G20J01
State Retirement Agency

Operating Budget Data

($ in Thousands)

	FY 04 Actual	FY 05 Working	FY 06 Allowance	FY 05-06 Change	% Change Prior Year
Special Fund	$19,898	$20,988	$20,302	-$685	-3.3%
Total Funds	**$19,898**	**$20,988**	**$20,302**	**-$685**	**-3.3%**
Contingent & Back of Bill Reductions			-72	-72	
Adjusted Total	**$19,898**	**$20,988**	**$20,230**	**-$757**	**-3.6%**

- Even though the budget is increasing to accommodate new personnel ($441,592), large budgetary decreases in contractual services (-$1,081,379) result in a 3.6% overall reduction in expenditures in the allowance. Among other contractual services budgetary changes, investment management consultant services are being moved off budget and will be financed in the same way that other investment-related contracts are treated – through fees paid out of investment returns.

- Building improvements are no longer being amortized and paid as part of rent, reflected in a large decrease in rent payments in fiscal 2006 (-$398,545). Improvements will instead be paid up-front in the current fiscal year through a special fund budget amendment.

- The fiscal 2006 deferred compensation contribution funding ($71,910) of the State's match of up to $600 in 401(k) fund contributions is withdrawn through budget reconciliation legislation.

Note: Numbers may not sum to total due to rounding.

For further information contact: Lori J. O'Brien Phone: (410) 946-5530

Personnel Data

	FY 04 Actual	FY 05 Working	FY 06 Allowance	FY 05-06 Change
Regular Positions	164.00	163.00	173.00	10.00
Contractual FTEs	20.59	29.50	31.50	2.00
Total Personnel	**184.59**	**192.50**	**204.50**	**12.00**
Vacancy Data: Regular Positions				
Turnover, Excluding New Positions		6.99	4.04%	
Positions Vacant as of 12/31/04		11.00	6.75%	

- The Governor's allowance reflects the addition of 10.00 full-time equivalent (FTE) regular positions and 2.0 FTE contractual positions in fiscal 2006. These new positions are added to enhance benefit support and other agency administrative functions in anticipation of the rising number of State retirees.

Analysis in Brief

Major Trends

Call Center Performance: The length of member telephone call wait times increased slightly in fiscal 2004, as has the percentage of dropped calls.

Issues

Pension Contribution Rates Increase for All but Teachers: The employees' combined retirement and pension system fell out of the funding "corridor" established through Chapter 440, Acts of 2002. In addition, a coding error resulted in a large increase in the State Police system contribution rate, from 0 to 8.22%. The board and agency staff are asked to discuss any progress made in discovering how the coding mistake was made and what systems are in place to prevent a similar error from being made again.

Agency Shows Strong Growth in Investment Earnings, but Ranking Remains Low Compared to Other Large Public Funds: Investment earnings have increased by 16.2%, but performance relative to other large public funds has worsened over the last three months. The agency is asked to comment.

Investment Manager Fees and Performance Oversight: The focus of the investment division has shifted to oversight of fund managers' fees and performance. The agency is asked to comment on the processes by which these newly emphasized functions are accomplished.

SRA Continues to Look Forward to the End of the Legacy System: The agency is asked to comment on the progress made toward replacing the 30-year old retirement and pension benefits computer "legacy" system.

Recommended Actions

		Funds	Positions
1.	Delete funding for 7.0 full-time equivalent contractual positions.	$ 240,000	
2.	Delete one position that has been vacant for more than a year.	53,969	1.0
	Total Reductions	**$ 293,969**	**1.0**

Updates

Task Force on the Exemption of Law Enforcement Officers' Pensions from Taxation: The findings of the task force are described.

G20J01
State Retirement Agency

Operating Budget Analysis

Program Description

The State Retirement Agency (SRA), under the direction of the Board of Trustees of the State Retirement and Pension System (SRPS), is responsible for administering the State's retirement and pension systems. The agency is divided into five divisions. The administrative division is responsible for administering the payment of benefits, management of employee contributions, and membership counseling. The investment division is charged with the management, control, and implementation of investment policy for approximately $30 billion in assets. The finance division provides accounting and financial reporting, budget administration, and procurement functions. The internal audit division ensures agency compliance with State laws, rules, and regulations, as well as ensuring employer compliance with agency reporting policies. The management information services division provides ongoing computer support and is in charge of the data processing upgrade. In addition to the overall direction of each of these divisions, the executive director's office is responsible for policy development, legislation, and legal affairs. The administrative budget of SRA is funded solely through special funds drawn from the pension trust fund based on statutory authority.

Performance Analysis: Managing for Results

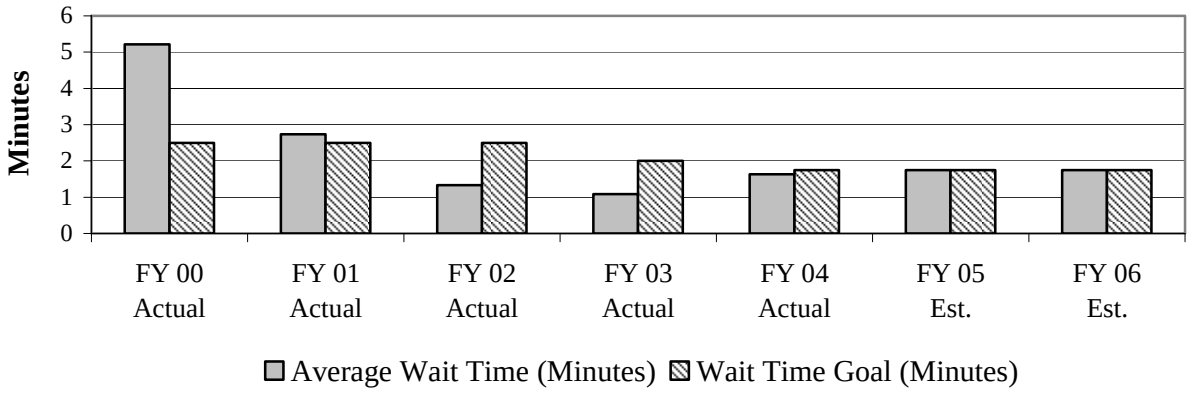
The State Retirement Agency has two primary functions: (1) to properly administer the retirement system so that payment of pension benefits and collection of pension contributions may be made in a timely and accurate manner; and (2) to manage the assets of the SRPS to maximize the system's risk-adjusted return.

The agency's Managing for Results (MFR) provides measures illustrating the accuracy and timeliness of the benefit application calculations and benefit payment calculations. The agency remains efficient and accurate in both these areas, comfortably reaching its goal of 98% accuracy in the first, and falling only slightly short of its 100% goal in the second. The agency projects continued high levels of performance.

Telephone Wait Times and Dropped Call Experience

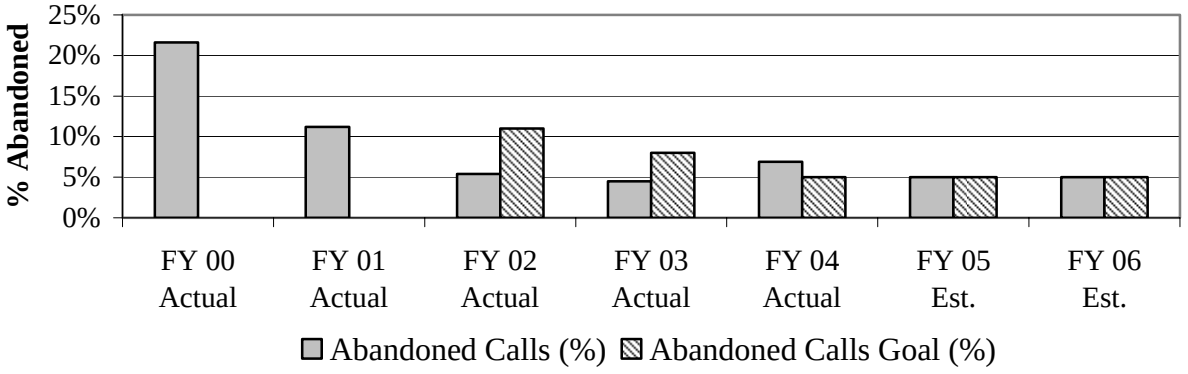
The agency continues to recognize that telephone waiting time is an important issue for members and retirees. SRA tracks both the waiting time for incoming service and information requests and the number of calls that are abandoned because of lengthy waits. As illustrated in **Exhibits 1** and **2**, the dropped call rate and wait times have both increased slightly over the fiscal 2003 experience. The agency has experienced some difficulty retaining employees in the retirement benefits counselor classifications at the point when the employees holding these positions gain enough experience to do presentations in the field. In fact, the average tenure of incumbents in these classifications is two years less than remaining agency personnel. This loss of experienced benefits counselors contributes to a slightly worse experience for members and retirees making inquiries of the agency in the most recent fiscal year.

Exhibit 1
Telephone Call Wait Time
Fiscal 2000 – 2006



Source: State Retirement Agency

Exhibit 2
Percent of Abandoned Calls
Fiscal 2000 – 2006



Source: State Retirement Agency

Backlog of Retirement Benefit Estimates

The agency reports that the significant backlog of request for an estimate of benefits by members continues. These requests may be made by members eligible to retire within one year; members may request multiple estimates, based on multiple potential retirement dates. Due to the inability of the agency's "legacy" computer system to calculate these benefit estimates for all requests, they must sometimes be calculated manually, further contributing to the backlog.

The ability of the agency to complete these requests in a timely manner is exacerbated by the 10% of eligible members making multiple requests. As members become more sophisticated "consumers" of their retirement benefit, they look to anticipate and cover all possible scenarios. As of January 2005, there is a backlog of 794 retirement benefit requests. SRA estimates that its average backlog is 250 to 300 requests. The greatest number of benefit estimates generated by the legacy system from one individual was 11 (in September of 2004). In addition, there are multiple estimates calculated by hand the volume of which is not tracked by the agency. **Exhibit 3** details the history of legacy-generated benefit estimate requests since fiscal 1999. The agency anticipates the automation of these estimates with the development of a new computer system. **SRA is asked to discuss its future plans to alleviate the backlog and discuss its view of an appropriate level of request backlogs.**

Exhibit 3
Multiple Requests for Benefit Estimates
Fiscal 1999 – 2005

Fiscal Year	Estimates Completed by Agency Staff	Annual % Increase in Estimates Completed	Individuals Requesting Multiple Estimates	Greatest # of Estimates for One Individual
1999	11,109		598	6
2000	11,524	3.7%	616	8
2001	11,683	1.4%	562	5
2002	13,337	14.2%	691	6
2003	15,698	17.7%	1,045	8
2004	17,361	10.6%	1,269	8
2005*	24,148	39.1%	2,242	11
Average 1999 – 2005	**14,980**	**13.8%**	**1,003**	**7**

* Estimated by the Department of Legislative Services, based on the increase between the first six months of activity in fiscal 2004 and 2005.

Source: State Retirement Agency

Exhibit 4 illustrates the growth in the number of system participants since fiscal 1999. A profile of individual active members and retirees in each of the State plans from fiscal 2000 through 2004 can be found in **Appendix 3**.

Exhibit 4
Plan Summary
Fiscal 2000 – 2004

	Actual 2000	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Avg. Annual Change 00 - 04
Total participants*	302,873	311,984	321,845	326,397	327,652	2.0%
Benefit payments ($ Billions)**	$1.191	$1.273	$1.372	$1.474	$1.571	7.2%
Fund balance, June 30 ($ Billions)	$33.111	$29.565	$26.669	$26.728	$30.167	-2.3%

* Includes active employees, retirees, beneficiaries, and former employees with vested benefits.
** These figures are reported by Milliman USA, and include the cost-of-living adjustment as of July 1.

Source: *Comprehensive Annual Financial Report for the Year Ending June 30, 2004*; State Retirement and Pension System of Maryland

Governor's Proposed Budget

As illustrated in **Exhibit 5**, the agency's budget decreases by 3.6% between the fiscal 2005 working appropriation and the fiscal 2006 allowance. Large budgetary decreases are reflected in contractual services, where, among other changes, investment management consultant services are being moved off budget and financed in the same way that other investment-related contracts are treated – through fees paid out of the pension trust fund. These decreases to the special fund budget are offset by increases in the personnel costs associated with 10.0 full-time equivalent (FTE) new positions, turnover, salary increments, retirement costs, and 2.0 new FTE contractual employees.

Notwithstanding the reported budget, if costs were recorded on a consistent basis, the budget would indicate growth of roughly $488,000, or 2.3%. The removal of investment management fees ($846,000) and upfront payment in fiscal 2005 ($399,000) of previously amortized building improvements more than exceed the reported increase. **The agency should explain to the committees the policy rationale for those actions and their impact on the transparency and accountability of agency finances in light of its fiduciary obligations to employees and retirees.**

Exhibit 5
Governor's Proposed Budget
State Retirement Agency
($ in Thousands)

How Much It Grows:	Special Fund	Total
2005 Working Appropriation	$20,988	$20,988
2006 Governor's Allowance	20,302	20,302
Contingent & Back of Bill Reductions	-72	-72
Adjusted Allowance	**$20,230**	**$20,230**
Amount Change	-$757	-$757
Percent Change	-3.6%	-3.6%

Where It Goes:

Personnel Expenses	
10 new FTE positions	$442
Turnover and cost containment adjustments	281
Increments	168
Funding for 2005 abolitions removed in fiscal 2006	-104
State retirement	81
Net increase of 2 contractual FTE	73
Employee and retiree health insurance	-46
Other fringe benefit adjustments	6
Other Changes	
State Street Bank investment master custodian services credited to the expense fund of each State retirement and pension system as an investment management service	-846
Upfront payment of building improvement through anticipated fiscal 2005 budget amendment reduces ongoing changes for rent	-399
Moved University System of Maryland Information Technology (IT) Project Manager responsibilities to an existing SRA contractual position	-175
Lower mailing and printing costs related to a new policy emphasizing client use of the Internet	-124
Data processing and office equipment	-80
Department of Budget and Management (DBM) paid telecommunications	-38
Other contractual services	3
Total	**-$757**

Note: Numbers may not sum to total due to rounding.

New Personnel

Regular Positions

SRA has added 10.0 new FTE regular positions in the fiscal 2006 Governor's allowance, including 8.0 contractual conversions, as demonstrated in **Exhibit 6**.

Exhibit 6
New Regular Positions

Classification	Salary & Fringes	Function	Rationale
Member Relations Division			
2.0 FTE Retirement Benefits Counselor I	$62,990	Answers member telephone calls.	Anticipated increase in telephone contacts. Increased wait times and incidence of dropped call rate. Use of counselors from elsewhere in the agency.
Benefits Processing Division			
3.0 FTE Accountant I contractual conversions	$146,866	Calculates retirement estimates and final retirement benefits.	Loss of contractual employees to regular employment opportunities elsewhere after significant time and effort is spent in training in plan administration rules and processes.
Data Control Division			
5.0 FTE Administrative Specialist II and III contractual conversions	$231,736	Audits employer payroll reporting data and initiates adjustments to service credit.	Loss of contractual employees to regular employment opportunities elsewhere after significant time and effort is spent in training in plan administration rules and processes.
Total budgeted	**$441,592**		

Source: State Retirement Agency

Contractual Positions

The net number of contractual employees increases by 2 as 10 new positions more than offset the 8 converted to regular status. The new positions are described in **Exhibit 7**.

Exhibit 7
New Contractual Positions

Classification	Salary & Fringes	Function	Rationale
Benefits Processing and Data Control Divisions			
7.0 FTE positions	$240,000	Calculates retirement estimates and final retirement benefits.	Will provide the opportunity to "not only maintain, but improve service levels while also responding to increasing numbers of retirement estimates and final retirement applications..."
Management Information Services Division			
1.0 FTE IT Project Manager 2.0 FTE positions	$177,000	Supports SRA's legacy computer system and provides oversight for the development of a new SRA computer system.	Positions were created during fiscal 2005. One is SRA's IT Project Director position, formerly provided through a contract with the University System of Maryland. The other two are to support the legacy system.
Total Budgeted	**$417,000**		

Source: State Retirement Agency

The Department of Legislative Services (DLS) commends SRA's concerted effort to provide more efficient, accurate, and timely retirement estimates and benefit calculations by converting a number of existing contractual employees to regular positions and promoting stability in its workforce. DLS, however, does not see the wisdom of repopulating the contractual workforce with positions intended to provide the same function as those that are being converted. It is as likely as with the existing contractuals that the agency will face the loss of these new employees to permanent employment opportunities elsewhere after significant time and effort is spent in training in plan administration rules and processes. **Therefore, DLS recommends that the 7.0 FTE contractual positions intended for the Benefits Processing and Data Control Divisions be deleted.**

Issues

1. Pension Contributions Rates Increase for All but Teachers

The "Corridor" Approach to Pension Funding

While State retirement investments realized investment earnings of $3.4 billion in fiscal 2004, a 16.2% gain, the employees' combined retirement and pension system fell out of the funding "corridor" established through Chapter 440, Acts of 2002. Chapter 440 sought to mitigate the budgetary impact of volatile pension investment performance. The corridor method provides that the contribution rates for the employees' and teachers' pension and retirement systems are frozen at fiscal 2002 levels, so long as the systems remain actuarially funded between 90 and 110%, inclusive. Should the actuarial funding levels fall outside this corridor, the statute calls for an adjustment of 20% of the difference between the prior year's contribution rate and the "true rate" or rate required to fully fund the system over a 25-year amortization schedule.

As demonstrated in **Exhibit 8**, rates established for fiscal 2006 reflect the fact that the employees' combined system is at 89.2% of full funding in fiscal 2004, down from 91.6% in the previous year. The new contribution level of 5.76% reflects the 2002 level of 4.73% plus 20% of the difference between the 2002 rate and the true fiscal 2006 rate of 9.88%. The teachers' systems, funded at 92.8%, are still within the corridor. With the exception of the State Police System, the remaining systems reflect the investment performance and unfunded accrued liability of each system.

State Police Rate Increase

During the 2004 actuarial valuation by Milliman USA, it was discovered that for an unknown period of years, a segment of participants in the State Police Retirement System[1] were being improperly coded in the actuarial database. The benefits owed to these employees were being computed on a single-life annuity basis, where they should have been coded as joint-and-survivor annuities. As a result, the State police system has long been operating under an assumption that the system was inordinately over-funded. Based on a 0% contribution rate in effect for fiscal 2005 and the coding error, the State police "surplus" fell from $222.8 million to $87.4 million. The contribution rate increases in fiscal 2006 to 8.22% of payroll. If investment returns exceed the actuarial assumption (7.75%), then the 8.22% contribution will not add to the surplus but will slow the rate of decrease of the surplus. **The board and agency staff are asked to discuss any progress made in discovering how the coding mistake was made and what systems are in place to prevent a similar error from being made in the future.**

[1] The Judges Retirement System and the Law Enforcement Officers' Plan were also affected, to a lesser degree.

Exhibit 8
Fiscal 2005 and 2006 Employer Contribution Rates and Actuarial Funding Levels*

	Fiscal 2005		Fiscal 2006	
Plan	**Rate**	**Funding Level**	**Rate**	**Funding Level**
Employees	4.73%	91.6%	5.76%	89.2%
Teachers	9.35%	92.8%	9.35%	92.8%
State Police	0.00%	121.0%	8.22%	107.3%
Judges	36.72%	86.1%	41.12%	80.1%
Law Enforcement Officers' Pension System	37.73%	60.5%	38.47%	63.3%
Combined System	**7.97%**	**92.9%**	**8.46%**	**91.7%**

*For fiscal 2005 the June 30, 2003, funding level; for fiscal 2006 the June 30, 2004, funding level.

Source: Milliman

2. Agency Shows Strong Growth in Investment Earnings, but Ranking Remains Low Compared to Other Large Public Funds

SRPS Performance Compared to Other Systems

DLS has reviewed the annual evaluation performed by the Trust Universe Comparison Service (TUCS). TUCS is a collaboration of 19 major banks, Wilshire Associates and Greenshire Associates that tracks public pension performance. In fiscal 2004 the SRPS earned $3.4 billion, an investment gain of 16.2%. This builds on a modest $59.3 million in earnings in fiscal 2003 and reverses a two-year pattern of investment losses, including a loss of $3.0 billion in fiscal 2002 and $3.6 billion in fiscal 2001.

As shown in **Exhibit 9**, Maryland's one-year ranking in the September 2004 TUCS evaluation moved to the fifty-third percentile, an improvement over the 2003 evaluation, which put the State's performance in the seventy-fifth percentile. The September 2004 evaluation also showed a slight improvement in the State's five-year and ten-year rankings, placing the State in the ninety-fourth percentile for both. The 2003 rankings for both time periods were in the ninety-ninth percentile. While these improvements in long-term performance are encouraging, it is important to note that Maryland's performance in the TUCS evaluation continues near the bottom. Moreover, Maryland's performance over the most recent three-month period is quite poor at the eighty-fourth percentile.

Exhibit 9

TUCS Comparison to Public Funds >$1.0 Billion
Rolling Years Ending September 30, 2004

	3 Months		1 Year		5 Years		10 Years	
5th Percentile	2.54		15.80		7.64		11.32	
25th Percentile	0.96		13.61		5.18		10.11	
Median	0.55		12.60		4.11		9.52	
75th Percentile	0.21		10.77		3.20		8.51	
95th Percentile	(0.67)		3.51		2.74		7.69	
SRPS	0.06	84th	12.52	53rd	2.76	94th	7.99	94th

Source: State Street Analytics (TUCS Master Trust Report)

Although it is unclear whether short-term rankings are the result of market fluctuations or management, it is important to note that the board has restructured and refocused on fiduciary responsibilities, transparency of the decision-making processes, and education of board members. The agency has settled several management and personnel issues and has restructured its investment management to include formal procedures for reviewing external managers. **SRA is asked to comment on the recent decline in investment performance rankings and on these reorganization efforts.**

3. Investment Manager Fees and Performance Oversight

In response to direction from the board and agency management, oversight and monitoring of manager performance has become the key focus of investment department staff at the agency. The board has removed actual fund management from the responsibilities of staff and placed a premium on formal procedures for monitoring the compliance of managers across all asset classes. The variation in the level of fees paid to managers and the underperformance of managers are two issues with which the agency has concerned itself.

There is a significant difference in the level of fees paid to different investment managers serving the system. For example, in the area of actively managed domestic equities, Capital Guardian was paid $750,835 for managing $469.7 million in assets (0.17%) while Relational was paid $4.6 million

for managing $250.7 million in assets (2.0%). This issue has been raised by the Joint Committee on Pensions in the past, but it remains unclear why there are such large differences in system expenditures to different investment managers in the same asset class.

In November 2004 the board advised the Joint Committee on Pensions that it was developing a revised invoice approval process for payment of manager fees to include additional board oversight of fees. The board has also directed agency staff to study the issue of fee arrangements and report any findings to the board for appropriate action. **The board and agency are asked to report the status and result of these inquiries to the budget committees.**

In addition to the difference in fees paid to external investment managers, another concern is the board's retention of underperforming outside investment managers. The board continues to monitor and utilize its "watch list." If the SPRS investment staff becomes concerned about the performance or other substantial changes in the status of an investment manager, the manager is placed on a list that is reported to the board's investment committee on a monthly basis. Additionally, in August 2002, the board's investment operations manual was changed to state "A manager is expected to outperform their assigned benchmark over the greater of a three-year cycle or a complete market cycle."[2] The board has become more aggressive in terminating underperforming investment managers. In fiscal 2004 and 2005, to date, the board terminated Lazard Asset Management, Morgan Stanley Asset Management, and W.R. Huff Asset Management, all fixed income managers. It has also terminated Times Square Investors, a real estate commingled fund manager, and the Bank of Ireland, an international equity manager due to continued underperformance. **The board and agency staff are asked to comment on the process by which managers are determined to be underperformers, and explain what factors lead to termination**.

4. SRA Continues to Look Forward to the End of the Legacy System

The State Retirement System's current computer system, dubbed the "legacy" system, is 30 years old. Substantial staff resources are devoted to maintaining the system and patching existing programming errors, including the recent addition of 2.0 FTE contractual positions.

During fiscal 2005, a special fund amendment was approved to support an independent vendor providing an assessment of the State Retirement Agency's internal control structure for benefits administration. This assessment will analyze processes and controls for enrolling members, collecting membership work history data, collecting member contributions, and computing and paying retirement, disability, and death benefits. The resulting report will help the agency discover organizational weaknesses and will be used in the development of an RFP for a new Maryland Retirement Information System (MRIS) that accurately reflects the system's needs.

[2] *SRPS Investment Operations Manual*, August 2002.

To assist in the development of the RFP, the fiscal 2005 working appropriation contained $200,000 to staff an IT project office for that purpose. Those funds remain in the fiscal 2006 allowance but will instead be used to out-source the work. Finally, in fiscal 2005, SRA has hired a contractual employee as an IT Project Manager. This function, formerly filled through a contract with the University System of Maryland, handles the management of the projects to define, design, and develop the legacy replacement system.

The board and agency staff should be prepared to comment on the current status and future plans for MRIS. Emphasis should be place on what the agency is doing to avoid the problems that resulted in the failure of the system developed in conjunction with Syscom, Inc.

Recommended Actions

		Amount Reduction		Position Reduction
1.	Delete funding for 7.0 full-time equivalent contractual positions in the Benefits Processing Division. The State Retirement Agency should be commended for its concerted effort to provide more efficient, accurate, and timely retirement estimates and benefit calculations by converting a number of existing contractual employees to regular positions and promoting stability in its workforce. However, by repopulating the contractual workforce with positions intended to provide the same function as those that are being converted, the same inefficiency issues around those positions are being created. It is as likely as with the existing contractuals that the agency will face the loss of these new contractuals to regular employment opportunities elsewhere after significant time and effort is spent for training.	$ 240,000	SF	
2.	Delete 1.0 full-time equivalent position to reflect the fact that the position has been vacant for more than one year. The personal identification number of the position recommended for deletion is 045740.	53,969	SF	1.0
	Total Special Fund Reductions	**$ 293,969**		**1.0**

Updates

1. Task Force on the Exemption of Law Enforcement Officers' Pensions from Taxation

Chapter 534, Acts of 2004 creates a Task Force on the Exemption of Law Enforcement Officers' Pensions from Taxation, staffed by SRA. The task force was charged with studying the issue of exempting members of the State Police Retirement System, the Law Enforcement Officers' Pension System, the Local Fire and Police System, any local pension or retirement system for law enforcement officers, and parole and probation officers who are members of the Employees' Retirement System or the Employees' Pension System from State income taxes on their pensions.

The task force requirements and findings include the impact on State revenues and the impact to individual members. Estimates of the negative impact on State revenue range from $10.5 million if the exemption is applied to all law enforcement pensioners from age 55 or older to $21.9 million if applied to all law enforcement pensioners. If the current pension exemptions (for elderly pensioners age 65 and older and for pensioners or their spouses with a total disability) were simply extended, cost estimates range from $4.6 million to $12.2 million depending on the age of eligibility assumed.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
State Retirement Agency
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2004					
Legislative Appropriation	$0	$20,258	$0	$0	$20,258
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Cost Containment	0	0	0	0	0
Reversions and Cancellations	0	-360	0	0	-360
Actual Expenditures	**$0**	**$19,898**	**$0**	**$0**	**$19,898**
Fiscal 2005					
Legislative Appropriation	$0	$15,616	$0	$0	$15,616
Budget Amendments	0	5,372	0	0	5,372
Working Appropriation	**$0**	**$20,988**	**$0**	**$0**	**$20,988**

Note: Numbers may not sum to total due to rounding.

Fiscal 2005

- A special fund budget amendment totaling $5,114,376 was approved in fiscal 2005. During the 2004 session, the General Assembly approved a reduction of $5,010,720 from personnel expenditures to reflect the availability of unneeded encumbered prior year funds associated with failed computer procurement. The agency was directed to use these formerly encumbered funds to cover the reduced personnel expenditures. These special funds are available through revenues generated by the retirement and pension trust fund.

- A special fund amendment for $99,960 was also approved to support an independent vendor providing an assessment of the State Retirement Agency's internal control structure for benefits administration. Assessments will cover controls for enrolling members, collecting membership work history data, collecting member contributions, and computing and paying retirement, disability, and death benefits.

- A special fund amendment for $157,668 is pending and will provide funding for the fiscal 2005 general salary increase of $752 per employee.

Appendix 2

Audit Findings

Audit Period for Last Audit:	July 1, 2002 – June 30, 2004
Issue Date:	October 2004
Number of Findings:	0
Number of Repeat Findings:	0
% of Repeat Findings:	0 %
Rating: (if applicable)	

Object/Fund Difference Report
State Retirement Agency

Object/Fund	FY04 Actual	FY05 Working Appropriation	FY06 Allowance	FY05 - FY06 Amount Change	Percent Change
Positions					
01 Regular	164.00	163.00	173.00	10.00	6.1%
02 Contractual	20.59	29.50	31.50	2.00	6.8%
Total Positions	**184.59**	**192.50**	**204.50**	**12.00**	**6.2%**
Objects					
01 Salaries and Wages	$ 10,305,029	$ 10,601,412	$ 11,500,932	$ 899,520	8.5%
02 Technical & Spec Fees	1,118,987	1,380,803	1,454,146	73,343	5.3%
03 Communication	894,403	1,093,196	1,010,342	-82,854	-7.6%
04 Travel	108,436	122,284	122,284	0	0%
07 Motor Vehicles	124,685	139,042	125,536	-13,506	-9.7%
08 Contractual Services	5,026,950	5,271,848	4,190,469	-1,081,379	-20.5%
09 Supplies & Materials	266,599	195,623	195,623	0	0%
10 Equip - Replacement	174,461	216,473	80,394	-136,079	-62.9%
11 Equip - Additional	47,372	0	56,153	56,153	N/A
13 Fixed Charges	1,831,118	1,966,845	1,566,298	-400,547	-20.4%
Total Objects	**$ 19,898,040**	**$ 20,987,526**	**$ 20,302,177**	**-$ 685,349**	**-3.3%**
Funds					
03 Special Fund	$ 19,898,040	$ 20,987,526	$ 20,302,177	-$ 685,349	-3.3%
Total Funds	**$ 19,898,040**	**$ 20,987,526**	**$ 20,302,177**	**-$ 685,349**	**-3.3%**

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.

Summary of State Membership Data by Plan
Fiscal 2000 - 2004

	Total	Teachers' Retirement	Teachers' Pension	Employees Retirement	Employees' Pension	Judges' Retirement	State Police Retirement	LEOPs
From 7/1/99 to 6/30/00								
Active Members	179,586	11,634	79,294	12,130	73,212	283	1,636	1,130
Average Annual Salary	$37,452	$57,761	$38,564	$36,360	$32,579	$106,524	$48,526	$44,515
Retired Members	80,773	29,061	9,084	25,489	15,241	285	1,388	206
Avg. Annual Retirement Allowance	$14,998	$22,050	$11,376	$12,394	$5,929	$52,360	$29,701	$21,670
Vested Former Members	42,514	1,857	14,860	1,401	24,305	13	22	36
From 7/1/00 to 6/30/01								
Active Members	184,600	10,396	82,901	11,962	76,024	281	1,578	1,318
Average Annual Salary	$39,301	$61,453	$40,474	$38,280	$34,554	$108,735	$50,306	$45,856
Retired Members	84,185	29,599	10,527	25,212	16,702	297	1,518	309
Average Annual Retirement Allowance	$15,707	$23,282	$11,893	$13,137	$6,278	$55,046	$31,695	$22,790
Vested Former Members	43,199	1,730	15,607	1,350	24,396	13	24	49
From 7/1/01 to 6/30/02								
Active Members	190,123	9,270	87,086	11,722	78,584	281	1,589	1,410
Average Annual Salary	$41,383	$65,175	$42,704	$40,135	$36,728	$113,253	$52,323	$46,749
Retired Members	87,367	29,989	11,931	24,904	18,205	311	1,598	403
Average Annual Retirement Allowance	$15,945	$23,510	$12,788	$13,285	$6,894	$55,377	$32,334	$24,028
Vested Former Members	44,355	1,643	16,397	1,331	24,845	10	27	66
From 7/1/02 to 6/30/03								
Active Members	190,021	8,199	89,099	11,347	77,939	287	1,542	1,481
Average Annual Salary	$42,808	$67,755	$44,520	$40,723	$38,004	$115,571	$52,424	$46,907
Retired Members	90,803	30,305	13,370	24,662	19,929	306	1,695	503
Average Annual Retirement Allowance	$16,278	$24,156	$13,128	$13,728	$7,284	$56,112	$33,444	$24,804
Vested Former Members	45,573	1,577	17,284	1,349	25,212	13	41	62
From 7/1/03 to 6/30/04								
Active Members	185,861	7,197	88,765	10,489	75,955	283	1,445	1,675
Average Annual Salary	$44,169	$69,819	$46,337	$41,801	$39,024	$117,137	$53,655	$46,942
Retired Members	94,880	30,598	15,093	24,559	21,913	309	1,790	581
Average Annual Retirement Allowance	$16,785	$25,064	$13,704	$14,343	$7,795	$56,761	$34,822	$26,085
Vested Former Members	46,911	1,478	18,327	1,311	25,626	14	44	81

Source: *Comprehensive Annual Financial Report for the Year Ending June 30, 2004* ; State Retirement and Pension System of Maryland