Focusing in on Retirement

Maryland *Teachers and State Employees*
Supplemental Retirement Plans
2001 Annual Report

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HISTORY OF PROGRAM

The Maryland Deferred Compensation Program was established for Maryland state employees in 1974 by Executive Order 01.01.1974.19 and under Chapter 433 of the Acts of 1974. In 1975, enrollment began and a seven-member Board of Trustees administered the plan. Subsequently, the U.S. Congress established the 457 Deferred Compensation Plan for public employees as part of the Internal Revenue Code in 1978.

Chapter 741 of the Acts of 1985 brought the 457 Deferred Compensation Plan under the direction of a nine-member Board of Trustees. The acts also gave the board authority to administer a 403(b) Tax-Deferred Annuity Plan and a 401(k) Savings and Investment Plan. The Maryland 403(b) plan became operational in 1985, and the Maryland 401(k) plan began in 1990. These three plans came to be known as the Maryland Teachers and State Employees Supplemental Retirement Plans.

The Maryland 401(k) transfer account was established by an Internal Revenue Service private letter ruling, effective December 31, 1990. The ruling allows active Maryland state employees who transfer from the Maryland State Retirement System to the Maryland State Pension System to move their transfer refunds, on a tax-deferred basis, to the Maryland 401(k) transfer account.

In May of 1998, Governor Parris N. Glendening signed legislation (HB 987/Chapter 530 of the Acts of 1998) passed by the Maryland General Assembly that provides for, among other things, a match to the state's 457, 403(b) and 401(k) supplemental retirement plans. Effective July 1, 1999, the match is dollar for dollar up to $600 each fiscal year. The state's contributions are immediately vested. According to the law, state employees who are members of the State Employees Modified Pension System are eligible for the match.

Title 35 of the State Personnel and Pensions Article authorizes the Board of Trustees to administer the Maryland plans and requires the board to pay all expenses from fees collected. A state general fund appropriation is not provided in this statute. This article also authorizes the governor to appoint board members and the board chairperson to staggered four-year terms.

The governor must select three members from any of the following departments, agencies or boards: the Department of Budget and Management, the Department of Education, the Comptroller of the Treasury, the State Treasurer's Office, the Maryland State Retirement and Pension Systems or the Maryland Higher Education Commission. Three other members must be eligible to participate in one or more of the plans, provided that at least one is eligible for the 403(b) plan. Three additional members must represent the general public and must not be eligible to participate in the plans. One of these members must have experience with deferred compensation and salary reduction plans.

In addition to implementing, maintaining and administering the plans, the board is responsible for submitting progress and status reports to participants; submitting an annual report to the governor and General Assembly; appointing employees; and hiring consultants, administrators and other professional assistance. Each board member serves on at least one committee. The committees include the Executive Committee, the Communications Committee, the Investment Committee, the Audit Committee and the Hardship Committee.

Sources:

1. Title 35 of the Personnel and Pensions Article
2. Chapter 741 of the Acts of 1985
3. Internal Revenue Service Private Letter Ruling
4. Presentation to the Joint Budget and Audit Committee by H. Louis Stettler, III, Ph.D., 1985.
5. Chapter 530 of the Acts of 1998

BOARD OF TRUSTEES

Period Ending December 31, 2001

BOARD CHAIRPERSON

BOARD MEMBERS

BOARD COMMITTEES

Executive Committee

Frederick W. Puddester - *Chairperson*
Richard N. Dixon
Edwin Crawford
Dianna Rosborough

Communications Committee

Dianna Rosborough - *Chairperson*
Vincent L. Marando
Lawrence Mendez

Investment Committee

Edwin Crawford - *Chairperson*
Sylvia Brown Olivetti, CRC, CRA
Stephen M. Cordi
Richard N. Dixon

Audit Committee

Sylvia Brown Olivetti, CRC, CRA - *Chairperson*
Stephen M. Cordi
T. Eloise Foster

Hardship Committee

Vincent L. Marando - *Chairperson*
T. Eloise Foster
Lawrence Mendez

BOARD STAFF

Arthur N. Caple, Jr., CRC, CRA
Executive Director

Michael T. Halpin, CRC, CRA
Deputy Executive Director

Roland L. Unger, CPA, CRC, CRA
Director of Finance

Bernice K. Weathers
Senior Accounting Specialist

Mirza C. Tumanon
Accounting Specialist

Lillie M. Jones
Accounting Assistant

Janet C. Wilt
Finance Secretary

Jody B. Rosen, APR
Director of Communications

Jennifer L. Kelley
Communications Specialist

Louis A. Holcomb, CRC
Director of Participant Services

Charles F. Meigs, CRC
Financial Field Representative

Joseph J. Bouffard
Financial Field Representative

Valerie R. Schwaab, CRC
Financial Field Representative

Julia I. Graham, CRC
Financial Field Representative

Richard A. Arthur
Director of Technology

Anna Marie Smith
Executive Assistant

Dianne M. Raitzyk
Office Manager

Jacquetta L. Robinson
Receptionist

ADVISORS

General Counsel
John K. Barry, Esquire
Assistant Attorney General, Office of the Comptroller

Independent Auditors
Clifton Gunderson, LLP
Certified Public Accountants & Consultants

Investment Contract Pool Manager
ING AETNA Financial Services

Third Party Administrator
PEBSCO (Public Employees Benefits Services Corporation) division of Nationwide Retirement Solutions, Inc.

General Pension Consultant & Investment Advisor
The Segal Group / Segal Advisors

PROGRAM HIGHLIGHTS

- The number of participant accounts in the 457, 403(b) and 401(k) payroll savings plans combined grew by 5.3%, or 3,296 accounts, in 2001. The total participant* accounts at year-end for the payroll savings plans totaled 65,339. The total participant accounts for all of the plans, including the 401(k) transfer account, was 65,862.

- At year end, the net assets for all of the plans, including the 401(k) transfer account and the 401(a) match plan, equaled $1,601,142,187.

- The plan's mutual fund savings program returned $3,165,781 to participants' accounts that were invested in the funds participating in the savings program. That's an increase of 128% from 2000 due in large to the timing of certain payments.

- At year-end, the net assets for the 401(a) Match Plan, equaled $51,560,409, a net increase of 50.4%.

- The Board of Trustees won first place in the 2001 Best In Maryland awards hosted by the Maryland Chapter of the Public Relations Society of America in the category of Audio/Video for its employee benefit video, "Ready? Set? Save!".

- MSRP received a Leadership Recognition Award from the National Association of Government Defined Contribution Administrators for its employee benefit video, "Ready? Set? Save!".

- Agency staff participated in 16 financial seminars, 217 informational booths, 71 life-planning seminars, 58 orientation/overview seminars, 81 pre-retirement seminars, 13 investment options seminars, three pension reform presentations and three benefit coordinator academies during the year. About 17,636 state employees attended these seminars and booths. PEBSCO conducted 1,725 group meetings around the state with 27,912 employees attending.

* *Participants are those who have account values, including those who are receiving systematic withdrawals. For the payroll savings plans, participants also include those who have recently enrolled in the plans and are awaiting their first deferral.*

INVESTED PLAN ASSETS

457 PLAN SUMMARY

- Net assets in the 457 plan decreased by 10.0% in 2001. This loss reflected the net of:
  - $33,658,564 gain from deferrals;
  - ($49,904,497) net investment loss *; and
  - ($48,375,038) in benefit payments.
- Participants contributed 0.6% less in 2001, while other participants withdrew 0.6% less in 2001 as well.
- Deferrals allocated to the variable funds as a percentage of total plan deferrals decreased to 72.8% in 2001, from 77.8% in 2000.
- The number of participant accounts increased by 1.8% or 493 accounts, for a total of 28,080 participant accounts in 2001.

403(b) PLAN SUMMARY

- Net assets in the 403(b) plan decreased by 9.0% in 2001. This loss reflected the net of:
  - $2,859,098 gain from deferrals;
  - ($6,195,172) net investment loss*; and
  - ($2,741,175) in benefit payments.
- Participants deferred 0.6% less in 2001, while other participants took 40% less in payouts in 2001.
- Loans totaled $175,439 during the year.
- The number of participant accounts decreased by ten, or 0.7%, for a total of 1,350 participant accounts in 2001.

401(k) PAYROLL SAVINGS PLAN SUMMARY

- Net assets in the 401(k) payroll plan grew by 12.6% in 2001. This growth reflected the net of:
  - $73,576,628 gain from deferrals;
  - ($29,147,123) net investment loss*; and
  - ($8,426,042) in benefit payments.
- Participants deferred 9.1% more in 2001, while other participants withdrew 18.6% more in 2001.
- Deferrals into the variable funds as a percentage of total plan deferrals was 88.0% in 2001, a decrease from 92.5% in 2000.
- Loans totaled $4,980,885 during the year.
- The number of participant accounts increased by 8.5%, or 2,813 accounts, for a total of 35,909 participants in 2001.

401(a) MATCH PLAN SUMMARY

Net assets in the 401(a) match plan increased by 50.4%, or $17,276,813 in 2001. This growth reflected the net of:

- $20,570,151 gain from deferrals;
- ($2,730,399) net investment loss*; and
- ($722,999) in benefit payments.
- Employer contributions increased 3.3% in 2001, while participant withdrawals nearly tripled.
- Deferrals into the variable funds as a percentage of total plan deferrals equaled 81.4% in 2001, a slight decrease from 83.8% in 2000.
- The number of participants equaled 37,514 in 2001.

401(k) TRANSFER ACCOUNT SUMMARY

Net assets in the 401(k) transfer account decreased by 12 %, or $15,743,582 in 2001. This growth reflected the net of:

- $656,917 gain from additional transfers into the plan;
- ($5,043,529) net investment loss*; and
- ($11,202,192) in benefit payments.
- Participant withdrawals dropped 21.0% in 2001, and there were over six hundred thousand in new transfers into the plan for the first time in two years.
- 401(k) transfer account participants had 39 outstanding loans, totaling $508,935 during the year.
- The number of participants decreased by 2.8%, or 15 participants, for a total of 523 participants in 2001.

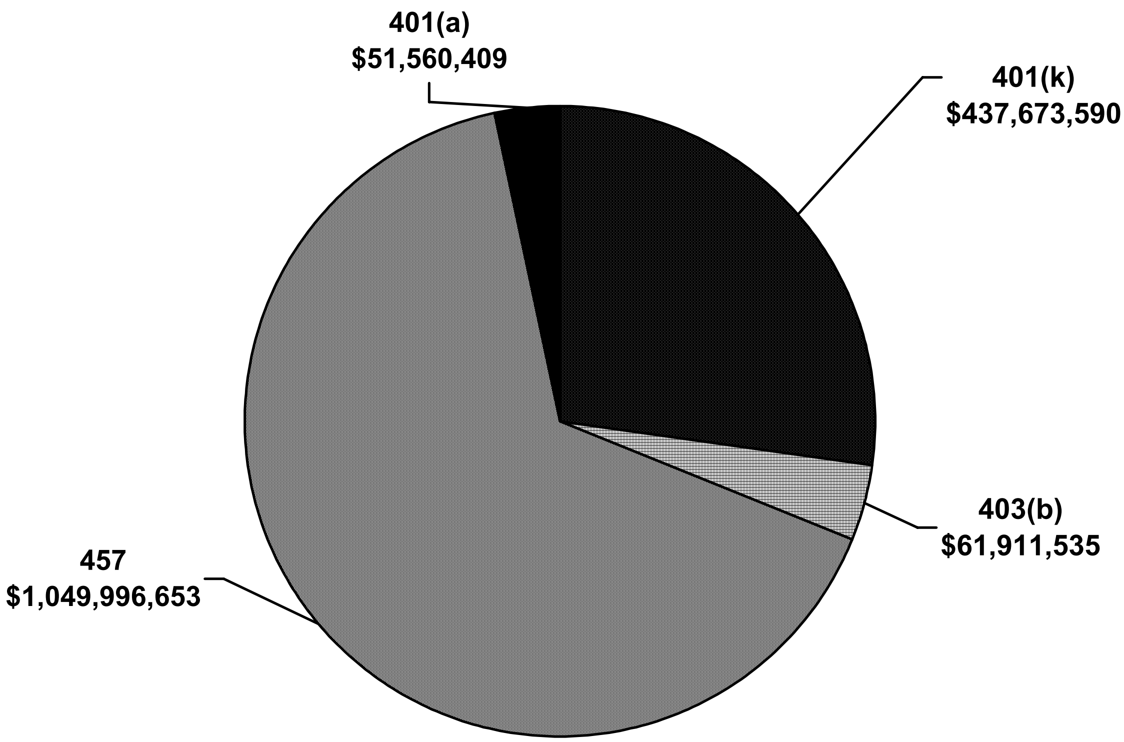
**Net investment return is gross investment return minus the 34 basis point (0.34%) asset fee.*

Sources:

1. Clifton Gunderson LLP. Financial Statements.
2. PEBSCO.
3. Maryland Teachers & State Employees Supplemental Retirement Plans.

SUMMARY OF PLAN ASSETS

At year-end, the net assets for all of the plans, including the 401(k) transfer account and the 401(a) match plan, equaled $1,601,142,187.



PARTICIPANT ACTIVITY by PLAN

457 DEFERRED COMPENSATION PLAN

	2001	2000	1999	1998	1997	1996
Participants[1]	28,080	27,587	27,456	26,088	25,139	24,440
New Enrollments[1]	1,172	815	1,971	1,416	1,371	1,577
Annuitants[2]	6,174	3,740	3,626	2,407	3,313	2,774
Total Deferrals[3]	$33,658,564	$33,867,423	$33,950,589	$35,478,369	$38,323,344	$39,346,321
Participants' Average Deferral[4]	$1,200	$1,228	$1,237	$1,360	$1,525	$1,610

403(b) TAX DEFERRED ANNUITY PLAN

	2001	2000	1999	1998	1997	1996
Participants[1]	1,350	1,360	1,377	1,285	1,279	1,281
New Enrollments[1]	28	34	128	26	12	23
Annuitants[2]	57	60	51	39	33	16
Total Deferrals[3]	$2,859,098	$2,887,189	$2,821,354	$2,766,201	$2,860,156	$3,147,518
Participants' Average Deferral[4]	$2,118	$2,116	$2,049	$2,153	$2,236	$2,457

401(k) SAVINGS & INVESTMENT PLAN (payroll savings plan)

	2001	2000	1999	1998	1997	1996
Participants[1]	35,909	33,096	28,911	16,970	12,012	9,058
New Enrollments[1]	3,607	4,831	12,369	5,287	3,226	2,857
Annuitants[2]	63	49	35	64	15	5
Total Deferrals[3]	$73,576,628	$67,440,557	$54,121,348	$37,163,542	$25,897,204	$20,629,872
Participants' Average Deferral[4]	$2,049	$2,038	$1,872	$2,190	$2,156	$2,278

401(a) MATCH PLAN

	2001	2000	7/1/99 – 12/31/99
Participants[4]	37,514	34,423*	33,308
New Enrollments[4]	3,091	1,115*	33,308
Annuitants[4]	0	0	0
Total Employer Matching Contributions[3]	$20,570,151	$19,916,744	$14,546,456
Employer's Average Match Contribution[4]	$548	$578	$437

401(k) SAVINGS & INVESTMENT PLAN (transfer account)

	2001	2000	1999	1998	1997	1996
Participants[4]	523	538	554	570	582	600
New Transfers[4]	2	0	2	6	6	2
Annuitants[4]	137	137	135	130	128	104
Total Transfers[3]	$656,917	$0	$183,644	$454,663	$406,977	$49,384

*This number has been corrected from the 2000 Annual Report.

DEFINITIONS

Participants. Those who have an account value, including those who are receiving systematic withdrawals and those who have recently enrolled in the plans and are awaiting their first deferral.

New Enrollments. State employees who opened a new account.

Annuitants. Participants who are receiving systematic withdrawals or have purchased annuity contracts.

Participants Average Deferral. Calculated by dividing the dollar value of "Total Deferrals" by the number of "Participants" during the year.

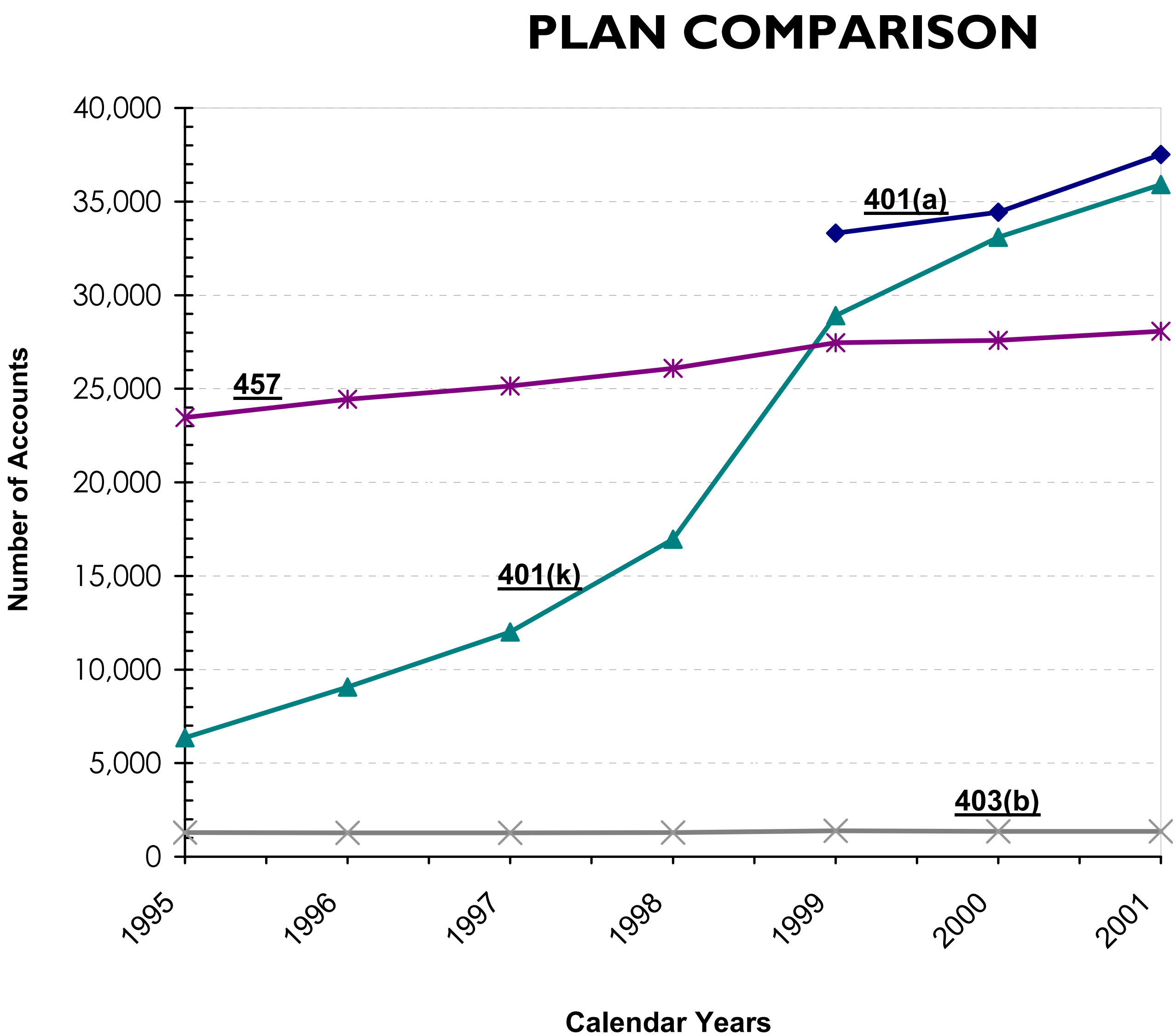
Employer's Average Match Contribution. Calculated by dividing the dollar value of "Total Employer Matching Contributions" by the number of contributing "Match Plan Participants".

Participants [401(k) transfer account]. Those who have an account value, including those who are receiving systematic withdrawals.

Sources:

1. PEBSCO. Administrator's Report.
2. PEBSCO.
3. Clifton Gunderson LLP. Financial Statements.
4. Maryland Teachers and State Employees Supplemental Retirement Plans.

PARTICIPANT ACTIVITY



BOARD INCOME & EXPENDITURES

	2001	2000	1999
Total Revenues*	$1,140,436	$883,440	$1,081,848
Expenditures			
Salaries, Wages and Fringe Benefits	$1,025,819	$939,862	$685,707
Technical and Special Fees	$13,553	($2,014)	$10,833
Communications	$40,029	$31,003	$13,622
Travel (In-State and Out-of-State)	$41,543	$41,344	$39,058
Contractual Services	$216,680	$249,162	$328,731
Supplies and Materials	$11,531	$42,019	$20,638
Fixed Charges	$91,761	$86,066	$80,907
Equipment and Furnishings	$768	$45,465	$5,392
Total Expenditures	$1,441,684	$1,432,907	$1,184,888
Revenues Less Expenditures	($301,248)	($549,467)	($103,043)**
Reserve	($88,614)	$139,435	$566,295

The Board of Trustees had reduced fees and spent down reserve funds, but an unusually strong drop in market values of assets further reduced fee revenue. This required a special "per account" fee in March 2002 to fund plan operations though the end of the fiscal year in 2002 .

Source: Maryland Teachers & State Employees Supplemental Retirement Plans.

* *The Maryland Teachers & State Employees Supplemental Retirement Agency administers the Maryland plans with special funds only. The agency collects these funds as participants fees. It does not use state general fund appropriations. The agency holds revenues in a board reserve account for unanticipated necessary expenses.*

** *This number has been corrected from the 1999 Annual Report.*

INVESTMENT CONTRACT POOL

[Available in the 457 plan, the 401(k) payroll plan, the 401(a) match plan, and the 401(k) transfer account]

		CONTRACT RATES	**BLENDED RATES**
Effective Periods	**Carriers**	**Maryland Plan Net**	**Participant Blended**
1st Quarter, 1994	~~Principal Mutual~~	*matured*	6.27%
2nd Quarter, 1994	Principal Mutual	3.90%	6.32%
3rd Quarter, 1994	~~Principal Mutual~~	*matured*	6.35%
4th Quarter, 1994	~~Lehman Brothers~~	*matured*	6.32%
1st Quarter, 1995	~~Metropolitan Life~~	*matured*	6.38%
2nd Quarter, 1995	~~Lehman Brothers~~	*matured*	6.38%
	~~New York Life~~	*matured*	NA
3rd Quarter, 1995	~~Lehman Brothers~~	*matured*	6.37%
4th Quarter, 1995	~~Sun America~~	*matured*	6.29%
1st Quarter, 1996	~~Peoples Security~~	*matured*	6.31%
2nd Quarter, 1996	~~Peoples Security~~	*matured*	6.40%
3rd Quarter, 1996	Peoples Security	7.00%*	6.50%
4th Quarter, 1996	Sun America	6.58%*	6.52%
1st Quarter, 1997	New York Life	7.22%	6.43%
2nd Quarter, 1997	~~John Hancock~~	*matured*	6.42%
3rd Quarter, 1997	John Hancock	6.16%	6.42%
	John Hancock	6.32%	NA
4th Quarter, 1997	~~New York Life~~	*matured*	6.37%
1st Quarter, 1998	John Hancock	6.20%	6.35%
2nd Quarter, 1998	New York Life	6.12%	6.40%
3rd Quarter, 1998	No Placement	NA	6.40%
4th Quarter, 1998	No Placement	NA	6.50%
1st Quarter, 1999	No Placement	NA	6.30%
2nd Quarter, 1999	No Placement	NA	6.00%
3rd Quarter, 1999	No Placement	NA	6.00%
4th Quarter, 1999	Monumental Life	7.26%	NA
	~~New York Life~~	*matured*	6.00%*
1st Quarter, 2000	Canada Life	7.58%	6.50%
2nd Quarter, 2000	John Hancock	7.65%	6.65%
3rd Quarter, 2000	No Placement	NA	6.80%
4th Quarter, 2000	No Placement	NA	6.75%

ING Aetna became the Investment Contract Pool Manager in April 2001. According to a MSRP Board revised investment policy, they have assigned portions of the pool as follows.			
		CONTRACT RATES	**BLENDED RATES**
Effective Periods	**Carriers**	**Maryland Plan Net**	**Participant Blended**
1st Quarter, 2001	No Placement	NA	6.75%
2nd Quarter, 2001	Goode Stable Value Fund	6.30%	6.50%
3rd Quarter, 2001	Goode Stable Value Fund	6.37%	6.35%
	SEI Stable Asset Fund	6.22%	
4th Quarter, 2001	Goode Stable Value Fund	5.82%	6.40%
	SEI Stable Asset Fund	6.03%	
	PIMCO Synthetic	4.42%	

* This rate is a weighted average of earnings credited at 5.66% from 10/01/99 through 11/12/99 and 6.05% from 11/13/99 through 12/31/99.

DEFINITIONS

Maryland Plan Net. These are the rates paid to the Maryland plan by the carrier for the term of the contract. They are net of any carrier fees but before the deduction of the plan asset fee. As of January 1, 2000, the annual asset fee is 34 basis points (0.34%)

Participant Blended. These are the rates credited to participants' accounts before the deduction of asset fees. They are the blended rates of all contracts in effect during the quarter.

Sources:

ING Aetna Financial Services

Maryland Teachers & State Employees Supplemental Retirement Plans.

MUTUAL FUNDS

Percentage Rates of Return for Period Ending December 31, 2001

	1 YEAR	3 YEARS	5 YEARS	10 YEARS	5-YEAR BETA
Money Market Fund					
Vanguard Prime Money Market Fund *[403(b) plan only]*	4.2%	5.2%	5.3%	4.8%	N/A
INDEX: 91-Day Treasury Bill	3.6%	5.0%	5.1%	4.5%	N/A
Bond Fund					
Federated U.S. Government Securities Fund: 2-5 Years *[457 plan, 401(k) plans, and 401(a) match plan only]*	8.3%	5.9%	6.6%	6.1%	N/A
INDEX: Lehman Bros. Interm. Gov't. Bond	8.4%	6.4%	7.1%	6.7%	N/A
Conservative: Balanced Funds					
Deutsche Flag Investors Value Builder Fund – Institutional Shares	3.5%	5.6%	11.5%	NA	1.1%
Fidelity Puritan Fund	-1.1%	3.1%	9.4%	12.1%	0.9%
INDEX: 60% S&P/40% Lehman Bros. Aggregate Bond	-3.8%	1.9%	9.4%	10.7%	N/A
INDEX: 50% S&P/50% Lehman Bros. Aggregate Bond	-1.7%	2.6%	9.1%	10.1%	N/A
Moderate: Growth & Income Funds					
Fidelity Growth & Income Portfolio	-9.4%	-0.6%	10.4%	13.8%	0.8%
Legg Mason Value Trust *(Navigator Class)*	-8.4%	3.2%	17.9%	18.2%(1)	1.2%
Vanguard Institutional Index Fund	-11.9%	-1.0%	10.8%	13.0%	1.0%
Washington Mutual Investors	1.5%	3.9%	12.3%	14.1%	0.8%
INDEX: Standard & Poor's 500	-11.9%	-1.0%	10.7%	12.9%	1.0%
Aggressive: Growth Funds					
AIM Constellation Fund	-23.6%	-0.4%	5.8%	11.1%	0.9%
INVESCO Dynamics Fund	-32.9%	2.1%	10.2%	13.1%	1.1%
INDEX: Russell Mid Cap Growth	-20.2%	2.2%	9.0%	11.1%	N/A
More Aggressive: Small-Cap Funds					
Delaware Trend Fund – Institutional Class	-14.6%	11.1%	13.4%	14.7%(2)	1.0%
T. Rowe Price Small-Cap Stock Fund	6.8%	12.6%	12.2%	14.5%	0.8%
INDEX: Russell 2000	2.5%	6.4%	7.5%	11.5%	N/A
International Funds					
EuroPacific Growth Fund	-12.2%	4.2%	7.4%	10.4%	N/A
T. Rowe Price International Stock Fund	-22.0%	-4.5%	0.8%	6.1%	N/A
INDEX: MSCI EAFE	-21.4%	-5.1%	0.9%	4.5%	N/A

(1) This is the ten-year return for Legg Mason Value Trust – Primary Shares

(2) This is the ten-year return for Delaware Trend Fund – Class A

DEFINITIONS

Rates of Returns

Rates of Returns. The rates of returns are net of the funds' annual operating expenses. They are before the deduction of MSRP's asset fees.

Beta

Five-Year Beta. The beta coefficient is a statistical measure of a stock's relative volatility (or risk). The Standard & Poor's 500 Index (S&P 500) has a beta coefficient of 1.00. A stock with a higher beta is more volatile than the S&P 500. A stock with a lower beta will rise and fall more slowly than the S&P 500. The five-year beta is representative of statistical data from January 1, 1996 through December 31, 2000.

Indices

91-Day Treasury Bill. A negotiable debt obligation issued by the U.S. government and backed by its full faith and credit, having a maturity of three months (90 days). Exempt from state and local taxes.

50% S&P/50% Lehman Bros. Aggregate Bond. This is the 50% S&P 500 and 50% Lehman Brothers Aggregate Bond Index. The Standard & Poor's 500 Index is a broad-based measurement of changes in stock market conditions. Its basis is the average common stock performance of 374 industrial company stocks, 11 transportation stocks, 74 financial company stocks, and 41 utility stocks. The Lehman Brothers Aggregate Bond Index is a mix of government, corporate, mortgage-backed, asset-backed, and Yankee bonds.

MSCI EAFE Index. The Morgan Stanley Capital International (MSCI) Europe, Australia, and the Far East (EAFE) Index is an international equity index. It consists of 1,030 securities from the following 20 countries: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Malaysia, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

Russell 2000 Index. This index is a small-capitalization index that consists of the 2,000 smallest stocks in the Russell 3000 Index, representing 10% of the total U.S. equity market.

60% S&P/40% Lehman Bros. Aggregate Bond. This is the 60% S&P 500 and 40% Lehman Brothers Aggregate Bond Index. The Standard & Poor's 500 Index is a broad-based measurement of changes in stock market conditions. Its basis is the average common stock performance of 374 industrial company stocks, 11 transportation stocks, 74 financial company stocks, and 41 utility stocks. The Lehman Brothers Aggregate Bond Index is a mix of government, corporate, mortgage-backed, asset-backed, and Yankee bonds.

Standard & Poor's 500 Index. This index is a broad-based measurement of changes in stock market conditions. Its basis is the average common stock performance of 374 industrial company stocks, 11 transportation stocks, 74 financial company stocks, and 41 utility stocks.

Russell Mid Cap Growth Index. Measures the performance of companies within the Russell Mid Cap Index (made up of the 800 smallest companies in the Russell 1000 Growth Index) with higher price-to-book ratios and higher forecasted growth values. These stocks have an average market capitalization of approximately $3.6 billion and a median market capitalization of approximately $2.8 billion. The market capitalization range for the Index is $10.8 billion to $1.3 billion as of the latest reconstitution.

Lehman Bros. Intermediate Gov't Bond Index. Includes Lehman Government Index Issues with a time to maturity between 1 and 10 years.

Medians

Fixed Income - Short/Interm. Median. This universe includes funds defined by Morningstar as Short-Term Bond. Short-Term Bond funds have an average duration of more than one but less than 3.5 years or an average effective maturity of more than one but less than four years.

International Equity Non-U.S. Median. This universe includes funds defined by Morningstar as Foreign Stock funds which have no more than 10% of stocks invested in the United States. The median return represents the mid point of this universe.

Large Cap Core Median. This universe includes funds defined by Morningstar as Large Blend. Large Blend funds invest in a combination of Large Cap Growth and Large Cap Value stocks. The median return represents the mid point of this universe. Funds with median market caps greater than $10 billion are considered large-cap.

Managed Balanced Median. This universe includes funds defined by Morningstar as Domestic Hybrid which includes funds with stock holdings of greater than 20% but less than 70% of the portfolio. The median return represents the mid point of this universe.

Mid Cap Growth Median. This universe includes funds defined by Morningstar as Mid-Cap Growth. Mid-Cap Growth funds primarily invest in stocks of mid-sized companies which are growing at faster than average rates. The median return represents the mid point of this universe. Funds with median market caps greater than or equal to $2 billion but less than or equal to $10 billion are considered mid-cap funds.

Small Cap Core Median. This universe includes funds defined by Morningstar as Small Blend. Small Blend funds invest in a combination of Small-Cap Growth and Small-Cap Value stocks. The median return represents the mid point of this universe. All funds with median market caps less than $2 billion are considered small-cap funds.

Sources:

1. Maryland Teachers and State Employees Supplemental Retirement Plans
2. The returns for the mutual funds were provided by the mutual fund companies
3. The 5-Year Betas and definitions were provided by The Segal Company, Inc.

THE 457 DEFERRED COMPENSATION PLAN

ELIGIBILITY AND DEFERRAL REQUIREMENTS

All state of Maryland employees are eligible to participate in this plan. State employees include: regular, contractual, full-time and part-time employees; members of the General Assembly; judges of the various courts; clerks and employees of all county and Baltimore city courts; registrars and employees in the Office of the Register of Wills; faculty, associate staff and classified employees at the Maryland universities and colleges; and independent contractors of the Maryland Vending Program for the Blind.

Participants make contributions to the plan by payroll deductions before federal and state income taxes, but after the Federal Insurance Contributions Act (FICA) tax is assessed. For 2001, participants may contribute the lesser of about 25% of their annual gross salary (minus pre-tax benefit payments) or $8,500 a year. The 457 plan provides a catch-up provision in the three years before the year of retirement. A participant may contribute up to $15,000 per year under this provision.

INVESTMENT OPTIONS

Investment choices include both fixed and variable options. The fixed investment option offers a fixed rate of return for a stated period. It is a pool of investment contracts selected from a pre-qualified list of fixed-income managers/ underwriters and insurance companies. Pages 16 to 17 give performance information on the pool.

The board has hired ING-Aetna Financial Services to be the manager of the Investment Contract Pool and has adopted a written investment policy directing the management of investments. Collected funds go into a short term investment fund until the investment policy calls for a longer duration placement. Many contracts, reset the rate of earnings interest on a regular basis throughout the life of the contract based upon the underlying investments at that time. Some contracts earn a fixed rate of interest for a specified period of time. Participants' accounts are credited with a quarterly average yield that is a blend of all contracts in the pool.

The pool concept provides investment diversification. When investments are diversified, or spread among several carriers, default risk is lowered. Each carrier must meet standards established by the plan's Board of Trustees. Before starting the Investment Contract Pool, the Board of Trustees established criteria to assure diversity and limit risk. All companies and/or fixed income managers/underwriters competing for investment contracts must meet these requirements.

The variable options in this plan include an assortment of mutual funds. Pages 18 to 20 list the 2001 fund options for all plans with their historical performances and risk factors (beta).

DISTRIBUTION REQUIREMENTS

Participants can make withdrawals when they separate or retire from state service (regardless of age) or at 70 1/2 if they are employed by the state. A single distribution also may be made for an unforeseeable and unbudgetable emergency causing financial hardship. Participants must begin distributions at 70 1/2 unless they are still working for the state (and have not yet retired). The participant's beneficiary becomes eligible to receive a distribution upon the participant's death. All distributions are subject to federal, state and local income tax.

THE 403(B) TAX DEFERRED ANNUITY PLAN

ELIGIBILITY AND DEFERRAL REQUIREMENTS

Employees of the state of Maryland or any governmental entity in the state whose work assignments are within state educational institutions are eligible to participate in this plan. Educational institutions include state colleges and universities, the Maryland Higher Education Commission, the Maryland Department of Education, Maryland Public Television and the Maryland Schools for the Deaf. Participants make specified contributions under this plan by payroll deduction during the regular pay period before federal and state income taxes, but after the FICA tax is assessed.

For 2001, participants may contribute the lesser of about 25% of their annual gross salary (minus 2%) or $10,500 per year. Participants may contribute an additional $3,000 per year if their annual contributions have averaged less than $5,000. To qualify for catch-up, employees should have completed at least 15 years of full-time service with the state of Maryland in which they were eligible to participate in a 403(b) arrangement.

INVESTMENT OPTIONS

The investments in this plan are mutual funds. Pages 18 to 20 list the options for all plans with their historical performances and risk factors (beta).

DISTRIBUTION REQUIREMENTS

Participants may begin distributions without a 10% Internal Revenue Service (IRS) withdrawal penalty when they meet one of the following criteria: Age 59 1/2; Separation from Maryland state service at 55 or older; Total disability; Selection of an annuity contract.

A single distribution also may be made without a 10% IRS withdrawal penalty for a deductible medical hardship. A single distribution may be made for an unbudgetable emergency causing financial hardship. The 10% IRS withdrawal penalty will apply for most financial hardship distributions. Participants must begin distributions at 70 1/2 unless they are still working for the state (and have not yet retired). The participant's beneficiary becomes eligible to receive a distribution without a 10% IRS withdrawal penalty upon the participant's death. All distributions are subject to federal, state and local income tax.

LOAN PROGRAM

Loans are available to participants. The minimum loan amount is $2,500, initially. The maximum loan amount is 50% of a participant's account balance, but never more than $50,000. The rate of interest charged on the loan is the same as the rate used by the Maryland State Employees Credit Union for loans secured by savings accounts, the hypothecated rate. Participants pay a fixed interest rate during the life of the loan. Participants principal and interest payments are returned to their accounts. The outstanding loan balance is considered a plan asset. A loan application and/or maintenance fee may apply.

With only one exception, the maximum repayment period is five years. When the loan is for the purchase of a primary residence, the maximum repayment period is ten years. Participants may have two loans outstanding at a time as long as the loan amounts combined don't exceed the lesser of 50% of their accounts or $50,000. The 10% IRS withdrawal penalty doesn't apply to loans unless repayments are not made and it must be defaulted.

THE 401(k) SAVINGS & INVESTMENT PLAN - Payroll Savings Plan

ELIGIBILITY AND DEFERRAL REQUIREMENTS

All Maryland state employees are eligible to participate in the 401(k) Savings & Investment Plan. For 2001, participants may contribute about 25% of their annual gross salary (minus 2%) a year, but not more than $10,500 a year. The state makes payroll deductions before federal and state taxes, but after the FICA tax is assessed.

INVESTMENT OPTIONS

The investment options include an assortment of mutual funds and a fixed option. Pages 18 to 20 list by group the 2001 fund options for all plans with their historical performances and risk factors (beta).

The fixed option offers a fixed rate of return for a stated period. It is a pool of investment contracts selected from a pre-qualified list of insurance companies and fixed-income managers/underwriters. Pages 16 to 17 give performance information on the pool.

The board places collected funds into a new contract that is effective for a set period. The contract usually has a fixed rate of interest for the length of the contract. Some contracts, however, reset the rate of interest on a regular basis throughout the life of the contract's underlying investments at that time. Participants' accounts are credited with a quarterly average yield that is a blend of all contracts in the pool.

The pool concept provides investment diversification. When investments are diversified, or spread among several carriers, default risk is lowered. Each carrier must meet standards established by the plan's Board of Trustees. Before starting the Investment Contract Pool, the Board of Trustees established criteria to assure diversity and limit risk. All companies and/or fixed income managers/underwriters competing for investment contracts must meet these requirements.

DISTRIBUTION REQUIREMENTS

Participants may begin distributions without a 10% IRS withdrawal penalty when they meet one of the following criteria: Age 59 1/2; Separation from Maryland state service at 55 or older; Total disability; Selection of an annuity contract. The participant's beneficiary becomes eligible to receive a distribution without a 10% IRS withdrawal penalty upon the participant's death. A single distribution also may be made without a 10% IRS withdrawal penalty for a deductible medical hardship. A single distribution may be made for an unbudgetable emergency causing financial hardship. The 10% IRS withdrawal penalty will apply for most financial hardship distributions. Participants must begin distributions by 70 1/2 unless they are still working for the state (and have not yet retired). All distributions are subject to federal, state and local income tax.

LOAN PROGRAM

Loans are available to participants. The minimum loan amount is $2,500. The maximum loan amount is 50% of a participant's account balance, but never more than $50,000. The rate of interest charged on the loan is the same as the rate used by the Maryland State Employees Credit Union for loans secured by savings accounts, the hypothecated rate. Participants pay a fixed interest rate during the life of the loan. The outstanding loan balance is considered a plan asset. A loan application fee may apply.

THE 401(A) MATCH PLAN

ELIGIBILITY

Maryland state employees who are members of the State Employees Modified Pension System are eligible for a match to their 457, 403(b), and 401(k) payroll plans. The match is a dollar-for-dollar match up to $600 each fiscal year. The state's match is deposited into a 401(a) account set up for each participant.

INVESTMENT OPTIONS

The investment options include an assortment of mutual funds and a fixed option. Pages 18 to 20 list by group the 2001 fund options for all plans with their historical performances and risk factors (beta).

The fixed option offers a fixed rate of return for a stated period. It is a pool of investment contracts selected from a pre-qualified list of insurance companies and fixed-income managers/underwriters. Pages 16 to 17 give performance information on the pool.

The board places collected funds into a new contract that is effective for a set period. The contract usually has a fixed rate of interest for the length of the contract. Some contracts, however, reset the rate of interest on a regular basis throughout the life of the contract's underlying investments at that time. Participants' accounts are credited with a quarterly average yield that is a blend of all contracts in the pool.

The pool concept provides investment diversification. When investments are diversified, or spread among several carriers, default risk is lowered. Each carrier must meet standards established by the plan's Board of Trustees. Before starting the Investment Contract Pool, the Board of Trustees established criteria to assure diversity and limit risk. All companies and/or fixed income managers/underwriters competing for investment contracts must meet these requirements.

DISTRIBUTION REQUIREMENTS

Participants may begin distributions at termination from state employment or at retirement. The account is also payable upon total disability or death. There may be an IRS penalty for withdrawals before a certain age.

Participants must begin distributions by 70 1/2 unless they are still working for the state (and have not yet retired). All distributions are subject to federal, state and local income tax.

ELIGIBILITY REQUIREMENTS

In accordance with an IRS private letter ruling, this plan was established in 1991 for active Maryland state employees who transfer from the Maryland State Retirement System to the Maryland State Pension System. These employees may transfer their refunds to the Maryland 401(k) transfer account. Transfer monies are not subject to income tax at the time of transfer.

INVESTMENT OPTIONS

The investment options include an assortment of mutual funds and a fixed option. Pages 18 to 20 list by group the 2001 fund options for all plans with their historical performances and risk factors (beta).

The fixed option offers a fixed rate of return for a stated period. It is a pool of investment contracts selected from a pre-qualified list of insurance companies and fixed-income managers/underwriters. Pages 16 to 17 give performance information on the pool.

The board places collected funds into a new contract that is effective for a set period. The contract usually has a fixed rate of interest for the length of the contract. Some contracts, however, reset the rate of interest on a regular basis throughout the life of the contract's underlying investments at that time. Participants' accounts are credited with a quarterly average yield that is a blend of all contracts in the pool.

The pool concept provides investment diversification. When investments are diversified, or spread among several carriers, default risk is lowered. Each carrier must meet standards established by the plan's Board of Trustees. Before starting the Investment Contract Pool, the Board of Trustees established criteria to assure diversity and limit risk. All companies and/or fixed income managers/underwriters competing for investment contracts must meet these requirements.

DISTRIBUTION REQUIREMENTS

Participants may begin distributions without a 10% IRS withdrawal penalty when they meet one of the following criteria: Age 59 1/2; Separation from Maryland state service at 55 or older; Total disability; Selection of an annuity contract.

The participant's beneficiary becomes eligible to receive a distribution without a 10% IRS withdrawal penalty upon the participant's death. A single distribution also may be made without a 10% IRS withdrawal penalty for a deductible medical hardship. A single distribution may be made for an unbudgetable emergency causing financial hardship. The 10% withdrawal penalty will apply for most financial hardship distributions. Participants must begin distributions by 70 1/2 unless they are still working for the state (and have not yet retired).

For all distributions, except purchased annuity contracts, participants first receive money in their accounts from previously taxed pre-1987 contributions made to the Maryland State Retirement System. This money is not subject to further income tax at the time of distribution. Contributions made between January 1, 1987 and December 31, 1988 also were previously taxed. Participants receive this money in proportion with the taxable money in their accounts. The 1987 and 1988 contributions also are not subject to further taxation when distributed.

For purchased annuity contract distributions, participants can receive all previously-taxed money (pre-1987 contributions and contributions made between January 1, 1987, and December 31, 1988) before the contract is purchased, or they can leave it in the account for future distribution.

LOAN PROGRAM

Loans are available to participants. The minimum loan amount is $2,500. The maximum loan amount is 50% of a participant's account balances, but never more than $50,000. The rate of interest charged on the loan is the same as the rate used by the Maryland State Employees Credit Union for loans secured by savings accounts, the hypothecated rate. Participants pay a fixed interest rate during the life of the loan. The outstanding loan balance is considered a plan asset and will be liable for its share of the annual asset fee. This means that the asset fee is assessed to the participant's account balance and the outstanding loan amount. A loan application fee may apply. Participants return principal and interest payments to their accounts.

With only one exception, the maximum repayment period is five years. When the loan is for the purchase of a participant's primary residence, the maximum repayment period is fifteen years. Participants may have one loan outstanding and may refinance that loan. Subsequent loan amounts available may be limited by prior loan balances. The 10% IRS withdrawal penalty doesn't apply to a loan.

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