



Maryland Teachers & State Employees Supplemental Retirement Plans
2002 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 allowed 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. During the 2002 session, the General Assembly included in the budget bill the requirement for the 401(k) transfer plan to be combined with and administered by the third party administrator by January 1, 2003. This was accomplished by transfer of records to the third party administrator in December 2002.

In May of 1998, Governor Paris 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, 2002

BOARD CHAIRPERSON

Mr. Frederick W. Puddester

Executive Director of Budget, Financial Planning and Analysis
- Johns Hopkins University

Eligible-Participant Member

BOARD MEMBERS

Mr. Stephen M. Cordi

Deputy Comptroller - Office of the Comptroller

State of Maryland Agency
Representative

Ms. T. Eloise Foster

Assistant Dean for Program Development & Business Affairs
University of Maryland Baltimore, School of Business

State of Maryland Agency
Representative

Ms. Sylvia Brown Olivetti, CRC, CRA

Legal Secretary - Arent Fox Kintner Plotkin & Kahn

Public Member

Mr. Edwin Crawford

Senior Vice President
- Ferris, Baker, Watts & Company, Incorporated

Public Member

The Honorable Nancy K. Kopp

Treasurer - State of Maryland

State of Maryland Agency
Representative

Ms. Dianna Rosborough

President – Rosborough Communications, Inc.

Public Member

Professor Vincent L. Marando

Professor - Department of Government and Politics,
University of Maryland

403(b) Eligible-Participant
Member

Mr. Lawrence Mendez

MD Department of Public Safety and Correctional Services

Eligible-Participant Member

BOARD COMMITTEES

Executive Committee

Frederick W. Puddester - *Chairperson*
Nancy K. Kopp
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
Nancy K. Kopp

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 Advisor & Investment Consultant

The Segal Company/Segal Advisors, Inc.

PROGRAM HIGHLIGHTS

- The number of participant accounts in the 457, 403(b) and 401(k) plans combined grew by 1.3%, or 829 accounts, in 2002. The total participant* accounts at year-end for the payroll savings plans totaled 66,691.
- At year end, the net assets for all of the plans, including the 401(a) match plan, equaled \$1,473,388,065.
- The plans' mutual fund savings program returned \$1,813,753 to participants' accounts that were invested in the funds participating in the program.
- At year-end, the net assets for the 401(a) Match Plan, equaled \$61,395,566, a net increase of 19.1%.
- The Board of Trustees won first place in the 2002 Best In Maryland awards hosted by the Maryland Chapter of the Public Relations Society of America in the category of Internal Communications for its campaign, "Embracing Pension Reform".
- MSRP received a Leadership Recognition Award from the National Association of Government Defined Contribution Administrators for its communications campaign "Embracing Pension Reform".
- Agency staff participated in 10 financial seminars, 193 informational booths, 61 life-planning seminars, 40 orientation/overview seminars, 91 pre-retirement seminars, three investment options seminars, six pension reform presentations and three benefit coordinator academies during the year. About 16,401 state employees attended these seminars and booths. PEBSCO conducted 1,694 group meetings around the state with 27,237 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 16.1% in 2002. This loss reflected the net of:
 - \$45,324,247 gain from new deferrals;
 - (\$83,465,319) investment loss *;
 - (\$87,450,755) in benefit payments.
- Participants contributed 34.7% more while other participants withdrew 80.8% more in 2002.
- Deferrals allocated to the variable funds as a percentage of total plan deferrals decreased to 69.0% in 2002, from 72.8% in 2001.
- The number of participant accounts increased by 1.2% or 337 accounts, for a total of 28,417 participant accounts in 2002.

403(b) PLAN SUMMARY

- Net assets in the 403(b) plan decreased by 16.6% in 2002. This loss reflected the net of:
 - \$3,120,051 gain from new deferrals;
 - (\$9,040,996) investment loss*;
 - (\$4,237,404) in benefit payments.
- Participants deferred 9.1% more in 2002 while other participants took 54.6% more in payouts in 2002.
- There were four outstanding loans, totaling \$242,500 during the year.
- The number of participant accounts decreased by 50, or 3.7%, for a total of 1,300 participant accounts in 2002.

401(k) PLAN SUMMARY**

- Net assets in the 401(k) payroll plan decreased by 0.6% in 2002. This loss reflected the net of:
 - \$79,159,908 gain from new deferrals;
 - (\$60,754,148) investment loss*; and
 - (\$20,090,766) in benefit payments.
- Participants deferred 17.4% more in 2002 while other participants withdrew 2.4% more in 2002.
- Deferrals into the variable funds as a percentage of total plan deferrals was 83.0% in 2002, a decrease from 88.0% in 2001.
- 584 401(k) payroll savings plan participants had outstanding loans, totaling \$6,672,147 during the year.
- The number of participant accounts increased by 1.5%, or 542 accounts, for a total of 36,974 participants in 2002.

401(a) MATCH PLAN SUMMARY

- Net assets in the 401(a) match plan increased by 19.1%, or \$9,835,157 in 2002. This growth reflected the net of:
 - \$18,384,375 gain from new employer contributions;
 - (\$7,469,055) investment loss*; and
 - (\$1,047,982) in benefit payments.
- Employer contributions decreased 10.6% in 2002, while participant withdrawals grew 45.0% in 2002.
- Contributions allocated to the variable funds as a percentage of total plan deferrals equaled 80.0% in 2002, a slight decrease from 81.4% in 2001.
- The number of participants equaled 38,818 in 2002.

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

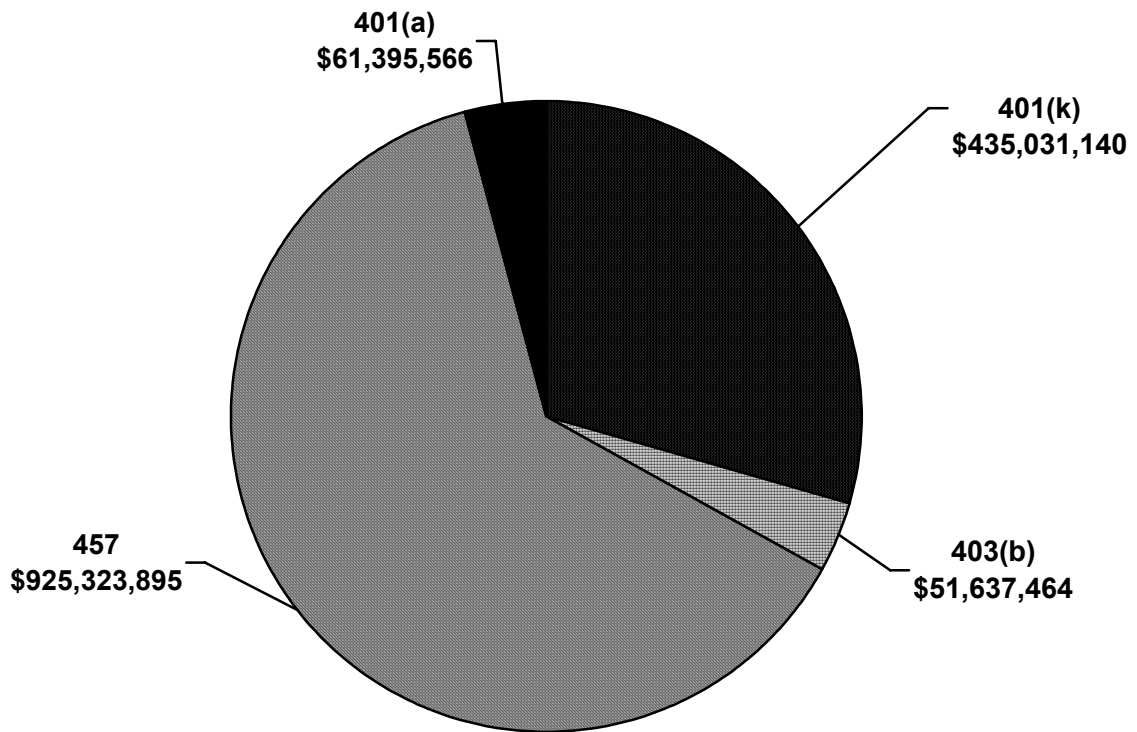
*** Includes the 401(k) Transfer Account, which was transferred to the 401(k) Payroll Savings Plan, per legislative suggestion, on December 17, 2002.*

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 \$1,473,388,065.



PARTICIPANT ACTIVITY by PLAN

457 DEFERRED COMPENSATION PLAN

	2002	2001	2000	1999	1998	1997
Participants ¹	28,417	28,080	27,587	27,456	26,088	25,139
New Enrollments ¹	2,025	1,172	815	1,971	1,416	1,371
Annuitants ²	2,929	6,174	3,740	3,626	2,407	3,313
Total Deferrals ³	\$45,324,247	\$33,658,564	\$33,867,423	\$33,950,589	\$35,478,369	\$38,323,344
Participants' Average Deferral ⁴	\$1,595	\$1,200	\$1,228	\$1,237	\$1,360	\$1,525

403(b) TAX DEFERRED ANNUITY PLAN

	2002	2001	2000	1999	1998	1997
Participants ¹	1,300	1,350	1,360	1,377	1,285	1,279
New Enrollments ¹	30	28	34	128	26	12
Annuitants ²	51	57	60	51	39	33
Total Deferrals ³	\$3,120,051	\$2,859,098	\$2,887,189	\$2,821,354	\$2,766,201	\$2,860,156
Participants' Average Deferral ⁴	\$2,400	\$2,118	\$2,116	\$2,049	\$2,153	\$2,236

401(k) SAVINGS & INVESTMENT PLAN

	2002	2001	2000	1999	1998	1997
Participants ¹	36,974	35,909	33,096	28,911	16,970	12,012
New Enrollments ¹	2,155	3,607	4,831	12,369	5,287	3,226
Annuitants ²	111	63	49	35	64	15
Total Deferrals ³	\$79,159,908	\$73,576,628	\$67,440,557	\$54,121,348	\$37,163,542	\$25,897,204
Participants' Average Deferral ⁴	\$2,141	\$2,049	\$2,038	\$1,872	\$2,190	\$2,156

401(a) MATCH PLAN

	2002	2001	2000	7/1/99 – 12/31/99
Participants ⁴	38,818	37,514	34,423**	33,308
New Enrollments ⁴	1,304	3,091	1,115**	33,308
Annuitants ⁴	0	0	0	0
Total Employer Matching Contributions ³	\$18,384,375	\$20,570,151	\$19,916,744	\$14,546,456
Employer's Average Match Contribution ⁴	\$474	\$548	\$578	\$437

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

	2002*	2001	2000	1999	1998	1997
Participants ⁴		523	538	554	570	582
New Transfers ⁴		2	0	2	6	6
Annuitants ⁴		137	137	135	130	128
Total Transfers ³		\$656,917	\$0	\$183,644	\$454,663	\$406,977

* As of December 2002, the 401(k) plan included the combined payroll savings accounts and the special transfer accounts.

**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 up 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".

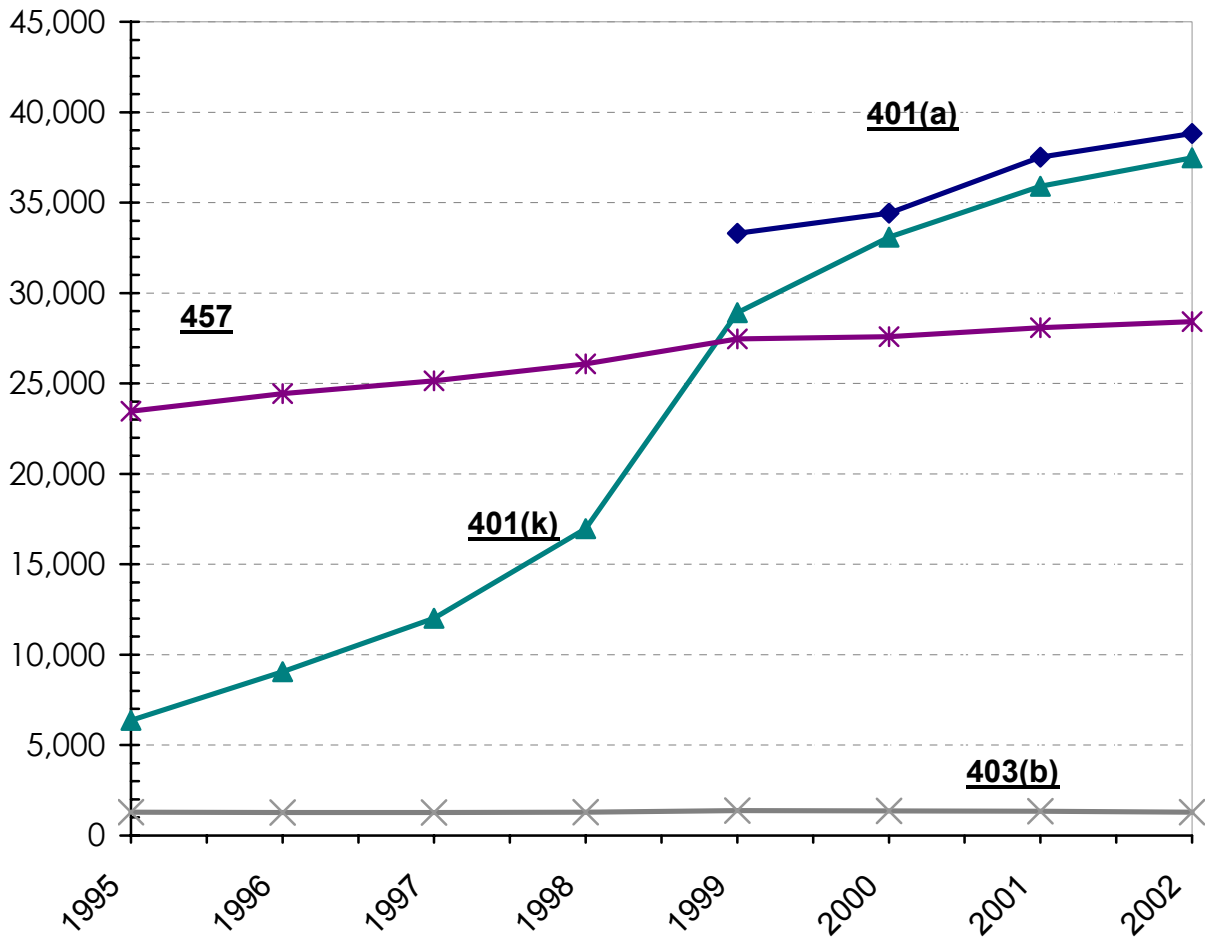
Participants [401(k) transfer account]. Those who have an account value, including those who are receiving systematic withdrawals.

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

PLAN COMPARISON



BOARD INCOME & EXPENDITURES

	2002	2001	2000
Total Revenues*	\$1,432,306	\$1,140,436	\$883,440
Expenditures			
Salaries, Wages and Fringe Benefits	\$1,106,109	\$1,025,819	\$939,862
Technical and Special Fees	\$12,079	\$13,553	(\$2,014)
Communications	\$12,759	\$40,029	\$31,003
Travel (In-State and Out-of-State)	\$26,884	\$41,543	\$41,344
Contractual Services	\$240,977	\$216,680	\$249,162
Supplies and Materials	\$27,646	\$11,531	\$42,019
Fixed Charges	\$97,192	<u>\$91,761</u>	\$86,066
Equipment and Furnishings	<u>\$200</u>	<u>\$768</u>	<u>\$45,465</u>
Total Expenditures	\$1,523,846	\$1,441,684	\$1,432,907
Revenues Less Expenditures	(\$91,540)	(\$301,248)	(\$549,467)
Reserve	(\$23,399)	(\$88,614)	\$139,435

The Board of Trustees had reduced fees and spent down reserve funds, but an unusually strong drop in the market values of plan assets further reduced fee revenue. This required a special "per account" fee for two years in a row, in March 2002 (\$8) and in March 2003 (\$6), to fund plan operations through fiscal year ending June 2002 and June 2003.

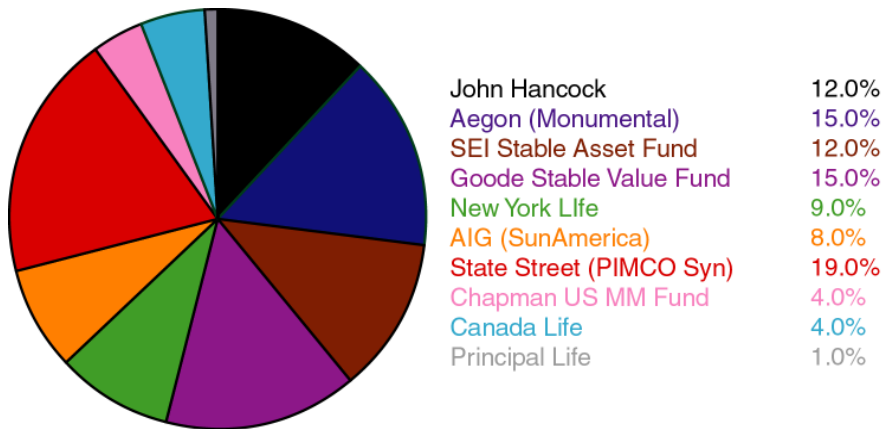
Source: Maryland Teachers & State Employees Supplemental Retirement Plans.

* *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.*

INVESTMENT CONTRACT POOL

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

Effective Periods	Participant Blended Rate
1st Quarter, 2002	5.8%
2nd Quarter, 2002	5.7%
3rd Quarter, 2002	5.7%
4th Quarter, 2002	5.5%



2002 Matured Contracts

Pacific Life (Western Syn GIC) – Constant Duration
 New York Life – 7/1/02
 Aegon – 9/30/02

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.
 Segal Advisors, Inc.

MUTUAL FUNDS

Percentage Rates of Return for Period Ending December 31, 2002

	1 YEAR	3 YEARS	5 YEARS	10 YEARS	5-YEAR BETA
Money Market Fund					
Vanguard Prime Money Market Fund [403(b) plan only] INDEX: 91-Day Treasury Bill	1.7%	4.0%	4.5%	4.6%	N/A
	1.7%	3.9%	4.3%	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] INDEX: Lehman Bros. Intern. Govt. Bond	9.9%	9.5%	7.1%	6.5%	N/A
	9.6%	9.5%	7.4%	6.9%	N/A
Conservative: Balanced Funds					
Scudder Flag Investors Value Builder Fund – Institutional Shares	-16.9%	-5.7%	2.6%	NA	0.8%
Fidelity Puritan Fund INDEX: 60% S&P/40% Lehman Bros. Aggregate Bond	-7.9%	-0.6%	3.3%	9.6%	0.5%
	-9.8%	-4.9%	3.1%	8.9%	N/A
	-6.6%	-2.4%	3.9%	8.8%	N/A
Moderate: Growth & Income Funds					
Fidelity Growth & Income Portfolio	-18.0%	-10.0%	0.6%	10.3%	0.8%
Legg Mason Value Trust (Navigator Class)	-18.1%	-11.1%	6.1%	14.5% ⁽¹⁾	1.2%
Vanguard Institutional Index Fund	-22.0%	-14.5%	-0.5%	9.4%	1.0%
Washington Mutual Investors INDEX: Standard & Poors 500	-14.9%	-2.0%	2.6%	11.3%	0.6%
	-22.1%	-14.6%	-0.6%	9.3%	1.0%
Aggressive: Growth Funds					
AIM Constellation Fund	-28.9%	-21.3%	-3.5%	5.9%	1.4%
INVESCO Dynamics Fund INDEX: S&P BARRA Growth	-33.1%	-25.5%	-2.6%	7.3%	1.8%
	-23.6%	-19.6%	-1.1%	8.8%	N/A
More Aggressive: Small-Cap Funds					
Delaware Trend Fund – Institutional Class	-20.0%	-13.9%	4.5%	10.1%	1.5%
T. Rowe Price Small-Cap Stock Fund INDEX: Russell 2000	-14.2%	2.2%	3.4%	11.3%	0.9%
	-20.5%	-7.5%	-1.4%	7.2%	N/A
International Funds					
EuroPacific Growth Fund	-13.6%	-14.6%	2.5%	8.5%	N/A
T. Rowe Price International Stock Fund INDEX: MSCI EAFE	-18.2%	-19.1%	3.7%	4.3%	N/A
	-15.9%	-17.2%	-2.9%	4.0%	N/A

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

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 asset fees.

Betas

Five-Year Beta. The beta coefficient is a statistical measure of a stocks relative volatility (or risk). The Standard & Poors 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 is less volatile than the S&P 500. The five-year beta is representative of statistical data from January 1, 1999 through December 31, 2002.

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 stock market conditions, as 70% of U.S. equity is tracked by the S&P 500. The index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighed index, with each stock's weight proportionate to its market value. 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 stock market conditions, as 70% of U.S. equity is tracked by the S&P 500. The index consists of 500 stocks chosen for market size, liquidity, and industry group presentation. It is a market weighted index, with each stock's weight proportionate to its market size. 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 stock market conditions, as 70% of U.S. equity is tracked by the S&P 500. The index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighed index, with each stock's weight proportionate to its market value. Its basis is the average common stock performance of 374 industrial company stocks, 11 transportation stocks, 74 financial company stocks, and 41 utility stocks.

S&P BARRA Growth Index. This index taking the stocks in the S&P 500 and then separates them into equal halves based on their price-to-book ratios.

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

Medians

Fixed Income – Short Term. 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.

Foreign 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 Blend 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 return represents the mid point of this universe. Market caps greater than \$10 billion are considered large cap.

Managed Balanced Median. This universe includes funds defined by Morningstar as Domestic, which includes funds with stock holdings of greater than 20% but less than 70% of the portfolio. The 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 return represents the mid point of this universe. 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 return represents the mid point of this universe. All funds with market caps greater 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 Segal Advisors, Inc.
3. The 5-Year Betas and definitions were provided by Segal Advisors, 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 2002, participants may contribute 100% of compensation up to \$11,000 per year. However, an employee may participate in more than one plan, allowing a maximum combined contribution up to \$22,000 per year. The 457 plan provides a regular catch-up provision in the three years before the year of retirement. A participant may contribute up to \$22,000 per year under this provision. Employees 50 and over can make catch-up provisions over and above the 457 limit – the maximum amount of these contributions is \$1,000.

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 insurance companies and fixed-income managers/underwriters. Page 16 gives 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 plans 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 17 to 19 list the 2002 fund options for all plans with their historical performances and risk factors (beta).

DISTRIBUTION REQUIREMENTS

Participants can begin distributions when they separate or retire from state service (regardless of age) or at 70 1/2 if they are employed by the state. The participant's beneficiary becomes eligible to receive a distribution upon the participant's death. 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). 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 2002, participants may contribute 100% of compensation up to \$11,000 per year. However, an employee may participate in more than one plan, allowing a maximum combined contribution up to \$22,000 per year. Employees 50 and over can make catch-up provisions over and above this limit – the maximum amount of these contributions is \$1,000.

INVESTMENT OPTIONS

The investments in this plan are mutual funds. Pages 17 to 19 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.

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 at 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, 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 return principal and interest payments to their accounts. The outstanding loan balance is considered a plan asset. A loan application 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.

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

ELIGIBILITY AND DEFERRAL REQUIREMENTS

All Maryland state employees are eligible to participate in the 401(k) Savings & Investment Plan. For 2002, participants may contribute 100% of compensation up to \$11,000 per year. However, an employee may participate in more than one plan, allowing a maximum combined contribution up to \$22,000 per year. Employees 50 and over can make catch-up provisions over and above this limit – the maximum amount of these contributions is \$1,000.

INVESTMENT OPTIONS

The investment options include an assortment of mutual funds and a fixed option. Pages 17 to 19 list by group the 2002 fund options for all plans with their historical performances and risk factors (betas).

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. Page 16 gives 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 plans 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 participants 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 17 to 19 list by group the 2002 fund options for all plans with their historical performances and risk factors (betas).

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. Page 16 gives 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 contracts

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 plans 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.

THE 401(k) SAVINGS & INVESTMENT PLAN - 401(k) Transfer Account

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 17 to 19 list by group the 2002 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. Page 16 gives 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= 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 plans 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 participants 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 participants 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 participants 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.

Administration

On December 17, 2002, PEBSCO, a division of Nationwide Retirement Solutions took over record keeping and enrollment for the 401(k) transfer account, formerly administered in-house.

This move offers many benefits to participants, including greater freedom and flexibility with managing their account. The plan is still overseen by the Board and the investment options remain unchanged.



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