Maryland State
Personnel and Pensions

Legislative Handbook Series
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Foreword

The State of Maryland employs about 94,000 individuals in either a regular or contractual capacity, which represents almost 4 percent of the civilian labor force. The State Retirement and Pension System has about 228,000 active and inactive members, 84,000 beneficiaries, and a portfolio of over $26 billion (at the end of fiscal 2001).

Personnel and retirement issues are complex and require a considerable amount of legislative time and effort. During the 1999 - 2002 legislative term, the State's system of collective bargaining was codified and expanded, and the State's actuarial method for its major plans was overhauled. Legislative activity in these areas is likely to continue to remain high. This volume outlines personnel and retirement issues and functions in broad scope to provide assistance in considering legislation affecting the State's personnel and retirement systems. A review of actual statute, regulation, and administrative procedure is necessary to determine specific issues.

This is the fifth in a series of nine volumes of the 2002 Legislative Handbook Series prepared prior to the start of the General Assembly term by the staff of the Office of Policy Analysis, Department of Legislative Services. The material for this volume was assembled and prepared by Lori O'Brien, Christine Scott, Dea Whayland-Daly, Leslie Knapp, Vicki Gruber, Dave Smulski, and Anne Gawthrop under the general direction of John Rixey and Matthew Riven, the supervising analysts. The manuscript was prepared by Rachel Adcock and Mary Dwyer.

The Department of Legislative Services appreciates the cooperation and assistance received from State agencies and other interested parties.

The Department of Legislative Services trusts that this volume will be of use to all persons interested in the Maryland State government. The department welcomes comments on ways future editions may be improved.

Karl S. Aro
Executive Director
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Chapter 1. Profile of Maryland's Public Workforce

As of July 1, 2002, Maryland's public employee workforce consists of 84,704 regular full-time equivalent positions located throughout the various agencies, departments, and commissions in State government. In addition, there are approximately 9,134 full-time equivalent positions in the other major category – contractual employment. The State will spend in excess of $5.3 billion on salaries, wages, and benefits during fiscal 2003, which amounts to 24.3 percent of the total State operating budget.

The following exhibits provide a demographic and functional "snap shot" of the State's workforce:

Exhibit 1.1 compares the State's population with the number of budgeted State employees from fiscal 1997 to 2002.

Exhibit 1.2 shows the distribution of State employees by length of service in fiscal 2001.

Exhibits 1.3 sets forth the distribution of State employees by function in fiscal 2003. Appendix 1 presents a historical table of this distribution.

Exhibit 1.4 is a demographic profile of State employees for fiscal 2001.

Exhibit 1.5 lists average salaries of State employees from fiscal 1983 to 2001.

Exhibit 1.1
State Population - State Employment
(Includes Contractual and University System of Maryland Employees)
Fiscal 1997 - 2002

Fiscal Year	Population [1]	% Change	Budgeted State Positions[2]	% Change	Employees as % of State Population
1997	5,112,000		81,568		1.6%
1998	5,157,300	0.9%	82,003	0.5%	1.6%
1999	5,204,500	0.9%	83,773	2.2%	1.6%
2000	5,254,500	1.0%	85,373	1.9%	1.6%
2001	5,310,900	1.1%	88,059	3.1%	1.7%
2002	5,375,200	1.2%	91,263	3.6%	1.7%

[1] Estimated population as of July 1 of the fiscal year.
[2] Full-time equivalent positions.

Source: U.S. Census Bureau, Department of Legislative Services, Department of Budget and Management

Exhibit 1.2
State Employees by Length of Service [1]
Fiscal 2001

Years of Service	Distribution of Employees
Less than 1 year	3%
1 – 5 years	27%
6 – 10 years	17%
11 – 15 years	17%
16 – 20 years	12%
21 – 30 years	19%
Over 30 years	4%

[1] Includes employees covered by the State Personnel and Management System and the Maryland Department of Transportation.

Source: Department of Budget and Management

Exhibit 1.3
State Employees by Function
(Budgeted and Nonbudgeted Full-time Equivalent Regular Positions)
Fiscal 2003 Legislative Appropriation

Function (Budgeted)	Number	Percent
Legislative	730	0.9%
Judicial Review and Legal	4,585	5.4%
Executive & Administrative Control	1,578	1.9%
Financial & Revenue Administration	2,102	2.5%
Budget & Management	531	0.6%
Retirement Programs	185	0.2%
General Services	796	0.9%
Transportation	9,319	11.0%
Natural Resources	1,577	1.9%
Agriculture	460	0.5%
Health and Mental Hygiene	8,099	9.6%
Human Resources	7,714	9.1%
Labor, Licensing, and Regulation	1,617	1.9%
Public Safety & Corrections	11,465	13.5%
Higher Education	20,596	24.3%
Other Education	1,903	2.3%
Housing and Community Development	424	0.5%
Business & Economic Development	319	0.4%
Environment	1,032	1.2%
Juvenile Justice	1,996	2.4%
State Police and Fire Marshal	2,510	3.0%
Subtotal	**79,538**	**93.9%**
Nonbudgeted	5,166	6.1%
Total	**84,704**	**100.0%**

Note: Contractual employees not included.

The legislature has authorized the addition of up to 500 positions using State funds, the addition of an unlimited number of positions using non-State funds, the addition of up to 150 Local Management Board positions and other grant-funded positions within the Department of Human Resources, and positions needed due to public emergencies.

Numbers may not sum to total due to rounding.

Source: Department of Legislative Services, Department of Budget and Management

Exhibit 1.4
State Government Highlights
Fiscal 2001

- State government employees by service classification:

Skilled service employees	84.1%
Professional service employees	9.5%
Management service employees	3.3%
Executive service employees	1.3%
Temporary employees	1.7%

- Work location of State employees:

Baltimore City	36.3%
Anne Arundel County	17.6%
Baltimore metro area	17.3%
Western Maryland	11.0%
Eastern Shore area	9.7%
Washington metro area	5.7%
Southern Maryland area	2.4%

- State employees by work status:

Full time	97.1%
Part time	2.9%

- The statewide civilian labor force is made up of: While the State employee workforce is:

The statewide civilian labor force is made up of:	While the State employee workforce is:
52.6% Male	43.5% Male
47.4% Female	56.5% Female
29.4% Minority	42.4% Minority

- The average State employee…
  is 45 years old and has 13 years of service.

Source: Department of Budget and Management, Maryland Department of Transportation

Exhibit 1.5
Average Salaries of State Employees
Fiscal 1983 - 2001

Fiscal Year	Average Salary
1983	$17,664
1984	19,502
1985	20,670
1986	22,383
1987	22,792
1988	24,242
1989	26,276
1990	27,943
1991	28,587
1992	28,633
1993	28,786
1994	29,946
1995	30,978
1996	31,858
1997	32,426
1998	33,885
1999	35,432
2000	36,767
2001	39,014

Note: These average figures reflect salaries paid to employees covered by the State Personnel and Management System.

Source: Department of Budget and Management

Chapter 2. Evolution of the State Merit System – Historical Perspective

Civil service reform was accomplished at the federal level in 1883, but Maryland did not follow suit until 37 years later. Chapter 41 of 1920 established the State merit system, making Maryland the ninth state to adopt civil service reform. Civil service or merit systems comprise the laws and rules developed to uphold principles of fairness, equality, and open competition in all areas of public sector personnel management.

As at the national level, the State's electorate eventually voiced its distaste for a continuance of the "spoils system" that linked public employment with political party affiliation. Proponents of reform argued that the patronage system deprived taxpayers of an impartial and responsive public workforce.

Historical Federal Influence

"Every four years the whole machinery of government is pulled to pieces. The business of the nation and the legislation of Congress is subordinated to the distribution of plunder among eager partisans." President Arthur's quote captured the essence of the spoils system that characterized the personnel practices of federal and state governments for decades. Beginning with the presidential election of Andrew Jackson in 1828, the patronage system was common practice for obtaining public employment.

Efforts at improvement met with little success until the assassination of President Garfield in 1881 by a disappointed office seeker. Adoption of the Civil Service Reform Act, better known as the Pendleton Act, in 1883 established the United States Civil Service Commission and provided for merit selection, retention, and promotion of federal employees. The influence of this legislation and a succession of other federal actions, coupled in many instances with innovative approaches on the part of the states, moved the states toward comprehensive, modern personnel systems.

In addition to reforming the federal civil service, the Pendleton Act also had the effect of stimulating the growth of state civil service systems. Within a few months of the passage of the Act, New York established a civil service commission with the authority to prepare and administer tests for the selection of individuals seeking positions in state service. Massachusetts did the same in 1884. It was not until early in the twentieth century, however, that other states began to adopt merit systems.

1939 Social Security Act Amendments

The 1939 amendments to the Social Security Act pushed the states further along the road to merit system development by requiring states to place all employees in departments that receive federal grants-in-aid under merit systems.

The net effect of this initiative was to establish partial merit systems in states that did not have comprehensive merit coverage for most of their employees. Consequently, for the first time in American history, all states had at least partial merit system coverage. Since 1939 the number of federal programs calling for merit system coverage significantly increased.

Merit system standards issued under the 1939 amendments to the Social Security Act have undergone changes over the years. Requirements for the covered agencies were consolidated in one document in 1948 and revised in 1963 to bar discrimination on the basis of race, national origin, and other personal factors unrelated to merit. In 1971 the standards were revised again to permit state diversity in the design and operation of personnel programs. The most important changes were as follows:

- provision for affirmative action to achieve equal employment opportunity;
- addition of specific prohibitions of discrimination based on age, sex, or physical disability; and
- stronger opportunities for appeals of alleged discrimination.

The standards underwent revision again in 1979 after a two-year congressional review. Major changes included the following:

- requirement for adoption of the uniform selection guidelines in order to participate in grant programs;
- broadened standards for competition and choice, such as limited competition for the handicapped and participants in congressional or state authorized employment/rehabilitation programs;
- specific requirements covering equal employment opportunity, such as affirmative action programs; mandatory workforce analysis; goals and timetables; and race, sex, and ethnic data collection for applicants; and
- waiver for local jurisdictions with fewer than 25 employees subject to the standards.

By 1982 these standards covered 15 to 20 percent of all state personnel, nationally applied to approximately 587,000 employees in 4,425 state and local agencies, and impacted approximately $30 billion in annual federal grants-in-aid.

Civil Service Reform Act of 1978

A potential federal influence on state and local personnel systems was the Civil Service Reform Act of 1978 (CSRA), itself a reflection of personnel reforms already underway in certain state and local governments. This Act represented the most comprehensive reform of federal government service since the Pendleton Act of 1883.

The main features of the Act were based upon the recommendations stemming from a five-month comprehensive study conducted by the Carter administration's Personnel Management Project. Major provisions were:

- protection for "whistle blowers" who disclose illegal or improper government activities;
- streamlined and simplified dismissal procedures for employees who must be terminated for cause; and
- replacement of the Civil Service Commission with an Office of Personnel Management to carry out personnel management and agency advisory functions and a Merit Protection Board to insure compliance with merit system principles and laws.[1]

Maryland's Efforts

A review of Maryland's civil service reform efforts from the pre-1900s through the early 1900s follows.

Pre-1900s

The spoils system was an established part of government in the late 1800s. For the political bosses, spoilsmen, and legislators, the patronage system afforded the opportunity to reward cronies and retain loyalties.

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[1] *The Question of State Government Capability,* Advisory Commission on Intergovernmental Relations, January 1985, pp. 160-166.

Although attempts were made to establish a merit system in 1896 and 1898, Maryland's electorate was apathetic to any governmental reform.[2] During this time period, State politics was under the sway of two influential and powerful public figures: Freeman Rasin and Arthur Gorman. The extent of their influence was widespread. Accordingly, "Freeman Rasin systematically took over the City of Baltimore and Arthur Gorman took over the rest of the state. Complementing one another, they kept command for a generation. For the country as a whole, it was an era of boss rule but few bosses survived successfully as long as these two in Maryland."[3]

Both of these individuals were noted opponents of civil service reform because it threatened to undermine the heart of the patronage system from which both derived unmatched strength and influence. However, with their respective deaths in 1905 and 1906, coupled with the progressive era movement in Maryland, conditions were conducive for change.

Early 1900s

The merit system bill adopted by the 1920 General Assembly was not an isolated or exclusive attempt aimed at governmental reform per se; it was part of a larger reform movement, which swept Maryland in the early 1900s (i.e., executive budget system, child labor laws, work safety, voting fraud, etc.).

Maryland's system of government in the early 1900s was a loose configuration of autonomous agencies. In 1914 Governor Emerson Harrington, realizing that a continuation of this arrangement was clearly not in the State's best interests, appointed the Commission on Efficiency and Economy under the direction of President Frank J. Goodnow of The Johns Hopkins University. Its mandate was to examine the governmental operations and recommend changes that would "increase administrative efficiency and economy."[4]

Although the Goodnow Commission is best known for its December 15, 1915, recommendation leading to the adoption of Maryland's current executive budget system, the commission also was responsible for: (1) the elimination of several agencies deemed to be of insignificant importance; and (2) placing many State institutions under central administrative control.

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[2] *The Old Line State,* Maryland Hall of Records Commission, 1971, p. 114.

[3] Dozer, Donald M., *Portrait of the Free State,* Tidewater Publishers, 1976, p. 134.

[4] *The Old Line State,* op. cit., p. 360.

With the implementation of the Goodnow Commission's recommendations and Governor Albert C. Ritchie's subsequent Reorganization Commission's efforts, the wave of support for better government finally breached the barrier of the spoils system.

House Bill 107, entitled "64-A, Merit System," was introduced by Delegate Emory L. Coblentz (Chairman of the House Ways and Means Committee) during the 1920 session of the Maryland General Assembly. With its enactment, Maryland's long engagement with the spoils system ended.

Evolution of Maryland's Merit System Law

The purpose for which the State's merit system was established, as stated in Section 27 of Chapter 41 (later codified as Section 44 of Article 64A), was:

> This article may be cited as the Merit System Law; its purpose is to provide candidates for appointment to positions in the classified service after determining by practical tests of the fitness of such candidates for the positions which they seek, without regard to the political or religious opinions or affiliations of such candidates, or of any other standard except the business efficiency of the classified service, and to provide adequate means for the prompt removal from positions in the classified service of all persons therein who may be indolent, incompetent, inefficient, or otherwise unfit to remain therein, and to keep in a workable state the provisions for the promotion of employees as provided in this article to the end that the same shall be so administered as to attract the best class of candidates to the classified service.

The original merit system law included provisions relating to the administration of the system and the enforcement of its rules; the establishment of position classes; the conduct of competitive examinations; the preparation of eligible lists; the separation of employees as laid off or suspended; and the allowance of vacation, sick, personal, and accident leave.

After 1920, the merit system law was the subject of piecemeal revision. Over the years sections were added to prohibit discrimination, require employee disclosure and confidentiality protection, provide for the hiring of contractual employees, specify a probation period after promotion, specify reinstatement qualifications, allow temporary employees to become permanent, provide incentive awards, allow time off for religious observance and seasonal leaves of absence, allow participation of retired employees in the State Employees' Health Insurance Program, and specify grievance procedures.

One major change in the merit system law has been the establishment of several independent personnel systems. As explained in Chapter 3, several State entities, including the Department of Transportation and the University System of Maryland, were granted the authority to establish their own policies and practices without regard to the Secretary of Personnel. Chapters 6 and 7 explain the independent policies and practices of the legislative and judicial branches, respectively. Other than providing more flexibility, these systems generally mirror the merit system law.

During 1993, as part of the Code Revision process, the merit system law was revised and reorganized. Effective October 1, 1993, Chapter 10 of 1993 recodified Article 64A into Division I of the State Personnel and Pensions Article. Although the revision was enacted as new language without substantive changes, one major change was made for clarification purposes. The name of the personnel system was changed from “Merit System” to “State Personnel Management System.” In the former law, the term “Merit System” generally, although not universally, referred only to classified service employees. The new name refers to the personnel system that encompasses all the employees under the authority of the former Department of Personnel.

Modern Reform Efforts

Although merit system principles continue to have broad-based acceptance, civil service laws and rules that were adopted decades ago are increasingly seen as inefficient and incompatible with today’s economic and social conditions. This situation has led the federal government, as well as many state and local governments, to examine and modernize their personnel systems.

In Maryland, three significant review efforts stimulated modernization of the personnel system. During the 1987 through 1990 term of the General Assembly, the House Committee on Appropriations established a Special Oversight Subcommittee on Personnel to review the then Department of Personnel’s efforts to reform the State personnel system. The Senate Finance Committee initiated its own review of personnel issues and, on occasion, Senate members joined the personnel subcommittee for legislative hearings. As a result of the subcommittee’s work, several significant revisions were made to the State’s personnel system. The process for certifying candidates and managing eligible lists was more clearly defined and expanded. Further, a family leave policy was established, the use of sick leave was expanded, certain types of leave that were authorized by regulation were codified, and several floating holidays were created.

During the 1991 through 1994 term, Governor William Donald Schaefer created a Commission on Efficiency and Economy (the Butta Commission) for the purpose of recommending changes to reduce costs and promote efficiency in State government. In 1993, after reviewing the 70-year-old personnel system, the Butta Commission made several recommendations to significantly restructure and modernize the system.

The commission concluded that: (1) recruiting and hiring efforts of classified service employees were lengthy, costly, and resulted in many applicants being processed and tested but few hired; (2) the salary plan did not link pay to performance, was not competitive, and was not long-term career oriented; (3) investment in career development and training was insufficient; and (4) adjudicating grievances, suspensions, and terminations were costly.

The commission recommended modernizing the personnel system, resulting in a new distribution of functions between what was then the Department of Personnel and other State agencies. To reduce duplication and delay, the department would provide statewide policies, monitor and audit systems, develop training programs, operate the centralized service functions, and provide human resources support. Agencies would operate and administer key internal personnel functions and have authority over most personnel transactions.

Finally, on June 6, 1995, Governor Parris Glendening signed an Executive Order creating the Task Force to Reform the State Personnel Management System. The task force was charged with developing a personnel system that would streamline and simplify the State's personnel policies, decentralize personnel management functions, and provide for the consistent application of human resources management principles throughout the executive branch of State government, with the ultimate goal of improving the quality of State services.

1996 Reforms

The State Personnel Management System Reform Act of 1996 (Chapter 347) incorporated many of the task force's recommendations. For the first time in over 60 years, the State Personnel Management System was significantly restructured. Chapter 347 established a decentralized personnel management system where the unit, or agency, has most of the responsibility for the management of its work force. The Act did not affect agencies with independent personnel authority or the judicial or legislative branches of State government.

Also during the 1996 session, the Department of Personnel was abolished as an independent unit within the executive branch of State government, with the Department of Budget and Management (formerly the Department of Budget and Fiscal Planning) designated as its successor (Chapter 347). The positions of the Secretary of Personnel and the Deputy Secretary of Personnel were also abolished, and the Secretary of Budget and Management was designated as the successor of the Secretary of Personnel. Employees of the abolished department were transferred to the Department of Budget and Management without diminution of their rights, benefits, or employment and retirement status. The Secretary of the Department of Budget and Management in turn created the Office of Personnel and Employee Benefits to oversee the management of the State's work force.

Chapter 347 eliminated the classified and unclassified services and replaced them with four basic classes of regular employees: skilled service, professional service, management service, and executive service. Within each of the classes of regular employees, a category of "special appointment employees" was also established. Reform also provided for two categories of temporary employment, contractual and emergency. The Department of Budget and Management has responsibility for overseeing the development of positions and job classifications and, in some cases, will still develop positions and classifications for smaller agencies.

The Act also altered the leave and holidays available to State employees; changed the procedures for hiring and evaluating employees; modified the provisions relating to discipline, layoffs, and separations; and altered the procedures for filing grievances. Chapter 3 includes a comprehensive discussion of the current features of the State Personnel Management System.

Collective bargaining for State employees was initiated in 1996 through an executive order issued by Governor Glendening. Chapter 298 of 1999 codified the executive order. Chapter 5 contains a comprehensive discussion of collective bargaining for State employees.

Chapter 3. Personnel Policies and Practices in the Executive Branch

This chapter reviews the personnel policies and practices in the executive branch of State government established by statute and the Code of Maryland Regulations. While this chapter specifically addresses policies in the executive branch, many sections also apply to employees of the legislative and judicial branches of State government.

Definitions

Before reviewing State employment, the meaning of certain terms should be understood. The State Personnel and Pensions Article provides the following definitions:

- "Position" means an employment assignment of duties and responsibilities requiring the full-time employment of one individual or less than full-time employment of one or more individuals.

- "Temporary employee" means an employee who is either a contractual employee or a temporary employee.

- "Contractual employee" means an individual with whom the State has an employer-employee relationship to provide services for pay under a written agreement but whose employment is not dependent upon a budgeted position.

- "Emergency employee" means an individual who has been hired to prevent stoppage of public business during an emergency but whose employment cannot exceed six months.

- "Temporary non-contractual employee" means an individual who has been hired to assist with an excessive workload but whose employment cannot exceed six months.

- "Professional service" means a position in the executive branch that requires advanced knowledge in a field of science or learning acquired through special courses and study, and that normally requires a professional license or an advanced degree.

- "Management service" means a position in the executive branch that involves direct oversight and management of personnel and financial resources, requires discretion and independent judgment, and is not in the executive service.

- "Executive service" means a position in the executive branch that is the chief administrator of a principal unit or comparable position that is not the result of an election or required by the State Constitution; or a deputy or assistant secretary of the principal unit or similar position that has similar stature.

- "Skilled service" means all positions for which persons are selected on a competitive basis in the executive branch not in the professional management or executive service, in accordance with Section 6-401 of the State Personnel and Pensions Article.

- "Special appointments" means a position in the skilled service, professional service, management service, or executive service, that is exempted from the selection and termination provisions of that service.

Administration

Maryland's personnel policies are developed primarily by the legislative and executive branches but in distinctly different manners. The General Assembly changes personnel policies by adopting legislation and taking action on the State budget. The executive branch develops personnel policies through legislation, regulation, and executive order. Often, the Department of Budget and Management will submit departmental legislation to change the State's personnel laws. The department also develops regulations to administer the laws, which must be published in the Maryland Register to provide for public review and comment and must be approved by the Administrative, Executive, and Legislative Review Committee. In addition, the Governor can issue executive orders to change personnel policies. Examples include: State employee substance abuse (E.0.01.01.1989.05), smoking in public buildings (E.0.01.01.1987.13), an increase in the standard workweek for State employees from 35.5 to 40 hours per week (E.0.01.01.1991.15), and State employee furlough program (E.0.01.01.1992.05).

The administration of Maryland's personnel system rests with the Department of Budget and Management, various independent salary setting authorities, and agencies with independent personnel systems. The University System of Maryland, for example, administers a separate personnel system for its faculty members and employees, as does the Department of Transportation.

Department of Budget and Management

Legislation enacted in 1996 (Chapter 347) abolished the Department of Personnel as an independent unit within the executive branch of State government and designated the Department of Budget and Management (formerly the Department of Budget and Fiscal Planning) as its successor. The Secretary of Budget and Management was designated as the successor of the Secretary of Personnel. The former Department of Personnel was created as a principal department by Chapter 98 of 1970. It was the successor department to the State Commissioner of Personnel, previously established by Chapter 310 of 1953, which was the successor to the Commissioner of Employment and Registration, previously established by Chapter 41 of 1920.

The Department of Budget and Management is responsible for:

- developing and enforcing the rules that govern the administration of the State Personnel Management System (SPMS);
- developing and maintaining the State's system for classifying positions in SPMS;
- developing the State's salary and wage system and governing salary transactions and activities;
- analyzing jobs and creating appropriate testing instruments to provide a ranking system for placement of candidates on eligibility lists;
- providing training and technical assistance for staff and managers of operating agencies in public sector labor relations and performance evaluations;
- providing confidential and professional assessment and referral services for State employees who are experiencing personal problems that affect their work performance;
- coordinating equal employment opportunity and affirmative action activities for all agencies within the executive branch; and
- administering the sick leave bank and donations of leave to other State employees, administering State benefits programs, coordinating the Unemployment Insurance Program, and administering the Social Security Program.

Independent Salary Setting Authorities

Independent salary setting authorities are State agencies with the legal authority to establish the salaries of employees independent from the Department of Budget and Management's pay plan. This authority exists in all three branches of government but is mainly found in the area of higher education where almost 50 percent of the affected employees are found.

Before 1986 there were over 30 independent salary setting authorities covering approximately 32,000 State employees. Based on recommendations from the Task Force to Study Independent Salary Setting Authorities in 1985, Chapter 173 of 1986 repealed the authority for many agencies to set salaries. The goal was to provide a more uniform salary schedule across State agencies.

Since the enactment of Chapter 173, however, several agencies that demonstrated the need for flexibility have been given the authority to set salaries, including Baltimore City Community College in 1990, the Maryland Insurance Administration in 1993, the Maryland Public Broadcasting Commission in 1998, and the Public Service Commission and the Office of People's Counsel in 2000. Some of the agencies with the authority to set salaries also have the authority to establish their own independent personnel systems.

The judicial and legislative branches have independent salary setting authority consistent with the constitutional doctrine of separation of powers. Agencies in the executive branch with independent salary setting authority tend to be quasi-public with self-generating funds (e.g., the Maryland Automobile Insurance Fund) or have some level of autonomy within the executive branch. The principal advantages of independent salary setting authority to an agency are threefold: (1) enables immediate response to salary problems; (2) allows freedom from regulatory oversight; and (3) does not require consideration of or comparison with other employees or jobs elsewhere in State service. Appendix 2 lists all agencies with independent salary setting authority as set forth throughout the Annotated Code of Maryland.

The major disadvantage of independent salary setting authority is that pay increases granted to small groups of employees under independent authority often result in upward pressure on salaries generally as larger groups of employees who believe themselves to be similarly situated seek similar adjustments.

Independent Personnel Systems

Several agencies have been given the authority to establish their own personnel systems independent of the Department of Budget and Management and the State Personnel Management System.

University System of Maryland Personnel System

Chapter 246 of 1988 reorganized Maryland's higher education structure. The University System of Maryland combines the university's campuses with the campuses of the former Board of Trustees of State Universities and Colleges. The university system also includes two institutes: the Center for Environmental Science and the Maryland Biotechnology Institute.

Chapter 246 authorized the Board of Regents of the University System of Maryland to establish personnel policies and procedures independent of the Department of Personnel. Prior to the reorganization, the campuses of Bowie, Towson, Frostburg, Coppin, University of Baltimore, and Salisbury were under a different personnel system closely aligned with the Department of Personnel. By 1990 the Board of Regents of the University System of Maryland had meshed the personnel systems of all its units and established personnel policies and procedures for all University System of Maryland employees independent of the Department of Budget and Management.

Other Higher Education Institutions Personnel Systems

St. Mary's College (Chapter 209 of 1992), Morgan State University (Chapter 485 of 1994), and Baltimore City Community College (Chapter 220 of 1990) have their own personnel systems independent of the Department of Budget and Management. While these institutions participate in some State programs such as health benefits, retirement, and the Employee Assistance Program, most personnel policies and procedures are separate.

Department of Transportation Personnel System

Chapter 168 of 1992 authorized the Department of Transportation to mesh the personnel systems of the Maryland Port Administration, the Maryland Transportation Authority, the Mass Transit Administration, and the rest of the department's units into a personnel system independent of the Department of Budget and Management. The result was the establishment of the Transportation Service Human Resources System to encompass all the department's units.

Maryland Environmental Service System

In addition to separating the Maryland Environmental Service from the Department of Natural Resources and reconstituting the service as an instrumentality of the State and a public corporation, Chapter 196 of 1993 authorized the service to establish its own personnel system beginning on January 1, 1995.

Creation of Positions

There are three types of employment positions in State government: regular full-time; regular part-time; and short-term contractual, temporary, and emergency. Regular positions are further divided into four categories: skilled service; professional service; management service; and executive service. Appendix 3 contains a summary of the process by which State positions are created and abolished through the budget process. This process may differ, however, by statute for certain nonbudgeted independent agencies such as the Maryland Food Center Authority, the Maryland Automobile Insurance Fund, and the Maryland Transportation Authority. For more information on how positions are created and funded, see: *The Budget Process,* Volume IV of the Legislative Handbook Series.

State Personnel Management System

The State Personnel and Pensions Article sets forth the positions that are included in the State Personnel Management System. Unless specified otherwise, all positions in the executive branch are in the personnel system. The Maryland Code specifies which positions are included in the skilled service, professional service, management service, and executive service, and which positions are included in the services as special appointments. Contractual, emergency employees, and temporary employees are not in any service.

In fiscal 2001 the system covered approximately 39,823 employees. When broken down into the four services, there were about 34,382 skilled service employees, 3,883 professional service employees, 1,366 management service employees, and 192 executive service employees. The remaining regular State employees worked under the various independent personnel systems. Although positions within the personnel system, special appointments may have separate recruitment and salary programs. Special appointments positions consist of the following:

- positions filled by individuals appointed by the Governor that are not provided by the State Constitution;

- positions filled by individuals appointed directly by the Board of Public Works;
- positions that perform significant policy roles or directly support members of the executive service;
- positions in the Government House;
- positions in the Governor's Office; and
- any positions specified by law as special appointments.

The following positions are excluded from the State Personnel Management System:

- any position to which an individual is elected by popular vote;
- any position to which an individual's election or appointment is provided for by the Constitution of Maryland;
- any position in a unit in the executive branch with an independent personnel system; and
- any position in the legislative and judicial branches.

Employment in the State system is governed by Title 7 of the State Personnel and Pensions Article. The recruitment and selection provisions apply primarily to skilled service and professional service employees. There is shared responsibility for recruitment and selection between executive branch agencies and the Department of Budget and Management for positions primarily in the skilled service, while agencies have responsibility for their specialized recruitment needs. Although the State has a decentralized, agency-level hiring process, Department of Budget and Management maintains a list of eligible candidates for high volume positions. The department, if requested, will also provide recruitment assistance to agencies for specific positions. In addition, the Office of Personnel Service and Benefits within the budget also maintains a unit to aide small agencies with their ongoing recruitment and other personnel needs.

Recruitment

If a need is identified by an agency or a position is open, the agency must develop a "position selection plan." Such a plan must include: (1) a description of the duties for which the position is responsible; (2) minimum qualifications of the position; (3) any limitations on selection for the position; and (4) the process for submitting and reviewing applications as well as applicable time frames, if appropriate. Agencies may either select candidates from existing lists of eligible candidates or recruit for the position. If the agency decides to recruit for the position, recruitment must proceed based on the position selection plan. Job announcements for positions must include position descriptions, minimum qualifications, descriptions of the tests that will be used, and deadlines and locations for submitting applications. Job announcements should be made available to the public, within the agency, and to other State agencies at least two weeks before the application deadline. Department regulations allow applications to be rejected if received beyond the advertised closing date or if the minimum qualifications for the position are not met.

Exhibit 3.1 below indicates the number of applications received, applicants tested, and appointments made for fiscal 1991 through 2001 by the Department of Budget and Management. The significant decrease in applications received and applicants tested from 1997 to 1998 is attributed to the decentralization of the recruitment process to the various agencies and the administrative reorganization related to that move. The growth in applications and testing since then is attributed to a tighter labor market and the more recent on-line automation of the application process for many jobs. As mentioned above, the Department of Budget and Management's recruitment function is limited to positions in the skilled service and professional service. The department is not actively involved in recruiting management service, executive service, and special appointment employees. In order to ensure that an agency's recruitment, examination, and certification procedures are being properly performed, the Office of Personnel Services and Benefits performs periodic compliance audits of individual agencies.

Exhibit 3.1
State Employment Applications, Testing, and Appointments
Skilled and Professional Services
Fiscal 1991 - 2001

Fiscal Year	Applications Rec'd	Applicants Tested	Appointments
1991	79,880	59,189	3,770
1992	75,642	48,825	5,518
1993	82,040	35,736	6,251
1994	90,870	54,977	7,135
1995	63,998	52,708	6,965
1996	64,225	38,077	5,285
1997	63,867	32,513	5,021
1998	33,636	13,458	6,382
1999	37,900	19,100	5,069
2000	46,697	31,300	5,275
2001	76,068	30,425	5,529

Source: Department of Budget and Management

Selection, Credits, and Examination for Candidates

Once the closing date for a position announcement passes, agencies review the applications for completeness and to ensure that applicants meet the minimum qualifications. Agencies must notify applicants in writing if they are rejected because they did not meet the minimum qualifications. If a test is required, applicants must be notified at least ten days before the testing date. If fewer than ten but more than two applicants meet the minimum qualifications for a position, the appointing authority may select from this group without further selection testing, or readvertise the vacancy.

Agencies must develop appropriate selection processes to rate applicants. If a test is necessary, it must be administered free of charge to all qualified applicants. An applicant may be disqualified from taking a test for supplying false information on the application. If a test is taken, certain applicants may receive credits that can be applied to the applicants' test scores to establish placement on the list of eligible candidates. Before a credit can be applied, applicants should at least exceed the minimum passing score. Current State employees can receive a quarter point for each year of State service up to a maximum of five points for 20 years of service. State residents are entitled to five points toward their scores. There are also credits available for residents in counties adjacent to counties with high unemployment rates that also have prisons. As a result of reforms made to the personnel system (Chapter 347 of 1996), the absolute hiring preference for veterans was eliminated. However, the points a nondisabled veteran receives was increased from five to ten, and the ten point preference given to a disabled veteran, the spouse of a disabled veteran, and the surviving spouse of a deceased veteran was retained.

After the application of the selection criteria, certain applicants will be identified as candidates for the position. A candidate who is a veteran must be identified as such on any lists. Rather than hiring a candidate with the highest combined score, agencies now "broad band" or place most candidates in the following categories: best qualified, better qualified, qualified, or unsatisfactory. In certain circumstances, candidates may be placed in the following additional categories: certified by the Division of Rehabilitative Services, eligible for reinstatement after layoff or separation, eligible for reinstatement, or eligible for transfer. Upon request, the agency must notify a candidate of the candidate's standing on the list. Agencies are required to file their lists of eligible candidates with the Department of Budget and Management for use by other agencies. The department is required to share its lists of eligible candidates with all requesting agencies.

The agencies may interview candidates within each category, as long as at least three candidates are interviewed. The agencies also have the flexibility, depending on the number of available candidates, to appoint candidates from lower rated categories. Specifically, Section 7-209(a) of the State Personnel and Pensions Article provides that:

- if there are at least five candidates rated best qualified, the appointment must be from that rating category;

- if there are fewer than five candidates rated best qualified, the appointment must be from the candidates in the best qualified and better qualified categories; and

- if there are fewer than five candidates rated best qualified and better qualified, the appointment must be from candidates in best qualified, better qualified, and qualified categories.

Probation

The last step of the hiring process is probation. While on probation, employees must demonstrate their ability to perform the duties of the job for which they were hired. All employees in the skilled service and the professional service must complete a six-month probation period after initial appointment, reinstatement, or competitive promotion. Employees in salary grade seven or higher may have their probation extended up to six more months, while employees in salary grades one through six may have their probation extended up to three months. Employees reinstated into the same classification, after already serving probation, within one year after leaving State service do not have to serve another probationary period.

At the start of probation, a supervisor must give a new employee a written position description that describes the duties and functions of the position. After the first 90 days of probation, the employee receives a written evaluation by the supervisor, and if probation is extended, the employee must receive an evaluation after the initial probation and at the midpoint of the extended period. An employee on initial probation may be disciplined or terminated, with limited appeal rights. During fiscal 2001, 160 employees were terminated while on probation within the State Personnel Management System. An employee on probation because of reinstatement or promotion may not be terminated because of performance; rather, the employee may be returned to the employee's former position, reassigned, or demoted. A more detailed explanation of appeals for disciplinary actions follows later in this chapter.

Employee Performance Appraisals

All employees in the skilled service, the professional service, and the management service must have their performance evaluated every six months. The evaluation process is designed to facilitate communication between employees and supervisors. The components of the appraisal process include preliminary assessment by a supervisor, self-appraisal by the employee, a meeting between the supervisor and employee on the appraisal, and the development of a final appraisal. Employees are evaluated based on behavioral elements associated with their service category and based on performance standards associated with their position. In the appraisal an employee may be rated as "outstanding," "exceeds standards," "meets standards," "needs improvement," or "unsatisfactory." An employee's appraisal may also include ways to enhance the employee's performance, and should include recommendations for training or other methods to increase the employee's skills. In addition to the downward evaluation process, if a supervisor is responsible for five or more employees, the employees through an anonymous survey may upwardly evaluate the supervisor's performance. The survey results will be used in the evaluation of the supervisor. Supervisors are also required to attend training on how to effectively administer performance appraisals.

Performance-based Pay

Personnel reform (Chapter 347 of 1996) provided for the implementation of a pay-for-performance plan for skilled, professional, and management service employees. Initially, the General Assembly hoped to shift away from the grade and step system toward a minimum/maximum salary system, which would provide more flexibility in determining individual salaries. However, because of administrative difficulties and strong opposition by labor unions to a minimum/maximum system, the State continues to utilize a step and grade system for these groups of employees.

The Department of Budget and Management, within its current compensation structure, has developed three strategies to reward satisfactory service to the State, based on the results of employee performance appraisals. First, in order to advance from one step to the next within a grade, an employee must be rated as "meets standards" in the evaluation. Therefore, movement up a step is designed to reward satisfactory service.

Second, if an employee is rated as "needs improvement" or "unsatisfactory," the employee is either given six months or three months, respectively, to improve. If there is not satisfactory improvement, the employee will be terminated. In fiscal 2001, 198 employees within the State Personnel and Management System were terminated outside of the probationary period.

The third method by which the State rewards performance is through bonuses. If an employee is rated "outstanding" or "exceeds standards" the employee has in the recent past been given a bonus of $1,000 or $500, respectively. This bonus is paid as a lump sum and is not considered regular compensation and will not be reflected in the base salary of the employee. It should be noted, however, that due to tight fiscal conditions and questions over the efficacy of these bonuses as incentives for high performance, bonuses will not be paid in fiscal 2003.

Transfer of Employees into State Service

Subtitle 6 of Title 7 of the State Personnel and Pensions Article governs the transfer of employees into the State Personnel Management System when the State acquires a private institution or public entity. The statute requires that these employees must be employed in positions similar to the positions held at the time of acquisition. Within one year after the acquisition, the Department of Budget and Management must classify each position. Employees in these positions are required to serve a standard probation period. Once the employees are classified, they can continue to hold their positions without further examination, and have all of the rights associated with that class of positions.

Compensation of Employees

Title 8 of the State Personnel and Pensions Article governs the compensation of State employees subject to the authority of the Secretary of Budget and Management. There are basically two pay plans for the State, the standard pay plan and the executive pay plan, both of which are administered by the Secretary. The Maryland Department of Transportation has its own pay plans that use the SPMS salary schedules. In addition to the regular pay provisions, which will be described in this section, certain State employees in the State Personnel and Management System are also entitled to "shift differential pay" and "hazardous duty pay."

Standard Pay Plan

The standard pay plan does not apply to positions provided for by the State constitution; positions based, by law, on judicial pay; or positions set by a unit with independent salary setting authority. In fiscal 2001 it applied to about 46,000 full-time equivalent positions in the State system and 6,300 in the Department of Transportation personnel system. In developing rates of pay, the Secretary must give consideration to prevailing rates of pay for comparable services in private and public employment, experience, living costs, other benefits received by employees, and the State's financial condition and policies. All pay plans are subject to the limitations of the State budget.

Generally, the standard pay plan for graded State employees is revised each year to reflect adjustments passed by the General Assembly and becomes effective July 1, although general salary increases may not become effective until a later date. The current salary schedule has 26 grades and 19 steps within each grade (base plus steps 1-18) and is the pay plan for the vast majority of employees. Due to budget constraints, employees will not receive a general salary increase in fiscal 2003. From January 1, 2002, when employees received a 4 percent general salary increase, through fiscal 2003, one primary standard salary schedule will apply. It is depicted in Appendix 4.

Please note that although the standard salary schedule covers most State employees, there are five additional schedules used by the State system, which are technically considered under the "standard" salary schedule moniker. These additional schedules cover Park Ranger, Natural Resources Police, State Police, Deputy Fire Marshals, and Physicians.

Adjustments/Amendments to the Standard Pay Plan

The most significant and costly element of pay plan adjustments is usually the general salary increase, which affects virtually all State employees. Only those employees whose pay rates are specifically set by statute or who are otherwise excluded from participation are not affected.

In recent years, general salary increases have been provided by various methods. Appendix 5 is a history of State general salary increases for fiscal 1992 through 2002. The fiscal 2002 State budget includes funding for a general salary increase for the fourth year in a row; these four years have included both flat rate and percentage increases. In fiscal 1999 and 2000, $1,275 flat-rate increases to the standard salary schedule were granted in each year, followed by 4 percent increases on November 15, 2000, and January 1, 2002. In the seven years before fiscal 1999, general salary increases were given on the primary standard salary schedule only two times.

Maryland State Police, Natural Resources Police, and Park Rangers' salaries have increased at a faster rate than other employees. Since fiscal 1997 various classifications paid on the two salary schedules covering these three categories have received five additional increases, as demonstrated in Appendix 5. These increases were primarily intended to increase the salaries of these groups so that they reached comparability with the salaries paid to police forces in the counties and large communities with which the State competes for police officers.

No State classifications, including these groups, will receive a general salary increase or an increment in fiscal 2003. Employees may be given a lump-sum payment during fiscal 2003 if the Board of Public Works determines that it is affordable, given the State's economic condition after closeout of fiscal 2002. This payment would be equal to half the value of what would have been the increment between an employee's current annual salary and the next salary on the salary schedule. This increment is contingent on an employee evaluation in which the employee is found to "meet standards" or better. Employees will not progress on the salary schedules during fiscal 2003.

In addition to general pay increases, Section 8-105 of the State Personnel and Pensions Article provides for salary adjustment procedures. The Secretary of the Department of Budget and Management, with the approval of the Governor, may amend the pay plan to increase pay rates for specific classifications of positions in order to recruit or retain competent personnel or to ensure that pay rates adequately compensate the skills, knowledge, effort, responsibility, and working conditions of employees in the class. An amendment may not take effect unless sufficient funds are available in the budget to cover the resulting pay rates. Amendments to the pay plan must be reported to the General Assembly by the fifteenth day of the next regular session, and the General Assembly may reject the amendments. If an amendment is rejected, the appropriate salary reduction becomes effective in the next fiscal year.

Executive Pay Plan

The executive pay plan was created in 1989 (Chapter 831) to provide a more rational framework for compensating the management positions in State government. At that time, most managers received flat rate salaries that were adjusted on an individual basis from time to time. Up until the 2000 session, the executive pay plan was structurally similar to the standard salary schedule. In order to compensate for what had become an inadequate standard pay plan, many managers who were not in the executive service were moved into the executive pay plan in order to provide for competitive compensation levels.

Significant changes in both the structure and coverage of the plan were made in 2000 when it was converted from an eleven-grade, seven-step structure to an eight-grade structure with minimum and maximum rates. Further, two-thirds of the management service employees who had been in the plan were moved back to the standard salary schedule.

Before conversion to the new pay plan in fiscal 2001, approximately 573 positions were in the executive plan (including those working in the Department of Transportation); after the fiscal 2001 conversion, 192 remained. The plan now consists of *executive service* positions that function above the assistant secretary (or its equivalent) level. *Management service* employees were moved to the then new 26-grade extended standard salary schedule, which was expanded four grades to accommodate them.

The new executive pay plan has eight salary ranges, as demonstrated in Exhibit 3.2, in contrast to the eleven-grade scale/step system used previously. The bandwidth, or percentage distance between the minimum and maximum salary at each grade, is 34.4 percent. As with the standard salary schedule and the five additional salary schedules, there are a number of executive service employees paid flat rate salaries. These employees are technically considered to be in the executive pay plan. Salaries for these employees are determined through the State budget. Increases for these and other executive pay plan positions are covered in Section 8-108 of the State Personnel and Pensions Article.

Exhibit 3.2
Executive Pay Plan
Fiscal 2003
Effective January 1, 2002

Grade	Minimum	Maximum
ES4	$68,518	$92,069
ES5	73,777	99,136
ES6	79,458	106,769
ES7	85,594	115,014
ES8	92,220	123,919
ES9	99,379	133,538
ES10	107,106	143,922
ES11	115,456	155,141

Source: Department of Legislative Services

Administrative procedures pertaining to the executive pay plan:

- Merit increases are limited by and awarded out of a merit pool. For fiscal 2001 and 2002, the pool was 3 percent of the total salary for all executive salary schedule positions, not including the salary of the agency head. For fiscal 2003 the pool is subject to the same affordability contingency as the lump-sum payment, 1.15 percent, for other employees. The pool does not increase or decrease if positions or employees are added to or removed from the EPP during the fiscal year. Funds necessary to cover the merit increases come from existing agency funds.

- An agency head may award a merit increase to an employee in the plan at any time on or after July 1. It may be in the form of a one-time bonus or a salary increase. Base pay plus the merit increase may not exceed the maximum for the relevant grade.

- The total of all merit increases may not exceed the total of the pool within each agency. The cost of all increases is calculated on an annualized basis, regardless of the effective date of the increase for each employee.

- Employees coming into the plan during the fiscal year are eligible for a merit increase after six months of service during the fiscal year.

- Agencies placing new employees into a position in the plan are required to get approval from the Department of Budget and Management for the proposed, initial pay rate if it is at midpoint or above.

These changes attempt to implement a pure pay-for-performance system for the limited number of employees left in the executive pay plan.

Gubernatorial Compensation

The constitution of Maryland provides that every four years the Governor's Salary Commission must recommend salaries for the Governor and Lieutenant Governor that will apply to the next term of office. In January 2002, the commission recommended that the Governor's salary and the Lieutenant Governor's salary be increased as follows:

Governor:		**Lieutenant Governor:**	
First Year	$135,000	First Year	$112,500
Second Year	$140,000	Second Year	$116,667
Third Year	$145,000	Third Year	$120,833
Fourth Year	$150,000	Fourth Year	$125,000

In addition to the increases for the Governor and Lieutenant Governor, the commission also recommended that the salaries for the Comptroller, Treasurer, Attorney General, and Secretary of State's salary be increased as follows:

Comptroller, Treasurer, and Attorney General:		**Secretary of State:**	
First Year	$112,500	First Year	$78,750
Second Year	$116,667	Second Year	$81,667
Third Year	$120,833	Third Year	$84,583
Fourth Year	$125,000	Fourth Year	$87,500

The increases for the Governor and Lieutenant Governor took effect by the General Assembly's failure to take action within 50 days of the introduction of the Senate Joint Resolution 6/House Joint Resolution 7 of 2002.

The increases for the other constitutional officers were included in Chapter 440 of 2002 (Budget Reconciliation and Financing Act of 2002).

Overtime Compensation

State employees who are not exempt from the federal Fair Labor Standards Act are eligible to receive cash payments for overtime work. Generally, overtime payments are calculated based on: (1) straight time for time worked up to and including 40 hours per week, and (2) time and one-half the regular hourly rate for time worked in excess of 40 hours per week. Employees of a hospital or domiciliary care facility earn overtime compensation based on a two-week work period. Law enforcement and civilian employees of the Maryland State Police who participate in a modified workday program earn overtime compensation based on the work period that is in excess of the established workday.

State employees who are exempt from the federal Fair Labor Standards Act (i.e., executive, administrative, and professional employees) are not eligible to receive cash overtime payments. However, most agencies allow exempt employees to accrue compensatory leave for working overtime. Compensatory leave polices vary widely among agencies in the executive branch in terms of how compensatory leave can be earned and used. In all cases, however, employees fall into one of three broad classifications: (1) employees not exempt from the federal Fair Labor Standards Act; (2) employees exempt from the act, including employees in the executive pay plan in grades ES1 through ES5; and (3) employees in the executive pay plan in grades ES6 through ES11.

The Department of Budget and Management has adopted compensatory time regulations consistent with the federal Fair Labor Standards Act. The regulations provide that: (1) an employee may elect to receive compensatory time rather than cash payments prior to the performance of work; (2) compensatory time must equal one hour for each hour of overtime work for which the employee otherwise would receive the employee's regular hourly rate of pay and 1.5 hours for each hour of overtime work for which the employee would otherwise receive one and one-half time the employee's regular hourly rate of pay; (3) an employee may carry no more than 240 hours of compensatory time (480 hours for employees who work in a public safety activity, emergency response activity, or seasonal activity) and must be permitted to use it within a reasonable period; and (4) monetary payments must be made for unused compensatory leave under certain circumstances.

Employees who are exempt from the federal Fair Labor Standards Acts guidelines, and therefore may not receive payment for overtime work, may be granted compensatory time. Concerning compensatory leave for executive positions, an employee who is included in the executive pay plan is not entitled to accrue any compensatory time other than for a legal State holiday on which the individual works at least five hours.

Employee Rights and Protections

Equal Opportunity Program

State law prohibits discrimination and harassment in State employment. Title 5, Subtitle 2 of the Personnel and Pensions Article establishes the State's Equal Employment Opportunity (EEO) Program, the purpose of which is to protect employees and applicants for State employment from illegal employment discrimination. The statute also provides a means for internal resolution of employment discrimination complaints. The Secretary of Budget and Management is responsible for development and implementation of the State's Equal Employment Opportunity Program in a manner consistent with applicable federal and State laws.

Maryland's Equal Employment Opportunity Program provides for the following:

- Inclusion of all employees in the executive branch, including those in independent personnel systems, and applicants for the skilled service, the professional service, and the management service;

- Establishment of the Legislative Joint Committee on Fair Practices, which oversees the State's EEO practices;

- Appointment of a statewide equal employment opportunity coordinator for the purpose of administering and enforcing the program, and investigating and resolving complaints stemming from violations of Title 5;

- Appointment of a fair practices officer or an equal employment opportunity officer at each executive agency whose duties include all aspects of implementing and administering the State's EEO program;

- Establishment of an EEO complaint procedure where the Secretary has the authority to take action upon a finding of discrimination;

- Use of discipline, which may include dismissal, if a person violates anti-discrimination policies; and

- Affording allowance of State Personnel Management System employees the option of either pursuing a grievance or filing a complaint with the statewide EEO coordinator. An employee may still bring a complaint to the Maryland Human Relations Commission, the federal Equal Opportunity Commission, or the courts.

The statute sets up a "fast track" internal procedure for resolving EEO complaints. After an employee or applicant knows of an alleged violation, the person has 30 days to file a complaint with the agency head. The agency fair practice officer then investigates, and the agency head must make a decision in the next 30 days. If the complainant is not satisfied, the person has ten days to appeal the decision to the statewide EEO coordinator. The statewide coordinator has 30 days to review the complaint, conduct an investigation, and issue a decision on whether a violation occurred. If a violation has occurred, the decision may also include recommendations for remedial action.

Whistleblower Law

As with the State EEO program, the Maryland Whistleblower Law applies to all employees in the executive branch, including those in independent personnel systems. The law essentially prevents a supervisor, manager, or agency head from taking, or refusing to take, personnel actions as a reprisal against an employee who discloses information that the employee believes: shows an abuse of authority, gross mismanagement, or a gross waste of money; poses a danger to the public health or safety; or constitutes a violation of law.

The statute sets out the process for filing complaints. After noticing a violation, an employee has six months to file a complaint with the Department of Budget and Management, which must investigate the allegation and issue a written decision within the next 60 days on whether a violation has occurred. The decision may also address the need for remedial action. Finally, if the employee is not satisfied with the department's decision, the employee has ten days to appeal to the Office of Administrative Hearings for a final and binding decision.

State Substance Abuse Policy

State law does not explicitly set forth the State substance abuse policy; instead, it provides that the policy will be established by executive order. However, the law does provide that the consumption of alcohol in the workplace is a violation of the State substance abuse policy, and violators may be subject to disciplinary action. In addition, an agency may not consider probation before judgment for a substance abuse offense to be a conviction for purposes of the State substance abuse policy. However, appropriate disciplinary action may be imposed against an employee if the employee receives probation before judgment in a substance abuse offense and the appointing authority can demonstrate a relationship between that offense and the employee's job responsibilities.

In 1989 the Governor issued Executive Order 01.01.1989.05, "State of Maryland Substance Abuse Policy," which assured the State's compliance with the federal Drug-Free Workplace Act and established State policy on the issue of drugs and the workplace. The Department of Budget and Management coordinates policies and practices regarding State employee drug use and testing. The State uses a two-tiered approach to drug testing: (1) employees in sensitive classifications or sensitive positions are subject to random testing (as well as testing based on reasonable suspicion or an incident triggering factor); and (2) all other employees are subject to drug testing if the employer has "reasonable and specific grounds to believe that a drug abuse test of an employee will produce evidence of illegal use of drugs."

The Department of Budget and Management defines a "sensitive classification" as any classification in which one of the following conditions exist:

- an employee has a significant degree of responsibility for the safety of others and there is a potential that impaired performance of the employee could result in death of or injury to the employee or others;
- an employee is required to carry a firearm;
- an employee is directly involved in efforts to interdict the flow of narcotics; or
- an employee is directly involved with narcotics law enforcement.

A "sensitive position" means a position not in a sensitive classification for which an appointing authority has determined that any one of the conditions listed above exist. The Department of Budget and Management conducts random, unannounced urine testing of employees in these positions.

Agencies must inform applicants for sensitive classifications and positions that testing for illegal use of drugs is required. If an applicant refuses to be tested, the applicant must be disqualified and removed from an eligibility list for a sensitive classification or position. If an employee refuses to take a drug test, the employee may be subject to disciplinary action, including termination. If an employee tests positive for use of illegal drugs, the appointing authority must suspend the employee without pay for 15 workdays. As a condition of returning to work, the employee must enroll in a drug abuse rehabilitation program of at least six months duration. If the employee refuses to enroll in a rehabilitation program, the appointing authority must begin proceedings to dismiss the employee.

In addition to successfully completing the rehabilitation program, an employee returning to work must be free of drugs for at least 18 months and consent to periodic, random testing. A dismissed employee must also satisfy these requirements before being rehired. An employee who is dismissed may appeal the decision through the normal appeal channels (hearing by the Office of Administrative Hearings) but will not be allowed to work while awaiting the outcome of the appeal.

Before implementing the "State of Maryland Substance Abuse Policy," the former Department of Personnel requested a verification of legal authority from the Attorney General. In an opinion dated May 5, 1989, the Attorney General ruled that the department did have the authority to implement a drug testing program and could legally subject employees in sensitive classifications to random drug testing. However, the Attorney General also stated

> "... there is nothing in the Supreme Court's decisions [Skinner v. Railway Labor Executives' Association, et al. and National Treasury Employees Union et al. v. von Raab] to suggest that employees outside of these job categories [sensitive classifications] may be subject to drug testing without individualized suspicion....In summary, it is our opinion that, under the interpretation of the Fourth Amendment in the recent Supreme Court cases, the Department of Personnel may modify its drug testing program to authorize testing of state employees in sensitive positions even without individualized suspicion. It may not, however, expand such a testing program to state employees generally."

Grievance Procedures in State Personnel Management System

Title 12 of the State Personnel and Pensions Article sets forth the grievance procedures for all State Personnel Management System employees, unless otherwise specified, in the executive branch. A grievance is defined in statute as "a dispute between an employee and the employee's employer about the interpretation of and application to the employee of: (1) a personnel policy or regulation adopted by the secretary; or (2) any other policy or regulation over which management has control." The statute also specifies that the following items are not grievable:

- a pay grade or range for a class;
- the amount or the effective date of a statewide pay increase;
- the establishment of a class;
- the assignment of a class to a service category;

- the establishment of classification standards; or
- an oral reprimand or counseling.

Employees not covered by Title 12 include: gubernatorial appointees; executive service employees; temporary employees; attorneys in the Attorney General's Office and the Public Defender's Office; employees subject to collective bargaining agreements that contain other grievance procedures; student employees; Maryland State Police officers; inmates employed by the State; employees and faculty members subject to a contract or regulation governing tenure; Baltimore City Community College employees; and administrative law judges in the Office of Administrative Hearings. These employees must have a separate but similar grievance procedure. Failure to appeal a decision to the next step in the process described in the subsequent section means that the employee accepts the decision.

Grievance Procedure

STEP 1 "Initiation:"

- Grievances must be initiated by the employee, in writing, within 20 days of the alleged action (or employee's knowledge of alleged action) to the appointing authority. Before filing, the employee must talk to the employee's supervisor about the dispute.
- Within ten days after receipt of grievance, the appointing authority (or representative) must hold a conference with the employee (or representative) and render a written decision within ten days after the conference.

STEP 2 "Appeal to the Administrative Head of Department or Unit:"

- If the employee is not satisfied with the decision, the employee must appeal within ten days to the head of the employee's department or unit.
- Within ten days of receipt of the written appeal, the department or unit head must hold a conference with the employee and render a decision within the next ten days.

STEP 3 "Appeal to Secretary of Budget and Management/Office of Administrative Hearings:"

- If the employee is not satisfied with the department or unit head's decision, the employee can submit the grievance within ten days to the Secretary of Budget and Management.

- The Secretary has 30 days to try to mediate a resolution.

- If the Secretary cannot reach a resolution, the grievance is forwarded to the Office of Administrative Hearings, which, at the end of a hearing record, has 45 days to issue a final administrative decision.

If the employee is not satisfied with the decision rendered during Step 3, the employee may appeal to the circuit court.

Peer Review and Other Appeal Procedures

The statute allows agencies to establish peer review panels as an alternate grievance procedure for employees. These panels will review grievances according to established procedures, and the panel's decision will be the final administrative decision. Employees may also appeal performance evaluations of "satisfactory" or better only to the appointing authority, and if necessary, to the agency head. The decision of the agency head is final.

Remedies Available to Grievants

Remedies available to grievants include restoring any rights, pay, status, or benefits that were lost because of the contested procedure and as applied by the appropriate decision maker in the grievance procedure. A decision maker may, if appropriate, order the appointing authority to grant back pay. If the grievance was over a reclassification, back pay may be awarded to the employee for a period up to one year prior to the initial filing of the grievance. Back pay orders are at the discretion of the Secretary and the Office of Administrative Hearings, and must be carried out by the appointing authority.

Sovereign Immunity and Satisfaction of Awards

Title 14 of the State Personnel and Pensions Article provides that the defense of sovereign immunity is not available to the State, unless otherwise specifically provided by the laws of Maryland, in any administrative, arbitration, or judicial proceeding involving an employee grievance or hearing that is held under: (1) Division I of the article or regulation adopted under it; or (2) a personnel policy or regulation that governs classified employees of the University System of Maryland or Morgan State University.

Furthermore, the Governor must provide in the annual State budget adequate funds for the satisfaction of any final monetary or benefit award judgment that has been rendered in favor of the person against the State in any administrative, arbitration, or judicial proceeding involving an employee grievance.

Disciplinary Actions, Layoffs, and Employment Terminations

Title 11 of the State Personnel and Pensions Article set forth the State's policy regarding disciplinary actions, layoffs, and employment terminations.

Disciplinary Actions

Provisions relating to discipline apply to all State Personnel Management System employees. In addition, the appointing authority has the burden of proof by a preponderance of the evidence in a disciplinary action, and the standard must be applied during appeals. Some of the allowed disciplinary actions are set forth below:

- a written reprimand;
- forfeiture of up to 15 workdays of accrued annual leave;
- suspension without pay;
- denial of a pay increase;
- demotion; or
- termination with or without prejudice, with the approval of the agency head, depending on the circumstances.

Certain acts by an employee, such as intentionally injuring another person and conviction of a felony, can result in automatic termination of employment. Otherwise there are two categories of discipline: conduct-related discipline and performance-related discipline. The former may result from employee misconduct stemming from either an action or inaction of the employee that violates a statute, regulation, policy, directive, or order. Examples of behavior resulting in conduct-related discipline include, but are not limited to:

- being negligent in the performance of duties;

- engaging in intentional misconduct, without justification, that injures another person;

- stealing State property; and

- using leave contrary to law or policy.

Performance-related discipline may result from inefficient or incompetent job performance or a lack of qualifications for the position.

Before taking a disciplinary action, the appointing authority has 30 days to investigate the alleged misconduct, meet with the employee, consider mitigating evidence, impose the discipline, and advise the employee of appeal rights. The appointing authority has only five days from the employee's last shift to complete this process if the employee is to be suspended without pay.

An employee may appeal a disciplinary action. The following outlines the disciplinary appeals process:

- Employees in the skilled service and the professional service have 15 days to file an appeal to the head of the principal unit. If the employee is on initial probation, the employee bears the burden of proof on appeal and may only appeal on the grounds that the action was illegal or unconstitutional. The appeal should explain issues of fact and law that warrant rescinding the action. Upon receipt of the appeal the agency has 15 days to address, point-by-point, the issues in the appeal;

- After receiving the decision of the agency head, the employee has ten days to appeal to the Secretary of Budget and Management. If no settlement is reached after 30 days, the appeal is referred to the Office of Administrative Hearings; and

- The Office of Administrative Hearings has 30 days to schedule a hearing and notify the parties of the hearing date, and must dispose of the appeal according to the provisions of the Administrative Procedures Act. At the close of the hearing, the office has 45 days to issue a decision. The decision of the office is the final administrative decision.

As mentioned above, terminating an employee in the skilled service or professional service requires the approval of the agency head. Terminated employees become "former employees," and with the exception of special appointment employees, may appeal the decision. At each stage in the appeals process, the decision maker can uphold the disciplinary action, or rescind or modify the action and restore lost time, compensation, status, or benefits. As with the grievance procedure, if the agency has a peer review panel, the employee may bypass the above process and file a disciplinary appeal with the peer review panel.

Employees in the management service, the executive service, or special appointments may appeal a disciplinary action to the agency head. Employees in these services have the burden of proof in an appeal and may only appeal on the grounds that the action was illegal or unconstitutional. The decision of the agency head is the final administrative decision. Appendix 6 shows the results of the exceptions hearing process in fiscal 2000 and 2001. Exhibit 3.3 lists the number of cases heard and decided by administrative law judges and the number of cases resolved within the Department of Budget and Management in fiscal 2001 and 2002. These actions include dismissals, suspensions, rejections on probation, and grievances.

Exhibit 3.3
Activities Under Employer-Employee Relations Division
Fiscal 2001 - 2002

	Cases Forwarded to the Office of Administrative Hearings		**Cases Resolved by the Employer-Employee Relations Division**	
	2001	**2002**	**2001**	**2002**
Reprimand	107	116	212	141
Disciplinary Loss of Leave	8	10	16	10
Disciplinary Suspension	64	57	77	49
Denial of Increment	2	3	1	2
Involuntary Demotion	8	3	0	0
Termination on Probation	15	31	13	16
Termination	71	62	27	25
Grievances	164	198	74	90
Total	**439**	**480**	**420**	**333**

Source: Department of Budget and Management

Layoffs

Only an employee in the skilled service or professional service who is not a special appointment can be "laid off" from the employee's position if that position is abolished or discontinued because of lack of work or a change in the organization. Employees must be notified at least 60 days prior to the effective date of the layoff. Employees with the fewest seniority points in a class will be laid off first. Seniority points are accumulated based on the number of months the employee worked for the State, unit, and in the current job series. An employee targeted for layoff may displace another employee with fewer seniority points in the same job series or classification held by the employee at any time during the three years preceding the layoff.

Separations

All regular State Personnel Management System employees may be separated or terminated from State service. Separation occurs if the appropriation for the employee's position in the State budget is omitted by the Governor, struck by the General Assembly, or reduced by the Governor through a submission to the Board of Public Works. Separations cannot be appealed, but the separated employee has the same reinstatement rights as a laid off employee.

Reinstatements

Employees who are reinstated to State service will receive credit for the previous time employed to determine the employee's rate of annual leave earnings and seniority rights. Reinstated employees are also entitled to unused accumulated sick leave. The reinstatement period for former nontemporary employees is three years. In addition, a State employee who transfers to a position in another unit of State government, regardless of the personnel system, transfers without loss of leave or credit earned for State employment. An employee who returns to State service in a position with an independent personnel system is entitled to the reinstatement rights of that system.

As mentioned above, laid off and separated employees have identical reinstatement rights. Reinstatements for these former employees are done through seniority point order. In other words, the former employee with the most seniority points will be the first employee reinstated to a class or job series from which the employee was laid off or separated.

Contractual Employment in State Government

State policies concerning the hiring of contractual employees are set forth in Title 13 of the State Personnel and Pensions Article and COMAR 17.04.03.13. The statute provides that no agency can execute or renew a contract for the employment of a contractual employee unless the Secretary of the Department of Budget and Management certifies that: (1) the service cannot be rendered by assignment or hiring of a nontemporary employee; (2) the service is needed for a limited, infrequent, or unusual time, or needs to be established quickly; and (3) the rate of pay is equivalent to that of existing employees with similar duties. Certain contracts, however, are exempt from the certification process, such as contracts for college faculty; for student, inmate, and patient labor; for direct emergency services; or by independent agencies. The Secretary may not continue certification of contractual services if the services encompass a permanent function or have no specific expiration date.

Except for those contracts exempt from certification, the Department of Budget and Management reviews each contractual employment request. During this review process, the department informs the contracting agency if the work should be assigned to a budgeted position or if a regular position should be requested through the budget process. Hiring contractual employees allows agencies to save money since contractual employees do not receive benefits (paid leave, holiday pay, health benefits, or pension benefits) that regular employees receive. Appendix 7 shows the trends for State contractual employment from fiscal 1999 to 2002.

During the 1996 session, the General Assembly was concerned about whether long-term contractual employment was in the best interest of either the State or contractual employees. Therefore, the State Personnel Management System Reform Act of 1996 required the Department of Budget and Management to study the issue of long-term contractual employment. The department's study, completed in December 1997, presented recommendations for the cost neutral reduction in the number of long-term contractual employees.

The report suggested that cost neutral conversion of contractual positions could be accomplished with or without applying conversion ratios, and need not result in an expansion of the total workforce. The recommended policy and implementation framework allows for the appropriate utilization of budgeted positions for continuing functions, while providing flexibility at the agency level to define the extent of convertible positions as well as a workable time frame for reducing long-term contractual employment levels.

The Department of Budget and Management is implementing the majority of its recommendations through the budget process. Concerning the recommended statutory change, during the 1998 session the General Assembly passed legislation (Chapter 510 of 1998) authorizing the Department of Budget and Management to convert contractual employees to regular positions after six months of satisfactory job performance if: (1) there is a continuing need for the function to be performed; (2) the agency can document a competitive hiring process; (3) the budgeted position was not available at the time the contractual employee was hired; and (4) the employee meets the minimum qualifications for the budgeted position. Exhibit 3.4 lists the number of contractual conversions from fiscal 1993 to 2002.

Exhibit 3.4
Contractual Conversions in State Agencies
Fiscal 1993 - 2003

Fiscal Year	Number of Employees
1993	225
1994	333
1995	550
1996	454
1997	368
1998	471
1999	1,149
2000	1,661
2001	1,062
2002	901

Source: Department of Budget and Management

Chapter 4.   Leave Policies and Benefits

Regular State employees receive benefits in addition to monetary compensation. These benefits can be placed into three categories: leave, fringe benefits, and employee programs.

Leave

Unless indicated otherwise, the leave policies and other benefits described in this chapter generally apply to employees in the State Personnel Management System (SPMS). Most policies and benefits do not apply to temporary employees such as contractual or emergency employees. Units of the executive branch with independent personnel systems, and the legislative and judicial branches, generally have adopted similar policies and benefits. Leave includes paid leave (e.g., annual or sick leave) and unpaid leave (e.g., leave of absence). Family leave may fall within either; therefore, it is described under a separate heading.

Paid Leave

Title 9 of the State Personnel and Pensions Article governs most leave policies, including the rate of leave accrual, circumstances under which leave can be taken, and the disposition of accrued but unused leave. The Secretary of the Department of Budget and Management is responsible for administering leave policies for SPMS employees.

Holidays

Regular SPMS employees are entitled to paid time off for observance of the holidays listed in Exhibit 4.1. If a legal holiday falls on a Saturday, it is observed on the preceding Friday; if a holiday falls on a Sunday, it is observed on the following Monday. Employees who work in agencies with 24 hours a day/seven days a week service may have their holidays rescheduled to accommodate the agencies' service needs. Also, a unit that is authorized to establish its own holiday schedule may allow different variations of holidays observed. For example, the Department of Transportation's personnel system has one less holiday (the Friday after Thanksgiving) than the SPMS.

Employees who work on a holiday are entitled to compensatory time on at least an hour for hour basis, but must use the compensatory time within one year after having accrued the time. Employees who are eligible for overtime, and who work on prescheduled holidays, are also paid for the holiday hours scheduled at the normal hourly rate plus time and one-half payment for any hours actually worked. In addition, employees in the executive pay plan at ES 6 or higher must work at least five hours on a holiday to earn one day of compensatory time.

Exhibit 4.1
Paid Holidays – SPMS Employees

New Year's Day	January 1
Martin Luther King Jr.'s Day	January 15 unless another day is designated by the U.S. Congress
Presidents' Day	3rd Monday in February
Memorial Day	May 30 unless another day is designated by the U.S. Congress
Independence Day	July 4
Labor Day	First Monday in September
Columbus Day	October 12 unless another day is designated by the U.S. Congress
Election Day	Days of general elections (not primary elections), normally the first Tuesday in November in even numbered years
Veterans' Day	November 11
Thanksgiving Day	Fourth Thursday in November
Friday after Thanksgiving	Fourth Friday in November
Christmas Day	December 25

Source: Department of Legislative Services

Annual Leave

SPMS employees are entitled to annual leave with pay for any purpose. The employee's supervisor must approve such leave in advance. Employees may not use annual leave until six months of service are completed. Current law provides annual leave based upon an employee's years of State service as follows:

Years of Service	**Days of Leave per Year**
Less than 5 years of service	10 days per year
5 to less than 10 years of service	15 days per year
10 to less than 20 years of service	20 days per year
20 + years of service	25 days per year

The law further provides that up to 50 days of unused annual leave may be carried over into any new calendar year. Any unused leave in excess of 50 days is forfeited, and, unless the employee objects, is placed into the State Employees Leave Bank. At any time an employee may donate annual leave to the State Employees Leave Bank or to another employee.

All employees except those covered under collective bargaining agreements (such as those governing the Mass Transit Administration employees) and those whose State employment is terminated for a cause involving moral turpitude may elect to receive the following compensation in lieu of unused annual leave upon termination from State service: one-tenth of the employee's current biweekly amount of compensation multiplied by: (1) the number of days of earned and unused annual leave accumulated at the end of the previous calendar year (maximum of 50 working days); plus (2) the number of days of annual leave unused during the current calendar year.

In addition to the payment of annual leave upon termination, an appointing authority may request the agency head to compensate an employee for any unused annual leave – in excess of the maximum 50 days carryover – if the employee has been denied the opportunity to use such leave. Finally, employees who return to State service with an authorized status of reinstatement are entitled to earn leave at the rate in effect at the time of the employee's separation or at the time of the employee's return to State employment, whichever rate is higher.

Personal Leave

Six days of personal leave are credited to State employees at the beginning of each calendar year. Newly hired employees receive a prorated number of personal days depending on the employees' starting date. If the employee is hired in January or February, the employee receives six days; in March or April, five days; in May or June, four days; and in July or later, three days. Personal leave can be used for any purpose after notice to the employee's immediate supervisor. A request to use personal leave to observe a religious holiday may not be denied unless the employee's unit provides a service continuously on a seven-day-a-week basis, there is a critical shortage of staff in the unit, and no reasonable accommodations to the employee's request can be made. Employees may not accumulate personal leave. Any unused leave at the end of the calendar year is forfeited, and, unless the employee objects, is placed into the State Employees Leave Bank. At any time an employee may donate personal leave to the State Employees Leave Bank or to another employee.

The number of personal days credited to employees in agencies in the executive branch with independent personnel systems and other branches of government may vary. For example, the Department of Transportation provides its employees with seven personal days. Like the SPMS, the number of personal leave days in an employee's first year may be reduced: employees hired from July 1 to November 30 are provided three days of personal leave; employees hired after November 30 receive only one day.

Sick Leave

SPMS regular employees are entitled to sick leave with pay. State employees earn sick leave at the rate of 15 days a year, prorated based on when the employee begins State service. Sick leave can be used for: an illness, disability, or medical appointment of the employee; an illness, disability, death, or medical appointment in the employee's immediate family; or the birth or adoption of an employee's child. If an employee is absent five or more consecutive days due to personal illness or an illness in the immediate family, the employee must present an original certificate of illness or disability signed by one of the following licensed or certified medical providers: (1) physician; (2) physical therapist; (3) clinical psychologist; (4) dentist or oral surgeon; (5) chiropractor; (6) podiatrist; (7) nurse practitioner; (8) nurse midwife; (9) licensed certified social worker-clinical; (10) optometrist; (11) accredited Christian Science practitioner; or (12) a health care provider, as defined by the federal Family Medical Leave Act.

As mentioned above, sick leave may be used during the period immediately following the birth of an employee's child or the placement of a child with an employee for adoption. With the approval of the head of the employee's principal department, an employee who is primarily responsible for the care and nurturing of the child may use, without certification of illness or disability, up to 30 days of accrued sick leave. With approval, two employees who are responsible for the care and nurturing of the child may use, without certification of illness or disability, up to 40 days of accrued sick leave, not to exceed 30 days for one employee, to care for the child. The number of allowable sick days for these purposes varies for employees in executive branch agencies, agencies with independent personnel systems, and other branches of government. For example, the Department of Transportation's personnel system provides that 20 days of accrued sick leave may be used for adoption of a child or for care of an employee's newborn.

Employees are entitled to accumulate an unlimited number of unused sick leave days during their State service tenure and may carry all sick leave over into subsequent calendar years. Upon termination from State service for reasons other than retirement, an Employees employee forfeits any accumulated sick leave. Forfeited sick leave, unless the employee objects, is placed into the State Leave Bank. At any time an employee may donate sick leave to the State Employees Leave Bank or to another employee, provided that the employee's sick leave balance does not fall below 240 hours.

Employees who retire with a full or early service retirement may convert unused sick leave to creditable service when determining retirement benefits. For this purpose, 22 days of sick leave equals one month of creditable service.

State Employees' Leave Bank and Employee-to-employee Donations

The leave bank is made up of forfeited or donated annual, personal, and sick leave. Employees are members of the leave bank if they donate or forfeit leave. An employee may be granted leave from the bank after exhausting all forms of leave because of a serious and prolonged medical condition, and providing a certificate of illness or disability. In addition, an employee may be granted leave from the bank to provide direct care to an immediate family member who has suffered a catastrophic illness or injury.

State employees called to active duty in the National Guard or military reserves after September 11, 2001, may receive leave from the leave bank once their paid leave has been exhausted for their period of active duty beginning on January 1, 2002, or the date unpaid leave began, whichever is greater, and until December 31, 2003. State employees call to active duty after July 1, 2002, must have previously contributed to the leave bank to participate.

State employees may also donate annual, personal, and sick leave directly to another State employee who has exhausted all available leave because of a serious and prolonged medical condition. Leave may only be donated for a medical condition that existed at the time of the donation. The Secretary of Budget and Management administers the leave bank and leave donation program and determines an employee's eligibility to receive leave from these sources. State agencies with independent personnel systems and the legislative and judicial branches may also participate in these programs.

Work-related Accident Leave

A regular employee is eligible for work-related accident leave with sick pay if the employee sustains an accidental personal injury in the actual performance of job duties that is compensable under the Maryland Workers' Compensation Law. Work-related accident leave is available from the first day of physician-certified disability until the earlier of: (1) the day the employee is able to return to work, as certified by a physician; or (2) six months from the day of the disability. An additional six months of leave may be granted for a certified continued disability (by a physician selected or approved by the appointing authority) when the Workers' Compensation Commission has not reached a decision on the claim.

Payment for work-related accident leave is based on two-thirds of an employee's regular pay and constitutes a separate benefit on account of accident disability (it is not a continuation of salary). An employee continues seniority and leave accruals based on the employee's regular pay and maintains all health care benefits; however, the employee may not receive temporary total disability benefits under the Maryland Workers' Compensation Act while receiving payments for this leave.

The allowance for work-related accident leave may vary for employees in agencies in the executive branch with independent personnel systems and other branches of government, but the policies are generally similar to the State Personnel Management System.

Compensatory Leave

Compensatory leave is paid leave for time worked above the employee's normal workweek or on holidays. Compensatory leave may be used for any purpose. Policies concerning how compensatory leave can be earned and used vary among executive agencies and branches of State government. Some employees have a choice between cash overtime payments and compensatory leave, while others are only eligible for compensatory leave. In most cases compensatory leave is forfeited if it is not used within one year of the date on which it was earned. All employees except those covered under collective bargaining agreements are allowed to receive compensation for no more than two days of unused compensatory leave earned during the calendar year in which the employee terminates State employment.

Other Paid Leave

Other types of leave may be authorized by statute, regulation, or the Governor, if the leave is consistent with statute.

Bereavement Leave: Up to five days of sick leave or three days of bereavement leave may be charged in the event of the death of an employee's spouse, child, parent, brother, sister, grandchild, or grandparent. Additionally, one day may be charged to sick leave in the event of the death of an aunt, uncle, nephew, niece, brother-in-law, sister-in-law, son-in-law, or daughter-in-law.

Organ Donation Leave: Each year, an employee may use seven days of paid leave if the employee donates an organ and up to 30 days of paid leave if the employee donates bone marrow.

Disaster Service Leave: This leave is available to all State employees who are certified by the American Red Cross as a disaster service volunteer. This leave may be used if the American Red Cross requests the services of an employee during a disaster that is designated as at least a Level II disaster and that occurs in Maryland or a state contiguous to Maryland. Employees may use up to 15 days of disaster service leave in any 12-month period.

Military Leave: This leave is available to employees who must meet certain military obligations other than the normal weekend drill common in most military branches. The limit on military leave is 15 days a year.

Jury Service Leave: This leave is available if an employee is called to jury service and lasts until the juror's obligation is fulfilled.

Legal Action Leave: This leave is available to an employee who is summoned to appear in court, before a grand jury, or for a disposition, provided the employee is neither a paid witness nor a party to the action.

Disciplinary Action Leave: This leave is used to remove an employee from the workplace if the employee is incapable of improving the employee's duties due to extraordinary circumstances or poses a threat to self, another person, or State property.

Examinations/Interviews for State Positions: An employee is eligible for leave to take examinations or go on interviews for State positions. There is no limit to the number of occurrences; however, the maximum leave for each occurrence is four hours.

Release Time for Union Activities: The State provides paid leave to allow release time for union activities and events during normal work hours. The minimum release time for negotiations, grievances, conventions, and other events is one hour, and the total release time for union representatives or stewards is limited to one day for every 15 dues paying members of the union.

Positive Tuberculin Skin Test: An employee may also receive paid leave following a positive tuberculin skin test, not to exceed 90 days.

Religious Observances: An employee may elect to work overtime to earn compensatory time for a religious observance absence.

Unpaid Leave

Several types of unpaid leave may be authorized for State employees, as described below.

Leave of Absence

The Secretary of Budget and Management may grant unpaid leaves of absences that do not exceed two years. A leave of absence without pay may be used by an employee who is: (1) a member of the armed forces and is called upon for active service; (2) injured in the line of duty and has exhausted all paid leave; or (3) temporarily incapacitated due to physical or mental illness. An employee is eligible, with approval from the appointing authority, for a leave of absence without pay for a period not to exceed 30 calendar days. For longer periods, a leave of absence request requires the additional approval of the Secretary of Budget and Management. Except in the case of injury or disability of the employee or immediate family member, or entrance into the armed forces, the Secretary may not grant more than 30 days leave until the employee has completed the employee's original probationary period.

If an employee returns to State service within two years, the employee is eligible for reinstatement. However, the leave period for entry into the armed services is the initial tour of duty. The employee may be restored to the employee's former position if a vacancy exists. If no vacancy exists, the employee's name will be placed on the reinstatement list for the employee's former classification.

Emergency Release Time

Established under a 1981 executive order, emergency release time is unpaid leave granted to protect employees against unsafe conditions during emergency situations such as blizzards, hurricanes, civil disorders, physical plant hazards, fire, or war. The secretaries of General Services, Budget and Management, and Transportation, in consultation, may grant emergency leave to affected employees. An employee required to work during an emergency is credited with compensatory leave.

Family Leave

In addition to the guaranteed use of sick leave after the birth of a child, the federal Family and Medical Leave Act of 1993 imposes benefit requirements on public agencies (state, local, and federal); local public and private education agencies; and businesses that employ 50 or more employees. The Act allows employees to take up to 12 weeks of unpaid or paid leave during any 12-month period for the birth, adoption, or foster-parent placement of a child; for a serious health condition of a child, spouse, or parent; or for an employee's own serious health condition. Employers are required to maintain the same health care coverage at the same rate as for employees on other types of leave. Upon return, employees are restored to their original or an equivalent position.

Certain public employees are not covered under the Act, including employees of the legislative body of a state or political subdivision who are not employed by the legislative library; and elected officials of a state or a political subdivision, their personal staffs, employees appointed by an elected official to a policymaking level, and employees appointed in an advisory capacity to an elected official. The federal Act does not supersede any provision of any state or local law that provides greater leave rights.

Fringe Benefits

Fringe benefits are direct employer subsidies on behalf of an employee. Traditional fringe benefits include contributions to an employee's health care or retirement plan. Together, fringe benefits and salary make up an employee's compensation package. As an employer, the State provides five major benefits that involve a direct subsidy per employee: health insurance plans and other related benefits; Social Security; pension/retirement contributions; Workers' Compensation; and unemployment insurance. In fiscal 2003, these fringe benefits represent approximately 30 percent of a regular employee's salary. Other less traditional benefits involving various levels of subsidy include a State match to the deferred compensation program, a sick leave incentive pilot program, pay-for-performance bonuses, tuition waivers, and employee transit expenditures. In fiscal 2003 the pay-for-performance bonuses are temporarily discontinued primarily for budgetary reasons; the remaining less-traditional fringe benefits represent approximately 1 percent of a regular employee's salary.

Health Insurance Plans and Other Related Benefits

Title 2, Subtitle 5 of the State Personnel and Pensions Article authorizes the Secretary of Budget and Management to develop and administer a State Employee and Retiree Health and Welfare Benefits Program. All executive, judicial, and legislative branch agencies may participate in the program.

The benefits described below are available to regular full-time employees, part-time employees who work more than 50 percent of the workweek, and certain retirees. In addition, health benefits and some other benefits are available to contractual employees (and part-time employees working less than 50 percent of the workweek) provided the employees pay all the costs of the plan.

Health Insurance Plans

Although there are variations from year to year, the State offers its employees the option of selecting a preferred provider organization (PPO), a point-of-service plan (POS), or a health maintenance organization (HMO). All employees are required to pay a portion of the premium or the self-funded cost to enroll in one of the offered health plans. Employees pay 15 percent of HMO premiums and POS costs, and 20 percent of PPO costs. Costs range from the lowest cost HMO, to mid-range POS plans, to the highest cost PPO plans.

The benefits offered are standardized within each type of program (PPO, POS, and HMO). Some of the benefits that all medical plans are required to offer include:

- physician care;
- hospitalization;
- surgery;
- maternity benefits/newborn care;
- diagnostic lab and x-ray;
- acupuncture services for chronic pain management;
- routine vision exams;
- prescription eyeglasses and contacts;
- blood charges;
- medical supplies;

- organ transplantation;
- speech, physical, and occupational therapy; and
- ambulance and emergency room service.

The PPO plan allows an employee to choose any doctor for services. The State is self-insured for this plan, pays an administrative fee to the providers, and assumes the risk for all costs. If the doctor is part of the State's network of participating physicians, a copayment is required. If the doctor is outside of the network, the employee pays the entire fee and submits a claim for reimbursement, which is applied to a required deductible. Then, after the deductible is exceeded, the plan pays 80 percent of the cost.

The POS plan is similar to an HMO in that the employee's choice of providers is somewhat limited. However, employees are given the option of choosing out-of-network services without a referral, but must then pay a deductible (not required with in-network services). The State pays fixed administrative fees and capitated payments and is self-insured for all other costs. When using services within the plan, a copayment is required. If the employee receives treatment out of the network, the employee pays the entire fee and submits a claim for reimbursement, which is applied to a required deductible. After the deductible is exceeded, the plan pays 80 percent of the cost.

For HMOs the State pays a fixed fee, and the HMOs assume the risk for all costs. Employees must choose a primary care physician, and all medical services are received from this provider or referred specialists. When receiving a service, a copayment is required for primary and specialist care office visits.

Other Related Benefits

Dental Insurance Plans: The State offers dental insurance plans that are available to all employees who are eligible for health insurance benefits with the State. Three such plans are available in calendar 2002: two dental health maintenance organizations (DHMOs) and one dental point-of-service plan. The structure and funding of benefits is similar to health insurance HMOs and point-of-service plans. Employees are required to pay 15 percent of the premium or the self-funded cost to enroll in one of the plans.

The available coverage from and requirements of the two types of plans vary. DHMOs cover preventive and diagnostic dental care in full, while restorative and other major services are offered at a reduced cost. Orthodontic services are available for both adults and children. There are no deductibles and no annual maximum allowable amounts. Employees are required to select a primary dental office, which will arrange for all dental care. Most care is provided within the primary office itself; referrals are required for specialist services. The POS option also requires the selection of a primary dental office. All preventive and diagnostic care received from the primary office is covered in full while restorative and other major care is offered at a reduced cost. Orthodontic services are available for both adults and children within the primary office only. Receipt of service outside of the primary office is paid on a separate, lower schedule of benefits. There is no annual maximum benefit amount for in-network services, but there is a $1,000 annual maximum benefit for services outside the primary office. For both DHMO and POS plans, all preventive and routine diagnostic services by network providers are covered at 100 percent. Copayments vary with the type of service, both within and outside the primary dental office.

Mental Health/Substance Abuse Program: The State offers mental health/ substance abuse coverage to State employees and their dependents who enroll in any kind of health coverage. For the PPO and POS plans, the mental health benefit is administered by a separate provider, while HMOs provide their own mental health services. For the PPO and POS plans, the State is self-insured and pays an administrative fee. For HMOs, the State pays a fixed fee, and the HMOs assume the risks for all costs.

Prescription Program: The State offers a self-funded prescription drug program to State employees and their dependents who enroll in any kind of health coverage. As with health plans, employees must pay a portion of the cost of providing coverage (20 percent in calendar 2003). Copayments are required for individual formulary drug prescriptions ($10 in calendar 2003). Formulary drugs are drugs determined by a panel of physicians and pharmacists to provide the highest therapeutic and economic value. A more select group of drugs, called Preferred Performance Drugs, are subject to a $6 copayment, and nonformulary drugs are subject to a $12 copayment. If an employee elects to take a brand name drug over a generic equivalent, even if a physician prescribes the brand name, the employee pays the difference in cost between the two drugs as well as the copayment. The quantity of “maintenance drugs,” defined as a drug needed for up to six months, is limited to 90 days or 100 days at a single dispensing.

Flexible Spending Accounts: Employees have the option of establishing a Flexible Spending Account to set aside pre-tax dollars to pay for eligible health-related expenses that are not covered by existing State health plans. These accounts are offered to employees and their dependents who are eligible for health benefits. An account may be established for either health care or dependent care. Employees then are “reimbursed” from these accounts for eligible expenses they incur. Internal Revenue Service rules require that employees must continue to contribute a preselected amount to the health care or dependent care account throughout the year. Any money left over in the account at the end of the year is forfeited. In fiscal 2001, 6,340 employees established either a health care or a dependent care account.

Other Benefit Plans: While the State subsidizes the health care, prescription drug, and dental plans, it also offers other plans that it does not subsidize. An employee who elects to participate in one of these plans pays the full premium. Additional benefits offered by the State include term life insurance and a personal accidental death and dismemberment plan, which are offered to employees and their dependents who are eligible for health benefits. Term life insurance premiums are paid on a pre-tax basis for up to $50,000 worth of coverage. Accidental death and dismemberment insurance premiums are paid in total on a pre-tax basis.

Enrollment and Funding

The administration of the Maryland State Employees Health Benefits Program has been moved from one agency to another over the years. In the mid-1960s, when the State first provided a subsidy for employees' health insurance, the program was administered by the Office of the State Treasurer. In the early 1970s, the responsibility was transferred to the former Department of Personnel. In October 1993, because of a significant increase in program costs and problems with program administration, this responsibility was transferred to the then Department of Budget and Fiscal Planning, now the Department of Budget and Management.

The State's health insurance program for State employees consists of similar types of options and plans in fiscal 2002 as in fiscal 2001. The State pays 80 percent of the costs for the PPO health plan and the prescription program, and 85 percent of the costs for the POS and HMO health plans. Fifty percent of both dental HMO premiums and dental POS insurance costs are paid by the State.

Exhibit 4.2 provides fiscal year enrollment data for employee and retiree health insurance plans. The overall increase in enrollment can be attributed to the growth in the number of State positions.

Exhibit 4.2
Employee Participation in Health and Life Insurance Plans
Fiscal 1999 - 2002

	Actual 1999	Actual 2000	Actual 2001	Estimated 2002	Average Annual Change 1999-2002
PPO	22,311	24,638	26,614	27,735	7.5%
POS	23,883	25,699	27,651	28,842	6.5%
HMO	18,960	17,100	14,668	13,408	(10.9%)
Total Health Plan	**65,154**	**67,437**	**68,933**	**69,985**	**2.4%**
Prescription	62,568	64,917	66,469	67,529	2.6%
Dental	24,771	50,693	55,436	58,020	32.8%
Term Life	32,150	34,858	37,122	39,271	6.9%
Accidental Death	27,955	31,231	33,236	35,005	7.8%

Retiree Participation in Health and Life Insurance Plans
Fiscal 1999 - 2002

	Actual 1999	Actual 2000	Actual 2001	Estimated 2002	Average 1999-2002
PPO	17,938	18,709	19,347	19,772	3.3%
POS	5,903	5,760	6,320	6,659	4.1%
HMO	3,213	3,235	2,976	2,945	(2.9%)
Total Health Plan	**27,054**	**27,704**	**28,643**	**29,376**	**2.8%**
Prescription	26,840	27,486	28,421	29,163	2.8%
Dental	7,174	10,638	12,127	13,212	22.6%
Term Life	1,563	1,865	2,304	2,830	21.9%

2002 data represent enrollment as of June 2002 as reported by the Department of Budget and Management. All other enrollment figures represent enrollment as of June in respective years.

Source: Department of Budget and Management, Office of Personnel Services and Benefits Annual Report, Fiscal 2001.

Movement away from HMOs, which have lost enrollment from fiscal 1999 to 2002 at an average rate of 10.9 percent for active employees and 2.9 percent for retirees, can be partly attributed to the limited number of provider options available from the State. In calendar 2002, Maryland offers only three HMO options to its employees, compared to the seven options available in calendar 1999. This trend away from HMOs follows a national trend away from these rather tightly controlled managed care options.

PPO and POS plans, in contrast, have experienced significant enrollment increases since fiscal 1999 as members shift away from HMOs.

Exhibit 4.3 shows the health insurance account activity for fiscal 1999, 2000, and 2001. Receipts received from agencies, employees, retirees, and other sources (satellite participants in the health insurance program) have increased steadily, a result of both increased enrollment and health insurance cost inflation. From fiscal 2000 to 2001 alone, while total enrollment increased by 2.6 percent, receipts increased by 14.0 percent, and payments to providers and insurance companies increased by 13.7 percent.

Exhibit 4.3
Summary of Health Insurance Reimbursable Fund
Fiscal 1999 - 2001
($ in Millions)

	Actual 1999	Actual 2000	Actual 2001	% Change 2000-2001
Balance, Beginning of Year	**$62.2**	**$62.6**	**$60.8**	**(2.9%)**
State Agency Receipts	349.2	382.6	431.1	12.7%
Employee Receipts	57.6	64.5	75.7	17.4%
Retiree Receipts	18.8	21.1	25.0	18.5%
Other Receipts	15.9	17.0	21.1	24.1%
Total Receipts	**441.5**	**485.2**	**552.9**	**14.0%**
Subtotal Receipts and Balance	**503.7**	**547.8**	**613.7**	**12.0%**
Payments	441.1	487.0	553.8	13.7%
Ending Balance	**62.6**	**60.8**	**59.9**	**(1.5%)**
Change in Fund Balance	$0.4	($1.8)	($0.9)	

Source: Department of Budget and Management, Office of Personnel Services and Benefits Annual Report, Fiscal 2001.

Of ongoing concern is the disproportionate share of the cost increase represented by prescription insurance as illustrated in Exhibit 4.4. From fiscal 1999 to 2001, for example, payments to AdvancePCS, the State's pharmacy benefit manager, increased an average 20.8 percent, while payments to other providers and insurance companies increased an average 8.7 percent, for an overall average increase of 12.0 percent.

Exhibit 4.4
Payments for Prescription Coverage and Other Health Coverage
Fiscal 1999 - 2001
($ in Millions)

	Actual 1999	Actual 2000	Actual 2001	Average Annual % Change 1999-2001
Prescription Payments	$118.0	$141.7	$172.2	20.8%
Other Payments	323.1	345.3	381.6	8.7%
Total Payments	**$441.1**	**$487.0**	**$553.8**	**12.0%**
% of Prescription Payments to Total	26.8%	29.1%	31.1%	

Source: Department of Budget and Management

Reasons for this disproportionate increase include:

- the increasing sophistication and effectiveness of drugs that tend to drive up costs;
- the use of more aggressive diagnostic standards by physicians;
- the increased use of preventive treatments;
- the use of more aggressive marketing efforts by pharmaceutical companies, including direct-to-consumer advertising;
- the high cost associated with new drugs;
- a growing population;
- the use of drugs in combination to address health problems such as HIV; and
- longer life expectancy.

Another issue of ongoing concern to the General Assembly is retiree health insurance. When State employees retire, they continue to be eligible for State health insurance benefits. To be eligible, a retiree must have:

- ended State service with at least ten years of creditable service and within five years of retirement age;

- ended State service with at least 16 years of service;

- ended State service on or before June 30, 1984;

- retired directly from the State with at least five years of service; or

- retired directly from State service with a disability.

If a retiree has less than 16 years of State service, the benefit is prorated. The State subsidy for health insurance is determined by the amount of creditable service the retired State employee earned. With five years of creditable service, a retired State employee is entitled to 5/16 of the State subsidy provided to active employees. For each additional year of creditable service, an additional 1/16 of the subsidy is earned until, with 16 years of creditable service, the retired State employee is entitled to the same State health insurance subsidy as provided to active employees.

Health insurance for retirees is one of the fastest growing areas in the State budget due to aging populations, longer life spans, and increasing health care costs. As illustrated in Exhibit 4.5. Retiree enrollment as a percentage of total enrollment has increased from 25.1 percent in 1994 to 29.4 percent in 2001. Similarly, State subsidies on behalf of these retirees have increased (as a percentage of total subsidies) from 17.3 percent in 1994 to 21.0 percent in 2001 (significant increase in fiscal 1997 due to an early retirement incentive). Subsidies totaling $94.1 million were set aside for retiree health insurance in fiscal 2001. Unlike retirement, which is funded on an actuarial basis, retirees' health insurance is funded on a pay-as-you-go basis. As the number of retirees increases, and retirees live longer and encounter more health costs, the State's liability for this part of the health insurance program will continue to increase more rapidly than the liability for current employees.

Exhibit 4.5
State of Maryland – Health Insurance Subsidies
Active and Retired Employees
Fiscal 1994 - 2001
($ in Millions)

	1994	1995	1996	1997	1998	1999	2000	2001
Health Insurance Enrollment								
Retirees	22,162	22,916	23,691	25,536	26,276	27,054	27,704	28,643
Active Employees	66,004	65,762	66,041	64,611	63,838	65,154	67,437	68,933
Total	**88,166**	**88,678**	**89,732**	**90,147**	**90,114**	**92,208**	**95,141**	**97,576**
Retirees as % of Total	25.1%	25.8%	26.4%	28.3%	29.2%	29.3%	29.1%	29.4%
Health Insurance Subsidies								
Retirees	$45.0	$51.2	$53.0	$78.8	$55.8	$77.1	$85.4	$94.1
Active Employees	$215.7	$239.8	$248.0	$249.6	$258.3	$274.4	$305.8	$354.1
Total	**$260.7**	**$291.0**	**$301.0**	**$328.4**	**$314.1**	**$351.5**	**$391.2**	**$448.2**
Retirees as % of Total	17.3%	17.6%	17.6%	24.0%	17.8%	21.9%	21.8%	21.0%

Source: Department of Budget and Management

Social Security

Since 1956 State employees (with the exception of the Maryland State Police) have been participants in the Social Security system where the State pays the employer's share of the cost. Social Security costs are determined by multiplying individual salaries up to the Social Security wage base ($84,900 for calendar 2002) by 6.2 percent for the employee and the employer. Both the State and the employees are also subject to a 1.45 percent Medicare cost, which is not subject to a wage base.

Pension/Retirement Contributions

See the second part of this volume for an explanation concerning pension and retirement benefits provided to State employees.

Workers' Compensation

The purpose of the Workers' Compensation program is to assure that workers who sustain "accidental injuries out of and in the course of employment" are entitled to prompt payments for medical services and compensation without resorting to court suits. Questions of fault on the part of the employee or employer are excluded under the Workers' Compensation Law.

Under the Workers' Compensation Law an employee has the burden of proving that the injury was job-related and disabling. The injury is presumed not to be caused by the willful intention of the employee, and the burden to prove the contrary rests with the employer.

Compensation benefits are paid by six classifications of disability: (1) temporary total disability; (2) permanent total disability; (3) death; (4) serious disability; (5) permanent partial disability; and (6) temporary partial disability. The State's Workers' Compensation program is self-insured and administered through the Injured Workers' Insurance Fund.

Unemployment Insurance

Title 8 of the Labor and Employment Article provides unemployment insurance coverage for employees in both the public and private sector. For fiscal 2004 State agencies will be required to budget $.15 for every $100 of payroll for unemployment insurance costs. In fiscal 2002 and 2003, agencies budgeted $.06 for every $100 of payroll.

Employee Programs

Employee programs are designed and often paid for by the State for the benefit of the employees. Examples include the Employee Assistance Program, the Employee Wellness Program, the Deferred Compensation Program, and the Employee Transit Benefit. These programs are voluntary and can benefit both the employer and employee by improving productivity and job satisfaction.

The Department of Budget and Management administers various other programs and miscellaneous benefits that are intended to assist employees for the mutual benefit of employer and employee.

Employee Assistance Program

The Employee Assistance Program provides "confidential and professional assessment and referral services to State employees who are experiencing personal problems which may or may not be affecting their work performance." Such problems may include substance abuse, emotional problems, stress, family/marital problems, and legal problems. Employees in nonsensitive positions who test positive for illegal drug use will be referred to the program as part of the State's efforts to rehabilitate such employees. Exhibit 4.6 below illustrates the number of program referrals from fiscal 1991 to 2002.

Exhibit 4.6
Employee Assistance Program Referrals
Fiscal 1991 - 2002

Fiscal Year	No. of Referrals	Fiscal Year	No. of Referals
1991	1,395	1997	497
1992	1,655	1998	432
1993	1,024	1999	366
1994	672*	2000	387
1995	621	2001	293
1996	550	2002	194

* Beginning in calendar 1993, self-referrals are no longer allowed for the Employee Assistance Program; only management referrals have been allowed since that time.

Source: Department of Budget and Management

Employee Wellness Program

The top four subjects of health insurance claims for State employees relate to cardiovascular disease, nervous and mental problems, cancer, and alcohol and drug abuse. The increasing need to improve individual lifestyles as a means of controlling health care costs has prompted the establishment of the Employee Wellness Program.

Maryland's wellness program, called "Club Maryland," began in December 1989. The program currently offers a number of brochures on health-related topics; health information seminars and health screenings, both conducted at agency work sites; and lifestyle change programs. These lifestyle change programs are of longer duration than the seminars, have broader participation, require registration, and offer small non-monetary incentives to participants who complete the programs and return required participant information. Club Maryland also offers discounts at fitness centers around the State and offers employees the option of joining a national fitness club network.

Agencies are also eligible to apply for worksite wellness grants to help defray the cost of participating in the wellness program. These grants are available in sums that range from $100 to $1,500 and have been used by agencies for activities such as health screenings, health information seminars/workshops, exercise equipment, weight management programs, t'ai chi classes, CPR classes, smoking cessation programs, seated massage, flu shots, and educational materials.

Deferred Compensation Plan

The State allows employees to participate in a deferred compensation plan whereby an employee can defer a portion of current income (along with the payment of taxes on that income) until a later date, normally when the employee is retired. (See the second part of this volume on the Maryland State Retirement and Pension System for more information.)

Employee Transit Benefit

The Maryland Transit Administration provides free services for State employees. Beginning in fiscal 2003 free ridership is available to all employees except those employees by the legislative and judicial branches, higher education agencies, and local election boards. The program began as a pilot program in fiscal 2002 when it was available in a limited geographic area.

Employee Training and Awards Programs

Title 10 of the State Personnel and Pensions Article established several programs to facilitate human resource management and development.

Employee Training Programs

The Department of Budget and Management is responsible for managing and developing training programs for SPMS employees and coordinating in-service and out-service training program for State agencies. The purpose of training is to develop the capabilities of State employees; train employees to efficiently perform their duties; attract qualified persons to State employment; and help managers and supervisors become knowledgeable and proficient in the application of laws, rules, and guidelines.

Incentive Awards Programs

All principal units in the executive branch, including units with independent personnel systems, may participate in the Innovative Idea Program and the Incentive Performance Awards Program. Only executive service employees are not entitled to these awards.

Innovative Idea Program: An employee, through an invention or innovative suggestion that increases revenues, saves money, improves service quality, or is of some other significant benefit, may receive a financial reward from the employee's agency. All ideas are subject to department review, and awards may range from $300 to $1,000. In addition to the departmental award, the employee's recognized innovative idea may receive an additional award – not to exceed $20,000 or paid administrative leave not to exceed 20 workdays – from the Governor's awards panel.

Incentive Performance Awards Program: This program grants an award for extraordinary performance in the public interest in connection with an employee's job performance. For extraordinary service, an employee may receive cash of not more than $300, a gift of not more than $300 in value, paid administrative leave of not more than three days, or any combination of cash, gift, and leave of not more than $300 in value. An incentive performance award for outstanding service in connection with State employment over a sustained period or a special State project may be awarded for exceptional performance that exceeds the knowledge, skill, or ability required by the employee's position or exceptionally meritorious acts or services in the public interest. An award for outstanding service may not exceed $3,000.

Sick Leave Incentive Pilot Program: Chapter 179 of 2000 created a Sick Leave Incentive Program with the intention of encouraging State employees to reduce their sick leave usage by allowing them to receive compensation for unused days if they meet certain conditions. The program was intended to be cost neutral, but early indications suggested that the budgetary impact of the statewide program would be higher than originally anticipated. In response, the scope of the program was limited to a few pilot sites in order to study it before it was fully implemented. Early results, in which two pilot sites were compared with two similar nonparticipating sites at the Division of Corrections, were promising. Indications were that, for 24-hour/7-day institutions, the program had the desired impact of reducing overtime and sick leave usage at a negligible cost. The question of whether these results can be generalized to other types of facilities and employees has yet to be determined.

Teleworking Program

The General Assembly passed legislation during the 1998 session that reestablished the Telecommuting Pilot Program. The Department of Budget and Management has established a telework policy that allows eligible employees to periodically work from home, a satellite office, or a telework center. Each executive branch agency must attempt to allow at least 10 percent of eligible employees to telework.

Day Care Services

The State operates three day care centers housed in three separate State agencies. The Maryland Department of the Environment's day care center in Baltimore City, although temporarily closed as of this writing, has a capacity of 70 children. The Department of Housing and Community Development's day care center in Crownsville has a capacity of 101 children. The new Department of natural Resources' facility in Annapolis, opened on May 31, 2002, has a capacity of 103 children. All facilities are open to the children of State and non-state employees, although State employees are charged a lesser rate. The facilities can accommodate infants, toddlers, and preschool children.

Miscellaneous Benefits

In addition to the above programs, the State offers other periodic and ongoing programs such as: smoking cessation, stress management, maternity education, secretaries' week, and public employee recognition week. Employees of the principal units in the executive branch, except for units with independent personnel systems, are entitled to special services when facilities are closed and reimbursement for loss of personal items. Also, all survivors of employees in the executive branch, including units with independent personnel systems, are entitled to death benefits when an employee is killed in the line of duty.

Chapter 5. Collective Bargaining

History of Collective Bargaining in Maryland

During the 1996 session, several bills were introduced that would have granted collective bargaining rights to State employees, including, for the first time, one from the Governor. Neither house of the General Assembly passed any of these bills that session. In May 1996, however, the Governor issued an executive order implementing collective bargaining for certain State employees.

In 1999 the Governor's legislative package included comprehensive collective bargaining legislation. Chapter 298 of 1999 established statutory collective bargaining rights for employees in the principal departments of the executive branch and created an administrative process for collective bargaining. Essentially, Chapter 298 codified much of the bargaining process set up by the Governor's executive order. As introduced, the legislation would have gone beyond the procedures for collective bargaining established under the executive order by extending collective bargaining rights to nonfaculty employees of public institutions of higher education, creating procedures for resolving impasses, and requiring State employees to pay a fee to their unit's exclusive bargaining representative. As passed by the General Assembly, however, the legislation did not contain the preceding provisions.

Two years later, in an effort again initiated by the Governor, Chapter 341 of 2001 expanded collective bargaining for State employees to include certain employees of the University System of Maryland (USM) and its constituent institutions, Morgan State University, St. Mary's College, and Baltimore City Community College. Faculty, administrators, supervisors, managers, contractual and temporary personnel, and certain other employees were not granted collective bargaining rights.

Collective Bargaining in State Government

Approximately 37,000 State employees are covered by collective bargaining in 2002. While most executive branch employees have collective bargaining rights, special appointees, the Governor's personal staff, and elected officials do not. Generally, employees of all executive branch agencies, except for higher education, the Maryland State Department of Education, and the Mass Transit Administration, have collective bargaining rights. (Many employees of the Mass Transit Administration were already covered by collective bargaining prior to 1996.) The covered employees are divided into nine bargaining units. The State Labor Relations Board conducts the elections in which employees chose their exclusive bargaining representative. Exhibit 5.1 contains a list of the bargaining units and their exclusive representatives.

Exhibit 5.1
Bargaining Units and Representatives
2002

Unit	Title	Exclusive Representative	No. of Employees
A	Labor and Trades	AFSCME (American Federation of State, County, and Municipal Employees)	2,293
B	Administrative, Technical, and Clerical	AFSCME	8,160
C	Regulatory, Inspection, and Licensure	AFSCME	801
D	Health and Human Service Nonprofessionals	AFSCME	2,679
E	Health Care Professionals	Maryland Federation of Nurses and Health Professionals	2,016
F	Social and Human Service Professionals	AFSCME	4,580
G	Engineering, Scientific and Administrative Professionals	Maryland Professional Employees Council	5,629
H	Public Safety and Security	AFSCME/Teamsters	9,270
I	Sworn Police Officers	State Law Enforcement Officers Labor Alliance	1,922
	Total		**37,350**

Source: Department of Budget and Management

State employees may be represented by other employee organizations for purposes other than for collective bargaining. Examples of existing employee organizations that have not been designated exclusive bargaining representatives are the Maryland Classified Employees Association, the Maryland Troopers Association, and the Maryland Correctional Union.

The Department of Budget and Management represents the State in negotiations with each unit's bargaining representative. These negotiations may include any matters relating to wages, hours, and terms and conditions of employment. The Governor is not required to negotiate any matter that is inconsistent with State law; however, the Governor can negotiate items that require a statutory change or an appropriation if the parties understand that the item cannot become effective until the General Assembly takes action. In addition, the collective bargaining statute does not provide for binding arbitration; instead, the statute basically requires the State and bargaining representatives to meet and confer about negotiable terms.

After negotiations have concluded, a memorandum of understanding is prepared which delineates all agreements the bargaining parties have reached. Upon approval by the Governor and a majority of the employees in the bargaining unit, the terms of the memorandum are agreed. A memorandum of understanding may be effective between one and three years.

The statute also prohibits certain activities. Employees may not strike nor may the State engage in a lockout. If a strike or a lockout occurs or appears imminent, the State or employee organization may petition the circuit court for relief.

Negotiations between the Governor and the bargaining units have resulted in a number of benefits for employees that required General Assembly approval. Of primary financial benefit for State employees were general salary increases in fiscal 2001 and 2002. In addition, the General Assembly passed legislation authorizing a sick leave incentive program, increasing death benefits for the survivors of employees killed in the line of duty, and requiring overtime payments to certain employees required to work on prescheduled holidays. All these changes were collectively bargained. The sick leave incentive program was limited to pilot status beginning in fiscal 2002.

Collective Bargaining in Higher Education

About 12,000 State higher education employees on 16 campuses have also been granted certain collective bargaining rights. Each University System of Maryland institution, including constituent institutions, must create bargaining units for exempt employees, non-exempt employees, and sworn police officers. The potential exists for the establishment of 51 bargaining units (17 institutions times three units each), but constituent institutions of University System of Maryland are allowed to cooperate with each other for the purposes of collective bargaining. Similar to the system established for State employees, the affected higher education parties may bargain over wages, hours, and other terms and conditions of employment. The employer's representative and the employees' exclusive representative have the authority to "meet and confer" and execute a memorandum of understanding incorporating all matters of agreement reached. There is no provision for mandatory fact-finding or binding arbitration. To the extent that the matters of agreement require legislative approval, these matters must be recommended to the General Assembly.

To oversee the process and resolve collective bargaining disputes, an independent Higher Education Labor Relations Board oversees collective bargaining for State institutions of higher education. As mandated by Chapter 341, the board consists of five members and employs an executive director and other staff. Prior to the establishment of collective bargaining for State higher education employees, there was a statutory requirement that these employees receive the same compensation and benefits package as State employees. This requirement no longer exists and each group of State employees must negotiate their own compensation and benefits independently.

Because collective bargaining for State higher education employees was only recently established, elections are still underway and negotiations are just starting. There are currently 27 bargaining units from 13 public higher education institutions certified as "eligible for exclusive representative election" by the board based on their draft regulations and policies. Exhibit 5.2 contains a list of the institutions, bargaining units, and exclusive representatives, as of the publication of this handbook. The board anticipates that the election process for all certified employee organizations will end by mid-December 2002. In order to be certified, an employee organization must submit a petition showing at least 30 percent of the eligible employees in a bargaining unit wish to be represented by the petitioning organization. Other employee organizations may participate in the election if they prove 10 percent of the eligible employees in the bargaining unit wish to be represented by them. Once the board certifies a petition, an election by secret ballot must be held within 90 days.

Exhibit 5.2
Unions Certified for Exclusive Representative Election by the State Higher Education Labor Relations Board

Institution	Exempt Employees	No. of Employees	Nonexempt Employees	No. of Employees	Sworn Police Officers	No. of Employees
Bowie State University	AFSCME	69	AFSCME	84	MCEA	7
Coppin State College	AFSCME	49	AFSCME	87	AFSCME	9
Frostburg State Univ.			AFSCME	256	MCEA	14
Salisbury University			MCEA*	291	MCEA	16
University of Baltimore			AFSCME	132	AFSCME	9
UMCP			AFSCME	1,750	FOP	57
UMBC			AFSCME	372		
UMUC			AFSCME	140		
UMCES			MCEA	58		
UMES	AFSCME	82	AFSCME	198	AFSCME	7
Morgan State University			AFSCME	205		
St. Mary's College	AFSCME	97	AFSCME	103	AFSCME	5
BCCC	AFSCME	97	AFSCME	183	AFSCME	8

***** Declared winner, but decision was appealed.

MCEA = Maryland Classified Employees Association, Inc.
AFSCME = American Federation of State, County, and Municipal Employees.
FOP = Fraternal Order of Police.

Source: State Higher Education Labor Relations Board

Chapter 6. Personnel Policies and Practices in the Legislative Branch

This chapter reviews the compensation and personnel policies of the legislative branch of State government. As a separate branch of State government, the legislature has the authority to establish its own personnel policies and procedures. It also has independent salary setting authority and control over the number of regular and contractual workers employed by the General Assembly and the department that serves it. All employees in the legislative branch are treated similarly to special appointments in the State Personnel Management System (SPMS) in that they do not have the civil service protections that cover most executive branch employees. Although the employees are not governed by SPMS, many of the personnel policies adopted by the legislative branch are similar to those in the executive branch.

Compensation

Members of the General Assembly

A constitutional amendment, approved by the voters in 1970, created the nine-member General Assembly Compensation Commission. The commission includes five persons appointed by the Governor, two appointed by the President of the Senate, and two appointed by the Speaker of the House of Delegates. Members of the General Assembly and State and local government officers and employees are not eligible for appointment to the commission.

The constitution requires that the commission submit salary, expense allowance, and pension recommendations to the General Assembly by formal resolution within 15 days after the beginning of the last session in a four-year term. Rates of compensation and pensions are to be uniform for all members of the legislature, except that the officers of the Senate and House of Delegates may receive higher compensation. Any item in the commission resolution may be reduced or rejected by the General Assembly through a joint resolution. Commission recommendations, as modified by the General Assembly, become effective for the next four-year term.

In January 2002 the commission proposed the changes to legislative compensation summarized in Exhibit 6.1, for the term commencing January 8, 2003. Since no legislative action was taken on the resolution, the proposed changes have the force of law. The changes included a $3,000 salary increase in each year of the term and an increase of $3,000 in the salary differential between a legislator and a presiding officer. In fiscal 2002 the salary of a legislator was $31,509, and the salary of the presiding officers was $41,509. Chapter 11 of this volume describes the Legislative Pension Plan. For additional information on compensation for members of the General Assembly, see *Legislators' Handbook*, Volume I of the Legislative Handbook Series.

Exhibit 6.1
Legislative Salaries for the 2003 - 2006 Term

Calendar Year	Legislators' Salaries	Presiding Officers' Salaries
2003	$34,500	$47,500
2004	$37,500	$50,500
2005	$40,500	$53,500
2006	$43,500	$56,500

Source: Department of Legislative Services

Staff

Regular full-time and part-time employees of the General Assembly and its staff agency, the Department of Legislative Services, are governed by a separate pay plan and are not subject to the pay plan governing executive branch employees. Their employment is at the will of their employer. Because the legislative branch has independent salary setting authority, the President of the Senate and Speaker of the House of Delegates must approve the job classifications and salary schedules of legislative staff. Employees in the Department of Legislative Services are in a classification plan that places employees in three career fields: skilled support, professional, and management. Within each field are several position classifications that may contain more than one level (e.g., Policy Analyst I, Senior Analyst II). Legislative Services uses a pay-for-performance system with fairly broad pay scales in each level.

Personnel Policies and Procedures

Legislative employees are not governed by the personnel procedures set forth in the State Personnel and Pensions Article, although the policies of the legislative branch are often equivalent. The General Assembly and the Department of Legislative Services have their own policies for recruiting, hiring, promoting, disciplining, laying off and firing employees, and resolving employee grievances. Furthermore, the legislative branch has developed independent policies governing employee performance and behavior. For example, the legislature has its own substance abuse, smoking, and sexual harassment policies. Leave policies and benefits are virtually identical for legislative and executive branch employees. Legislative employees accrue annual and sick leave on the same basis as other State employees and are entitled to the same health and retirement benefits.

One area in which the two branches do differ is in the accrual of compensatory leave for Fair Labor Standards Act exempt employees. While most exempt employees in the executive branch earn compensatory leave on an hour-per-hour basis for any work beyond normal work hours, exempt employees in the legislative branch may only accrue compensatory leave for work performed on weekends and State holidays.

Chapter 7. Personnel Policies and Practices in the Judicial Branch

This chapter reviews the compensation and other personnel policies of the judicial branch of State government. Like the legislature, the judiciary has the authority to develop and administer its own personnel policies and regulations. Many of these policies are similar (if not identical) to those in the executive branch, especially with regard to leave and benefits.

Judicial Compensation

The Judicial Compensation Commission was created by the General Assembly in 1980. The commission reviews judicial salaries and pensions and makes recommendations to the Governor and the General Assembly. Salary proposals, introduced as joint resolutions, may be adopted, altered, or rejected by the General Assembly within 50 days after introduction. If the General Assembly fails to act within 50 days, the commission's proposals are considered adopted. Judicial salaries are also adjusted in accordance with Section 1-702 and 1-703 of the Courts and Judicial Proceedings Article. Section 1-702 provides that the Chief Judge of the District Court receives a salary equivalent to the salary paid to an associate judge of the Court of Special Appeals. Section 1-703 provides that general State employee salary increases apply to judges.

For fiscal 2001 the commission recommended a $10,000 judicial salary increase. The General Assembly rejected the commission's proposal. Instead, judges received the same 4 percent general salary increase as State employees. The commission also recommended a 5 percent judicial salary increase for fiscal 2003; however, the General Assembly also rejected that proposal. Exhibit 7.1 lists the salary levels for judges from fiscal 2000 to 2003. Because State employees did not receive a general salary increase in fiscal 2003, judicial salaries in 2003 are unchanged from 2002.

Exhibit 7.1
Judicial Salaries
Fiscal 2000 - 2003

	FY 2000	FY 2001	FY 2002	FY 2003
Court of Appeals				
Chief Judge	139,200	144,800	150,600	150,600
Judge	121,600	126,500	131,600	131,600
Court of Special Appeals				
Chief Judge	117,200	121,900	126,800	126,800
Judge	114,400	119,000	123,800	123,800
Circuit Court				
Judge	110,500	115,000	119,600	119,600
District Court				
Chief Judge	114,400	119,000	123,800	123,800
Judge	103,000	107,200	111,500	111,500

Source: Department of Legislative Services

Additional Judges

The Chief Judge is required to certify the need for new judges. The General Assembly then must pass legislation creating the new judgeships. No new judgeships have been created since fiscal 2000. The statistical basis for requesting circuit court judges begins with a benchmark of trying to maintain caseloads at:

- 1,200 filings per judge in jurisdictions with eight or fewer judges, or
- 1,500 filings per judge in jurisdictions with nine or more judges.

To identify a basis for the need for District Court judgeships, a variety of factors influencing the workload and performance of the court determine the need for each jurisdiction. These factors include: caseloads, changes in the type of cases, average bench times, assistance from retired judges, population projections, peculiarities of the districts, and jurisdictional history. Exhibits 7.2 and 7.3 show the number of judgeships in the district court and circuit courts, respectively, from fiscal 1998 to 2003.

Exhibit 7.2
District Court Judgeships
Fiscal 1998 - 2003

	1998	1999	2000-2003
Chief Judge	1	1	1
District 1			
Baltimore City	24	26	26
District 2			
Dorchester	1	1	1
Somerset	1	1	1
Wicomico	2	2	2
Worcester	1	1	1
District 3			
Caroline	1	1	1
Cecil	2	2	2
Kent	1	1	1
Queen Anne's	1	1	1
Talbot	1	1	1
District 4			
Calvert	1	1	1
Charles	2	2	2
St. Mary's	1	1	1
District 5-12			
Prince George's	12	12	13
Montgomery	12	13	13
Anne Arundel	8	9	9
Baltimore	13	13	13
Harford	4	4	4
Carroll	2	2	2
Howard	4	4	4
Frederick	2	2	3
Washington	2	2	2
Allegany	2	2	2
Garrett	1	1	1
State	**102**	**106**	**108**

Source: Department of Legislative Services

Exhibit 7.3
Circuit Court Judgeships
Fiscal 1998 - 2003

	1998	1999	2000-2003
First Circuit			
Dorchester	1	1	1
Somerset	1	1	1
Wicomico	3	3	3
Worcester	2	2	2
Second Circuit			
Caroline	1	1	1
Cecil	3	3	3
Kent	1	1	1
Queen Anne's	1	1	1
Talbot	1	1	1
Third Circuit			
Baltimore	16	16	16
Harford	5	5	5
Fourth Circuit			
Allegany	2	2	2
Garrett	1	1	1
Washington	4	4	4
Fifth Circuit			
Anne Arundel	10	10	10
Carroll	3	3	3
Howard	5	5	5
Sixth Circuit			
Frederick	4	4	4
Montgomery	17	17	17
Seventh Circuit			
Calvert	2	2	2
Charles	4	4	4
Prince George's	21	23	23
St. Mary's	2	3	3
Eighth Circuit			
Baltimore City	30	30	30
State	**140**	**143**	**143**

Source: Department of Legislative Services

Clerks of the Court

There are 24 circuit court clerk offices in Maryland, each administered by an elected Clerk of the Circuit Court. Each clerk's office is responsible for managing court cases, recording land records, and issuing licenses as well as related financial and administrative functions. Clerks of the court are subject to and governed in accordance with the rules of the Court of Appeals. In addition, the appointment and removal of personnel in the clerks' offices are subject to rules adopted by the Court of Appeals. The Chief Judge has authority over compensation for positions in the clerks offices (other than the elected clerk). The maximum salary of clerks of the court increased to $85,000 annually pursuant to legislation passed in the 2001 session. The actual salary paid to an individual clerk, up to the maximum is determined by the Board of Public Works.

District Court Employees

Clerical, administrative, and constabular employees of the District Court were originally included in the State Personnel Management System because the judiciary did not have a personnel system. Eventually, the judiciary developed its own personnel system, but these employees remained with the State system although they were subject to the judiciary's hiring, termination, and grievance provisions. During the 1998 session, the General Assembly passed legislation that finally removed these employees from the State system and placed them fully under the judicial branch. In addition, the Secretary of Budget and Management no longer has salary setting authority over the District Court commissioners. District Court commissioners' salaries are now set by the Chief Judge of the Court of Appeals.

Personnel Policies and Procedures

As noted above, the judiciary is not governed by the State Personnel Management Systems' procedures; it has its own policies for recruitment, hiring, grievances, and terminations. In most cases where it has independent salary setting authority, it likewise has the power to establish job classifications and salary scales. Such action, of course, must receive budgetary approval by the General Assembly. Judicial employees are entitled to the same leave provisions and health and retirement benefits as State employees in the executive and legislative branches.

Chapter 8. Introduction to the State Retirement and Pension System

The State Retirement and Pension System of Maryland provides retirement allowances and other benefits to State employees, teachers, police officers, judges, legislators, and employees of participating governmental units. As of June 30, 2001, the system had 184,600 active members, 84,185 retirees and beneficiaries, and 43,199 vested former members.

Board of Trustees

The responsibility for the administration and operation of the system is vested in the 14-member Board of Trustees of the Maryland State Retirement and Pension Systems. Under current law, 5 of the 14 board members are ex officio members: (1) the State Comptroller; (2) the State Treasurer; (3) the Secretary of Budget and Management; (4) the State Superintendent of Schools; and (5) the Superintendent of State Police. Another three members are appointed by the Governor to four-year terms, including one representative of participating governmental units and two representatives of the general public who must be private citizens knowledgeable in the administration and operation of pension systems. Lastly, the law requires that two trustees be elected by the members of the employees' systems, two by the members of the teachers' systems, and two by the members of the State Police Retirement System. The composition of the board of trustees as of June 30, 2002, is shown in Appendix 8.

In addition to having total and final responsibility for establishing and directing the system's investment program, the board has all administrative and fiduciary responsibility for the proper operation of the various plans and their subsystems. The board is responsible for seeing that the assets of the systems are held exclusively for the purpose of providing benefits for the participants in the systems. As fiduciaries, the members must exercise the care, skill, prudence, and diligence of a "prudent person" in seeing that the assets of the system are utilized in accordance with the law for the exclusive purpose of providing benefits for the participants.

The board is required to appoint an investment committee that must include three members of the public who have a background of experience in management and control of large investments. With the exception of the three public members, the members of the investment committee must be appointed from the board's own membership. As of June 30, 2001, there were 13 members of the investment committee, ten of whom were board members. The statutory duty of the investment committee is to advise the board on: (1) matters pertaining to the investment program; (2) compliance of investment programs with board policy; (3) preparation of an investments operation manual; and (4) bonding requirements of employees of the Maryland State Retirement Agency.

By law, the board of trustees must appoint one or more medical boards consisting of three members and not more than three alternates. There are currently two medical boards that meet on alternate weeks. The medical boards investigate the applications of members seeking disability retirement and submit written reports, with conclusions and recommendations, to the board of trustees.

In addition, the board appoints an actuary. Currently, actuarial services are provided by contract with the national actuarial firm of Milliman USA, Inc.

Although not statutorily required, the board has established a seven-member executive committee drawn entirely from its own membership. This committee reviews various issues which the full board deems to require detailed study and makes recommendations to the full board. Similarly, the board has appointed its own membership to a three-member audit committee and a four-member real estate subcommittee to deal with complex audit or real estate investment issues.

Maryland State Retirement Agency

The Maryland State Retirement Agency, which operates under the supervision of the board of trustees, is responsible for carrying out all administrative duties and business of the system. In fiscal 2003 the agency is operating with a budget of $20.2 million and 177 regular positions. The mission, vision, and key goals of the agency are included as Appendix 9.

The agency is comprised of the Executive Director’s Office and five divisions: (1) Administrative Division; (2) Finance Division; (3) Investment Division; (4) Internal Audit Division; and (5) Information Services Division.

The Executive Director’s Office is responsible for the administration and oversight of the system including administrative and investment policy, legislation and legal liaison, and financial affairs. The board of trustees appoints the executive director who serves at the pleasure of the board. The executive director is in charge of the agency and responsible for compiling a comprehensive annual budget for submission to the board. In addition, the director has additional powers and duties as delegated by the board of trustees. By custom, the executive director also serves as secretary of the board of trustees.

The Administrative Division is responsible for the payment of benefits, administration of employee contributions, and individual and group membership counseling. The retirement administrator is responsible for the operations of the division.

The Finance Division is responsible for accounting and financial reporting, budget administration, and procurement. Under the leadership of the chief financial officer, the division prepares a Comprehensive Annual Financial Report of the Maryland State Retirement and Pension Systems and develops the annual budget for the retirement agency. The budget is submitted to the board of trustees, which in turns submits the budget to the Governor. After review through the executive budget process, the budget request is submitted to the General Assembly for an appropriation. The budget is funded with investment earnings from the portfolio.

The Investment Division is responsible for the management, control, and investment of the system's Retirement Accumulation and Annuity Savings funds. The board of trustees appoints a chief investment officer who supervises and monitors the external and internal asset managers and makes recommendations to the investment committee regarding investment policy and strategy. The division maintains the equity and bond index funds, the self-liquidating bonds, and the reinvestment reserve, and actively manages a portion of the fixed income portfolio. In addition, the division is responsible for the board's cash management program, the tracking of all investments, and providing staff support to the investment committee.

The Internal Audit Division ensures agency compliance with State laws, rules, and regulations, as well as ensuring employer compliance with agency reporting policies. The chief internal auditor is the director of the division.

The Information Services Division is responsible for the design and implementation of new automated management information systems and for enhancements to existing systems. The director of the division is the information systems officer.

Legal services for the system are provided by State assistant attorneys general assigned from the Attorney General's Office.

Joint Committee on Pensions

Since 1975 the General Assembly has exercised oversight of the State Retirement and Pension System through annual ad hoc interim joint committees. Joint Resolution 27 of 1975 established a Pension Study Commission composed of four senators, four delegates, four members of the executive branch, and three employee organization representatives. This commission reported its findings in 1978, and its recommended legislation was enacted in 1979. Beginning in 1980, the President of the Senate and the Speaker of the House of Delegates each appoint members to an interim Joint Committee on Pensions. Traditionally, the members of the joint committee are members of the two standing committees that handle pension legislation during the legislative session.

Currently these standing committees are the Senate Budget and Taxation Committee and the House Committee on Appropriations. Within each standing committee there is a subcommittee on pensions and a subcommittee chair. The two subcommittee chairs are co-chairmen of the Joint Committee on Pensions. Most major pension legislation is introduced through this joint committee, including legislation requested by the board of trustees.

Chapter 9. Historical Background

Origin

The genesis of the State Retirement and Pension System is in the Baltimore City Employees' Retirement System, which was established by the city in 1924. This pension system was based on concepts promulgated by Mr. George B. Buck of New York.

Mr. Buck's concepts were that people could receive an income in retirement if they contributed a portion of their earnings during their careers. This amount would be matched by the employer. Mr. Buck, trained in the life insurance actuarial discipline, had refined his concepts to the point whereby a contribution of 4 to 6 percent of pay by the employee would provide an annuity of 1/140 for each year of active service, and a similar contribution by the employer would provide a similar pension. Therefore, upon retirement the employee would receive a retirement allowance of 1/70 (1/140 + 1/140) for each year of service. Thus, an employee who worked 35 years could retire at half pay (35/70), if interest earnings met assumptions.

In addition to city employees, the Baltimore City Employees' Retirement System included city public school teachers, probably due to its unique education department arrangement. County school teachers throughout the State evidently demanded the same benefit as city teachers, because in 1927 legislation was enacted (Chapter 344) establishing the Maryland State Teachers' Retirement System.

In 1941 the State Employees' Retirement System was established (Chapter 377), which mirrored, in most instances, the Teachers' Retirement System. At the time of establishment it was exclusively for State employees. However, in 1945, "municipal corporations" (defined as a county, incorporated municipality, special taxing district, or other political subdivision) were allowed to participate in the system if they paid all their respective costs. Thus, local government employees also were allowed to be members of this system (Chapter 969).

In 1956 elections were held to determine if Maryland public employees wanted to participate in the federal Social Security program. The members of the employees' and teachers' systems elected to participate in Social Security, while the members of the State Police system did not. Thus, all regular State employees and all teachers in the State became members of the Social Security system with the State paying the employer's cost for both groups.

In 1966 legislation was enacted that provided for retirement allowances to be paid to legislators under certain conditions (Chapter 281). This Legislative Pension Plan was established as a subsystem within the Employees' Retirement System. In 1970 legislation was passed (Chapter 576) and ratified by the voters as a constitutional amendment establishing a General Assembly Compensation Commission. In 1971 this commission redesigned the Legislative Pension Plan. Since that time the plan has been amended in various ways by the commission at its quadrennial meetings. The legislative plan continues to be administered as a subsystem of the Employees' Retirement System.

In 1971 legislation was enacted that established within the Employees' Retirement System special retirement benefits for former governors and their surviving spouses (Chapter 239).

In 1974 a hodgepodge of State and local retirement provisions for judges was replaced with the State Judicial Pension Plan (Chapter 483), and cellblock correctional officers were permitted to retire with a limited number of years of service (20 years). Through legislation enacted in 1974 and 1982, the Correctional Officers' Retirement System was created.

In 1975 the Optional Retirement Program for professional employees of public higher education institutions was established (Chapter 556). Whereas all the other State systems are defined benefit plans, this plan is a defined contribution plan. By arrangement with the State's higher education establishment, the original carrier of the plan was TIAA/CREF (Teachers Insurance Annuity Association and College Retirement Equities Fund). In 1993, authorization was provided for the addition of up to four more vendors for the Optional Retirement Program (Chapter 428). The retirement agency conducted a competitive search for additional vendors for the Optional Retirement Program. Three additional vendors were selected including VALIC, American Century, and Aetna Life. These vendors began offering investment products July 1, 1995.

In 1979, legislation was enacted that established the Employees' Pension System and the Teachers' Pension System (Chapters 23 and 24, respectively). All employees or teachers hired after January 1, 1980, were required to become members of these systems. Members of the older Employees' Retirement System and the Teachers' Retirement System have the option of transferring to these newer systems. In effect, the older retirement systems' membership was closed. Until 1998 members of these systems made contributions only on that portion of their salary above the Social Security Wage Base, and the benefits paid upon retirement were integrated with Social Security benefits.

In 1998, legislation was enacted that modified and increased the benefit formula for all active Employees' Pension System and Teachers' Pension System members except employees of participating local governments and members who transfer from the old retirement systems after April 1, 1998 (Chapter 530). In addition to increasing the benefit formula, the 1998 legislation requires member contributions of 2 percent of earnable compensation, eliminates the 5 percent contribution on compensation above the Social Security Wage Base, and establishes a defined contribution program for State members of the Employees' Pension System except members who transfer from the Employees' Retirement System to the Employees' Pension System after April 1, 1998. The defined contribution program is optional for all eligible employees and became effective July 1, 1999. Under the program, the State matches deferred compensation contributions up to a maximum of $600 annually ($500 per year in fiscal 2003).

Follow-up legislation was enacted in 1999 that provided local government units participating in the Maryland State Retirement and Pension System on July 1, 1999, with the opportunity to offer the 1998 pension enhancement to their members of the Employees' Pension System (Chapter 176). While this opportunity for the participating local governmental units to offer this enhancement to their employees is optional, once the election is made it is irrevocable. Participating local governmental units who join the Maryland State Retirement and Pension System after July 1, 1999, do so under the enhanced benefit structure.

The State Police Retirement System for State Troopers was established in 1949 (Chapter 349). At its inception, the system allowed retirement at an earlier age with less service than the Employees' Retirement System (25 years of service instead of 30 years), and provided a somewhat higher benefit level. In 1999 the years of service which a member of the State Police Retirement System must attain in order to be eligible for a normal service retirement allowance was reduced from 25 to 22 years (Chapters 122 and 123). Additionally, Chapters 122 and 123 of 1999 increased the benefit formula for all active State Police Retirement System members, slightly increased employee contributions, and created a Deferred Retirement Option Program (DROP).

The Natural Resources Law Enforcement Officers' Pension Plan was created in 1989. Participation is mandatory for Natural Resources law enforcement officers hired after July 1, 1990, and optional for those officers hired prior to that date (Chapter 479). In 1996 this plan was renamed the Law Enforcement Officers' Pension System as other groups of law enforcement officers were authorized to become members. The plan has since been amended to include law enforcement officers from numerous groups throughout the State. As of June 2002, membership in Law Enforcement Officers' Pension System is comprised of the:

- Law enforcement officers of the Investigative Unit of the Comptroller's Office;
- Maryland Transportation Authority police (including the Maryland Port Administration police officers;
- Baltimore City Deputy Sheriffs;
- State Fire Marshall and Deputy Fire Marshals;
- University System of Maryland police officers;
- Morgan State University police officers;
- BWI Airport Fire & Rescue Department personnel;
- Department of General Services, Department of Health and Mental Hygiene, Motor Vehicle Administration, and Department of Labor, Licensing, and Regulation police officers;
- Firefighters for the Martin State Airport employed by the Military Department; and
- Police officers employed by the Division of Rehabilitation Services in the Department of Education who are certified in accordance with the Maryland Police and Correctional Training Commissions.

Additionally, enabling legislation was enacted in 1998 (Chapter 494) to permit a county or municipal corporation to participate in the Law Enforcement Officers' Pension System if the local law enforcement officers elect to participate and the county or municipal corporation elects to pay the costs of participation.

The Local Fire and Police Pension System was also created in 1989. This system permits its members to retire with unreduced benefits after 25 years of service or at age 62. If a local government elects to participate, participation is mandatory for those municipal law enforcement officers hired after the election and optional for those hired prior to the election (Chapter 580).

In 1993 the State's retirement and pension laws were reorganized (Chapter 131). This represented the first step in the revision of these laws to make them part of the State Personnel Article. In 1994 the retirement and pension laws were recodified as the State

Personnel and Pensions Article (Chapter 6). No substantive changes were made to existing law as a result of the code revision.

In 1996 an early retirement incentive program was established for State employee members of the Employees' Retirement System and the Employees' Pension System (Chapter 353). As a result, 2,275 employees filed for early retirement, including 1,247 members of the Employees' Retirement System and 1,028 members of the Employees' Pension System.

Administrative History

The Teachers' Retirement System was established in 1927 under an independent and autonomous five-member board of trustees. When the Employees' Retirement System was established in 1941, it too was set up under a five-member board of trustees which was expanded to seven members in 1947. In 1949 the State Police Retirement System was established under a five-member independent and autonomous board of trustees which was expanded to seven members in 1970.

When subsequent systems were established by law, they were placed under one of the three existing boards. The Gubernatorial Plan, the Legislative Pension Plan, the Correctional Officers' Retirement System, the Judges' Retirement System, and the Employees' Pension System were placed under the board of trustees for the employees' Retirement System; whereas the Teachers' Pension System was placed under the board of trustees for the Teachers' Retirement System.

Until 1974 each of the boards had its own staff handling all aspects of its own plan. However, all the boards shared an individual as their secretary, who also served as the staff director. In 1974 the three staffs were combined in a functional arrangement as one staff under the secretary, who was also an assistant secretary of personnel. This had come about by Chapter 98 of 1970, which created the Department of Personnel and placed the three boards of trustees under the Secretary of Personnel.

In 1982, legislation was enacted that substantially revised the organization of the boards of trustees (Chapter 506). It removed all the boards from the Department of Personnel and merged them into a single independent board. The previous 19 positions on the three boards held by 13 different persons were combined into one 13-member Board of Trustees of the Maryland State Retirement and Pension System. Pursuant to legislation approved in 1983, two private citizens, who may not be members or beneficiaries of the systems, were added to the board (Chapter 552). The abolishment of the Department of Personnel in 1996 (and the position of Secretary of Personnel) reduced the board to 14 members.

Financial and Actuarial History

Prior to 1980 the State maintained four principal retirement plans: (1) the Employees' Retirement System; (2) the Teachers' Retirement System; (3) the State Police Retirement System; and (4) the Judicial Pension Plan. Only a portion of each of these systems was actuarially advance funded, except for the Judicial Pension Plan which was entirely financed on a pay-as-you-go basis. In response to concerns about the retirement systems' deteriorating financial status, the General Assembly established the Joint Committee on Pensions in 1975 to review and evaluate the financial and actuarial condition of the various plans. The committee's most significant finding was that unless major changes were made to the funding and benefit structures of the plans, the State would face a future of ever increasing pension costs both in terms of total dollars and as a percentage of payroll. The long range forecast indicated that under the system's then existing benefit structure and funding policy, the annual costs would be in excess of $2.5 billion in the year 2026.

In 1979, after four years of work, legislation was enacted providing for full actuarial advance funding of the four existing retirement plans and for establishment of two new, fully funded plans - the Employees' Pension System and the Teachers' Pension System. The employees' and teachers' retirement systems, the two largest plans, were closed to new members as of January 1, 1980, and all employees and teachers hired on or after that date were required to join one of the new pension systems as a condition of employment.

However, despite the enactment of these major changes, a variety of factors led to the continued deterioration of the financial and actuarial condition of the systems in general, and the older retirement systems in particular. The State's contribution rate as a percentage of payroll steadily increased in the early 1980s, as did the percentage of the State's general fund budget that was appropriated for retirement purposes.

Consequently, in 1984, the General Assembly passed legislation (proposed by the Joint Committee on Pensions) that modified the benefit and contribution structure of the old employees' and teachers' retirement systems by providing that their members would receive benefits for service prior to July 1, 1984, calculated under the old systems, and benefits for service after that date under the new systems, unless members elected either: (1) to receive benefits under the old systems but subject to a limitation of 5 percent (compounded) on the annual post-retirement cost-of-living adjustment (COLA); or (2) to receive benefits under the old systems without limitation on the COLA, but with a 2 percent increase in their contribution (generally from 5 percent to 7 percent of salary).

At the same time legislation was enacted that: (1) changed the actuarial cost method for funding the systems; (2) combined the employees' retirement and pension systems only for purposes of establishing a single annual employer contribution rate for all State employees; (3) combined the teachers' retirement and pension systems only for purposes of establishing a single annual employer contribution rate for all teachers; and (4) made certain other changes relating to the technical methods and procedures used for determining the ongoing costs of the systems. These changes were effected to afford greater stability and predictability in the State's annual contribution rates to the various plans. In addition, the legislation codified the State practice of providing health insurance for retired State employees.

With the implementation of these changes, the financial and actuarial condition of this system steadily improved. The State's overall contribution rate for the system decreased from 17.6 percent of payroll in fiscal 1985 to 8.70 percent for fiscal 2003. The market value of the system's assets increased from $2.3 billion in fiscal 1980 to over $29.5 billion at the end of fiscal 2001. Moreover, for the first time in the history of the system, at the end of fiscal 2000 (approximately 20 years ahead of statutory schedule), the system was fully funded on an actuarial basis with an overall funding ratio of assets to liabilities of 101 percent, although that funding level has since declined to 98 percent. In order to reduce future volatility in the State's overall contribution rate, several further adjustments to the actuarial methodology have been made; these changes are discussed in Chapter 12, which covers the pensions plan's actuarial aspects.

Chapter 10. System Membership

Membership in the State Retirement and Pension System is required of all persons compensated by the State, all local employees of those governmental units that participate in the employees' systems, and all local employees holding a position eligible to be in the teachers' systems. Only members of the General Assembly, officials in the Governor's Office, certain elected State officials, and higher education employees may choose not to participate in the State Retirement and Pension System.

The State Retirement and Pension System serves four classes of members. Active members are employees who are compensated for work being performed and for whom the State and governmental units are making contributions based on their earnings. Vested deferred members are former employees who have left the system with enough years of eligibility service to be vested and to whom the State or a governmental unit has an obligation to provide retirement benefits when the members reach the eligible retirement age. Finally, there are inactive status members. For reporting purposes these members do not currently have enough eligibility service to be vested and are not on active payroll status. However, based on future service with a participating employer, the State or a governmental unit could be obligated to provide retirement benefits. In addition to active, vested, and inactive members, all the systems have beneficiaries. By law, beneficiaries are persons in receipt of a pension, an annuity, a retirement allowance, or other benefit. A beneficiary may be a retired member of one of the systems or a survivor of the retired member for whom a provision was made by the member.

Exhibit 10.1 details the membership of the State Retirement and Pension System as of June 30, 2001, including active and vested members and beneficiaries. Exhibit 10.2 provides a ten-year history of active membership and Exhibit 10.3 provides a ten-year history of beneficiaries.

Exhibit 10.1
Membership as of June 30, 2001

System Sub-System	Active Members	Vested Former Members	Subtotal: Active and Former Vested Members	Beneficiaries	Total
Employees' Retirement					
State - Regular	3,870	*	*	**	
Correctional Officers	6,904	*	*	**	
Legislators	186	*	*	199	
Governmental Units	1,002	178	1,180	5,201	6,381
Subtotal	**11,962**	**1,350**	**13,312**	**25,212**	**38,524**
Employees' Pension					
State - Regular	54,251	19,252	73,503	12,254	85,757
Governmental Units	21,773	5,144	26,917	4,448	31,365
Subtotal	**76,024**	**24,396**	**100,420**	**16,702**	**117,122**
Teachers' Retirement	10,396	1,730	12,126	29,599	41,725
Teachers' Pension	82,901	15,607	98,508	10,527	109,035
State Police Retirement	1,578	24	1,602	1,518	3,120
Law Enforcement Officers' Pension	1,318	49	1,367	309	1,676
Local Fire and Police Pension	140	30	170	21	191
Judges' Retirement	281	13	294	297	591
Total	**184,600**	**43,199**	**227,799**	**84,185**	**311,984**

* Individual data not available. However, as of June 30, 2001, there were 1,172 vested former members of the Employees' Retirement System who were State employees, correctional officers, or legislators.

** Individual data not available. However, as of June 30, 2001, there were 19,812 retirees of the Employees' Retirement System who were State employees or correctional officers.

Source: Milliman & Robertson, 2001 Valuation, Maryland State Retirement and Pension System.

Exhibit 10.2
Active and Former
Vested Membership Data by System
Fiscal 1992 - 2001

June 30	Total All Systems	Teachers' Retirement	Teachers' Pension	Employees' Retirement*	Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers	Local Fire & Police
2001	227,799	12,126	98,508	13,312	100,420	294	1,602	1,367	170
2000	222,100	13,491	94,154	13,614	97,517	296	1,658	1,166	204
1999	214,339	14,949	88,882	14,034	93,414	296	1,676	892	196
1998	208,139	16,311	83,877	14,521	90,515	289	1,659	776	191
1997	202,568	17,681	78,659	14,912	88,918	282	1,610	328	178
1996	201,832	18,981	74,673	16,326	89,567	277	1,564	304	140
1995	201,058	20,223	71,941	16,842	89,742	273	1,592	307	138
1994	199,310	21,458	69,582	17,403	88,570	275	1,600	284	138
1993	190,142	25,026	61,915	18,422	82,515	273	1,595	278	118
1992	187,271	27,386	58,328	18,219	81,010	270	1,690	251	117

*Includes members of the Maryland General Assembly and correctional officers

Source: *Comprehensive Annual Financial Report*, Maryland State Retirement and Pension System, June 30, 2001

Exhibit 10.3
Retiree and Beneficiary Data by System

June 30	Total All Systems	Teachers' Retirement	Teachers' Pension	Employees' Retirement*	Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers	Local Fire & Police
2001	84,185	29,599	10,527	25,212	16,702	297	1,518	309	21
2000	80,773	29,061	9,084	25,489	15,241	285	1,388	206	19
1999	77,478	28,383	7,674	25,730	13,937	284	1,286	170	14
1998	74,339	27,841	6,499	25,827	12,513	275	1,234	139	11
1997	71,488	27,330	5,481	25,882	11,221	273	1,175	117	9
1996	67,062	26,794	4,530	24,946	9,307	260	1,112	104	9
1995	64,594	26,379	3,686	24,994	8,143	251	1,046	87	8
1994	61,890	25,887	2,935	24,802	6,972	240	972	76	6
1993	59,318	25,287	2,276	24,562	5,976	234	920	59	4
1992	55,843	24,059	1,711	24,136	4,846	226	826	38	1

* Includes members of the Maryland General Assembly and correctional officers

Source: Comprehensive Annual Financial Report, Maryland State Retirement and Pension System, June 30, 2001

Participating Governmental Units

Governmental units were first allowed to participate in the State system in 1945. A governmental unit is defined as a county, an incorporated town or municipality, a special taxing district, or another political subdivision of the State. This definition includes public library associations, fire departments, any public board or commission created by the General Assembly, and certain other multiple-jurisdictional bodies.

To be eligible to participate in the State employees' systems, the governmental unit's legislative or other policy-making body must approve the participation and at least 60 percent of its eligible employees must elect to participate. All eligible employees of that governmental unit must participate in the State employees' systems. The participating governmental unit is responsible for making all required plan contributions.

If a governmental unit withdraws from the State employees' systems, participating employees may elect to remain in the State system or transfer into a new system established by the governmental unit. Special funding and cost provisions are applied to governmental units that withdraw from the State's systems.

There are 103 units of local government that participate in the State employees' systems as governmental units. A list of participating governmental units is set forth in Exhibit 10.4. In addition, there are 29 governmental units that formerly participated in the State employees' systems. A list of withdrawn participating governmental units is shown in Exhibit 10.5.

Beginning July 1, 1989, governmental units may elect to participate in the Local Fire and Police System. If a governmental unit elects to participate, membership is mandatory for those law enforcement officers hired after such an election and optional for those officers hired prior to the election. As of June 30, 2001, four governmental units have chosen to participate in this system: (1) City of Greenbelt; (2) Town of Hurlock; (3) City of Salisbury - Police Officers; and (4) City of Hyattsville.

Beginning October 1, 1998, governmental units may also elect to enroll eligible employees in the Law Enforcement Officers Pension System if at least 60 percent of the unit's officers choose to participate. If a governmental unit participates in the Law Enforcement Officers Pension System, membership is mandatory for those municipal law enforcement officers hired after such an election and optional for those officers hired prior to the election. To be eligible, officers hired prior to the election must opt into the Law Enforcement Officers Pension System within six months from the date the employer participates. As of June 30, 2001, the City of Cambridge is the only governmental unit that has chosen to participate in the Law Enforcement Officers Pension System.

Exhibit 10.4
Governmental Units Participating in the Employee's Retirement and Pension System

Allegany Community College

Allegany County Board of Education

Allegany County Commission

Allegany County Housing Authority

Allegany County Library

Allegany County Transit Authority

Annapolis, City of

Anne Arundel County Board of Education

Anne Arundel County Community College

Anne Arundel County Economic Opportunity Commission

Baltimore Metropolitan Council

Berlin, Town of

Brunswick, Town of

Calvert County Board of Education

Cambridge, City of

Caroline County Board of Education

Carroll County Board of Education

Carroll County Public Library

Carroll Soil Conservation District

Catoctin & Fredrick Soil Conservation District

Cecil County Board of Education

Cecil County Commission

Cecil County Library

Charles County Community College

Chesapeake Bay Commission
Cheverly, Town of

Cresaptown Civic Improvement Association

Crisfield, City of

Crisfield Housing Authority

Cumberland, City of

Cumberland, City of - Police Department

Dorchester County Board of Education

Dorchester County Commission

Dorchester County Roads Board

Eastern Shore Regional Library

Frederick County Board of Education

Fruitland, City of

Garrett County Board of Education

Garrett County Commission

Garrett County Community Action Committee

Garrett County Office for Children, Youth, and Family

Garrett County Roads Board

Greenbelt, City of

Hagerstown, City of

Hagerstown Junior College

Harford Community College

Harford County Board of Education

Harford County Government

Harford County Library

Housing Authority of Cambridge

Howard Community College

Howard County Board of Education

Howard County Community Action Committee

Hurlock, Town of

Hyattsville, City of

Kent County Board of Education

Lower Shore Private Industry Council

Manchester, Town of

Maryland Health & Higher Education Facilities Authority

Middletown, Town of

Montgomery College

Mount Rainier, City of

Exhibit 10.4 (cont.)
Governmental Units Participating in the Employee's Retirement and Pension System

New Carrollton, City of

North Beach, Town of

Northeast Maryland Waste Disposal Authority

Oakland, Town of

Oxford, Town of

Pocomoke City

Preston, Town of

Prince George's Community College

Prince George's County Board of Education

Prince George's County Crossing Guards

Prince George's County Government

Prince George's County Memorial Library

Princess Anne, Town of

Queen Anne's County Board of Education

Queen Anne's County Commission

Regional Educational Service Agency of Appalachian Maryland

St. Mary's County Board of Education

St. Mary's County Commission

Salisbury, City of

Shore up!

Snow Hill, Town of

Somerset County Board of Education

Somerset County Commission

Somerset County Sanitary District, Inc.

Southern Maryland Tri-County Community Action Committee

St. Michaels, Commissioners of

Takoma Park, City of

Talbot County Board of Education

Talbot County Council

Tri-County Council of Western Maryland

Upper Marlboro, Town of

Walkersville, Town of

Washington County Board of Education

Washington County Board of License Commission

Washington County Library

Westminister, City of

Worcester County Board of Education

Worcester County Commission

Worcester County Liquor Board

Wor-Wic Tech Community College

Source: Maryland State Retirement Agency

Exhibit 10.5
Withdrawn Governmental Units
as of June 30, 2001

Anne Arundel County Government

Bethesda Fire Department

Calvert County Government

Caroline County Roads Board

Carroll County Government

Chevy Chase Fire Department

Elkton, Town of

Frederick County Government

Harford County Liquor Board

Health Systems Agency of Western Maryland

Howard County Economic Development Authority

Howard County Government

Interstate Commission on the Potomac River Basin

Lexington Market Authority

Maryland Environmental Services

Maryland National Capital Park & Planning Commission

Montgomery County Board of Education

Montgomery County Government

Montgomery County Public Library

Rockville, City of

St. Mary's Nursing Home

University of Maryland Medical System

Washington County Commission

Washington County License Commissioners

Washington County Roads Board

Washington County Sanitary District

Washington Suburban Sanitary Commission

Wicomico County Department of Recreation and Parks

Wicomico County Roads Board

Source: Maryland State Retirement Agency

Chapter 11. Plan Summaries

As of July 1, 2002, the State Retirement and Pension System of Maryland maintained ten principal retirement plans: (1) the Teachers' Retirement System; (2) the Teachers' Pension System; (3) the Employees' Retirement System; (4) the Employees' Pension System; (5) The State Police Retirement System; (6) the Correctional Officers' Retirement System; (7) the Law Enforcement Officers' Pension System; (8) the Local Fire and Police Pension System; (9) the Judges' Retirement System; and (10) the Optional Retirement Program. In addition, the system administers a pension plan for Governors and other constitutional officers and a Legislative Pension Plan.

This chapter includes a discussion of each plan administered by the system including a summary of the following components:

- Membership and composite information;
- Member contributions;
- Full service retirement eligibility and allowances;
- Early retirement allowances;
- Cost-of-living adjustments;
- Death benefits;
- Optional forms of payment;
- Ordinary disability allowances;
- Accidental disability allowances;
- Post retirement health insurance; and
- Vesting.

Appendix 10 provides a comparison of the major plan components.

Teachers' Retirement System

The Teachers' Retirement System (TRS) was established on August 1, 1927, to provide benefits for State and local teachers and certain employees of the boards of education, public libraries, and community colleges. Until January 1, 1980, membership in the system was a condition of employment for eligible employees. Effective January 1, 1980, the TRS was closed to new membership when the State established the Teachers' Pension System (TPS). TRS members continue to be eligible to transfer to the TPS and receive a return of all accumulated contributions with interest, although they do not receive the enhanced TPS benefit. Interest on member contributions is calculated based on the average rate of return on the book value of the system's assets over the five fiscal years preceding the transfer.

Membership in the Teachers' Retirement System
as of June 30, 2001

Membership:	
Active Members	10,396
Deferred Vested Members	1,730
Retirees and Beneficiaries	29,599
Composite:	
Average Age – Active Members	54.4 Years
Average Years of Service – Active Members	27.4 Years
Average Annual Salary – Active Members	$62,971
Average Age – Retirees and Beneficiaries	71.9 Years
Average Monthly Benefit – Retirees and Beneficiaries	$1,940

Due to a deterioration in the financial and actuarial condition of the system, legislation was enacted in 1984 to modify the benefit and contribution structure of the system. As a result of the 1984 legislation, TRS members who wanted to remain in the system were required to make one of three choices: (1) Selection A – pay additional employee contributions for an unlimited cost-of-living adjustment; (2) Selection B – receive a limited cost-of-living adjustment; or (3) Selection C – receive a benefit based on a combined formula from both the Teachers' Retirement System and the new Teachers' Pension System. At retirement, a Selection C benefit is calculated as a TRS benefit for service credits accrued prior to the election of Selection C and as a TPS benefit for service credits accrued after the election.

Member Contributions

TRS members who elected Selection A contribute 7 percent of earnable compensation in return for unlimited annual cost-of-living adjustments (COLAs) after retirement. Selection B members contribute 5 percent of earnable compensation in return for COLAs which are limited to 5 percent annually after retirement.

Selection C members contribute 2 percent of earnable compensation in return for a two-part COLA based on the amount of service credits accrued prior to the election of Selection C and the amount of service credits accrued after the election. For the service credits accrued prior to the member choosing Selection C, the COLA is unlimited unless the member chose Selection B prior to Selection C, in which case the COLA is limited to 5 percent. For service credits accrued after the member chose Selection C, the COLA is limited to 3 percent.

TRS members who separate from service prior to accumulating five years of creditable service receive refunds of their accumulated contributions plus interest. Members with more than five years of creditable service are vested in the system and thus eligible to receive benefits upon reaching the normal retirement age.

Full Service Retirement Eligibility and Allowances

TRS members are eligible for a full service retirement allowance upon attaining age 60 or after 30 years of eligibility service regardless of age. The benefit formula for full service retirement for Selection A and B members is calculated as 1/55 (1.8 percent) of the highest three years' average final salary multiplied by the number of years of accumulated creditable service.

1.8% x Average Final Salary x Years of Creditable Service

Selection C members receive a retirement allowance that utilizes the benefit formulas from both the Teachers' Retirement System and the Teachers' Pension System. At retirement, this two-part benefit is calculated as a TRS benefit for service credits accrued prior to the election of Selection C and as a TPS benefit for service credits accrued after the election.

If all required contributions are not made, the member's retirement allowance is reduced to reflect the actuarial equivalent of the unpaid contributions plus interest to the date of retirement.

Early Retirement

TRS members are eligible for early retirement after accumulating at least 25 years of eligibility service prior to age 60. For Selection A and B members, the early retirement allowance is equal to the full service retirement allowance reduced by 0.5 percent for each month by which the member's retirement date precedes the normal retirement date. The maximum reduction for early retirement is 30 percent.

Selection C members receive an early retirement benefit that utilizes the early retirement benefit formulas from both the TRS and TPS. At retirement, this two-part benefit is calculated as a TRS early retirement benefit for service credits accrued prior to the election of Selection C and as a TPS early retirement benefit for service credits accrued after the election. However, the maximum reduction under the TPS part of the calculation is 42 percent.

Cost-of-living Adjustments

Retirement allowances are adjusted each year based on the consumer price index for all urban consumers (CPI-U) as published by the U.S. Bureau of Labor Statistics. COLAs are effective July 1 of each year and are applied to all allowances payable for the year. The amount of a beneficiary's COLA depends on the member's selection made on July 1, 1984. Selection A members receive an unlimited annual COLA based on the Consumer Price Index. The COLA adjustment for Selection B members is limited to not more than 5 percent annually. The COLA for members who chose Selection C is computed in two parts. For the service credits accrued prior to the member choosing Selection C, the COLA is unlimited unless the member chose Selection B prior to Selection C, in which case the COLA is limited to 5 percent. For service credits accrued after the member chose Selection C, the COLA is limited to 3 percent.

Death Benefits

A death benefit is paid if a TRS member is killed in the line of duty or dies after completing one year of eligibility service. The benefit provided upon death is a lump sum payment equal to the member's annual earnable compensation at the time of death plus all accumulated contributions. A surviving spouse may elect to receive a 100 percent survivor annuity rather than a lump sum payment if the spouse is the sole primary designated beneficiary and the member was eligible to retire or was at least 55 years of age with at least 15 years of eligibility service. A 100 percent survivor annuity means that upon the death of the retiree the entire monthly payment continues to be paid to the beneficiary for the remainder of the beneficiary's life.

Optional Forms of Payment

A retirement reserve is established for each member who retires. This reserve is the amount needed, with interest, to pay for the member's normal retirement allowance.

When an option is chosen, the retirement reserve does not change. However, the member's normal service retirement allowance is reduced by an actuarially determined factor to provide a potential death benefit for the member's designated beneficiary. There are seven optional forms of payment:

- Option 1 provides a cash payout to the designated beneficiary or the retiree's estate in an amount equal to the excess of the present value of the retirement allowance at the date of retirement minus the total amount of payments (less COLAs) made to the date of death. The amount remaining in the retirement reserve is paid to the designated beneficiary or estate as a one-time lump sum payment.

- Option 2 provides a 100 percent joint and survivor annuity, which means that upon the death of the retiree the entire monthly payment continues to be paid to the beneficiary for the remainder of the beneficiary's life.

- Option 3 provides for a 50 percent joint and survivor annuity, which means that upon the death of the retiree half of the monthly benefit continues to be paid to the beneficiary for the remainder of the beneficiary's life.

- Option 4 guarantees a minimum return of the members' accumulated contributions by providing that if the retiree dies prior to receiving all employee contributions with interest, the balance will be paid in a lump sum to the designated beneficiary.

- Option 5 provides a 100 percent survivor pop-up. Upon the death of the retiree, the designated beneficiary is paid the retiree's entire allowance for the remainder of the beneficiary's life. However, if the beneficiary predeceases the retiree, the retiree may designate a new beneficiary or else the retirement allowance will pop up to the retiree's maximum allowance, in which case all payments cease at the death of the retiree.

- Option 6 provides a 50 percent survivor pop-up. Upon the death of the retiree, the designated beneficiary is paid one-half of the retiree's allowance for the remainder of the beneficiary's life. However, if the designated beneficiary predeceases the retiree, the retiree may designate a new beneficiary or else the retirement allowance will pop up to the retiree's maximum allowance, in which case all payments cease at the death of the retiree.

- Option 7 permits an alternative monthly allowance to a surviving beneficiary that is actuarially equivalent to the retirement allowance and is approved by the board of trustees.

Ordinary Disability Retirement Allowances

A member is eligible for an ordinary disability retirement allowance after completing five years of eligibility service and after receiving certification from the Medical Board that the member is permanently incapable of performing the necessary functions of the job. The disability retirement allowance for Selection A and B members is equal to the greater of: (1) a normal service retirement allowance [1/55 (1.8 percent) of the highest three years' average final salary] or (2) either 25 percent of the member's average final salary or, if the member is under the normal retirement age (60 years), 1.8 percent of the average final salary for each year of creditable service that the member would have received had the member continued to work until age 60, whichever is less. For Selection C members, the disability retirement allowance is the greater of: (1) an ordinary disability retirement allowance calculated using the TRS formula given above or (2) an ordinary disability retirement allowance calculated using the Teachers' Pension System formula.

Accidental Disability Retirement Allowances

If during the course of job performance, a member becomes totally and permanently disabled as the direct result of an accidental injury, the member is eligible to receive an accidental disability retirement allowance. Prior to receiving this benefit, the Medical Board must certify that the member is, in fact, totally and permanently disabled. The accidental disability allowance is equal to the lesser of: (1) the sum of an annuity determined as the actuarial value of the member's accumulated contributions and two-thirds (66.7 percent) of the member's average final salary or (2) the member's average final salary.

Disability retirement allowances for TRS members who are State employees are generally reduced by workers' compensation benefits paid after retirement if, and to the extent that, such benefits are for the same injury and the same period of time for which the retirement benefits are paid. However, a workers' compensation benefit reduction cannot reduce any retirement allowance to less than the amount necessary to cover the retiree's monthly health insurance premiums. Disability retirement allowances for TRS members who are employees of participating governmental units are not reduced by workers' compensation benefits. Instead, the offset is taken against any workers' compensation benefits payable for the same injury and the same period of time for which the retirement benefits are paid.

Post Retirement Health Insurance

Members employed by the State may participate in the State Employee and Retiree Health and Welfare Benefits Program after retirement. Eligibility for post-retirement health benefits is discussed in Chapter 4 of this handbook.

Members employed by a participating governmental unit are entitled to the post retirement health insurance provided by that particular employer.

Vesting

Members are vested in the system after five years of service. They may begin to draw a deferred retirement allowance at age 60 if they leave State employment before retirement. However, members who withdraw their contributions after leaving service are no longer entitled to a vested benefit. The vested benefit is equal to the normal retirement allowance computed on the basis of the member's accumulated creditable service and average final salary at the point of separation. If a vested member dies prior to age 60 and before withdrawing his or her accumulated contributions plus interest, the accumulated contributions with interest are paid to the designated beneficiary.

Teachers' Pension System

The Teachers' Pension System (TPS) was established on January 1, 1980, with participation a condition of employment for all State and local teachers and certain employees of the boards of education, public libraries, and community colleges hired after December 31, 1979 (unless those employees elected to participate in an optional retirement program). All TPS members, except for those who transfer from the Teachers' Retirement System after April 1, 1998, receive the enhanced benefit enacted in 1998.

Membership in the Teachers' Pension System
as of June 30, 2001

Membership:	
Active Members	82,901
Deferred Vested Members	15,607
Retirees and Beneficiaries	10,527
Composite:	
Average Age – Active Members	42.7 Years
Average Years of Service – Active Members	10.1 Years
Average Annual Salary – Active Members	$41,464
Average Age – Retirees and Beneficiaries	64.6 Years
Average Monthly Benefit – Retirees and Beneficiaries	$991

Member Contributions

Members must contribute 2 percent of earnable compensation. TPS members who transferred from TRS after April 1, 1998, are required to contribute 5 percent of earnable compensation in excess of the Social Security Wage Base.

TPS members who separate from service prior to accumulating five years of creditable service receive refunds of their accumulated contributions, if any, plus interest. Members with more than five years of creditable service are vested in the system, and they are eligible to receive benefits at some point in the future.

Full Service Retirement Eligibility and Allowances

Members are eligible for a full service retirement allowance upon accumulating 30 years of eligible service, regardless of age. Absent 30 years of eligibility service, members must meet one of the following conditions to be eligible for full service a retirement allowance:

- Age 62 with five years of eligibility service;
- Age 63 with four years of eligibility service;
- Age 64 with three years of eligibility service; or
- Age 65 or older and two years of eligibility service.

The full service retirement allowance is 1.4 percent of average final salary earned after July 1, 1998, plus the greater of 1.2 percent of average final salary for each year of service earned prior to July 1, 1998, or the TPS retirement allowance described below for each year of service earned prior to July 1, 1998. The average final salary is based on a member's highest three consecutive years of compensation.

(1.4% x Average Final Salary x Years of Creditable Service after July 1, 1998) + the greater of (1.2% x Average Final Salary x Years of Creditable Service prior to July 1, 1998 or the TPS Retirement Allowance for Creditable Service prior to July 1, 1998)

For members who transfer from the TRS after April 1, 1998, the full service retirement allowance is 0.8 percent of the highest three consecutive years' average final salary up to the Social Security Integration Level (SSIL), plus 1.5 percent of average final salary 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 35 years immediately prior to the year of retirement.

(0.8% x Average Final Salary up to the SSIL + 1.5% x Average Final Salary in excess of SSIL) x Years of Creditable Service

If all required contributions are not made, the member's retirement allowance is reduced to reflect the actuarial equivalent of the unpaid contributions plus interest to the date of retirement.

Early Retirement

TPS members are eligible for early retirement if they are at least 55 years of age with at least 15 years of eligibility service. The early retirement allowance is equal to the full service pension allowance reduced by 0.5 percent for each month by which the retirement date precedes the date on which the member reaches age 62. The maximum reduction for early retirement is 42 percent.

Cost-of-living Adjustments

TPS members receive a cost-of-living adjustment based on the consumer price index for all urban consumers (CPI-U) as published by the U.S. Bureau of Labor Statistics. COLAs are effective July 1 of each year. The maximum COLA for TPS members is 3 percent, compounded annually. Members who transferred after April 1, 1998, do not receive compounding in their COLA.

Death Benefits

A death benefit is paid if a TPS member is killed in the line of duty or dies after completing one year of eligibility service. The benefit provided upon death is a lump sum payment equal to the member's annual earnable compensation at the time of death plus all accumulated contributions. A surviving spouse may elect to receive a 100 percent survivor annuity rather than a lump sum payment if the spouse is the sole primary designated beneficiary and the member was eligible to retire, had at least 25 years of eligibility service, or was at least 55 years of age with at least 15 years of eligibility service. A 100 percent survivor annuity means that upon the death of the retiree the entire monthly payment continues to be paid to the beneficiary for the remainder of the beneficiary's life.

Optional Forms of Payment

A retirement reserve is established for each member who retires. This reserve is the amount needed, with interest, to pay for the member's normal retirement allowance. When an option is chosen, the retirement reserve does not change. However, the member's normal service retirement allowance is reduced by an actuarially determined factor to provide a potential death benefit for the member's designated beneficiary. There are seven optional forms of payment; these options are discussed under "optional forms of payment" in the preceding discussion of the Teachers' Retirement System.

Ordinary Disability Retirement Allowances

A member is eligible for an ordinary disability retirement allowance after completing five years of eligibility service and after receiving certification from the Medical Board that the member is permanently incapable of performing the necessary functions of the job. The disability retirement allowance is equal to the full service pension allowance if the member is at least 62 years of age on the date of retirement. Otherwise, the allowance equals the full service pension allowance computed as though the member had continued to accrue service credits until age 62 without any change in the rate of earnable compensation.

Accidental Disability Retirement Allowances

If during the course of job performance, a member becomes totally and permanently disabled as the direct result of an accidental injury, the member is eligible to receive an accidental disability retirement allowance. Prior to receiving this benefit, the Medical Board must certify that the member is, in fact, totally and permanently disabled. The accidental disability allowance is equal to the lesser of: (1) the sum of an annuity determined as the actuarial value of the member's accumulated contributions and two-thirds (66.7 percent) of the member's average final salary or (2) the member's average final salary.

TPS members who apply for disability retirement within two years of transfer from the Teachers' Retirement System receive disability benefits as provided under the Teachers Retirement System, reduced by the amount that the member received in refunded contributions.

Disability retirement allowances for TPS members who are State employees are generally reduced by workers' compensation benefits paid after retirement if, and to the extent that, such benefits are for the same injury and the same period of time for which the retirement benefits are paid. However, a workers' compensation benefit reduction cannot reduce any retirement allowance to less than the amount necessary to cover the retiree's monthly health insurance premiums. Disability retirement allowances for TPS members who are employees of participating governmental units are not reduced by workers' compensation benefits. Instead, the offset is taken against workers' compensation benefits for all employees of participating governmental units.

Post Retirement Health Insurance

Members employed by the State may participate in the State Employee and Retiree Health and Welfare Benefits Program after retirement. The eligibility criteria for such benefits are discussed in Chapter 4 of this handbook.

Members employed by a participating governmental unit are entitled to the post retirement health insurance provided by that particular employer.

Vesting

Members are vested in the system after five years of service. They may begin to draw a deferred retirement allowance at age 62 if they leave State service before retirement. The vested benefit is equal to the normal retirement allowance computed on the basis of the member's accumulated creditable service and average final salary at the point of separation.

A TPS member may be eligible for a reduced deferred allowance upon attaining age 55 if the member has at least 15 years of eligibility service. If a vested member retires before age 62, the vested allowance is reduced by 0.5 percent for each month by which the member's retirement date precedes the date on which the member turns 62.

TPS members who elect to withdraw their accumulated contributions remain eligible to receive the employer-provided share of the vested benefit. If vested members do not withdraw their contributions and die before age 62, their accumulated contributions plus interest are paid to the designated beneficiaries.

Employees' Retirement System

The Employees' Retirement System (ERS) was established on October 1, 1941, and provides benefits for State employees, participating local employees, and certain elected and appointed officials. Until January 1, 1980, membership in the system was a condition of employment for eligible employees. Effective January 1, 1980, the ERS was closed to new membership when the State established the Employees' Pension System (EPS). ERS members continue to be eligible to transfer to the EPS and receive a return of all accumulated contributions with interest. ERS members who transfer to EPS after April 1, 1998, do not receive the enhanced EPS benefit formula. Interest on member contributions is calculated based on the average rate of return on the book value of the system's assets over the five fiscal years preceding the transfer.

Membership in the Employees' Retirement System as of June 30, 2001*

Membership:	
Active Members	11,962
Deferred Vested Members	1,350
Retirees and Beneficiaries	25,212
Composite:	
Average Age – Active Members	44.8 Years
Average Years of Service – Active Members	16.2 Years
Average Annual Salary – Active Members	$39,122
Average Age – Retirees and Beneficiaries	72.7 Years
Average Monthly Benefit – Retirees and Beneficiaries	$1,095

* Includes Members of the Maryland General Assembly and Correctional Officers

Due to a deterioration in the financial and actuarial condition of the system, legislation was enacted in 1984 to modify the benefit and contribution structure of the system. As a result of the 1984 legislation, ERS members who wanted to remain in the system were required to make one of three choices: (1) Selection A – pay additional employee contributions for an unlimited cost-of-living adjustment; (2) Selection B – receive a limited cost-of-living adjustment; or (3) Selection C – receive a benefit based on a combined formula from both the Employees' Retirement System and the new Employees' Pension System. At retirement, a Selection C benefit is calculated as an ERS benefit for service credits accrued prior to the election of Selection C and as an EPS benefit for service credits accrued after the election.

Member Contributions

ERS members who elected Selection A contribute 7 percent of earnable compensation in return for unlimited annual cost-of-living adjustments (COLAs) after retirement. Selection B members contribute 5 percent of earnable compensation in return for COLAs which are limited to 5 percent annually after retirement.

Selection C members contribute 2 percent of earnable compensation in return for a two-part COLA based on the amount of service credits accrued prior to the election of Selection C and the amount of service credits accrued after the election. For the service credits accrued prior to the member choosing Selection C, the COLA is unlimited unless the member chose Selection B prior to Selection C, in which case the COLA is limited to 5 percent. For service credits accrued after the member chose Selection C, the COLA is limited to 3 percent.

Members who separate from service prior to accumulating five years of creditable service receive refunds of their accumulated contributions plus interest. Members with more than five years of creditable service are vested in the system, and thus eligible to receive retirement benefits upon reaching the normal retirement age.

Full Service Retirement Eligibility and Allowances

Members are eligible for a full service retirement allowance upon attaining age 60 or after 30 years of eligibility service regardless of age. The benefit formula for full service retirement for Selection A and B members is calculated as 1/55 (1.8 percent) of the highest three years' average final salary multiplied by the number of years of creditable service.

1.8% x Average Final Salary x Years of Creditable Service.

Selection C members receive a retirement allowance that utilizes the benefit formulas from both the Employees' Retirement System and the Employees' Pension System. At retirement, this two-part benefit is calculated as an ERS benefit for service credits accrued prior to the election of Selection C and as an EPS benefit for service credits accrued after the election.

If all required contributions are not made, the member's retirement allowance is reduced to reflect the actuarial equivalent of the unpaid contributions plus interest to the date of retirement.

Early Retirement

ERS members are eligible for early retirement after accumulating at least 25 years of eligibility service prior to age 60. For Selection A and B members, the early retirement allowance is equal to the full-service retirement allowance reduced by 0.5 percent for each month by which the member's retirement date precedes the normal retirement date. The maximum reduction for early retirement is 30 percent.

Selection C members receive an early retirement benefit that utilizes the early retirement benefit formulas from both the Employees' Retirement System and the Employees' Pension System. At retirement, this two-part benefit is calculated as an ERS early retirement benefit for service credits accrued prior to the election of Selection C and as an EPS early retirement benefit for service credits accrued after the election. However, the maximum reduction under the EPS part of the calculation is 42 percent.

Cost-of-living Adjustments

Retirement allowances are adjusted each year based on the consumer price index for all urban consumers (CPI-U) as published by the U.S. Bureau of Labor Statistics. COLAs are effective July 1 of each year and are applied to all allowances payable for the year. The amount of a beneficiary's COLA depends on the member's selection made on July 1, 1984. Selection A members receive an unlimited annual COLA based on the Consumer Price Index. The COLA adjustment for Selection B members is limited to not more than 5 percent annually. The COLA for members who chose Selection C is computed in two parts. For the service credits accrued prior to the member choosing Selection C, the COLA is unlimited unless the member chose Selection B prior to Selection C, in which case the COLA is limited to 5 percent. For service credits accrued after the member chose Selection C, the COLA is limited to 3 percent.

Death Benefits

A death benefit is paid if an ERS member is killed in the line of duty or dies after completing one year of eligibility service. The benefit provided upon death is a lump sum payment equal to the member's annual earnable compensation at the time of death plus all accumulated contributions. A surviving spouse may elect to receive a 100 percent survivor annuity rather than a lump sum payment if the spouse is the sole primary designated beneficiary and the member was eligible to retire or was at least 55 years of age with at least 15 years of eligibility service. A 100 percent survivor annuity means that upon the death of the retiree the entire monthly payment continues to be paid to the beneficiary for the remainder of the beneficiary's life.

Optional Forms of Payment

A retirement reserve is established for each member who retires. This reserve is the amount needed, with interest, to pay for the member's normal retirement allowance. When an option is chosen, the retirement reserve does not change. However, the member's normal service retirement allowance is reduced by an actuarially determined factor to provide a potential death benefit for the member's designated beneficiary. There are seven optional forms of payment; the details of these options are discussed under "Optional Forms of Payment" in the preceding discussion of the Teachers' Retirement System.

Ordinary Disability Retirement Allowances

A member is eligible for an ordinary disability retirement allowance after completing five years of eligibility service and after receiving certification from the Medical Board that the member is permanently incapable of performing the necessary functions of the job. The disability retirement allowance is equal to the greater of: (1) a normal service retirement allowance [1/55 (1.8 percent) of the highest three years' average final salary] or (2) either 25 percent of the member's average final salary or, if the member is under the normal retirement age (60 years), 1.8 percent of the average final salary for each year of creditable service that the member would have received had the member continued to work until age 60, whichever is less. For Selection C members, the disability retirement allowance is the greater of: (1) an ordinary disability retirement allowance calculated using the ERS formula given above or (2) an ordinary disability retirement allowance calculated using the Employees' Pension System formula.

Accidental Disability Retirement Allowances

If during the course of job performance, a member becomes totally and permanently disabled as the direct result of an accidental injury, the member is eligible to receive an accidental disability retirement allowance. Prior to receiving this benefit, the Medical Board must certify that the member is, in fact, totally and permanently disabled. The accidental disability allowance is equal to the lesser of: (1) the sum of an annuity determined as the actuarial value of the member's accumulated contributions and two-thirds (66.7 percent) of the member's average final salary or (2) the member's average final salary.

Disability retirement allowances for ERS members who are State employees are generally reduced by workers' compensation benefits paid after retirement if, and to the extent that, such benefits are for the same injury and the same period of time for which the retirement benefits are paid. However, a workers' compensation benefit reduction cannot reduce any retirement allowance to less than the amount necessary to cover the retiree's monthly health insurance premiums. Disability retirement allowances for ERS members who are employees of participating governmental units are not reduced by workers' compensation benefits. Instead, the offset is taken against any workers' compensation benefits payable for the same injury and the same period of time for which the retirement benefits are paid.

Post Retirement Health Insurance

Members employed by the State may participate in the State Employee and Retiree Health and Welfare Benefits Program after retirement. The eligibility criteria for such benefits are discussed in Chapter 4 of this handbook.

Members employed by a participating governmental unit are entitled to the post retirement health insurance provided by that particular employer.

Vesting

Members are vested in the system after five years. They may begin to draw a deferred retirement allowance at age 60 if they leave State service before retirement. However, members who withdraw their contributions after leaving service are no longer entitled to a vested benefit. The vested benefit is equal to the normal retirement allowance computed on the basis of the member's accumulated creditable service and average final salary at the point of separation. If a vested member dies prior to age 60 and before withdrawing his or her accumulated contributions plus interest, the accumulated contributions with interest are paid to the designated beneficiary.

Employees' Pension System

The Employees' Pension System (EPS) was established on January 1, 1980, with participation a condition of employment for all State employees (other than those eligible for participation in another system) hired after December 31, 1971. As of July 1, 1998, EPS members who were State employees, except for those who transfer from the ERS after April 1, 1998, became eligible for the enhanced EPS enacted in 1998. As of July 1, 1999, EPS members who were employees of governmental units also received the enhanced EPS benefit retroactive to July 1, 1998, provided the participating governmental unit elected participation in the EPS enhancment. State EPS employees who transferred from ERS after April 1, 1998, and employees of participating governmental units that did not elect the enhancement receive the pre-1998 EPS benefit formula.

Membership in the Employees' Pension System
as of June 30, 2001

Membership:	
Active Members	76,024
Deferred Vested Members	24,396
Beneficiaries	16,702
Composite:	
Average Age – Active Members	45.0 Years
Average Years of Service – Active Members	11.0 Years
Average Annual Salary – Active Members	$35,237
Average Age – Retirees and Beneficiaries	65.3 Years
Average Monthly Benefit – Retirees and Beneficiaries	$523

Member Contributions

Members must contribute 2 percent of earnable compensation. EPS members who do not receive the enhanced benefit are required to contribute 5 percent of earnable compensation in excess of the Social Security Wage Base.

EPS members who separate from service prior to accumulating five years of creditable service receive refunds of their accumulated contributions, if any, plus interest. Members with more than five years of creditable service are vested in the system, and thus eligible to receive benefits at some point in the future.

Full Service Retirement Eligibility and Allowances

Members are eligible for a full service retirement allowance upon accumulating 30 years of eligible service regardless of age. Absent 30 years of eligibility service, members must meet one of the following conditions to be eligible for a full-service retirement allowance:

- Age 62 with five years of eligibility service;
- Age 63 with four years of eligibility service;
- Age 64 with three years of eligibility service; or
- Age 65 or older and two years of eligibility service.

The full service retirement allowance for EPS members is 1.4 percent of average final salary earned after July 1, 1998, plus the greater of 1.2 percent of average final salary for each year of service earned prior to July 1, 1998, or the EPS benefit described below for service earned prior to July 1, 1998. The average final salary is based on a member's highest three consecutive years of compensation.

(1.4% x Average Final Salary x Years of Creditable Service after July 1, 1998) + the greater of (1.2% x Average Final Salary x Years of Creditable Service prior to July 1, 1998 or the EPS Retirement Allowance for Creditable Service prior to July 1, 1998)

The full service retirement allowance for EPS members who do not receive the enhanced EPS formula is 0.8 percent of the highest three consecutive years' average final salary up to the Social Security Integration Level (SSIL), plus 1.5 percent of average final salary 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 35 years immediately prior to the year of retirement.

(0.8% x Average Final Salary up to the SSIL + 1.5% x Average Final Salary in excess of SSIL) x Years of Creditable Service

If all required contributions are not made, the member's retirement allowance is reduced to reflect the actuarial equivalent of the unpaid contributions plus interest to the date of retirement.

Early Retirement

EPS members are eligible for an early service retirement if they are at least 55 years of age with at least 15 years of eligibility service. The early service retirement allowance is equal to the full service pension allowance reduced by 0.5 percent for each month by which the retirement date precedes the date on which the member reaches age 62. The maximum reduction for early service is 42 percent.

Cost-of-living Adjustments

EPS members receive a cost-of-living adjustment based on the consumer price index for all urban consumers (CPI-U) as published by the U.S. Bureau of Labor Statistics. COLAs are effective July 1 of each year. The maximum COLA for EPS members is 3 percent, compounded annually. EPS members who do not receive the enhanced EPS formula receive a simple, rather than compounded, COLA limited to 3 percent per year.

Death Benefits

A death benefit is paid if an EPS member is killed in the line of duty or dies after completing one year of eligibility service. The benefit provided upon death is a lump sum payment equal to the member's annual earnable compensation at the time of death plus all accumulated contributions. A surviving spouse may elect to receive a 100 percent survivor annuity rather than a lump sum payment if the spouse is the sole primary designated beneficiary and the member was eligible to retire, had at least 25 years of eligibility service, or was at least 55 years of age with at least 15 years of eligibility service. A 100 percent survivor annuity means that upon the death of the retiree the entire monthly payment continues to be paid to the beneficiary for the remainder of the beneficiary's life.

Optional Forms of Payment

A retirement reserve is established for each member who retires. This reserve is the amount needed, with interest, to pay for the member's normal retirement allowance. When an option is chosen, the retirement reserve does not change. However, the member's normal service retirement allowance is reduced by an actuarially determined factor to provide a potential death benefit for the member's designated beneficiary. There are seven optional forms of payment; the details of these options are outlined under "Optional Forms of Retirement" in the preceding discussion of the Teachers' Retirement System.

Ordinary Disability Retirement Allowances

A member is eligible for an ordinary disability retirement allowance after completing five years of eligibility service and after receiving certification from the Medical Board that the member is permanently incapable of performing the necessary functions of the job. The disability retirement allowance is equal to the full service pension allowance if the member is at least 62 years of age on the date of retirement. Otherwise, the allowance equals the full service pension allowance computed as though the member had continued to accrue service credits until age 62 without any change in the rate of earnable compensation.

Accidental Disability Retirement Allowances

If during the course of job performance, a member becomes totally and permanently disabled as the direct result of an accidental injury, the member is eligible to receive an accidental disability retirement allowance. Prior to receiving this benefit, the Medical Board must certify that the member is, in fact, totally and permanently disabled.

The accidental disability allowance is equal to the lesser of: (1) the sum of an annuity determined as the actuarial value of the member's accumulated contributions and two-thirds (66.7 percent) of the member's average final salary or (2) the member's average final salary.

EPS members who apply for disability retirement within two years of transfer from the Employees' Retirement System receive disability benefits as provided under the Employees' Retirement System, reduced by the amount that the member received in refunded contributions.

Disability retirement allowances for EPS members who are State employees are generally reduced by workers' compensation benefits paid after retirement if, and to the extent that, such benefits are for the same injury and the same period of time for which the retirement benefits are paid. However, workers' compensation benefit reduction cannot reduce any retirement allowance to less than the amount necessary to cover the retiree's monthly health insurance premiums. Disability retirement allowances for EPS members who are employees of participating governmental units are not reduced by workers' compensation benefits. Instead, the offset is taken against workers' compensation benefits for all employees of participating governmental units.

Post Retirement Health Insurance

Members employed by the State may participate in the State Employee and Retiree Health and Welfare Benefits Program after retirement. This program and its eligibility requirements are discussed in Chapter 4 of this handbook.

Members employed by a participating governmental unit are entitled to the post retirement health insurance provided by that particular employer.

Vesting

Members are vested in the system after five years of service. They begin to draw a deferred retirement allowance at age 62 if they leave State service prior to retirement. The vested benefit is equal to the normal retirement allowance computed on the basis of the member's accumulated creditable service and average final salary at the point of separation.

An EPS member may be eligible for a reduced deferred allowance upon attaining age 55 if the member has at least 15 years of eligibility service. If a vested member retires before age 62, the vested allowance is reduced by 0.5 percent for each month by which the member's retirement date precedes the date on which the member turns 62.

EPS members who elect to withdraw their accumulated contributions remain eligible to receive the employer-provided share of the vested benefit. If vested members do not withdraw their contributions and die before age 62, their accumulated contributions plus interest are paid to the designated beneficiaries.

State Police Retirement System

The State Police Retirement System (SPRS) was established on July 1, 1949, participation a condition of employment for all uniformed officers of the Maryland State Police. The Superintendent of the Maryland State Police may elect membership in either the SPRS or the Employees' Pension System.

Membership in the State Police Retirement System as of June 30, 2001

Membership:	
Active Members	1,578
Deferred Vested Members	17
Retirees and Beneficiaries	1,518
Composite:	
Average Age – Active Members	35.8 Years
Average Years of Service – Active Members	12.0 Years
Average Annual Salary – Active Members	$51,223
Average Age – Retirees and Beneficiaries	58.1 Years
Average Monthly Benefit – Retirees and Beneficiaries	$2,641

Member Contributions

SPRS members are required to contribute 8 percent of annual earnable compensation during employment.

Full Service Retirement Eligibility and Allowances

SPRS members are eligible for a full service retirement allowance at age 50 or after accumulating 22 years of eligibility service regardless of age. Except for the superintendent, all members must retire by age 60. The benefit formula for full service retirement equals 2.55 percent of the member's highest three years' average final salary multiplied by the number of years of creditable service. However, the retirement allowance may not exceed 71.4 percent of the member's average final compensation.

$$\boxed{(2.55\% \times \text{Average Final Salary}) \times \text{Years of Creditable Service}}$$

If all required contributions are not made, the member's retirement allowance is reduced to reflect the actuarial equivalent of the unpaid contributions plus interest to the date of retirement.

Early Retirement

SPRS members are not eligible for early retirement.

Cost-of-living Adjustments

SPRS retirement allowances are adjusted each year based on the consumer price index for all urban consumers (CPI-U) as published by the U.S. Bureau of Labor Statistics. COLAs are effective July 1 of each year and are applied to all allowances payable for the year.

Death Benefits

An ordinary death benefit is paid if the member has accumulated at least one but less than two years of eligibility service prior to the date of death. The ordinary death benefit equals the member's annual earnable compensation at the time of death plus all accumulated member contributions.

A special death benefit is paid if an active member dies after completing at least two years of eligibility service prior to the date of death and does not die in the line of duty. This special death benefit equals 50 percent of the member's annual earnable compensation at the time of death, which is paid as an annuity to the surviving spouse, plus a return of all accumulated member contributions. If the deceased member is not survived by a spouse, the member's children or dependent parents, if any, continue to receive the annuity until the youngest child reaches age 18 or for the life of each dependent parent.

If an active member dies while in the line of duty, a special death benefit equal to two-thirds of the member's final average compensation is paid as an annuity to the surviving spouse, plus a return of all accumulated member contributions. If the deceased member is not survived by a spouse, the member's children or dependent parents, if any, continue to receive the annuity until the youngest child reaches age 18 or for the life of each dependent parent.

If a retired member dies, a special death benefit is paid if the retired member was receiving a service retirement allowance or a disability allowance. This special death benefit equals 50 percent of the member's retirement allowance and is paid as an annuity to the surviving spouse. If the member is not survived by a spouse, the member's children, if any, will receive the annuity until the youngest child reaches age 18.

Optional Forms of Payment

Generally, SPRS retirement allowances are paid as a 50 percent joint and survivor annuity to the retiree's spouse, or if there is no spouse, to the retiree's children under the age of 18. If the retiree does not have a living spouse or an eligible child, the retiree may select any one of seven payment options. These options are discussed under "Optional Forms of Payment" in the preceding discussion of the Teachers' Retirement System.

Ordinary Disability Retirement Allowance

A member of the State Police Retirement System is eligible for an ordinary disability retirement allowance after completing five years of eligibility service and after receiving certification from the Medical Board that the member is permanently incapable of performing the necessary functions of the job. The ordinary disability retirement allowance is equal to the greater of: (1) a full service retirement allowance computed on the basis of the member's accumulated creditable service and average final salary or (2) 35 percent of the member's average final salary.

Special Disability Retirement Allowances

If a member of the State Police Retirement System becomes totally and permanently incapacitated for duty as a result of an injury arising out of or in the actual performance of the job, the member is eligible for a special disability retirement allowance. The special disability retirement allowance is equal to the lesser of: (1) the member's average final salary or (2) the sum of an annual annuity determined as the actuarial value of the member's accumulated contributions and two-thirds of the member's average final salary.

Disability retirement allowances are generally reduced by workers' compensation benefits paid after retirement if, and to the extent that, such benefits are for the same injury and the same period of time for which the retirement benefits are paid. A workers' compensation benefit reduction cannot reduce any retirement allowance to less than the amount necessary to cover the retiree's monthly health insurance premiums.

Post Retirement Health Insurance

Members may participate in the State Employee and Retiree Health and Welfare Benefits Program after retirement. The eligibility criteria are discussed in Chapter 4 of this handbook.

Deferred Retirement Option Program

SPRS members are eligible to participate in a Deferred Retirement Option Program (DROP). To participate, a member must have at least 22 years of creditable service, but less than 28 years, and be under the age of 60. The maximum period of participation is four years. During the DROP period, a member is deemed retired and the retirement allowance is placed in an account earning 6 percent interest. At the end of the DROP period, the lump sum held in the DROP account is paid to the members who must then end employment and fully retire.

Vesting

SPRS members are vested in the system after five years of service. They may begin to draw a deferred retirement allowance at age 50 if they leave State service before retirement. The vested benefit is equal to the normal retirement allowance computed on the basis of the member's accumulated creditable service and average final salary at the point of separation.

In lieu of receiving an accrued vested retirement allowance, SPRS members may withdraw their accumulated contributions within two years of separation. If a member dies prior to age 50 and before withdrawing his or her accumulated contributions, the accumulated contributions with interest are paid to the designated beneficiary.

If a SPRS member leaves State service prior to accumulating five years of creditable service, the member receives a refund of his or her accumulated contributions plus interest.

Correctional Officers' Retirement System

Through legislation enacted in 1974 and 1982, the State established special benefits for Grade I - VI correctional officers who serve in the cellblocks at State penal institutions and for security attendants at the Clifton T. Perkins Hospital Center. Correctional dietary, supply, and maintenance officers are not eligible to receive these special benefits. For actuarial purposes, the Correctional Officers' Retirement System

(CORS) is a subsystem of the Employees' Retirement System. Membership in the subsystem is a condition of employment for eligible correctional officers and security attendants. As of June 30, 2001, there were 6,904 active members in the Correctional Officers' Retirement System. (Membership and composite information for the Employees' Retirement System includes CORS members.)

Member Contributions

Members are required to contribute 5 percent of earnable compensation.

Full Service Retirement Eligibility and Allowances

CORS members are eligible for a full service retirement allowance after 20 years of creditable service regardless of age. The last five years of service must be as an eligible correctional officer, security attendant, or a combination of these positions. The benefit formula for full service retirement is calculated as 1.8 percent of the highest three years' average final salary multiplied by the number of years of creditable service.

1.8% x Average Final Salary x Years of Creditable Service

Early Retirement

CORS members are not eligible for early retirement.

Cost-of-living Adjustments

CORS members are entitled to unlimited annual cost-of-living adjustments based on the consumer price index for all urban consumers (CPI-U) as published by the U.S. Bureau of Labor Statistics. COLAs are effective July 1 of each year and are applied to all allowances payable for the year.

Death Benefits

A death benefit is paid if a member is killed in the line of duty or dies after completing one year of eligibility service. The benefit provided upon death is a lump sum payment equal to the member's annual earnable compensation at the time of death plus all accumulated contributions. A surviving spouse may elect to receive a 100 percent survivor annuity rather than a lump sum payment if the spouse is the sole primary designated beneficiary and the member was eligible to retire or was at least 55 years of age with at least 15 years of eligibility service. A 100 percent survivor annuity means that upon the death of the retiree the entire monthly payment continues to be paid to the beneficiary for the remainder of the beneficiary's life.

Optional Forms of Payment

A retirement reserve is established for each member who retires. This reserve is the amount needed, with interest, to pay for the member's normal retirement allowance. When an option is chosen, the retirement reserve does not change. However, the member's normal service retirement allowance is reduced by an actuarially determined factor to provide a potential death benefit for the member's designated beneficiary. There are seven optional forms of payment; the details of these options are discussed under "Optional Forms of Payment" in the preceding discussion of the Teachers' Retirement System.

Ordinary Disability Retirement Allowances

A member is eligible for an ordinary disability retirement allowance after completing five years of eligibility service and after receiving certification from the Medical Board that the member is permanently incapable of performing the necessary functions of the job. The disability retirement allowance is equal to the greater of: (1) a normal service retirement allowance [1/55 (1.8 percent) of the highest three years' average final salary] or (2) either 25 percent of the member's average final salary or, if the member is under the normal retirement age (55 or 60 years), 1.8 percent of the average final salary for each year of creditable service that the member would have received had the member continued to work until normal retirement age, whichever is less.

Accidental Disability Retirement Allowances

If during the course of job performance, a CORS member becomes totally and permanently disabled as the direct result of an accidental injury, the member is eligible to receive an accidental disability retirement allowance. Prior to receiving this benefit, the Medical Board must certify that the member is, in fact, totally and permanently disabled. The accidental disability allowance is equal to the lesser of: (1) the sum of an annuity determined as the actuarial value of the member's accumulated contributions and two-thirds (66.7 percent) of the member's average final salary or (2) the member's average final salary.

Disability retirement allowances for CORS members are generally reduced by workers' compensation benefits paid after retirement if, and to the extent that, such benefits are for the same injury and the same period of time for which the retirement benefits are paid. However, a workers' compensation benefit reduction cannot reduce any retirement allowance to less than the amount necessary to cover the retiree's monthly health insurance premiums.

Post Retirement Health Insurance

CORS members may participate in the State Employee and Retiree Health and Welfare Benefits Program after retirement. The criteria for participation in the retiree health program are discussed in Chapter 4 of this handbook.

Vesting

CORS members who are correctional officers qualify for a vested benefit at age 55 with at least five years of creditable service. A security attendant at Clifton T. Perkins is eligible to collect a vested benefit at age 60 with at least five years of creditable service. However, members who withdraw their contributions after leaving service are no longer entitled to a vested benefit. The vested benefit is equal to the normal retirement allowance computed on the basis of the member's accumulated creditable service and average final salary at the point of separation. If a vested member dies prior to age 55 or 60 and before withdrawing his or her accumulated contributions plus interest, the accumulated contributions with interest are paid to the designated beneficiary.

Law Enforcement Officers' Pension System

The Law Enforcement Officers Pension System (LEOPS) was established on July 1, 1990, with participation a condition of employment for the following public safety employees:

- Department of Natural Resources police and rangers;
- Maryland Investigative Services Unit officers (Comptroller's Office);
- Maryland Transportation Authority police officers;
- Baltimore City deputy sheriffs;
- University of Maryland police officers;
- Morgan State University police officers;

- State Fire Marshal and deputy state fire marshals;
- Maryland Aviation Administration Fire Rescue Service officers;
- Department of General Services police officers;
- Department of Health and Mental Hygiene police officers;
- Motor Vehicle Administration police officers;
- Department of Labor, Licensing, and Regulation police officers;
- Martin State Airport firefighters;
- State Department of Education Division of Rehabilitation Services police officers; and
- Law enforcement officers of an electing governmental unit*.

*Participation is optional for law enforcement officers hired prior to their unit's participation date.

Membership in the Law Enforcement Officers' Pension System as of June 30, 2001

Membership:	
Active Members	1,318
Deferred Vested Members	9
Retirees and Beneficiaries	309
Composite:	
Average Age – Active Members	39.7 Years
Average Years of Service – Active Members	12.6 Years
Average Annual Salary – Active Members	$46,988
Average Age – Retirees and Beneficiaries	56.8 Years
Average Monthly Benefit – Retirees and Beneficiaries	$1,899

LEOPS consists of two components – a retirement plan (modeled after the Employees' Retirement System) and a pension plan (modeled after the Employees' Pension System). Retirement plan provisions are applicable to those officers who transferred into LEOPS from the Employees' Retirement System. Pension plan provisions are applicable to all other LEOPS members.

Member Contributions

Member contributions are based on a member's participation in either the pension plan or the retirement plan component. The retirement plan provisions apply to LEOPS members who transferred from the Employees' Retirement System and did not elect to participate in the pension plan by December 31, 2000. Members in the retirement plan were required to make one of two choices: (1) Selection A – pay additional employee contributions for an unlimited cost-of-living adjustment or (2) Selection B – receive a limited cost-of-living adjustment.

Former ERS members who elected Selection A (unlimited COLAs) contribute 7 percent of earnable compensation if enrolled in the ERS on or after July 1, 1973. Those members enrolled in the ERS before July 1, 1973 contribute the lesser of: (1) 7 percent of earnable compensation or (2) 2 percent more than the rate of contribution in effect on the date of enrollment in ERS.

Former ERS members who elected Selection B (COLAs limited to 5 percent annually after retirement) contribute 5 percent of earnable compensation if enrolled in the ERS on or after July 1, 1973. Those members enrolled in the ERS before July 1, 1973 contribute the lesser of: (1) 5 percent in earnable compensation or (2) the rate of contribution in effect on the date of enrollment in ERS.

All other LEOPS members are subject to the pension plan provisions and contribute 4 percent of earnable compensation.

LEOPS members who separate from service prior to accumulating five years of creditable service receive refunds of their accumulated contributions, if any, plus interest. Members with more than five years of creditable service are vested in the system, and thus eligible to receive benefits upon reaching the normal retirement age.

Full Service Retirement Eligibility and Allowances

LEOPS members are eligible for a full service retirement allowance upon at age 50 or after 25 years of eligibility service, regardless of age.

The full service retirement allowance for retirement plan participants is calculated as 2.3 percent of the highest three years' average final salary for the first 30 years of creditable service, plus 1/100 (1 percent) of average final salary for each additional year.

Retirement Plan Participants:

(2.3% x Average Final Salary x First 30 Years of Creditable Service) + (1% x Average Final Salary x Each Additional Year After 30)

The full service retirement allowance for pension plan participants is calculated as 2.0 percent of average final salary up to a maximum benefit of 60 percent (30 years of creditable service).

Pension Plan Participants:

(2% x Average Final Salary x Years of Creditable Service (Up to 30 Maximum)

If all required contributions are not made, the member's retirement allowance is reduced by the actuarial equivalent of the total unpaid contributions plus interest to the date of retirement.

Early Retirement

LEOPS members are not eligible for early retirement.

Cost-of-living Adjustments

Retirement allowances are adjusted each year based on the consumer price index for all urban consumers (CPI-U) as published by the U.S. Bureau of Labor Statistics. COLAs are effective July 1 of each year and are applied to all allowances payable for the year. The amount of a beneficiary's COLA depends on the member's status as a retirement plan participant or a pension plan participant.

The COLA adjustment for a retirement plan participant depends on the member's selection. Selection A members receive an unlimited annual COLA based on the consumer price index. The COLA adjustment for Selection B members is limited to no more than 5 percent annually.

The COLA adjustment for a pension plan participant is limited to 3 percent annually after retirement.

Death Benefits

An ordinary death benefit is paid if the member has accumulated at least one but less than two years of eligibility service prior to the date of death. The ordinary death benefit equals the member's annual earnable compensation at the time of death plus all accumulated member contributions.

A special death benefit is paid if an active member has completed at least two years of eligibility service prior to the date of death and did not die in the line of duty. The special death benefit equals 50 percent of the applicable ordinary disability allowance, which is paid as an annuity to the surviving spouse. If the deceased member is not survived by a spouse, the member's children, if any, will continue to receive the annuity until the youngest child reaches age 18.

If an active member dies in the line of duty, the member receives a special death benefit equal to two-thirds of the member's average final compensation, which is paid as an annuity to the surviving spouse. If the deceased member is not survived by a spouse, the member's children, if any, will continue to receive the annuity until the youngest child reaches age 18.

If a retired member dies, a special death benefit is paid if the retired member was receiving a service retirement allowance or a disability allowance. This special death benefit equals 50 percent of the retirees' retirement allowance, and is paid as an annuity to the surviving spouse. If the member is not survived by a spouse, the member's children, if any, will receive the annuity until the youngest child reaches age 18.

Optional Forms of Payment

Generally, a LEOPS retirement allowance is paid as a 50 percent joint and survivor annuity to the retiree's spouse, or if there is no spouse to the retiree's children under the age of 18. If the retiree does not have a living spouse or an eligible child, the retiree may select any one of seven payment options; the details of these options are discussed under "Optional Forms of Payment" in the preceding discussion of the Teachers' Retirement System.

Ordinary Disability Retirement Allowances

A member is eligible for an ordinary disability retirement allowance after completing five years of eligibility service and after receiving certification from the Medical Board that the member is permanently incapable of performing the necessary functions of the job. The amount of the disability allowance depends on the member's status as a retirement plan participant or a pension plan participant.

The ordinary disability allowance for a LEOPS member subject to the retirement plan provisions equals the greater of: (1) the normal service retirement allowance or (2) 25 percent of average final salary. For a pension plan participant, the ordinary disability allowance equals the full service pension allowance if the member is at least 50 years of age on the date of retirement. Otherwise, the allowance equals the full service pension allowance computed as though the member had continued to work until age 50 with no change in earnable compensation.

Accidental Disability Retirement Allowances

If during the course of job performance, a LEOPS member becomes totally and permanently disabled as the direct result of an accidental injury, the member is eligible to receive an accidental disability retirement allowance. Prior to receiving this benefit, the Medical Board must certify that the member is, in fact, totally and permanently disabled. The accidental disability allowance is equal to the lesser of: (1) the sum of an annuity determined as the actuarial value of the member's accumulated contributions and two-thirds (66.7 percent) of the member's average final salary or (2) the member's average final salary.

Accidental disability retirement allowances for LEOPS members who are State employees are generally reduced by workers' compensation benefits paid after retirement if, and to the extent that, such benefits are for the same injury and the same period of time for which retirement benefits are paid. However, a workers' compensation benefit reduction cannot reduce any retirement allowance to less than the amount necessary to cover the retiree's monthly health insurance premiums. Accidental disability retirement allowances for LEOPS members who are employees of participating governmental units are not reduced by workers' compensation benefits. Instead, the offset is taken against any workers' compensation benefits payable for the same injury and the same period of time for which the retirement benefits are paid.

Post Retirement Health Insurance

Members employed by the State may participate in the State Employee and Retiree Health and Welfare Benefits Program after retirement. The criteria for participation in the retiree health insurance program are discussed in Chapter 4 of this handbook.

Members employed by a participating governmental unit are entitled to the post retirement health insurance provided by that particular employer.

Deferred Retirement Option Program

Members are eligible to participate in a Deferred Retirement Option Program (DROP). To participate, a LEOPS member must have at least 25 years of creditable service, but less than 30 years. The maximum period of participation is 5 years. During the DROP period, a member is deemed retired and the retirement allowance is placed in an account earning 6 percent interest. At the end of the DROP period, the lump sum held in the DROP account is paid to the members who must end employment and fully retire.

Vesting

LEOPS members are vested in the system after five years of service. They may begin to draw a deferred retirement allowance at age 50 if they leave State service before retirement. The vested benefit is equal to the normal retirement allowance computed on the basis of the member's accumulated creditable service and average final salary at the point of separation.

Local Fire and Police System

The Local Fire and Police System (LFPS) was established on July 1, 1990, and is open to all law enforcement officers and fire fighters employed by participating governmental units. Membership is mandatory for all officers and fire fighters hired after the unit's participation date and optional for officers and fire fighters hired prior to the unit's participation date.

Membership in the Local Fire and Police System
as of June 30, 2001

Membership:	
Active Members	140
Deferred Vested Members	4
Retirees and Beneficiaries	21
Composite:	
Average Age – Active Members	35.1 Years
Average Years of Service – Active Members	10.3 Years
Average Annual Salary – Active Members	$40,995
Average Age – Retirees and Beneficiaries	49.5 Years
Average Monthly Benefit – Retirees and Beneficiaries	$1,681

LFPS consists of two components – a retirement plan (modeled after the Employees' Retirement System) and a pension plan (modeled after the Employees' Pension System). Retirement plan provisions are applicable to those officers and fire fighters who transferred into LFPS from the Employees' Retirement System and the pension plan provisions are applicable to all other officers and fire fighters.

Member Contributions

Member contributions are based on the member's participation in either the pension plan or the retirement plan component. Members subject to the retirement plan provisions contribute 7 percent of annual earnable compensation. Members subject to pension plan provisions contribute 5 percent of earnable compensation in excess of the Social Security Wage Base.

LFPS members who separate from service prior to accumulating five years of creditable service receive refunds of their accumulated contributions, if any, plus interest. Members with more than five years of creditable service are vested in the system, and thus are eligible to receive benefits upon reaching the normal retirement age.

Full Service Retirement Eligibility and Allowances

LFPS members subject to the retirement plan provisions are eligible for a full service allowance after 25 years of eligibility service or upon attaining age 60, regardless of the length of service. Members subject to the pension plan provisions are eligible for a full service retirement allowance after 25 years of eligibility service or upon attaining age 62, regardless of the length of service.

The full service retirement allowance for retirement plan participants is calculated as 1/50 (2.0 percent) of the highest three years' average final salary for the first 30 years of creditable service, plus 1/100 (1 percent) of average final salary for each additional year.

Retirement Plan Participants:
(2% x Average Final Salary x First 30 Years of Creditable Service) + (1% x Average Final Salary x Each Additional Year)

The full service retirement allowance for pension plan participants is calculated as 1.0 percent of average final salary up to the Social Security Integration Level (SSIL) and

1.5 percent of average final salary in excess of the SSIL, multiplied by the number of years of accumulated creditable service.

Pension Plan Participants:
(1% x Average Final Salary up to SSIL) + (1.5% x Average Final Salary in excess of SSIL) x Years of Creditable Service

Additionally, pension plan members whose employers do not contribute to Social Security receive the difference between the aforementioned pension allowance and 1.5 percent of their entire average final salary as a supplemental pension allowance.

If all required contributions are not made, the member's retirement allowances is reduced by the actuarial equivalent of the total unpaid contributions plus interest to the date of retirement.

Early Retirement

LFPS members are not eligible for early retirement.

Cost-of-living Adjustments

Retirement allowances are adjusted each year based on the consumer price index for all urban consumers (CPI-U) as published by the U.S. Bureau of Labor Statistics. COLAs are effective July 1 of each year and are applied to all allowances payable for the year. COLA adjustments for retirement plan participants are unlimited. COLA adjustments for pension plan participants are limited to 3 percent annually after retirement.

Death Benefits

A death benefit is paid if the member has accumulated at least one year of eligibility service prior to the date of death or died in the line of duty. The ordinary death benefit equals the member's annual earnable compensation at the time of death plus all accumulated member contributions. Under certain circumstances, a surviving spouse may elect to receive a lump sum payment or a monthly annuity.

Optional Forms of Payment

A retirement reserve is established for each member who retires. This reserve is the amount needed, with interest, to pay for the member's normal retirement allowance. When an option is chosen, the retirement reserve does not change. However, the member's normal service retirement allowance is reduced by an actuarially determined factor to provide a potential death benefit for the member's designated beneficiary. There are seven optional forms of payment; the details of these options are discussed under "Optional Forms of Payment" in the preceding discussion of the Teachers' Retirement System.

Ordinary Disability Retirement Allowances

A member is eligible for an ordinary disability retirement allowance after completing five years of eligibility service and after receiving certification from the Medical Board that the member is permanently incapable of performing the necessary functions of the job. The amount of the disability allowance depends on the member's status as a retirement plan participant or a pension plan participant.

The ordinary disability retirement allowance for a LFPS member subject to the retirement plan provisions equals the greater of: (1) the member's normal service retirement allowance or (2) 25 percent of the member's average final salary. For a pension plan participant, the ordinary disability allowance equals the normal service retirement allowance if the member is at least 62 years of age on the date of retirement. Otherwise, the allowance equals the normal service retirement allowance computed as though the member had continued to work until age 62 with no change in earnable compensation.

Accidental Disability Retirement Allowances

If during the course of job performance, a LFPS member becomes totally and permanently disabled as the direct result of an accidental injury, the member is eligible to receive an accidental disability retirement allowance. Prior to receiving this benefit, the Medical Board must certify that the member is, in fact, totally and permanently disabled. The accidental disability allowance is equal to the lesser of: (1) the sum of an annuity determined as the actuarial value of the member's accumulated contributions and two-thirds (66.7 percent) of the member's average final salary or (2) the member's average final salary.

Disability retirement allowances for LFPS members are not reduced by workers' compensation benefits. Instead the offset is taken against workers' compensation benefits payable for the same injury and the same period of time for which the retirement benefits are paid.

Post Retirement Health Insurance

Members of the Local Fire and Police System are entitled to the post retirement health insurance provided by their local employer.

Vesting

LFPS members are vested in the system after five years of service. They may begin to draw a deferred retirement allowance at age 62 if they leave State service prior to retirement. The vested benefit is equal to the normal retirement or pension allowance computed on the basis of the member's accumulated creditable service and average final salary at the point of separation.

Vested LFPS pension plan participants may be eligible to receive an early vested allowance after attaining age 55 with at least 15 years of eligibility service. The early vested allowance is equal to the normal retirement allowance computed on the basis of the member's accumulated creditable service and average final salary at the point of separation and reduced by 0.5 percent for each month by which the allowance commences prior to the date on which the member attains age 62.

LFPS retirement plan participants may elect to withdraw their accumulated contributions within two years of separation, in lieu of receiving an accrued vested retirement allowance. LFPS pension plan participants may also elect to withdraw their accumulated contributions. However, these pension plan participants remain eligible to receive the employer-provided share of the vested benefit. If a vested member dies prior to age 62 and before withdrawing his or her accumulated contributions, the accumulated contributions with interest are paid to the designated beneficiary.

Judges' Retirement System

The Judges' Retirement System (JRS) was established on June 30, 1969, with membership a condition of employment for all judges of the District Court, the circuit courts, the Court of Appeals, and the Special Court of Appeals. Full-time masters in chancery and masters in juvenile causes appointed prior to June 30, 1969, and Workers' Compensation Commission judges are also members of the system.

Membership in the Judges' Retirement System
as of June 30, 2001

Membership:	
Active Members	281
Deferred Vested Members	13
Retirees and Beneficiaries	297
Composite:	
Average Age – Active Members	55.5 Years
Average Years of Service – Active Members	9.7 Years
Average Annual Salary – Active Members	$111,420
Average Age – Retirees and Beneficiaries	76.9 Years
Average Monthly Benefit – Retirees and Beneficiaries	$4,587

Member Contributions

Members contribute 6 percent of annual earnable compensation during their first 16 years of service. No contributions are required after 16 years of service.

Within six months after terminating service, but before receiving a retirement allowance, former members may elect to withdraw all accumulated member contributions. However, members who withdraw their contributions after leaving service are no longer entitled to a vested benefit.

Full Service Retirement Eligibility and Allowances

Members are eligible for full service retirement allowances at age 60, or upon retirement by order of the Court of Appeals, with at least 16 years of eligibility service. All members must retire by age 70. Except for masters in chancery or masters in juvenile causes, the full service retirement allowance equals two-thirds of the annual earnable compensation paid to an active judge holding a comparable position. The annual retirement allowance is prorated for members retiring with less than 16 years of eligibility service.

66.7% of Annual Earnable Compensation Paid to an Active Judge

Early Retirement

Members are not eligible for early retirement.

Cost-of-living Adjustments

Retirement allowances increase whenever there is a salary adjustment for sitting judges. This linking of post-retirement adjustments to active salaries is regarded as an unlimited compound cost-of-living adjustment.

Death Benefits

A death benefit is paid if a member, former member, or retiree dies regardless of age or length of service. The death benefit equals 50 percent of the full service retirement allowance, which is paid as an annuity to the surviving spouse. If the deceased member is not survived by a spouse, the members' children, if any, continue to receive an annuity until the youngest child reaches age 18. In the event a deceased member, former member, or retiree is not survived by a spouse or a minor child, then all accumulated member contributions plus interest are refunded to the estate.

Optional Forms of Payment

Generally, a JRS retirement allowance is paid as a 50 percent joint and survivor annuity to the retiree's spouse, or if there is no spouse, to the retiree's children under the age of 18. If the retiree does not have a living spouse or an eligible child, the retiree may select one of seven payment options; the details of these options are discussed under "Optional Forms of Payment" in the preceding discussion of the Teachers' Retirement System.

Disability Retirement Allowances

JRS members are eligible for a disability retirement allowance upon receiving certification from the Medical Board that the member is permanently incapable of performing the necessary job functions. The disability retirement allowance is equal to the full service retirement allowance based on the member's actual length of service. However, if a member has at least three years of eligibility service, the disability benefit will be no less than one-third of the member's annual earnable compensation at the time of retirement.

Post Retirement Health Insurance

Members of the Judges' Retirement System employed by the State may participate in the State Employee and Retiree Health and Welfare Benefits Program after retirement. The criteria for participation in retiree health insurance are discussed in Chapter 4 of this handbook.

Vesting

Members are immediately vested in the system. Members leaving the bench before age 60 are eligible to receive their service retirement allowance upon attaining age 60. The vested allowance equals the normal service retirement allowance computed on the basis of the member's accumulated creditable service and the salary of active judges holding comparable positions. However, members who withdraw their contributions after leaving service are no longer entitled to a vested benefit.

The Optional Retirement Program

In 1975 the State established the Optional Retirement Program (ORP), which is a defined contribution plan for professional employees of public higher education institutions. Professional staff must elect to participate in this optional program or one of the State's defined benefit systems. The program is a contract between the participant and the selected vendor. There are currently four plan vendors: (1) TIAA/CREF; (2) VALIC; (3) American Century; and (4) Aetna Life.

By the terms of the plan, the State contributes a defined percentage of pay in the name of the participant to the vendor (currently 7.25 percent of salary). The participant may also contribute any amount. These contributions are held in an annuity fund until the participant retires, at which time they are paid out to the participant as a retirement allowance.

The four vendors may also offer supplemental retirement accounts, in accordance with § 401(a), § 403(b), or § 457 of the federal Internal Revenue Code, to ORP participants.

Legislative Pension Plan

In 1966 legislation was enacted that provided for retirement allowances to be paid to legislators under certain conditions. This Legislative Pension Plan (LPP) was established as a subsystem within the Employees' Retirement System. In 1970 a constitutional amendment was approved by the voters that created a nine-member General Assembly Compensation Commission and specified that the commission must submit salary, expense, allowance, and pension recommendations to the legislature every four years. As a result of this constitutional amendment, the Legislative Pension Plan was redesigned but continues to be administered as a subsystem of the Employees' Retirement System.

The General Assembly Compensation Commission is comprised of five persons appointed by the Governor, two appointed by the President of the Senate, and two appointed by the Speaker of the House of Delegates. Appointees serve a four-year term. Members of the General Assembly and State and local government officers and employees are not eligible for appointment to the commission. The commission's recommendations must be submitted by means of a formal resolution to the General Assembly within 15 days after the beginning of the last regular legislative session in a four-year term of office. Through a joint resolution, the General Assembly may reduce or reject the recommendations included in the commission's resolution but may not increase those recommendations. The commission's resolution, with any reductions provided by a joint resolution, has the force of law and takes effect at the beginning of the next General Assembly. The most recent commission resolution was submitted in January 2002 for the 2003 - 2006 General Assembly term. Membership and composite information for the Employees' Retirement System includes LPP members.

Member Contributions

LPP members must contribute 5 percent of earnable compensation for the first 22 years and 3 months of service, after which there is no contribution requirement.

Full Service Retirement Eligibility and Allowances

Members are eligible for a full service retirement allowance at age 60. The benefit formula for full service retirement is calculated as 3 percent of the salary of an active legislator in a similar position for each year of service. The maximum allowance is two-thirds of the current legislative salary payable to an active legislator.

3% x the Salary Paid to an Active Legislator in a Similar Position x Number of Years of Service

Early Retirement

Members are eligible for early retirement at age 50. The early retirement allowance is equal to the full service retirement allowance reduced by 6 percent for each year by which the member's retirement date precedes the date on which the member reaches age 60. The maximum reduction for early retirement is 60 percent.

Cost-of-living Adjustments

Retirement allowances increase whenever there is a salary adjustment for sitting legislators. This linking of post-retirement adjustments to active salaries is regarded as an unlimited compound cost-of-living adjustment.

Death Benefits

Upon the death of an active legislator with less than eight years of service, the surviving spouse, or the designated beneficiary if there is no surviving spouse, receives a death benefit consisting of one year's salary plus a return of the member's accumulated contributions with interest. If there is no spouse and the member has designated multiple beneficiaries, then the beneficiaries share equally the lump sum payment.

Upon the death of a member with at least eight years of service, the surviving spouse, or the designated beneficiary if there is no surviving spouse, has the option of receiving either the death benefit described above or a survivor's benefit that is equal to 50 percent of the retirement allowance accrued to the date of death. Payment to the surviving spouse begins at the member's death. Payment to the designated beneficiary begins when the beneficiary attains age 60. A designated beneficiary may receive an early benefit at age 50 subject to an actuarial reduction of 0.5 percent per month for each month that the allowance is received prior to age 60. If there is no spouse and the member has designated multiple beneficiaries, then the beneficiaries share equally the lump sum payment.

Optional Forms of Payment

Rather than the full-service retirement allowance and the 50 percent survivor allowance, members may elect one of the following optional retirement benefits:

- Option A provides a 100 percent joint and survivor annuity, which means that upon the death of the retiree the entire monthly payment continues to be paid to the surviving spouse or designated beneficiary for the remainder of the beneficiary's life.

- Option B provides a ten-year certain plan. When a member dies, the monthly allowance continues for the remainder of the ten-year period beginning on the date of the death or retirement of the member, whichever occurs first; and

- Option C permits an alternative monthly allowance to a surviving spouse or beneficiary that is actuarially equivalent to the retirement allowance and approved by the board of trustees.

Disability Retirement Allowances

A member with at least eight years of creditable service is eligible for a disability retirement allowance if the Medical Board certifies that the legislator is mentally or physically incapacitated for further performance of legislative duty and such incapacity is likely to be permanent. The disability retirement allowance is equal to the full service retirement allowance.

Post Retirement Health Insurance

Members of the Legislative Pension Plan may participate in the State Employee's Health Insurance Program after eight years of service, regardless of whether they retire directly from State service or terminate service prior to retirement.

The proportion of the State subsidy for health insurance to which a retired legislator may be entitled is determined by the amount of creditable service the retired legislator earned. For example, with nine years of creditable service, a retired member is entitled to 9/16 of the State subsidy provided to active employees. For each additional year of creditable service, an additional 1/16 of the subsidy is earned until, with 16 years of creditable service, the retired member is entitled to the same State health insurance subsidy as provided to active State employees.

Vesting

Members of the Legislative Pension Plan are vested in the system after eight years of service and may begin to draw a full retirement allowance at age 60. Members with less than eight years of service credit may also become vested by paying the employer and employee contributions for the remaining amount of time they need to reach eight years. By doing so, a legislator is eligible for a retirement allowance equal to 24 percent of the current salary for an active legislator, payable at age 60 (or a reduced benefit upon attaining age 50).

A legislator with less than eight years of service who resigns to become a judge or an official included in the Judicial Pension Plan vests upon resignation. Legislators who withdraw their contributions after leaving service are no longer entitled to a vested benefit.

Retirement Provisions for Governors, Lieutenant Governors, and Constitutional Officers

The Governor's Retirement Plan is a non-contributory plan that provides a pension benefit beginning at age 55. If a Governor serves one term, the pension plan benefit is equal to one-third of the annual salary received by the current Governor in office. If a Governor serves two terms, the benefit is equal to one-half of the annual salary received by the current Governor in office. The retirement allowance for members of the Governor's Retirement Plan increases whenever there is a salary adjustment for the current Governor. This linking of post-retirement adjustments to active salaries is regarded as an unlimited compound cost-of-living adjustment.

If a Governor leaves office due to a disability, the retirement allowance begins immediately and continues through the period of disability. A surviving spouse receives 50 percent of the retirement benefit that the Governor received or would have received.

Lieutenant Governors and other constitutional officers participate in the Employees' Pension System unless the individual served the State prior to January 1, 1980, and elected to remain in the Employees' Retirement System. All provisions of the Employees' Pension System and the Employees' Retirement System apply to participating constitutional officers with two exceptions: (1) constitutional officers have immediate vesting rights; and (2) constitutional officers receive a minimum benefit equal to 10 percent of the salary received in the last term of service.

Chapter 12. Actuarial Aspects

The ultimate cost of any retirement system includes the benefits paid to participants and the expenses incurred for administration. These benefit costs can extend over several decades. For example, in the case of a typical member, the liabilities and obligations of the system can extend over the 30 years that the member works plus the 20-30 years that the member is retired. Therefore, a retirement system must have a long-term funding plan that provides for the system's ultimate cost.

Funding Method

There are three basic methods by which retirement systems are funded. They are as follows:

> *Pay-As-You-Go Funding:* The employer funds retirement benefits as they become payable by retaining retired employees on the active payroll. No provisions are made to fund retirement benefits when the liabilities are incurred. Although this method produces a low cash outlay in the early years of a system, the liabilities continue to accumulate. As the system matures, the employer's cash outlay increases dramatically.
>
> *Terminal Funding:* At the time of retirement, the employer purchases an annuity to provide the retiree with an income during the remainder of the retiree's life. Again, this method produces a low cash outlay in the early years of a system. However, as the system matures, the employer's cash outlay increases and becomes volatile.
>
> *Advance Funding:* The employer funds retirement benefits as the liability is incurred by making periodic payments to a fund that is invested to provide future retirement benefits. While this method produces a higher cash outlay in the early years of a system than the other funding methods, its ultimate cost is less because the obligations and liabilities of the system are partially offset by investment income. The success of this method is dependent upon accurate actuarial determinations of the periodic payments. With the enactment of the federal Employee Retirement Income Security Act (ERISA) in 1974, all private defined benefit plans must be advance funded.

The General Assembly intended to advance fund the benefits payable from the Teachers' Retirement System, The Employees' Retirement System, and the State Police Retirement System when these systems were originally established. However, in the years between 1962 and 1974, various benefit enhancements were made to the systems that were not advance funded. Consequently, in 1979, the General Assembly reiterated its intent to advance fund all retirement benefits through the enactment of Chapters 23 and 24. Since that time, all the State's systems are funded utilizing an advance funding method.

The system currently uses the entry age normal cost method with projection to determine the actuarial accrued liability on which future employer contribution rates will be based. Under this funding method, a total contribution rate is determined which consists of two elements, the normal cost rate and the unfunded actuarial liability rate.

The normal cost is that amount needed annually to fund an employees' benefits over the lifetime of the employee if all assumptions are precisely accurate, there are no changes in the plan over the lifetime of the employee, and all the employee's service is accrued after the establishment of the plan. If these conditions are met, the annual normal cost contribution will fully fund the employee's retirement.

The accrued liability cost is the amount needed periodically to amortize the accrued liability. The accrued liability includes:

- the amount that should have been contributed with interest for employee service earned prior to the establishment of the plan;
- the amount that would have been contributed with interest if a benefit liberalization was in place when the employee's service began; and
- the net effect of any previous actuarial gains and losses resulting from deviations from assumptions, or changes in assumptions.

The unfunded actuarial accrued liability (UAAL) is being amortized, as a level percentage of payroll, in two distinct pieces. The UAAL that existed as of the June 30, 2000, actuarial valuation is being amortized over the remaining 19-year period to June 20, 2020. The new layer of UAAL that arose during the year ended June 30, 2001, is being amortized over a 25-year period from June 30, 2001.

Under the provisions of ERISA, private plans must amortize their initial accrued liability as annual level dollar amounts over a period of no more than 40 years. Actuarial gains and losses must be amortized over a period of no more than 5 years, while benefit improvements and changes in actuarial assumptions must be amortized over periods of no more than 30 years or 10 years, respectively. While ERISA is not applicable to public plans, Maryland tries to apply ERISA principles to the administration of its plan.

Actuarial Assumptions

Advance funding is dependent on actuarial determinations based on a variety of demographic and economic assumptions, including:

- *Mortality* - the number of deaths at various ages that are expected to occur annually;
- *Disability* - the number of employees who will retire on some type of disability allowance rather than on a normal service allowance;
- *Turnover* - the number of employees who leave service prior to retirement, either before eligibility for deferred benefits, or after eligibility;
- *Retirement Age* - the age that participants will elect to retire;
- *Future Salary Increases* - an estimate of future salaries for plan participants;
- *Cost-of-living Increases* - an assumption concerning the retiree's post retirement cost-of-living increases; and
- *Investment Return* - the rate of return on the system's investment portfolio.

The assumptions used for the actuarial valuation of the State's system are recommended by the State's actuary and adopted by the board of trustees based upon periodic analysis of the system's experience. Differences between assumed and actual experience (actuarial gains and losses) affect the system's unfunded actuarial liabilities. The following significant assumptions were used in the actuarial evaluation as of June 30, 2001:

- a rate of return on investments of 8 percent compounded annually (adopted June 30, 1998);
- projected salary increases of 5 percent compounded annually, attributable to inflation (adopted June 30, 1988);
- additional projected salary increases ranging from 0.94 percent to 6.82 percent per year depending on the system (adopted June 30, 1982);
- post-retirement benefit increases ranging from 3 to 6 percent per year depending on the system (adopted June 30, 1982);

- rates of mortality, termination of service disablement and retirement based on actual experience during the period from 1981 through 1996 (adopted June 30, 1998); and

- an increase in the aggregated active member payroll of 5 percent annually (adopted June 30, 1988).

The actuarial assumptions of a soundly administered plan should be subjected to a periodic “experience investigation,” which is a comparison of actual experience with the actuarial assumptions used. The variation of an assumption from actual experience can lead to a gain or loss that must be amortized over time. However, gains and losses often offset each other, and thus do not drastically affect annual costs in the aggregate. Maryland law requires an experience investigation at least once in each five-year period. The next experience study will be based on actuarial results from the five years through June 30, 2002. Any changes to actuarial assumptions will be reflected in the fiscal 2003 valuation.

Actuarial “Full Funding” and Revised Actuarial Methodology

Exhibit 12.1 shows the change in the State’s total actuarial liabilities, the actuarial value of the assets, and the unfunded actuarial liabilities for fiscal 1988 through 2001. Appendix 11 illustrates the impact of improved actuarial funding levels on the employer contribution rate of each pension subsystem. These contribution rates have severely declined as the system’s funding level has improved.

During this period the actuarial value of assets increased faster than expected. Changes in the actuarial value of assets are affected by: employer and member contributions; benefits and expenses; expected investment return; and investment gains or losses.

The expected investment return is based on the actuarial 8 percent assumption (up from 7.5 percent as of July 1, 1998). The investment gain or loss reflects the actual return based on a smoothing method to dampen fluctuations caused by market forces. Each year the actuarial value of assets recognizes only one-fifth of the return greater or less than the actuarial assumption. The unfunded actuarial liabilities have decreased steadily since 1994 due to unusually high returns on invested assets, coupled with lower than expected growth in salaries.

Exhibit 12.1
State Retirement and Pension System of Maryland
Actuarial Funding Status Fiscal 1988 - 1997
($ in Billions)

Fiscal Year	Total Actuarial Liabilities	Percent Change	Actuarial Value of Assets	Percent Change	Unfunded Actuarial Liabilities	Unfunded Liabilities as a % of Total Liabilities
1988	$15.07	--	$9.87	--	$5.21	34.6%
1989	$16.51	9.6%	$11.10	12.5%	$5.41	32.8%
1990	$17.97	8.8%	$12.39	11.6%	$5.57	31.0%
1991	$19.77	10.0%	$13.40	8.2%	$6.36	32.2%
1992	$20.00	1.2%	$14.38	7.3%	$5.62	28.1%
1993	$21.18	5.9%	$15.68	9.0%	$5.49	25.9%
1994	$21.88	3.3%	$16.27	3.8%	$5.60	25.6%
1995	$23.09	5.5%	$17.67	8.6%	$5.43	23.6%
1996	$24.24	5.0%	$19.46	10.1%	$4.79	19.8%
1997	$25.38	4.7%	$21.92	12.6%	$3.46	13.6%
1998	$27.42	8.0%	$24.85	13.4%	$2.57	9.4%
1999	$28.48	3.8%	$27.65	11.3%	$0.83	2.9%
2000	$30.28	6.3%	$30.65	10.9%	($0.37)	(1.2%)
2001	$32.47	7.2%	$31.91	4.1%	$0.56	1.7%

Source: Milliman and Robertson, Inc.

As the level of unfunded liabilities declined and the funding period until 2020 became shorter, the volatility of the system's contributions increased. In response the board of trustees proposed Chapter 583 of 2001, which extended the amortization period to a layered 25-year amortization schedule.

Under a proposal incorporated in the Budget Reconciliation and Financing Act of 2002 (Chapter 440), the State's actuarial methodology was made even less volatile by changing it from one in which the State's pension contribution rates vary from year to year to one in which the rates for the largest systems, the employees' and teachers' systems, remain the same as long as their funding levels remain sound. The respective pension contribution rates for the employees' and teachers' systems are fixed from year to year, as long as the funding for those systems remain in a "corridor" of actuarial funding from 90 percent to 110 percent. As of June 30, 2001, the employees' systems are 102.2 percent funded, and the teachers' systems are 93.5 percent funded.

Under the new methodology, each system has a separate fixed contribution rate equal to the fiscal 2002 certified rate. Each rate remains in place as long as funding remains within the 90 to 110 percent corridor. Both systems are large enough to remain relatively stable within the corridors, but if either system slips outside the corridor, the rate will be reset to bring it back toward full funding. This will be done through an adjustment equal to one-fifth of the distance to the full funding rate. Any benefit enhancements or other changes to either plan will require adjustments to the fixed rate.

The three smaller plans, the State Police Retirement System, the Judges' Retirement System, and the Law Enforcement Officers' Pension System (LEOPS), and the municipal pool of participating local units, will continue under the current methodology, whereby the contribution rate is reset by the board of trustees and the actuary each year. The decision to exclude the smaller systems reflected concerns by the actuary and the board of trustees about the relative funding levels of these systems (the State Police Retirement System is 131 percent funded, while LEOPS is 57 percent funded). These smaller systems are more volatile and would be harder to keep within corridors.

In the long term, the corridor approach creates greater stability and predictability in budgeting. So long as the employees' and teachers' systems stay within their corridors, pension contributions will increase only as a factor of payroll growth. Under the prior methodology, a year or two of poor pension investment performance causes the contribution rate to spike up simultaneous with a decline in tax revenues. The corridor stability insulates the State from a shock of this sort.

Chapter 13. Investment Overview

The Board of Trustees of the State Retirement and Pension System is responsible for the system's investment portfolio that, as of June 30, 2002, had a market value of $26.6 billion. The portfolio is Maryland's largest public pool of capital. The State Retirement Agency's investment division is responsible for the day-to-day management of the portfolio in accordance with the policies and objectives established by the board. The chief investment officer, in consultation with the board's outside investment consultant, supervises and monitors the external and internal asset managers and makes recommendations to the board's investment committee regarding investment policy and strategy. The investment division maintains the equity and bond index funds and actively manages a portion of the fixed income portfolio.

The portfolio began in 1927 with the establishment of the Teachers' Retirement System. Its investments were essentially limited to bonds and real estate until 1965, when the General Assembly authorized investments of up to 25 percent of the system's assets in equities. In 1980, legislation was enacted (Chapter 290) that changed the investment standards from those used by domestic life insurance companies (bonds and real estate) to the "prudent person" standard. As a result, the board of trustees is charged with the responsibility of managing the assets of the system solely in the interests of participants and with the care, skill, and diligence that a prudent person would exercise in the conduct of similar affairs. This standard of care encourages the diversification of investments among various asset classes to avoid adverse experience, maximize returns, and provide financial stability. The board is required to adopt an investment operations manual setting forth the goals and objectives of the investment program and defining the policies that govern the selection and retention of investments. The only statutory limitation on the board's investment program is that not more than 25 percent of the assets held in common stock may be held in nondividend paying common stocks.

Asset Allocation

Up until fiscal 1987, the board's investment strategy for the allocation of system assets called for a 60 percent investment in equities and a 40 percent investment in fixed income securities. However, this asset allocation shifted dramatically in the fall of 1987 when the board of trustees used $2.3 billion from the sale of equities and $1.8 billion from the sale of fixed income securities to acquire nearly $4 billion in additional fixed income securities. These bonds were then "dedicated" to paying the benefits of retirees who were retired as of June 30, 1987. The State's actuary had projected the cash flow required to pay the benefits of these retirees out to the year 2062. By establishing the Dedicated Bond Fund, the system matched the schedule of interest earnings and bond maturity dates to the schedule of these projected benefits. As a result, the system's unfunded liability decreased by approximately $1.4 billion in fiscal 1990, which was largely responsible for the 1.4 percent decrease in the State's overall contribution rate to the systems (from 15.6 percent in fiscal 1989 to 14.2 percent in fiscal 1990). At the end of fiscal 1990, the board added approximately $800 million in additional bonds to the fund which was dedicated to paying the benefits of retirees who had retired as of June 30, 1989.

After the establishment of the Dedicated Bond Fund, almost half of the system's portfolio was invested in dedicated bonds and only 32 percent in equities. Fortuitously, this shift in assets from equities to fixed income came shortly before the stock market dropped precipitously in October 1987. As a result, the system's portfolio out-performed most other public and private funds that year. However, as the stock market recovered and equities out-performed bonds, the system's investment performance, while strong, lagged behind states more heavily invested in equities.

During the late 1990s, the board dramatically shifted funds from fixed income securities to equities. As of June 30, 2000, equity investments totaled 69.2 percent of the system's assets, while fixed income investments totaled 22.1 percent. Since the close of fiscal 1999, the total amount of equity investments, while still significant, has been decreasing slightly each year. As of June 30, 2002, equity totaled 62.7 percent of the system's assets, which was almost double the 1990 system investment in equity of 32.4 percent of assets. In addition, real estate investments more than doubled from 1990 when these investments totaled 2.1 percent of the system's total assets to 5.8 percent as of June 30, 2002. Offsetting this substantial increase in equity and real estate, as of June 30, 2002, fixed income investments totaled 29 percent, as opposed to 63.6 percent in 1990.

The change in asset allocation over the last ten years was a deliberate attempt by the board to address what it believed was an "under-weighting" in equities. The Dedicated Bond Portfolio was essentially frozen. To the extent that the value of the portfolio exceeded the benefit stream, some of these bonds were sold and the proceeds were used to increase equity holdings. Additional cash was invested in equities rather than the Dedicated Bond Portfolio or other fixed income holdings.

Exhibit 13.1 illustrates both the board's target and actual asset allocation for fiscal 2002. The actual asset allocation is also provided for fiscal 2001. In addition, the average asset allocation of public pension plans, as surveyed by Wilshire Associates for fiscal 2001, is presented. Finally, in an effort to demonstrate the drastic conversion the board has made since 1990 with regard to investing the system's assets in equity rather than fixed income investments, Exhibit 13.1 provides the actual asset allocation for fiscal 1990.

Exhibit 13.1
Target and Actual Asset Allocation

	FY 2002 Target Allocation	FY 2002 Actual Allocation	FY 2001 Actual Allocation	FY 2001 Wilshire* Average	FY 1990 Actual Allocation
Equities					
Domestic					
Domestic Stocks	-	44.9%	46.5%	43.8%	-
Convertible Stocks	-	1.6%	1.8%	-	-
International	-	16.0%	17.5%	12.5%	-
Alternative Investments	-	0.2%	0.2%	3.9%	-
Equity Total	60.0%	62.7%	66.0%	60.2%	32.5%
Real Estate	5.0%	5.8%	5.0%	3.4%	2.1%
Fixed Income					
Corporate Bonds	-	10.3%	10.6%	-	-
U.S. Government Obligations	-	10.9%	8.0%	-	-
Mortgages	-	7.5%	8.3%	-	-
Foreign Bonds	-	0.3%	0.6%	-	-
Fixed Income Total	35.0%	29.0%	27.5%	36.2%	63.6%**
Systems Reserves	0.0%	2.5%	1.5%	0.1%	1.8%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

*Wilshire Associates survey data for fiscal 2001.
**Includes 48.3% allocated to the Dedicated Bond Fund.
Source: Maryland State Retirement Agency, August 2002

Equities

Exhibit 13.2 outlines the performance of the system's equity portfolio for fiscal 2002 and provides three-, five-, and seven-year time weighted total returns. The system held $16.9 billion in equity investments as of June 30, 2002. Large capitalization value managers accounted for 56 percent of the system's equity portfolio, and global/international equity managers accounted for approximately 31 percent. By the end of fiscal 2002, the system had experienced a loss of 14.5 percent, or $2.9 billion, in common stocks. The only equity asset class to provide a positive return for fiscal 2002 was the U.S. small capitalization equities (passively managed). This asset class provided a return of 3.1 percent. As of June 30, 2002, the board had hired 23 external equity investment managers, with an average tenure of five years with the system. Exhibit 13.2 also details the time weighted total returns for each external equity investment manager from the manager's date of inception. In addition, the benchmark return since the manager's date of inception is also provided.

Fixed Income Securities

Exhibit 13.3 sets forth the system's fixed income performance for fiscal 2002 and provides three-, five-, and seven-year time weighted total returns and the time weighted return for each external fixed income investment manager from the manager's date of inception with the system. The system held $7.9 billion in fixed income investments as of June 30, 2002. More than 33 percent of all fixed income investments were held in the Dedicated Bond Fund that was established to fund benefits for retirees who were retired as of June 30, 1987 (later extended to June 30, 1989). During fiscal 2002 the system's fixed income securities returned 6.5 percent. As of June 30, 2002, the board had employed five external fixed income investment managers with an average tenure of six years with the system.

Real Estate Investments

Exhibit 13.4 sets forth the performance of the system's real estate managers for fiscal 2002 and provides three-, five-, and seven-year time weighted total returns to June 30, 2002, and the time weighted return for each external fixed income investment manager from the manager's date of inception with the system to June 30, 2002. The system held $1.6 billion in real estate investments as of June 30, 2002. Although the primary focus of the direct investment program has been on the acquisition of neighborhood/community shopping centers and suburban office buildings located in Maryland, the board continues to consider investments in leased retail and industrial office properties.

Exhibit 13.2
Equity Performance Comparisons
as of June 30, 2002

	June 30, 2002		Time Weighted Total Returns to June 30, 2002					
	Millions	**% Total**	**1 Year**	**3 Years**	**5 Years**	**7 Years**	**Inception**	**Benchmark Since Inception**
LARGE CAPITALIZATION EQUITY								
(Passive management)								
SRA S&P 500 *(6/30/83*)*	$3,968.2	23.5%	-17.7%	-9.0%	3.9%	10.9%	12.9%	12.8%
SSGA S&P 500 *(3/31/99)*	$2,498.6	14.8%	-17.9%	-9.1%	-	-	-6.5%	-6.6%
SSGA Growth *(3/31/99)*	$1,712.7	10.1%	-18.4%	-13.1%	-	-	-11.2%	-11.3%
Lge Cap Passive Subtotal:	**$8,179.5**	**48.4%**	**-17.8%**	**-9.9%**	**1.1%**	**7.9%**	-	-
S&P 500 Cap Wgt			-18.0%	-9.2%	3.7%	10.7%	-	-
S&P 500/BARRA Grwth			-18.5%	-13.2%	-	-	-	-
S&P 500 Equal Wgt			-10.3%	0.0%	-	-	-	-
(Active management)								
Progress *(7/31/00)*	$81.5	0.5%	-17.8%	-	-	-	-19.2%	-14.8%
Russel 3000 + 65 BP			-16.6%	-	-	-	-	-
Legg Mason *(2/28/98)*	$394.6	2.3%	-26.3%	-7.7%	-	-	3.5%	1.5%
S&P 500 + 155 BP			-16.4%	-7.6%	-	-	-	-
Edgar Lomax *(11/30/99)*	$202.9	1.2%	-3.2%	-	-	-	3.4%	0.4%
Seligman *(11/30/99)*	$181.0	1.1%	-17.8%	-	-	-	0.5%	0.4%
Ru 1000 Value + 170 BP			-7.2%	-	-	-	-	-
Robert Torray *(11/30/99)*	$203.9	1.2%	-2.8%	-	-	-	0.8%	-9.4%
S&P 500 + 175 BP			-16.2%	-	-	-	-	-
Greenway *(8/31/97)*	$104.6	0.6%	-29.6%	-10.7%	-	-	3.4%	4.9%
Relational *(12/31/97)*	$178.6	1.1%	10.2%	14.7%	-	-	13.3%	3.3%
S&P 500 + 150 BP			-16.5%	-7.7%	-	-	-	-
Lge Cap Active Subtotal:	**$1,347.1**	**8.0%**	**-16.5%**	**-3.2%**	**9.3%**	**13.5%**	-	-
MID-CAPITALIZATION EQUITY								
Ariel Capital *(10/31/01)*	$240.3	1.4%	-	-	-	-	16.5%	15.8%
Kenwood Group *(N/A)*	$56.7	0.3%	-	-	-	-	-	-
Russell Mid-Cap Value + 185 BP			-	-	-	-	-	-
Trust Company West *(10/31/01)*	$219.1	1.3%	-	-	-	-	3.6%	20.4%
Russell 2500 Value + 205 BP			-	-	-	-	-	-
Mid-Cap Subtotal:	**$516.1**	**3.1%**	-	-	-	-	-	-
SMALL CAPITALIZATION EQUITY								
(Passive management)								

	June 30, 2002		Time Weighted Total Returns to June 30, 2002					
	Millions	**% Total**	**1 Year**	**3 Years**	**5 Years**	**7 Years**	**Inception**	**Benchmark Since Inception**
Dimensional Fund Advisors *(6/30/83)*	$818.7	4.8%	3.7%	13.8%	11.7%	14.2%	11.7%	10.5%
Russell 2000 + 150 BP			-7.1%	3.2%	5.9%	10.2%	-	-
(Active management)								
Brown Capital Management *(1/31/97)*	$97.8	0.6%	-14.9%	9.9%	12.8%	-	13.1%	8.1%
Ru 2000 + 250 BP			-6.1%	4.2%	6.9%	-	-	-
Brown Investment Advisory *(2/28/97)*	$96.0	0.6%	-38.8%	-7.7%	-2.4%	-	0.1%	1.9%
Trust Co. West *(2/28/97)*	$92.2	0.5%	-46.3%	-16.7%	-0.6%	-	2.6%	1.9%
Ru 2000 Gwth + 210 BP			-22.9%	-7.5%	0.1%	-	-	-
T. R. Price *(2/28/97)*	$99.0	0.6%	9.7%	14.9%	11.4%	-	13.5%	13.6%
RU 2000 Value + 215 BP			10.7%	14.2%	11.9%	-	-	-
Sml Cap Active Subtotal:	**$385.0**	**2.3%**	**-20.8%**	**-2.9%**	**1.8%**	**-**	**-**	**-**
GLOBAL/INTERNATIONAL EQUITY								
Deutsche Asset Management *(12/31/95)*	$778.1	4.6%	-16.0%	1.8%	7.8%	-	10.1%	7.9%
SSB EMI + 200 BP			-2.5%	3.3%	5.6%	-	-	-
Bank of Ireland *(9/30/91)*	$1,902.8	11.3%	-8.7%	-3.1%	2.0%	7.4%	10.1%	5.7%
Cap Guardian *(4/30/00)*	$903.4	5.3%	-9.0%	-	-	-	-16.0%	-13.6%
Credit Suisse *(9/30/91)*	$797.7	4.7%	-14.4%	-8.6%	-0.4%	4.5%	6.1%	5.7%
Templeton *(8/31/93)*	$813.9	4.8%	-5.6%	0.7%	3.3%	8.6%	9.3%	4.5%
International Subtotal:	**5,195.9**	**30.8%**	**-10.5%**	**-4.3%**	**-0.1%**	**5.6%**	**-**	**-**
MSCI EAFE + 150 BP			-8.0%	-5.3%	-0.1%	3.9%	-	-
CONVERTIBLE SECURITIES								
Advent Capital *(11/30/98)*	$222.4	1.3%	-7.8%	6.6%	-	-	8.1%	6.4%
GEM Capital *(10/31/98)*	$220.9	1.3%	-25.5%	-6.1%	-	-	4.3%	7.6%
Convertible Subtotal:	**$443.3**	**2.6%**	**-17.6%**	**-0.7%**	**-**	**-**	**-**	**-**
CS FB Conv + 150 BP			-10.9%	1.6%	-	-	-	-
Managers in Liquidation	$0.9	0.0%	-	-	-	-	-	-
Cash	$6.5	0.0%	-	-	-	-	-	-
Total Equity	**$16,893.0**	**100.0%**						

* Inception Date

Source: Maryland State Retirement Agency, August 2002

Exhibit 13.3
Fixed Income Performance Comparisons
as of June 30, 2002

	June 30, 2002		Time Weighted Total Returns to June 30, 2002					
	Millions	**% Total**	**1 Year**	**3 Years**	**5 Years**	**7 Years**	**Inception**	**Benchmark Since Inception**
SRA MANAGED		-						
Dedicated *(9/30/87*)*	$2,651.3	33.4%	9.1%	8.5%	8.0%	8.7%	9.9%	-
MSRA Fixed Inc. Cash *(5/31/84)*	$19.9	0.3%	-	-	-	-	-	-
MSRA Bonds - Ded *(5/31/98)*	$944.9	11.9%	8.1%	7.8%	-	-	6.5%	6.9%
Core + 3 Index			8.7%	8.2%	-	-	-	-
Treasury/Agency *(5/31/98)*	$876.4	11.0%	8.9%	7.9%	-	-	6.8%	6.6%
SSB Treas/Agncy			8.8%	8.0%	-	-	-	-
SRA Managed Subtotal:	**$4,492.5**	**56.6%**	**8.8%**	**8.1%**	**7.7%**	**7.4%**	-	-
DOMESTIC MANAGERS								
(High Yield)								
Fountain Capital *(10/31/00)*	$96.8	1.2%	-3.8%	-	-	-	-1.6%	-0.1
Huff Asset *(3/31/96)*	$499.8	6.3%	-10.8%	-2.5%	2.2%	-	4.6%	4.9%
Lazard Asset *(10/31/00)*	$98.0	1.2%	-4.8%	-	-	-	-1.0%	-0.1
Morgan Stanley *(9/30/00)*	$165.2	2.1%	-9.5%	-	-	-	-9.4%	-1.9
High Yield Subtotal:	**$859.8**	**10.8%**	**-9.2%**	-	-	-	-	-
ML HY MASTER II Index + 150 BP			-2.8%	-0.6%	2.6%	-	-	-
PIMCO *(5/31/84)*	$907.4	11.4%	8.7%	8.2%	7.9%	8.6%	11.0%	10.5%
PIMCO - Ded *(5/31/98)*	$472.5	6.0%	9.2%	8.2%	-	-	7.2%	7.2%
Standish (TERMINATED) *(5/31/84)*	$742.6	9.4%	6.8%	7.8%	7.0%	7.5%	10.7%	10.7%
Standish - Ded (TERMINATED) *(5/31/98)*	$457.5	5.8%	6.9%	7.5%	-	-	6.3%	6.3%
SSB BIG Index + 50 BP			8.9%	8.5%	8.0%	7.7%	-	-
Domestic Managers Subtotal:	**$3,439.8**	**43.4%**	**3.5%**	**5.6%**	**6.2%**	**7.1%**	-	-
TOTAL FIXED INCOME	**$7,932.3**	**100.0%**	**6.5%**	**7.0%**	**7.1%**	**7.2%**	-	-

Source: Maryland State Retirement Agency, August 2002

Exhibit 13.4
Real Estate Funds and Direct Estate
as June 30, 2002

	June 30, 2002		Time Weighted Total Returns to June 30, 2002					
	Millions	**% Total**	**1 Year**	**3 Years**	**5 Years**	**7 Years**	**Inception**	**Benchmark Since Inception**
POOLED FUNDS								
Times Square *(12/31/86*)*	$169.4	10.5%	2.1%	9.4%	12.2%	11.9%	6.4%	6.8%
JP Morgan *(12/31/86)*	$196.0	12.1%	5.6%	11.1%	12.9%	12.3%	7.4%	6.8%
Russell - NCREIF			6.5%	9.9%	12.0%	11.2%	6.8%	-
Sentinel (In liquidation)	$15.3	0.9%	-	-	-	-	-	-
Pooled Funds Subtotal:	**$380.7**	**23.5%**	**4.2%**	**9.9%**	**11.8%**	**11.5%**	**-**	**-**
DIRECT INVESTMENTS								
La Salle Management *(12/31/93)*	$324.2	20.0%	10.7%	10.9%	11.5%	11.2%	11.4%	-
Lubert -Adler *(4/30/01)*	$23.5	1.5%	-1.1%	-	-	-	-1.0%	-
Direct Investments Subtotal:	**$347.7**	**21.5%**	**-**	**-**	**-**	**-**	**-**	**-**
Cash	$95.2	5.9%	6.3%	5.8%	5.8%	5.7%	-	-
REAL ESTATE INVESTMENT TRUSTS (REITS)								
La Salle REIT *(3/31/93)*	$653.7	40.3%	14.2%	13.6%	8.2%	13.0%	10.6%	10.8%
Wilsh RE Sec/NAEEIT + 75 BP			14.5%	14.7%	8.4%	13.1%	10.8%	-
SRA REIT *(5/31/99)*	$143.0	8.8%	13.9%	13.8%	-	-	12.8%	12.9%
Wilshire RE Securities			13.8%	14.0%	-	-	12.9%	-
REITS Subtotal:	**$796.7**	**49.2%**	**14.2%**	**13.6%**	**-**	**-**	**-**	**-**
TOTAL REAL ESTATE	**$1,620.3**	**100.0%**	**10.3%**	**11.7%**	**9.6%**	**11.5%**	**-**	**-**

*Inception Date
Source: Maryland State Retirement Agency, August 2002

Real estate investments were the strongest performing asset class for the system in fiscal 2002. The system's real estate investments returned 10.3 percent, which translated into a $146 million gain for the system. Contributing to the favorable results was the improved real estate environment and significant investments in Real Estate Investment Trusts (49.2 percent of the system's total real estate portfolio) which returned 21.6 percent. As of June 30, 2002, the board had hired six external real estate investment managers with an average tenure of nine years with the system. Three of these six firms do not have benchmarks to meet – two were hired to manage the direct real estate investments for the system, and one was in liquidation as of June 30, 2002.

Private Equity

Beginning in fiscal 2000, the system embarked on a program to commit $250 million in private equity investments which include venture capital. These investments account for 0.2 percent of plan assets and are listed in Exhibit 13.5. The exhibit also lists the managers of the investments and the investment performance thus far.

Exhibit 13.5
Private Equity Fund of Funds Program
as of June 30, 2002
($ in Millions)

	Allocation	Funded to 6/30/02	Market Value at 6/30/02	% Funded	Inc. Date
Abbott Capital - Fund III	$50.0	$16.0	$13.6	32.0%	9/30/99
Adams Street Partners (formerly Brinson Partners)	$100.0	$22.1	$17.8	22.1%	9/30/99
Harbor Vest Partners VI					
Partnership Fund	$40.0	$16.0	$12.6	40.0%	5/31/99
Buyout Fund	$60.0	$16.5	$14.5	27.5%	8/31/99
TOTAL PRIVATE EQUITY	**$250.0**	**$70.6**	**$58.5**	**28.2%**	**-**

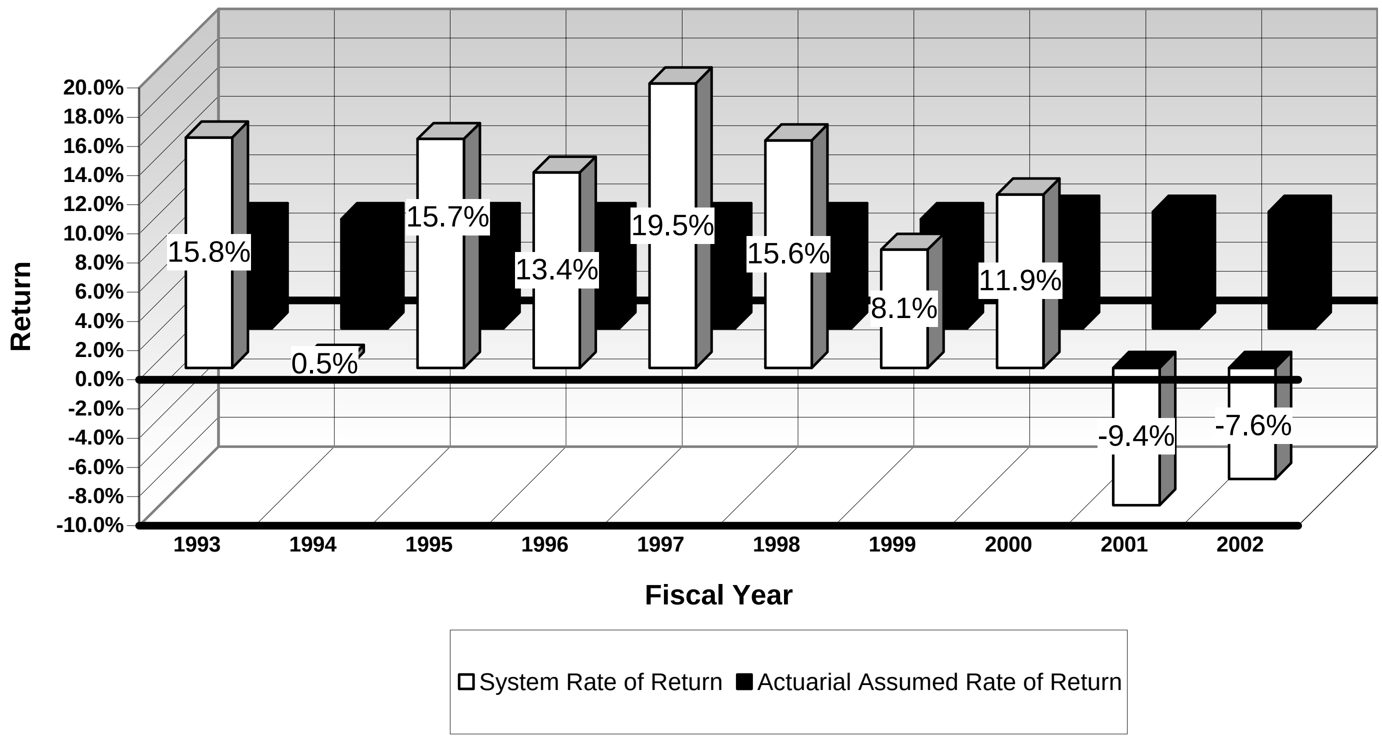
Source: Maryland State Retirement Agency, August 2002

Investment Performance Overall

Exhibits 13.6 and 13.7 illustrate the systems' ten-year history of total annualized returns and the ten-year growth of the investment portfolio, respectively, from fiscal 1993 through 2002. As indicated in Exhibits 13.6 and 13.7, the system experienced its first negative return in ten years at the close of fiscal 2001 with a reported loss of 9.4 percent, and the first decrease in market value of its assets since 1996, sustaining a loss of $3.6

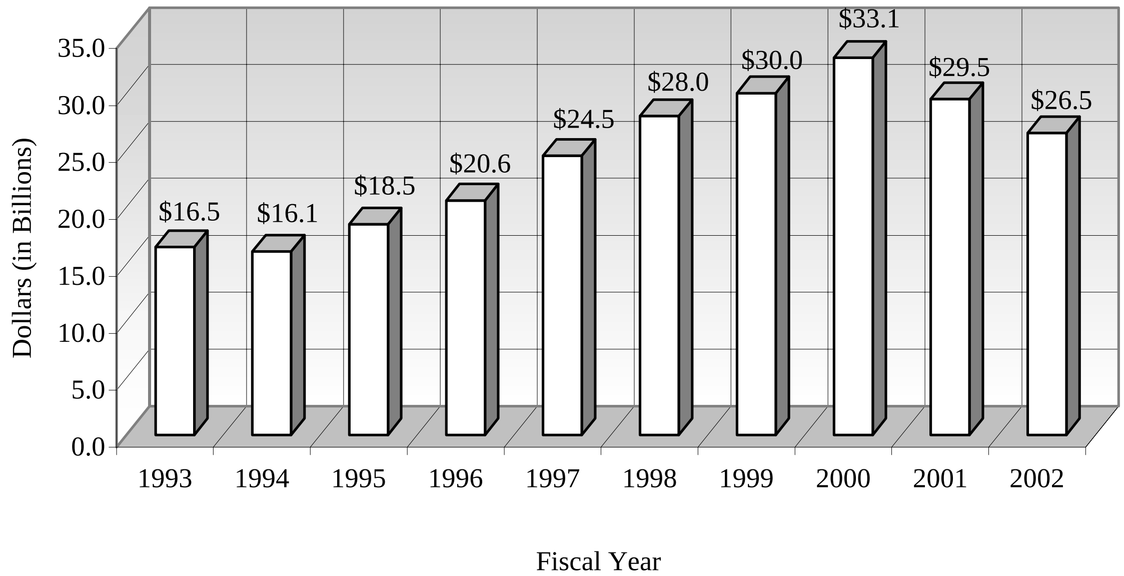
billion. These losses continued through fiscal 2002, when the system again reported a loss of 7.6 percent and a further decrease in market value of its assets of $3 billion. The 7.6 percent loss experienced by the system is 15.6 percent below the system's actuarial target of 8 percent. (Prior to fiscal 1999, the system's actuarial target was 7.5 percent.) Exhibit 13.8 details the management and performance of the portfolio by asset class for fiscal 2002, including the three-, five-, seven-, and ten-year time-weighted total returns. The losses in fiscal 2002, coupled with the 9.4 percent loss sustained in fiscal 2001, bring the three-year, five-year, seven-year and ten-year portfolio performance below the 8 percent actuarial target. At the end of fiscal 2000, the three-year, five-year, seven-year and ten-year returns were 11.8 percent, 13.7 percent, 11.9 percent, and 12.4 percent, respectively. The corresponding returns for fiscal 2002 were -2.2 percent, 3.2 percent, 6.8 percent, and 7.9 percent. Appendix 12 sets forth the fees paid to external investment managers in fiscal 2002.

Exhibit 13.6
Ten-Year History of Time Weighted Annual Returns
Fiscal 1993 - 2002



Source: State Retirement and Pension System of Maryland

Exhibit 13.7
Ten-Year Growth of Investment Portfolio
Fiscal 1993 - 2002



Source: State Retirement and Pension System of Maryland

Exhibit 13.8
Fund Investment Performance
as of June 30, 2002

	Unaudited Time Weighted Total Returns				
	1 Year	**3 Years**	**5 Years**	**7 Years**	**10 Years**
Equity	-14.5%	-6.6%	1.2%	7.4%	8.8%
Fixed Income	6.5%	7.0%	7.1%	7.2%	8.0%
Real Estate	10.3%	11.7%	9.6%	11.5%	8.5%
Private Equity	-	-	-	-	-
Total Fund	**-7.6%**	**-2.2%**	**3.2%**	**6.8%**	**7.9%**

Source: Maryland State Retirement Agency, August 2002

Chapter 14. Maryland Teachers' and State Employees' Supplemental Retirement Plans

The State of Maryland has authorized four different deferred compensation programs for its employees in accordance with federal income tax laws and regulations. While these programs are not part of the State Retirement and Pension System, they provide an increasingly important supplemental benefit for employees who elect to participate. As of July 1, 2002, the deferred compensation programs authorized by the State were the: (1) Deferred Compensation Program operated pursuant to Internal Revenue Code (IRC) Section 457; (2) Tax-Deferred Annuity Program for Educational Employees under IRC Section 403(b); (3) Savings and Investment Program under IRC Section 401(k), which includes both the 401(k) deferred plan and the 401(k) transfer plan; and (4) Employer Matching Plan operated under IRC Section 401(a). The federal rules regarding each of these plans are listed in Appendix 13.

Administration

Prior to 1985 responsibility for the administration of the various programs was diversified. The 457 program was the responsibility of a seven-member Board of Trustees of the State Employees Deferred Compensation Plan. The 403(b) program was the responsibility of the Board of Trustees of the Maryland State Retirement and Pension Systems, and the 401(k) program was the responsibility of the Department of Personnel.

Since enactment of Chapter 741 of 1985, responsibility for the administration of the 457, 403(b), and 401(k) plans has been vested in a single nine-member Board of Trustees of the Maryland Teachers' and State Employees' Supplemental Retirement Plans. In 1998 Chapter 530 allocated the additional responsibility of administering the 401(a) plan to the board. The board members are appointed by the Governor to four-year terms. Three members must be appointed from the following departments and offices:

- Department of Budget and Management
- Department of Education
- Office of the Comptroller
- Office of the State Treasurer
- State Retirement Agency
- Maryland Higher Education Commission

In addition, three members must be appointed from those eligible to participate in the programs, and three must be members of the public who are not eligible to participate. The composition of the board of trustees as of June 30, 2001, is shown in Appendix 14.

The board's operating budget for fiscal 2001 was $1,358,664, which is financed by a 0.06 percent fee on the assets of the participants in all of the programs. In addition to a 17-member staff (16.5 positions), the board contracts for outside investment advisory services. As of December 2001, investment advisory services were provided by Segal Company, Inc., and Segal Advisors, Inc. The actual hands-on administration, including participation and investment carrier coordination, is performed by the Public Employees Benefit Service Corporation (PEBSCO), a subsidiary of Nationwide Retirement Solutions.

457 Program – Deferred Compensation

The 457 program is the largest of the three deferred compensation programs. Participation is open to: (1) officers and employees of the State; (2) members of the General Assembly; (3) judges, clerks, and employees of the various courts; (4) registers and other employees of the Office of the Register of Wills; and (5) part-time and contractual State employees. Participants may defer up to 100 percent of adjusted gross salary annually, not to exceed $11,000, which is accomplished through payroll deductions. In fiscal 2001 the average asset value per account was $37,522. Exhibit 14.1 sets forth asset, deferral, and participant data for fiscal 1997 through 2001.

Exhibit 14.1
457 – Assets, Deferrals, and Participants
Fiscal 1997 - 2001
($ in Millions)

	1997	**1998**	**1999**	**2000**	**2001**
Plan Assets	$841.7	$970.7	$1,078.4	$1,141.2	$1,082.0
Deferrals	$38.7	$38.0	$34.4	$34.4	$33.5
Number of Participants	24,729	25,542	26,931	27,583	27,561

Source: Joint Committee on Pensions, Report of the 2001 Interim

403(b) Program – Tax Sheltered Annuities

Participation in the 403(b) program is limited to employees of the State, local governments, or local boards of education who perform services in or for educational entities. The maximum deferral is the lesser of $11,000, annually, or 100 percent of annual adjusted gross salary. The board assumed administrative control over this program from the State Retirement and Pension System in October 1986, at which time there were 41 participants with $559,000 in deferrals. As of June 30, 2001, the plan had grown to 1,350 participants and $2.9 million in deferrals. In fiscal 2001 the average asset value per account was $48,428. Exhibit 14.2 sets forth asset, deferral, and participant data for fiscal 1997 through 2001.

Exhibit 14.2
403(b) – Assets, Deferrals, and Participants
Fiscal 1997 - 2001
($ in Millions)

	1997	1998	1999	2000	2001
Plan Assets	$49.6	$59.5	$66.9	$70.8	$65.4
Deferrals	$3.1	$2.8	$2.8	$2.8	$2.9
Number of Participants	1,285	1,282	1,326	1,368	1,350

Source: Joint Committee on Pensions, Report of the 2001 Interim

401(k) Program – Savings and Investment

Participation is the 401(k) program, which became operational on January 1, 1990, is open to all State officers and employees. Similar to the 457 and 403(b) plans, the maximum annual deferral is 100 percent of adjusted gross salary annually and limits participants' deferrals to $11,000, annually.

A separate account under the 401(k) program was established in 1991 solely for the purpose of receiving transfer refunds from State employee members of the old employees' and teachers' retirement systems who transfer to the newer pension systems and receive a return of their accumulated contributions with interest. Pursuant to an IRS ruling obtained by the board of trustees, these transfer refunds can be rolled over into the 401(k) program without immediate tax consequences.

In fiscal 2001 the average asset value per account in the 401(k) deferred plan was $8,758, while the average asset value per account in the 401(k) transfer plan was $240,109. Exhibit 14.3 sets forth asset, deferral, and participant data for fiscal 1997 through 2001.

Exhibit 14.3
401(k) – Assets, Deferrals, and Participants
Fiscal 1997 - 2001
($ in Millions)

Deferral Account

	1997	1998	1999	2000	2001
Plan Assets	$81.8	$129.9	$192.1	$270.2	$305.3
Deferrals	$23.7	$31.6	$43.6	$62.8	$71.7
Number of Participants	10,518	14,056	23,838	31,191	34,862

Transfer Account

	1997	1998	1999	2000	2001
Plan Assets	134.9	146.1	147.4	141.5	124.9
New Transfers	0.3	0.3	0.2	0.2	0
Number of Participants	596	580	561	547	520

Source: Joint Committee on Pensions, Report of the 2001 Interim

401(a) Program – Employer Matching Plan

Participation in this plan, which became operational on July 1, 1999, is open to all State employee members of the Employees' Pension System. Chapter 530 of 1998 provides that the State contribute a dollar-for-dollar amount not to exceed $600 for each participant. For fiscal 2003 budget bill language reduces that amount to $500.

The establishment of the employer match program to the three payroll deferral programs dramatically increased the participation of Employees' Pension System members in these deferral programs. On the eve of the commencement of the matching program (June 30, 1999), 53 percent of the approximately 48,000 State employees who were eligible to take part in the matching program were already participating in one of the three payroll deferral programs. By June 30, 2001, the total number of eligible State employees who were participating in the matching program had increased to almost 75 percent.

Exhibit 14.4 sets forth asset, deferral, and participant data for fiscal 2000 and 2001.

Exhibit 14.4
401(a) – Assets, Deferrals, and Participants
Fiscal 2000 - 2001
($ in Millions)

	2000	2001
Plan Assets	$22.4	$39.7
Deferrals	$21.0	$20.0
# of Participants	35,389	37,725

Source: Joint Committee on Pensions, Report of the 2001 Interim

Investment Options

Participants in the 457, 401(k), and 401(a) program have the option of investing in fixed rate investment contracts. The fixed rate investment contracts are bid quarterly and have a blended interest rate that is established each quarter. These are contracts with insurance or investment management companies whereby the companies promise a fixed interest rate for a fixed term.

Participants in all four payroll deferral plans may take advantage of various mutual fund options. As of June 30, 2001, the following mutual funds were available to participants in all four payroll deferral plans:

- Conservative: Balanced Funds
  - Deutsche Flag Investors Value Builder Fund Institutional Shares
  - Fidelity Puritan Fund

- Moderate: Growth & Income Funds
  - Fidelity Growth and Income Portfolio
  - Legg Mason Value Trust – Institutional Class
  - Vanguard Institutional Index Fund
  - Washington Mutual Investors Fund

- Aggressive: Growth Funds
  - AIM Constellation Fund
  - INVESCO Dynamics Fund

- More Aggressive: Small-Cap Funds
  - Delaware Trend Fund
  - T. Rowe Price Small-Cap Stock Fund

- International Funds:
  - EuroPacific Growth Fund
  - T. Rowe Price International Stock Fund

In addition, as of June 30, 2001, participants in the 403(b) program may invest in a money market fund, the Vanguard Prime Money Market Fund. Participants in the 457, 401(k), and 401(a) programs also have the option of investing in a bond fund, Federated U.S. Government Securities Fund: 2-5 Years.

Program Administration and Fees

As of June 30, 2001, with the exception of the 401(k) transfer plan, PEBSCO serves as the plan administrator for all of the supplemental plans. PEBSCO is under contract to administer the supplemental plans through calendar 2002. Each participant in each plan is assessed an annual asset fee of 0.34 percent (0.28 percent to PEBSCO and .06 percent to the board), not to exceed $1,500. The agency administers the 401(k) transfer account, which is financed by a 0.16 percent asset fee ($500 maximum per year), without the services of a plan coordinator. Language in the 2002 budget bill required the agency to transfer administration of the 401(k) transfer plan to the outside administrator. In addition to these annual asset fees, in April 2002, the board charged an $8 fee on each supplemental account. Exhibit 14.5 provides a detailed summary of PEBSCO and board fees for each of the plans for fiscal 1997 through 2001.

Exhibit 14.5
All Plans – Fees Paid to PEBSCO and the Board
Fiscal 1997 - 2001
($ in Thousands)

	1997	1998	1999	2000	2001
PEBSCO Fees					
457	$3,242.2	$3,049.6	$2,952.8	$2,770.8	$2,514.9
403(b)	$193.3	$215.6	$127.5	$161.9	$187.2
401(k) Deferral	$419.3	$476.2	$406.8	$666.5	$807.5
401(k) Transfer	NA	NA	NA	NA	NA
401(a)	NA	NA	NA	$26.9	$107.7
Total	**$3,854.8**	**$3,741.4**	**$3,487.1**	**$3,626.1**	**$3,617.3**
Board Fees					
457	$691.1	$771.8	$728.8	$635.6	$614.4
403(b)	$46.6	$55.5	$54.2	$57.3	$46.2
401(k) Deferral	$62.3	$104.2	$127.6	$136.9	$181.1
401(k) Transfer	$184.0	$184.7	$166.6	$150.2	$157.2
401(a)	NA	NA	NA	$5.0	$21.0
Other Fees/Rev./Adj.	$4.3	-$0.7			
Total	**$988.3**	**$1,115.5**	**$1,077.2**	**$985.0**	**$1,019.9**

Source: Joint Committee on Pensions, Report of the 2001 Interim

All Plans – Assets, Deferrals, Participants, and Fees

Exhibit 14.6 provides a summary of the plans' assets, deferrals, participants, and average account values for fiscal 1997 through 2001.

Exhibit 14.6
All Plans – Assets, Deferrals, and Average Account Values
Fiscal 1997 - 2001

	1997	1998	1999	2000	2001	% Change 2000 - 2001	% Change 1997 - 2001
Plan Assets ($ in Millions)							
457	$841.7	$970.7	$1,078.4	$1,141.2	$1,082.0	-5.2%	28.5%
403(b)	$49.6	$59.5	$66.9	$70.8	$65.4	-7.6%	31.9%
401(k) Deferral	$81.8	$129.9	$192.1	$270.2	$305.3	13.0%	273.2%
401(k) Transfer	134.9	146.1	147.4	141.5	124.9	-11.7%	-7.4%
401(a)	NA	NA	NA	$22.4	$39.7	77.2%	NA
Total	$1,108.0	$1,306.2	$1,484.8	$1,646.1	$1,617.3	-1.7%	46.0%
Deferrals & Transfers ($ in Millions)							
457	$38.7	$38.0	$34.4	$34.4	$33.5	-2.6%	-13.4%
403(b)	$3.1	$2.8	$2.8	$2.8	$2.9	3.6%	-6.5%
401(k) Deferral	$23.7	$31.6	$43.6	$62.8	$71.7	14.2%	202.5%
401(k) Transfer	$0.3	$0.3	$0.2	$0.2	$0.0	-100.0%	-100.0%
401(a)	NA	NA	NA	$21.0	$20.0	-4.8%	NA
Total	$65.8	$72.7	$81.0	$121.2	$128.1	5.7%	94.7%
Average Account Values (in Actual $)							
457	$34,037.0	$38,005.0	$40,043.0	$37,379.0	$37,522.0	0.4%	2.5%
403(b)	$31,669.0	$46,425.0	$50,452.0	$51,770.0	$48,428.0	-6.5%	11.2%
401(k) Deferral	$7,777.0	$9,244.0	$8,059.0	$8,662.0	$8,758.0	1.1%	3.0%
401(k) Transfer	$226,342.0	$251,900.0	$262,745.0	$258,659.0	$240,109.0	-7.2%	1.5%
401(a)	NA	NA	NA	$633.0	$1,053.0	66.4%	NA

Source: Joint Committee on Pensions, Report of the 2001 Interim

Appendix 1

Summary of Personnel Detail by Major Areas of Government
Authorized Regular Positions
Fiscal 1999 - 2003

	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 Legis. Approp.
Legislative	669	720	723	730	730
Judicial Review & Legal	3,838	4,032	4,188	1,619	4,585
Executive & Administrative Control	1,367	1,523	1,565	1,619	1,578
Financial & Revenue Administration	2,090	2,111	2,141	2,158	2,102
Budget & Management	417	460	510	524	531
Retirement	157	179	187	194	185
General Services	634	656	689	793	796
Transportation	9,063	9,194	9,256	9,538	9,319
Natural Resources	1,389	1,584	1,588	1,629	1,577
Agriculture	440	476	471	480	460
Health & Mental Hygiene	8,194	8,241	8,413	8,536	8,099
Human Resources	6,526	6,778	7,652	8,273	7,714
Labor, Licensing, & Regulation	1,546	1,670	1,708	1,706	1,617
Public Safety & Correctional Services	10,720	10,874	11,228	11,663	11,465
Higher Education	19,087	19,616	20,304	21,386	20,596
Other Education	1,863	1,881	1,904	1,955	1,903
Housing & Community Development	383	417	421	449	424
Business & Economic Development	247	307	319	324	319
Environment	945	956	1,011	1,028	1,032
Juvenile Justice	1,037	1,318	1,613	2,123	1,996
State Police	2,486	2,516	2,556	2,590	2,510
Subtotal	**73,095**	**75,506**	**78,445**	**79,315**	**79,538**
Nonbudgeted	4,892	4,768	4,903	5,116	5,166
Total	**78,987**	**80,274**	**83,348**	**84,431**	**84,704**

Source: Department of Legislative Services

Appendix 2

Independent Salary Setting Authorities and Independent Personnel Systems

Dept/Agency	Authority	Groups Covered	Fiscal 2001 Employees
Dept. of Legislative Services	State Government, Article § 2-1205	All employees	357
Judiciary	Declaration of Rights Article 8; Maryland Constitution Article IV	All employees, except judges	2,598
University System of Maryland	Education Article §§ 12-110 and 12-111	All employees, including former Board of Trustees institutions	18,482
Morgan State University	Education Article §14-104	Professional positions, including faculty	631
St. Mary's College	Education Article §14-408	All positions	391
Baltimore City Community College	Education Article §16-510	Officers, faculty, and administrative employees	494
Department of Budget and Management	Education Article §6-302	Teachers employed in Department of Juvenile Justice facilities, hospitals, prisons, and certain vocational rehabilitation programs	202
Transportation	Transportation Article §2-103.4	All employees	9,256
Maryland Aviation Administration	Transportation Article § 5-201.1	Management personnel (up to 12)	1
Maryland Port Administration	Transportation Article § 6-204	Management personnel (up to 12) for private operating companies	12

Dept/Agency	**Authority**	**Groups Covered**	**Fiscal 2001 Employees**
Employment Services and Unemployment Insurance	Labor and Employment Article § 8-305	All employees	919
Maryland Automobile Insurance Fund	Insurance Article § 20-204	Executive director, technical and professional positions	458
Injured Workers Insurance Fund	Labor & Employment Article §10-113	All professional and technical; all others hired after 7/1/90	396
Maryland Environmental Service	Natural Resources Article §§ 3-103.1 and 3-103.2	All employees	551
Maryland Food Center Authority	Article 41 §13-105	All employees	26
Historic St. Mary's City Commission	Education Article § 24-510	All employees	43
Maryland Stadium Authority	Financial Institutions Article § 13-708	All employees	79
Maryland Energy Administration	State Government Article §9-2002	All employees	20
State Board of Physician Quality Assurance	Health Occupations Article §14-204	All employees hired after 9/1/92	73
Maryland Veterans' Home Commission	State Government Article §9-927	All employees of the home	4
Assessments and Taxation	Tax Property Article § 2-104	Persons transferred from jurisdictions in 1974-6 retain right to remain in local pay and classification systems for present job and for any job to which promoted at any time in the future	23

Dept/Agency	Authority	Groups Covered	Fiscal 2001 Employees
State Racing Commission	Business Regulation Article § 11-206	Stewards and harness judges	8
State Soil Conservation Committee	Agriculture Article § 8-203	All employees of the committee	2
MD Public Broadcasting	Education Article § 24-204	All employees except support and custodial staff	152
Maryland Insurance Administration	Insurance Article § 2-105	Professional, management, and technical employees	248
Health Care Commission	Health General Article §§ 19-106 and 19-107	Executive director	1
Police & Correctional Training Commissions	Correctional Services Article §8-206	Personnel performing administrative and training management functions	13
Dept. of Business and Economic Development	Article 83A § 2-102	Assistants, professional consultants, and employees of the Secretary’s office	46
Public Service Commission	Public Utilities Companies Article § 2-108	Executive director and positions unique to the PSC	126
Office of People’s Counsel	Public Utilities Companies Article § 2-203	Deputy People’s Counsel, certain attorneys, and positions unique to the People’s Counsel	9

Source: Fiscal 2003 State Budget Books, Department of Legislative Services, and Department of Budget and Management

Appendix 3

Creation and Abolition of State Positions through the Budget

I. Position Request

A. The requesting agency normally initiates requests for a position authorization, to be funded through:

1. Regular Budget – may be anticipated in the agency's budget request or incorporated into the agency's budget as part of a program enhancement or new initiative.

2. Supplementary or deficiency budget as an addition to the regular budget.

3. Board of Public Works – if it is within the legislatively prescribed position limit, the Board of Public Works can approve the creation of positions.

B. The requesting agency needs justification for additional positions. Each requested position is described in terms of:

1. workload;

2. organizational implications;

3. whether it is a statutorily created position;

4. funding; and

5. related costs.

II. Position Approval

A. New position requests are reviewed by the budget analyst for the requesting agency for inclusion in the budget or on the Board of Public Works agenda.

1. Legislative and judicial requests are reviewed for consistency with the Legislative Branch request format, but not for approval/disapproval.

2. Position actions with the nonbudgeted independent agencies, including the Maryland Automobile Insurance Fund, the Food Market Authority, and the Maryland Transportation Authority, are not reviewed by the Department of Budget and Management, but must be consistent with statute.

3. Executive branch requests for positions are subjected to a full review of the requesting agency's need justification and related position matters including whether:

   a. the workload can be quantified;

   b. the quantity and types of positions are appropriate for the workload to be performed;

   c. existing staff can absorb the proposed workload;

   d. there are excessive vacancies in the program or unit, which may be filled before new positions are created;

   e. the workload is continuing or can be resolved with the use of temporary positions; and

   f. the requested position/positions conform to statute, budget bill language, and the *Joint Chairmen's Report*.

B. Department of Budget and Management Processing of Position Actions

1. The Department of Budget and Management for new positions that have been approved in the budget, assigns each a Position Identification Number (PIN) as an inventory control.

2. Position creations not specified in the annual budget are subject to the Board of Public Works approval, after which they are assigned a PIN by the Department of Budget and Management.

III. Position Maintenance

A. The Department of Budget and Management, Office of Personnel Services and Benefits determines the appropriate job title and pay level for each new position based on each position's assigned duties and responsibilities, consulting with departmental personnel where necessary for clarification. The PIN number is entered into the office's data files along with the approved job title and corresponding pay range, creating a position which then may be filled by an employee. The requesting agency is then notified.

1. The office, subject to approval of the Secretary of Budget and Management, must establish classifications for all positions in the State Personnel Management System.

2. Changes in the duties, if material, may result in an agency requesting a position be abolished and a new position be created. The Office of Budget Analysis, also part of the Department of Budget and Management, controls the need and funding aspects of reorganized positions, while the assignment to a classification is handled within the department's Office of Personnel Services and Benefits. However, unless the change involves a large number of employees, agencies are given the discretion to abolish and create positions on their own as the result of changes in duties.

3. The office audits a random sample of positions under its jurisdiction to determine whether the positions are correctly classified and correctly compensated.

B. Position Transfer and Casual Abolition

1. The Office of Budget Analysis effects position transfers based on requests from the State agencies. The Department of Budget and Management reviews requests for the transfer of PINs to reflect inter-agency organizational change. Funds for any transferred PINs remain with the originating agency.

2. Position abolitions are made from time to time outside of the annual budget:

   a. to reflect law changes;

   b. as a result of special or federal fund lapses;

   c. from contractual replacement of State employees;

   d. because of reorganization; and

   e. because of financial difficulties faced by the State.

Source: Department of Legislative Services; Department of Budget and Management

Appendix 4
State of Maryland Standard Salary Schedule
Fiscal 2003
Annual Rates Effective January 1, 2002

	Base	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1	$14,383	$14,904	$15,444	$16,007	$16,593	$17,201	$17,517	$17,840	$18,168	$18,505	$18,846	$19,196	$19,554	$19,916	$20,288	$20,665	$21,051	$21,444	$21,845
2	15,293	15,850	16,428	17,030	17,656	18,307	18,646	18,992	19,343	19,702	20,069	20,443	20,824	21,213	21,610	22,015	22,427	22,846	23,274
3	16,267	16,863	17,483	18,127	18,796	19,493	19,855	20,224	20,602	20,987	21,378	21,778	22,186	22,602	23,027	23,460	23,901	24,350	24,808
4	17,309	17,947	18,609	19,298	20,015	20,760	21,149	21,543	21,947	22,357	22,778	23,206	23,642	24,087	24,541	25,004	25,477	25,960	26,451
5	18,424	19,106	19,815	20,553	21,319	22,117	22,532	22,954	23,386	23,827	24,275	24,733	25,200	25,677	26,163	26,658	27,163	27,678	28,203
6	19,617	20,347	21,105	21,895	22,714	23,568	24,012	24,464	24,926	25,397	25,878	26,369	26,868	27,377	27,897	28,428	28,969	29,520	30,081
7	20,894	21,675	22,487	23,331	24,210	25,123	25,597	26,082	26,576	27,080	27,594	28,118	28,652	29,197	29,755	30,322	30,901	31,492	32,093
8	22,260	23,096	23,964	24,867	25,806	26,784	27,291	27,810	28,337	28,877	29,427	29,988	30,561	31,143	31,739	32,347	32,966	33,598	34,241
9	23,722	24,616	25,545	26,512	27,517	28,563	29,106	29,660	30,226	30,803	31,391	31,992	32,603	33,228	33,866	34,515	35,177	35,852	36,541
10	25,286	26,243	27,237	28,271	29,347	30,465	31,048	31,640	32,246	32,863	33,493	34,135	34,790	35,458	36,139	36,835	37,543	38,265	39,002
11	26,958	27,982	29,047	30,153	31,303	32,500	33,123	33,759	34,406	35,066	35,740	36,428	37,128	37,843	38,572	39,316	40,076	40,851	41,641
12	28,749	29,844	30,982	32,167	33,399	34,679	35,345	36,024	36,717	37,423	38,145	38,880	39,630	40,394	41,175	41,972	42,783	43,610	44,453
13	30,664	31,836	33,055	34,322	35,638	37,009	37,721	38,448	39,191	39,947	40,718	41,504	42,307	43,125	43,960	44,812	45,680	46,565	47,468
14	32,715	33,969	35,273	36,628	38,037	39,504	40,267	41,044	41,839	42,648	43,472	44,314	45,173	46,049	46,942	47,853	48,784	49,732	50,700
15	34,908	36,250	37,645	39,095	40,604	42,174	42,989	43,821	44,670	45,535	46,419	47,319	48,238	49,176	50,131	51,106	52,100	53,114	54,147
16	37,255	38,691	40,184	41,736	43,351	45,029	45,902	46,792	47,701	48,627	49,572	50,535	51,519	52,522	53,545	54,587	55,652	56,738	57,844
17	39,766	41,302	42,898	44,559	46,287	48,084	49,017	49,969	50,941	51,933	52,944	53,975	55,027	56,100	57,194	58,310	59,449	60,610	61,794
18	42,453	44,096	45,805	47,583	49,432	51,354	52,353	53,371	54,412	55,472	56,555	57,658	58,783	59,932	61,103	62,296	63,514	64,756	66,022
19	45,329	47,088	48,915	50,817	52,794	54,851	55,919	57,011	58,124	59,259	60,416	61,597	62,801	64,029	65,282	66,560	67,864	69,193	70,547
20	48,405	50,287	52,242	54,277	56,392	58,593	59,738	60,905	62,096	63,309	64,548	65,811	67,100	68,415	69,755	71,123	72,518	73,939	75,389
21	51,697	53,710	55,804	57,980	60,244	62,598	63,823	65,072	66,346	67,645	68,970	70,322	71,701	73,107	74,542	76,005	77,497	79,019	80,570
22	55,219	57,373	59,612	61,942	64,365	66,884	68,193	69,531	70,893	72,284	73,701	75,148	76,622	78,128	79,663	81,228	82,826	84,456	86,118
23	58,988	61,293	63,689	66,182	68,775	71,470	72,871	74,301	75,759	77,246	78,764	80,312	81,890	83,502	85,143	86,818	88,527	90,270	92,049
24	63,020	65,487	68,051	70,718	73,491	76,376	77,875	79,407	80,967	82,558	84,181	85,837	87,526	89,249	91,007	92,799	94,628	96,494	98,396
25	67,335	69,975	72,718	75,571	78,539	81,626	83,230	84,868	86,538	88,240	89,977	91,749	93,556	95,401	97,280	99,198	101,154	103,149	105,183
26	71,952	74,776	77,710	80,765	83,941	87,243	88,959	90,711	92,498	94,320	96,179	98,074	100,008	101,982	103,993	106,045	108,140	110,276	112,454

Appendix 5

Maryland State Employee Salary Actions
Fiscal 1992 - 2002
and
Additional Increases in the Maryland State Police, Natural Resources Police, and Park Rangers' Classifications

Fiscal Year	General Salary Increase	Increments	Additional Increases MSP, NRP & Park Rangers	Consumer Price Index – Urban Consumers
1992	None	No	None	3.2%
1993	None	No	None	3.1%
1994	None	Yes	None	2.6%
1995	3.0%[1]	Yes, but delayed 2 months	None	2.9%
1996	2.0%	Yes, but delayed 4 months	None	2.7%
1997	None	Yes, but Executive Pay Plan delayed until February 12, 1997	1% general salary increase on February 12, 1997	2.9%
1998	None	Yes, except none for Executive Pay Plan	10% general salary increase on July 1, 1997	1.8%
1999	\$900 on July 1, 1998; \$375 on January 1, 1999	Yes	Additional 4% general salary increase on July 1, 1998	1.7%
2000	\$638 on July 1, 1999; \$637 on January 1, 2000	Yes	Additional 4% general salary increase on July 1, 1999	2.9%
2001	4% on November 15, 2000	Yes	None	3.4%
2002	4% on January 1, 2002	Yes	\$850 added to the base on July 1, 2001 for Steps I through S	1.8%

[1] \$800 minimum increase to annual salary.
[2] Increase calculated based on the average salaries paid in SPMS in 1999 and 2000.

Source: Consumer Price Index – All Urban Consumers, All Items (not seasonally adjusted): Bureau of Labor Statistics, Department of Legislative Services, Department of Budget and Management

Appendix 6

Exceptions Hearing Process
Fiscal 2000 - 2001

	2000	2001
Charges for Termination		
Proposal Upheld	1	5
Proposal Rescinded	1	2
Proposal Remanded	0	2
Total	**2**	**9**
Suspensions		
Proposal Upheld	16	12
Proposal Rescinded	0	0
Proposal Remanded	0	1
Total	**16**	**13**
Suspensions Pending Charges for Termination		
Proposal Upheld	16	17
Proposal Rescinded	0	0
Proposal Remanded	0	0
Total	**16**	**17**
Involuntary Demotions		
Proposal Upheld	0	0
Proposal Rescinded	0	0
Proposal Remanded	0	0
Total	**0**	**0**
Notice of Disqualification from Future Employment		
Proposal Upheld	0	5
Proposal Rescinded	2	1
Proposal Remanded	0	0
Total	**2**	**6**
Rejections on Probation		
Proposal Upheld	2	8
Proposal Rescinded	1	0
Proposal Remanded	0	0
Total	**3**	**8**
Disciplinary Loss of Leave		
Proposal Upheld	5	4
Proposal Rescinded	0	0
Proposal Remanded	0	0
Total	**5**	**4**

Source: Department of Budget and Management

Appendix 7

Contractual Employment (FTEs)
Fiscal 1999 - 2002

	1999 Actual	2000 Actual	2001 Actual	2002 Working	2001-2002 Change	2001-2002 % Change	2002 Contract. % of Reg.
Legislative, Judicial Review, & Legal	508	561	503	493	(10)	(2%)	9%
Executive & Administrative Control	231	147	239	189	(50)	(21%)	12%
Financial & Revenue Administration	54	28	28	57	29	104%	3%
Budget & Management	45	70	70	31	(39)	(56%)	6%
Retirement	9	25	28	35	6	22%	18%
General Services	45	44	27	32	6	21%	4%
Transportation	237	143	155	175	21	13%	2%
Natural Resources	510	328	331	416	85	26%	26%
Agriculture	32	33	38	40	1	3%	8%
Health & Mental Hygiene	483	482	448	518	70	16%	6%
Human Resources	1,267	789	354	179	(176)	(50%)	2%
Labor, Licensing, & Regulation	312	401	132	92	(41)	(31%)	5%
Public Safety & Correctional Services	342	294	330	577	247	75%	5%
Higher Education	5,615	5,800	6,227	5,763	(465)	(7%)	27%
Other Education	149	138	203	229	26	(13%)	12%
Housing & Community Development	54	38	52	80	28	(53%)	18%
Business & Economic Development	78	33	54	46	(8)	15%	14%
Environment	48	49	42	52	10	24%	5%
Juvenile Justice	606	438	317	135	(182)	(57%)	6%
State Police	55	29	35	37	2	5%	1%
Total Budgeted Contractuals	**10,679**	**9,867**	**9,614**	**9,176**	**(438)**	**(5%)**	**11%**

Source: Department of Legislative Services

Appendix 8

Board of Trustees of the State Retirement and Pension System as of June 30, 2001

William Donald Schaefer Acting Chairman Comptroller of the Treasury (Ex officio)	Nancy K. Kopp Vice Chairman State Treasurer (Ex officio)	Ali A. Alemi (Beneficiary of Employees' Retirement System)
William D. Brown (Member of Teachers' Retirement System)	Arthur Caple, Jr. (Member of Employees' Retirement System)	David A. Rakes (Governor appointed)
Nancy S. Grasmick State Superintendent of Schools (Ex officio)	G. Bruce Harrison (Member of State Police Retirement System)	Debra B. Humphries (Governor appointed)
Morris L. Krume (retiree of State Police Retirement System)	Carl D. Lancaster (Retiree of Teachers' Retirement System)	David B. Mitchell Superintendent Md. State Police (Ex officio)
T. Eloise Foster Secretary, Dept of Budget and Management (Ex officio)	George R. Tydings (Governor appointed)	

Public Advisors to the Investment Committee

Robert W. Schaefer	Wayne H. Shaner	Robert H. Patzwall, Jr.

Source: Maryland State Retirement and Pension System

Appendix 9

Mission, Vision, and Key Goals of the Maryland State Retirement Agency 2002

MISSION

To administer the survivor, disability, and retirement benefits of the system's participants, and to ensure that sufficient assets are available to fund the benefits when due.

VISION

A state which provides a fully funded retirement system that is affordable to all participating employees and employers and provides guaranteed adequate disability, survivor, and retirement benefits.

KEY GOALS

- To prudently invest system assets in a well diversified manner to optimize long-term returns, while controlling risk through excellence in execution of the investment objectives and strategies of the system.

- To effectively communicate with all retirement plan participants to inform them about the benefits provided by the system and to educate them about planning and preparing for all aspects of their future retirement.

- To accurately and timely pay retirement allowances provided by State pension law to the system's retirees and their beneficiaries.

- To implement an automated, comprehensive, and integrated pension administration and electronic document management system.

- To efficiently collect the required employer and employee contributions necessary to fund the system.

Appendix 10
Comparison of Maryland State Retirement Plan

	Employees and Teachers[1]	State Police	Correctional Officers' System	Law Enforcement Officers' System	Judges	General Assembly	Governor
Participation	Condition of employment	Condition of employment	Condition of employment	Condition of employment	Condition of employment	Optional	Automatic
Vesting	5 years of service	5 years of service	5 years of service	5 years of service	Immediate	8 years of service	one full term
Employee Contribution	2% of salary	8% of salary	5% of salary	4% of salary	6% of salary (for 16 years)	5% of salary (for 22 years, 3 months)	none
Service Retirement Conditions	Age 62 or 30 years (Age 55 with 15 years reduced benefit)	Age 50 or 22 years of service	20 years service, with at least the last 5 years as correctional officer	Age 50 or 25 years of service	Age 60	Age 60 (Age 50 with 8 years reduced benefit)	Age 55
Allowance	1.4% of salary for years service after 7/1/98; plus 1.2% of salary for years service prior to 7/1/98	2.55% per year of service	1.8% per year of service	2.0% per year if subject to the LEOP's modified pension benefit; otherwise 2.3% for first 30 years and 1.0% for each year thereafter	2/3 of active judge salary at 16 years	3% of current legislative salary per year of service	1/3 of current gubernatorial salary for one term; or 1/2 of annual salary for 2 terms
Post Retirement Adjustments	Limited to 3% annual COLA	Unlimited annual COLA	Unlimited annual COLA	Limited to 3% annual COLA	Based on salary of active judges	Based on salary of active legislators	Based on salary of active governor

	Employees and Teachers[1]	State Police	Correctional Officers' System	Law Enforcement Officers' System	Judges	General Assembly	Governor
Ordinary Disability Retirement							
Conditions	Incapacitated for duty after 5 years eligibility service	Incapacitated for duty after 5 years eligibility service	Incapacitated for duty after 5 years eligibility service	Incapacitated for duty after 5 years eligibility service	Incapacitated for duty	See footnote[2]	Not applicable
Allowance	Service retirement projected to age 62	Service retirement with minimum of 35% of salary	Service retirement with minimum of 25% of salary	Service retirement projected to age 50	Service retirement with minimum of 33.3% of salary	See footnote[2]	Not applicable
Accidental Disability Retirement							
Conditions	Permanently and totally disabled by accident in the performance of duty	Permanently and totally disabled by accident in the performance of duty	Permanently and totally disabled by accident in the performance of duty	Permanently and totally disabled by accident in the performance of duty	Not applicable	Not applicable	Not applicable
Allowance	2/3 of salary plus annuity based on member contributions	2/3 of salary plus annuity based on member contributions	2/3 of salary plus annuity based on member contributions	2/3 of salary plus annuity based on member contributions	Not applicable	Not applicable	Not applicable

[1]Table reflects the provisions of the Employees' Pension System and Teachers' Pension System. The Employees' Retirement System and Teachers' Retirement System, which were closed to new members in 1980, have different plan provisions that are discussed in Chapter 11.

[2]An active legislator is eligible to receive a disability allowance if the member has at least 8 years of creditable service (regardless of age), is certified disabled by the medical board, and makes application to the Board of Trustees

Note: Table reflects abbreviated discussion of plan provisions see; Chapter 11 for fuller discussion of plan provisions.

Appendix 11
State and Participating Municipal Corporations – Contribution Rates by System
Fiscal 1992 - 2003

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Teachers' Retirement	25.1%	24.8%	23.6%	NA	NA	NA	NA	NA	NA	NA	NA	NA
Teachers' Pension	8.8%	9.5%	10.2%	NA	NA	NA	NA	NA	NA	NA	NA	NA
Teachers' Combined	16.4%	16.3%	15.8%	15.9%	16.2%	16.1%	15.5%	14.0%	12.5%	11.0%	9.4%	9.4%*
Employees' Retirement	18.9%	18.7%	13.2%	NA	NA	NA	NA	NA	NA	NA	NA	NA
Employees' Pension	5.0%	5.5%	7.1%	NA	NA	NA	NA	NA	NA	NA	NA	NA
Employees' Combined	8.9%	9.2%	8.7%	8.7%	8.6%	8.5%	8.2%	7.1%	7.2%	5.7%	4.7%	4.7%*
State Police	26.8%	28.7%	25.7%	19.4%	19.1%	17.7%	13.1%	10.9%	1.3%	8.4%	5.8%	5.8%
Judges	56.9%	55.0%	54.3%	52.8%	52.5%	52.6%	52.5%	52.1%	48.2%	46.8%	42.7%	43.9%
Law Enforcement Officers'	34.3%	33.6%	32.6%	34.1%	35.7%	35.2%	26.3%	25.6%	23.0%	23.4%	32.4%	36.1%
Total State Systems	**13.8%**	**13.9%**	**13.4%**	**13.4%**	**13.6%**	**13.5%**	**12.9%**	**11.7%**	**10.7%**	**9.3%**	**8.0%**	**8.7%**
Municipal Retirement	9.6%	10.2%	12.0%	9.4%	11.6%	10.9%	12.0%	10.9%	8.7%	7.8%	6.8%	7.0%
Municipal Pension	6.9%	7.4%	6.8%	6.7%	7.4%	7.5%	7.0%	5.9%	3.7%**	2.8%**	1.8%**	2.0%**
Local Fire & Police	16.7%	15.4%	15.9%	16.2%	16.3%	16.2%	16.3%	16.4%	15.0%	15.0%	14.9%	14.8%

* This rate will remain fixed as long as the funding for the teachers' and employees' systems remain within a "corridor" of actuarial funding from 90% to 110%.

**An additional contribution of 2.42% is charged to all participating municipal corporations who have chosen to offer the 1998 pension enhancement to their Employees' Pension System members.

Source: *Comprehensive Annual Financial Report*, Maryland State Retirement Agency, June 30, 2001

Appendix 12
State Retirement and Pension System of Maryland
External Investment Manager Fees Report
Fiscal 2002

External Investment Managers	Market Value ($ in Millions)	Fees Paid in FY 2002	Fees as % of Assets	Fees Paid in FY 2001
I. LARGE CAPITALIZATION EQUITY				
A. Passive Management				
State Street Global Advisors	$ 4,224.9	$ 500,000	0.01%	$ 500,000
B. Active Management				
Edgar Lomax	$ 203.6	$ 706,884	0.35%	$ 464,292
Greenway Corp.	$ 105.0	$ 350,056	0.33%	$ 1,617,910
J. & W. Seligman	$ 181.6	$ 693,010	0.38%	$ 520,535
Legg Mason	$ 395.9	$ 1,353,435	0.34%	$ 1,578,594
Progress Equity	$ 81.7	$ 582,167	0.71%	$ 685,800
Relational Investors	$ 179.2	$ 2,677,857	1.49%	$ 8,409,853
Robert Torray & Co.	$ 204.6	$ 1,045,068	0.51%	$ 1,049,559
Subtotal	$ 1,351.6	$ 7,408,477	0.55%	$ 14,326,543
II. MID CAPITALIZATION EQUITY				
Ariel Capital Management	$ 241.0	$ 677,214	0.28%	$ -
Trust Company of the West	$ 219.8	$ 1,057,055	0.48%	$ -
The Kenwood Group	$ 56.9	$ 25,589	0.04%	$ -
Subtotal	$ 517.7	$ 1,759,858	0.34%	$ -
III. SMALL CAPITALIZATION EQUITY				
A. Passive Management				
Dimensional Fund Advisors	$ 821.4	$ 877,870	0.11%	$ 811,872
B. Active Management				
Brown Investment Advisory	$ 96.3	$ 712,434	0.74%	$ 910,719
Brown Capital Management	$ 98.2	$ 1,104,629	1.12%	$ 1,116,915
T. Rowe Price Associates	$ 99.3	$ 587,463	0.59%	$ 511,135
TCW Asset Management	$ 92.5	$ 837,443	0.91%	$ 1,305,809
Subtotal	$ 386.3	$ 3,241,969	0.84%	$ 3,844,578
IV. GLOBAL\INTERNATIONAL EQUITY				
Bank of Ireland	$ 1,908.9	$ 4,191,219	0.22%	$ 4,957,326
Credit Suisse	$ 800.2	$ 2,462,147	0.31%	$ 3,104,234
Capital Guardian -- EAFE	$ 906.3	$ 3,126,590	0.34%	$ 3,645,489
Templeton	$ 816.5	$ 2,483,625	0.30%	$ 2,674,777
Deutsche Asset Management	$ 780.6	$ 3,669,078	0.47%	$ 4,662,917
Subtotal	$ 5,213	$ 15,932,659	0.31%	$ 19,044,743

Appendix 11
State and Participating Municipal Corporations – Contribution Rates by System
Fiscal 1992 - 2003

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Teachers' Retirement	25.1%	24.8%	23.6%	NA	NA	NA	NA	NA	NA	NA	NA	NA
Teachers' Pension	8.8%	9.5%	10.2%	NA	NA	NA	NA	NA	NA	NA	NA	NA
Teachers' Combined	16.4%	16.3%	15.8%	15.9%	16.2%	16.1%	15.5%	14.0%	12.5%	11.0%	9.4%	9.4%*
Employees' Retirement	18.9%	18.7%	13.2%	NA	NA	NA	NA	NA	NA	NA	NA	NA
Employees' Pension	5.0%	5.5%	7.1%	NA	NA	NA	NA	NA	NA	NA	NA	NA
Employees' Combined	8.9%	9.2%	8.7%	8.7%	8.6%	8.5%	8.2%	7.1%	7.2%	5.7%	4.7%	4.7%*
State Police	26.8%	28.7%	25.7%	19.4%	19.1%	17.7%	13.1%	10.9%	1.3%	8.4%	5.8%	5.8%
Judges	56.9%	55.0%	54.3%	52.8%	52.5%	52.6%	52.5%	52.1%	48.2%	46.8%	42.7%	43.9%
Law Enforcement Officers'	34.3%	33.6%	32.6%	34.1%	35.7%	35.2%	26.3%	25.6%	23.0%	23.4%	32.4%	36.1%
Total State Systems	**13.8%**	**13.9%**	**13.4%**	**13.4%**	**13.6%**	**13.5%**	**12.9%**	**11.7%**	**10.7%**	**9.3%**	**8.0%**	**8.7%**
Municipal Retirement	9.6%	10.2%	12.0%	9.4%	11.6%	10.9%	12.0%	10.9%	8.7%	7.8%	6.8%	7.0%
Municipal Pension	6.9%	7.4%	6.8%	6.7%	7.4%	7.5%	7.0%	5.9%	3.7%**	2.8%**	1.8%**	2.0%**
Local Fire & Police	16.7%	15.4%	15.9%	16.2%	16.3%	16.2%	16.3%	16.4%	15.0%	15.0%	14.9%	14.8%

* This rate will remain fixed as long as the funding for the teachers' and employees' systems remain within a "corridor" of actuarial funding from 90% to 110%.

**An additional contribution of 2.42% is charged to all participating municipal corporations who have chosen to offer the 1998 pension enhancement to their Employees' Pension System members.

Source: *Comprehensive Annual Financial Report*, Maryland State Retirement Agency, June 30, 2001

Appendix 13
Comparison of Plan Provisions of
457, 401(k), and 457 Payroll Deferral Plans

	457 Deferred Compensation Plan	401 (k) Savings and Investment Plan*	403(b) Tax Deferred Annuity Plan
Eligibility	All State employees	All State employees	State employees whose work assignments are within state educational institutions
Pre-tax payroll deductions	Yes (but not for FICA)	Yes (but not for FICA)	Yes (but not for FICA)
Minimum contribution	$5 per bi-weekly pay	$5 per bi-weekly pay	$5 per bi-weekly pay
Maximum contribution	Up to 100% of compensation, or $11,000	Up to 100% of compensation, or $11,000	Up to 100% of compensation, or $11,000
Maximum contribution if participating in more than one plan	Up to $22,000 if a member is participating in the 457 and the 401(k) or 403(b) plan; up to $33,000 if a member is participating in all three plans	Up to $22,000 if a member is participating in the 401(k) and the 457 or 403(b) plan; up to $33,000 if a member is participating in all three plans	Up to $22,000 if a member is participating in the 403(b) and the 401(k) or 457 plan; up to $33,000 if a member is participating in all three plans
Eligibility to participate in the 401(a) matching program	Yes, provided the participant is a member of the Employees' Pension System or the Teachers' Pension System	Yes, provided the participant is a member of the Employees' Pension System or the Teachers' Pension System	Yes, provided the participant is a member of the Employees' Pension System or the Teachers' Pension System
"Catch-up" provisions	Yes, within limits	Yes, within limits	Yes, within limits
Fees	Currently, 0.34% of the member's account value per year, not to exceed $1,400/year	Currently, 0.34% of the member's account value per year, not to exceed $1,400/year	Currently, 0.34% of the member's account value per year, not to exceed $1,400/year

	457 Deferred Compensation Plan	**401 (k) Savings and Investment Plan***	**403(b) Tax Deferred Annuity Plan**
Current investment categories	Investment Contract Pool and mutual funds	Investment Contract Pool and mutual funds	Mutual funds
Rollover options	1. From a 457, 401(k), 403(b) or traditional IRA into the member's supplemental retirement account; and 2. To a 457, 401(k), 403(b) or traditional IRA, upon leaving State service	1. From a 457, 401(k), 403(b) or traditional IRA into the member's supplemental retirement account; and 2. To a 457, 401(k), 403(b) or traditional IRA, upon leaving State service	1. From a 457, 401(k), 403(b) or traditional IRA into the member's supplemental retirement account; and 2. To a 457, 401(k), 403(b) or traditional IRA, upon leaving State service. 403(b) plans may be transferred while member remains in State service
Withdrawal while employed	Age 70 1/2 or older, or qualify for a hardship withdrawal	Age 59 1/2 or older, or qualify for a hardship withdrawal	Age 59 1/2 or older, or qualify for a hardship withdrawal
Penalty for withdrawals	1. None, if the member leaves State employment, regardless of age 2. Prior to age 70 1/2 and while still employed by the State, a 20% federal income tax withholding on most distributions	1. None, if the member leaves State employment at age 55 or older, or begins withdrawals at age 59 1/2 2. Prior to age 55, a 10% federal income tax withholding on most distributions	1. None, if the member leaves State employment at age 55 or older, or begins withdrawals at age 59 1/2 2. Prior to age 55, a 10% federal income tax withholding on most distributions
Loans	None	Member may borrow up to 50% of the member's account, not to exceed $50,000	Member may borrow up to 50% of the member's account, not to exceed $50,000
Hardship distributions	For unforeseeable emergencies causing financial hardships. No IRS penalty for hardship distributions	For unforeseeable emergencies causing financial hardships. A 10% IRS penalty may apply for certain hardship distributions	For unforeseeable emergencies causing financial hardships. A 10% IRS penalty may apply for certain hardship distributions

Source: Maryland Teachers and Employees Supplemental Retirement Plans, October 2002

Appendix 14
Board of Trustees of the
Maryland Teachers' and State Employees' Supplemental Retirement Plans
as of June 30, 2002