers' Retirement and Pension Systems, Employees' Retirement and Pension Systems, State Police Retirement System, Judges' Retirement System, and the Law Enforcement Officers' Pension System.

B. Covered Members

The Teachers' Retirement System was established on August 1, 1927, to provide retirement allowances and other benefits to teachers in the State. Effective January 1, 1980, the Teachers' Retirement System was closed to new members and the Teachers' Pension System was established. As a result, teachers hired after December 31, 1979, became members of the Teachers' Pension System as a condition of employment. On or after January 1, 2005, an individual who is a member of the Teachers' Retirement System may not transfer membership to the Teachers' Pension System.

On October 1, 1941, the Employees' Retirement System was established to provide retirement allowances and other benefits to State employees, elected and appointed officials and the employees of participating governmental units. Effective January 1, 1980, the Employees' Retirement System was essentially closed to new members and the Employees' Pension System was established. As a result, State employees (other than correctional officers) and employees of participating governmental units hired after December 31, 1979, became members of the Employees' Pension System as a condition of employment, while all State correctional officers and members of the Maryland General Assembly continue to be enrolled as members of the Employees' Retirement System. On or after January 1, 2005, an individual who is a member of the Employees' Retirement System may not transfer membership to the Employees' Pension System. Currently, more than 150 governmental units participate in the Employees' Retirement System.

The State Police Retirement System was established on July 1, 1949, to provide retirement allowances and other benefits to any police employee or cadet of the Maryland State Police.

The Judges' Retirement System was established on June 30, 1969, to provide retirement allowances and other benefits for State and local, appointed, or elected judges.

The Law Enforcement Officers' Pension System (LEOPS) was established on July 2, 1990, to provide retirement allowances and other benefits for certain State and local law enforcement officers. This System includes both retirement plan and pension plan provisions which are applicable to separate portions of this System's membership. The retirement plan provisions are only applicable to those members who, on the date they elected to participate in LEOPS, were members of the Employees' Retirement System. This System's pension plan provisions are applicable to all other participating law enforcement officers.

The following tables present a summary of membership by system as of June 30, 2014 and 2013, with comparative prior year totals:

	Inactive & Deferred Vested	Retirees & Beneficiaries	Active Plan Participants		
			Vested	Non-vested	Total
Teachers' Retirement & Pension Systems	24,220	68,929	81,595	22,875	104,470
Employees' Retirement & Pension Systems*	27,540	69,482	62,739	22,177	84,916
Judges' Retirement System	8	395	254	47	301
State Police Retirement System	82	2,468	998	353	1,351
Law Enforcement Officers' Pension System	283	1,613	1,832	652	2,484
Total as of June 30, 2014	**52,133**	**142,887**	**147,418**	**46,104**	**193,522**
Total as of June 30, 2013	51,552	137,925	150,001	42,809	192,810

*Employees' Retirement & Pension Systems includes 50 vested and 41 non-vested active members, 23 retired members, and 2 deferred vested members from the Correctional Officers' Retirement System..

	Inactive & Deferred Vested	Retirees & Beneficiaries	Active Plan Participants		
			Vested	Non-vested	Total
Teachers' Retirement & Pension Systems	23,555	66,390	82,753	21,275	104,028
Employees' Retirement & Pension Systems*	27,652	67,211	64,109	20,658	84,767
Judges' Retirement System	10	378	276	12	288
State Police Retirement System	84	2,428	993	327	1,320
Law Enforcement Officers' Pension System	251	1,518	1,870	537	2,407
Total as of June 30, 2013	**51,552**	**137,925**	**150,001**	**42,809**	**192,810**
Total as of June 30, 2012	51,230	132,493	150,309	42,685	192,994

*Employees' Retirement and Pension System includes Correctional Officers' Retirement System.

C. Summary of Significant Plan Provisions

All plan benefits are specified by the State Personnel and Pensions Article of the Annotated Code of Maryland. For all individuals who are members of the Employees', Teachers', Correctional Officers' or State Police Retirement System on or before June 30, 2011, retirement allowances are computed using both the highest three years' Average Final Compensation (AFC) and the actual number of years of accumulated creditable service. For individuals who become members of the State Police Retirement System or the Correctional Officers' Retirement System on or after July 1, 2011, retirement allowances are computed using both the highest five years' AFC and the actual number of years of accumulated creditable service. For all individuals who are members of the pension systems of the State Retirement and Pension System on or before June 30, 2011, pension allowances are computed using both the highest three consecutive years' AFC and the actual number of years of accumulated creditable service. For any individual who becomes a member of one of the pension systems on or after July 1, 2011, pension allowances are computed using both the highest five consecutive years' AFC and the actual number of years of accumulated creditable service. Various retirement options are available under each system which ultimately determines how a retiree's benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree's and/or designated beneficiary's attained age and similar actuarial factors.

Beginning July 1, 2011, the member contribution rate was increased for members of the Teachers' Pension System and Employees' Pension System from 5% to 7%, and from 4% to 6% respectively, in fiscal year 2013 and 7% in fiscal year 2014 and beyond for members of the Law Enforcement Officers' Pension System. Beginning July 1, 2013, the member contribution rate was increased for members of the Judges' Retirement System from 6% to 8%.

In addition, the benefit attributable to service on or after July 1, 2011 in many of the pension systems now will be subject to different cost-of-living adjustments (COLA) that is based on the increase in the Consumer Price Index (CPI) and capped at 2.5% or 1.0% based on whether the market value investment return for the preceding calendar year was higher or lower than the investment return assumption used in the valuation.

A brief summary of the retirement eligibility requirements of and the benefits available under the various systems in effect during fiscal year 2014, are as follows:

Service Retirement Allowances

A member of either the Teachers' or Employees' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals 1/55 (1.81%) of the member's AFC multiplied by the number of years of accumulated creditable service.

An individual who is a member of either the Teachers' or Employees' Pension System on or before June 30, 2011, is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member of either the Teachers' or Employees' Pension System on or after July 1, 2011, is eligible for full retirement benefits if the member's combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service.

For most individuals who retired from either the Teachers' or Employees' Pension System on or before June 30, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.4% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. With certain exceptions, for individuals who are members of the Teachers' or Employees' Pension System on or after July 1, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.8% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. Beginning July 1, 2011, any new member of the Teachers' or Employees' Pension System shall earn an annual pension allowance equal to 1.5% of the member's AFC multiplied by the number of years of creditable service accumulated as a member of the Teachers' or Employees' Pension System.

Exceptions to these benefit formulas apply to members of the Employees' Pension System, who are employed by a participating governmental unit that does not provide the 1998 or 2006 enhanced pension benefits or the 2011 reformed pension benefits. The pension allowance for these members equals 0.8% of the member's AFC up to the social security integration level (SSIL), plus 1.5% of the member's AFC in excess of the SSIL, multiplied by the number of years of accumulated creditable service. For the purpose of computing pension allowances, the SSIL is the average of the social security wage bases for the past 35 calendar years ending with the year the retiree separated from service.

An individual who is a member of the State Police Retirement System on or before June 30, 2011, is eligible for full retirement benefits upon the earlier of attaining age 50 or accumulating 22 years of eligibility service regardless of age. An individual who becomes a member of the State Police Retirement System on or after July 1, 2011 is eligible for full retirement benefits upon the earlier of attaining age 50 or accumulating 25 years of eligibility service regardless of age. The annual retirement allowance equals 2.55% of the member's AFC multiplied by the number of years of accumulated creditable service and may not exceed 71.4% of the member's AFC.

A member of the Judges' Retirement System is eligible for full retirement benefits upon attaining age 60. The annual retirement allowance for a member with at least 16 years of accumulated creditable service equals 2/3 (66.7%) of the salary of an active judge holding a comparable position. The annual retirement allowance is prorated if the member retires with fewer than 16 years of accumulated creditable service.

A member of the Law Enforcement Officers' Pension System is eligible for full retirement benefits upon the earlier of attaining age 50 or accumulating 25 years of eligibility service regardless of age. The annual retirement allowance for a member who is covered under the retirement plan provisions equals 1/50 (2.0%) of the member's AFC multiplied by the number of years of accumulated creditable service up to 30 years, plus 1/100 (1.0%) of the member's AFC multiplied by the number of years of accumulated creditable service in excess of 30 years. For members subject to the pension provisions, full service pension allowances equal 2.0% of AFC up to a maximum benefit of 60% (30 years of credit).

Vested Allowances

Any individual who is a member of the State Retirement and Pension System on or before June 30, 2011 (other than a judge or a legislator), and who terminates employment before attaining retirement age but after accumulating 5 years of eligibility service is eligible for a vested retirement allowance. Any individual who joins the State Retirement and Pension System on or after July 1, 2011 (other than a judge or a legislator), and who terminates employment before attaining retirement age but after accumulating 10 years of eligibility service is eligible for a vested retirement allowance. An individual who is a member of the Judges' Retirement System on or before June 30, 2013, has no minimum service requirements prior to vesting. However, individuals who join the Judges' Retirement System on or after July 1, 2013, and terminate employment before attaining retirement age will have to accrue five years of eligibility service in order to receive a vested retirement allowance. Legislators become eligible for a vested retirement allowance upon accumulating 8 years of eligibility services. A member, who terminates employment prior to attaining retirement age and before vesting, receives a refund of all member contributions and interest.

Early Service Retirement

A member of either the Teachers' or Employees' Retirement System may retire with reduced benefits after completing 25 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree either attains age 60 or would have accumulated 30 years of creditable service, whichever is less. The maximum reduction for a Teachers' or Employees' Retirement System member is 30%.

An individual who is a member of either the Teachers' or Employees' Pension System on or before June 30, 2011, may retire with reduced benefits upon attaining age 55 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 62. The maximum reduction for these members of the Teachers' or Employees' Pension System is 42%. An individual who becomes a member of either the Teachers' or Employees' Pension System on or after July 1, 2011, may retire with reduced benefits upon attaining age 60 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 65. The maximum reduction for these members of the Teachers' or Employees' Pension System is 30%.

Members of the State Police, Judges', Law Enforcement Officers' and Local Fire and Police Systems are not eligible for early service benefits.

Disability and Death Benefits

Generally, a member covered under retirement plan provisions who is permanently disabled after 5 years of service receives a service allowance based on a minimum percentage (usually 25%) of the member's AFC. A member covered under pension plan provisions who is permanently disabled after accumulating 5 years of eligibility service receives a service allowance computed as if service had continued with no change in salary until the retiree attained age 62. A member (other than a member of the Maryland General Assembly or a judge, both of which are ineligible for accidental disability benefits) who is permanently and totally disabled as the result of an accident occurring in the line of duty receives 2/3 (66.7%) of the member's AFC plus an annuity based on all member contributions and interest. Death benefits are equal to a member's annual salary as of the date of death plus all member contributions and interest.

Adjusted Retirement Allowances

Retirement and pension allowances are increased annually to provide for changes in the cost of living according to prescribed formulae. Such adjustments for retirees are based on the annual change in the CPI. For the Teachers' and Employees' Retirement Systems (TRS/ERS) the method by which the annual COLA's are computed depends upon elections made by members who were active on July 1, 1984 (or within 90 days of returning to service, for members who were inactive on July 1, 1984) enabling the member to receive either an unlimited COLA, a COLA limited to 5% or a two part combination COLA depending upon the COLA election made by the member.

For State Police and Correctional Officers' Retirement System retirees, prior to July 1, 2011, unlimited compounded COLAs are effective July 1 and are applied to all benefits which have been in payment for one year. With certain exceptions, effective July 1, 1998, for Teachers', Employees', and Law Enforcement Officers' Pension System retirees, the adjustment is capped at a maximum 3% compounded and is applied to all benefits which have been in payment for one year. The annual increases to pension allowances for Employees' Pension System retirees who were employed by a participating governmental unit that does not provide enhanced pension benefits are limited to 3% of the initial allowance.

However, beginning July 1, 2011, for benefits attributable to service earned on or after July 1, 2011, in all of the systems except the judges' and legislators' systems, the adjustment is capped at the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate. The adjustment is capped at the lesser of 1% or the increase in CPI if the market value return was less than the assumed rate of return. In years in which COLAs would be less than zero due to a decline in the CPI, retirement allowances will not be adjusted. COLAs in succeeding years are adjusted until the difference between the negative COLA that would have applied and the zero COLA is fully recovered.

Retirement allowances for legislators and judges are recalculated when the salary of an active member holding a comparable position is increased.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The System's financial statements are prepared on the accrual basis of accounting principles generally accepted in the United States of America. Accordingly, investment purchases and sales are recorded as of their respective trade dates. Employer and Member contributions are recognized in the period when due, pursuant to statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

B. Investment Limitations

The State Personnel and Pensions Article of the Annotated Code of Maryland authorizes the System to invest plan assets in stocks, bonds, notes, certificates of indebtedness, mortgage notes, real estate, debentures or other obligations, subject to the terms, conditions, limitations and restrictions imposed by the Board of Trustees of the State Retirement and Pension System of Maryland.

C. Portfolio Valuation Method

The System investments are reported at fair value. For fixed income securities, fair value is based on quoted market prices provided by independent pricing services. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages and mortgage related securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Fair value for alternative investments and mutual funds (other than those funds traded on a national or international exchange) is based on information provided by the applicable fund managers (generally the most recent independently audited financial statements adjusted for cash flows). Alternative investments generally value their funds in accordance with Generally Accepted Accounting Principles using a hierarchy process whereby level 1 represents price available from active markets, level 2 relies on observation, models or other valuation methodologies and level 3 is based on management judgement and estimations. Investment amounts presented in the accompanying Statements of Plan Net Position represent the fair value of the respective portfolios as of the fiscal year-end. Similarly, investment income amounts reported in the accompanying Statements of Changes in Plan Net Position represent the income or loss derived for the year then ended. Accordingly, significant market fluctuations could periodically occur subsequent to the financial statement valuation date, which are not reflected in either the fair value of investments or the related investment income presented in these financial statements.

D. Derivatives

As permitted by guidelines established by the Board of Trustees the System may invest in derivatives. Compliance with these guidelines is monitored by Agency staff. Pursuant to such authority, the system invests in foreign currency forward contracts, options, futures, and swaps. The Agency does not purchase rights and warrants; however, can accrue ownership through corporate actions. No derivatives were purchased with borrowed funds.

Derivatives are generally used to hedge against foreign currency risk and changes in interest rates, improve yield and adjust the duration of the System's fixed income portfolio. These securities are subject to changes in value due to changes in currency valuations or interest rates. Credit risk for derivatives results from the same considerations as other counterparty risk assumed by the System, which is the risk that the counterparty might be unable to meet its obligations.

The System enters into forward foreign currency exchange contracts for hedging purposes to minimize the short-term impact of foreign currency. Fluctuations foreign currency exchange contracts are reported at fair value based on published market prices and quotations from major investment firms. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The System seeks to minimize risk from counterparties by establishing minimum credit quality standards.

E. Administrative and Investment Expenses

All of the System's administrative and investment expenses (e.g., salaries of Agency employees, investment advisory fees) are incurred centrally and charged to each individual retirement or pension system on the basis of its percentage ownership in the System's net position. The System's investment expenses are funded from investment income. The System's administrative expenses are funded from administrative fees assessed to each participating employer. See pages 50 and 51 for detailed Schedules of Administrative and Investment Expenses, respectively.

F. Federal Income Tax Status

During the fiscal years ended June 30, 2014 and 2013, the System qualifies under Section 401(a) of the Internal Revenue Code (the Code) and was exempt from Federal income taxes under Section 501(a) of the Code.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

A. Legal Provisions

The Board of Trustees is required by Section 21-116 (c), State Personnel and Pensions Article, Annotated Code of Maryland (SPP), to establish and maintain an Investment Policy Manual, which authorizes investing in all major sectors of the capital market in order to diversify and minimize total investment program risk. Such sectors include, but are not limited to:

Type	Description	As of June 30, 2014 Strategic Target	As of June 30, 2014 Actual
Public Equity	Investments in securities, known as shares or stocks, that represent an ownership interest in corporations and are generally traded on a stock exchange.	35.0%	38.9%
Fixed Income	Investments in securities, known as bonds, that represent an ownership interest in the debt of governments and corporations that are generally not traded on an exchange. They generally pay interest on a regular schedule and repay principal or face value at maturity.	10.0%	14.8%
Credit/Debt Related Strategies	Debt issued by corporations and other non-government sectors of the fixed income market such as distressed debt, convertibles, corporate and mortgage related credit strategies, mezzanine debt, bank loans, high yield, emerging markets and preferred securities.	10.0%	10.0%
Alternative Investment:			
Absolute Return	Investments whose performance is expected to deliver absolute returns in any market conditions. The System's program may include strategies such as hedge fund of funds, multi-strategy, global tactical asset allocation, event driven, relative value, macro, insurance and equity hedged.	10.0%	9.4%
Private Equity	Investments in companies that are not registered with the SEC and are not traded in the public markets. Private equity may also be referred to as venture capital or buy-outs.	10.0%	7.0%
Real Estate	Investment in real property including office buildings, shopping centers, industrial property, warehouses, and apartments. Investment vehicles may include direct investments, REITS, and private partnerships.	10.0%	6.8%
Real Return	Investments whose performance is expected to exceed the rate of inflation over an economic cycle. The System's Real Return program may include the following investment vehicles in both public and private investments: treasury inflation protected, global inflation linked bonds, commodities, energy related, infrastructure, timber and other natural resources, and multi-asset class portfolios with a real return mandate.	14.0%	12.0%
Cash Portfolio	Short term investments such as money market funds, U.S. treasury bills and currency.	1.0%	1.1%

The System is also authorized by its Board of Trustees to operate a securities lending program, and has contracted with its custodian bank to reinvest cash collateral received from the transfer of securities in any investment instrument authorized by the investment policy. The System's Board of Trustees has determined the collateralization percentages necessary for both foreign and domestic demand deposits. The Board of Trustees has established a policy to require collateral equal to 105% for international equity securities and 102% for all other securities, which is marked to market daily. See section G for additional information.

B. Cash and Cash Equivalents

For cash deposits and cash equivalents, custodial credit risk is the risk that, in the event of a bank failure, the System's deposits may not be returned to it.

The System does not have any funds or deposits that are not covered by depository insurance, that are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the System's name and there are no legal or contractual provisions for deposits and investments. Nor does the System have any investments that are not registered in its name and are either held by the counterparty or the counterparty's trust department or agent, but not in the System's name.

The amount of the System's total cash and cash equivalents as of June 30, 2014 and June 30, 2013, was $2,054,181 and $2,085,086 (in thousands), respectively.

C. Investments

These investments are accounted for as the System and are allocated to Teachers' Retirement and Pension, Employees' Retirement and Pension, Judges' Retirement, State Police Retirement and Law Enforcement Officers' Pension.

All investments are governed by the prudent person rule as described in SPP Section 21-203 which states: A fiduciary shall discharge the fiduciary's duties with respect to the several systems solely in the interest of the participants and as follows: (1) for the exclusive purposes of providing benefits to the participants and for reasonable expenses of administering the several systems; (2) with the care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims; (3) by diversifying the investments of the several systems so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so: (4) in accordance with the laws governing the several systems; and (5) in accordance with the documents and instruments governing the several systems to the extent that the documents and instruments are consistent with this subtitle.

D. Interest Rate Risk

As of June 30, 2014, the System had the following fixed income investments allocated by year of maturity with the exception of the Commingled Funds, which are based on their average maturity:

	Fair Value	Investment Maturities (in years)			
Investment Type:	**(in thousands)**	**Less than 1**	**1 thru 5**	**5+ thru 10**	**More than 10**
Asset backed securities	$371,969	$ 151	$ 149,719	$ 67,671	$ 154,428
Bank loans	412,692	2,788	140,013	269,891	-
Collateralized mortgage backed securities	1,043	-	-	-	1,043
Collateralized mortgage obligations	564,909	-	16,960	17,387	530,561
Credit/debt commingled funds	2,123,503	79,124	1,387,934	614,820	41,625
Convertible bonds	71,540	2,824	30,455	18,012	20,249
Domestic corporate obligations	2,104,906	43,166	813,552	813,925	434,263
International obligations	1,977,061	82,294	660,585	573,160	661,022
Mortgage pass-throughs	1,360,781	-	15,019	33,456	1,312,306
Municipals	64,203	306	14,188	17,746	31,963
Options	1,178	1,178	-	-	-
Short-term	1,839,450	1,839,450	-	-	-
Swaps	16,906	(1,237)	18,676	(1,443)	910
U.S. government agency	123,608	9,199	55,801	42,794	15,814
U.S. treasury inflation linked	2,160,447	59,033	573,635	819,378	708,401
U.S. treasury notes/bonds	1,120,486	46,241	660,340	284,425	129,480
U.S. treasury strips	18,284	-	2,063	72	16,149
Yankee bonds	585,893	32,961	252,305	155,470	145,157
Total	**$14,918,859**	**$2,197,478**	**$4,791,245**	**$ 3,726,764**	**$4,203,371**

Market or interest rate risk is the greatest risk faced by an investor in the fixed income market. The price of a fixed income security typically moves in the opposite direction of the change in interest rates. Derivative securities, variable rate investments with coupon multipliers greater than one, and securities with long terms to maturity are examples of investments whose fair values may be highly sensitive to interest rate changes. These securities are reported at fair value in the Statements of Plan Net Position.

Examples of securities that would qualify as “highly interest rate sensitive” include interest only, principal only and inverse floaters, of which the System had no significant holdings as of June 30, 2014 and 2013.

As of June 30, 2014, the System had $1.4 billion invested in mortgage pass-through securities issued by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. These investments are moderately sensitive to changes in interest rates because they are backed by mortgage loans in which the borrowers have the option of prepaying.

Investment guidelines developed for each mandate determines the amount of interest rate risk allowable for each manager.

Derivatives held as of June 30, 2014, are identified in greater detail in Note 4.

E. Credit Risk

The System’s exposure to credit risk as of June 30, 2014 and 2013, is shown below:

Credit Quality Distribution for Securities with Credit Exposure as a Percentage of Total Investments
(Expressed in Thousands)

Rating	2014 Fair Value	Percentage Total Investments	2013 Fair Value	Percentage Total Investments
AAA	$ 766,342	1.690%	$ 513,727	1.273%
AA	1,201,044	2.649%	1,965,427	4.869%
A	2,550,887	5.626%	2,618,161	6.487%
BAA	559,154	1.233%	351,744	0.871%
BA	21,361	0.047%	17,009	0.042%
BBB	1,316,746	2.904%	813,333	2.015%
BB	372,866	0.822%	214,586	0.532%
B	241,736	0.533%	215,930	0.535%
CAA	53,322	0.118%	54,075	0.134%
CA	1,821	0.004%	2,604	0.006%
CCC	115,727	0.255%	126,653	0.314%
CC	15,081	0.033%	18,954	0.047%
C	3,016	0.007%	-	0.000%
D	15,592	0.034%	17,542	0.043%
NR	2,207,752	4.869%	1,630,869	4.040%
	$9,442,447		**$8,560,614**	

The current policy regarding credit risk is determined by each investment manager’s mandate. The above listed ratings are based on the most conservative rating when multiple ratings were offered. NR represents securities not rated; primarily made up of commingled funds, alternative investments and swaps, which by nature do not have credit quality ratings.

F. Foreign Currency Risk

The System's exposure to foreign currency risk as of June 30, 2014 is shown below:

International Investment Securities – At Fair Value as of June 30, 2014
(U.S. Dollars in Thousands)

Currency	Equity	Fixed Income	Cash	Alternative Investments	Total
Australian Dollar	$ 252,415	$ 53,043	$ 4,293	$ 112,826	$ 422,577
Brazilian Real	39,502	53,888	2,832	24,717	120,939
Canadian Dollar	374,209	24,991	8,191	39,339	446,730
Czech Koruna	6,447	-	3	-	6,450
Danish Krone	104,339	527	233	17,273	122,372
Egyptian Pound	2,347	-	-	-	2,347
Euro Currency	1,734,478	694,330	42,317	916,169	3,387,294
Hong Kong Dollar	322,378	-	2,934	63,471	388,783
Hungarian Forint	1,379	-	76	-	1,455
India Rupee	-	-	(496)	-	(496)
Indonesian Rupiah	15,361	-	151	-	15,512
Israeli Shekel	13,310	-	153	-	13,463
Japanese Yen	978,961	45,725	16,061	107,331	1,148,078
Malaysian Ringgit	18,480	309	457	-	19,246
Mexican Peso	11,813	58,686	14,231	6,747	91,477
Moroccan Dirham	320	-	17	-	337
New Israeli Sheqel	148	-	-	313	461
New Russian Ruble	-	4,063	-	-	4,063
New Taiwan Dollar	40,426	-	609	-	41,035
New Zealand Dollar	4,404	22,315	869	17,031	44,619
Nigerian Naira	52	303	-	-	355
Norwegian Krone	74,314	-	1,361	815	76,490
Philippine Peso	2,827	-	29	-	2,856
Polish Zloty	11,917	26,536	194	-	38,647
Pound Sterling	1,100,658	149,700	24,393	618,109	1,892,860
Qatari Rial	120	-	-	-	120
Singapore Dollar	82,657	-	1,973	22,263	106,893
South African Rand	44,330	11,559	2,331	-	58,220
South Korean Won	144,927	-	531	-	145,458
Swedish Krona	143,743	5,226	3,382	22,770	175,121
Swiss Franc	457,871	435	285	6,568	465,159
Thailand Baht	15,319	-	114	-	15,433
Turkish Lira	21,688	-	238	-	21,926
Uae Dirham	3,080	-	-	-	3,080
Multiple	1,659,195	-	-	-	1,659,195
Total Holdings Subject to Foreign Current Risk	**$7,683,415**	**$ 1,151,636**	**$ 127,762**	**$1,975,742**	**$ 10,938,555**

The majority of foreign currency-denominated investments are in non-US stocks. The Agency has an overlay program to help minimize its currency risk.

Note: This schedule does not agree with the total International obligations and International equities as listed on the Statement of Plan Net Assets due to American Depository Receipts and International obligations valued in U.S. dollars but classified as International. Mutual Funds listed have exposure to multiple currencies, however, are valued in U.S. dollars.

G. Security Lending Transactions

The System accounts for securities lending transactions in accordance with GASB Statement No.28 "*Accounting and Financial Reporting for Securities Lending Transactions.*"

The following table details the net income from securities lending for the periods ending June 30, 2014 and 2013 (in thousands):

	2014	2013
Interest income	$ 10,945	$ 17,863
Less:		
Interest expense	174	2,607
Program fees	1,688	2,392
Expenses from securities lending	1,862	4,999
Net income from securities lending	**$ 9,083**	**$ 12,864**

The Board of Trustees has authorized the System to lend its securities to broker-dealers with a simultaneous agreement to return the collateral for the same securities in the future. The System's custodian, pursuant to a written agreement, is permitted to lend long-term securities to authorized broker-dealers subject to the receipt of acceptable collateral. The System lends securities for collateral in the form of either cash or other securities. The types of securities on loan as of June 30, 2014, were long-term U.S. government obligations, domestic and international equities, as well as domestic and international obligations. At the initiation of a loan, borrowers are required to provide collateral amounts of 102% (domestic equities and bonds) and 105% (international equities) of the fair value of the securities lent. In the event the collateral fair value falls below the respective collateral percentages, the borrower is required to provide additional collateral by the end of the next business day. On July 1, 2014 the collateral for the international equity was marked to bring it up to the required percentage up to 105%. The contractual agreement with the System's custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay the System income distributions by the securities' issuers while the securities are on loan. There have been no violations of the provisions of the agreement during the period of these financial statements.

The System maintained the right to terminate securities lending transactions upon notice. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. As of June 30, 2014, such investment pool had an average duration of 42.86 days and an average final maturity of 78.32 days for U.S. dollar collateral. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The system cannot pledge or sell collateral securities received unless and until a borrower defaults. As of June 30, 2014, the System had no credit risk exposure to borrowers. The market value of collateral held and the market value of securities on loan for the System as of June 30, 2014 (in thousands) was $2,490,915 and $2,434,349, respectively.

The following table presents the fair values of the underlying securities, and the value of the collateral pledged at June 30, 2014 (in thousands):

Securities Lent	Fair Value Loaned Securities	Collateral Fair Value	Percent Collateralized
Lent for cash collateral:			
U.S. government and agency	$611,079	$ 623,045	102.0%
Domestic fixed income	312,725	319,126	102.0%
Domestic equity	1,051,025	1,072,541	102.0%
International fixed	41,060	42,143	102.6%
International equity	246,080	257,967	104.8%
Lent for noncash collateral			
U.S. government and agency	141,319	144,346	102.1%
Domestic equity	12,547	12,915	102.9%
International fixed	17,164	17,413	101.5%
International equity	1,351	1,420	105.1%
Total securities lent	**$2,434,350**	**$2,490,916**	102.3%

The securities collateral value is based on the System's pro rata share of the value of the securities collateral maintained in a pool at the custodian bank for all lending clients participating in the lending program. Collateral value listed above includes all collateral for securities on loan.

4. DERIVATIVES

Each investment manager's guidelines determine the extent to which derivatives are permissible. Futures and other derivatives are permitted to the extent that they are used in a manner that does not materially increase total portfolio volatility or relate to speculative activities. Unleveraged derivatives are permitted for the purpose of hedging investment risk, to replicate an investment that would otherwise be made directly in the cash market, or to modify asset exposure in tactical portfolio shifts. Use of derivatives is not permitted to materially alter the characteristics, including the investment risk, of each investment manager's account. The investment managers are to have in place, and use, procedures that subject derivative based strategies to rigorous scenario and volatility analysis. Futures and short option positions must be hedged with cash, cash equivalents, or current portfolio security holdings.

List of Derivatives Aggregated by Investment Type
(in Thousands)

	Changes in Fair Value(4)		Fair Value at June 30,2014		
Currency	**Classifications**	**Amount(1)**	**Classification**	**Amount(2)**	**Notional(3)**
Commodity Futures Long	Revenue	$ 4,453	Futures	$ -	$ 199,098
Commodity Futures Short	Revenue	5,462	Futures	-	(14)
Credit Default Swaps Bought	Revenue	(679)	Swaps	(517)	29,041
Credit Default Swaps Written	Revenue	1,790	Swaps	2,082	162,260
Currency Swaps	Revenue	417	Swaps	3,319	17,683
Fixed Income Futures Long	Revenue	14,698	Futures	-	1,257,886
Fixed Income Futures Short	Revenue	(38,587)	Futures	-	(1,210,534)
Fixed Income Options Bought	Revenue	(609)	Options	410	6,837
Fixed Income Options Written	Revenue	5,927	Options	(1,224)	(192,955)
Foreign Currency Options Bought	Revenue	(1,158)	Options	-	-
Foreign Currency Options Written	Revenue	2,181	Options	(1,685)	(86,900)
Futures Options Bought	Revenue	(2,464)	Options	226	1,206
Futures Options Written	Revenue	15,068	Options	(721)	(2,501)
FX Forwards	Revenue	(237,226)	Instruments	(57,503)	26,030,396
Index Futures Long	Revenue	8,014	Futures	-	734
Pay Fixed Interest Rate Swaps	Revenue	(4,632)	Swaps	(6,516)	743,927
Receive Fixed Interest Rate Swaps	Revenue	6,975	Swaps	2,736	167,487
Rights	Revenue	639	Common Stock	195	401
Total Return Swaps Bond	Revenue	49	Swaps	-	-
Warrants	Revenue	3,022	Common Stock	7,564	789
		$ (216,660)		**$ (51,634)**	

Note: Includes assets invested on behalf of the Maryland Transit Administration.
1. Negative values (in brackets) refer to losses
2. Negative values refer to liabilities
3. Notional may be a dollar amount or size or underlying for futures and options, negative values refer to short positions
4. Excludes futures margin payments

A. Credit Risk

The System is exposed to credit risk on derivative instruments that are in asset positions. To minimize its exposure to losses related to credit risk, the investment managers use counterparty collateral in their non exchange-traded derivative instruments. Netting arrangements are also used when entering into more than one derivative instrument transaction with counterparty. At the present time, the Agency does not have a formal policy relating to counterparty collateral or netting arrangements.

The aggregate fair value of derivative instruments in asset positions at June 30, 2014, was $155,858,904. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform. The maximum loss would, however, be reduced by the counterparty collateral and the liabilities included in netting arrangements with counterparties.

The following table lists the market value of credit exposure per ratings of the Standard & Poor's (S&P), Moody's and Fitch.

Counterparty Ratings

The following tables list the market value of credit exposure per ratings of Standard & Poor's (S&P), Moody's and Fitch (in thousands):

Market Value	S&P Rating	Market Value	Moody's Rating	Market Value	Fitch Rating
$ 66,403	AA-	$ 8,825	Aa1	$ 11,754	AA
55,726	A+	34,911	Aa2	67,676	AA-
30,401	A	45,557	Aa3	52,454	A+
3,329	A-	37,407	A1	23,975	A
		25,821	A2		
		9	A3		
		1,187	Baa1		
		2,142	Baa2		
$ 155,859	**(1)**	**$ 155,859**	**(1)**	**$ 155,859**	**(1)**

(1) Total aggregate market value

Risk Concentrations

The following tables list the counter party risk concentration and credit ratings per ratings of Standard & Poor's (S&P), Moody's and Fitch:

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
WESTPAC BANKING CORPORATION	22%	AA-	AA-	Aa2
STATE STREET BANK LONDON	13%	A+	A+	A1
JPMORGAN CHASE BANK, N.A. LONDON	12%	A+	A+	Aa3
HSBC BANK PLC	8%	A+	AA-	Aa3
ROYAL BANK OF CANADA (UK)	8%	AA-	AA	Aa3
DEUTSCHE BANK AG LONDON	6%	A	A+	A2
TORONTO DOMINION BANK	6%	AA-	AA-	Aa1
BARCLAYS BANK PLC WHOLESALE	5%	A	A	A2
NORTHERN TRUST COMPANY, THE	4%	AA-	AA-	A1
STANDARD CHARTERED BANK	3%	AA-	AA-	A1
UBS AG LONDON	2%	A	A	A2
CREDIT SUISSE FOB CME	2%	A	A	A1
BANK OF AMERICA, N.A.	1%	A	A	A2
MORGAN STANLEY AND CO. INTERNATIONAL PLC	1%	A-	A	Baa1
BNP PARIBAS SA	1%	A+	A+	A1
JP MORGAN CHASE BANK N.A.	1%	A+	A+	Aa3
CREDIT SUISSE FOB ICE	1%	A	A	A1
COMMONWEALTH BANK OF AUSTRALIA	1%	AA-	AA-	Aa2

B. Interest Rate Risk

During Fiscal Year 2014 the Agency was exposed to interest rate risk. For more details refer to the Interest Rate Risk Note 3D (GASB Statement No. 40).

C. Foreign Currency Risk

The System's derivatives exposed it to foreign currency risk. For more details refer to the Foreign Currency Risk Note 3F (GASB Statement No. 40).

5. CONTRIBUTIONS

The State Personnel and Pensions Article requires both active members and their respective employers to make contributions to the System. Rates for required contributions by active members are established by law. Members of the Teachers' and Employees' Retirement Systems are required to contribute 7% or 5% of earnable compensation depending upon the retirement option selected. Members of the State Police and Judges' Retirement Systems are required to contribute 8% and 6% of earnable compensation, respectively, and beginning July 1, 2013, members of the Judges Retirement System are required to make contributions of 8% of earnable compensation. Members of the Teachers' and Employees' Pension System, Alternate Contributory Pension Selection (ACPS), are required to contribute 7% of earnable compensation.

However, members of the Employees' Pension System who are employed by a participating governmental unit that elected to remain in the Contributory Pension System are required to contribute 2% of earnable compensation. The members of the Employees' Pension System who are employed by participating governmental units who elected to remain in the Non- Contributory Pension System are only required to contribute 5% of earnable compensation in excess of the social security taxable wage base.

Contribution rates for employer and other "nonemployer" contributing entities are established by annual actuarial valuations using the Individual Entry Age Normal Cost method with projection and other actuarial assumptions adopted by the Board of Trustees. These contribution rates have been established as the rates necessary to fully fund normal costs and amortize the unfunded actuarial accrued liability.

The unfunded actuarial liability was being amortized in distinct layers. The unfunded actuarial accrued liability which existed as of the June 30, 2000, actuarial valuation was being amortized over a 40-year period (as provided by law) from July 1, 1980 and as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, was being amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. However, in the 2014 legislative session, the Legislature changed the method used to fund the System. The unfunded liability for each System is being amortized over a single closed 25-year period.

Effective July 1, 2002, the law provides that employer contribution rates may be more or less than the actuarially determined rates as described above for the Employees' Retirement and Pension Systems and the Teachers' Retirement and Pension Systems. When the funding ratio for each of the combined Systems is at least 90% but not more than 110 %, the contribution rate will be the rate certified by the Board of Trustees for the previous fiscal year, adjusted to reflect legislative changes that result in changes to the normal cost. If the funding ratio is below 90%, the contribution rate will be the sum of the contribution rate for the previous fiscal year and 20% of the difference between the full funding rate for the current fiscal year and the contribution rate for the previous fiscal year. If the funding ratio is above 110%, the contribution rate will be the difference between the contribution rate for the previous fiscal year and 20% of the difference between the contribution rate for the previous fiscal year and the full funding rate for the current fiscal year.

The State of Maryland (which is also a non-employer contributor to the Teachers' Retirement and Pension Systems and the Judges' Retirement System), the Maryland Automobile Insurance Fund, the Injured Workers' Insurance Fund, and more than 150 participating governmental units make all of the employer and other (non-employer) contributions to the System.

6. LONG-TERM CONTRIBUTIONS RECEIVABLE

In addition to actuarially determined contributions, certain withdrawn employers also make annual installment payments, including interest at the actuarially assumed rate of return in effect at the time of withdrawal, for liabilities associated with employees that have elected to stay in the System when their employer elected to withdraw. As of June 30, 2014 and 2013, the outstanding balances were $34,806 and $38,040 (expressed in thousands), respectively. These payments are due over various time periods, based on the date of the employer's withdrawal.

7. REFUNDS

Member contributions plus interest may be refunded to a member who withdraws from the System, or to the designated beneficiary following a member's death. Employer contributions may also be refunded with interest to any participating governmental unit electing to withdraw from the System. For the fiscal years ended June 30, 2014 and 2013, refunds to members and withdrawing employers were $42,922 and $38,281 (expressed in thousands), respectively.

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

For the fiscal years ended June 30, 2014 and 2013, accounts payable and accrued expenses consisted of the following components (expressed in thousands):

	2014	**2013**
Administrative expenses	**$1,374**	$1,276
Investment management fees	**25,790**	24,048
Tax and other withholdings	**33,800**	31,788
Total	**$60,964**	$57,112

9. NET PENSION LIABILITY

The components of the net pension liability of the participating employers as of June 30, 2014 were as follows:

(expressed in thousands)	
Total Pension Liability (TPL)	$ 63,086,719
Plan Fiduciary Net Position	45,339,988
Net Pension Liability	$ 17,746,731
Ratio - Fiduciary Net Position/TPL	71.87%

A. Actuarial Assumptions

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 years for State system, 25 years for LEOPS Muni, and 32 years for CORS Muni as of June 30, 2014. For ECS Muni, 6 years remaining as of June 30, 2014 for prior UAAL existing on June 30, 2000. 25 years from each subsequent valuation date for each year's additional UAAL
Asset Valuation Method	5-year smoothed market; 20% collar
Inflation	2.90% general, 3.40% wage
Salary Increases	3.40% to 11.90% including inflation
Discount Rate	7.65%
Investment Rate of Return	7.65%
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period 2006-2010
Mortality	RP-2000 Combined Healthy Mortality Table projected to the year 2025
Note	There were no benefit changes during the year. Adjustments to the roll-forward liabilities were made to reflect the following assumptions changes in the 2014 valuation: Investment return assumption changed from 7.70% to 7.65% Inflation assumption changed from 2.95% to 2.90% Disability mortality assumption for State Police and LEOPS changed to: RP-2000 Disabled Mortality: 50% table for males and 75% for females, but not less than the RP- 2000 Combined Healthy Mortality table projected to year 2025

B. Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board after considering input from the System's investment consultant(s) and actuary(s). For each major asset class that is included in the System's target asset allocation, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	35%	4.70%
Fixed Income	10%	2.00%
Credit Opportunity	10%	3.00%
Real Return	14%	2.80%
Absolute Return	10%	5.00%
Private Equity	10%	6.30%
Real Estate	10%	4.50%
Cash	1%	1.40%
Total	100%	

The above was the Board of Trustees adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 2014.

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 14.38%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

C. Discount Rate

A single discount rate of 7.65% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.65%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

D. Sensitivity of the Net Pension Liability

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.65%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

(Expressed in thousands)

System	1% Decrease to 6.65%	Current Discount	1% Increase to 8.65%
Teachers	$ 14,572,359	$ 9,833,881	$ 5,872,403
Employees (state)	8,286,104	6,175,026	4,395,518
State Police	924,726	669,790	461,757
Judges	98,744	51,348	10,848
LEOPS (State)	446,763	330,520	234,877
Employees (Muni)	1,065,707	557,462	127,677
LEOPS (Muni)	177,885	128,558	88,452
CORS	2,985	146	(2,194)
Total System Net Pension Liability	**$ 25,575,273**	**$ 17,746,731**	**$ 11,189,338**

REQUIRED SUPPLEMENTARY INFORMATION

MARYLAND STATE RETIREMENT

SCHEDULE OF CHANGES IN

for the Fiscal Year Ended

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	State Police Retirement System
Total pension liability			
Service cost	$ 796,354	$ 469,747	$ 28,508
Interest	2,694,942	1,597,397	141,875
Changes of benefit terms	-	-	-
Difference between expected and actual experience	-	-	-
Changes in assumptions	182,000	86,638	33,418
Benefit payments, including refunds of employee contributions	(1,878,801)	(1,121,293)	(109,964)
Net change in total pension liability	1,794,495	1,032,489	93,837
Total pension liability, beginning of year	35,530,441	21,065,159	1,882,501
Total pension liability, end of year (a)	$ 37,324,936	$ 22,097,648	$ 1,976,338
Plan fiduciary net position			
Contributions - employer	$ 1,000,193	$ 592,185	$ 56,243
Contributions - members	441,559	267,139	6,592
Net investment income	3,458,512	1,940,319	165,097
Benefit payments, including refunds and administrative expenses	(1,878,801)	(1,121,293)	(109,964)
Other	(33)	(210)	16
Net Change in Plan Fiduciary Net Position	3,021,430	1,678,140	117,984
Plan fiduciary net position - beginning of year	24,469,625	13,686,874	1,188,563
Plan fiduciary net position - end of year (b)	$ 27,491,055	$ 15,365,014	$ 1,306,547
Employer net pension liability (a) - (b)	$ 9,833,881	$ 6,732,634	$ 669,791

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which the information is available.*

AND PENSION SYSTEM

EMPLOYERS' NET PENSION LIABILITY

June 30, 2014

Judges' Retirement System	Law Enforcement Officers' Pension System	Total
$ 15,309	$ 31,927	$ 1,341,845
33,337	87,207	4,554,758
-	-	-
		-
-	-	-
46	18,798	320,900
(27,298)	(53,519)	(3,190,875)
21,394	84,413	3,026,628
438,836	1,143,154	60,060,091
$ 460,230	$ 1,227,567	$ 63,086,719
$ 21,110	$ 63,922	$ 1,733,653
2,566	9,870	727,726
50,173	92,166	5,706,267
(27,298)	(53,519)	(3,190,875)
-	227	-
46,551	112,666	4,976,771
362,332	655,823	40,363,217
$ 408,883	$ 768,489	$ 45,339,988
$ 51,347	$ 459,078	$ 17,746,731

SCHEDULE OF EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS

for the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	State Police Retirement System	Judges' Retirement System	Law Enforcement Officers' Pension System	Total
Total pension liability	$ 37,324,936	$ 22,097,648	$ 1,976,338	$ 460,230	$ 1,227,567	$ 63,086,719
Plan fiduciary net position	(27,491,055)	(15,365,014)	(1,306,547)	(408,883)	(768,489)	(45,339,988)
Employer net pension liability	$ 9,833,881	$ 6,732,634	$ 669,791	$ 51,347	$ 459,078	$ 17,746,731
Plan fiduciary net position as a percentage of the total pension liability	73.65%	69.53%	66.11%	88.84%	62.60%	71.87%
Covered employee payroll	$ 6,310,253	$ 4,219,732	$ 85,660	$ 42,313	$ 145,673	$ 10,803,631
Employer net pension liability as a percent of covered-employee payroll	155.84%	159.55%	781.92%	121.35%	315.14%	164.27%*

SCHEDULE OF EMPLOYERS' CONTRIBUTIONS AND RELATED RATIOS

for the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	State Police Retirement System	Judges' Retirement System	Law Enforcement Officers' Pension System	Total
Actuarially determined contribution	$ 1,358,991	$ 812,643	$ 64,325	$ 21,110	$ 63,922	$ 2,320,991
Actual contribution	(1,000,193)	(592,185)	(56,243)	(21,110)	(63,922)	(1,733,653)
Contribution deficiency (excess)	$ 358,798	$ 220,458	$ 8,082	$ -	$ -	$ 587,338
Covered employee payroll	$ 6,310,253	$ 4,219,732	$ 85,660	$ 42,313	$ 145,673	$ 10,803,631
Actual contribution as a percent of covered payroll	15.85%	14.03%	65.66%	49.89%	43.88%	16.05%

SCHEDULE OF INVESTMENT RETURNS

Fiscal Year Ended	Annual money-weighted rate of return, net of investment expenses
2014	14.38%

**These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which the information is available.*

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Changes in Benefit Terms
There were no benefit changes during the year.

Changes in Assumptions
Adjustments to the roll-forward liabilities were made to reflect the following assumptions changes in the 2014 valuation:

- Investment return assumption changed from 7.70% to 7.65%
- Inflation assumption changed from 2.95% to 2.90%
- Disability mortality assumption for State Police and LEOPS changed to:
- RP-2000 Disabled Mortality: 50% table for males and 75% for females, but not less than the RP- 2000 Combined Healthy Mortality table projected to year 2025

Method and Assumptions used in Calculations of Actuarially Determined Contributions

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 years for State system, 25 years for LEOPS Muni, and 32 years for CORS Muni as of June 30, 2014. For ECS Muni, 6 years remaining as of June 30, 2014 for prior UAAL existing on June 30, 2000. 25 years from each subsequent valuation date for each year's additional UAAL
Asset Valuation Method	5-year smoothed market; 20% collar
Inflation	2.90% general, 3.40% wage
Salary Increases	3.40% to 11.90% including inflation
Investment Rate of Return	7.65%
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period 2006-2010
Mortality	RP-2000 Combined Healthy Mortality Table projected to the year 2025

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OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Assets a	Actuarial Accrued Liability (AAL) b	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll c	UAAL as a Percentage of Covered Payroll [(b - a) / c]
2005	$34,519,500	$ 39,133,450	$4,613,950	88.21%	8,603,761	54%
2006	35,795,025	43,243,492	7,448,467	82.78%	9,287,576	80%
2007**	37,886,936	47,144,354	9,257,418	80.36%	9,971,012	93%
2008	39,504,284	50,244,047	10,739,763	78.62%	10,542,806	102%
2009	34,284,569	52,729,171	18,444,602	65.02%	10,714,241	172%
2010	34,688,346	54,085,081	19,396,735	64.14%	10,657,944	182%
2011	36,177,656	55,917,543	19,739,887	64.70%	10,478,800	188%
2012	37,248,401	57,869,145	20,620,744	64.37%	10,336,537	199%
2013	39,350,969	60,060,091	20,709,122	65.52%	10,478,800	198%
2014	42,996,957	62,610,194	19,613,237	68.67%	10,803,632	182%

** Beginning July 1, 2006, the system changed its funding method from the Aggregate Entry Age Normal method to the Individual Entry Age Normal method. Due to an actuarial error, the Schedule of Funding Progress presented in the June 30, 2007 Comprehensive Annual Financial Report overstated the Actuarial Accrued Liability. The 2007 funding results have been restated above to reflect the corrected actuarial valuation results.

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITY

(Expressed in Thousands)

Fiscal Year Ended June 30,	Annual Required Contributions	Percentage Contributed
2005	$ 805,564	83%
2006	874,079	82% *
2007	1,025,972	81%
2008	1,183,765	89%
2009	1,313,560	84%
2010	1,519,980	86%
2011	2,035,401	74%
2012	2,146,624	71%
2013	2,149,985	76%
2014	2,320,991	75%

* Implementation of the statutory corridor funding method in fiscal year 2003 set the contribution made by the State into the Employees' and Teachers' Combined Systems at the contribution rates generated by the June 30, 2000 valuation which are adjusted when the funded ratio for the Employees' Systems and/or for the Teacher's systems falls below 90% or exceeds 110% and/or when the benefits for the Employees' or Teachers' Systems are enhanced

OTHER SUPPLEMENTARY INFORMATION

FUND BALANCE ACCOUNTS

As provided by law, all System assets must be credited, according to the purpose for which they are held, to either the Annuity Savings Fund, the Accumulation Fund or the Expense Fund. These funds are classified as accounts for financial reporting purposes and are further explained as follows:

A. Annuity Savings Fund

Members' contributions together with interest thereon, at statutory interest rates, are credited to the Annuity Savings Fund. Upon retirement, members' accumulated contributions and interest are transferred from the Annuity Savings Fund to the Accumulation Fund.

B. Accumulation Fund

Contributions made by employers, other contributions and investment income are credited to the Accumulation Fund. All retirement, disability, and death benefits are paid from this Fund.

C. Expense Fund

All of the System's administrative and investment management expenses are recorded in the Expense Fund. During the year, the System's investment expenses are covered by funds transferred from the Accumulation Fund and the System's administrative expenses are covered by administrative fees assessed and collected in to the Expense Fund from each participating employer to cover annual operating and administrative expenses of the System.

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

SCHEDULE OF FUND BALANCES

for the Fiscal Year Ended June 30, 2014 (with Comparative 2013 Totals)

(Expressed in Thousands)

	Annuity Savings Fund	Accumulation Fund	Expense Fund	Totals 2014	Totals 2013
Fund Balances, Beginning of Year	$ 5,317,484	$ 35,043,550	$ $ 2,183	$ 40,363,217	$ 37,178,726
Additions					
Net investment income (loss)	-	6,035,866	(329,599)	5,706,267	3,845,795
Contributions (Note 5):					
Employers	-	989,572	27,081	1,016,653	959,612
Members	727,726	-	-	727,726	710,856
State contributions on behalf of local governments	-	714,974	-	714,974	681,217
Contribution interest	-	2,026	-	2,026	2,272
Deductions					
Benefit payments	-	(3,121,823)	-	(3,121,823)	(2,950,700)
Refunds (Note 7)	(42,922)	-	-	(42,922)	(38,281)
Administrative expenses (Note 2)	-	(152)	(25,978)	(26,130)	(26,280)
Transfers					
From the Accumulation Fund to the Annuity Savings Fund for interest credited to members' accounts	257,723	(257,723)	-	-	-
To the Accumulation Fund from the Annuity Savings Fund for contributions of retiring members	(395,710)	395,710	-	-	-
From the Accumulation Fund to the Expense Fund for administrative and investment expenses	-	(329,599)	329,599	-	-
Net changes in fund balances	546,817	4,428,851	1,103	4,976,771	3,184,491
Fund Balances, End of Year	$ 5,864,301	$ 39,472,401	$ $ 3,286	$ 45,339,988	$ 40,363,217

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

SCHEDULE OF ADMINISTRATIVE EXPENSES

for the Fiscal Years Ended June 30, 2014 and 2013

(Expressed in Thousands)

	2014	**2013**
Personnel services		
Staff salaries	$12,172	$11,958
Fringe benefits	4,786	5,160
Total personnel services	16,958	17,118
Professional and contractual services		
Actuarial	375	301
Legal and financial	1,733	1,236
Consulting services	1,007	1,156
Data processing	1,449	1,131
Other contractual services	838	817
Total professional and contractual services	5,402	4,641
Miscellaneous		
Communications	538	521
Rent	1,740	1,820
Equipment and supplies	385	200
Other	1,107	1,980
Total miscellaneous	3,770	4,521
Total Administrative Expenses	$26,130	$26,280

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

SCHEDULE OF INVESTMENT EXPENSES

for the Fiscal Years Ended June 30, 2014 and 2013

(Expressed in Thousands)

	Management Fees for 2014	Incentive Fees for 2014	Total
Investment advisors			
Public equity	$69,242	$30,103	$99,345
Fixed income	11,781	-	11,781
Credit Opportunity	40,020	22,836	62,856
Real Return	25,286	1,066	26,352
Absolute Return	30,138	3,008	33,146
Private Equity	59,124	-	59,124
Real Estate	26,311	2	26,313
Total investment advisory fees	261,902	57,015	318,917
Other investment service fees			
Currency overlay	6,943	-	6,943
Other investment expenses	3,739	-	3,739
Total other investment service fees	10,682	-	10,682
Total Investment Expenses	$272,584	$57,015	$329,599

	Management Fees for 2013	Incentive Fees for 2013	Total
Investment advisors			
Public equity	$70,253	$4,063	$74,316
Fixed income	11,407	-	11,407
Credit Opportunity	31,706	14,404	46,110
Real Return	22,898	1,016	23,914
Absolute Return	27,078	-	27,078
Private Equity	53,663	-	53,663
Real Estate	24,611	-	24,611
Total investment advisory fees	241,616	19,483	261,099
Other investment service fees			
Currency overlay	9,038	-	9,038
Other investment expenses	3,656	-	3,656
Total other investment service fees	12,694	-	12,694
Total Investment Expenses	$254,310	$19,483	$273,793

MARYLAND STATE RETIREMENT

SCHEDULE OF PLAN NET

as of June 30, 2014

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	State Police Retirement System
Assets::			
Cash & cash equivalents (note 3)	$1,239,807	$749,895	$30,001
Receivables:			
Contributions:			
Employers	1,260	13,794	3,203
Employers - Long Term (note 5)	-	34,806	-
Members	1,087	9,359	264
Accrued investment income	34,436	20,206	1,856
Investment sales proceeds	438,429	247,814	21,808
Due from other systems	191	-	-
Total receivables	475,403	325,979	27,131
Investments, at fair value (notes 2 & 3)			
U.S. Government obligations	2,078,872	1,152,921	100,825
Domestic corporate obligations	2,309,932	1,281,064	112,031
International obligations	1,135,842	629,926	55,088
Domestic stocks	5,067,992	2,810,656	245,797
International stocks	4,893,652	2,713,969	237,341
Mortgages & mortgage related securities	1,170,212	648,987	56,755
Real estate	-	-	-
Alternative investments	9,935,582	5,510,171	481,874
Collateral for loaned securities	1,614,558	751,081	57,231
Total investments	28,206,642	15,498,775	1,346,942
Total assets	29,921,852	16,574,649	1,404,074
Liabilities:			
Accounts payable & accrued expenses	38,026	19,619	1,807
Investment commitments payable	778,122	438,833	38,490
Obligation for collateral for loaned securities	1,614,559	751,081	57,231
Due to other systems	89	102	-
Total liabilities	2,430,796	1,209,635	97,528
Net position held in trust for pension benefits	$27,491,056	$15,365,014	$1,306,546

** Intersystem due from/to have been eliminated in the financial statements*

AND PENSION SYSTEM

POSITION BY SYSTEM

Judges' Retirement System	Law Enforcement Officers' Pension System	Subtotal	Eliminations*	Combined Total
$ 44,504	$ 43,141	$2,054,181	$ -	$2,054,181
(128)	1,843	19,972	-	19,972
-	-	34,806	-	34,806
4	289	11,003	-	11,003
507	795	57,800	-	57,800
6,356	10,780	725,187	-	725,187
-	-	191	(191)	-
6,739	13,707	848,959	(191)	848,768
33,016	57,191	3,422,825	-	3,422,825
36,686	63,548	3,803,260	-	3,803,260
18,039	31,248	1,870,144	-	1,870,144
80,488	139,423	8,344,356	-	8,344,356
77,720	134,627	8,057,309	-	8,057,309
18,585	32,193	1,926,733	-	1,926,733
-	-	-	-	-
157,794	273,334	16,358,754	-	16,358,754
21,559	46,486	2,490,915	-	2,490,915
443,887	778,050	46,274,296	-	46,274,296
441,963	834,898	49,177,436	(191)	49,177,245
643	869	60,964	-	60,964
10,878	19,054	1,285,377	-	1,285,377
21,559	46,486	2,490,916	-	2,490,916
-	-	191	(191)	-
33,080	66,409	3,837,448	(191)	3,837,257
$ 408,883	$ 768,489	$45,339,988	$ -	$45,339,988

MARYLAND STATE RETIREMENT

SCHEDULE OF CHANGES IN

for the Fiscal Year Ended

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	State Police Retirement System
Additions:			
Contributions			
Employers	$ 285,219	$ 590,159	$ 56,243
Members	441,559	267,139	6,592
State contributions on behalf of local governments	714,974	-	-
Contribution interest	-	2,026	-
Total Contributions	1,441,752	859,324	62,835
Investment Income			
Net (depreciation) in fair value of investments	2,537,007	1,423,640	120,873
Interest	352,321	197,773	16,922
Dividends	763,666	428,060	36,327
Real estate operating net income	-	-	-
Income Before Securities Lending Activity	3,652,994	2,049,473	174,122
Gross income from securities lending activity:	6,827	3,549	242
Securities lending borrower rebates	(109)	(57)	(3)
Securities lending agent fees	(1,053)	(547)	(37)
Net income from securities lending activity	5,665	2,945	202
Total Investment Income	3,658,659	2,052,418	174,324
Less investment expenses:			
Investment advisory fees	(200,147)	(112,099)	(9,227)
Net investment income	3,458,512	1,940,319	165,097
Transfers from other systems	-	-	-
Total Additions	4,900,264	2,799,643	227,932
Deductions:			
Benefit payments	1,842,127	1,090,306	109,612
Refunds (note 7)	22,582	19,494	173
Administrative expenses (note 2)	14,092	11,493	179
Transfers to other systems	33	210	(16)
Total Deductions	1,878,834	1,121,503	109,948
Net increase in plan assets	3,021,430	1,678,140	117,984
Net position held in trust for pension benefits:			
Beginning of the fiscal year	24,469,625	13,686,874	1,188,563
End of the Fiscal Year	$27,491,055	$15,365,014	$1,306,547

** Intersystem due from/due to have been eliminated in the financial statements*

AND PENSION SYSTEM

PLAN NET POSITION BY SYSTEM

June 30, 2014

Judges' Retirement System	Law Enforcement Officers' Pension System	Total
$ 21,110	$ 63,922	$1,016,653
2,566	9,870	727,726
-	-	714,974
-	-	2,026
23,676	73,792	2,461,379
36,436	68,026	4,185,982
5,217	8,953	581,186
11,088	20,474	1,259,615
-	-	-
52,741	97,463	6,026,783
74	253	10,945
(1)	(4)	(174)
(12)	(39)	(1,688)
61	210	9,083
52,802	97,663	6,035,866
(2,629)	(5,497)	(329,599)
50,173	92,166	5,706,267
-	-	-
73,849	165,958	8,167,646
27,206	52,572	3,121,823
53	620	42,922
39	327	26,130
-	(227)	-
27,298	53,292	3,190,875
46,551	112,666	4,976,771
362,332	655,823	40,363,217
$408,883	$768,489	$45,339,988

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