INVESTMENT TRUSTEES

PROGRAM:
Deferred Compensation Plan (DCP)

PROGRAM ELEMENT:

PROGRAM MISSION:
To establish mutual fund options that consistently rank in the upper half of the Morningstar[b] universe, and to empower participants to make informed decisions related to the investment of their assets by providing investment education through seminars that increase a participant's knowledge of financial markets, investment products, asset allocation, portfolio diversification, and how to analyze investment performance

COMMUNITY OUTCOMES SUPPORTED:
- Provide prudent management of tax dollars
- Contribute to the future financial security and quality of life of participants and their beneficiaries

PROGRAM MEASURES[a]	FY01 ACTUAL	FY02 ACTUAL	FY03 ACTUAL	FY04 BUDGET	FY04 ACTUAL	FY05 APPROVED
Outcomes/Results:						
Number of mutual funds offered	63	63	63	63	63	24
Percentage of funds offered that are rated 4 or 5 stars by Morningstar[b]	NA	NA	39	39	43	81
Percentage of employees who participate in the DCP	NA	NA	NA	57.1	61.7	60.0
Average annual participant contribution ($)	NA	NA	NA	4,799	4,268	4,900
Total investment income (loss) ($ millions)[c]	(27.7)	(25.5)	4.7	[d]NA	29.4	[d]NA
Percentage of employees who attended the investment seminars[e]	NA	NA	NA	3.0	3.2	10.0
Service Quality:						
Percentage of DCP participants satisified with the fund offerings	NA	NA	NA	NA	NA	TBD
Percentage of DCP participants satisified with the providers	NA	NA	NA	NA	NA	TBD
Average satisfaction rating for investment seminars[e]	NA	NA	NA	NA	NA	TBD
Efficiency:						
Investment administrative cost per participant paid by the County ($)	NA	NA	NA	21.97	19.68	21.65
Workload/Outputs:						
Number of employees participating in the DCP (per plan)						
Fidelity Investments	NA	NA	NA	1,857	1,850	[g]TBD
The Hartford	NA	NA	NA	3,487	3,463	[g]TBD
Total employee contributions ($ millions)	18.7	20.1	21.1	23.0	21.3	25.0
Number of participants attending investment seminars[e]	NA	NA	NA	240	258	300
Inputs:						
Expenditures ($)[f]	NA	52,753	92,677	105,300	98,423	110,400
Workyears	NA	NA	NA	0.2	0.3	0.3

Notes:
[a]All figures are as of June 30.
[b]Morningstar is a national financial consulting firm that evaluates mutual fund performance. Five stars is the highest rating.
[c]Investments in the DCP are "participant driven," meaning that participants purchase and sell investment holdings based on the participant's fund selection, asset allocation, projected retirement date, and other individual considerations.
[d]This figure depends on market conditions and cannot be reliably predicted.
[e]The Board began offering bi-monthly investment seminars in January, 2003.
[f]All of the Board's investment administrative expenses are paid from the General Fund. Expenses for certain providers are paid from the Retirement Savings Plan Trust Fund.
[g]Because of anticipated changes in the number and identity of the providers in FY05, it is not possible to project this figure.

EXPLANATION:
The Deferred Compensation Plan (DCP) was established in 1980 pursuant to Section 457 of the Internal Revenue Service Code. Participation is voluntary, and all Montgomery County employees are eligible to participate. The DCP currently has over 5,000 participants.

The Board of Investment Trustees is responsible for overseeing the investment programs for all of the County's employee retirement plans, including the DCP. The Board selects fund providers and establishes a diversified selection of mutual and comingled fund options from which participants can choose. The Board evaluates the performance of the funds offered quarterly, with the assistance of an investment consultant.

To encourage participants to expand their knowledge of investment products and their effectiveness in managing their retirement savings, in January, 2003 the Board established an investment education program consisting of bi-monthly investment seminars. These are available to all employees and retirees who participate in the DCP.

PROGRAM PARTNERS IN SUPPORT OF OUTCOMES: Mutual fund providers, investment consultant, Office of Human Resources, County Attorney's Office, Finance Department.

MAJOR RELATED PLANS AND GUIDELINES: Section 457 of the Internal Revenue Service Code and other Federal laws, Montgomery County Code, Board of Investment Trustees Investment Policy.

INVESTMENT TRUSTEES

PROGRAM:
Employees' Retirement System (ERS)

PROGRAM ELEMENT:

PROGRAM MISSION:
To maintain a prudent investment program that strikes an appropriate balance between risks taken and returns sought in order to fund existing and projected pension needs while ensuring the long-term health of the Employees' Retirement System

COMMUNITY OUTCOMES SUPPORTED:
- Provide prudent management of tax dollars and employee contributions
- Contribute to the future financial security and quality of life of participants and their beneficiaries

PROGRAM MEASURES[a]	FY01 ACTUAL	FY02 ACTUAL	FY03 ACTUAL	FY04 BUDGET	FY04 ACTUAL	FY05 APPROVED
Outcomes/Results:						
Annual rate of return on ERS investments (%)	-3.94	-6.67	+5.46	[b,c]NA	+17.16	[b,c]NA
Annual rate of return on ERS Investments, net of fees (%)	-4.40	-6.75	+4.78	[b,c]NA	+16.79	[b,c]NA
Ten-year annualized rate of return on ERS investments (%)	+11.3	+9.25	+8.32	[b,c]NA	+9.78	[b,c]NA
Difference between annual ERS rate of return and benchmark rate of return[d] (percentage points)	+1.96	+0.75	+0.49	[c]NA	+1.50	[c]NA
Difference between annual ERS rate of return net of fees and the median rate of return for the public fund universe[e] (percentage points)	NA	-2.11	+0.63	[c]NA	+2.96	[c]NA
Net investment income (loss) ($millions)	(81.4)	(124.2)	82.2	[c]NA	287.0	[c]NA
Percentage funded[f]	94.3	89.6	84.2	85.0	84.2	86.0
Service Quality:						
Efficiency:						
Total program cost[g] as a percentage of total ERS assets	NA	0.37	0.35	0.34	0.44	0.35
Investment administrative cost[h] per participant ($)	NA	77.35	66.42	76.60	46.01	53.09
Workload/Outputs:						
Total ERS assets ($millions)	1,838	1,678	1,727	1,986	1,976	2,144
Number of investment management firms under contract	12	12	15	16	16	16
Number of participants (includes all participating agencies):						
Active	6,024	5,989	5,876	5,760	5,571	5,270
Retired	3,989	4,115	4,370	4,620	4,486	4,600
Contributions received ($millions)	54.6	52.1	70.0	79.7	76.7	92.5
Inputs:						
Expenditures ($)[h]	NA	781,537	680,496	795,100	462,735	524,000
Workyears	NA	3.3	2.6	2.5	2.4	2.4

Notes:

[a]All figures are as of June 30.

[b]The actuarial assumed rate of return on investments for the ERS is 8%.

[c]This figure depends on market conditions and cannot be reliably projected.

[d]The Board has developed a total fund benchmark, which is computed as a weighted average of the rate of return for a representative index for each asset class within the fund. The asset classes are: domestic equities, international equities, real estate, fixed income, alternative investments, treasury inflation protection securities (TIPS), and cash. The weights used to compute the benchmark average are derived from the target weighting for each asset class.

[e]The public fund universe is comprised of over 100 public sector pension funds with assets of $1 billion and up and is prepared by Wilshire Associates, a national financial consulting firm. The returns for the public funds included in the Wilshire analysis are shown net of fees.

[f]This is the ratio of ERS assets to the fund's actuarial accrued liaibility (the estimate of future benefits to be paid), expressed as a percentage. It provides an indication of the healthiness of the fund. (When this percentage is subtracted from 100, the result is the so-called unfunded liability.) Good investment earnings contribute to improving the percentage funded. The percentage is also strongly affected by the liability for future benefit payments (and changes in the benefit provisions), which the Board does not control. This is a projected ratio for FY04.

[g]The total program cost includes all expenditures of the Board of Investment Trustees related to the investment program (including investment management fees).

[h]This includes only administrative expenditures by the Board of Investment Trustees related to the investment program. These expenses are paid from the Employees' Retirement System Trust Fund and exclude investment management fees (which depend on the market value of the total ERS assets). During FY04, the payment of benefit processing fees was transferred to the Office of Human Resources.

EXPLANATION:
The Employees' Retirement System (ERS) is a cost-sharing multiple-employer defined benefit pension plan that was established by Montgomery County in 1965. Other agencies or political subdivisions can choose to participate in the plan; current participants include the Montgomery County Revenue Authority, the Housing Opportunities Commission, independent fire - rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, and the Washington Suburban Transit Commission, among others. The ERS is closed to employees hired on or after October 1, 1994, except for public safety employees who are covered by County labor agreements. As of June 30, 2004, the total ERS membership consisted of 4,486 retirees and terminated employees not yet receiving benefits, plus 5,571 active employees.

The Board of Investment Trustees is responsible for overseeing the investment programs for all of the County's employee retirement plans, including the ERS. The Board has established an investment policy designed to control the extent of downside risk to which the ERS assets are exposed while maximizing the potential for long-term increases in the value of those assets. The Board hires investment managers within the various asset classes (domestic equities, international equities, real estate, fixed income, alternative investments, and TIPS) to invest a portion of the ERS assets. The Board creates a specific set of investment guidelines for each manager, based on the manager's investment style. Each manager's investment performance is evaluated against specific style objectives and against the returns achieved by other similiar investment managers. The Board hires an investment consultant to assist in evaluating the investment managers, the asset allocation, and total fund results. A custodian bank records the security transactions of each investment manager and has custody of the ERS investments.

For the year ending June 30, 2004, the ERS return ranked in the top 17% of the returns achieved by similar public pension funds reporting results. According to a national pension consulting firm, for the year ended June 30, 2003, the ERS' investment-related expenses ranked nearly 10% lower than those of comparable funds.

PROGRAM PARTNERS IN SUPPORT OF OUTCOMES: Investment managers, custodian bank, investment consultant, outside legal counsel, Office of Human Resources, Department of Finance, County Attorney's Office.

MAJOR RELATED PLANS AND GUIDELINES: Montgomery County Code, Federal laws, Board of Investment Trustees bylaws, investment policies, investment guidelines.

INVESTMENT TRUSTEES

PROGRAM:
Retirement Savings Plan (RSP)

PROGRAM ELEMENT:

PROGRAM MISSION:
To establish mutual fund options that consistently rank in the upper half of the Morningstar[b] universe, and to empower participants to make informed decisions related to the investment of their assets by providing investment counseling services that increase a participant's knowledge of financial markets, investment products, asset allocation, portfolio diversification, and how to analyze investment performance

COMMUNITY OUTCOMES SUPPORTED:
- Provide prudent management of tax dollars
- Contribute to the future financial security and quality of life of participants and their beneficiaries

PROGRAM MEASURES[a]	FY01 ACTUAL	FY02 ACTUAL	FY03 ACTUAL	FY04 BUDGET	FY04 ACTUAL	FY05 APPROVED
Outcomes/Results:						
Number of mutual funds offered	24	25	25	25	29	29
Percentage of mutual funds offered rated 4 or 5 stars by Morningstar[b]	NA	NA	44	44	52	55
Total investment income (loss) ($millions)[c]	(2.8)	(3.5)	2.0	[d]NA	6.3	[d]NA
Return on total RSP investments (%)[c]	NA	NA	+10.2	[d]NA	+15.1	[d]NA
Percentage of eligible participants who used investment counseling	10.0	4.7	3.5	8.0	5.1	7.2
Service Quality:						
Percentage of RSP participants satisified with fund offerings	NA	NA	NA	NA	NA	TBD
Percentage of RSP participants satisifed with the provider	NA	NA	NA	NA	NA	TBD
Average satisfaction rating for individual investment counseling sessions[e]	NA	NA	4.5	4.5	4.9	4.9
Percentage of returning counseling participants (those who attended prior counseling sessions within the last 12 months)[e]	NA	NA	36	40	40	45
Efficiency:						
Investment administrative cost per participant ($)[f]	NA	95.87	46.86	80.17	55.69	54.93
Workload/Outputs:						
Number of RSP participants	2,536	2,908	3,206	3,540	3,500	3,820
Total contributions received ($millions)	7.4	9.1	10.5	12.1	11.8	13.8
Total participant contributions ($millions)	2.6	3.3	3.7	4.2	4.2	4.8
Total contributions from participating agencies[g] ($millions)	4.9	5.8	6.8	7.9	7.6	9.0
Average annual participant contribution ($)	1,025	1,135	1,154	1,186	1,200	1,233
Average annual County (or participating agency) contribution per participant ($)	1,932	1,994	2,121	2,260	2,180	2,311
Number of group counseling sessions offered[h]	12	12	12	12	12	12
Number of participants attending group counseling sessions[e]	50	15	0	10	2	40
Number of participants attending individual counseling sessions[e]	230	132	118	283	180	275
Number of returning counseling participants (those who attended prior counseling sessions within the last 12 months)[e]	NA	NA	42	113	72	105
Inputs:						
Expenditures ($)[i]	NA	278,797	150,243	283,800	194,927	209,850
Workyears	NA	0.7	0.4	0.3	0.3	0.3

Notes:
[a]All figures are as of June 30 except as noted.
[b]Morningstar is a national financial consulting firm that evaluates mutual fund performance. Five stars is the highest rating.
[c]Investments in the RSP are "participant driven," meaning that participants purchase and sell investment holdings based on the participant's fund selection, asset allocation, projected retirement date, and other individual considerations.
[d]This figure depends on market conditions and cannot be reliably predicted.
[e]Reflects data as of December 31 of each year. Ratings are based on a scale of 1 to 5, with 5 being the highest rating.
[f]This includes the cost of personnel, professional services, office management, and related expenses.
[g]In addition to Montgomery County, the participating agencies and political subdivisions consist of the Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, the Strathmore Hall Foundation, the Town of Chevy Chase, the Washington Suburban Transit Commission, independent fire-rescue corporations, and certain employees of the State Department of Assessments and Taxation and the District Court of Maryland.
[h]Group sessions are offered monthly. If less than five participants sign up, they are offered individual counseling sessions.
[i]All expenses are paid from the Retirement Savings Plan Trust Fund.

EXPLANATION:
The Retirement Savings Plan (RSP) is a cost-sharing multiple-employer defined contibution plan established in 1994. Other agencies or political subdivisions can choose to participate in the RSP; current participants include the Montgomery County Revenue Authority, the Housing Opportunities Commission, independent fire - rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, and the Washington Suburban Transit Commission, among others. All non-public safety employees and certain public safety employees not represented by a collective bargaining agreement and hired on or after October 1, 1994 are covered by the Plan. As of June 30, 2004, there was a total of 3,500 participants.

The Board of Investment Trustees is responsible for overseeing the investment programs for all of the County's employee retirement plans, including the RSP. The Board selects a mutual fund provider for the RSP and establishes a variety of mutual fund options from which participants can choose. The Board evaluates the performance of the funds offered quarterly, with the assistance of an investment consultant.

In order to encourage participants to expand their knowledge of investment products and their effectiveness in managing their retirement savings, the Board provides two hours of individual investment counseling annually to all participants at no charge. Group sessions are also offered.

PROGRAM PARTNERS IN SUPPORT OF OUTCOMES: Mutual fund provider, investment consultant, Office of Human Resources, County Attorney's Office, Finance Department.

MAJOR RELATED PLANS AND GUIDELINES: Montgomery County Code, Federal laws, Board of Investment Trustees Investment Policy.