

Montgomery County Employee Retirement Plans

Comprehensive Annual Financial Report



**Employees' Retirement System
Retirement Savings Plan
Deferred Compensation Plan**
(Trust Funds of Montgomery County, Maryland)

**Fiscal Year 2012
July 1, 2011 – June 30, 2012**

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July 1, 2011 – June 30, 2012**

Prepared by the Board of Investment Trustees
101 Monroe Street, 15th Floor
Rockville, Maryland 20850



MONTGOMERY COUNTY, MARYLAND
EMPLOYEE RETIREMENT PLANS
Fiscal Year Ended June 30, 2012
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INTRODUCTION SECTION



OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

Timothy L. Firestine
Chief Administrative Officer

December 17, 2012

Honorable County Executive and
Members of the Montgomery County Council

I am pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the Montgomery County, Maryland (County) Employee Retirement Plans (Plans) for the fiscal year ended June 30, 2012. This annual report is designed to assist you in understanding the structure and current status of the Plans.

FORMAL TRANSMITTAL OF THE CAFR

This report was prepared pursuant to the provisions of Section 33-51(b) of the Montgomery County Code, 2004, as amended (Code), and includes the independent auditors' report, issued by the County Council's appointed independent public accounting firm. Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation including all disclosures rests with the County. We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the plan net assets and the changes in plan net assets and financial position of the Plans; and that all disclosures necessary to enable the reader to gain the maximum understanding of the financial affairs of the Plans have been included.

PROFILE OF THE RETIREMENT PLANS

History

The Employees' Retirement System (System) was established in 1965, as a cost-sharing multiple-employer defined benefit pension plan providing benefits to the employees of the County and other agencies or political subdivisions who elect to participate. Participating agencies and subdivisions include the: Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County, independent fire/rescue corporations, Town of Chevy Chase, Strathmore Hall Foundation, Inc., Washington Suburban Transit Commission, Montgomery County Employees Federal Credit Union, and certain employees of the State Department of Assessments and Taxation and the District Court of Maryland. The System is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and Guaranteed Retirement Income Plan (GRIP) participants. The Montgomery County Council passed legislation in FY 2009 enabling the County to establish and maintain a GRIP, a cash balance plan that is part of the System, for employees. During FY 2010 eligible County employees who were members of the Retirement Savings Plan (RSP) were granted the option to elect to participate in the GRIP and to transfer their RSP member account balance to the GRIP and cease being a member of the RSP. There were 5,554 active members, including 1,102 in the GRIP, and 5,824 retirees and beneficiaries participating in the System as of June 30, 2012.

The RSP was established in 1994, as a cost-sharing multiple-employer defined contribution plan providing benefits to all non-public safety and certain public safety employees hired on or after October 1, 1994. Employees covered by the System may make an irrevocable decision to transfer to the RSP. At June 30, 2012, there were 3,564 active plan members.

The Deferred Compensation Plan (DCP) was established pursuant to Section 457 of the Internal Revenue Code, as amended. During Fiscal Year (FY) 1999, in accordance with Federal legislation, the assets of the County Plan were placed in trust for the sole benefit of participants and their beneficiaries.

Benefit Provisions

The benefit provisions of the System are established by the Code. The System provides for normal service retirement and early service retirement benefits for members who attain age and service requirements. The System also provides options for disability and death benefits to eligible participants. Members are vested after five years of service.

The RSP provides for immediate vesting of employee contributions, and employer contributions are vested after three years of service or upon death, disability or reaching retirement age.

Major Initiatives

During FY 2012, the Board of Investment Trustees (Board) continued to implement its long-term plan to diversify the investment portfolio, and better manage the System's risk, by approving new investments in public equities, private equity, private real assets, and opportunistic strategies. The Board also approved a structural change to the asset allocation that will result in the addition of global public real estate securities to the portfolio.

In addition, the Board initiated a search for a single recordkeeper for the RSP, DCP, GRIP, and the Deferred Retirement Option Plans; integrated recordkeeping for these plans will result in cost savings for plan participants.

INFORMATION USEFUL IN ASSESSING THE RETIREMENT PLANS' ECONOMIC CONDITION

Financial Information

Accounting System and Reports

The Plans' financial statements have been prepared under the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits, refunds and distributions are recognized when due in accordance with the terms of the Plans.

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A), which can be found on pages 15 to 19 of this report, provides a brief analysis of the financial performance of the Plans and an introduction to the financial statements of the Plans for the year ended June 30, 2012.

Investments

Montgomery County has established a Board to be responsible for the investment management of the Plans' assets for the exclusive benefit of the members and participants. The Board consists of thirteen members appointed by the County Executive and confirmed by the County Council.

In overseeing the management of the assets of the Plans, the Board has developed sound and prudent investment policies. The Board believes an appropriate balance must be struck between risks taken and returns sought to ensure the long term health of the defined benefit plan. The Board has adopted an

investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets. To achieve this objective, System assets are allocated to a broad array of investment sectors as follows: domestic equities 25.3 percent, private equity 7.8 percent, international equities 15.5 percent, fixed income 27.5 percent, inflation indexed bonds 10.5 percent, commodities 4.6 percent, opportunistic 3.7 percent, and private real assets 5.1 percent. For the twelve months ended June 30, 2012, the total return achieved by the System's investments was a gain of 5.30 percent, compared to the gain recorded by the System's benchmark index of 5.38 percent and the actuarial assumed rate of return of 7.5 percent.

Section 33-125 of the Montgomery County Code authorizes the Board to establish, for members of the RSP, a diversified slate of mutual and commingled investment funds from which participants may select options. The Board has developed an investment policy outlining its oversight of the investment products offered.

The Board has also established a diversified slate of mutual and commingled funds for the County Plan which offers a range of options from which participants may select. The Board has constructed an investment policy stipulating investment objectives and oversight by the Board.

Funding

The System's actuary uses a five-year smoothed market-related value to determine the actuarial value of assets. The smoothing prevents extreme volatility in employer contribution rates due to short-term fluctuations in the investment markets. For the June 30, 2012 valuation, the actuarial value of assets was \$2.9 billion and the aggregate actuarial liability was \$3.8 billion, resulting in a funded status ratio of 76.7%. The Schedule of Funding Progress, included as Required Supplementary Information in the Financial Section, expresses the System's actuarial value of assets as a percentage of the actuarial accrued liability, providing one indication of the System's funding status on a going-concern basis. The actuary has determined that the present net asset base, expected future contributions and investment earnings thereon, are sufficient to provide for full payment of future benefits under the projected unit credit actuarial cost method.

Internal Control Structure and Budgetary Controls

The Plans' management is responsible for maintaining internal accounting controls to provide reasonable assurance that transactions are properly authorized and recorded as necessary to permit preparation of financial statements in conformity with U.S. generally accepted accounting principles. We believe the internal controls in effect during the fiscal year ended June 30, 2012 adequately safeguard the Plans' assets and provide reasonable assurance regarding the proper recording of financial transactions. In addition, the Board, in conjunction with the Chief Administrative Officer, approves and actively monitors the annual budgets for each plan. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatement.

Independent Audit and Actuarial Certification

An independent auditors' report and actuarial certification are included in this report.

AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Montgomery County Employee Retirement Plans for its comprehensive annual financial report for the fiscal year ended June 30, 2011. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Montgomery County Employee Retirement Plans have received the Certificate of Achievement for the last twelve consecutive years. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement program requirements and we are submitting it to the GFOA.

Acknowledgements

The Plans' CAFR was prepared by the Board of Investment Trustees staff in conjunction with staff support from the County's Department of Finance. I would like to express my appreciation to the employees who have worked hard throughout the year to ensure the successful operation of the Plans.

Respectfully submitted,



Timothy L. Firestine
Chief Administrative Officer
Plan Administrator

BOARD OF INVESTMENT TRUSTEES

Jeffrey Sharpe

Chair

Montgomery County Council Representative

Term Expires March 2014

George Willie

Vice Chair

Public Representative

Term Expires March 2014

Sunil Pandya

Secretary

Montgomery County

Department of Liquor Control

Non-Bargaining Unit Representative

Term Expires March 2014

Joseph Adler

Montgomery County Director

Of Human Resources

Ex-Officio Member

Jennifer E. Barrett

Retired Employees Representative

Term Expires March 2015

Joseph F. Beach

Montgomery County Director of Finance

Ex-Officio Member

Arjan Berkelaar

Montgomery County Council Representative

Term Expires March 2015

Jeffrey D. Buddle

Fire & Rescue Bargaining Unit Designee

Stephen B. Farber

Montgomery County Council Staff Director

Ex-Officio Member

Vacant

Public Representative

Gino Renne

OPT/SLT Bargaining Unit Designee

Kelda J.C. Simpson

Police Bargaining Unit Designee

Jennifer A. Hughes

Montgomery County Director of

Management and Budget

Ex-Officio Member

ADMINISTRATIVE ORGANIZATION

Administrative Staff

Joseph Adler
Director
Office of Human Resources

Joseph F. Beach
Director of Finance

Linda A. Herman
Executive Director
Board of Investment Trustees

Actuary

Gabriel Roeder Smith & Company
Consultants & Actuaries
Chicago, IL

Professional Services Investment Consultants

Wilshire Associates
Pittsburgh, PA

Franklin Park
Philadelphia, PA

Auditor

BDO USA, LLP
Bethesda, MD

Investment Managers-Employees' Retirement System

Adams Street Partners
Chicago, IL

AEW Partners
Boston, MA

Altus Capital Partners
Westport, CT

BlackRock Financial Management
New York, NY

Bridgewater Associates
Westport, CT

Carmel Partners
San Francisco, CA

DW Healthcare Partners
Park City, UT

Eagle Asset Management
St. Petersburg, FL

EnerVest
Houston, TX

First Quadrant L.P.
Pasadena, CA

FLAG Capital Management
Stamford, CT

FX Concepts, Inc.
New York, NY

GMO, LLC
Boston, MA

Grosvenor Capital Management
Chicago, IL

Gryphon International Investment
Toronto, Canada

Hampshire Companies
Morristown, NJ

HarbourVest Partners
Boston, MA

Jennison Associates
Waltham, MA

JP Morgan Investment Management
New York, NY

KPS Capital Partners, LP
New York, NY

Landmark Partners Inc.
Simsbury, CT

LBA Realty
Irvine, CA

Loomis Sayles & Co.
Boston, MA

Los Angeles Capital Management
Los Angeles, CA

Marathon London
United Kingdom

Mason Wells
Milwaukee, WI

Mondrian Investment Partners Ltd.
United Kingdom

Nomura Asset Management
New York, NY

Odyssey Investment Partners
New York, NY

Pearlmark Real Estate Partners
Chicago, IL

Pomona Capital
New York, NY

RhumbLine Advisors
Boston, MA

Riverside Partners
Boston, MA

Sands Capital Management
Arlington, VA

Schroder Investment Management
New York, NY

STW Fixed Income Management
Carpentaria, CA

Systematic Financial Management
Teaneck, NJ

TA Associates
Boston, MA

TA Associates Realty LLC
Boston, MA

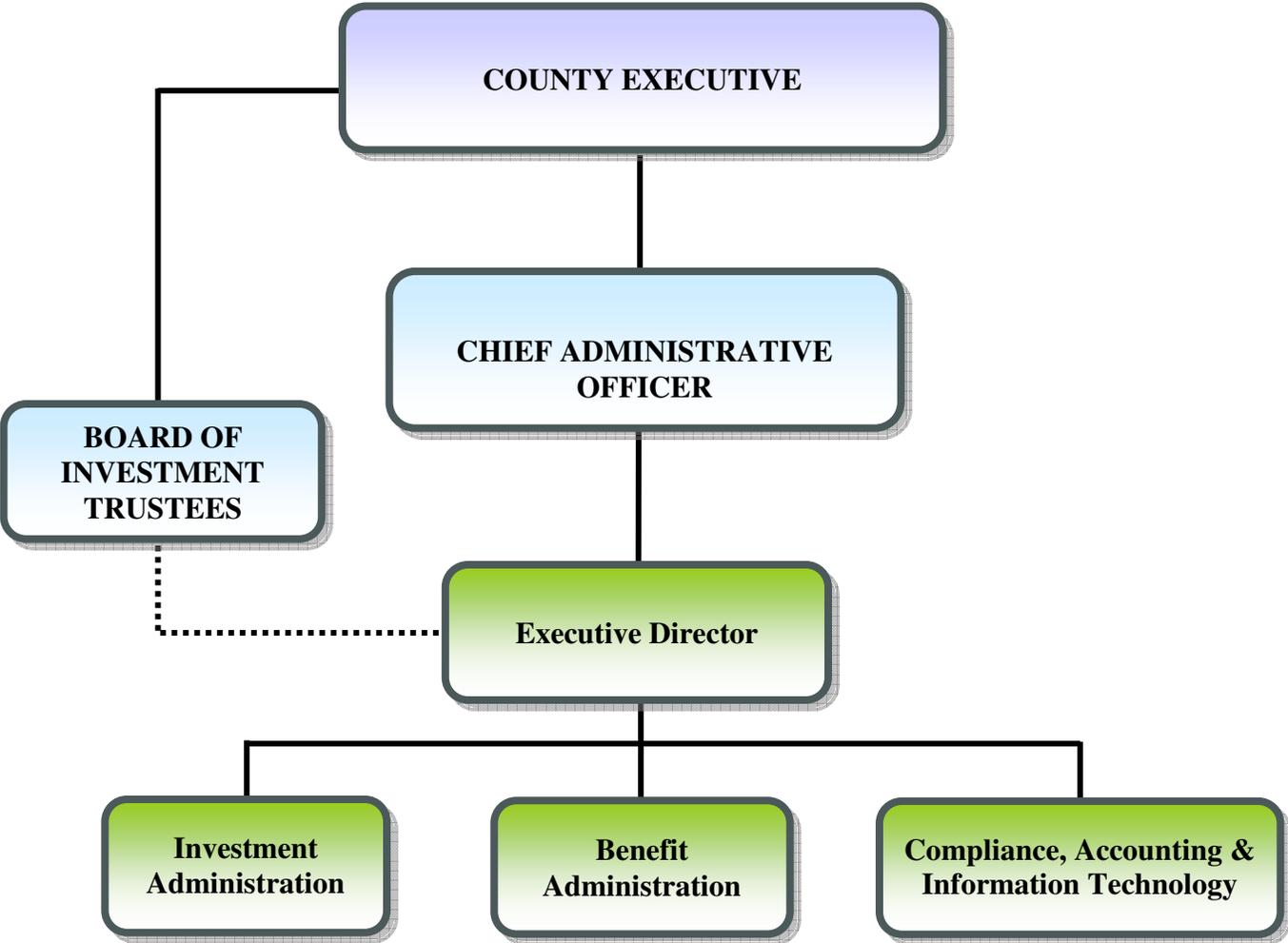
Wellington Management
Boston, MA

Wicks Group
New York, NY

Custodial Bank-Employees' Retirement System

The Northern Trust Company
Chicago, IL

Montgomery County Employee Retirement Plans Administrative Organization Chart





FINANCIAL SECTION



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Bethesda, MD 20814

Independent Auditor's Report

The Honorable County Council
of Montgomery County, Maryland
Board of Trustees
Montgomery County Employee Retirement Plans

We have audited the accompanying statements of plan net assets of the **Montgomery County Employee Retirement Plans** (the Plans) as of June 30, 2012, and the related statements of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Plans' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Plans as of June 30, 2012, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of funding progress and employer contributions on pages 15 through 19 and on page 33, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the Plans' basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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BDO is the brand name for the BDO network and for each of the BDO Member Firms.



Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Plans' financial statements as a whole. The Schedules of Administrative and Investment Expenses, the Employees' Retirement System Statements of Plan Net Assets and Statements of Changes in Plan Net Assets, the Retirement Savings Plan Statements of Plan Net Assets and Statements of Changes in Plan Net Assets, the Deferred Compensation Plan Statements of Plan Net Assets and Statements of Changes in Plan Net Assets are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Administrative and Investment Expenses, the Employees' Retirement System Statements of Plan Net Assets and Statements of Changes in Plan Net Assets, the Retirement Savings Plan Statements of Plan Net Assets and Statements of Changes in Plan Net Assets, the Deferred Compensation Plan Statements of Plan Net Assets and Statements of Changes in Plan Net Assets are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The Introduction Section, the Investment Section - Employees' Retirement System, the Actuarial Section - Employees' Retirement System, and the Statistical Section - Employee Retirement Plans, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BDO USA, LLP

December 17, 2012



MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) of the Montgomery County Employee Retirement Plans (Plans) financial performance provides an introduction to the financial statements of the Plans as of and for the year ended June 30, 2012. Since the MD&A is designed to focus on current activities, resulting changes and current known facts, it should be read in conjunction with the transmittal letter in the Introduction Section on page 4, the financial statements, required supplementary information, and other supplementary information which follow this discussion.

REQUIRED FINANCIAL STATEMENTS

The financial statements for the Plans have been prepared under the accrual basis of accounting in conformity with U.S. generally accepted accounting principles, promulgated by the Governmental Accounting Standards Board. The Statements of Plan Net Assets comprise the Plans' assets and liabilities and provide information about the nature and amount of investments, as well as the liabilities distinguished as long-term and other liabilities. The Statements of Changes in Plan Net Assets report the changes of the Plans' net assets, measured by the additions by major sources and deductions by type. Comparative financial statements of the three plans are presented in the latter part of the financial section.

FINANCIAL ANALYSIS OF THE MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS

Shown below is a condensed presentation of the Net Assets of the Employees' Retirement System (ERS), Retirement Savings Plan (RSP), and Deferred Compensation Plan (DCP) at June 30:

Net Assets (Millions)						
	ERS		RSP		DCP	
	2012	2011	2012	2011	2012	2011
Assets:						
Cash and investments	\$ 3,233.9	\$ 3,153.5	\$ 197.4	\$ 183.4	\$ 270.9	\$ 272.3
Receivables	11.2	28.8	0.8	1.7	0.5	1.6
Total assets	<u>3,245.1</u>	<u>3,182.3</u>	<u>198.2</u>	<u>185.1</u>	<u>271.4</u>	<u>273.9</u>
Liabilities	308.3	285.1	0.1	0.1	-	-
Total net assets	<u><u>\$ 2,936.8</u></u>	<u><u>\$ 2,897.2</u></u>	<u><u>\$ 198.1</u></u>	<u><u>\$ 185.0</u></u>	<u><u>\$ 271.4</u></u>	<u><u>\$ 273.9</u></u>

Shown below is a condensed summary of the Change in Net Assets of the ERS, RSP, and DCP for the years ended June 30:

Change in Net Assets						
(Millions)						
	ERS		RSP		DCP	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Additions:						
Employer contributions	\$ 107.9	\$ 109.3	\$ 11.8	\$ 16.0	\$ -	\$ -
Member contributions	22.8	18.6	8.4	8.7	15.0	17.0
Net investment income	117.7	510.0	0.1	32.9	0.3	43.0
Total additions	<u>248.4</u>	<u>637.9</u>	<u>20.3</u>	<u>57.6</u>	<u>15.3</u>	<u>60.0</u>
Deductions:						
Benefits	202.8	178.8	-	-	-	-
Refunds and distributions	2.5	1.5	6.9	5.9	17.7	16.2
Administrative expenses	3.5	3.1	0.3	0.2	-	-
Total deductions	<u>208.8</u>	<u>183.4</u>	<u>7.2</u>	<u>6.1</u>	<u>17.7</u>	<u>16.2</u>
Total change in net assets	<u>\$ 39.6</u>	<u>\$ 454.5</u>	<u>\$ 13.1</u>	<u>\$ 51.5</u>	<u>\$ (2.4)</u>	<u>\$ 43.8</u>

The following schedules provide a comparative summary and an analysis of each Plans' assets, liabilities and net assets, at June 30:

Employees' Retirement System			
Net Assets			
(Millions)			
	<u>2012</u>	<u>2011</u>	<u>Percentage Change</u>
Assets:			
Cash and investments	\$ 3,233.9	\$ 3,153.5	2.5 %
Receivables	11.2	28.8	(61.1)
Total assets	<u>3,245.1</u>	<u>3,182.3</u>	2.0
Liabilities:			
Benefits payable and other liabilities	4.4	6.4	(31.3)
Obligations under securities lending agreements	303.9	278.7	9.0
Total liabilities	<u>308.3</u>	<u>285.1</u>	8.1
Total plan net assets	<u>\$ 2,936.8</u>	<u>\$ 2,897.2</u>	1.4 %

The table shown above reflects an increase in the ERS' net assets of \$39.6 million or 1.4 percent during fiscal year (FY) 2012. The increase in liabilities is primarily due to the increase in obligations for securities lending agreements.

Retirement Savings Plan			
Net Assets			
(Millions)			
	2012	2011	Percentage Change
Assets:			
Cash and investments	\$ 197.4	\$ 183.4	7.6 %
Receivables	0.8	1.7	(52.9)
Total assets	<u>198.2</u>	<u>185.1</u>	7.1
Liabilities	0.1	0.1	-
Total plan net assets	<u>\$ 198.1</u>	<u>\$ 185.0</u>	7.1 %

During FY 2012, net assets increased 7.1 percent to \$198.1 million. The increase is attributable to larger participant investment account balances due to contributions.

Deferred Compensation Plan			
Net Assets			
(Millions)			
	2012	2011	Percentage Change
Assets:			
Investments	\$ 270.9	\$ 272.3	(0.5) %
Receivables	0.5	1.6	(68.8)
Total assets and plan net assets	<u>\$ 271.4</u>	<u>\$ 273.9</u>	(0.9) %

Net assets of the DCP decreased 0.9 percent to \$271.4 million during FY 2012. The decrease is attributable to lower participant account balances due to increased refunds and decreased contributions during FY 2012.

ADDITIONS

The primary sources of additions for the Plans include member and employer (where applicable) contributions. The following tables compare the source and amount of additions for each Plan during FY 2012 and FY 2011.

Employees' Retirement System			
Contributions and Investment Income			
(Millions)			
	2012	2011	Percentage Change
Employer contributions	\$ 107.9	\$ 109.3	(1.3) %
Member contributions	22.8	18.6	22.6
Net investment income	117.7	510.0	(76.9)
	<u>\$ 248.4</u>	<u>\$ 637.9</u>	(61.1) %

During FY 2012, member contributions increased by 22.6 percent due to a mandatory 1 percent increase in the contribution rate and an optional 2 percent additional after tax contribution for GRIP members for FY 2012 who elected this option.

The net investment income for the ERS totaled \$117.7 million for FY 2012, comprised of \$58.9 million in net appreciation in fair value of investments, \$75.2 million in dividends and interest, \$1.2 million from securities lending activities, and \$17.6 million related to investment expenses. This is compared to net investment income of \$510.0 million in FY 2011. The decrease in earnings compared to the previous fiscal year is due to the stronger financial markets in FY 2011.

Retirement Savings Plan			
Contributions and Investment Income			
(Millions)			
	<u>2012</u>	<u>2011</u>	<u>Percentage Change</u>
Employer contributions	\$ 11.8	\$ 16.0	(26.3) %
Member contributions	8.4	8.7	(3.4)
Net investment income	<u>0.1</u>	<u>32.9</u>	(99.7)
	<u>\$ 20.3</u>	<u>\$ 57.6</u>	(64.8) %

Employer contributions to the RSP were \$11.8 million in FY 2012, a decrease of 26.3 percent from FY 2011 due to legislation requiring a 2 percent lower contribution rate. Member contributions were \$8.4 million in FY 2012, a decrease of 3.4 percent from FY 2011 due to a decline in the number of active participants.

The lower investment income in FY 2012 is primarily attributable to weaker financial markets during FY 2012.

Deferred Compensation Plan			
Contributions and Investment Income			
(Millions)			
	<u>2012</u>	<u>2011</u>	<u>Percentage Change</u>
Member contributions	\$ 15.0	\$ 17.0	(11.8) %
Net investment income	<u>0.3</u>	<u>43.0</u>	(99.3)
	<u>\$ 15.3</u>	<u>\$ 60.0</u>	(74.5) %

Member contributions to the DCP were \$15.0 million for FY 2012, a decrease of 11.8 percent from FY 2011.

Net investment gain for the DCP was \$0.3 million, compared to \$43.0 million in the previous fiscal year. The lower level in FY 2012 is primarily due to weaker financial markets in the fiscal year.

DEDUCTIONS

The primary sources of deductions from the Plans include the payment of retiree and survivor benefits, participant refunds and distributions, and administrative expenses. The following tables show the use and amount of deductions for each plan during FY 2012 and 2011.

Employees' Retirement System			
Deductions by Type			
(Millions)			
	<u>2012</u>	<u>2011</u>	<u>Percentage Change</u>
Benefits	\$ 202.8	\$ 178.8	13.4 %
Refunds	2.5	1.5	66.7
Administrative expenses	3.5	3.1	12.9
	<u>\$ 208.8</u>	<u>\$ 183.4</u>	13.8 %

During FY 2012, benefits increased due to an increase in the number of retirements during the year. Refunds increased primarily due to payments to Deferred Retirement Option Plan participants.

Retirement Savings Plan			
Deductions by Type			
(Millions)			
	<u>2012</u>	<u>2011</u>	<u>Percentage Change</u>
Distributions	\$ 6.9	\$ 5.9	16.9 %
Administrative expenses	0.3	0.2	50.0
	<u>\$ 7.2</u>	<u>\$ 6.1</u>	18.0 %

The expenses related to the RSP are comprised of distributions and administrative costs. The increase is due to an increase in the consulting fees.

Deferred Compensation Plan			
Deductions by Type			
(Millions)			
	<u>2012</u>	<u>2011</u>	<u>Percentage Change</u>
Distributions	<u>\$ 17.7</u>	<u>\$ 16.2</u>	<u>9.3 %</u>

During FY 2012, distributions paid from the DCP increased by 9.3 percent over the FY 2011 level due to an increase in employee terminations.

For additional information regarding this report, please contact the Board of Investment Trustees at 240-777-8220.

MONTGOMERY COUNTY, MARYLAND
 STATEMENTS OF PLAN NET ASSETS
 JUNE 30, 2012

	Employees' Retirement System	Retirement Savings Plan	Deferred Compensation Plan
ASSETS			
Equity in County's pooled cash and investments	\$ 814,725	\$ 424,839	\$ -
Investments:			
Government and agency obligations	303,907,668	-	-
Municipal/Provincial obligations	28,647,969	-	-
Asset-backed securities	2,966,713	-	-
Corporate bonds	572,946,146	-	-
Collateralized mortgage obligations	2,547,786	-	-
Commerical mortgage-backed securities	1,196,517	-	-
Common and preferred stock	1,266,564,139	-	-
Mutual and commingled funds	78,696,158	196,978,242	270,887,077
Short-term investments	292,635,896	-	-
Cash collateral received under securities lending agreements	303,900,721	-	-
Real assets	150,047,987	-	-
Private equity	229,073,503	-	-
Total investments	<u>3,233,131,203</u>	<u>196,978,242</u>	<u>270,887,077</u>
Dividend, interest, and other receivables	6,132,660	-	-
Contributions receivable	<u>5,053,707</u>	<u>794,149</u>	<u>547,661</u>
Total assets	<u>3,245,132,295</u>	<u>198,197,230</u>	<u>271,434,738</u>
LIABILITIES			
Payable for collateral received under securities lending agreements	303,900,721	-	-
Benefits payable and other liabilities	<u>4,457,880</u>	<u>83,883</u>	<u>-</u>
Total liabilities	<u>308,358,601</u>	<u>83,883</u>	<u>-</u>
Net assets held in trust for pension benefits	<u>\$ 2,936,773,694</u>	<u>\$ 198,113,347</u>	<u>\$ 271,434,738</u>

See accompanying notes to financial statements.

MONTGOMERY COUNTY, MARYLAND
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	Employees' Retirement System	Retirement Savings Plan	Deferred Compensation Plan
ADDITIONS			
Contributions:			
Employer	\$ 107,855,595	\$ 11,791,545	\$ -
Members	22,833,310	8,434,872	14,974,202
Total contributions	<u>130,688,905</u>	<u>20,226,417</u>	<u>14,974,202</u>
Investment income	134,103,217	151,363	285,595
Less investment expenses	<u>17,585,825</u>	<u>8,370</u>	<u>285,595</u>
Net gain from investment activities	<u>116,517,392</u>	<u>142,993</u>	<u>285,595</u>
Income from securities lending	787,831	-	-
Less securities lending expenses	<u>(386,458)</u>	<u>-</u>	<u>-</u>
Net income from securities lending	<u>1,174,289</u>	<u>-</u>	<u>-</u>
Total additions	<u>248,380,586</u>	<u>20,369,410</u>	<u>15,259,797</u>
DEDUCTIONS			
Retiree benefits	150,413,170	-	-
Disability benefits	44,127,146	-	-
Survivor benefits	8,233,185	-	-
Refunds and distributions	2,495,447	6,949,898	17,687,767
Administrative expenses	<u>3,545,654</u>	<u>304,836</u>	<u>-</u>
Total deductions	<u>208,814,602</u>	<u>7,254,734</u>	<u>17,687,767</u>
Net increase (decrease)	<u>39,565,984</u>	<u>13,114,676</u>	<u>(2,427,970)</u>
Net assets held in trust for benefits:			
Beginning of year	<u>2,897,207,710</u>	<u>184,998,671</u>	<u>273,862,708</u>
End of year	<u>\$ 2,936,773,694</u>	<u>\$ 198,113,347</u>	<u>\$ 271,434,738</u>

See accompanying notes to financial statements.

**MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS
NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED JUNE 30, 2012

INTRODUCTION

The Montgomery County Employee Retirement Plans (Plans) are offered to Montgomery County (County) employees whose eligibility to participate is based on employment status and other factors. Each of the Plans described below was established under a separate section of the Montgomery County Code (Code). The accompanying notes summarize the significant accounting policies and plan provisions for each of the Plans, including the Employees' Retirement System, a defined benefit pension plan; the Retirement Savings Plan, a defined contribution plan; and the Deferred Compensation Plan, a plan established pursuant to Section 457 of the Internal Revenue Code.

EMPLOYEES' RETIREMENT SYSTEM - Defined Benefit Pension Plan

The Montgomery County Employees' Retirement System (System or Plan) is considered part of the County's financial reporting entity and is included in the County's basic financial statements as a pension and other employee benefit trust fund. The accompanying financial statements present only the operations of the System in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to public employee retirement systems. They are not intended to present fairly the financial position and results of operations of the entire County.

The Montgomery County Council passed legislation in FY 2009 enabling the County to establish and maintain a Guaranteed Retirement Income Plan (GRIP), a cash balance plan that is part of the Plan, for employees. During FY 2010 eligible County employees who were members of the Retirement Savings Plan (RSP) were granted the option to elect to participate in the GRIP and to transfer their RSP member account balance to the GRIP and cease being a member of the RSP.

A. Plan Description and Contribution Information

Membership. At June 30, 2012, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	5,824
Terminated plan members entitled to but not yet receiving benefits	413
Active plan members	5,554

Plan Description. The System, a cost-sharing multiple-employer defined benefit pension plan, was established in 1965 and is sponsored by the County. Nine other agencies and political subdivisions have elected to participate. The System is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and GRIP participants. All covered full-time employees of the County and participating agencies must become members of the System as a condition of employment. All covered career part-time employees of the County and participating agencies may become members on an individual basis.

Contributions. The System is a contributory plan with employees contributing a percentage of their base annual salary. Contribution rates range from 3 percent to 10.25 percent of regular earnings annually based on group classification and contributions earn interest at the rate of 4 percent per annum as specified under Section 33-39(b) of the Code. The County and each participating agency are required to contribute the remaining amounts necessary to fund the System using the actuarial basis as specified in Section 33-40 of the Code.

The GRIP, as defined in Section 33-35 of the Code, requires non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security

wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage base. Section 33-40 of the Code requires the County and each participating agency to contribute 6 percent and 8 percent of regular earnings for non-public safety and public safety employees, respectively.

Benefit Provisions. Benefit provisions are established under the Code beginning with Section 33-35. All benefits vest at five years of service. There are different retirement groups within the System. Members enrolled before July 1, 1978, belong to either the optional non-integrated group or the optional integrated group. Members enrolled on or after July 1, 1978, belong to the mandatory integrated group. Within the groups are different retirement membership classes. The retirement group assigned depends upon the job classification of the member (i.e., non public safety, police, fire, sheriffs and correctional staff). Normal and early retirement eligibility, the formula for determining the amount of benefit, and the cost of living adjustment varies depending upon the retirement group and retirement membership class. Normal retirement is a percentage of earnings multiplied by years of credited service. Earnings for optional non-integrated group members and optional integrated group members is defined as the high 12 months and for mandatory integrated plan members, the high 36 months. The percentage of earnings, the maximum years of credited service and the cost of living adjustment varies depending upon the retirement membership class and group. Members who retire early receive normal retirement benefits reduced by a minimum of 2 percent to a maximum of 60 percent depending on the number of years early retirement precedes normal retirement. The System provides options for disability and death benefits to eligible participants. Annual cost-of-living adjustments are provided to retirees and beneficiaries based on the percentage change in the Consumer Price Index.

Legislation enacted by the Montgomery County Council in November 1999 required the Chief Administrative Officer of the County to establish Deferred Retirement Option Plans, or DROP Plans, allowing any employee who is a member of a specified membership group or bargaining unit, and who meets certain eligibility requirements, to elect to “retire” but continue to work for a specified time period, during which pension payments are deferred. When the member’s participation in the DROP Plan ends, the member must stop working for the County, draw a pension benefit based on the member’s credited service and earnings as of the date that the member began to participate in the DROP Plan, and receive the value of the DROP Plan payoff.

For members of the GRIP, employee contributions vest immediately and employer contributions are vested after three years of service or upon death, disability, or reaching retirement age. Members are fully vested upon reaching normal retirement (age 62) regardless of years of service. At separation, a participant’s benefit is determined based upon the account balance which includes contributions and earnings.

B. Summary of Significant Accounting Policies

Basis of Accounting. The System’s financial statements have been prepared under the accrual basis of accounting. Member and employer contributions are recognized in the period in which the contributions are required to be made as specified under the County Code. Benefits and refunds are recognized when due in accordance with the terms of the Plan. The cost of administering the Plan is paid by the System.

Method Used to Value Investments. Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2012. Fair value for private investments funds, including private equity, private real estate, and private real assets, is determined using unit values supplied by the fund managers, which are based upon the fund managers’ appraisals of the funds’ underlying holdings. Such values involve subjective judgment and may differ from amounts which would be realized if such holdings were actually sold. The fair value of limited partnership investments are based on valuations of the underlying assets of the limited partnerships as reported by the general partner. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

Equity in County’s Pooled Cash and Investments. The System maintains its cash with the County, which invests cash and allocates interest earned, on a quarterly basis to the System based on the System’s average daily balance of its equity in pooled cash. The County’s policy is to fully collateralize the cash maintained in the pool.

Accounting Changes. The System adopted GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, which was issued to update and improve existing standards requiring financial reporting and disclosure requirements on derivative securities. This statement resulted in no changes to the presentation of information.

C. Funded Status and Funding Progress

The funded status of the System as of June 30, 2012, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
\$2,891,435,563	\$3,768,745,962	\$877,310,399	76.7%	\$398,460,248	220.2%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation is as follows.

Valuation date	June 30, 2012
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of payroll assuming 4% annual payroll growth.
Amortization period	Closed amortization approach. The period was reset to 18 years as of June 30, 2010. Amortization bases created in the future will be amortized over 20 years.
Asset valuation method	5-Year phase-in of market gains/losses
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases depending on age	4% - 9.25%
Cost-of-living (inflation rate) adjustments	3% on credited service earned prior to June 30, 2011 2.3% on credited service earned thereafter, reflecting the 2.5% cap.
Post-retirement Increases	Consumer Price Index - by Group
Mortality rates after retirement	RP 2000 projected 30 years, separate tables for males and females

D. Trustees of the Plan

The County established a Board of Investment Trustees (Board) for the System to be responsible for the investment management of the System’s assets for the exclusive benefit of the members. The Board consists of thirteen members appointed by the County Executive and confirmed by the County Council.

E. Investments

Section 33-61C of the Code, authorizes the Board to act with the care, skill, prudence and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes. The Code also requires that such investments be diversified so as to minimize the risk of large losses unless it is clearly not prudent to diversify under the circumstances. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the System’s asset allocation and the investment managers hired by the System. Each investment manager has

a specific benchmark and investment guidelines appropriate for the type of investments they are managing. Section 33-60 of the Code prohibits the Board from investing in any bonds, notes, or debt instruments issued by Montgomery County, any political subdivision within Montgomery County, any agency supported or financed wholly or partly by taxes levied by the Montgomery County Council, or any agency supported by bond issues underwritten by Montgomery County.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The Board's investment policies and guidelines manage interest rate risk by establishing duration constraints on each fixed income manager's portfolio based on the duration of each manager's respective benchmark. Duration is a measure of interest rate risk based on a bond price's sensitivity to a 100-basis point change in interest rates. The greater the duration of a bond, or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration of eight would mean that, given a 100-basis point change up/down in rates, a bond's price would move down/up by 8 percent. As of June 30, 2012, the System's fixed income portfolio had the following sensitivity to changes in interest rates:

Type of Investment	Effective Duration in Years	Fair Value	Percentage of Portfolio
U.S. Government Obligations	17.18	\$ 88,403,061	8.71%
Foreign Government Obligations	4.34	10,804,129	1.06%
Asset-Backed Securities	9.90	2,966,713	0.29%
Commercial Mortgage-Backed Securities	4.71	1,196,517	0.12%
Collateralized Mortgage Obligations	1.12	2,547,786	0.25%
Municipal/Provincial Obligations	14.22	28,647,969	2.82%
Corporate Bonds	6.99	521,373,426	51.35%
Fixed Income Pooled Funds	N/A	279,024,208	27.49%
Short-term Investments and others	N/A	80,362,029	7.91%
Total Fixed Income Securities		<u>\$ 1,015,325,838</u>	<u>100.00%</u>

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Board's International Investing Policy's objective is to achieve long-term capital appreciation and current income by investing in diversified portfolios of non-U.S. equities and bonds. The System has indirect exposure to foreign currency risk as follows:

International Securities	Equity	Fixed Income	Short-term and Other	Total Non-U.S. Dollar
European Currency Unit	\$ 121,242,545	\$ 773,194	\$ 44,681,553	\$ 166,697,292
British Pound Sterling	62,972,056	-	28,331,691	91,303,747
Japanese Yen	97,315,194	-	(10,096,208)	87,218,986
Swedish Krona	14,256,228	-	9,309,430	23,565,658
Hong Kong Dollar	13,687,114	-	1	13,687,115
Danish Krone	7,220,476	-	-	7,220,476
South Korean Won	4,654,703	-	(24)	4,654,679
Philippine Peso	2,268,260	2,251,333	-	4,519,593
Mexican Peso	-	3,176,435	-	3,176,435
Singapore Dollar	2,663,660	-	-	2,663,660
Other Currencies	36,771,118	5,435,431	(94,546,736)	(52,340,187)
Total International Securities	<u>\$ 363,051,354</u>	<u>\$ 11,636,393</u>	<u>\$ (22,320,293)</u>	<u>\$ 352,367,454</u>

Credit Risk/Concentration of Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board's investment policies and guidelines limit the percentage of the total fund and individual manager's account which can be invested in fixed income securities rated below investment grade. In addition, the Board's investment policies and guidelines, for the majority of public fund managers, limit the percentage of each investment manager's account that may be

allocated to any one security, position, issuer or affiliated issuer, to less than 5 percent of the fair value of the investment manager's account. The System does not have investments (other than those issued or explicitly guaranteed by the U.S. Government or pooled investments) in any one company that represents 5 percent or more of net assets held in trust for pension benefits.

The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2012 are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	\$ 88,403,061	8.71%
Foreign Government Obligations	AAA	1,371,686	0.14%
	A	5,427,767	0.53%
	BBB	1,545,385	0.15%
	BB	1,201,182	0.12%
	Unrated	1,258,109	0.12%
	Asset-Backed Securities	AAA	2,133,633
BBB		118,478	0.01%
CCC		714,602	0.07%
Commercial Mortgage-Backed Securities	BBB	820,589	0.08%
	B	375,928	0.04%
Collateralized Mortgage Obligations	AA	109,995	0.01%
	BBB	269,450	0.03%
	B	142,172	0.01%
	CCC	1,488,170	0.15%
	D	537,999	0.05%
Municipal/Provincial Bonds	AAA	11,349,083	1.12%
	AA	8,047,783	0.79%
	A	9,251,103	0.91%
Corporate Bonds	AAA	4,229,922	0.42%
	AA	25,300,903	2.49%
	A	142,347,195	14.02%
	BBB	95,114,881	9.36%
	BB	64,935,939	6.40%
	B	103,746,465	10.22%
	CCC	54,086,724	5.33%
	CC	3,945,189	0.39%
	C	142,313	0.01%
	D	2,605,630	0.26%
	Unrated	24,918,265	2.45%
Fixed Income Pooled Funds	Unrated	279,024,208	27.49%
Short-term Investments and others	Unrated	80,362,029	7.91%
Total Fixed Income Securities		\$ 1,015,325,838	100.00%

*Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

Derivatives. In accordance with the Board's Derivatives Policy, the System regularly invests in derivative financial instruments in the normal course of its investing activities to manage exposure to certain risks within the fund. During FY 2012, the System invested directly in various derivatives including asset-backed securities, collateralized mortgage obligations, exchange-traded futures contracts, forward currency contracts, swaps, and floating rate securities. Investment managers are prohibited from purchasing securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. These investments generally contain market risk resulting from fluctuations in interest and

currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Board's Derivatives Policy seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual and commingled funds which may hold derivative financial instruments. The System is not a dealer, but an end-user of these instruments.

The notional or contractual amounts of derivatives indicate the extent of the System's involvement in the various types of derivative financial instruments and do not measure the System's exposure to credit or market risk and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

As permitted by the Board's policies, the System holds off-financial statement derivatives in the form of exchange-traded financial futures, interest rate swaps, foreign currency exchange swaps and foreign currency exchange contracts.

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specified financial instrument at a predetermined date and price. Gains and losses on futures contracts are settled daily. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay. As of June 30, 2012, the System held 144 long US Treasury futures contracts with a fair value of \$24,390,719 and 547 short US Treasury futures contracts with a fair value of (\$69,193,625).

A swap is an agreement in which party commits to pay a fee in exchange for a return linked to the market performance of an underlying security, group of securities, index or other asset. Risks may arise if the counterparty is unable to meet the terms of the contract. Swaps contain market risk resulting from fluctuations in the value of the reference obligation. As of June 30, 2012, the System held a foreign currency swap with a notional value of \$83,400,000.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. Foreign exchange contracts contain market risk resulting from fluctuations in currency rates. The credit risk is associated with the creditworthiness of the related parties to the contracts. As of June 30, 2012, the System held \$187,785,694 buy foreign exchange contracts and (\$227,279,792) sell foreign exchange contracts. The unrealized loss on the System's contracts was \$3,130,318.

Securities Lending. Board policy permits the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the System's securities for collateral of 102 percent for domestic and 105 percent for international securities. The custodian receives cash, securities or irrevocable bank letters of credit as collateral. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral received from the borrower is invested by the lending agent, as an agent for the System, in a short-term investment pool in the name of the System, with guidelines approved by the Board. Such investments are considered a collateralized investment pool. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool, which the System cannot determine. The System records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net assets. The agent indemnifies the System by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no such failures by any borrower during the fiscal year, nor were there any losses during the period resulting from a default of the borrower or lending agent.

As of June 30, 2012, the fair value of securities on loan was \$301,873,672. Cash received as collateral and the related liability of \$303,900,721 as of June 30, 2012, is shown on the Statement of Plan Net Assets. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral securities absent borrower default. Securities lending revenues and expenses amounting to \$787,831 and (\$386,458), respectively, have been classified with investment income and investment expenses, respectively, in the accompanying financial statements.

The following represents the balances relating to the securities lending transactions at June 30, 2012:

Securities Lent	Underlying Securities	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for Cash Collateral:			
U.S. Government and Agency Obligations	\$ 72,577,011	\$ -	\$ 73,862,244
Corporate Bonds	90,128,491	-	91,156,895
Equities	137,043,980	-	138,881,582
Lent for Non-Cash Collateral:			
U.S. Government Obligations	-	-	-
Corporate Bonds	-	-	-
Equities	2,124,190	2,138,295	-
Total	<u>\$ 301,873,672</u>	<u>\$ 2,138,295</u>	<u>\$ 303,900,721</u>

At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceeded the amounts the borrowers owe the System. The System is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2012, there were no funds held by a counterparty that was acting as the System's agent in securities lending transactions.

F. Allocated Insurance Contract

On August 1, 1986, the County entered into an agreement with Aetna Life Insurance Company (Aetna) wherein Aetna accepted future responsibility for monthly payments to all members retired prior to January 1, 1986, in exchange for a lump sum payment. The County is liable for cost of living increases effective January 1, 1986, and later. Monthly payments made under this agreement have not been recognized in the System's financial statements.

G. Income Taxes

The Internal Revenue Service issued a determination letter in January 2003, which stated that the System and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and are exempt from federal income taxes. In the opinion of the plan administrator, the System and its underlying trust have operated within the terms of the System and are qualified under the applicable provisions of the Internal Revenue Code.

RETIREMENT SAVINGS PLAN - Defined Contribution Pension Plan

The Montgomery County Retirement Savings Plan (Plan) is considered part of the County’s financial reporting entity and is included in the County’s basic financial statements as a pension and other employee benefit trust fund. The accompanying financial statements present only the operations of the Plan in conformity with GAAP. They are not intended to present fairly the financial position and results of operations of the entire County.

The Montgomery County Council passed legislation in FY 2009 enabling the County to establish and maintain a Guaranteed Retirement Income Plan (GRIP), a cash balance plan that is part of the Employees’ Retirement System, for employees. During FY 2010 eligible County employees who were members of the Retirement Savings Plan (Plan) were granted the option to elect to participate in the GRIP and to transfer their Plan member account balance to the GRIP and cease being a member of the Plan.

A. Plan Description and Contribution Information

Membership. At June 30, 2012 membership in the Plan consisted of:

Active plan members	3,564
Inactive plan members	715

Plan Description. The Plan, a cost-sharing multiple-employer defined contribution plan, was established in 1994 and is sponsored by the County. Eight other agencies or political subdivisions have elected to participate. All non-public safety 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 unless they elect to participate in the GRIP. Eligible employees covered by the Montgomery County Employees’ Retirement System may make an irrevocable decision to transfer to this Plan.

Contributions. For fiscal year 2012, under Section 33-116 of the Code, the Plan required non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage base. Section 33-117 of the Code requires the County and each participating agency to contribute 6 percent and 8 percent of regular earnings for non-public safety and public safety employees, respectively. For FY 2012, employees were provided the option, if elected, to contribute an additional 2% contribution.

Benefit Provisions. Employee contributions and earnings thereon vest immediately and employer contributions and earnings thereon are vested after three years of service or upon death, disability, or reaching retirement age. Members are fully vested upon reaching normal retirement (age 62) regardless of years of service. At separation, a participant’s benefit is determined based upon the account balance which includes contributions and investment earnings.

B. Summary of Significant Accounting Policies

Basis of Accounting. The Plan’s financial statements have been prepared under the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are required to be made as specified in the County Code. Benefits, refunds and distributions are recognized when due in accordance with the terms of the Plan. The cost of administering the Plan is paid by the County and participating agencies.

Method Used to Value Investments. Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2012.

Equity in County’s Pooled Cash and Investments. The Plan maintains its cash with the County, which invests cash and allocates interest earned, on a quarterly basis to the Plan based on the Plan’s average daily balance of its equity in pooled cash. The County’s policy is to fully collateralize the cash maintained in the pool.

C. Trustees of the Plan

The County established a Board of Investment Trustees (Board) for the RSP to oversee the investment program. The Board consists of thirteen members appointed by the County Executive and confirmed by the County Council.

D. Investments

Section 33-125 of the Code authorizes the Board to establish a diversified slate of mutual and commingled investment funds from which participants may select an option. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2012, the fair value of the mutual and commingled investment funds was \$196,978,242, of which \$36,752,653 was invested in international mutual funds.

E. Income Taxes

The Internal Revenue Service issued a determination letter in December 2010, which stated that the Plan and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and are exempt from federal income taxes. In the opinion of the plan administrator, the Plan and its underlying trust have operated within the terms of the Plan and are qualified under the applicable provisions of the Internal Revenue Code.

DEFERRED COMPENSATION PLAN

During FY 2005, the Montgomery County Council passed legislation enabling the County to establish and maintain one or more additional deferred compensation plans for employees covered by a collective bargaining agreement. All County non-represented employees, those County represented employees who elected to participate, and employees who were retired at the time of transfer, continue to participate in the Montgomery County Deferred Compensation Plan administered by the County (the County Plan). County represented employees who elected and all represented employees hired after March 1, 2005 participate in the newly created Montgomery County Union Employees Deferred Compensation Plan (the Union Plan) administered by the bargaining units. The purpose of these Plans is to extend to employees deferred compensation plans pursuant to Section 457 of the Internal Revenue Code of 1986, as amended.

The accompanying financial statements present only the operations of the County Plan in conformity with GAAP. They are not intended to present fairly the financial position and results of operations of the entire County. The assets of the Union Plan are not included in the accompanying financial statements since neither the County nor the Board of Investment Trustees (Board) have fiduciary or other responsibility for the Union Plan except as required by federal law, including any regulation, ruling, or other guidance issued under law.

A. Plan Description and Contribution Information

Plan Description. During 1999, in accordance with Federal legislation, the assets were placed in Trust for the sole benefit of participants and their beneficiaries. Trust responsibilities for the County Plan are assigned to the Board. The Board has a third-party administrator contract to provide investment vehicles and administrative services to plan participants. Under the County Plan, contributions are sent to the providers for different types of investments as selected by the participants. A separate account, which reflects the monies deferred, investment of the monies, and related investment earnings is maintained for each participant by the third-party administrator. Withdrawals are made upon retirement, termination of employment, death, and/or in unforeseeable emergencies.

Plan Contributions. Under Section 33-11 of the Code, all employees hired after July 1, 2008 are automatically enrolled in the Plan with a 1% contributions unless they elect out within 60 days from the date of hire. All eligible participants are automatically enrolled in the Plan as of the date of hire. If they do not opt out of the Plan within 60 days from the date of hire, they begin making a contribution equivalent to 1% of their salary.

B. Summary of Significant Accounting Policies

Basis of Accounting. The County Plan's financial statements have been prepared under the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are made. Distributions are recognized when paid in accordance with the terms of the County Plan, and administrative costs are recognized as incurred.

Method Used to Value Investments. Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2012.

C. Trustees of the Plan

The County established a Board to oversee the investment program of the County Plan. The Board consists of thirteen members appointed by the County Executive and confirmed by the County Council.

D. Investments

The Board is required to establish a diversified slate of mutual and commingled funds from which participants may select investment options. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2012, the fair value of the mutual and commingled investment funds was \$270,887,077, of which \$33,613,895 was invested in international mutual funds.



REQUIRED SUPPLEMENTARY INFORMATION

Historical trend information about the Employees' Retirement System (System) defined benefit pension plan is presented below as required supplementary information. This information is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/07	\$ 2,469,933,200	\$ 3,100,637,723	\$ 630,704,523	79.7 %	\$ 352,636,518	178.9 %
6/30/08	2,701,119,470	3,341,549,425	640,429,955	80.8	372,214,906	172.1
6/30/09	2,736,010,044	3,489,057,559	753,047,515	78.4	376,895,171	199.8
6/30/10	2,791,144,974	3,645,576,341	854,431,367	76.6	431,226,155	198.1
6/30/11	2,869,422,276	3,744,713,474	875,291,198	76.6	405,336,529	215.9
6/30/12	2,891,435,563	3,768,745,962	877,310,399	76.7	398,460,248	220.2

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing the assets as a percentage of the actuarial accrued liability provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2007	\$ 109,436,001	100 %
2008	117,686,375	100
2009	109,567,014	100
2010	113,957,784	100
2011	109,343,933	100
2012	107,855,595	100

SCHEDULE OF ADMINISTRATIVE EXPENSES
EMPLOYEES' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2012

Personnel Services:	
Salaries and wages	\$ 1,415,150
Retirement contributions	80,191
Insurance	153,416
Social security	93,782
Total personnel services	<u>1,742,539</u>
Professional Services:	
Actuarial	401,962
Independent public accountants	32,094
Outside legal	6,518
Computer technical support	51,318
Other professional services	16,524
Temporary	127,530
Total professional services	<u>635,946</u>
Benefit Processing:	
Disbursement services	541,289
Recordkeeping services	93,770
Disability management	424,759
Total benefit processing	<u>1,059,818</u>
Due diligence and continuing education	<u>26,684</u>
Office Management:	
Office equipment and supplies	80,433
Miscellaneous	234
Total office management	<u>80,667</u>
Total administrative expenses	<u>\$ 3,545,654</u>

SCHEDULE OF INVESTMENT EXPENSES
EMPLOYEES' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2012

Investment Management Expenses:	
Aetna Life Insurance Company	\$ 4,092
BlackRock Financial Management	52,757
Bridgewater Associates	6,647,600
Eagle Asset Management	63,096
First Quadrant	300,000
FX Concepts	873,152
Gryphon International Investment	848,211
Jennison Associates LLC	491,677
JP Morgan Investment Management	492,896
Los Angeles Capital Management & Equity Research, Inc.	232,874
Loomis Sayles	750,058
Marathon London	1,179,761
Mondrian Investment Partners Ltd.	567,584
Nomura Asset Management	672,279
Numeric Investors	345,520
OFI Trust Company	355,561
RhumbLine Advisors	28,813
Sands Capital Management	399,103
Schroder Investment	752,888
STW	380,971
Systematic Financial Management	360,397
Wellington Management	586,334
The Northern Trust Company	352,060
Bloomberg Financial Systems	18,960
Wilshire Associates	279,256
Abel/Noser Corp.	5,000
KLD Research & Analytics	11,500
Franklin Park	533,425
	<hr/>
Total investment management expenses	17,585,825
	<hr/>
Securities lending borrower rebates	(679,806)
Securities lending agent fees	293,348
	<hr/>
Total securities lending expenses	(386,458)
	<hr/>
Total investment expenses	\$ 17,199,367
	<hr/> <hr/>

EMPLOYEES' RETIREMENT SYSTEM
 STATEMENTS OF PLAN NET ASSETS
 JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Equity in County's pooled cash and investments	\$ 814,725	\$ 838,614
Investments:		
Government and agency obligations	303,907,668	291,168,660
Municipal/Provincial bonds	28,647,969	23,074,251
Asset-backed securities	2,966,713	3,521,986
Corporate bonds	572,946,146	529,817,550
Collateralized mortgage obligations	2,547,786	4,494,269
Commercial mortgage-backed securities	1,196,517	68,577
Common and preferred stock	1,266,564,139	1,293,907,305
Mutual and commingled funds	78,696,158	161,260,706
Short-term investments	292,635,896	236,990,877
Cash collateral received under securities lending agreements	303,900,721	278,648,672
Real assets	150,047,987	119,090,399
Private equity	229,073,503	210,629,024
Total investments	<u>3,233,131,203</u>	<u>3,152,672,276</u>
Dividend, interest, and other receivables	6,132,660	19,514,710
Contributions receivable	<u>5,053,707</u>	<u>9,243,924</u>
Total assets	<u>3,245,132,295</u>	<u>3,182,269,524</u>
LIABILITIES		
Payable for collateral received under securities lending agreements	303,900,721	278,648,672
Benefits payable and other liabilities	<u>4,457,880</u>	<u>6,413,142</u>
Total liabilities	<u>308,358,601</u>	<u>285,061,814</u>
Net assets held in trust for pension benefits	<u>\$ 2,936,773,694</u>	<u>\$ 2,897,207,710</u>

EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
ADDITIONS		
Contributions:		
Employer	\$ 107,855,595	\$ 109,343,933
Members	<u>22,833,310</u>	<u>18,592,167</u>
Total contributions	<u>130,688,905</u>	<u>127,936,100</u>
Investment Income:		
Net appreciation in fair value of investments	58,860,076	456,894,454
Dividends and interest	<u>75,243,141</u>	<u>73,342,788</u>
Total income from investment activities	<u>134,103,217</u>	<u>530,237,242</u>
Less investment expenses	<u>17,585,825</u>	<u>20,999,918</u>
Net income from investment activities	<u>116,517,392</u>	<u>509,237,324</u>
Income from securities lending	787,831	833,495
Less securities lending expenses	<u>(386,458)</u>	<u>52,667</u>
Net income from securities lending	<u>1,174,289</u>	<u>780,828</u>
Total additions	<u>248,380,586</u>	<u>637,954,252</u>
DEDUCTIONS		
Retiree benefits	150,413,170	129,940,460
Disability benefits	44,127,146	40,906,886
Survivor benefits	8,233,185	7,944,401
Refunds	2,495,447	1,567,741
Administrative expenses	<u>3,545,654</u>	<u>3,079,377</u>
Total deductions	<u>208,814,602</u>	<u>183,438,865</u>
Net increase	39,565,984	454,515,387
Net assets - beginning of year	<u>2,897,207,710</u>	<u>2,442,692,323</u>
Net assets - end of year	<u>\$2,936,773,694</u>	<u>\$2,897,207,710</u>

RETIREMENT SAVINGS PLAN
 STATEMENTS OF PLAN NET ASSETS
 JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Equity in County's pooled cash and investments	\$ 424,839	\$ 519,859
Investments	196,978,242	182,851,306
Contributions receivable	<u>794,149</u>	<u>1,715,279</u>
Total assets	<u>198,197,230</u>	<u>185,086,444</u>
LIABILITIES		
Accrued expenses	<u>83,883</u>	<u>87,773</u>
Net assets held in trust for pension benefits	<u><u>\$ 198,113,347</u></u>	<u><u>\$ 184,998,671</u></u>

RETIREMENT SAVINGS PLAN
 STATEMENTS OF CHANGES IN PLAN NET ASSETS
 FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
ADDITIONS		
Contributions:		
Employers	\$ 11,791,545	\$ 16,071,953
Members	8,434,872	8,685,919
Total contributions	<u>20,226,417</u>	<u>24,757,872</u>
Investment income (loss)	(101,271)	32,461,347
Other income	252,634	425,002
Net investment income	<u>151,363</u>	<u>32,886,349</u>
Less investment expenses	<u>8,370</u>	<u>8,811</u>
Total additions	<u>20,369,410</u>	<u>57,635,410</u>
DEDUCTIONS		
Distributions	6,949,898	5,854,134
Administrative expenses	<u>304,836</u>	<u>244,218</u>
Total deductions	<u>7,254,734</u>	<u>6,098,352</u>
Net increase	13,114,676	51,537,058
Net assets - beginning of year	<u>184,998,671</u>	<u>133,461,613</u>
Net assets - end of year	<u>\$ 198,113,347</u>	<u>\$ 184,998,671</u>

DEFERRED COMPENSATION PLAN
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Investments	\$ 270,887,077	\$ 272,313,942
Contributions receivable	<u>547,661</u>	<u>1,548,766</u>
Total assets and net assets held in trust for pension benefits	<u><u>\$ 271,434,738</u></u>	<u><u>\$ 273,862,708</u></u>

DEFERRED COMPENSATION PLAN
 STATEMENTS OF CHANGES IN PLAN NET ASSETS
 FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
ADDITIONS		
Contributions - members	\$ 14,974,202	\$ 17,028,756
Investment income	<u>285,595</u>	<u>42,988,175</u>
Total additions	<u>15,259,797</u>	<u>60,016,931</u>
DEDUCTIONS		
Distributions	<u>17,687,767</u>	<u>16,178,060</u>
Total deductions	<u>17,687,767</u>	<u>16,178,060</u>
Net increase (decrease)	(2,427,970)	43,838,871
Net assets - beginning of year	<u>273,862,708</u>	<u>230,023,837</u>
Net assets - end of year	<u><u>\$ 271,434,738</u></u>	<u><u>\$ 273,862,708</u></u>



INVESTMENT SECTION

Employees' Retirement System

EMPLOYEES' RETIREMENT SYSTEM

INVESTMENT PERFORMANCE, POLICY, STATISTICS AND ACTIVITY

The Board of Investment Trustees (Board) and the investment staff are responsible for managing the \$2.9 billion fund, Employees' Retirement System (the System), invested solely in the interests of its beneficiaries. It is a significant responsibility due to the majority of the average retiree benefit coming from investment earnings on contributions from members, the County, and participating agencies. According to Wilshire Associates, a national consulting firm, the median return among US public pension plans over \$1 billion in size in FY 2012 was a gain of 0.59%, gross of fees. The System's return for the fiscal year was a gain of 5.30% gross of fees, ranking in the top decile of this universe of comparable pension funds. The study also ranked the System's three-year gain of 13.64% and its five-year return of 3.84% in the top quartile. The gross returns for the one-year period trailed the performance benchmark established by the Board by 8 basis points, with returns for the three-year and five-year periods exceeding the performance benchmarks by 83 basis points and 71 basis points, respectively. The key drivers of the performance for the twelve month period ending June 30, 2012 were the System's long duration fixed income, global inflation-indexed bond, and private real assets managers.

In the investment of public funds, adequate funding of employee retirement benefits at a reasonable and affordable cost is a paramount concern. An appropriate balance must be struck between risks taken and returns sought to ensure the long term health of the System. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets.

Specific investment objectives include:

- To realize the actuarial assumed rate of return of 7.5 percent.
- To manage portfolio risk so as to limit potential downside fluctuations in the value of the total System assets.
- To realize as high a rate of total return as possible consistent with the above.

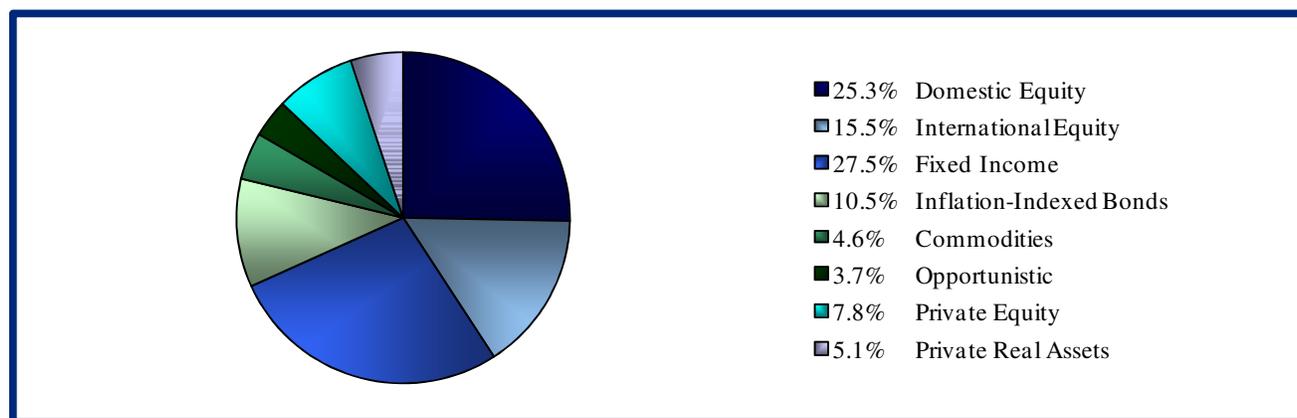
To achieve these objectives, the following investment policies are employed:

- Allocate System assets to a broad array of investment sectors and strategies.
- Maintain the asset allocation in compliance with the Board's rebalancing policy (+/- 5% for major asset classes and +/- 1.5% to 3% for sub-asset classes).
- Monitor the individual investment managers' market value to ensure compliance with the Board's Manager Funding Policy.
- Evaluate the performance of all investment managers against their specific performance and style objectives, assigned risk, and the returns achieved by other similar managers.
- Evaluate the System's overall risk exposure and modify investments through rebalancing when necessary.

During FY 2012, the Board continued to implement portfolio adjustments which will result in further diversification of the investment portfolio and better management of the System's risk. Toward this effort, the Board approved new investments in the following sectors: public equities, private equity, private real assets, and opportunistic strategies. The Board also approved a structural change to the asset allocation that will result in the addition of global public real estate securities to the portfolio.

The following pages reflect comments on the investment portfolio and were prepared by the Board.

ASSET ALLOCATION – JUNE 30, 2012



INVESTMENT PERFORMANCE SUMMARY

ANNUALIZED DATA FOR PERIOD ENDING JUNE 30, 2012

	1 Year		3 Year		5 Year
Total Fund Time-Weighted Returns					
MCERS	5.30	%	13.64	%	3.84 %
Policy Benchmark	5.38		12.81		3.13
Total Domestic Equities Return					
MCERS	2.62		16.88		0.93
Russell 3000	3.84		16.73		0.39
Total Private Equities Return					
MCERS	4.12 ^A		12.65 ^A		6.24 ^A
Russell 3000 + 300 Bpts	5.54 ^A		19.16 ^A		7.35 ^A
Total International Equities					
MCERS	(11.03)		9.72		(1.12)
MSCI All Country World X US	(14.57)		6.97		(4.62)
Total Private Real Assets					
MCERS	8.77 ^A		0.48 ^A		(3.29) ^A
CPI + 500 Bpts	6.63 ^B		7.13 ^B		6.89 ^B
Total Fixed Income					
MCERS	14.39		14.41		8.83
Custom Fixed Income Benchmark	14.81		12.43		9.17
Total Opportunistic					
MCERS	(1.48) ^C		N/A		N/A
HFRI Fund of Funds Composite	(4.39)		N/A		N/A
Total Commodities					
MCERS	(12.53)		4.45		N/A
DJ UBS Commodities Index	(14.32)		3.49		N/A
Total Global Inflation Indexed Bonds					
MCERS	26.81		22.38		16.58
Custom IIB Benchmark	20.50		13.15		10.60

Return data for the System was calculated on a time weighted basis (except where noted). Returns shown are provided by the System's custodian bank, The Northern Trust Company. Valuations are based on published national securities exchange prices, where available, and all valuations are reconciled between the various investment managers and the custodian bank. Returns are gross of fees paid to investment managers except where noted.

A: Returns computed on dollar-weighted basis and are net of investment management fees.

B: Benchmark comparison is not meaningful at this time due to the short investment history of the System private real assets program.

C: Returns computed net of investment management fees.

PORTFOLIO HIGHLIGHTS

PUBLIC EQUITY

The market value of the total Public Equity Portfolio as of June 30, 2012 represented approximately 40.8% of the total fund, split between Domestic Equity at 25.3% and International Equity at 15.5%. The Domestic Equity Portfolio underperformed the Russell 3000 Benchmark by 1.22% for the one year ending June 30, 2012. The US equity markets started the fiscal year on a sharp decline impacted by weak global economic data, European and US political gridlock, and fears of escalating contagion from the European debt crises. The markets stabilized and rallied mid-year on strong earnings reports in the US and optimism about progress in resolving the European debt crises. Domestic equity indices ended the fiscal year on a negative note as a continued softening of economic data in the US and increased concerns about the Eurozone weighed on the markets.

As of June 30, 2012, the International Equity Portfolio was allocated as follows: 85.0% active EAFE and 15.0% active emerging markets. The International Equity Portfolio outperformed the MSCI ACWI ex US benchmark by 3.54% for the fiscal year ending June 30, 2012. Directionally, international markets followed domestic markets during the fiscal year, though experienced weaker upside movements and a worse downside due to deteriorating conditions in the European sovereign debt crisis. Emerging markets underperformed their developed market counterparts as concerns intensified over slowing global economic growth due to the worsening European conditions and a slowdown in China's rate of economic activity.

Equity: Top 15 Holdings

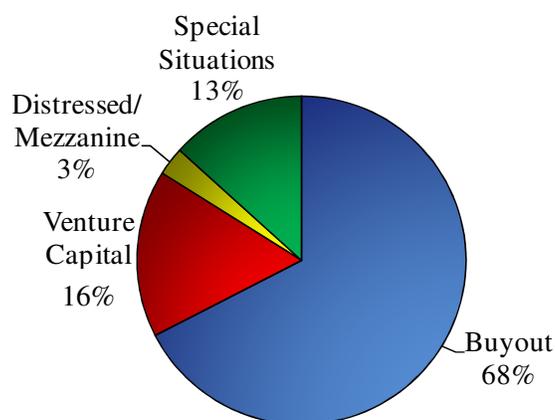
The top 15 holdings in the Public Equity Portfolio comprised 4.6% of ERS assets at June 30, 2012. In comparison to the top 15 holdings of last year, Apple, Novartis, BNP Paribas, Fresenius, Heineken, and Inditex remained and Visa, Amazon, Google, Salesforce, Intertek, Qualcomm, Gemalto, Seven & I, and Li & Fung were added.

Equity	Shares	Value
Apple	23,071	\$ 13,473,464
Visa	72,378	8,948,092
Amazon	39,156	8,941,273
Google	13,543	7,855,888
Novartis	137,323	7,674,999
Fresenius	72,291	7,502,570
Salesforce	50,827	7,027,341
Heineken	131,752	6,879,439
Inditex	62,333	6,449,324
Intertek Group	152,249	6,380,601
Qualcomm	100,210	5,579,693
Gemalto	77,335	5,553,855
Seven & I Holdings	182,600	5,485,552
Li & Fung	2,845,600	5,436,716
BNP Paribas	140,669	5,415,283

PRIVATE EQUITY

The System began investing in private equity in 2003 to achieve returns greater than those available in the public equity markets and to gain exposure to diversified alpha sources. At June 30, 2012, the Private Equity Portfolio comprised 7.8% of total fund assets, and approximately 68% of the dollars committed had been called. On a long-term basis, the Private Equity program seeks to outperform the Russell 3000 Index by 3%. System returns are calculated on a dollar-weighted or internal rate-of-return basis, and the annualized return since inception (2003) through June 30, 2012 was 6.24%. By comparison, the dollar-weighted return for the Russell 3000 Index plus 3% for the same period was 7.35%.

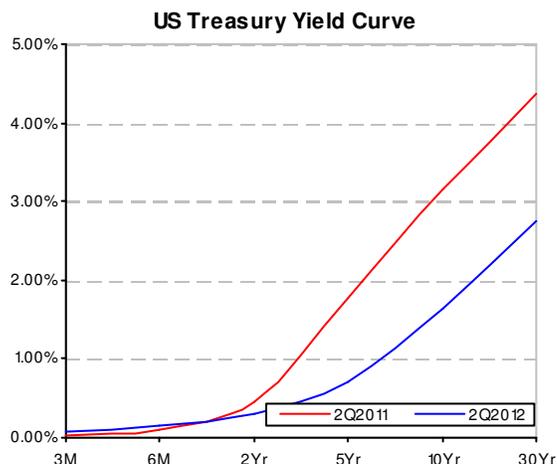
Over the past twelve months, new private equity deals and exits remained nearly at the same strong level of activity seen during the prior fiscal year. Market turmoil in Europe had little impact, except for pricing – valuations were slightly down versus the prior year due to tighter credit standards imposed by lenders.



PORTFOLIO HIGHLIGHTS

FIXED INCOME

The System invests a portion of its portfolio in fixed income securities to reduce total fund volatility, produce income and provide a measure of protection in the event of a slowing economic environment, where these lower volatility assets should provide downside protection. The market value of the Fixed Income Portfolio as of June 30, 2012 represented approximately 27.5% of the total fund. The Fixed Income Portfolio returned 14.39%, but underperformed the benchmark return of 14.81% during the fiscal year. Treasury yields fell as investors sought the safety of US Government bonds. Strong returns were driven by the long duration allocation, representing approximately 12.5% of total fund assets.



The past twelve months for the fixed income markets have been characterized by slower economic growth and accommodative monetary policy. The Federal Reserve maintained the Fed Funds Rate at a target range of 0% to 0.25% and reiterated their view that current economic conditions warrant exceptionally low levels for an extended period of time. The Fed also continued quantitative easing measures to keep longer interest rates low in an effort to stimulate the economic recovery. The flattening in the US Treasury Yield Curve (see above) reflects concerns that the global economic growth is slowing and a recovery may take longer than previously anticipated.

Fixed Income: Top 15 Holdings

Fifteen Largest Fixed Income Holdings	Interest Rate	Maturity Date	Fair Value
United States Treasury Bonds	3.125 %	November 15, 2041	\$ 35,701,825
United States Treasury Bonds	3.750	August 15, 2041	20,796,401
United States Treasury Bonds	3.125	February 15, 2024	9,639,706
Wachovia Bank	6.600	January 15, 2038	7,281,971
HSBC Bank	7.000	January 15, 2039	6,048,344
JP Morgan Chase	5.600	July 15, 2041	5,875,637
Citigroup Inc	8.125	July 15, 2039	5,448,163
General Electric Capital Corp	6.875	January 10, 2039	5,315,344
Kraft Foods Inc	6.500	February 9, 2040	5,284,803
Altria Group Inc	9.950	November 10, 2038	5,205,883
United States Treasury Bonds	7.625	February 15, 2025	5,147,972
Metlife	5.875	February 6, 2041	4,993,743
ConocoPhillips	6.500	February 15, 2039	4,736,037
NY State Dorm Authority	5.000	March 15, 2041	4,496,108
Bank of America	6.000	October 15, 2036	4,123,645

A complete list of the portfolio holdings can be obtained by contacting the Board of Investment Trustees office.

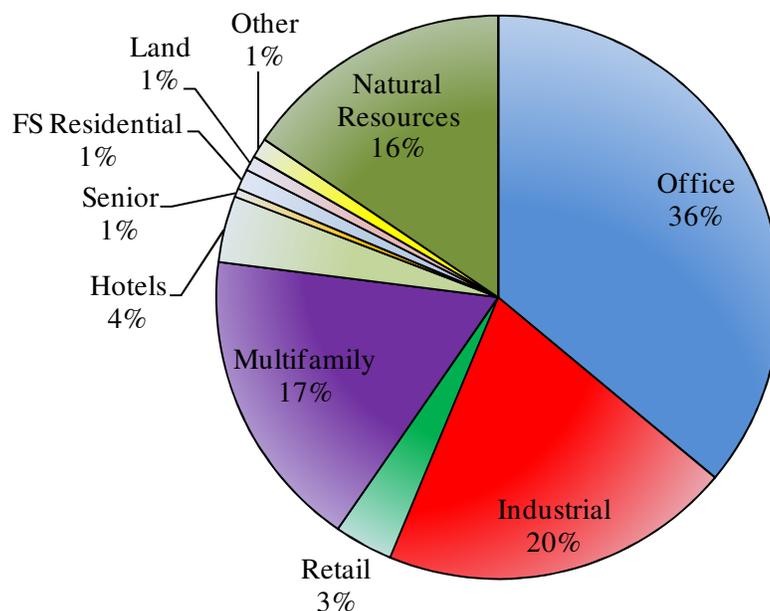
PORTFOLIO HIGHLIGHTS

REAL/INFLATION HEDGE ASSETS

Private Real Assets

The System began investing in value-added and opportunistic private real estate and natural resources in 2006 to attain real returns less correlated with the broad securities markets. Returns are computed on a dollar-weighted or internal rate-of-return basis, and from inception (2006) to June 30, 2012 the investments generated an annualized loss of 3.03%. By comparison, the dollar-weighted return for the benchmark CPI + 5% for the same period was a gain of 6.91%. The Private Real Assets Portfolio comprised 5.1% of the ERS portfolio at June 30, 2012 with approximately 78% of the total capital committed to private real assets being contributed.

During the fiscal year, real estate transaction activity decreased versus the prior year, as improving US activity levels were offset by a drop in development transactions in Asia. Energy investment markets saw a robust pace of deal activity, led by oil and natural gas liquids opportunities.



Global Inflation-Indexed Bonds

The System allocates a portion of Fund assets to inflation-indexed bonds which provide protection against inflation risk as well as providing a diversified return stream to manage volatility. The Inflation-Indexed Bond Portfolio represented 10.5% of the total fund at June 30, 2012. The Portfolio, which also includes an absolute return fund, returned 26.81% during the fiscal year, outperforming the benchmark by 6.31%.

The returns on Global Inflation-Indexed bonds were positive during the fiscal year as real yields declined. Performance of our portfolio benefited from opportunistic allocations to developed and emerging market currencies, nominal bonds and certain commodity positions through the manager's actively managed portfolio.

Inflation-Indexed Bonds - Country Exposures

United States	40.2	%
Euroland	29.7	
United Kingdom	15.0	
Sweden	5.1	
Canada	10.0	

PORTFOLIO HIGHLIGHTS

Commodities

The System began investing in commodities in January 2009 to further diversify the portfolio to reduce risk and to provide a hedge against unexpected inflation. The Commodities Portfolio represented 4.6% of the total fund as of June 30, 2012. The Portfolio declined by 12.53%, outperforming the benchmark by 1.79% for the year ended June 30, 2012.

The commodities markets declined sharply in the beginning of the fiscal year on concerns about the global economy heading into a recession, but markets improved towards the middle of the fiscal year on rallying crude oil prices due to geopolitical concerns, strong US economic data and increased Chinese demand. However, the commodities markets ended the fiscal year on a negative note due to Eurozone concerns and continued softening of economic data in the US. A strengthening dollar also impacted commodity prices as raw materials are priced in dollars and tend to move inversely with the dollar.

INVESTMENT MANAGERS

The diversified investment structure as of June 30, 2012 is reflected in the following table, which lists System managers by asset class and style.

Public Equity	Investment Style	Commodities	Investment Style
Domestic Equity		BlackRock Financial Mgt.*	DJ UBS Commodity
BlackRock Financial Mgt.*	Russell 1000 Index	Schroder Investment Mgt.*	Active
Eagle Asset Management	Small Cap Growth		
JP Morgan Investment Mgt.*	Large Cap Core Plus	Opportunistic	Investment Style
Los Angeles Capital Management*	Large Cap Alpha	GMO*	Global Macro
RhumbLine Advisors	Russell 1000 Index	Grosvenor*	Fund-of-Funds
Sands Capital Management	Large Cap Growth		
Systematic Financial Mgt.	Large Cap Value	Private Equity	Investment Style
Wellington Management	Small Cap Value	Adams Street*	Fund-of-Funds
		Altus Capital Partners*	Buyouts
International Equity		DW Healthcare Partners*	Buyouts
Gryphon	EAFE	HarbourVest*	Fund-of-Funds
Marathon	EAFE	KPS Capital Partners*	Turnaround
Mondrian*	Emerging Markets	Landmark*	Fund-of-Funds
		Mason Wells*	Buyouts
Fixed Income	Investment Style	Odyssey Inv. Partners.*	Buyouts
BlackRock Financial Mgt.*	BC US Aggregate Index	Pomona Capital*	Fund-of-Funds
Loomis Sayles	High Yield	Riverside Partners*	Buyouts
Jennison Associates	Long Duration	TA Associates*	Growth Equity
Nomura Asset Management	High Yield	Wicks Group*	Buyouts
STW Fixed Income Mgt.	Long Duration		
		Private Real Assets	Investment Style
Inflation-Indexed Bonds	Investment Style	AEW Capital*	Opportunistic
Bridgewater*	Inflation Indexed Bonds	Carmel Partners*	Value-Added
		EnerVest*	Energy
Foreign Currency	Investment Style	FLAG Capital Mgt.*	Fund-of-Funds
First Quadrant*	Foreign Currency	Hampshire Companies*	Value-Added
FX Concepts*	Foreign Currency	LBA Realty*	Value-Added
		Pearlmark Real Estate Ptrs*	Value-Added
		TA Associates Realty*	Value-Added

* Pooled Funds

PORTFOLIO HIGHLIGHTS

PUBLIC EQUITY COMMISSIONS

January 1, 2011 THROUGH December 31, 2011

Brokers	Commissions (thousands)
Liquidnet Inc.	\$ 34
Investment Technology Group, Inc.	34
Morgan Stanley & Co., Inc.	33
Merrill Lynch Pierce Fenner & Smith, Inc.	28
Credit Suisse First Boston Corporation	26
Instinet	25
Goldman Executing & Clearing	21
Citigroup Global Markets Inc./Smith Barney	14
UBS Warburg LLC	12
Deutsche Bank Securities	12
Other Brokers (125 brokers)	231
Total	\$ 470

INVESTMENT SUMMARY

	2012 Fair Value	Percent of Total Value	2011 Fair Value	Percent of Total Value
Government and agency obligations	\$ 303,907,668	9.40%	\$ 291,168,660	9.24%
Municipal/Provincial obligations	28,647,969	0.89%	23,074,251	0.73%
Asset-backed securities	2,966,713	0.09%	3,521,986	0.11%
Corporate bonds	572,946,146	17.72%	529,817,550	16.81%
Collateralized mortgage obligations	2,547,786	0.08%	4,494,269	0.14%
Commerical mortgage-backed securities	1,196,517	0.04%	68,577	0.00%
Common and preferred stock	1,266,564,139	39.17%	1,293,907,305	41.04%
Mutual and commingled funds	78,696,158	2.43%	161,260,706	5.11%
Short-term investments	292,635,896	9.05%	236,990,877	7.52%
Cash collateral received under securities lending agreements	303,900,721	9.40%	278,648,672	8.84%
Real assets	150,047,987	4.64%	119,090,399	3.78%
Private equity	229,073,503	7.09%	210,629,024	6.68%
Total	\$ 3,233,131,203	100.00%	\$ 3,152,672,276	100.00%



ACTUARIAL SECTION
Employees' Retirement System

December 17, 2012

Board of Trustees
Montgomery County Employees' Retirement System
Rockville, Maryland

Dear Trustees:

We are pleased to provide our formal annual Actuarial Valuation Report as of July 1, 2012, for the Montgomery County Employees' Retirement System ("System"). The actuarial valuation was performed at the request of Montgomery County ("County") and is intended for use by the County and the System and those designated by the County and the System. This report may be provided to parties other than the County and System only in its entirety and only with the permission of the County and System.

Funding Objective

The funding objective is to provide employer and employee contributions sufficient to pay the benefits of the Montgomery County Employees' Retirement System when due and to achieve a funded ratio of 100 percent at the end of the amortization period under the level percentage of pay funding policy with 20-year closed period amortization bases established at each valuation. The total contribution rate is equal to the normal cost rate plus amortization of the unfunded liability as a level percentage of payroll. The unfunded liability as of July 1, 2010, was amortized over an initial closed period of 18 years (16 years remaining at the valuation as of July 1, 2012). The additional unfunded liability from each subsequent valuation is amortized over a 20-year closed period. The total contribution rate minus the average employee contribution rate equals the County contribution rate. The valuation as of July 1, 2012, establishes the County contribution rate for fiscal year beginning July 1, 2013.

Actuarial Assumptions and Methods

The actuarial assumptions and the actuarial cost method used in this valuation are the same as those used in the prior actuarial valuation performed by the prior actuary. The actuarial method utilized by the System for Guaranteed Retirement Income Plan ("GRIP") members is the Traditional Unit Credit Cost Method. The actuarial method utilized by the System for non-GRIP members is the Projected Unit Credit Cost Method. The objective of these methods is to finance the benefits of the System as such benefits accrue to each member. The Projected Unit Credit Method reflects future pay increases whereas the Traditional Unit Credit Method does not. Any Unfunded Actuarial Accrued Liability (UAAL) under this method is separately financed. All actuarial gains and losses under this method are reflected in the UAAL.

The actuarial assumptions and methods used, including the economic and demographic assumptions, the actuarial cost method and asset method, are in accordance with paragraph 36 of GASB Statement Number 25.

Benefit Provisions

There have been no new plan changes reflected in the valuation as of July 1, 2012, since the actuarial valuation at July 1, 2011. However, certain plan changes reflected in the valuation as of July 1, 2011, which are first effective July 1, 2012 are as follow:

1. An increase in the member contribution rate of 1 percent of pay
2. Changes to the service-connected disability benefit

Participant Data

A total of 5,554 active members (including DRSP and DROP) were included in the valuation as of July 1, 2012. Between the 2011 and 2012 valuations, the number of active employees increased by 39 members, or 0.7 percent. The average annual valuation pay (including DRSP and DROP) decreased by 2.4 percent, from \$73,497 to \$71,743 between the 2011 and 2012 valuation. The number of benefit recipients increased from 5,712 to 5,824, or 2.0 percent, since the last valuation. The average monthly benefit increased by 1.9 percent, from \$2,862 to \$2,915.

Aetna Contract

There is a group of retirees that have benefits that are insured by Aetna. The total benefit amounts reported for these members in the valuation report include the insured benefit amount. The actuarial liabilities calculated in the valuation report exclude the value of these benefits. The liabilities for these members that are included in the actuarial valuation are for the cost of living adjustments provided and are paid by the Montgomery County Employees' Retirement System.

Valuation Assets

On a market value basis, the Plan assets had an investment return of approximately 5.2¹ percent (net of investment expenses). Continued recognition of the fiscal year end 2008 and fiscal year end 2009 investment losses and partial recognition of the fiscal year 2012 investment loss, which was partially offset by recognition of investment gains during fiscal years ending 2010 and 2011, resulted in an estimated net asset rate of return of 3.5 percent on an actuarial basis which compares to the assumed rate of return of 7.50 percent.

Reliance on Others

The valuation was based upon information furnished by the County Staff, concerning benefits provided by the Montgomery County Employees' Retirement System, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for internal and year-to-year consistency, but did not otherwise audit the data. We are not responsible for the accuracy or completeness of the information provided by the County Staff.

Certification

To the best of our knowledge the information contained in this report is accurate and fairly presents the actuarial position of the Montgomery County Employees' Retirement System as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. The undersigned are members of the American Academy of Actuaries

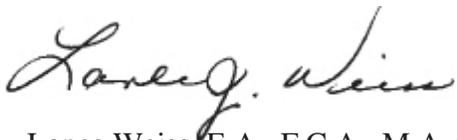
¹ Estimated market value return based on invested portion of total plan assets in custody at Northern Trust and net non-investment cash outflows of \$78,125,697 during fiscal year 2012. Based on estimated monthly returns and uniform distribution of non-investment cash flows in each month during the fiscal year.

and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. This report should not be relied on for any purpose other than the purpose stated.

The signing actuaries are independent of the plan sponsor.

Respectfully submitted,
Gabriel, Roeder, Smith & Company



Lance Weiss, E.A., F.C.A., M.A.A.A.
Senior Consultant



Amy Williams, A.S.A., M.A.A.A.
Consultant

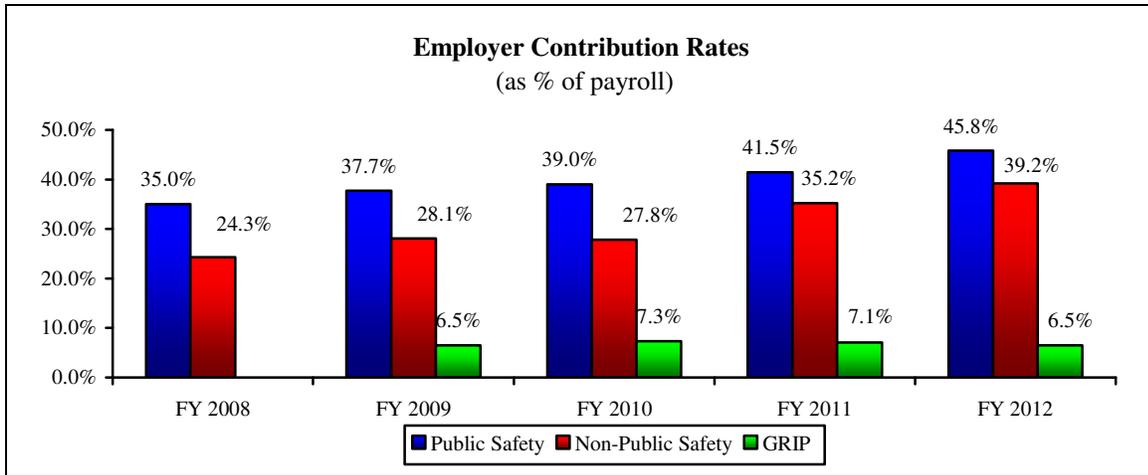
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**SUMMARY OF VALUATION RESULTS
EMPLOYEES' RETIREMENT SYSTEM**

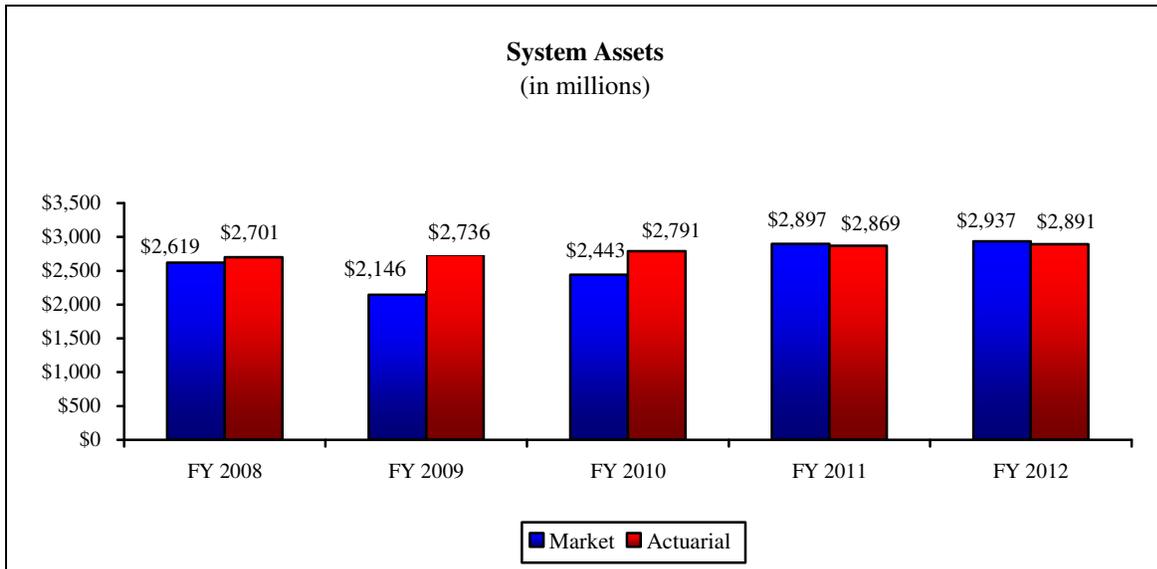
A. Overview

This report presents the results of our June 30, 2012 actuarial valuation of the Montgomery County Employees' Retirement System.

The major findings of the valuation are summarized in the following charts:

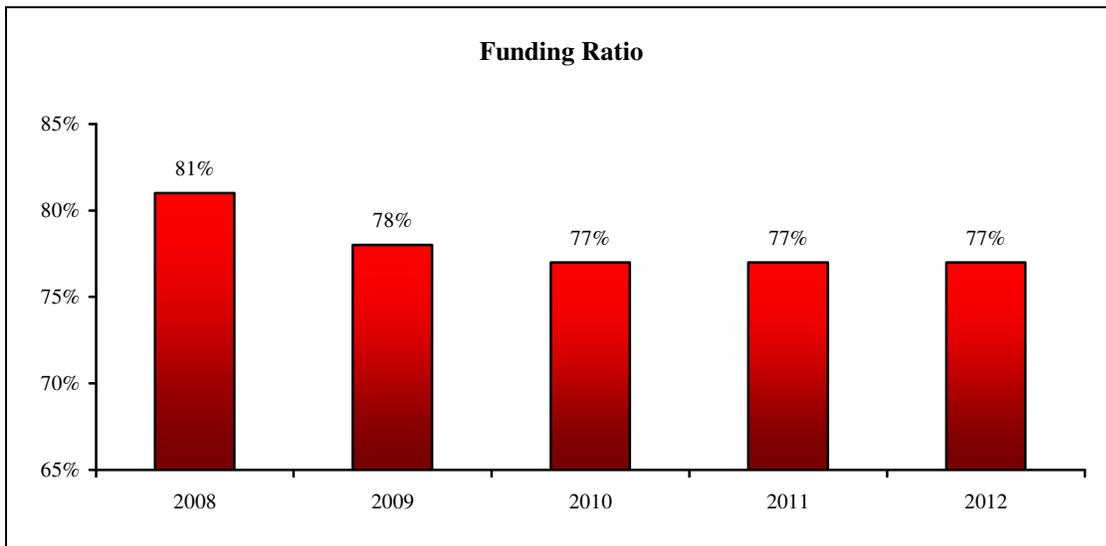


The change in the employer contribution rate in FY 2012 was due to actual System experience versus actuarial assumptions.





The unfunded actuarial liability increased in FY 2012 primarily due to assumption changes and the loss on the actuarial value of assets.



The ratio of actuarial assets to the actuarial accrued liability was unchanged.

B. Summary of Results

	<u>July 1, 2011</u>	<u>July 1, 2012</u>
Actuarial Liability		
a. Active Members	\$ 1,562,905,752	\$ 1,506,769,849
b. Retired Members and Beneficiaries	2,155,823,565	2,244,507,703
c. Vested Former Members	<u>25,993,277</u>	<u>17,468,410</u>
d. Total	<u>\$ 3,744,722,594</u>	<u>\$ 3,768,745,962</u>
Valuation Assets	\$ 2,869,422,276	\$ 2,891,435,563
Unfunded Actuarial Liability	\$ 875,300,318	\$ 877,310,399
Normal Cost		
a. Gross Normal Cost	\$ 73,560,760	\$ 77,517,343
b. Anticipated Employee Contributions	<u>\$ 22,136,540</u>	<u>\$ 21,456,899</u>
c. County Normal Cost (a -b)	\$ 51,424,220	\$ 56,060,444
Amortization Payment	\$ 66,026,873	\$ 69,161,593
County Contribution Required at Date Shown	\$ 117,451,093	\$ 125,222,037
County FY 2013/FY 2014 Contribution (as a % of covered payroll)		
Public Safety Employee	41.47%	45.84%
Non-Public Safety Employees	35.20%	39.17%
Guaranteed Retirement Income Plan	7.09%	6.45%

C. Valuation Highlights

1. System Assets

As of June 30, 2012, the System had assets, valued at market, of \$2.937 billion, as compared to \$2.897 billion at June 30, 2011. The increase of \$40 million was attributable to the following:

- a. An increase of \$131 million from employer and employee contributions;
- b. An increase of \$118 million from investment gain;
- c. A decrease of \$209 million due to the payment of benefits to System participants and administrative expenses.

When measured on an actuarial basis, System assets were \$2.891 billion at June 30, 2012, and \$2.869 billion at June 30, 2011. The asset valuation method smoothes the fluctuations generated by intermittent market gains and losses. This method phases-in investment gains and losses arising during and after the 1994 fiscal year over a five-year period from the date established. Effective July 1, 1997, the calculation of the actuarial value of assets was changed to exclude the present value of estimated accrued contributions.

2. System Liabilities

The Unfunded Actuarial Liability increased \$2 million, from \$875 million at July 1, 2011, to \$877 million at July 1, 2012, as follows:

Unfunded Actuarial Liability at beginning of year	\$ 875,300,318
Unfunded Actuarial Liability at end of year	<u>877,310,399</u>
Increase in Unfunded Actuarial Liability	<u>\$ (2,010,081)</u>

The increase in Unfunded Actuarial Liability for the year ended June 30, 2012, is comprised of the following:

Increase due to loss on actuarial value of assets	\$ (110,314,254)
Decrease due to demographic gain and other factors	117,528,373
Increase due to amortization payment and contributions	(9,224,200)
Decrease due to plan changes	<u>-</u>
Increase in Unfunded Actuarial Liability	<u>\$ (2,010,081)</u>

3. System Contributions

Contributions to the System include a “normal cost” rate which covers the portion of projected liabilities related to service of members. In addition, an amortization payment is made to fund the unfunded liability related to changes made to benefits in previous years which are being funded over a specific period of time.

The increase/decrease in the employer contribution rate is attributable to the following:

	<u>Public Safety</u> <u>(non-GRIP)</u>	<u>Non-Public</u> <u>Safety</u> <u>(non-GRIP)</u>	<u>GRIP</u>
Employer contribution rate - June 30, 2011	41.47 %	35.20 %	7.09 %
Increase due to loss on actuarial value of assets	2.52	2.99	(0.08)
Increase due to actuarial gains & losses	1.85	0.98	(0.56)
Decrease due to plan changes	-	-	-
Increase due to assumption and method changes	-	-	-
	<u>45.84 %</u>	<u>39.17 %</u>	<u>6.45 %</u>
Employer contribution rate - June 30, 2012			

4. Membership

The active membership of the System increased from 5,515 at June 30, 2011 to 5,554 at June 30, 2012. The System was closed to all new employees hired after October 1, 1994, except public safety, bargaining unit employees and GRIP participants. Inactive members, including retirees and beneficiaries, increased from 5,712 at June 30, 2011 to 5,824 at June 30, 2012 and the number of former members with vested rights increased from 398 to 413.

**SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
EMPLOYEES' RETIREMENT SYSTEM**

A. Funding Method

The funding method used for the System's valuation is the "Projected Unit Credit" actuarial cost method. The objective of this method is to allocate the total pension benefit to which each participant is expected to become entitled at retirement to the participant's past and future service. The allocation is accomplished by applying the plan's accrual formula to projected final salary at retirement. An *actuarial liability* is calculated at the valuation date as the present value of benefits allocated to service prior to that date. The *Unfunded Actuarial Liability* at the valuation date is the excess of the actuarial liability over the assets of the System.

B. Actuarial Value of Assets

The actuarial value of assets is used for purposes of determining the County's contribution to the System. The asset adjustment method dampens the volatility of asset values that could occur because of short term fluctuations in market conditions. Use of an asset smoothing method is consistent with the long term nature of the actuarial valuation process. Assets are valued at market value but with a phase-in of investment gains and losses arising after July 1, 1994, over a 5-year period. The gains and losses are net of expenses. Effective July 1, 1997, the calculation of the actuarial value of assets does not include the present value of accrued contributions.

**ACTUARIAL ASSUMPTIONS AND METHODS
EMPLOYEES' RETIREMENT SYSTEM**

A. Demographic Assumptions

1. Mortality

**RP2000 projected 30 years, separate tables for males and females
Annual Deaths per 1,000 Members**

Age	Male Deaths	Female Deaths	Age	Male Deaths	Female Deaths
20	0	0	65	8	8
25	0	0	70	14	14
30	0	0	75	25	22
35	1	0	80	48	37
40	1	0	85	90	65
45	1	1	90	163	120
50	1	1	95	252	183
55	2	2	100	334	230
60	4	4	105	398	293

2. Termination of Employment (prior to retirement eligibility)

Annual Terminations per 1,000 Members (non-GRIP)

Years of Service	Non-Public Safety	Public Safety
0 – 4	52	80 – 35
5 – 9	42.5	31 – 22
10 – 14	32.5	20 – 10
15 – 19	31 – 20	9 – 6
20 – 25	17 – 9	6
26+	9	NA

It is assumed that 25% of all vested participants who terminate elect to receive a refund of their contributions with interest instead of a deferred benefit regardless of their age at termination.

Annual Terminations per 1,000 Members (GRIP)

Years of Service	Non-Public Safety
0 – 1	95
2 – 3	60
4	50
5	42.5
6 – 7	30
8+	25

3. Disability

Annual Disabilities per 1,000 Members								
Non-Public Safety Employees			Public Safety Employees					
Age			Group E		Group F		Group G	
	Male	Female	Male	Female	Male	Female	Male	Female
20	1	0	1	1	1	1	1	2
25	2	1	2	2	3	3	2	4
30	2	2	4	5	6	8	4	11
35	3	3	5	7	8	12	5	16
40	3	3	6	10	10	16	7	23
45	6	3	11	13	19	44	13	31
50	7	5	19	18	40	59	22	41
55	5	6	23	19	48	62	27	43
60	9	6	28	19	59	63	47	44

4. Deaths

Annual Deaths per 1,000 Disabled Members		
Age	Male	Female
25	0	0
30	1	0
35	1	1
40	1	1
45	2	1
50	3	3
55	6	5
60	11	9
65	19	16

5. Retirement

Age	Non-Public	Public Safety Employees		
	Safety	Group E	Group F	Group G
	Employees			
Under 40	0%	3.5%	15%	20%
41	0%	3.5%	15%	20%
42	0%	3.5%	15%	20%
43	0%	3.5%	15%	20%
44	0%	3.5%	15%	20%
45	0%	3.5%	15%	20%
46	0%	15%	15%	20%
47	0%	15%	15%	20%
48	0%	15%	15%	20%
49	0%	15%	15%	20%
50	0%	20%	15%	20%
51	0%	20%	15%	20%
52	0%	20%	15%	30%
53	0%	20%	15%	30%
54	0%	20%	15%	30%
55	20%	50%	45%	40%
56	20%	50%	45%	40%
57	20%	50%	45%	40%
58	20%	50%	45%	40%
59	20%	50%	45%	40%
60	15%	100%	100%	100%
61	15%	100%	100%	100%
62	15%	100%	100%	100%
63	15%	100%	100%	100%
64	15%	100%	100%	100%
65	50%	100%	100%	100%
66	50%	100%	100%	100%
67	75%	100%	100%	100%
68	100%	100%	100%	100%
69	100%	100%	100%	100%
70	100%	100%	100%	100%

6. Sick Leave Credit

Service credit is increased by 2% for non public safety employees, 2.4% for Group E employees, 4.5% for Group F employees and 3.2% for Group G employees to account for additional credit from unused sick leave. Sick leave is capped at 2 years.

7. Marital assumption

80% of active participants are assumed to be married. Women are assumed to be three years younger than their spouses.

B. Economic Assumptions

- 1. Investment Return: 7.5% compound per annum
- 2. Cost-of-Living Increases: 3% on credited service earned prior to June 30, 2011
2.3% on credited service thereafter, reflecting the 2.5% cap
- 3. Increase in Social Security Wage Base: 4.0% compound per annum
- 4. Expense load: Anticipated administrative expense equal to the average of the prior three years of administrative expenses. For FY 2014 this figure is \$3,177,300.
- 5. Salary Increase: Merit and promotional increases assumed to be based on service as shown below:

Service	Non Public Safety *	Public Safety
0 – 4	6.00%	9.25%
5 – 9	6.00%	8.25%
10 – 14	6.00%	6.25%
15 – 19	6.00%	5.50%
20 – 24	4.25%	5.00%
25 – 29	4.00%	4.50%
30+	4.00%	4.25%

* Includes GRIP

ANALYSIS OF FINANCIAL EXPERIENCE

**Gains and Loss in Accrued Liability During Years Ended June 30
Resulting from Differences Between Assumed Experience and Actual Experience**

Type of Activity	2009	2010	2011	2012
Investment loss	\$ (135,184,312)	\$ (155,831,291)	\$ (73,632,309)	\$ (110,314,254)
Combined liability experience	<u>79,021,213</u>	<u>84,758,321</u>	<u>2,351,277</u>	<u>102,955,793</u>
Loss during year	<u>\$ (56,163,099)</u>	<u>\$ (71,072,970)</u>	<u>\$ (71,281,032)</u>	<u>\$ (7,358,461)</u>

SOLVENCY TEST

Aggregate Accrued Liability

Valuation Date	(1) Active Members Contributions	(2) Retirees, Vested Terms, Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets		
					(1)	(2)	(3)
6/30/2005	\$ 166,078,802	\$ 1,426,030,001	\$ 1,182,938,609	\$ 2,100,532,623	100	100	43 %
6/30/2006	177,391,695	1,578,703,590	1,162,240,788	2,222,724,295	100	100	40
6/30/2007	187,104,227	1,661,692,386	1,251,841,110	2,469,933,200	100	100	50
6/30/2008	186,171,030	1,847,516,034	1,307,862,361	2,701,119,470	100	100	51
6/30/2009	200,669,572	1,892,331,796	1,396,056,191	2,736,010,044	100	100	46
6/30/2010	213,191,851	2,054,949,883	1,377,434,607	2,791,144,974	100	100	38
6/30/2011	236,934,960	2,181,816,842	1,325,970,792	2,869,422,276	100	100	34
6/30/2012	210,537,737	2,465,714,392	1,092,493,833	2,891,435,563	100	100	20

SCHEDULE OF RETIREES AND SURVIVORS
During Years Ended June 30

	New Retirees and Disableds	Survivors	Total
July 1, 2005	4,296	369	4,665
New retirements & disabilities	266	0	266
Deaths with beneficiaries	(22)	22	0
Deaths/benefits ended	(57)	(26)	(83)
July 1, 2006	4,483	365	4,848
New retirements & disabilities	242	0	242
Deaths with beneficiaries	(22)	22	0
Deaths/benefits ended	(67)	(26)	(93)
July 1, 2007	4,636	361	4,997
New retirements & disabilities	382	0	382
Deaths with beneficiaries	(28)	28	0
Deaths/benefits ended	(64)	(9)	(73)
July 1, 2008	4,926	380	5,306
New retirements & disabilities	186	0	186
Deaths with beneficiaries	(24)	24	0
Deaths/benefits ended	(95)	(18)	(113)
July 1, 2009	4,993	386	5,379
New retirements & disabilities	328	0	328
Deaths with beneficiaries	(22)	22	0
Deaths/benefits ended	(88)	(28)	(116)
July 1, 2010	5,211	380	5,591
New retirements & disabilities	282	0	282
Deaths with beneficiaries	(20)	20	0
Deaths/benefits ended	(154)	(7)	(161)
July 1, 2011	5,319	393	5,712
New retirements & disabilities	201	0	201
Deaths with beneficiaries	(47)	47	0
Deaths/benefits ended	(87)	(2)	(89)
July 1, 2012	5,386	438	5,824

**SCHEDULE OF ANNUAL ALLOWANCE
During Years Ended June 30**

	<u>New Retirees and Disableds</u>	<u>Survivors</u>	<u>Total</u>
July 2005	\$ 123,556,540	\$ 5,153,679	\$ 128,710,219
Average Annual Allowance	28,761	13,967	27,591
Annual Allowances Added to the Rolls	14,424,755	305,259	14,730,014
Annual Allowances Removed From the Rolls	(1,611,828)	(127,575)	(1,739,403)
July 2006	\$ 136,369,467	\$ 5,331,363	\$ 141,700,830
Average Annual Allowance	30,419	14,606	29,229
Annual Allowances Added to the Rolls	10,498,059	580,630	11,078,089
Annual Allowances Removed From the Rolls	(2,335,705)	(478,216)	(2,813,321)
July 2007	\$ 144,531,821	\$ 5,433,777	\$ 149,965,598
Average Annual Allowance	31,176	15,052	30,011
Annual Allowances Added to the Rolls	20,518,024	1,056,444	21,574,468
Annual Allowances Removed From the Rolls	(2,344,133)	(422,864)	(2,766,997)
July 2008	\$ 162,705,712	\$ 6,067,357	\$ 168,773,069
Average Annual Allowance	33,030	15,467	31,808
Annual Allowances Added to the Rolls	4,887,240	453,616	5,340,856
Annual Allowances Removed From the Rolls	(3,242,232)	(370,344)	(3,612,576)
July 2009	\$ 164,350,720	\$ 6,150,629	\$ 170,501,349
Average Annual Allowance	32,916	15,934	31,698
Annual Allowances Added to the Rolls	13,218,960	304,035	13,522,995
Annual Allowances Removed From the Rolls	(1,306,672)	(419,291)	(1,725,963)
July 2010	\$ 176,263,008	\$ 6,035,373	\$ 182,298,381
Average Annual Allowance	33,825	15,883	32,606
Annual Allowances Added to the Rolls	14,287,432	580,328	14,867,760
Annual Allowances Removed From the Rolls	(868,937)	(103,095)	(972,032)
July 2011	\$ 189,681,503	\$ 6,512,606	\$ 196,194,109
Average Annual Allowance	35,661	16,572	34,348
Annual Allowances Added to the Rolls	8,947,253	1,102,270	10,049,523
Annual Allowances Removed From the Rolls	(2,498,388)	(34,529)	(2,532,917)
July 2012	\$ 196,130,368	\$ 7,580,347	\$ 203,710,715
Average Annual Allowance	36,415	17,307	34,978

Schedule of Active Member Valuation Data

<u>Valuation Date</u>	<u>Number</u>	<u>Annual Payroll</u>	<u>Annual Average Pay</u>	<u>% Increase in Average Pay</u>
July 1, 2005	5,628	\$355,105,993	\$63,096	4.72%
July 1, 2006	5,362	\$357,361,131	\$66,647	5.63%
July 1, 2007	5,294	\$374,792,608	\$70,796	6.23%
July 1, 2008	5,060	\$376,002,333	\$74,309	4.96%
July 1, 2009	5,012	\$376,014,994	\$75,023	0.96%
July 1, 2010	5,786	\$431,226,155	\$74,529	-0.66%
July 1, 2011	5,515	\$405,336,529	\$73,497	-1.38%
July 1, 2012	5,554	\$398,460,248	\$71,743	-2.39%



STATISTICAL SECTION

Employee Retirement Plans

STATISTICAL SECTION

The Statistical Section presents detailed information in the areas shown below, as a context for understanding what the information in the Financial Section says about the overall financial health of the Employee Retirement Plans:

The schedules beginning on page 70 are designed to show financial trend information to assist users in understanding and assessing how the Employee Retirement Plans' financial position has changed over the past ten years. The financial trend schedules presented are:

- Changes in Net Assets – Information to help the reader understand the Plans' historical contributions, earnings, and expenses.
- Benefit, Refund and Distribution Deductions from Net Assets – Information to help the reader understand the historical benefits, refund, and distribution deductions.

The schedules beginning on page 76 display demographic, economic, and operating information. The demographic and economic information is intended to assist users in understanding the environment in which the Employee Retirement Plans operate. The operating information is intended to provide contextual information about the Employee Retirement Plans' operations to assist readers in using financial statement information. The demographic and economic information and the operating information presented include:

- Principal Participating Employers
- Retired Members by Benefit Type
- Average Benefit Amounts
- Retired Members by Type of Retirement
- Average Benefit Payments and Average Final Valuation Pay
- Schedule of Participating Agencies and Political Subdivisions

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CHANGE IN NET ASSETS
JUNE 30, 2012
LAST TEN FISCAL YEARS
(dollars in thousands)

	2003	2004	2005	2006	2007
Additions					
Member contributions	\$ 14,770	\$ 14,762	\$ 15,326	\$ 16,085	\$ 16,362
Employer contributions	55,206	61,927	74,655	88,184	109,436
Transfer of member account asset balances	-	-	-	-	-
Investment income (loss) (net of expenses)	<u>82,174</u>	<u>286,895</u>	<u>197,433</u>	<u>187,004</u>	<u>420,847</u>
Total additions	<u>152,150</u>	<u>363,584</u>	<u>287,414</u>	<u>291,273</u>	<u>546,645</u>
Deductions					
Benefit payments	100,381	111,646	115,635	125,818	136,833
Refunds	739	796	762	635	793
Administrative expenses	<u>2,007</u>	<u>2,066</u>	<u>1,857</u>	<u>1,920</u>	<u>2,431</u>
Total deductions	<u>103,127</u>	<u>114,508</u>	<u>118,254</u>	<u>128,373</u>	<u>140,057</u>
Change in net assets	<u>\$ 49,023</u>	<u>\$ 249,076</u>	<u>\$ 169,160</u>	<u>\$ 162,900</u>	<u>\$ 406,588</u>

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS BY TYPE
JUNE 30, 2012
LAST TEN FISCAL YEARS
(dollars in thousands)

	2003	2004	2005	2006	2007*
Type of Benefit					
Service benefits:					
Retirees	\$ 77,009	\$ 87,123	\$ 102,641	\$ 112,210	\$ 98,653
Survivors	4,811	5,032	2,087	1,483	5,952
Disability	<u>18,560</u>	<u>19,491</u>	<u>10,907</u>	<u>12,125</u>	<u>32,228</u>
Total benefits	<u>\$ 100,380</u>	<u>\$ 111,646</u>	<u>\$ 115,635</u>	<u>\$ 125,818</u>	<u>\$ 136,833</u>
Refund of Contributions	\$ 739	\$ 796	\$ 762	\$ 635	\$ 793

*Allocation method used in FY 2007 was changed to reflect the actual classification of benefits.

2008	2009	2010	2011	2012
\$ 18,851	\$ 18,245	\$ 20,431	\$ 18,592	\$ 22,833
117,686	109,567	113,958	109,344	107,855
-	-	31,530	-	-
<u>(81,746)</u>	<u>(428,525)</u>	<u>304,185</u>	<u>510,018</u>	<u>117,692</u>
<u>54,791</u>	<u>(300,713)</u>	<u>470,104</u>	<u>637,954</u>	<u>248,380</u>
147,027	168,618	169,089	178,792	202,773
673	668	1,415	1,568	2,495
2,557	2,803	2,907	3,079	3,546
<u>150,257</u>	<u>172,089</u>	<u>173,411</u>	<u>183,439</u>	<u>208,814</u>
<u>\$ (95,466)</u>	<u>\$ (472,802)</u>	<u>\$ 296,693</u>	<u>\$ 454,515</u>	<u>\$ 39,566</u>

2008	2009	2010	2011	2012
\$ 105,369	\$ 123,560	\$ 122,861	\$ 129,941	\$ 150,413
6,723	7,333	7,620	7,944	8,233
34,935	37,725	38,608	40,907	44,127
<u>\$ 147,027</u>	<u>\$ 168,618</u>	<u>\$ 169,089</u>	<u>\$ 178,792</u>	<u>\$ 202,773</u>
\$ 673	\$ 668	\$ 1,415	\$ 1,568	\$ 2,495

MONTGOMERY COUNTY, MARYLAND
 RETIREMENT SAVINGS PLAN
 SCHEDULE OF CHANGE IN NET ASSETS
 JUNE 30, 2012
 LAST TEN FISCAL YEARS
 (dollars in thousands)

	2003	2004	2005	2006	2007
Additions					
Member contributions	\$ 3,750	\$ 4,208	\$ 4,820	\$ 5,860	\$ 6,798
Employer contributions	6,799	6,468	8,758	9,437	11,227
Transfer of member account asset balances	-	-	-	-	-
Investment income (loss) (net of expenses)	<u>1,967</u>	<u>6,354</u>	<u>4,668</u>	<u>8,237</u>	<u>17,174</u>
Total additions	<u>12,516</u>	<u>17,030</u>	<u>18,246</u>	<u>23,534</u>	<u>35,199</u>
Deductions					
Distributions	867	1,382	2,441	4,306	4,455
Administrative expenses	<u>210</u>	<u>247</u>	<u>231</u>	<u>243</u>	<u>293</u>
Total deductions	<u>1,077</u>	<u>1,629</u>	<u>2,672</u>	<u>4,549</u>	<u>4,748</u>
Change in net assets	<u>\$ 11,439</u>	<u>\$ 15,401</u>	<u>\$ 15,574</u>	<u>\$ 18,985</u>	<u>\$ 30,451</u>

MONTGOMERY COUNTY, MARYLAND
 RETIREMENT SAVINGS PLAN
 SCHEDULE OF DISTRIBUTION DEDUCTIONS FROM NET ASSETS
 JUNE 30, 2012
 LAST TEN FISCAL YEARS
 (dollars in thousands)

	2003	2004	2005	2006	2007
Distributions	\$ 867	\$ 1,382	\$ 2,441	\$ 4,306	\$ 4,455

2008	2009	2010	2011	2012
\$ 8,118	\$ 11,263	\$ 8,871	\$ 8,686	\$ 8,435
13,583	20,625	16,401	16,072	11,792
-	-	(31,530)	-	-
<u>(8,383)</u>	<u>(26,722)</u>	<u>14,191</u>	<u>32,877</u>	<u>143</u>
<u>13,318</u>	<u>5,166</u>	<u>7,933</u>	<u>57,635</u>	<u>20,370</u>
5,216	3,669	3,902	5,854	6,950
258	300	237	244	305
<u>5,474</u>	<u>3,969</u>	<u>4,139</u>	<u>6,098</u>	<u>7,255</u>
<u>\$ 7,844</u>	<u>\$ 1,197</u>	<u>\$ 3,794</u>	<u>\$ 51,537</u>	<u>\$ 13,115</u>

2008	2009	2010	2011	2012
\$ 5,216	\$ 3,669	\$ 3,902	\$ 5,854	\$ 6,950

MONTGOMERY COUNTY, MARYLAND
DEFERRED COMPENSATION PLAN
SCHEDULE OF CHANGE IN NET ASSETS
JUNE 30, 2012
LAST TEN FISCAL YEARS
(dollars in thousands)

	2003	2004	2005	2006	2007
Additions					
Member contributions	\$ 21,062	\$ 21,610	\$ 19,929	\$ 16,562	\$ 16,649
Investment income (loss) (net of expenses)	<u>4,660</u>	<u>29,456</u>	<u>14,587</u>	<u>20,486</u>	<u>32,394</u>
Total additions	<u>25,722</u>	<u>51,066</u>	<u>34,516</u>	<u>37,048</u>	<u>49,043</u>
Deductions					
Distributions	11,104	9,634	10,216	11,226	12,410
Administrative expenses	<u>17</u>	<u>6</u>	<u>16</u>	<u>-</u>	<u>-</u>
Total deductions	<u>11,121</u>	<u>9,640</u>	<u>10,232</u>	<u>11,226</u>	<u>12,410</u>
Change in net assets	<u>\$ 14,601</u>	<u>\$ 41,426</u>	<u>\$ 24,284</u>	<u>\$ 25,822</u>	<u>\$ 36,633</u>

MONTGOMERY COUNTY, MARYLAND
DEFERRED COMPENSATION PLAN
SCHEDULE OF DISTRIBUTION DEDUCTIONS FROM NET ASSETS
JUNE 30, 2012
LAST TEN FISCAL YEARS
(dollars in thousands)

	2003	2004	2005	2006	2007
Distributions	\$ 11,104	\$ 9,634	\$ 10,216	\$ 11,226	\$ 12,410

2008	2009	2010	2011	2012
\$ 17,294	\$ 18,058	\$ 17,029	\$ 17,029	\$ 14,974
<u>(9,378)</u>	<u>(44,479)</u>	<u>19,411</u>	<u>42,988</u>	<u>286</u>
<u>7,915</u>	<u>(26,421)</u>	<u>36,440</u>	<u>60,017</u>	<u>15,260</u>
15,714	13,391	8,723	16,178	17,688
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>15,714</u>	<u>13,391</u>	<u>8,723</u>	<u>16,178</u>	<u>17,688</u>
<u>\$ (7,799)</u>	<u>\$ (39,812)</u>	<u>\$ 27,717</u>	<u>\$ 43,839</u>	<u>\$ (2,428)</u>

2008	2009	2010	2011	2012
\$ 15,714	\$ 13,391	\$ 8,723	\$ 16,178	\$ 17,688

MONTGOMERY COUNTY, MARYLAND
 EMPLOYEES' RETIREMENT SYSTEM
 PRINCIPAL PARTICIPATING EMPLOYERS
 CURRENT YEAR AND SEVEN YEARS AGO
 JUNE 30, 2012

Participating Government	2012*		2005**	
	Covered Employees	Percentage of Total System	Covered Employees	Percentage of Total System
Montgomery County***	5,390	96.9%	5,419	96.2%
Town of Chevy Chase	4	0.1%	5	0.1%
Strathmore Hall	8	0.1%	7	0.1%
Housing Opportunities Commission	133	2.4%	159	2.8%
Revenue Authority	6	0.1%	17	0.3%
Washington Suburban Transit Commission	-	-	2	0.1%
Montgomery County Employees Federal Credit Union	10	0.2%	8	0.2%
State Department of Assessment and Taxation	2	0.1%	6	0.1%
District Court	1	0.1%	5	0.1%
Total	5,554	100%	5,628	100%

* Includes GRIP participants

**The information for principal participating employers is not available for 2004 and prior.

***Includes Independent Fire/Rescue Corporations

MONTGOMERY COUNTY, MARYLAND
 EMPLOYEES' RETIREMENT SYSTEM
 SCHEDULE OF RETIRED MEMBERS BY BENEFIT TYPE
 JUNE 30, 2012

Fiscal Year	Retiree	Disability	Survivor	Total
2003	3,203	817	350	4,370
2004	3,348	851	360	4,559
2005	3,443	853	369	4,665
2006	3,564	919	365	4,848
2007*	3,661	975	361	4,997
2008	3,905	1,021	380	5,306
2009	3,957	1,036	386	5,379
2010	4,132	1,079	380	5,591
2011	4,245	1,074	393	5,712
2012	4,309	1,077	438	5,824

*Allocation method used in FY 2007 was changed to reflect the actual classification of benefits.

MONTGOMERY COUNTY, MARYLAND
 EMPLOYEES' RETIREMENT SYSTEM
 SCHEDULE OF AVERAGE BENEFIT AMOUNTS
 JUNE 30, 2012

Fiscal Year	Retiree	Disability	Survivor	Total
2003	\$24,043	\$22,717	\$13,747	\$22,970
2004	26,022	22,904	13,978	24,489
2005	29,812	12,786	5,655	24,788
2006	31,484	13,193	4,063	25,953
2007*	26,947	33,055	16,487	27,383
2008	26,983	34,216	17,692	27,710
2009	31,226	36,414	18,997	31,347
2010	29,734	35,781	20,052	30,243
2011	30,610	38,088	20,214	31,301
2012	34,907	40,972	18,797	34,817

*Allocation method used in FY 2007 was changed to reflect the actual classification of benefits.

MONTGOMERY COUNTY, MARYLAND
 EMPLOYEES' RETIREMENT SYSTEM
 SCHEDULE OF RETIRED MEMBERS BY TYPE OF RETIREMENT
 AS OF JUNE 30, 2012

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement^a			Option Selected^b							
		1	2	3	1	2	3	4	5	6	7	
Deferred	413											
\$ 1 – \$ 250	188	159	28	1	80	49	12	1	5	18	23	
251 – 500	301	239	56	6	153	63	13	2	4	39	27	
501 – 750	287	220	61	6	117	65	29	6	7	30	33	
751 – 1,000	297	224	56	17	122	63	11	7	6	49	39	
1,001 – 1,250	335	252	45	38	130	84	15	5	8	36	57	
1,251 – 1,500	278	197	40	41	105	72	18	4	3	34	42	
1,501 – 1,750	279	204	36	39	94	63	16	11	10	35	50	
1,751 – 2,000	272	193	23	56	105	61	13	12	6	29	46	
Over 2,000	<u>3,587</u>	<u>2,621</u>	<u>93</u>	<u>873</u>	<u>1,077</u>	<u>997</u>	<u>54</u>	<u>196</u>	<u>83</u>	<u>503</u>	<u>677</u>	
Total	6,237	4,309	438	1,077	1,983	1,517	181	244	132	773	994	

Notes:

^a Type of retirement:

- 1—Retiree
- 2—Beneficiary
- 3—Disabled Retiree

^b Option selected:

- Option 1—Modified Cash Refund
- Option 2—Certain and Continuous
- Option 3—Life Annuity
- Option 4—Joint and Survivor 50%
- Option 5—Joint and Survivor 100%
- Option 6—Other Joint and Survivor Options
- Option 7—Social Security Adjustment Options

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF AVERAGE BENEFIT PAYMENTS AND AVERAGE FINAL VALUATION PAY
LAST EIGHT FISCAL YEARS

	Years Credited Service						
	0 – 5	5 – 10	10 – 15	15 – 20	20 – 25	25 – 30	30 +
Retirement Effective Dates							
Period 7/1/2004 to 6/30/2005							
Average monthly benefit*	\$ 2,521	\$ 1,984	\$ 1,479	\$ 1,870	\$ 2,573	\$ 3,371	\$ 4,392
Average final valuation pay**	\$ 48,620	\$ 50,470	\$ 59,743	\$ 63,910	\$ 64,026	\$ 72,618	\$ 75,577
Number of retired members***	2	4	21	37	23	35	66
Period 7/1/2005 to 6/30/2006							
Average monthly benefit*	\$ 2,491	\$ 2,801	\$ 1,752	\$ 2,356	\$ 2,928	\$ 3,649	\$ 4,594
Average final valuation pay**	\$ 43,375	\$ 55,641	\$ 55,619	\$ 67,299	\$ 68,683	\$ 73,731	\$ 77,143
Number of retired members***	2	6	28	58	49	55	50
Period 7/1/2006 to 6/30/2007							
Average monthly benefit*	\$ 2,760	\$ 2,115	\$ 2,163	\$ 2,425	\$ 3,100	\$ 3,744	\$ 4,438
Average final valuation pay**	\$ 48,664	\$ 58,211	\$ 72,411	\$ 74,925	\$ 80,599	\$ 79,607	\$ 76,689
Number of retired members***	1	4	18	40	27	37	39
Period 7/1/2007 to 6/30/2008							
Average monthly benefit*	\$ 2,994	\$ 3,061	\$ 1,180	\$ 2,287	\$ 2,927	\$ 3,466	\$ 4,330
Average final valuation pay**	\$ 50,803	\$ 66,024	\$ 62,986	\$ 73,335	\$ 78,696	\$ 74,908	\$ 74,647
Number of retired members***	1	8	18	58	60	57	87
Period 7/1/2008 to 6/30/2009							
Average monthly benefit*	\$ -	\$ -	\$ 2,821	\$ 2,760	\$ 3,560	\$ 4,309	\$ 5,425
Average final valuation pay**	\$ -	\$ -	\$ 77,385	\$ 77,304	\$ 88,521	\$ 87,167	\$ 98,906
Number of retired members***	-	-	5	20	21	16	12
Period 7/1/2009 to 6/30/2010							
Average monthly benefit*	\$ -	\$ 3,212	\$ 2,747	\$ 2,815	\$ 3,548	\$ 4,008	\$ 5,289
Average final valuation pay**	\$ -	\$ 63,839	\$ 82,064	\$ 83,152	\$ 85,524	\$ 83,495	\$ 86,947
Number of retired members***	-	6	6	43	49	39	68
Period 7/1/2010 to 6/30/2011							
Average monthly benefit*	\$ 1,965	\$ 3,412	\$ 2,674	\$ 3,091	\$ 3,303	\$ 4,136	\$ 5,079
Average final valuation pay**	\$ 46,807	\$ 65,268	\$ 65,263	\$ 85,031	\$ 82,627	\$ 88,067	\$ 84,544
Number of retired members***	1	4	5	37	80	50	57
Period 7/1/2011 to 6/30/2012							
Average monthly benefit*	\$ -	\$ -	\$ 1,738	\$ 1,840	\$ 3,020	\$ 5,064	\$ 5,546
Average final valuation pay**	\$ -	\$ -	\$ 56,551	\$ 61,633	\$ 80,696	\$ 98,400	\$ 90,742
Number of retired members***	-	-	3	14	30	34	57

* Based on current benefits only. Does not take into account any future benefits.

** Pay used for last valuation (when member was an active employee).

*** Only includes participants who changed from active to retiree status.

Members in the Period 7/1/2011 to 6/30/2012 include members that were in DRSP or DROP in the 2011 valuation and were retired in the 2012 valuation.

**SCHEDULE OF PARTICIPATING AGENCIES
AND POLITICAL SUBDIVISIONS
EMPLOYEES' RETIREMENT SYSTEM
RETIREMENT SAVINGS PLAN**

Town of Chevy Chase
Strathmore Hall Foundation, Inc.
Housing Opportunities Commission of Montgomery County
Montgomery County Revenue Authority
Washington Suburban Transit Commission
Montgomery County Employees Federal Credit Union
Independent Fire/Rescue Corporations

Certain employees of the:
State Department of Assessments and Taxation
District Court of Maryland



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