Employees' Retirement System of Baltimore County, Maryland

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Pension Trust Fund of Baltimore County

For the Fiscal Year Ended June 30, 2011

COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE EMPLOYEES' RETIREMENT SYSTEM OF BALTIMORE COUNTY

JULY 1, 2010 TO JUNE 30, 2011

A PENSION
TRUST FUND OF
BALTIMORE COUNTY
MARYLAND

Prepared By:
Office of Budget and Finance

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Employees' Retirement System of Baltimore County, Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

INTRODUCTORY SECTION

EMPLOYEES' RETIREMENT SYSTEM OF BALTIMORE COUNTY

Letter of Transmittal

The Board of Trustees
Employees' Retirement System of Baltimore County
Towson, Maryland 21204

December 20, 2011

The Comprehensive Annual Financial Report of the Employees' Retirement System of Baltimore County, Maryland (the "System") for the year ended June 30, 2011, is submitted herewith. The System is a Pension Trust Fund included in the financial statements of Baltimore County, Maryland. The System administration is responsible for the accuracy and fairness of the information contained in this report. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the plan net assets and changes in plan net assets of the System in conformity with accounting principles generally accepted in the United States of America.

Generally accepted accounting principles require management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A may be found immediately following the report of the independent auditors.

Plan History. The System, a defined benefit plan, was established January 1, 1945 by County ordinance. The authority to establish and maintain the System is specified in Section 5-1-101 of the Baltimore County Code. Membership in the System is open to employees in both the classified and unclassified service of Baltimore County, and employees of the Baltimore County Revenue Authority, the Baltimore County Board of Education, the Baltimore County Board of Library Trustees and the Community College of Baltimore County who are not eligible to participate in the Maryland State Retirement and Pension Systems. Direct appointees of the Governor of Maryland, temporary employees and employees for whom there are existing pension provisions are excluded. System membership is compulsory for general County classified employees after two years of service. Immediate membership is mandatory for police officers and firefighters as a condition of employment. Membership is optional for part-time employees.

Benefits and Services Provided. The System provides normal service retirement and discontinued service retirement benefits for members who attain the age and service requirements. Coverage for occupational disability benefits is immediate upon entry into the System. Disability benefits for non-occupational related injury or illness are provided to vested members. Members hired prior to July 1, 2007 are vested after five years of creditable service. Members hired on or after July 1, 2007 are vested after ten years of creditable service. Occupational death benefits are provided upon membership for any member whose death results from an injury occurring in the actual performance of their job. Ordinary Disability benefits are provided to Police Officers and Firefighters after one year of creditable service and after five years of creditable service to all other members.

Letter of Transmittal, continued

Post-Retirement Cost-of-Living Adjustments (COLAs) are granted annually to members who have been retired for more than 60 months. For active members who select the DROP program, the eligibility period to receive COLAs in the DROP remains a minimum of 12 months. Once the member actually retires, the eligibility period for a post-retirement COLA is a minimum of 48 months provided sufficient excess investment earnings exist.

The System's staff provides benefit counseling to benefit applicants throughout the year. Additionally, the staff makes benefit presentations at new employee orientations.

INVESTMENT PERFORMANCE

The System investment portfolio gained 21.0% in FY 2011, improving upon the 16.4% returns for FY 2010. All investments categories in the System's portfolio had positive returns. US Common Stocks led the way with gains of 34.2%, followed closely by the International equity portfolio with gains of 28.6%, Real Estate funds with gains of 20.5% and Global Asset Allocation funds with gains of 20.4%.

FUNDING STATUS

For actuarial valuation purposes, returns were smoothed over a five-year period. Beginning FY 2011, returns are smoothed over a 10-year period. The actuarially determined target investment return is a long-term target and significant deviations from this target can be expected. The actuarial cost method applied is projected unit credit. The funded status for FY 2010 and FY 2009 was 80.0%, and 82.5%, respectively, based on the latest available actuarial reports. The decrease is primarily due to experience losses on the actuarial accrued liability and the increase in the appropriation payroll.

INVESTMENT STRATEGIES

Under the experienced direction of its Board of Trustees, the System plans to continue maximizing investment returns while maintaining an acceptable level of risk. The System will continue to invest assets domestically as well as internationally in an effort to maintain an appropriate balance.

During FY 2011, the Board conducted an annual asset allocation review and added an allocation to emerging market debt-local currency. The Board hired one emerging market fixed income manager, and committed to three private equity funds. The Board implemented these changes to better meet the System's long-term risk and return objectives.

MAJOR ISSUES AND INITIATIVES

LEGISLATIVE AND ADMINISTRATIVE CHANGES

Contribution rate changes:
Contribution rate increased for all active members by an additional 0.5% beginning July 1, 2010.

Effective July 1, 2011, all Deputy Sheriffs and sworn members of the Fire Department hired on or after July 1, 2011 the contribution rate is 10.0% (Bill No. 43-11).

Deferred Retirement Option Period (DROP) Bill No. 43-11:
Effective July 1, 2011, a member who was eligible to participate in the forward DROP on July 1, 2007, may elect to begin the DROP retroactive to July 1 2007.

The System entered into a contract with CPAS Systems, Inc. to replace the current pension administration software system with a system that is highly configurable and provides full support for the County's defined benefit plan. The scope of this project includes a comprehensive retirement and pension administration software application that is web based for self-service access. Implementation is underway and is expected to be completed by March 2013.

Letter of Transmittal, continued

FINANCIAL INFORMATION

Accounting System. The System's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, contributions and investment income are recorded when earned regardless of the date of collection and benefits and other expenses are recorded when liabilities are incurred regardless of when payment is made.

Internal Control. In developing and evaluating the accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived; and the evaluation of cost and benefits requires estimates and judgments by management. All internal control evaluations occur within this framework. Management believes the System's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Investments. As provided in Article 5, Title 1 of the Baltimore County Code, the Board of Trustees is empowered to invest the System's assets utilizing the "prudent person" standard and to take appropriate action regarding the investment, management and custodianship of plan assets. The investment responsibilities include establishing reasonable investment objectives, developing investment policy guidelines, selecting investment managers and evaluating performance results to assure adherence to guidelines and the achievement of objectives.

The Board of Trustees has carefully exercised these responsibilities by diversifying the assets into stocks (domestic and foreign), fixed income securities, private equity funds, real estate funds, global asset allocation funds, hedge fund of funds and real assets (i.e. physical or identifiable asset such as gold, land, patents etc.). The Board of Trustees recognizes that the objective of a sound and prudent policy is to produce investment results which will preserve the System's assets and to maximize the earnings of the System consistent with its long-term needs.

A pension investment consultant has been appointed to advise and consult with the Board of Trustees and the System staff, prepare recommendations on investment policies, investment management structure and asset allocation, and to monitor and evaluate the performance of the investment managers and the asset custodian. For the fiscal year ended June 30, 2011, the System portfolio rate of return was 21.0%. The System had an annualized rate of return of 4.8% over the past three years, and an annualized rate of return of 5.1% over the past five years.

Administration. As provided in Section 5-1-238 of the Baltimore County Code, the general administration of the System is vested in the Director of Budget and Finance of Baltimore County. The Director has the responsibility to implement policies of the Board of Trustees as they pertain to the System and to ensure the System operates within the guidelines as set forth in those policies.

Funding. A pension plan is considered adequately funded when sufficient assets are available to meet all expected future obligations to participants. The System funding objective is to meet long-term benefits through annual employer contributions that remain approximately level as a percentage of covered payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. The advantage of a well-funded plan is that participants are confident that sufficient assets are available to the payment of current and future member benefits. The County's commitment to provide a financially sound retirement plan for its members is illustrated on two schedules contained in the required supplementary information of the Financial Section of this report.

Letter of Transmittal, continued

OTHER INFORMATION

Independent Audit. The County has contracted with a firm of independent certified public accountants to audit the System's financial statements. The independent auditors' report is contained herein.

Professional Services. The Board of Trustees has appointed an actuary, a pension investment consultant, an asset custodian, a medical board and numerous investment managers to provide services to the System. The list of professionals which provide services to the System is found on Pages 7 through 9.

Certificate of Achievement. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Employees' Retirement System of Baltimore County for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the seventeenth consecutive year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This 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. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

The preparation of this report on a timely basis reflects the combined effort and dedication of the System's staff. On behalf of the Board of Trustees, I would like to take this opportunity to express my gratitude to the staff who have worked so diligently to assure the successful operation of the System. This report is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions and for determining responsible stewardship for the assets of the System.

Respectfully submitted,

Keith Dorsey

Keith Dorsey
Director of Budget and Finance and
Secretary to the Board of Trustees
Employees' Retirement System of Baltimore County

Board of Trustees

The Ex-officio trustees serve by virtue of their position with Baltimore County.

Consultants and Professional Services

Actuary
Buck Consultants
Chicago, Illinois

Auditors
Clifton Gunderson, LLP
Baltimore, Maryland

Pension Investment Consultant
NEPC
Cambridge, Massachusetts

EDP Consultant
Levi, Ray & Shoup, Inc.
Springfield, Illinois

Asset Custodian
BNY Mellon
Pittsburgh, Pennsylvania

Medical Board
Rubin Reider, M.D.
Rafael Hernandez, M.D.
Jose Morelos, M.D.

Operational Banking
M & T Bank
Buffalo, New York

Investment Managers

Domestic Equity

Brown Advisory
Baltimore, Maryland

BlackRock
San Francisco, California

Gottex Fund Management
Boston, Massachusetts

Brown Capital Management
Baltimore, Maryland

Earnest Partners
Atlanta, Georgia

Cadence Capital Management
Boston, Massachusetts

Benchmark Plus Mgmt.
Tacoma, Washington

John Hsu Capital Group
New York, New York

Profit Investment Mgmt.
Silver Spring, Maryland

Herndon Capital Management
Atlanta, Georgia

International Equity

Gryphon International Investment Corp.
Toronto Ontario, Canada

LSV Asset Management
Chicago, Illinois

BlackRock
San Francisco, California

Mondrian Investment Partners
Wilmington, Delaware

Investment Managers, continued

Fixed Income

Pacific Investment Mgmt. Co.
Newport Beach, California

Reams Asset Management
Columbus, Indiana

Earnest Partners
Atlanta, Georgia

Western Asset Management
Pasadena, California

Seix Advisors
Upper Saddle River, New Jersey

Loomis, Sayles & Company, L.P.
Boston, Massachusetts

Stone Harbor Investment Partners
New York, New York

Private Equity

HarbourVest Partners, Inc.
Boston, Massachusetts

Siguler Guff
New York, New York

Edison Venture Fund
Lawrenceville, New Jersey

Grotech Capital Group
Timonium, Maryland

Mesirow Financial
Chicago, Illinois

Newstone Capital Partners
Los Angeles, California

TCW/Crescent Mezzanine Partners
Los Angeles, California

Paul Capital Partners
San Francisco, California

Energy Spectrum Partners
Dallas, Texas

EIG Global Energy Partners
Washington, District of Columbia

Landmark Equity Partners
Simsbury, Connecticut

Lexington Capital Partners
New York, New York

Real Estate

ING Clarion
New York, New York

Transwestern Investment Co.
Chicago, Illinois

UBS Global Asset Management
Hartford, Connecticut

JP Morgan
New York, New York

Investment Managers, continued

Hedge Fund of Funds

EIM Management
New York, New York

Federal Street Partners
Stamford, Connecticut

Global Asset Allocation

Bridgewater
Westport, Connecticut

Mellon Capital Mgmt.
San Francisco, California

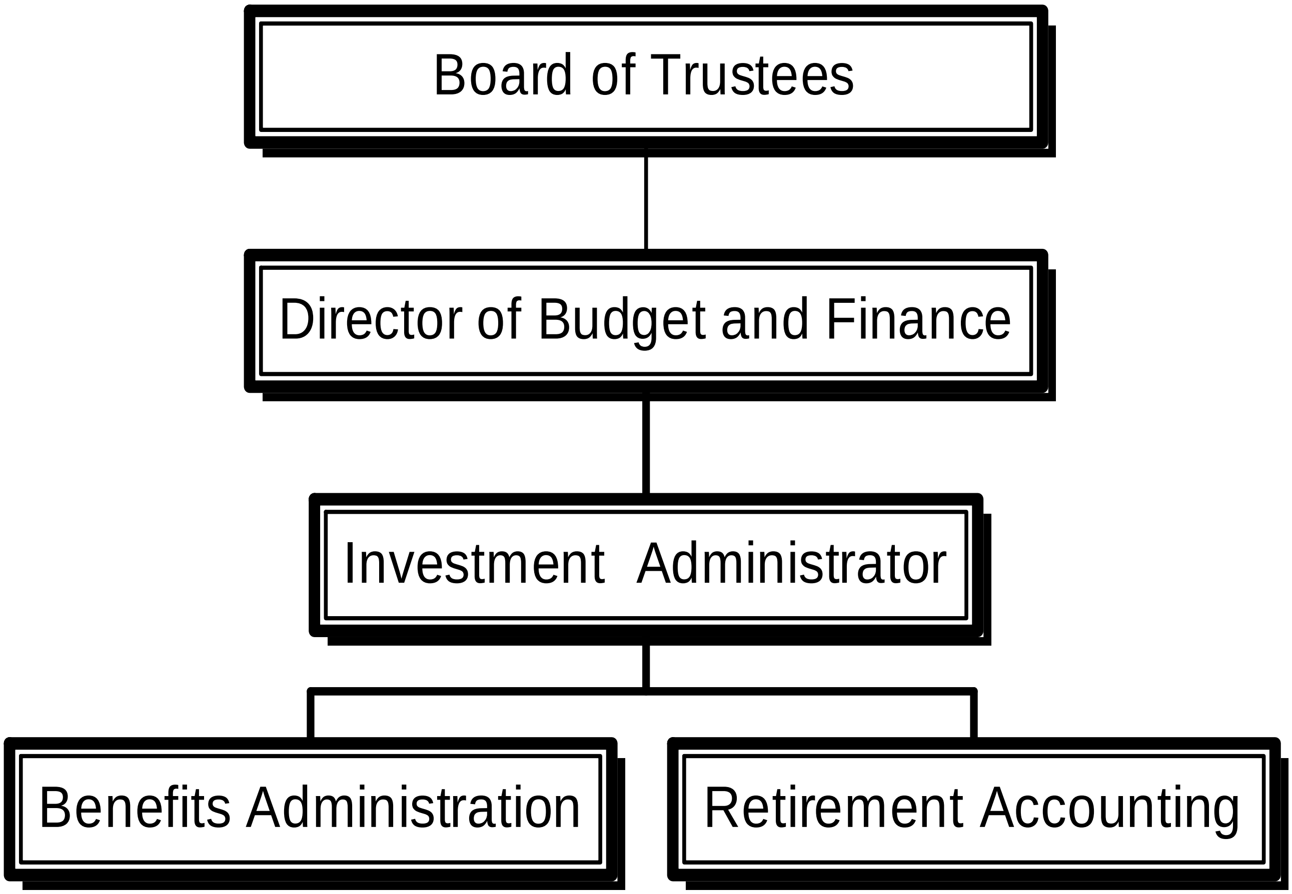
Wellington Trust Company, NA
Boston, Massachusetts

Real Assets

Gresham Investment Management
New York, New York

Wellington Trust Company, NA
Boston, Massachusetts

Administrative Organizational Chart



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

The Honorable County Executive and
Members of County Council
Baltimore County, Maryland

We have audited the accompanying Statement of Plan Net Assets and Statement of Changes in Plan Net Assets of the Employees' Retirement System of Baltimore County, Maryland (the System), as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Employees' Retirement System of Baltimore County, Maryland as of June 30, 2011 and 2010, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2011 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Supplemental Schedules of Funding Progress and Required Employer Contributions, as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Member of HLB International

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Introductory, Investment, Actuarial and Statistical sections, and the schedules of investment expenses and administrative expenses, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of investment expenses and administrative expenses have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory, Investment, Actuarial and Statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Gunderson LLP

Baltimore, Maryland
December 20, 2011

Management's Discussion and Analysis

Our discussion and analysis of the financial performance of the Employees' Retirement System of Baltimore County (the "System") provides an overview of financial activities for the fiscal years ended June 30, 2011 (FY 2011) and June 30, 2010 (FY 2010). Please read it in conjunction with the transmittal letter in the Introductory Section beginning on Page 2 and the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- The System's net assets held in trust at the close of FY 2011 and FY 2010 were $2.1 billion and $1.8 billion, respectively. This increase was primarily due to the gain in the System's investment portfolio of 21%.
- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. Based on the latest actuarial valuations, as of June 30, 2010 and 2009, the funded ratio was 80.0% and 82.5%, respectively. The decrease was primarily due to experience losses on the actuarial accrued liability and the increase in the appropriation payroll.
- Contributions for FY 2011 and FY 2010 were $94.9 million and 91.2 million, respectively, an increase of 4.1%. This increase was primarily a result of increased employee contributions.
- Net investment income gain of $372.7 million in FY 2011 was an improvement over the FY 2010 gain of $254.8 million due to exceptional returns in both the domestic equity and international equity markets.
- Total deductions increased from $154.0 million in FY 2010 to $169.9 million in FY 2011, an increase of 10.3%. The increase was primarily due increased benefit payments and new retirees.

THE STATEMENT OF PLAN NET ASSETS AND THE STATEMENT OF CHANGES IN PLAN NET ASSETS

This Comprehensive Annual Financial Report (CAFR) consists of two financial statements: The Statement of Plan Net Assets (Page 19) and the Statement of Changes in Plan Net Assets (Page 20). These financial statements report information about the System as a whole, and about its financial condition that should help answer the question: Is the System, as a whole, better or worse off as a result of this year's activities? These statements include all assets and liabilities that are due and payable using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Plan Net Assets presents all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the System's assets available for benefits is improving or deteriorating. The Statement of Changes in Plan Net Assets presents how the System's net assets changed during the most recent fiscal year. These two financial statements should be reviewed along with the Schedule of Funding Progress and Schedule of Employers' Contributions to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

FINANCIAL ANALYSIS

The System's overall funding objective is to accumulate sufficient assets over time to meet its long-term benefit obligations as they become due. In FY 2011, net asset held in trust for pension benefits increased 16.7% over FY 2010, indicating an improving financial position of the System.

Total liabilities that are due and payable as of June 30, 2011 and 2010 were $250.2 million and $139.3 million respectively, and were comprised of payables for investment purchases, investment expenses, and obligations under securities lending. In FY 2010 total liabilities decreased 10.5% or $16.4 million from the prior year primarily due to a decrease in payables for collateral of loaned securities. In FY 2011 total liabilities increased 79.5% or $110.8 million from the prior year primarily due to an increase in payables for investments purchased and payables for collateral of loaned securities.

Management's Discussion and Analysis, continued

System assets exceeded its due and payable liabilities at the close of fiscal year 2011 and 2010 by $2.1 billion and $1.8 billion, respectively. In FY 2011, total net assets held in trust for pension benefits increased 16.7% or $297.7 million from the previous year. This increase was attributable to the improved performance in stocks, both foreign and domestic, global asset allocation funds and real estate. In FY 2010, total net assets held in trust for pension benefits increased 12% or $191.9 million, from the previous year.

BALTIMORE COUNTY EMPLOYEES' RETIREMENT SYSTEM
PLAN NET ASSETS
AS OF JUNE 30, 2011, 2010 AND 2009
(IN THOUSANDS)

	2011	2010	2009	2011-2010 Total % Change	2010-2009 Total % Change
ASSETS					
Cash and Short Term Investments	$96,815	$41,851	$35,623	131.3%	17.5%
Collateral for Loaned Securities	117,672	89,734	126,205	31.1	(28.9)
Receivables	47,452	29,339	16,234	61.7	80.7
Investments	2,072,240	1,764,711	1,572,021	17.4	12.3
Total Assets	$2,334,179	$1,925,635	$1,750,083	21.2%	10.0%
LIABILITIES					
Accounts Payable and Other Accrued Liabilities	$131,810	$47,915	$29,586	175.1%	62.0%
Obligations Under Securities Lending	118,398	91,449	126,205	29.5	(27.5)
Total Liabilities	$250,208	$139,364	$155,791	79.5%	(10.5)%
Total Net Assets	$2,083,971	$1,786,271	$1,594,292	16.7%	12.0%

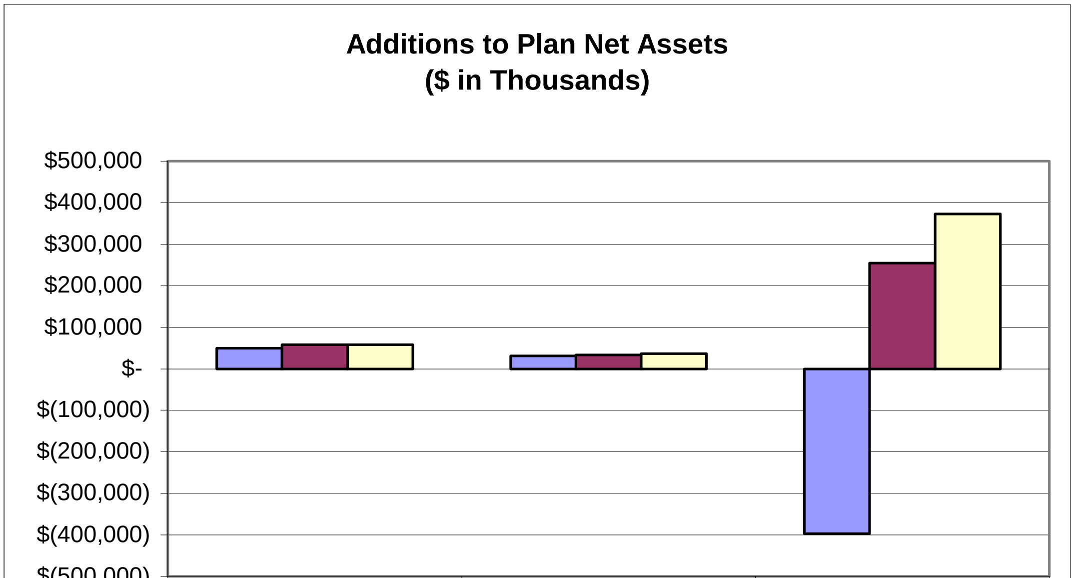
Management's Discussion and Analysis, continued

Total additions for FY 2011 increased 35.1% over FY 2010, due primarily to an increase in investment income. Total additions for FY 2010 increased 209.7% over FY 2009, due primarily to an increase in investment income. Total deductions for FY 2011 increased by 10.3% or $15.9 million over FY 2010 due to an increase in benefit payments and administrative expenses. Total deductions for FY 2010 increased slightly by 1.7% or $2.6 million over FY 2009 due to an increase in benefit payments.

BALTIMORE COUNTY EMPLOYEES' RETIREMENT SYSTEM
CHANGES IN PLAN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2011, 2010 AND 2009
(IN THOUSANDS)

	2011	2010	2009	2011-2010 Total % Change	2010-2009 Total % Change
ADDITIONS					
Contributions	$94,907	$91,212	$81,186	4.1%	12.3%
Investment Income	373,132	256,108	(397,821)	45.7	164.4
Net Income (Loss) from Security Lending	(417)	(1,303)	1,225	68.0	(206.4)
Total Net Investment Income (Loss)	$372,715	$254,805	($396,596)	46.3%	164.2%
Total Additions	$467,622	$346,017	($315,410)	35.1%	209.7%
DEDUCTIONS					
Benefits	$164,655	$150,704	$147,062	9.3%	2.5%
Refunds of Contributions	2,726	2,235	3,400	22.0	(34.3)
Administrative Expenses	2,541	1,099	947	131.2	16.1
Total Deductions	$169,922	$154,038	$151,409	10.3%	1.7%
Net Increase (Decrease)	$297,700	$191,979	($466,819)	55.1%	141.1%
Net Assets Held in Trust for Pension Benefits					
Beginning of Year	1,786,271	1,594,292	2,061,111	12.0	(22.6)
End of Year	$2,083,971	$1,786,271	$1,594,292	16.7%	12.0%

Management's Discussion and Analysis, continued



	Employer Contributions	Member contributions	Net Investment Income (Loss)
2009	$49,763	$31,423	($396,596)
2010	$57,976	$33,236	$254,805
2011	$58,340	$36,567	$372,715

REVENUES – ADDITIONS TO PLAN NET ASSETS

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and earnings on investments. Contributions and net investment income for fiscal years 2011 and 2010 were $467.6 million and $346.0 million, respectively.

Additions increased for FY 2011 by $121.6 million from that of the prior year, due primarily to an increase in investment income. Additions increased for FY 2010 by $661.4 million from that of the prior year, due primarily to an increase in investment income. Total employer contributions for FY 2011 increased over FY 2010 by $0.4 million or 0.1%, while member contributions increased by $3.3 million or 10.0%. The increase in employee contributions was primarily due to higher contribution rates for all active members. Total employer contributions for FY 2010 increased over FY 2009 by $8.2 million or 16.5%, while member contributions increased by $1.8 million or 5.8%. The increase in employer contributions was primarily due to an increase in scheduled accrued liability contributions. Based on the latest available actuarial valuation, the fiscal years ended 2010 and 2009, rates of return were 0.9% and (14.1%) respectively.

The overall System portfolio returned 21.0% for FY 2011, which improved upon the 16.4% gains of FY 2010. All asset categories provided positive returns with the System's domestic equity portfolio leading the way with gains of 34.2%, followed closely by the non-US equity portfolio with gains of 28.6%. Other asset categories with sound returns were Real Estate with gains of 20.5%, Global Asset Allocation funds with gains of 20.4%, and Private Equity with gains of 14.6%.

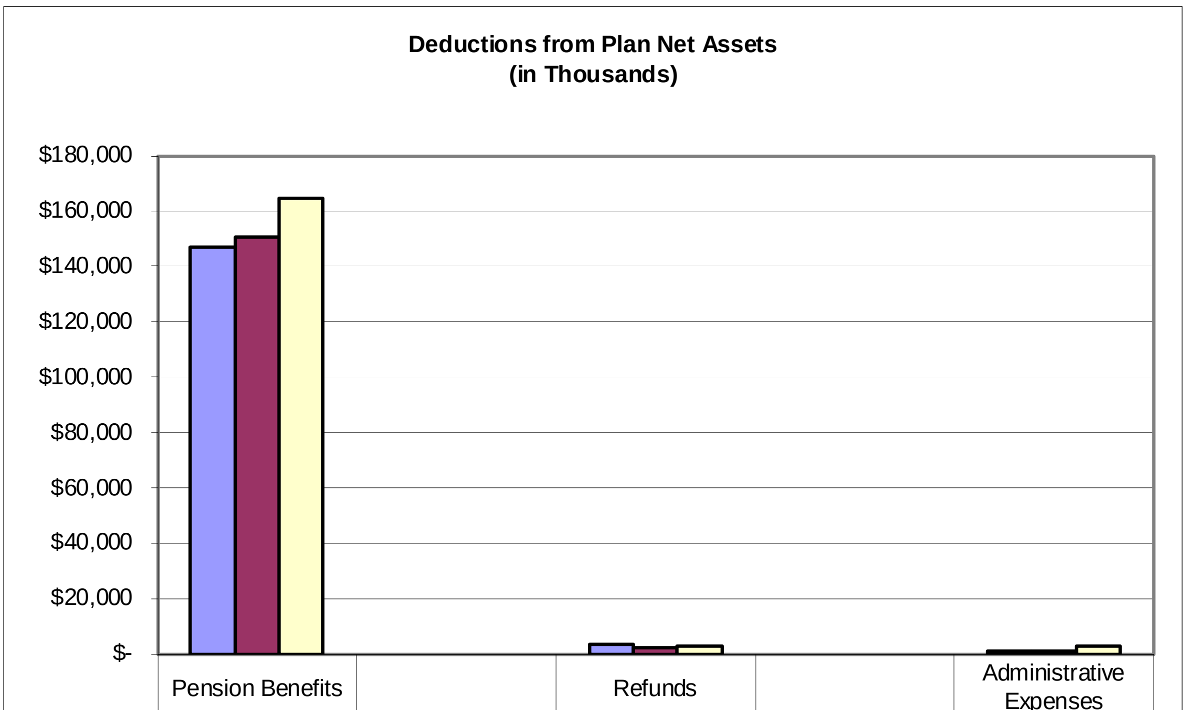
For FY 2010, the System gains were 16.4%, which compares very favorably when compared to the 17.5% loss sustained in FY 2009. Except for Real Estate investments incurring a loss of 8.2%, all other asset categories provided substantial gains with Fixed Income leading the way with 19.3%, US Common Stock 17.3%, and International Equity returning 16.1%.

Management's Discussion and Analysis, continued

EXPENSES – DEDUCTIONS FROM PLAN NET ASSETS

The expenses of the System include pension payments to members and beneficiaries, refunds of contributions to former members, and the cost of administering the System. Deductions for FY 2011 were $169.9 million, an increase of 10.3% over FY 2010, which was primarily related to an increase in benefit payments. Deductions for FY 2010 were $154.0 million, an increase of 1.7% over FY 2009.

The payment of pension benefits increased by 9.3% or $13.9 million in FY 2011 from the previous year. The increase in pension benefit expenditures in FY 2011 resulted from an increase in the number of retirees and DROP payouts to public safety retirees. The payment of pension benefits increased by 2.5% or $3.6 million in FY 2010 from the previous year. The net number of additional retirees was 68 and 194 in FY 2011 and FY 2010, respectively. Administrative expenses for FY 2011 increased by 131.2% or $1.4 million. This increase was primarily due to a contract entered into with CPAS Systems, Inc. to replace the Pension Data Processing System with a new Web Based System. The administrative expenses for FY 2010 increased by 16.1% from the previous year.



	Pension Benefits	Refunds	Administrative Expenses
2009	$147,062	$3,400	$947
2010	$150,704	$2,235	$1,099
2011	$164,655	$2,726	$2,541

RETIREMENT SYSTEM AS A WHOLE

Net assets held in trust for pension benefits increased by $297.7 million or 16.7% in FY 2011. The System's funding ratio, as determined by the County's actuary, was 80.0% at June 30, 2010 and 82.5% at June 30, 2009. During FY 2011, Legislative and Administrative changes were implemented to further improve the financial condition of the System by increasing employee contributions by an additional 0.5% for all active members. The Board continues to utilize the concepts of prudent investment management, cost controls and strategic planning.

Management's Discussion and Analysis, continued

CONTACTING SYSTEM FINANCIAL MANAGEMENT

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investors, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the Office of Budget and Finance, Room 176, 400 Washington Avenue, Towson, Maryland 21204.

Employees' Retirement System of Baltimore County
Statements of Plan Net Assets
As of June 30, 2011 and 2010
(IN THOUSANDS)

	FY 2011	FY 2010
Assets:		
Cash and short term investments	$ 96,815	$ 41,851
Collateral for loaned securities	117,672	89,734
Receivables:		
Accrued interest and dividend income	2,675	3,002
Receivable for investments sold	43,681	25,113
Receivables - other	1,096	1,224
Total Receivables	47,452	29,339
Investments, at fair value		
U.S. Government and agency securities	183,950	165,542
Municipal Bonds	1,894	1,255
Foreign bonds	7,514	28,473
Corporate bonds	127,295	127,548
Stocks	451,504	361,304
Bond mutual funds	241,602	177,205
Stock mutual funds	360,022	342,894
Real estate equity funds	75,742	62,671
Hedge funds	101,190	94,550
Private equity funds	97,176	85,406
Real Assets	98,944	32,688
Global Asset Allocation	325,407	285,175
Total Investments	2,072,240	1,764,711
Total Assets	2,334,179	1,925,635
Liabilities:		
Investment expenses payable	2,494	2,061
Refunds payable	327	251
Payable for investments purchased	128,687	45,464
Payable for collateral for loaned securities	118,398	91,449
Payables - other	302	139
Total Liabilities	250,208	139,364
Net Assets Held in Trust for Pension Benefits	$2,083,971	$1,786,271

(The six-year schedule of funding progress is presented on page 32.)

The accompanying notes are an integral part of the financial statements.

Employees' Retirement System of Baltimore County
Statements of Changes in Plan Net Assets
for the Years Ended June 30, 2011 and 2010
(IN THOUSANDS)

	FY 2011	FY 2010
Additions		
Contributions:		
Employers	$ 58,340	$ 57,976
Members	36,567	33,236
Total contributions	94,907	91,212
Investment Income:		
Net increase		
in the fair value of investments	349,491	232,230
Interest and dividends	37,478	35,258
	386,969	267,488
Less: Investment expenses	(13,837)	(11,380)
Investment Income	373,132	256,108
Securities Lending:		
Securities Lending Income	361	485
Less:		
Net decrease in the fair value of investments	(726)	(1,715)
Borrower Rebates	74	87
Agent Fees	(126)	(160)
Net Loss from Securities Lending	(417)	(1,303)
Total Net Investment Income	372,715	254,805
TOTAL ADDITIONS, net of investment Income	467,622	346,017
Deductions		
Benefits	164,655	150,704
Refunds of contributions	2,726	2,235
Administrative expenses	2,541	1,099
TOTAL DEDUCTIONS	169,922	154,038
Net Increase	297,700	191,979
Net assets held in trust for pension benefits		
Beginning of year	1,786,271	1,594,292
End of year	$2,083,971	$1,786,271

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

1. Plan Description

The Employees' Retirement System of Baltimore County (the "System") is a cost-sharing multiple-employer defined benefit public employee retirement system that acts as a common investment and administrative agent serving five entities including Baltimore County (the "County") and certain employees of the Baltimore County Board of Education, Baltimore County Board of Library Trustees, the Community College of Baltimore County and the Baltimore County Revenue Authority. The System is not an employer. The System provides retirement and disability benefits, cost-of-living adjustments and death benefits to plan members and beneficiaries. The authority to establish and maintain the System is specified in Section 5-1-101 of the Baltimore County Code (the "Code").

The System is considered part of the Baltimore County, Maryland reporting entity and its financial statements are included in the County's basic financial statements as a pension trust fund. The System is fiscally dependent on the County by virtue of the legislative and executive controls exercised with respect to its operations, policies and administrative budget. In accordance with Section 5-1-238 of the Code, responsibility for the proper operation of the System is vested in an eight-member Board of Trustees (the "Board"), comprised of a combination of ex-officio and elected representatives. The general administration of the System is vested in the Director of Budget and Finance.

As of June 30, 2011 and 2010, System membership consisted of:

	2011	2010
Retirees and beneficiaries currently receiving benefits		
General employees, correctional officers and deputy sheriffs	4,726	4,679
Firefighters and police officers	2,046	2,025
Total retirees and beneficiaries	6,772	6,704
Terminated employees entitled to benefits but not yet receiving them		
General employees, correctional officers and deputy sheriffs	541	465
Firefighters and police officers	42	52
Terminated employees entitled to benefits but not yet receiving	583	517
Current employees		
Vested - Full-time employees		
General employees, correctional officers and deputy sheriffs	4,125	4,028
Firefighters and police officers	2,452	2,399
Non-vested - Full-time employees		
General employees, correctional officers and deputy sheriffs	1,494	1,643
Firefighters and police officers	480	519
Part-time employees		
Vested - General employees	616	602
Non-vested - General employees	404	442
Total active members	9,571	9,633
Non-Vested Terminations with account balances	63	55
Members on leave of absence		
General employees, correctional officers and deputy sheriffs	34	29
Firefighters and police officers	10	6
Total members on leave of absence	44	35
Grand Total	17,033	16,944

Notes to Financial Statements, continued

The following is a brief description of the System's plan provisions. For a more complete description, see the Summary of Plan Provisions included in the Actuarial Section of this report.

Employees, exclusive of firefighters and police officers, may become System members at any time within the first two years of employment. Employees must become System members at the end of the two-year period as a condition of employment except for elected officials, employees appointed to certain non-merit positions and part-time employees who have the option to join the System within the first two years. Selection of the option must be made within two years of employment. Section 5-1-203 of the Code provides that System members contribute a percentage of their salary to the System (see Note 3 for additional information on contribution rates).

Employees who terminate employment or die in service prior to meeting vesting eligibility are entitled to a refund of their contributions. Interest is credited on member contributions at the rate of 5% per annum. Employers are required to contribute an actuarially determined amount annually to finance the System as specified by Sections 5-1-203 and 5-1-257 of the Code.

Members are eligible for a normal retirement for service based on age and/or years of creditable service. There is no mandatory retirement age for general employees, deputy sheriffs and correctional officers. Firefighters and police officers must retire at age 65 unless approved for continuation of service by the Board on an annual basis.

The County has adopted a Back DROP, for Police Officers and Firefighters under which eligible active members may elect to receive a lump sum payment at retirement in exchange for a reduced monthly benefit for life. The DROP period is between three and five years, effective with retirements that occurred on or after July 1, 2004. Police Officers and Firefighters hired on or after July 1, 2007 are not eligible to participate in the DROP.

The County has adopted a Back DROP for Correctional Officers and Deputy Sheriffs hired prior to July 1, 2007. Eligible active members may elect to receive a lump sum payment at retirement in exchange for a reduced monthly benefit. The DROP period is between three and five years, effective with retirements that occur on or after July 1, 2010. Correctional Officers and Deputy Sheriffs hired on or after July 1, 2007 are not eligible to participate in the DROP.

The County has adopted a Forward DROP for General Employees hired prior to July 1, 2007. Eligible active members may elect to receive a lump sum payment at retirement in exchange for a reduced monthly benefit. The DROP period is between five and ten years, effective with retirements that occur on or after July 1, 2012. General Employees hired on or after July 1, 2007 are not eligible to participate in the DROP.

An ordinary disability retirement may be granted to a member who can no longer perform their job due to a non-occupational related injury. Police officers and firefighters (“Group 4”), must have 5 years of creditable service, while the general, correctional officers and deputy sheriffs (“Group 3”), must have ten years of creditable service and be medically certified as incapacitated for continued performance of their duties. The ordinary disability retirement allowance is determined in accordance with Section 5-1-222 of the Code.

An accidental disability retirement may be granted to a member who has been incapacitated for duty as a result of an occupational related injury. Accidental disability payments for are tiered (75%, 66.67%, or 50%), based upon the degree of disability. The accidental disability retirement allowance is determined in accordance with Section 5-1-226 of the Code.

An ordinary death benefit is granted as a result of a member's death from non-occupational causes. A member's designated beneficiary or estate receives a lump sum payment of the member's contributions plus interest. Additionally, after one year of creditable service, the member's designated beneficiary or estate may receive a minimum one-time payment equal to 100% of the member's annual earnable compensation. If a member was eligible for a service retirement or had 15 years of creditable service at the time of death, the spouse, if designated as beneficiary, may receive a retirement allowance based on service years equivalent to a 100% survivorship option (*Option 2*).

Notes to Financial Statements, continued

An accidental death benefit is granted as the result of death from an occupational related injury. The dependent beneficiary of a general employee may receive an allowance equal to $66^{2}/_{3}$% of average final compensation (AFC) plus the annuity as described below. The dependent beneficiary of a firefighter or police officer may receive an allowance equal to 100% of the annual earnable compensation at the time of death plus the annuity as described below.

Retirement allowances are comprised of an annuity equal to the actuarial equivalent of the accumulated contributions plus a pension which together with the annuity shall provide a total allowance as provided for in the System's plan. The retirement allowance is determined based on the AFC and number of years of creditable service. AFC is defined for the majority of the members as the rate of annual earnable compensation during the twelve or thirty-six consecutive calendar months of service affording the highest average. The normal retirement for service allowance is determined as follows:

Employee designation	Allowance formula for Vested Employees
General employees (Hired prior to July 1, 2007)	1.82% of AFC times the number of years of creditable service for: (i) 30 years of creditable service or (ii) Age 65 with 5 years of creditable service or, (iii) Age 60 as of June 30, 2007 and attain 5 years of creditable service. General employees hired prior to July 1, 2007, retiring at age 60 with less than 30 years of creditable service, will receive a blended benefit, (i.e. 1.82% of AFC times the number of years of creditable service earned prior to July 1, 2007, plus 1.43% of AFC times the number of years of creditable service earned on or after July 1, 2007.
General employees (Hired on or after July 1, 2007)	1.43% of AFC times the number of years of creditable service.
Appointed officials	2.5% of AFC times the number of years of creditable service.
Elected officials	5.0% of AFC times the number of years of creditable service. Any Council member who becomes a member of the retirement system on or after February 1, 2010 may not receive a retirement allowance in excess of 60% of the member's AFC.
Firefighters	2.5% of AFC times the number of years of creditable service up to 20 years, plus 2.0% of AFC for each year in excess of 20 years, and 3.0% of AFC for each year in excess of 30 years for service years on or after July 1, 2007. 2.0% of AFC times the number of years of creditable service – if less than 20 years of creditable service.
Correctional officers and Deputy Sheriffs	2.5% of AFC times the number of years of creditable service up to 20 years, plus 2.0% of AFC times the number of years of creditable service in excess of 20 years. <u>If hired prior to July 1, 2007, with less than 20 years of creditable service at retirement:</u> 1.82% of AFC times the number of years of creditable service earned prior to July 1, 2007, plus 1.43% of AFC times the number of years of creditable service earned after June 30, 2007. <u>If hired on or after July 1, 2007, with less than 25 years of creditable service at retirement:</u> 1.43% of AFC times the number of years of creditable service.
Police officers	2.5% of AFC times the number of years of creditable service up to 20 years, plus 2.0% of AFC for each year of creditable service in excess of 20 years, and 3.0% of AFC for each year of creditable service over of 25 years. The 3% accrual rate does not apply for years of creditable service earned prior to July 1, 2007. 2.0% of AFC times the number of years of creditable service – if less than 20 years of creditable service

Notes to Financial Statements, continued

In addition to the maximum retirement allowance, members may select one of six retirement allowance options to provide payments to a beneficiary upon the death of a retired member. A selection of an option reduces the maximum allowance. Eligible police officers and firefighters, may select a 7^{th} option that allows 50% of member's retirement to continue to the original beneficiary at no cost to the employee.

In accordance with Section 5-1-235 of the Code, each July 1, post-retirement allowance adjustments may be granted to retirees who have been retired for more than 60 months. The post-retirement allowance adjustment is equal to the increase in the Consumer Price Index - All Urban Consumers (CPI-U) for the previous calendar year, in an amount not to exceed 3%, provided sufficient investment income in excess of valuation requirements has accumulated in the Post-Retirement Increase Fund Balance Account described in Note 2. The maximum Post-Retirement Increase Fund Account Balance is equal to twice the cost of a 3% COLA. Additional details regarding cost-of-living increases may be found in the Summary of Plan Provisions under the heading Post-Retirement Allowance Increases.

2. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting - The financial statements of the System are presented using the economic resource measurement focus and the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employers' contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The System records investment purchases and sales on a trade-date basis. These transactions are not finalized until settlement date, which occurs approximately three business days after the trade date. 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.

Method used to Value Investments - Plan investments are reported at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. The fair value of real estate equity funds is based on independent appraisals. The fair value of real assets is based on their closing sales price on the market on which the securities primarily trade or, in the absence of a sale, at their last or most recently reported bid price. The fair value of mutual funds is based on the fair value of the underlying securities. Hedge fund of funds are valued based on information provided by the respective fund managers. The fair value for alternative investments which include private equity funds is based upon the partnership's most recent available financial information.

Administrative Costs - The System pays for the following administrative expenses: professional actuarial costs, pension consultant fees, data processing, medical board examinations, salaries, benefits, audit/legal fees, equipment and supplies, postage, printing and miscellaneous expenses. These administrative expenses are funded from employer contributions.

Net Asset Accounts - As provided by the Code, all assets of the System must be credited according to the purpose for which they are held to the annuity savings fund, the pension accumulation fund or the post-retirement increase fund. These funds are classified together as net assets held in trust for pension benefits for financial reporting purposes and are explained below:

> *Annuity Savings Fund Balance Account* - This Account records the accumulated contributions credited to individual members' accounts together with the interest thereon. Upon termination of employment, accumulated contributions plus interest are refunded from this fund. When a member retires, the member's accumulated contributions plus interest are transferred to the Pension Accumulation Fund Balance Account.
>
> *Pension Accumulation Fund Balance Account* - This Account records all accumulated reserves used to pay member pensions and other benefits. The reserves are accumulated from employer contributions, investment income, gains on sales of investments and amounts transferred from the Annuity Savings Fund Balance Account.

Notes to Financial Statements, continued

Post-Retirement Increase Fund Balance Account - This Account records all investment earnings in excess of valuation requirements transferred from the Pension Accumulation Fund Balance Account in order to finance post-retirement allowance increases to retired members.

At June 30, 2011 and 2010, the balances in the legally required accounts are as follows:

	2011 (in Thousands)	**2010** (in Thousands)
Annuity Savings Fund	$473,082	$447,378
Pension Accumulation Fund	1,600,363	1,294,070
Post-Retirement Increase Fund	10,526	44,823
Net Assets Held in Trust for Pension Benefits	$2,083,971	$1,786,271

3. Contributions

System members contribute a percentage of their salary to the System determined by County Code. The contribution rates for members hired prior to July 1, 2007 is actuarially determined based on the member's age at enrollment and employee classification. Contribution rates for members hired on or after July 1, 2007 are fixed based on employee classification. A chart of member contribution rates is provided in the Summary of Plan Provisions in the Actuarial Section of this report.

The participating employers are required to contribute on an actuarially determined basis. Per Section 5-1-203 of the Code, contribution requirements of the plan members and the participating employers are established and may be amended by the Board. The FY 2011 Schedule of Employers' Contributions is shown below.

Schedule of Employers' Contributions

Fiscal Year Ended June 30	Annual Required Contribution (in Thousands)	Percentage Contributed
2011	$58,340	100%

4. Funding Policy

A pension plan is considered adequately funded when sufficient assets are available to meet all expected future obligations to participants. The System funding objective is to meet long-term benefits through annual employer contributions that remain approximately level as a percentage of covered payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. The advantage of a well-funded plan is that participants are confident that sufficient assets are available for the payment of current and future member benefits. Based on the latest actuarial valuation, the FY 2010 Schedule of Funding Progress is shown on the next page in thousands.

Notes to Financial Statements, continued

Schedule of Funding Progress
(in Thousands)

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess of) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of) as a % of Covered Payroll ((b-a)/c)
2010*	$2,196,915	$2,746,016	$549,101	80.0%	$515,125	106.6%

*Actuarial Asset Method change: The Smoothing period was changed from 5 to 10 years.

The schedules 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.

The County's commitment to provide a financially sound retirement plan for its members is illustrated on two schedules contained in this report. The six year "Schedule of Funding Progress," providing historical trend information, found in the Required Supplementary Information of the Financial Section, expresses plan net assets as a percentage of the actuarial accrued liability, providing 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. Trends in the unfunded actuarial accrued liability (or excess of) 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. The six year "Schedule of Employer Contributions" found in the Required Supplementary Information of the Financial Section, includes historical trend information about the annual required contributions (ARC) of the employers and the contributions made by the employers in relation to the ARC. The System's percentages indicate a financially sound retirement system.

Information about the actuarial methods and assumptions used to determine the funded status and the ARC is presented below:

Valuation Date:	June 30, 2010
Actuarial Cost Method(1):	Projected Unit Credit
Normal Cost Allocation:	Service
Amortization Method:	Level percent closed
Remaining Amortization Period:	28 Years
Asset Valuation Method(2):	10-year smoothed market without corridor
Actuarial Assumptions:	
-Investment Rate of Return(3)	7.875%
-Projected Salaried Increases(3)	3.00% – 7.50%
-Cost-of-Living Adjustments(4)	None
-Mortality Rates(5)	Based on the 1995 George B. Buck Mortality Table +1

1. Cost Method changed to Projected Unit Credit for June 30, 2005 valuation. All pre-FY07 contributions determined using Entry Age Normal.
2. Actuarial Asset Method change: The Smoothing period was changed from 5 to 10 years for the June 30, 2010 valuation.
3. Includes Inflation at 3%.
4. Increases equal to the CPI up to a maximum of 3% are granted only if sufficient reserves have accumulated in the Post-Retirement Increase Fund Balance Account.
5. The mortality rates based on the 1995 George B. Buck Mortality Table is presented on Page 54 in the Actuarial Section of this report.

Notes to Financial Statements, continued

5. Cash Deposits, Investments and Securities Lending

Custodial Credit Risk – For Cash Deposits, Investments and Securities Lending, custodial credit risk is the risk that, in the event of the failure of the bank or counterparty, the System will not be able to recover the deposits, value of its investments or collateral securities that are in possession of an outside party. The System cash deposits are fully covered by FDIC insurance and/or collateral pledged to the System's account held by the System's agent in the System's name at year-end. The collateral pledged and held consists of obligations issued by the U.S. government and agencies. Investment securities are registered in the name of the System. As of June 30, 2011, the carrying amount of cash was $0.6 million.

Investment Policy – Pursuant to Section 5-1-247 of the Baltimore County Code, the Board of Trustees utilizes the "prudent person" standard for managing the assets of the System. The Board has established the following policies:

1) Assure that the System's investment policy has been designed to provide broad diversification among asset classes in order to maximize return at an appropriate level of risk and minimize the risk of large losses to the System.

2) Employ a diversity of investment managers with different investment styles on how to obtain their investment objective.

3) Closely monitor the performance of all investment managers not only in relation to specific objectives, but also in relation to other fund managers following the same investment objectives.

The System is currently invested in stocks (domestic and foreign), fixed income securities, private equity funds, real estate, hedge fund of funds, global asset allocation funds and real assets. The Code provides for full power to hold, purchase, sell, assign, transfer and dispose of any of the securities and investments in any of the System's funds.

For the year ended June 30, 2011, the System has operated in all material respects within accordance of the System's investment policy.

Investment

The following is a maturity schedule of the System's fixed income investments of bonds and short term investments as of June 30, 2011.

Investment Maturities (in Years)
(Expressed in Thousands)

Investment Type	Fair Value	Less than 1	1 - 4.9	5 - 9.9	10-19.9	20-30	More Than 30
U.S. Govt. Obligations	$ 81,959	$ 215	$ 16,074	$ 12,497	$ 14,057	$32,616	$ 6,500
U.S. Agency Securities	101,991	1,302	432	14,543	10,752	73,100	1,862
Municipals	1,894	-	-	295	36	381	1,182
Corporate Debt	127,295	9,859	31,301	33,812	19,348	19,081	13,894
Bond Mutual Funds	241,602	-	-	241,602	-	-	-
Foreign Debt	7,514	7,396	-	-	118	-	-
Total	$562,255	$18,772	$47,807	$302,749	$44,311	$125,178	$23,438

Interest Rate Risk – The Employees' Retirement System of Baltimore County policy guidelines do not specifically address limits on maturities as a means of managing its exposure to fair value losses arising from changing interest rates. The manager of each fixed income portfolio is responsible for determining the average maturity of their portfolio.

Notes to Financial Statements, continued

Credit Risk - The System's investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act with discretion and intelligence, to seek reasonable income, preserve capital and in general, avoid speculative investments. Investment in high yield securities are limited to 20% in the guidelines for fixed income managers, except Pimco Diversified Fixed Income Fund, which targets 1/3 of their portfolio in high yield securities; Loomis may invest up to 25% of their portfolio in high yield securities; Seix may invest between 20% and 60% of their portfolio in high yield securities and Stone Harbor may invest up to 100% of their portfolio in high yield securities.

As of June 30, 2011, the System's fixed income investments had the following risk characteristics:

Moody's Ratings or Comparable	Market Value (in Thousands)	Percent of Fixed Income Investments
AAA	$ 139,984	24.90%
AA	14,787	2.63
A	29,083	5.17
BBB	24,947	4.44
BB	7,817	1.39
B	5,606	1.00
CCC	7,800	1.39
CC	1,759	0.31
NR*	330,472	58.77
Total	$562,255	100.00%

*NR represents securities not rated, primarily made up of swaps and commingled funds, which by their nature do not have credit quality ratings.

Investments in Excess of 5% of Net Assets Held in Trust for Pension Benefits

The System had no investments at fair value in excess of 5% of the System's net assets held in trust for pension benefits as of June 30, 2011.

Investment Commitments

As of June 30, 2011, the System had $68 million in outstanding private equity commitments.

Foreign Investments/Forward Exchange Contracts – Foreign investments include equity and fixed income securities. In conjunction with certain foreign investments, the System has entered into forward exchange contracts to sell or purchase certain foreign currencies at specified rates at stated dates. The System continues to invest in similar contracts. At June 30, 2011, the System's contracts to purchase and sell by foreign currencies were as follows:

Forward Exchange Contracts Receivable and Payable as of June 30, 2011
(in Thousands)

Currency	Receivable	Payable	Unrealized Gain/Loss
Australian Dollar	$377		$7
Euro Currency Unit	213		1
Hong Kong Dollar	392		-
Swiss Franc	34		-
British Pound Sterling		$(30)	-
Japanese Yen		(243)	(1)
Singapore Dollar		(32)	-

Notes to Financial Statements, continued

Foreign Currency Risk

The System's exposure to foreign currency risk is derived from its positions in foreign currency-denominated common stock and fixed income investments. The Systems exposure to foreign currency risk as of June 30, 2011 is as follows:

Currency	Fair Value (in Thousands)
Australian Dollar	$5,709
British Pound Sterling	17,110
Danish Krone	691
Euro Currency Unit	57,983
Hong Kong Dollar	7,908
Israeli Shekel	479
Japanese Yen	30,251
Norwegian Krone	1,054
Singapore Dollar	1,857
South Korean Won	6,302
Swedish Krona	4,009
Swiss Franc	9,973
Total	$143,326

Future contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Because of daily settlement, the futures contracts have no fair value. The System entered into certain futures contracts of which the notional value at June 30, 2011 are as follows:

Futures Contracts Exposure as of June 30, 2011
(in Thousands)

Currency	Buy Contracts	Sell Contracts
US Treasury Bond Future (CBT)	$3,503	$ -
US 10YR Treasury Note Future (CBT)	5,660	-
US Ultra Bond (CBT)	4,606	-
US 5YR Treasury Note Future (CBT)	-	(19,622)
US 2YR Treasury Note Future (CBT)	-	(5,270)

The System utilizes certain derivative instruments for the purpose of obtaining income or profit. The derivatives are subject to credit risks, interest rate risk, and foreign currency risk. The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2011, classified by type and the changes in fair value of such derivative instruments for the year then ended are as follows:

	Changes in Fair Value (in Thousands)			Fair Value as of June 30, 2011 (in Thousands)	
Investment Derivatives:	Classification	Amount		Amount	Notional Value
Futures	Investment Revenue	$ -		$ -	$11,122
Options	Investment Revenue	-		7	-
Swaps	Investment Revenue	(308)		(125)	1,040
Mortgage Derivatives	Investment Revenue	(39)		1,624	13,303
TBA Transactions	Investment Revenue	(33)		25,120	23,804

Notes to Financial Statements, continued

Rationale for Derivative strategies:

The purpose of using futures and options is to hedge the portfolio to reduce risk and adjust exposure along the yield curve. A short position in total options reduces the portfolio's convexity in exchange for higher yield. A long position increases convexity in exchange for lower yields.

The effect of long and short treasury notes and bond futures is to shift the portfolio's duration to its target position.

The combined effect of Eurodollar and Euribor futures and options is to adjust exposure to the front portion of the yield curve.

Long and short call and put options on notes and bond futures are used to adjust portfolio convexity in exchange for higher yields.

Credit default indices and credit default swaps on individual names are used as an efficient, low cost way of adjusting credit exposure on the margin.

Securities Lending Transactions **-** The Board's policies permit the System to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The System's custodian lends U.S. government and agency securities, corporate bonds and stocks for collateral in the form of cash, other securities and irrevocable bank letters of credit. Collateral securities, letters of credit and cash are initially pledged at 102% of the market value of the securities lent. Additional collateral is to be provided by the next business day if the collateral value falls to less than 100% of the market value of the securities lent. The System did not impose any restrictions during the fiscal year on security loans the custodian made on its behalf. At June 30, 2011, the System had no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The System cannot pledge or sell collateral securities received unless the borrower defaults. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in both a separately managed fixed income account and a cash collateral pool, which at year-end has a weighted-average maturity of 7 days. The collateral held as of June 30, 2011 and 2010 was $122.0 million and $92.2 million, respectively. The fair value of securities on loan as of June 30, 2011 and 2010 totaled $119.7 million and $89.3 million, respectively. At June 30, 2011, the cash collateral pool had an unrealized loss of approximately $0.7 million which is recorded in the Statement of Changes in Plan Net Assets as a decrease in the fair value of investments for securities lending.

6. Risk Management

The County bears any risk of loss related to the System (e.g. torts, theft of, damage to, or destruction of assets; errors or omissions, job-related illnesses, or injuries to employees; and natural disasters). The County manages its risks internally and sets aside assets for claims settlement in an internal service fund.

7. Adoption of New Accounting Statements

The Government Accounting Standards Board (GASB) Statement No. 59, "Financial Instruments Omnibus" was adopted but had no impact on the Financial Statements during FY 2011. GASB Statement No. 59 updates existing GASB standards (such as GASB 31 and 53), regarding financial reporting of certain financial instruments and external investment pools.

GASB has established new financial reporting standards through Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments". The System implemented the new financial reporting standards in its June 30, 2010 financial statements.

Notes to Financial Statements, continued

8. Litigation

The U.S. Equal Employment Opportunity Commission (EEOC) has sued Baltimore County and six (6) County Unions claiming that they violated the Age Discrimination in Employment Act (ADEA) by requiring employees who join the retirement system as older workers to contribute more than workers who joined at a younger age. The United States District Court for the District of Maryland granted Baltimore County's Motion for Summary Judgment on January 21, 2009. The Fourth Circuit Court of Appeals reversed and remanded the case to the District Court. The County believes that it will prevail again on remand. The County has also called upon its long-term actuary, Buck Consultants, to defend, indemnify and hold the County harmless in the action. EEOC's claim for "excess contributions" by older workers is estimated to be $17 million to $19 million. The Employees' Retirement System of Baltimore County would absorb any potential liability through higher member contributions.

9. Subsequent Events

Contributions (Bill No. 43-11):
On August 14, 2011, the County Council of Baltimore County approved an amendment to the Pensions and Retirement Code to increase contribution rates for deputy sheriffs and sworn members of the fire department, hired after July 1, 2011 to 10% of earnable compensation.

DROP (Bill No. 43-11):
On August 14, 2011, the County Council of Baltimore County approved an amendment to the Pensions and Retirement Code to allow those members who were eligible to participate in the Deferred Retirement Option Plan (DROP) as of July 1, 2007, but did not elect to participate at that time, may now elect to begin participation in the DROP retroactive to July 1, 2007.

Retirement Incentive Program (Bill No. 67-11):
On October 17, 2011, the County Council of Baltimore County approved an amendment to the Pensions and Retirement Code to offer a retirement incentive program to certain employees in order to further reduce the number of County employees on payroll. However, the incentive will be granted only on the condition that a position will be eliminated for each retiree. The County is providing 1.5 months of additional creditable service for each year of creditable service up to a maximum of 3 years and eliminating the early retirement penalty. To be eligible a member must be age 60 with 5 years of creditable service, age 50 with 20 years of creditable service or have a minimum of 22 years and 3 months of creditable service regardless of age. The County is targeting approximately 200 members in order to save $10- $15 million in payroll costs.

Required Supplementary Information
(Unaudited)

Six-year historical trend information about the System is presented herewith 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
(in Thousands)

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess of) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of) as a % of Covered Payroll ((b-a)/c)
2005(1)	$1,832,922	$1,949,611	$116,689	94.0%	$388,052	30.1%
2006	1,938,817	2,078,812	139,995	93.3	425,400	32.9
2007(2)	2,101,023	2,289,452	188,429	91.8	439,913	42.8
2008(3)	2,191,623	2,491,342	299,719	88.0	479,654	62.5
2009(4)	2,143,616	2,599,670	456,054	82.5	506,908	90.0
2010(5)	2,196,915	2,746,016	549,101	80.0	515,125	106.6

(1) Cost method change: from Entry Age Normal to Projected Unit Credit.
(2) Assumption changes recommended in 2006 experience study were adopted, plus plan changes to all groups including implementation of DROP programs for general employees, correctional officers and deputy sheriffs.
(3) Amortization period was changed to 30 years. The amendments of GASB Statement No. 50 were recognized, but they had no impact on the information disclosed.
(4) Actuarial Asset Method is revised to remove 14% Corridor Around Market Value and the smoothing period was changed from 4 to 5 years. Salary increase rates for all members are reduced.
(5) Actuarial Asset Method change: The Smoothing period was changed from 5 to 10 years.

Schedule of Employers' Contributions
(in Thousands)

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2006	$34,433	100%
2007	40,065	100
2008	44,168	100
2009	49,763	100
2010	57,976	100
2011	58,340	100

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information regarding the assumptions and methods used as of the latest actuarial valuation may be found in "Note 4 – Funding Policy" in the notes to the financial statements, and in the Actuarial Section of this report.

Supplementary Supporting Schedules

Schedule of Investment Expenses

(in Thousands)

For the Years Ended June 30, 2011 and 2010

	FY 2011	FY 2010
Investment Managers:		
Domestic Equity managers	$ 2,779	$ 2,351
International Equity managers	1,588	1,328
Fixed Income managers	2,006	1,813
Real Estate managers	916	732
Hedge Fund managers	1,038	948
Private Equity managers	1,569	1,478
Global Asset Allocation managers	2,533	2,213
Real Asset managers	886	14
Total manager fees	13,315	10,877
Investment Service Fees:		
Custodian fees	303	293
Consultant fees	219	210
Total service fees	522	503
Subtotal - Investment Expenses	13,837	11,380
Security Lending Fees:		
Agent fees	126	160
Borrower rebates	(74)	(87)
Total Security Lending fees	52	73
Total Investment Expenses	$13,889	$11,453

Schedule of Administrative Expenses

(in Thousands)

For the Years Ended June 30, 2011 and 2010

	2011	2010
Personal Services:		
Salaries	$ 501	$ 476
Employee Fringe benefits	168	157
Total Personal Services	669	633
Professional Services:		
Actuarial	207	233
Legal and Financial	18	17
Data Processing*	1,506	92
Medical	50	27
Audit	29	29
Total Professional Services	1,810	398
Communication:		
Printing	13	9
Telephone	2	2
Postage	36	35
Total Communication	51	46
Miscellaneous:		
Equipment and Supplies	11	22
Total administrative expenses	$2,541	$1,099

*****Includes costs associated with new contract to replace the current Data Processing System with a Web Based System.

Board of Trustees

The members of the Board serve without compensation.

INVESTMENT SECTION

INVESTMENT CONSULTANT'S REPORT

Introduction

This report, prepared for the Baltimore County Employees' Retirement System (the "System") by New England Pension Consultants (NEPC), is based on accounting information supplied by the System's custodian, Mellon Bank. NEPC relies on this source for security pricing, calculation of accruals, and all transactions. NEPC reconciles the monthly rates of return provided by Mellon Trust with those calculated by each investment manager. NEPC exercises reasonable professional care in preparing the performance report, and the performance calculations are reported to the greatest degree possible in compliance with the presentation standards of the Global Performance Investment Standards (GIPS) promulgated by the CFA Institute. The returns, calculated using a time-weighted rate of return methodology based upon market values, are reported on both net of fees and gross of fees to provide comparisons with the appropriate benchmarks.

Distinction of Responsibilities

The Board of Trustees (the "Trustees") of the System is responsible for establishing the investment goals and objectives for the System's Retirement Fund (the "Fund") and sets the appropriate risk levels and asset allocation policies. The criteria used in developing the System's investment policy include: actuarial information, such as funded status, the actuarial return assumption and benefits obligations; risk and return expectations of the capital markets; the financial conditions of the County; and practices of similar types of funds. The investment policy has been developed after the Trustees have given careful consideration of the potential financial implication of a wide range of investment policies. The policy describes the degree of pension fund risk that the Trustees, as System fiduciaries, deem appropriate.

In carrying out their duties the Trustees follow acceptable standards of prudence. These standards include: 1) acting for the exclusive benefit of the Fund participants and beneficiaries; 2) exercising skill, care and diligence of a prudent person acting in a similar capacity; and 3) diversifying investments to minimize the risk of large losses.

The investment managers required to execute the policy will invest System assets in accordance with the established policy and with their judgments concerning relative investment values. In particular, the investment managers are accorded full discretion to select individual securities, make periodic strategic adjustments and diversify their portfolios.

Investment Policy/Structure

The System's investment policy was designed to provide broad diversification among asset classes in order to maximize return at an appropriate level of risk and minimize the risk of large losses to the System. In addition, asset allocation ranges have also been implemented to maintain compliance with the investment policy and ensure the System will achieve its long-term risk and return objectives.

The System's investment policy is shown below for the broad investment categories:

Investment Policy as of 6/30/2011

Asset Class	*Allocation Target*	*Allocation Range*
U. S. Equities	*24%*	*18 - 30%*
International Equities	*14%*	*10 - 18%*
Private Equities	*5%*	*0 - 7%*
Fixed Income	*27%*	*19 - 35%*
Hedge FOF	*5%*	*0 - 7%*
Real Estate	*5%*	*0 - 7%*
Global Asset Allocation	*15%*	*10 - 20%*
Real Asset	*5%*	*0 - 7%*
Total	***100%***	

Investment Consultant's Report, continued

Within each asset class, the Trustees have employed several investment managers to further diversify the investment approach and minimize style bias. The Trustees have employed both active and passive investment strategies in order to obtain the desired asset allocation mix in the most cost effective and efficient manner.

Investment Objective

The System's long-term investment objective is to achieve a total rate of return which exceeds the Policy Index, defined here as the actual asset allocation for each asset class invested in its respective index. The Trustees recognize that there will be short-term deviations from these long-term investment objectives, and therefore, have developed performance expectations for the Fund and individual investment managers.

The overall Fund is also compared to the Independent Consultants Cooperative (ICC) Public Funds Universe, one of the largest, most representative universes of actual institutional performance results in the industry. At June 30, 2011, this universe contained actual public fund data for 170 public plans with an aggregate market value of $1.2 trillion.

Market Overview

Fiscal year 2011 continued the recovery process that began in fiscal year 2010 from the lows experienced during fiscal year 2009. Market sentiment and macroeconomic events played key roles as drivers of global markets throughout the fiscal year. Support from governments and central banks continued for much of the fiscal year until the last quarter which saw a relenting of quantitative easing by the Federal Reserve and fiscal austerity measures across Europe being implemented in an attempt to reign in public debt. Investors flocked to riskier assets during most of the fiscal year until global concerns mounted, causing a pullback and flight to safer assets during the 2nd quarter of calendar year 2011. Sentiment began to shift negative as the European debt crisis, increased inflation concerns, and multiple geopolitical risks weighed heavily in investors' minds. Further compounding investor sentiment was an inability of Congress to reach a deal on the US debt ceiling which remained unresolved as of June 30th, 2011.

The broad domestic equity market, as measured by the S&P 500 Index, continued its strong recovery from fiscal year 2009, producing a +30.7% return for fiscal year 2011. The domestic bond market, as measured by the Barclays Aggregate Bond Index, returned +3.9% in fiscal year 2011 representing a drop from the previous two years at +6.1% in 2009 and +9.5% in 2010. The global equity market, as measured by the MSCI All Country World Index (net), returned +30.1% in fiscal year 2011 relative to a positive +11.8% in fiscal year 2010.

The quarter ended September 30th, 2010 proved to be a volatile start to the fiscal year as markets moved each month along with investor sentiment eventually rallying in September to post strong gains for the quarter. Hints of more quantitative easing from the Federal Reserve helped drive the rally as the S&P 500 posted its best September since 1939 and finished the quarter at +11.3%. These hints also helped global markets as US dollar depreciation contributed heavily to the MSCI EAFE which returned +16.5% for the quarter. Foreign currency gains against the dollar contributed +9.4% to the MSCI EAFE index. The late September rally masked overall concerns in the global economy as sovereign debt levels remained unattractively high and further quantitative easing providing only a short-term measure to stimulate the market and improve liquidity.

The quarter ended December 31, 2010 saw a continuation of volatile, sentiment driven markets. The Fed's initiation of another round of quantitative easing (QE2) in November along with a tax deal that included a payroll tax cut, extension of unemployment benefits, and a tax credit for business capital expenditures helped boost equity market returns. Small cap stocks led the way as the Russell 2000, Russell 2000 Growth, and Russell 2000 Value each posted gains of +16.3%, +17.1%, and +15.4% for the quarter. International markets also benefitted from QE2 as it overshadowed the lingering European debt issue. Interest rates rose sharply during the quarter which caused most fixed income markets to turn negative as investors shifted to riskier assets.

Investment Consultant's Report, continued

The first quarter of 2011 featured a plethora of external events that dominated headlines across global markets. Political turmoil in the Middle East, multiple natural disasters in Japan, a deepening civil war in Libya, and the downgrading of Greek, Portuguese, and Spanish government bonds all played a role in the volatile quarter. Though the markets continued to be volatile, equity markets, with the exception of Japan, posted positive returns for the quarter. The S&P 500 posted a +5.9% return while small cap stocks continued to outperform other indices as the Russell 2000 posted a +7.9% return. International markets fared well but were weighed down by performance in Japan as the MSCI Japan was down -4.9% while the MSCI EAFE was +3.4% for the quarter. Fixed Income markets proved to be resilient through the first quarter with US credit sectors posting strong results based on improving business and unemployment indicators. Rising commodity prices and further QE2 sparked concern over high inflation causing yields on 10-year Treasuries to rise 17 basis points to 3.45% as investors sought safety in treasuries. The Federal Reserve also announced that it would maintain a fed funds rate near zero for an extended period.

The quarter ended June 30, 2011 began on a positive trend but macroeconomic headlines dominated in May and June, wiping away most gains. The European debt crisis, growing inflation concern in China, and poor US job reports fed investor sentiment that the global recovery was stalling. Fiscal austerity measures in Europe and the Fed's decision to forgo any additional quantitative easing further reduced support systems for the global recovery. Overall, most US equity markets posted relatively flat returns for the quarter with mid-cap stocks performing best. Internationally, the developed markets outperformed emerging markets as the MSCI EAFE posted a +1.6% return compared to -1.1% for the MSCI EM. The MSCI EAFE was boosted by the sell-off of the dollar, which in local currency returned -0.8% for the quarter. Fixed income markets posted positive returns for the quarter as investors sought safety, driving yields downward across the yield curve. The BC TIPS index posted a +5.3% return over the quarter highlighting increased attention towards hedging the risk against inflation. A looming concern that had yet to be addressed by the end of the quarter was the US debt ceiling which Congress had yet to reach a deal on. A deal was struck on August 1st to raise the debt ceiling which averted the threat of a default by the US government. However, this did not stop Standard & Poor's from downgrading US debt to AA+ on August 5th. Standard & Poor's cited "political brinkmanship" and a debt deal that did not go far enough in trying to reign in US debt levels as contributing factors. While the move was anticipated, the event triggered a global sell-off with increasing volatility.

Investment Performance

For the fiscal year ended June 30, 2011, the System's investment portfolio gained 21.0%, including dividends and interest income, unrealized gains and losses, and management fees and expenses.

The System's domestic equity portfolio posted a 34.2% net of fee return over the fiscal year as compared to a 32.0% return of the broad U.S. equity market, as measured by the Wilshire 5000 Index. Strong performance among the active large and small cap managers added to the overall domestic equity return over the full year. The System's non-US equity portfolio's net of fee return of 28.6% fell short of the 29.7% return of the international equity benchmark. The developed market portfolio performed in line with the benchmark while the emerging market portfolio trailed its benchmark. The fixed income portfolio returned 8.4% on a net of fee basis over the fiscal year and exceeded the broad domestic bond market by 3.6%. All of the core fixed income and credit-oriented fixed income managers posted strong gains relative to the broad market.

To gauge how the overall fund did relative to other public funds, the System's gross of fee return for the fiscal year was compared to the median public fund in the ICC Universe of Public Funds. The System's gross of fee return of 21.5% ranked above median (46th percentile) of the ICC Public Funds Universe for the fiscal year. The market value of the System's combined assets increased from $1.8 billion on June 30, 2010 to $2.1 billion on June 30, 2011. The increase in assets was driven primarily by investment gains of approximately $389 million plus net withdrawals of approximately $91 million.

Investment Consultant's Report, continued

The net of fee returns for the fiscal year ending June 30, 2011 are shown in the following table.

	Market Value (in Millions)	Percent of Total	Fiscal Year Rate of Return System	Fiscal Year Rate of Return Benchmark
U S Equities	$ 530.4	25.4%	34.2%	32.0%
International Equities	292.9	14.0	28.6	29.7
Private Equity	97.2	4.7	14.6	19.9
Hedge Funds	101.2	4.9	6.3	6.7
Real Estate	75.7	3.6	20.5	16.7
Fixed Income	559.3	26.8	8.4	4.8
GAA	325.4	15.6	20.4	17.8
Real Assets	98.9	4.7	31.9	25.9
Cash	5.1	0.3	1.1	0.2
Total Fund*	$2,086.1	100.0%	21.0%	19.4%

*The Total Fund shown above in the amount of $2,086.1 includes short-term investments of $96.3, accrued interest and dividends receivable of $2.6, receivables for investment sold of $43.7 and payables of $128.7. These items are separately reported from "Total Investments" in the Statement of Plan Net Assets.

Investment Strategies

During the fiscal year, the Trustees conducted an annual asset allocation review and added an allocation to emerging market debt – local currency. The Trustees funded the 2% allocation to this asset class during the final quarter of the fiscal year. Four new managers were hired by the Board, consisting of one fixed income manager, and three private equity managers.

John Krimmel, CPA, CFA
Senior Consultant

Outline of Investment Policies

Investment Policy. As provided in Article 5 Title 1 of the Baltimore County Code, the Board of Trustees of the Employees' Retirement System of Baltimore County (the "Board") is empowered to invest the System's assets and to take appropriate action regarding the investment, management and custodianship of plan assets. The investment responsibilities include establishing reasonable investment objectives, developing investment policy guidelines, selecting investment managers and evaluating performance results to assure adherence to guidelines and the achievement of objectives.

The Board has carefully exercised these responsibilities by diversifying the assets into common stocks (domestic and foreign), fixed income, real estate, hedge funds, private equity, and real assets. The investment policy targets are 24% in U.S. equities, 14% in international equities, 27% in fixed income investments, 5% in real estate, 5% in hedge funds, 5% in private equity, 15% to global asset allocation strategies and 5% to real assets. The investment policy authorizes the allocation targets to be maintained within the allocation ranges specified in the Investment Consultant's report.

A pension investment consultant has been appointed to advise and consult with the Board and the System staff, prepare recommendations on investment policies, investment management structure and asset allocation, and to monitor and evaluate the performance of the investment managers and the asset custodian.

The Board authorizes the managers to vote all proxies related to stocks in which they invest pension assets. The Board expects the managers to cast votes solely in the best interest of plan beneficiaries. Managers are required to report annually to the Board on its proxy-voting policies and activities on the System's behalf.

Investment Results

The following schedule compares rates of return, gross of fees, for the System portfolio with a comparative index, market indices and the inflation rate.

The market indices shown below are the Wilshire 5000 Stock Index, Morgan Stanley Capital International All Country World Ex-U.S. Index, the Barclays Capital Universal Index, 60% MSCI World/40% WGBI blended index, the NCREIF Index, the DJ-UBS Commodity index, the HFRI Fund of Funds Index and the Venture Capital Economics Private Equity Index.

The Balanced Index is a blend of market indices and is reflective of the total System's portfolio policy for each time period. In FY 2007, the Balanced Index was comprised of 34% S&P 500; 7% Russell 2000 Index; 12% Morgan Stanley EAFE Index; 3% Morgan Stanley Emerging Markets Free Index; 16% Lehman Aggregate Bond Index; 8% Citigroup World Government Bond Index; 5% Lehman High Yield Index; 5% NCREIF Index; 5% Cambridge Venture Capital Index; 5% HFRI Fund of Fund Index. From October 2006 the Cambridge Venture Capital Index was replaced with the Venture Economics Private Equity Index.

From July 1, 2007 to May 31, 2010, the Balanced Index was comprised of 32% S&P 500; 7% Russell 2000 Index; 10% Morgan Stanley EAFE Index; 3% Morgan Stanley Emerging Markets Free Index; 18% Barclays Capital Aggregate Bond Index; 8% Citigroup World Government Bond Index; 7% Merrill Lynch High Yield Index; 5% NCREIF Property Index; 5% Cambridge Venture Capital Index; 5% HFRI Fund of Fund Index.

From June 1, 2010 to May 31, 2011, the Balanced Index was comprised of 19% S&P 500; 7% Russell 2000 Index; 10% Morgan Stanley EAFE Index; 3% Morgan Stanley Emerging Markets Free Index; 9% Morgan Stanley World Index; 17% Barclays Capital Aggregate Bond Index; 8% Citigroup World Government Bond Index; 7% Merrill Lynch High Yield Index; 5% NCREIF Property Index; 5% Venture Economics Index; 5% HFRI Fund of Fund Index; 5% Dow Jones-UBS Commodity Index.

From June 1, 2011 to the present, the Balanced Index has been comprised of 17% S&P 500; 7% Russell 2000 Index; 9% Morgan Stanley EAFE Index; 5% Morgan Stanley Emerging Markets Free Index; 9% Morgan Stanley World Index; 16% Barclays Capital Aggregate Bond Index; 8% Citigroup World Government Bond Index; 7% Merrill Lynch High Yield Index; 5% NCREIF Property Index; 5% Venture Economics Index; 5% HFRI Fund of Fund Index; 5% Dow Jones-UBS Commodity Index; 2% JP Morgan Emerging Market Global Bond Index.

The rate of return measure for the financial asset class managers is time weighted. This investment measure eliminates the influence of contributions and withdrawals that are beyond the control of the investment managers. This investment measure is an effective means of appraising a fund manager's ability to make assets perform.

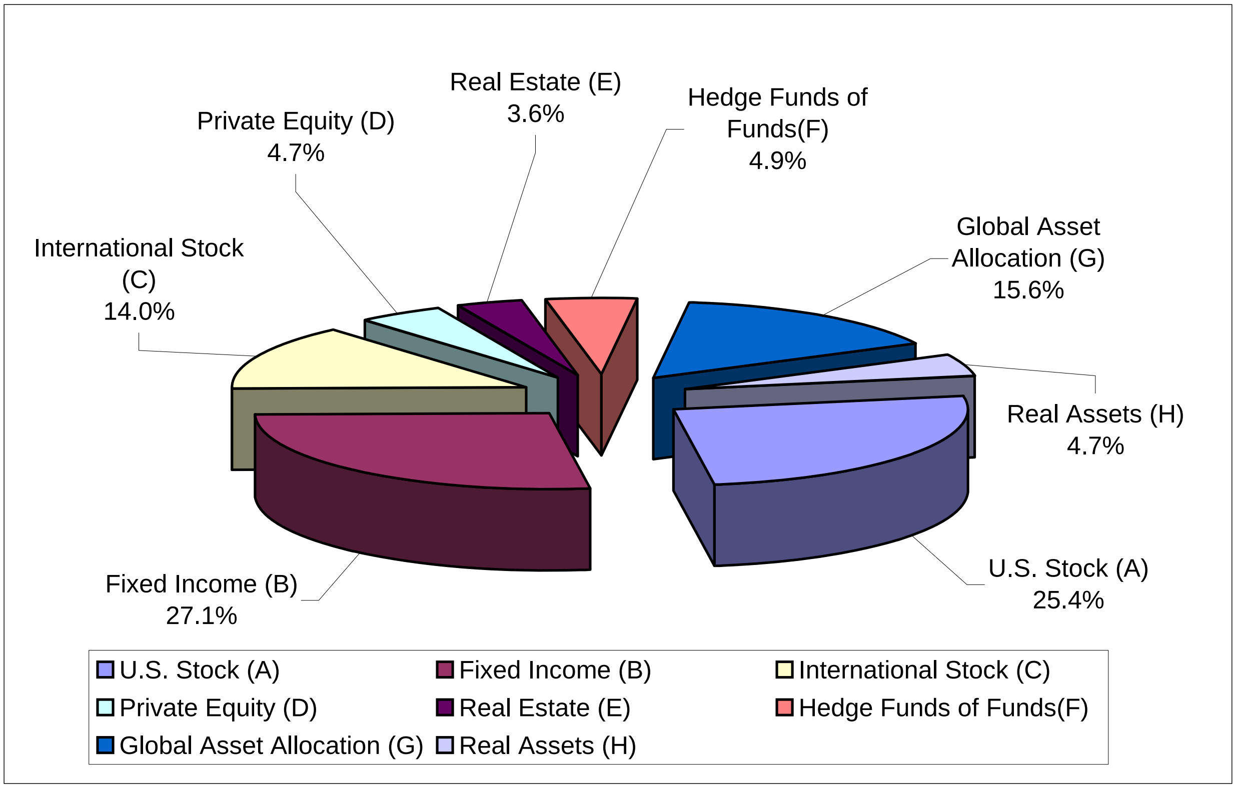
Investment Return Summary
(Percentage Change)

Rates of Return	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Annualized Rate Over 3 Years	Annualized Rate Over 5 Years
U.S. Common Stock	19.8%	(13.2%)	(26.8%)	17.3%	34.2%	4.6%	3.4%
Wilshire 5000 Stock Index	20.5	(12.5)	(26.4)	15.7	32.0	4.0	3.4
International Common Stock	32.5	(5.9)	(26.0)	16.1	28.6	3.0	6.1
MSCI ACWIXUS	29.6	(6.6)	(30.9)	10.4	29.7	(0.3)	3.7
GAA	-	3.1	(20.2)	17.0	20.4	3.8	-
60% MSCI World / 40% WGBI & 90– day T-Bills plus 6%	15.1	(3.7)	(14.7)	8.6	17.8	3.0	-
Fixed Income	6.2	4.0	3.2	19.3	8.4	9.9	7.8
Barclays Universal	6.6	6.2	4.9	10.6	4.8	6.7	6.6
Real Estate	19.4	6.4	(37.0)	(8.2)	20.5	(12.2)	(3.3)
NCREIF Index	17.2	9.2	(30.7)	(1.5)	16.7	(7.7)	0.0
Hedge Funds	15.9	(0.2)	(15.7)	8.8	6.3	(1.3)	1.9
Hedge Fund-of-Funds Index	13.6	(0.3)	(15.2)	4.7	6.7	(1.8)	1.5
Private Equity	20.7	18.1	(16.8)	12.0	14.6	3.0	7.8
Private Equity Benchmark*	54.4	16.0	(21.0)	13.1	19.9	3.3	5.7
Total System Portfolio	17.2	(4.5)	(17.5)	16.4	21.0	4.8	5.1
Comparative Index							
Balanced Index	17.6	(3.8)	(14.4)	12.5	19.4	4.5	5.2
Inflation Rate							
Consumer Price Index	2.7	4.9	(1.2)	1.1	3.6	1.5	2.4

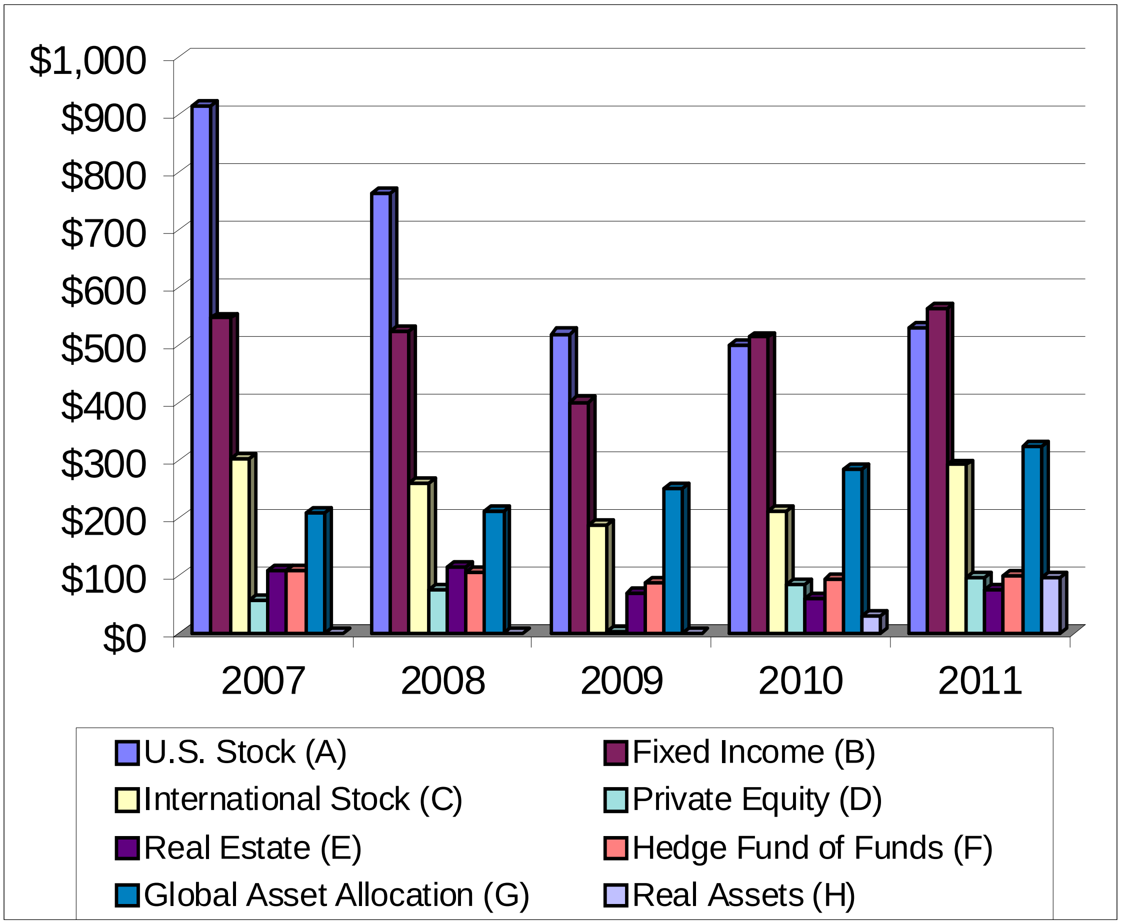
Note: Performance is gross of fees.

*Since October 2006, the benchmark has been the Venture Economics Private Equity Index. Prior to October 2006, the benchmark was the Cambridge Venture Capital index.

Portfolio Composition by Manager Type
Market Value of Investments
Percent of Total Fund
As of June 30, 2011



Portfolio Composition by Manager Type
Market Value of Investments
Percent of Total Fund
As of June 30, 2007, 2008, 2009, 2010 & 2011
(Expressed in Millions)



Investment Type	2007		2008		2009		2010		2011	
U.S. Stock (A)	$914.8	40.7%	$764.4	37.0%	$520.2	32.6%	$500.3	28.0%	$530.4	25.4%
Fixed Income (B)	547.7	24.3%	525.6	25.5%	402.1	25.3%	514.1	28.7%	564.4	27.1%
International Stock (C)	304.9	13.5%	261.0	12.7%	189.6	11.9%	213.9	12.0%	292.9	14.0%
Private Equity (D)	58.5	2.6%	76.8	3.7%	73.9	4.5%	85.4	4.8%	97.2	4.7%
Real Estate (E)	108.8	4.8%	115.4	5.6%	69.7	4.4%	62.7	3.5%	75.7	3.6%
Hedge Fund of Funds (F)	109.0	4.8%	107.5	5.2%	89.4	5.6%	94.5	5.3%	101.2	4.9%
Global Asset Alloc. (G)	209.3	9.3%	212.4	10.3%	251.1	15.7%	285.2	15.9%	325.4	15.6%
Real Assets (H)	0.0	0.0%	0.0	0.0%	0.0	0.0%	32.7	1.8%	98.9	4.7%
Total	$2,253.0	100.0%	$2,063.1	100.0%	$1,596.0	100.0%	$1,788.8	100.0%	$2,086.1	100.0%

List of Largest Assets Held
(Year Ended June 30, 2011)
(in Thousands)

	Ten Largest Equity Holdings (STOCKS)			PAR VALUE/ SHARES	MARKET VALUE
1)	MasterCard Inc.			18	$5,394
2)	Google Inc.			10	4,819
3)	Berkshire Hathaway Inc.			51	3,931
4)	Microsoft Corp.			150	3,905
5)	Wells Fargo & Co.			136	3,815
6)	International Business Machine			22	3,813
7)	Canadian Natl. Railway Co.			47	3,720
8)	Exxon Mobil Corp.			46	3,718
9)	Novartis AG CHFO.50 (REGD)			56	3,425
10)	United Technologies Corp.			38	3,367
	Ten Largest Fixed Income Holdings (NOTES & BONDS)	INTEREST RATE	MATURITY DATE	PAR VALUE/ SHARES	MARKET VALUE
1)	US Treasury Bill	0.000%	12/29/2011	15,653	$15,645
2)	Commit to Purchase FNMA SF MTG	4.500	8/1/2041	15,065	15,539
3)	Commit to Purchase FNMA SF MTG	4.000	8/1/2041	13,263	13,224
4)	US Treasury Bill	0.000	6/28/2012	9,837	9,819
5)	Commit to Purchase FNMA SF MTG	5.000	8/1/2041	9,099	9,642
6)	US Treasury Note	3.125	5/15/2021	8,311	8,288
7)	Commit to Purchase FNMA SF MTG	4.500	7/1/2041	6,852	7,089
8)	FNMA Pool	VAR RT	11/1/2020	5,882	5,870
9)	US Treasury Note	0.625	12/31/2012	5,277	5,299
10)	Commit to Purchase GNMA SF MTG	4.500	7/15/2041	4,983	5,259

*A complete list of the portfolio holdings is available upon request.

Supplementary Supporting Schedules
Schedule of Fees
(Year Ended June 30, 2011)
(in Thousands)

Investment Services	Assets Under Management*	Fees
Domestic Equity Managers	$530,410	$2,779
International Equity Managers	292,920	1,588
Fixed Income Managers	559,283	2,006
Private Equity Managers	97,177	1,569
Real Estate Managers	75,742	915
Hedge Fund of Funds Managers	101,190	1,038
Global Asset Allocation Managers	325,407	2,533
Real Assets	98,944	886
Short-Term Investment Manager	5,097	-
Other Investment Service Fees:		
Custodian		303
Security lending		52
Investment consultant		220
Total	$2,086,170	$13,889

* Asset Under Management" shown above in the amount of $2,086,170 includes short-term investments of $96,262, accrued interest and dividends receivable of $2,675, receivables for investment sold of $43,681 and payables of $128,688. These items are separately reported from "Total Investments" in the Statement of Plan Net Assets.

Supplementary Supporting Schedules
Schedule of Commissions
(Year Ended June 30, 2011)
(in Thousands)

Investment Broker Firms	Number of Shares Traded	Total Commissions	Commission Per Share
Barclays Capital LE, Jersey City	706	$28	0.04
Nomura Secs Intl Inc, New York	1,058	13	0.01
BNY Convergex, New York	353	13	0.04
Liquidnet Inc. Brooklyn	436	13	0.03
Bernstein Sanford and Co, New York	316	12	0.04
Deutsche Bank Secs Inc., New York	389	11	0.03
SJ Levinson & Sons LLC, Jersey City	338	10	0.03
Wells Fargo Securities LLC, Charlotte	245	9	0.04
Miscellaneous (Under $10,000)	12,037	193	0.02
Total	15,878	$302	

Investment Summary

(Year Ended June 30, 2011)
(in Thousands)

TYPE OF INVESTMENTS	FAIR VALUE	% of FAIR VALUE
Fixed Income:		
U.S. Government & Agencies Securities	$183,950	8.9%
Municipals	1,894	0.1
Corporate Bonds	127,295	6.1
Foreign Debt	7,514	0.4
Bond Mutual Funds	241,602	11.6
Total Fixed Income	$562,255	27.1%
Common Stock:		
Basic Industries	$24,483	1.2%
Consumer Durable Goods	5,467	0.3
Consumer Non-Durables	20,890	1.0
Consumer Services	29,005	1.4
Energy	30,971	1.4
Financial Services	34,390	1.7
Health Care	30,666	1.5
Media	7,836	0.4
Technology	33,268	1.6
Transportation	9,974	0.5
Utilities	4,702	0.2
General Business	219,852	10.6
Total Common Stock	$451,504	21.8%
Other Investments:		
Stock Mutual Funds	$360,022	17.4%
Real Estate Equity Funds	75,742	3.6
Hedge Funds	101,190	4.9
Private Equity Funds	97,176	4.7
Real Assets	98,944	4.8
Global Asset Allocation Funds	325,407	15.7
Total Other Investments	$1,058,481	51.1%
Total Investments at fair value	$2,072,240	100.0%

ACTUARIAL SECTION

Actuary's Certification Letter

buckconsultants A Xerox Company

March 16, 2011

Board of Trustees
Employees' Retirement System
of Baltimore County
Towson, Maryland

Members of the Board:

Actuarial valuations of the Employees' Retirement System of Baltimore County are performed annually. The results of the latest actuarial valuation of the System, which was prepared as of June 30, 2010, are presented in the valuation report.

The valuation reflects the benefits in effect on the valuation date, and was prepared on the basis of the data submitted by the County and the actuarial assumptions as adopted by the Board of Trustees.

The actuarial assumptions and methods comply with the parameters set forth in Statement No. 25 of the Governmental Accounting Standards Board (GASB).

Financing Objective and Contribution Appropriation

The results of the June 30, 2010 valuation determine the contribution appropriation for the fiscal year ending June 30, 2012.

The financing objectives of the System are to:

(a) fully fund all current costs based on the normal contribution payable determined under the funding method; and

(b) liquidate the unfunded accrued liability based on accrued liability contributions payable over an amortization period of 30 years.

Assets and Participant Data

The County reported the individual data for members of the System as of the valuation date to the actuary. While we did not verify the data at their source, we did perform tests for internal consistency and reasonability in relation to the data submitted for the previous valuation.

The amount of current assets in the trust fund taken into account in the valuation was based on statements prepared for us by the County.

Actuarial Assumptions and Methods

The actuarial asset valuation method is a ten-year moving market method that spreads the difference between actual investment income and expected income (based on the valuation interest rate) over a period of ten years, as adopted for valuation purposes effective June 30, 2010. The nature and effect of this change are discussed in the report. An interest rate of $7\frac{7}{8}\%$ was used in the valuation, as adopted for valuation purposes effective June 30, 1993.

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Board of Trustees
March 16, 2011
Page 2

Included in the valuation report is a schedule that presents an outline of the actuarial assumptions and methods used to prepare the actuarial valuation results. The most recent study of the plan's experience, used in developing the current actuarial assumptions, was based on a period from July 2001 to June 2006. In our opinion, the actuarial assumptions used in the valuation are, in the aggregate, reasonable.

Effective with the fiscal 2003 contribution, all administrative and operating expenses of the ERS are paid from System assets. As a result, the normal cost includes these expenses.

Funding Adequacy

The results of the valuation indicate that the recommended contribution appropriation is adequate to fund the actuarial liabilities on account of all benefits payable under the System, when taken together with member contributions and with the current assets of the System. Included in the valuation report are contribution and funding progress schedules prepared by the actuary.

Financial Results and Membership Data

Detailed summaries of the financial results of the valuation and membership data used in preparing the valuation are shown in the valuation report. The actuary prepared supporting schedules and required supplementary information included in the Actuarial, Financial and Statistical Sections of the Comprehensive Annual Financial Report.

This report was prepared by Lawrence Lin under the supervision of Timothy J. Abramic and reviewed by David L. Driscoll. To the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and Actuarial Standards of Practice. The signing actuaries are members of the American Academy of Actuaries and meet the Academy's Qualification Standards to render the actuarial opinion contained herein. They are available to answer questions concerning this report.

Respectfully submitted,

David L. Driscoll

David L. Driscoll, F.S.A., E.A., M.A.A.A
Principal

Timothy Abramic

Timothy J. Abramic, E.A., M.A.A.A
Director, Retirement Consulting

Lawrence (Yen-An) Lin, A.S.A, M.A.A.A
Consultant, Retirement

DD/TJA/LL:pl

BUCK CONSULTANTS

Summary of Actuarial Assumptions and Methods

ASSUMPTIONS

Interest Rate: 7⅞% per annum, compounded annually.

Inflation: 3.0% per annum.

Salary Increase: Representative values for fiscal years beginning July 1, 2012 are as follows (adopted as of June 30, 2009 effective for the fiscal 2011 contribution):

	Annual Rates of Salary Increase	
Age	General Employees, Correctional Officers and Deputy Sheriffs	Police Officers and Firefighters
25	6.40%	6.55%
30	4.90	5.05
35	3.90	4.05
40	3.40	3.55
45	2.90	3.05
50	2.40%	2.55%
55	1.90	2.30
60	1.90	2.30
65	1.90	2.30

Salary increase rates at all ages for the fiscal years ending June 30, 2010 and June 30, 2011 are 3% for Police and 2.5% for all other groups. Salary increase rates for the year ending June 30, 2012 at all ages are 2% for Police and 1.5% for all other groups.

The effect of these assumptions is illustrated by the following examples: When used in the valuation process, these assumptions produce an effective annual average increase of 4.0% over a 27-year career for a Policeman hired at age 25, and 3.0% over a 30-year career for a General Employee hired at age 30.

Expenses: The assumed interest rate is gross of the administrative expenses of the fund. All administrative and operating expenses of the ERS are included in the normal cost.

Loading or Contingency Reserves: None

Summary of Actuarial Assumptions and Methods, continued

Illustrative Rates of Separation from Service (adopted as of June 30, 2007)

	Hired Before 7/01/2007							
	Withdrawal			Disability		Death		
						Ordinary		
Age	Refund Before 10 Years of Service	Refund After 10 Years of Service	Termination Benefit After 10 Years of Service	Ordinary	Accidental	Males	Females	Accidental
General Employees, Correctional Officers and Deputy Sheriffs								
20	17.406%			0.036%	0.009%	0.056%	0.015%	0.002%
25	13.500			0.051	0.009	0.054	0.014	0.001
30	10.350	1.087%	1.200%	0.087	0.019	0.052	0.022	0.001
35	9.900	0.810	1.200	0.145	0.019	0.061	0.038	0.001
40	9.900	0.773	1.200	0.253	0.028	0.082	0.050	0.002
45	9.900	0.735	1.350	0.361	0.047	0.121	0.079	0.003
50	7.200	0.697	1.500	0.506	0.056	0.188	0.124	0.006
55	5.400	0.660	1.500	0.615	0.066	0.310	0.180	0.009
60	4.500	0.630	1.500	0.615	0.084	0.588	0.288	0.015
64	3.780	0.630	1.500	0.615	0.084	0.994	0.529	0.022
65				0.615	0.084	1.127	0.623	0.024
69				0.615	0.084	1.787	1.111	0.035
Police Officers								
20	5.625%			0.023%	0.045%	0.028%	0.008%	0.008%
25	2.925			0.023	0.056	0.027	0.007	0.012
30	2.700	0.750%	1.030%	0.028	0.068	0.026	0.011	0.016
35	1.800	0.500	0.630	0.106	0.096	0.031	0.010	0.024
40	1.350	0.300	0.390	0.106	0.164	0.041	0.025	0.036
45	1.350	0.300	0.220	0.106	0.310	0.060	0.040	0.052
50	0.900	0.300	0.120	0.149	0.570	0.094	0.062	0.084
55	0.562	0.300	0.030	0.553	1.015	0.155	0.090	0.140
59				0.553	1.636	0.257	0.128	0.240
60				0.553	1.636	0.294	0.144	0.272
64				0.553	1.636	0.497	0.265	0.400
Firefighters								
20	5.000%			0.023%	0.011%	0.028%	0.008%	0.008%
25	2.600			0.023	0.014	0.027	0.007	0.012
30	2.400	0.750%	1.030%	0.028	0.017	0.026	0.011	0.016
35	1.600	0.500	0.630	0.106	0.024	0.031	0.010	0.024
40	1.200	0.300	0.390	0.106	0.033	0.041	0.025	0.036
45	1.200	0.300	0.220	0.106	0.062	0.060	0.040	0.052
50	0.800	0.300	0.120	0.149	0.115	0.094	0.062	0.084
55	0.500	0.300	0.030	0.553	0.204	0.155	0.090	0.140
59	0.100	0.300	0.010	0.553	0.229	0.257	0.128	0.240
60				0.553	0.229	0.294	0.144	0.272
64				0.553	0.229	0.497	0.265	0.400

Summary of Actuarial Assumptions and Methods, continued

Illustrative Rates of Separation from Service (adopted as of June 30, 2007)

	Hired After 6/30/2007							
	Withdrawal			Disability		Death		
						Ordinary		
Age	Refund Before 10 Years of Service	Refund After 10 Years of Service	Termination Benefit After 10 Years of Service	Ordinary	Accidental	Males	Females	Accidental
General Employees, Correctional Officers and Deputy Sheriffs								
20	14.505%			0.043%	0.013%	0.056%	0.015%	0.002%
25	11.250			0.059	0.013	0.054	0.014	0.001
30	8.625	1.688%	0.600%	0.102	0.025	0.052	0.022	0.001
35	8.250	1.613	0.600	0.170	0.025	0.061	0.038	0.001
40	8.250	1.538	0.600	0.298	0.038	0.082	0.050	0.002
45	8.250	1.462	0.675	0.425	0.062	0.121	0.079	0.003
50	6.000	1.388	0.750	0.595	0.075	0.188	0.124	0.006
55	4.500	1.313	0.750	0.723	0.088	0.310	0.180	0.009
60	3.750	1.237	0.750	0.723	0.112	0.588	0.288	0.015
64	3.150	1.178	0.750	0.723	0.112	0.994	0.529	0.022
65	3.000	1.162	0.750	0.723	0.112	1.127	0.623	0.024
69				0.723	0.112	1.787	1.111	0.035
Police Officers								
20	3.750%			0.047%	0.060%	0.056%	0.015%	0.008%
25	1.950			0.047	0.075	0.056	0.014	0.012
30	1.800	0.750%	0.515%	0.056	0.090	0.052	0.022	0.016
35	1.200	0.500	0.315	0.213	0.128	0.061	0.038	0.024
40	0.900	0.300	0.195	0.213	0.218	0.082	0.050	0.036
45	0.900	0.300	0.110	0.213	0.412	0.121	0.079	0.052
50	0.600	0.300	0.060	0.298	0.758	0.188	0.124	0.084
55	0.375	0.300	0.015	1.105	1.350	0.310	0.180	0.140
59	0.075	0.300	0.005	1.105	2.175	0.514	0.255	0.240
60				1.105	2.175	0.588	0.288	0.272
64				1.105	2.175	0.994	0.529	0.400
Firefighters								
20	2.500%			0.047%	0.045%	0.056%	0.015%	0.008%
25	1.300			0.047	0.056	0.056	0.014	0.012
30	1.200	0.750%	0.515%	0.056	0.068	0.052	0.022	0.016
35	0.800	0.500	0.315	0.213	0.095	0.061	0.038	0.024
40	0.600	0.300	0.195	0.213	0.131	0.082	0.050	0.036
45	0.600	0.300	0.110	0.213	0.247	0.121	0.079	0.052
50	0.400	0.300	0.060	0.298	0.454	0.188	0.124	0.084
55	0.250	0.300	0.015	1.105	0.810	0.310	0.180	0.140
59	0.050	0.300	0.005	1.105	0.910	0.514	0.255	0.240
60				1.105	0.910	0.588	0.288	0.272
64				1.105	0.910	0.994	0.529	0.400

Summary of Actuarial Assumptions and Methods, continued

Illustrative Rates of Retirement (adopted as of June 30, 2007):

Age	General Employees						
	Hired before 7/01/2007						Hired After 6/30/2007
		Normal Retirement (Age 60 and 5 Yrs, or 30 Yrs)*					
		Under Age 60 at June 30, 2007					
	Early Retirement (Age 55 with 20 Years)	5 - 9 Years Service	10 - 19 Years Service	20 - 29 Years Service But Without Rule of 85	30 Years or Age 65** with 5 Years	DROP Retirement with 5– 9 Years DROP Participation	Normal Retirement (Age 67 and 10 Years or 35 Years)
45					8.29%		
46					8.29		
47					8.29		
48					8.29		
49					8.29		
50					8.29		
51					8.29		
52					8.29		
53					8.29		
54					8.29		11.05%
55	9.262%				8.29		11.05
56	2.925				8.29		11.05
57	1.950				8.29		11.05
58	3.120				8.29		11.05
59	4.388				8.29		11.05
60		2.00%	10.00%	20.00%	8.29	5.00%	11.05
61		2.00	10.00	20.00	9.53	10.00	12.71
62		2.00	10.00	20.00	17.34	15.00	23.11
63		2.00	10.00	20.00	12.37	20.00	16.48
64		2.00	10.00	20.00	14.02	25.00	18.69
65					22.73	30.00	30.29
66					19.33	35.00	25.76
67					18.33	40.00	24.44
68					17.34	45.00	23.11
69					16.51	50.00	22.01
70					100.00		100.00

* Members not meeting DROP entry requirements by age 65 are assumed to retire on normal service retirement at the rates shown above. Members who meet DROP entry requirements by age 65 are assumed to (a) retire on service retirement at 75% of the normal retirement rates shown above prior to entering the DROP; (b) enter the DROP as soon as they are eligible; (c) retire normally (5%) or with DROP benefits (95%) at the DROP retirement rates shown after five years of DROP participation. The DROP retirement rate becomes 100% upon completion of ten years of DROP participation, or attainment of age 70, whichever occurs first.

** Substitute 60 for 65 if the member was age 60 or older on or before 6/30/07.

Summary of Actuarial Assumptions and Methods, continued

Age	Correctional Officers and Deputy Sheriffs				
	Hired Before 7/01/2007*				Hired After 6/30/2007
	Normal Retirement (20 Years)	DROP Retirement (27 Years)	Age 60 with 5 to 10 Years of Service	Age 60 with 10 to 20 Years of Service	Retirement (Age 67 and 10 Years or 25 Years)
40	3.393%				
41	3.393				
42	3.393				
43	3.393				
44	3.393				
45	3.393	17.192%			14.95%
46	3.393	17.192			14.95
47	3.393	17.192			14.95
48	3.393	17.192			14.95
49	3.393	17.192			14.95
50	3.393	17.192			14.95
51	3.393	17.192			14.95
52	3.393	17.192			14.95
53	3.393	17.192			14.95
54	3.393	17.192			14.95
55	3.393	17.192			14.95
56	3.393	17.192			14.95
57	3.393	17.192			14.95
58	3.393	17.192			14.95
59	3.393	17.192			14.95
60	3.393	17.192	4.00%	10.00%	14.95%
61	5.968	19.769	4.00	12.00	17.19
62	22.166	35.966	4.00	14.00	31.27
63	11.845	25.645	4.00	16.00	22.30
64	15.283	29.083	4.00	18.00	25.29
65	27.588	41.388	4.00	20.00	40.99
66	20.539	34.339	4.00	22.00	34.86
67	18.469	32.269	4.00	24.00	33.06
68	16.410	30.210	4.00	26.00	31.27
69	14.685	28.486	4.00	28.00	29.77
70	100.000	100.000			100.00

* Members meeting the service requirement for the DROP are assumed to retire at 75% of the normal retirement rates shown above prior to eligibility for the benefit. Members not qualifying for the DROP are assumed to retire at the normal retirement rates shown above. An additional 20% is applied at the point a member is first eligible to retire under the DROP. Also, an additional 25% is applied at the point a member first reaches the 25-year service point due to the added health care subsidy. 95% of eligible members are assumed to elect the DROP.

Summary of Actuarial Assumptions and Methods, continued

Age	Police			
	Hired Before 7/01/2007*			Hired After 6/30/2007
	Normal Retirement (20 Years)	Age 55 with 5 to 10 Years of Service	Age 55 with 10 to 20 Years of Service	Retirement (Age 60 and 10 Years or 25 Years)
40	5.16%			
41	5.21			
42	5.26			
43	5.31			
44	5.34			
45	5.41			9.41%
46	5.47			9.47
47	5.56			9.56
48	5.67			9.67
49	5.78			9.78
50	5.91			9.91
51	6.05			10.05
52	6.23			10.23
53	6.44			10.44
54	6.69			10.69
55	15.30	3.00%	25.00%	19.30
56	13.79	3.00	30.00	17.79
57	5.86	3.00	35.00	9.86
58	6.07	3.00	40.00	10.07
59	6.41	3.00	45.00	10.41
60	95.00	3.00	50.00	95.00
61	40.00	3.00	55.00	40.00
62	75.00	3.00	60.00	75.00
63	50.00	3.00	65.00	50.00
64	50.00	3.00	70.00	50.00
65	100.00			100.00

* Members meeting the service requirement for the DROP are assumed to retire at 75% of the normal retirement rates shown above prior to eligibility for the benefit. Members not qualifying for the DROP are assumed to retire at the normal retirement rates shown above. An additional 10% is applied at the point a member is first eligible to retire under the DROP. Also, an additional 10% is applied at the point a member first reaches the 25-year service point due to the added health care subsidy. 80% of eligible members are assumed to elect the DROP.

Summary of Actuarial Assumptions and Methods, continued

Age	Fire				
	Hired Before 7/01/2007*				**Hired After 6/30/2007**
	Normal Retirement (25 years of service)	Age 60 with 5 to 10 Years of Service	Age 60 with 10 to 20 Years of Service	Age 50 with 20 to 25 Years of Service	Retirement (Age 60 and 10 Years or 30 Years)
44	12.00%				
45	12.00				
46	12.00				
47	12.00				
48	12.00				
49	12.00				12.00%
50	10.25			2.00%	10.25
51	10.40			2.00	10.40
52	10.58			2.00	10.58
53	10.80			2.00	10.80
54	11.05			2.00	11.05
55	19.89			2.00	19.89
56	18.32			2.00	18.32
57	10.10			2.00	10.10
58	10.31			2.00	10.31
59	10.65			2.00	10.65
60	85.00	3.00%	25.00%	2.00	85.00
61	35.00	3.00	35.00	2.00	35.00
62	60.00	3.00	45.00	2.00	60.00
63	40.00	3.00	55.00	2.00	40.00
64	50.00	3.00	65.00	2.00	50.00
65	100.00				100.00

* Members meeting the service requirement for the DROP are assumed to retire at 75% of the normal retirement rates shown above prior to eligibility for the benefit. Members not qualifying for the DROP are assumed to retire at the normal retirement rates shown above. An additional 10% is applied at the point a member is first eligible to retire under the DROP. Also, an additional 10% is applied at the point a member first reaches the 25-year service point due to the added health care subsidy. 100% of eligible members are assumed to elect the DROP.

Summary of Actuarial Assumptions and Methods, continued

Death After Retirement: The 1995 George B. Buck Mortality Table with ages set forward one year was used for service retirements and dependent beneficiaries. Special mortality tables are used for disability retirements. Illustrative rates are as follows (adopted as of June 30, 2007):

Age	Annual Rates of Mortality Among:				
	Service Pensioners		Disability Pensioners		
	All Members		Other than Police and Firefighters		Police and Firefighters
	Males	Females	Males	Females	
40	0.102%	0.062%	2.322%	1.732%	3.029%
45	0.151	0.099	2.444	1.842	2.114
50	0.235	0.155	2.635	2.020	1.947
55	0.387	0.226	2.939	2.299	2.109
60	0.735	0.360	3.417	2.740	2.437
65	1.408	0.779	4.166	3.431	2.964
70	2.485	1.562	5.340	4.515	3.781
75	4.176	2.566	7.157	6.193	5.055
80	6.934	4.195	9.920	8.770	7.007

Marital Status: For firefighters and police officers, 90% of active members are assumed to be married. For all other employees, 90% of active males and 50% of active females are assumed to be married. In all cases, it is assumed that the male spouse is three years older than the female spouse.

Credit for Unused Sick Leave: For members entitled to receive credit for unused sick leave, it was assumed that each member will accumulate such credit as follows:

Supervisory, management and confidential (SMC) members, other than firefighters	¾ year
Firefighters including SMC members	1 year
Employees other than Police and Firefighters, excluding SMC members	½ year
Police	½year

Summary of Actuarial Assumptions and Methods, continued

METHODS

Actuarial Cost Method: Projected Unit Credit. Changes in benefits and assumptions and gains or losses are amortized over 30 years with payments that increase by 3% per annum. (Adopted as of June 30, 2008)

Asset Valuation Method: A ten-year moving average market value of assets that spreads the difference between the actual investment income and the expected income on the market value (based on the valuation interest rate) over a period of ten years. For purposes of this calculation, the gain/(loss) is defined as the difference between the actual and the expected return on the market value of assets. There is no corridor limiting the valuation assets to a certain percentage of the market value. (Adopted as of June 30, 2010)

Liability Due to Assets in Post-Retirement Increase Fund: Liabilities for retirees and beneficiaries include the value of assets in the Post-Retirement Increase Fund.

Payroll Growth: 3% per annum, compounded annually.

DATA

The valuation was based on members of the System as of June 30, 2010 and does not take into account future members. All census data was supplied by the County and was subject to reasonable consistency checks. The County supplied asset data.

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

GENERAL EMPLOYEES

Valuation as of June 30	Number of Active members	Valuation Payroll	Average Salary	Percent Increase (Decrease)	CPI % Increase
2002	6,161	$203,036,384	$32,955	5.0%	1.1%
2003	6,089	208,335,050	34,215	3.8	2.1
2004	6,188	213,466,762	34,497	0.8	3.3
2005	6,200	222,429,135	35,876	4.0	2.5
2006	6,347	237,974,768	37,494	4.5	4.3
2007	6,203	246,590,348	39,753	6.0	2.7
2008	6,276	263,073,480	41,917	5.4	5.0
2009	6,458	276,789,524	42,860	2.2	(1.4)
2010	6,336	282,299,161	44,555	4.0	1.1
2011	6,248	285,485,138	45,692	2.6	3.6

POLICE OFFICERS

Valuation as of June 30	Number of Active members	Valuation Payroll	Average Salary	Percent Increase (Decrease)	CPI % Increase
2002	1,774	$91,225,162	$51,423	13.2%	1.1%
2003	1,761	90,956,535	51,651	0.4	2.1
2004	1,820	94,168,998	51,741	0.2	3.3
2005	1,830	99,331,097	54,279	4.9	2.5
2006	1,893	113,160,620	59,778	10.1	4.3
2007	1,911	117,584,303	61,530	2.9	2.7
2008	1,926	133,153,117	69,135	12.4	5.0
2009	1,936	142,060,736	73,378	6.1	(1.4)
2010	1,927	144,883,413	75,186	2.5	1.1
2011	1,919	148,430,584	77,348	2.9	3.6

Schedule of Active Member Valuation Data, continued

FIREFIGHTERS

Valuation as of June 30	Number of Active members	Valuation Payroll	Average Salary	Percent Increase (Decrease)	CPI % Increase
2002	984	$47,859,370	$48,638	6.8%	1.1%
2003	1,007	51,149,350	50,794	4.4	2.1
2004	1,025	52,126,358	50,855	0.1	3.3
2005	999	53,487,198	53,541	5.3	2.5
2006	1,006	60,276,437	59,917	11.9	4.3
2007	985	59,689,970	60,599	1.1	2.7
2008	987	65,893,511	66,761	10.2	5.0
2009	985	68,906,384	69,956	4.8	(1.4)
2010	991	69,191,965	69,820	(0.2)	1.1
2011	1,013	71,676,716	70,757	1.3	3.6

CORRECTIONAL OFFICERS AND DEPUTY SHERIFFS

Valuation as of June 30	Number of Active members	Valuation Payroll	Average Salary	Percent Increase (Decrease)	CPI % Increase
2002	235	$8,742,297	$37,201	5.3%	1.1%
2003	284	10,572,203	37,226	0.1	2.1
2004	287	10,876,631	37,898	1.8	3.3
2005	332	12,804,147	38,567	1.8	2.5
2006	339	13,988,510	41,264	7.0	4.3
2007	372	16,048,623	43,141	4.5	2.7
2008	381	17,534,096	46,021	6.7	5.0
2009	393	19,151,020	48,730	5.9	(1.4)
2010	379	18,750,737	49,474	1.5	1.1
2011	391	19,729,598	50,459	2.0	3.6

Schedule of Active Member Valuation Data, continued

ALL GROUPS

Valuation as of June 30	Number of Active Members	Valuation Payroll	Average Salary	Percent Increase (Decrease)	CPI % Increase
2002	9,154	$350,863,213	$38,329	6.9%	1.1%
2003	9,141	361,013,138	39,494	3.0	2.1
2004	9,320	370,638,749	39,768	0.7	3.3
2005	9,361	388,051,577	41,454	4.2	2.5
2006	9,585	425,400,335	44,382	7.1	4.3
2007	9,471	439,913,244	46,448	4.7	2.7
2008	9,570	479,654,204	50,121	7.9	5.0
2009	9,772	506,907,664	51,873	3.5	(1.4)
2010	9,633	515,125,276	53,475	3.1	1.1
2011	9,571	525,322,036	54,887	2.6	3.6

SCHEDULE OF RETIREE AND BENEFICIARY DATA

Valuation as of June 30	Added to Rolls		Removed from Rolls		Rolls – End of Year		Percent Increase In Annual Allowances	Average Annual Allowances
	Number	Annual* Allowances	Number	Annual Allowances	Number	Annual Allowances		
2002	307	$7,364,669	208	$1,479,395	5,656	$95,408,736	6.6%	$16,869
2003	292	7,819,671	179	2,238,672	5,769	100,989,735	5.8	17,506
2004	275	7,626,181	150	2,176,764	5,894	106,439,152	5.4	18,059
2005	349	7,886,485	206	2,109,495	6,037	112,216,142	5.4	18,588
2006	306	9,198,231	171	2,059,100	6,172	119,355,273	6.4	19,338
2007	405	10,144,583	176	2,416,858	6,401	127,082,998	6.5	19,854
2008	249	8,616,484	200	2,091,325	6,450	133,608,157	5.1	20,714
2009	281	13,789,920	221	2,802,573	6,510	144,595,504	8.2	22,211
2010	395	12,662,248	201	3,237,920	6,704	154,019,832	6.5	22,974
2011	303	12,530,487	235	3,946,193	6,772	162,604,126	5.6	24,011

*Cost of Living Increases included here.

Solvency Test

Baltimore County's funding objective is to meet long-term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the system are level in concept and soundly executed, the system will pay all promised benefits when due - the ultimate test of financial soundness. Testing for level contribution rates is the long-term test.

A short conditions test is one means of checking a system's progress under its funding program. In a short condition test, the system's present assets (cash and investments) are compared with: (1) the liabilities for future benefits to present retired lives; (2) the liabilities for service already rendered by active members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for future benefits to present retired lives (liability B) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability A & C) will be at least partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of liability A & C will increase over time. This is the relationship between accrued liabilities and assets of the System over the last ten years:

Valuation as of June 30	Accrued Liability for: (A) Active Member Contribution	(B) Retirees and Beneficiaries	(C) Active Member Employer Financed	Actuarial Value of Assets	Portion of Accrued Liability Covered by Actuarial Value of Assets (A)	(B)	(C)
2001[1]	$247,121,190	$888,237,904	$481,229,389	$1,744,066,828	100.0%	100.0%	100.0%
2002	267,367,396	911,599,906	545,916,909	1,764,776,154	100.0	100.0	100.0
2003[2]	286,223,066	947,448,642	596,912,599	1,740,713,074	100.0	100.0	84.9
2004[3]	309,108,608	969,870,802	645,563,619	1,803,810,968	100.0	100.0	81.3
2005[4]	325,300,280	1,044,483,625	579,827,565	1,832,922,033	100.0	100.0	79.9
2006	348,756,395	1,082,484,348	647,571,148	1,938,817,402	100.0	100.0	78.4
2007[5]	363,778,826	1,247,373,485	678,300,211	2,101,023,411	100.0	100.0	72.2
2008[6]	391,743,335	1,307,885,347	791,713,328	2,191,623,378	100.0	100.0	62.1
2009[7]	417,514,605	1,359,000,212	823,155,619	2,143,616,137	100.0	100.0	44.6
2010[8]	447,377,958	1,446,963,230	851,674,652	2,196,914,646	100.0	100.0	35.5

(1) Change in benefits and retirement rates for Police and Firefighters.

(2) Assumption changes recommended in 2001 experience study were adopted, amortization period was changed to 25 years, Police and Fire DROPs were added and Fire Joint & 50 eligibility was changed to 25 years.

(3) Asset method change: difference between expected and actual return on market value smoothed over 4 years.

(4) Cost method change: From Entry Age Normal to Projected Unit Credit.

(5) Assumption changes recommended in 2006 experience study were adopted, plus plan changes to all groups including implementation of DROP programs for general employees, correctional officers and deputy sheriffs.

(6) Amortization period was changed to 30 years.

(7) Actuarial Asset Method is revised to remove 14% Corridor Around Market Value and the smoothing period was changed from 4 to 5 years. Salary increase rates for all members are reduced.

(8) Actuarial Asset Method change: The Smoothing period was changed from 5 to 10 years.

Analysis of Change in Unfunded Accrued Liability
As of June 30, 2010

Reconciliation of Gain (Loss) in the Unfunded Accrued Liability:	Amount
1. Unfunded Accrued Liability at June 30, 2009	$456,054,299
2. Interest Charge at 7.875% to June 30, 2010	35,914,274
3. Contributions Toward Unfunded Accrued Liability	20,707,234
4. Change in Asset Method (Change to 10-Year Smoothing)	(98,128,783)
5. Expected Unfunded Accrued Liability at June 30, 2010 (1) + (2) + (4) – (3)	373,132,556
6. Actual Unfunded Accrued Liability at June 30, 2010	549,101,194
7. Increase (Decrease) from Expected / Actuarial Loss (6) – (5)	$175,968,638

Progress Toward Amortization of Unfunded Accrued Liability
For the Year Ended
June 30, 2010

Unfunded Accrued Liability	Amount	Amortization Period
1. 2008 Fresh Start Employer Base	$192,808,117	28 Years
2. Member Base for 12 Month Average Final Compensation	1,220,904	2 Years
3. 2008 Actuarial Loss	117,738,220	28 Years
4. 2009 Actuarial Loss	566,962,042	29 Years
5. 2009 Asset Method Change / Remove Corridor & go to 5-Yr Smoothing	(351,805,672)	29 Years
6. 2009 Assumption Change / Salary Scale	(50,729,148)	29 Years
7. 2009 Plan Changes / Amendments	(4,933,124)	29 Years
8. 2010 Actuarial Loss	175,968,638	30 Years
9. 2010 Asset Method Change / Change to 10-Year Smoothing	98,128,783	30 Years
9. Total	$549,101,194	

Summary of Plan Provisions

The Employees' Retirement System provides members the following benefits:

- Retirement Benefits
- Disability Benefits
- Death Benefits

ELIGIBILITY

Full-time and part-time employees of Baltimore County and the Baltimore County Revenue Authority and employees of the Board of Education, Board of Library Trustees and the Community College of Baltimore County not eligible to participate in the Maryland State Retirement and Pension Systems are entitled to membership in the System. Employees, exclusive of firefighters and police officers, may become a System member at any time within the first two years of employment. System membership is compulsory for firefighters and police officers as a condition of employment. All other employees must become a System member at the end of the two-year period as a condition of employment, except for elected officials, employees appointed to certain non-merit positions and part-time employees that have the option to join the System. Selection of the option must be made within two years of employment. System members hired prior to July 1, 2007 are vested after five years of membership. System members hired on or after July 1, 2007 are vested after ten years of membership. The age of hire at which an employee may opt not to join the System was lowered from 59 to age 55.

Members are designated as elected officials, general employees, deputy sheriffs, correctional officers, firefighters and police officers. Elected officials include only the County Executive and County Council members. General employees include Baltimore County department heads, classified employees, and part-time employees (employees excluded from the classified service and work less than a standard full-time work schedule), Revenue Authority, education, library and community college employees. Firefighters and police officers include only the sworn personnel of the Fire Department and Police Department, respectively.

MEMBER CONTRIBUTIONS

System members contribute a percentage of their salary to the System. The contribution rate for members hired prior to July 1, 2007 is actuarially determined based on the member's age at enrollment and employee classification. The contribution rate for elected officials is fixed. Fiscal year 2011 contribution rates range as follows:

	Contribution Rate as a % of Covered Payroll	
Classification	Hired prior to July 1, 2007	Hired on or after July 1, 2007
Elected officials	13.85%	13.85%
Department Heads	7.61 -11.98%	10.00%
General employees	4.92 - 8.86%	6.50%
Correctional Officers	4.98 - 8.62%	7.50%
Deputy Sheriffs	5.17 - 8.86%	7.50%
Firefighters	7.46 - 9.21%	8.00%
Police Officers	6.51 - 9.72%	8.00%

Interest is credited on member contributions at the rate of 5.0% per annum.

Contribution rate increased for all active members by 0.5% beginning July 1, 2010. Beginning July 1, 2011, contribution rates for deputy sheriffs and firefighters hired on or after July 1, 2011 increased to 10%.

Summary of Plan Provisions, continued

MILITARY SERVICE CREDIT

Members hired prior to July 1, 2007, with five years of creditable service, or members hired on or after July 1, 2007, with ten years of creditable service are entitled to a military service credit on a year-for-year basis for up to a maximum of four years.

SICK LEAVE CREDIT

At the time of retirement, all members, except firefighters receive one month of service credit for each 22 unused sick leave days. One additional month is granted if fractional days of sick leave total 11 or more. Firefighters receive one month of service credit for each 16 unused sick leave days. Sick leave may be used to determine service credit except for the following circumstances: death benefit, ordinary disability, and vesting.

RETIREMENT ALLOWANCE DATES

Normal Retirement for Service: Members hired prior to July 1, 2007

Normal retirement for service can be granted to general employees and appointed officials who have reached the age of 60 with 5 years of creditable service or attained 30 years of creditable service. A normal retirement for service can be granted to elected officials who have attained 16 years of creditable service or age 55 and attained 4 years of creditable service. An early service retirement can be granted to general employees who have reached the age of 55 and have attained 20 years of creditable service. A normal retirement for service can be granted to correctional officers and deputy sheriffs who have reached the age of 60 with 5 years of creditable service or have attained 20 years of creditable service. A normal retirement for service can be granted to firefighters at the age of 60 with 5 years of creditable service or age 50 with 20 years of creditable service or 25 years creditable service regardless of age. A normal retirement for service can be granted to police officers who have reached the age of 55 or have attained 20 or more years of creditable service. The System does not have a mandatory retirement age requirement for general employees, deputy sheriffs and correctional officers. Firefighters and police officers must retire at age 65 unless approved for continuation of service by the Board on an annual basis.

Normal Retirement for Service: Members hired on or after July 1, 2007

Normal retirement for service can be granted to general employees and appointed officials who have reached the age of 67 with 10 years of creditable service or attained 35 years of creditable service regardless of age. A normal retirement for service can be granted to elected officials who have attained 16 years of creditable service or age 55 and attained 4 years of creditable service. A normal retirement for service can be granted to correctional officers and deputy sheriffs who have reached the age of 67 with 10 years of creditable service or have attained 25 years of creditable service regardless of age. A normal retirement for service can be granted to firefighters at the age of 60 with 10 years of creditable service or 30 years creditable service regardless of age. A normal retirement for service can be granted to police officers who have reached the age of 60 with 10 years of creditable service or have attained 25 years of creditable service regardless of age. The System does not have a mandatory retirement age requirement for general employees, deputy sheriffs and correctional officers. Firefighters and police officers must retire at age 65 unless approved for continuation of service by the Board on an annual basis.

Ordinary Disability Retirement may be granted to a member who can no longer perform their job due to a non-occupational related injury. A sworn police officer or firefighter, hired prior to July 1, 2007 must have five years of creditable service and be medically certified as incapacitated to continue performance of their duties. All other members must have 10 years of creditable service and be medically certified as incapacitated to continue performance of their duties.

Summary of Plan Provisions, continued

Accidental Disability Retirement may be granted to a member upon application who has been physically incapacitated for duty as a result of an occupational related injury. Accidental disabilities for all members are now tiered based on the degree of disability (75%, 66.67%, or 50%) in lieu of 66.67% plus accumulated contributions.

Discontinued Service Retirement may be granted to a member whose employment has been discontinued through no fault of their own after completion of 25 years of creditable service or age 50 and 20 years of creditable service.

RETIREMENT ALLOWANCES

Retirement allowances are comprised of an annuity equal to the actuarial equivalent of the accumulated contributions plus a pension which together with the annuity shall provide a maximum allowance as provided for in the Code.

Normal Retirement for Service Allowance is granted as follows:

(A) General employees (excluding appointed officials and correctional officers and part-time employees) hired prior to July 1, 2007, with 30 years of creditable service, or age 60 as of June 30, 2007 and attain 5 years of creditable service, or age 65 with 5 years of creditable service receive an allowance equal to 1/55th of the Average Final Compensation (AFC) times the number of years of creditable service. General employees hired prior to July 1, 2007 may retire at age 60 with at least 5 years of creditable service, however, such members will be granted a blended benefit. For creditable service earned prior to July 1, 2007, members will receive an allowance equal to $1/55^{th}$ of AFC times the number of years of creditable service and for creditable service earned on or after July 1, 2007, members will receive an allowance equal to $1/70^{th}$ of AFC times the number of years of creditable service. The AFC definition is determined by the employee's classification as the highest 12 or 36 consecutive months.

General employees (excluding appointed officials and correctional officers) hired on or after July 1, 2007, receive an allowance equal to 1/70th of the Average Final Compensation (AFC) times the number of years of creditable service. The AFC definition for most general employees hired on or after July 1, 2007, is the annual earnable compensation for the highest 36 consecutive months.

Part-time employees earn creditable service on a proportionate basis equal to the time worked annually as compared to the standard work year.

(B) Appointed officials receive an allowance equal to 2.5% of their AFC times the number of years of creditable service.

(C) Elected officials receive an allowance equal to 5.0% of their AFC times the number of years of creditable service. Any Council member who becomes a member of the retirement system on or after February 1, 2010 may not receive a retirement allowance in excess of 60% of the member's AFC. (Bill 94-09)

(D) Firefighters receive an allowance equal to 2.5% times years of creditable service up to 20 years plus 2% of AFC for each year of creditable service in excess of 20 years, and 3% of AFC for each year of creditable service in excess of 30 years for years beginning on or after July 1, 2007. The 3% rate does not apply to service earned prior to July 1, 2007. AFC is defined as the annual earnable compensation during the 12 consecutive calendar months affording the highest average.

(E) Police officers with 20 or more years of creditable service receive an allowance equal to 2.5% of AFC times years of creditable service up to 20 years plus 2% of AFC for each year of creditable service in excess of 20 years, and 3% of AFC for each year of creditable service in excess of 25 years for years beginning on or after July 1, 2007. The 3% rate does not apply to service earned prior to July 1, 2007. Police officers with less than 20 years of creditable service receive an allowance equal to 2% of AFC times years of creditable service. AFC is defined as the annual earnable compensation during the 12 consecutive calendar months affording the highest average.

Summary of Plan Provisions, continued

(F) Correctional officers and deputy sheriffs with 20 or more years of creditable service receive an allowance equal to 2.5% of AFC times years of creditable service up to 20 years plus 2% of AFC for each year of creditable service in excess of 20 years. Correctional officers and deputy sheriffs hired prior to July 1, 2007, with less than 20 years of creditable service receive an allowance equal to general employees. Correctional officers and deputy sheriffs hired on or after July 1, 2007, with less than 20 years of creditable service receive an allowance equal to 1.43% of AFC times the number of years of creditable service.

Ordinary Disability Retirement Allowance is granted to members as follows:

(A) General employees, correctional officers and deputy sheriffs hired prior to July 1, 2007, receive an ordinary disability retirement allowance equal to 1.82% of AFC times the number of years of creditable service. General employees, correctional officers and deputy sheriffs hired on or after July 1, 2007, receive a retirement allowance equal to 1.43% of AFC times the number of years of creditable service. The minimum allowance is equal to 25% of AFC. No member may receive a benefit in excess of that which they would have received at normal service retirement age. General employees, correctional officers and deputy sheriffs who are eligible for a normal service retirement and apply for an ordinary disability retirement may be required by the Board to accept a normal service retirement.

(B) Firefighters and police officers receive an ordinary disability retirement allowance equal to 2.5% of AFC times the number of years of creditable service not in excess of 20 years, and 2% of AFC times the number of years of creditable service in excess of 20 years. The minimum retirement allowance for Firefighters and police officers for an ordinary disability retirement allowance shall equal to 50% of AFC. No member may receive a benefit in excess of that which they would have received at normal service retirement age.

RETIREMENT ALLOWANCE OPTIONS

Members may select one of seven retirement allowance options in addition to the maximum allowance. The selection of an option, excluding *Option 7,* reduces the maximum allowance as described above. The options are as follows:

Option 1. Allows the member's undistributed accumulated contributions to be paid to the beneficiary in a lump sum if the member's death occurs prior to a complete payout of all member contributions.

Option 2. Allows 100% of the member's retirement allowance to continue to be paid to the beneficiary after the member's death.

Option 3. Allows 50% of the member’s retirement allowance to continue to be paid to the beneficiary after the member’s death

Option 4. Allows any portion of the retirement allowance to continue to be paid to the beneficiary after the member’s death.

Option 5. Allows 100% of the member's reduced retirement allowance to be paid to the beneficiary after the member's death. If the member becomes divorced from the beneficiary or the beneficiary dies before the retiree, upon notification to the Board of Trustees, the member's allowance will be increased to the maximum allowance described above. If after such death or divorce, the member wishes to select a new beneficiary and retirement option, the member may select *options 2, 3, 4, 5 or 6*. The retirement allowance will then be recomputed.

Option 6. Allows 50% of the member's reduced retirement allowance to be paid to the beneficiary after the member's death. If the member becomes divorced from the beneficiary or the beneficiary dies before the retiree, upon notification to the Board of Trustees, the member's allowance will be increased to the maximum allowance described above. If after such death or divorce, the member wishes to select a new beneficiary and retirement option, the member may select *options 2, 3, 4, 5 or 6*. The retirement allowance will then be recomputed.

Summary of Plan Provisions, continued

Option 7. Allows 50% of the member’s retirement allowance to continue to be paid to the original beneficiary at no cost to the employee. This option is available to employees who have completed at least 25 years of actual service as a sworn Baltimore County police officer or 25 years of actual service as a sworn Baltimore County Firefighter.

DEFERRED RETIREMENT OPTION PLAN (DROP)

Police Officers and Firefighters DROP

The County has adopted a Back DROP for police officers with at least 27 years of service and Firefighters with at least 32 years of service, under which eligible active members may elect to receive a lump sum payment at retirement in exchange for a reduced monthly benefit for life. Election to participate in the DROP will be made at retirement. The DROP participant benefit will be calculated along with all other available options, and the member will then choose between the DROP benefit and the regular pension benefits provided by the County. The DROP participant monthly pension will be determined as of a date that is three to five years prior to retirement date based on the plan provisions, the member’s salary and service at that earlier date. The lump sum payment will be based on the accumulation of member contributions, monthly pension payments, interest earned in the DROP period and any retiree COLAs after at least twelve months in the DROP. This program became effective with retirements that occurred on or after July 1, 2004. Police officers and firefighters hired on or after July 1, 2007 are not eligible to participate in the DROP.

Correctional Officers and Deputy Sheriffs Deferred Retirement Option Plan (DROP)

Effective July 1, 2010, a Back-DROP is offered to eligible correctional officers and deputy sheriffs hired prior to July 1, 2007. The Back-DROP program allows eligible correctional officers and deputy sheriffs to elect to receive a lump sum payment at retirement in exchange for a reduced monthly benefit. The DROP period is from 3 to 5 years. Eligibility is based on 27 years of service. Correctional officers and deputy sheriffs hired on or after July 1, 2007 are not eligible to participate in the DROP.

General Employees Deferred Retirement Option Plan (DROP)

Effective July 1, 2007, General employees hired prior to July 1, 2007, are offered a DROP. The DROP allows eligible general employees to elect to receive a lump sum payment at retirement in exchange for a reduced monthly benefit. The DROP period is a minimum of 5 years and a maximum of 10 years. Eligibility is age 55 plus a total of age and service of at least 85. The DROP account will include benefit payments at the maximum option, employee contributions, an interest credit of 5%, plus any cost of living increase granted to retirees, provided the member has been in the DROP for at least 12 months. This program is effective for retirements that occur on or after July 1, 2012. General employees hired on or after July 1, 2007 are not eligible to participate in the DROP.

DEATH BENEFITS

Ordinary Death Benefit is granted as a result of a member's death from non-occupational causes as follows:

(A) A general employee's designated beneficiary or estate receives a lump sum payment of the member's contributions plus interest. Additionally, after five year of creditable service, the member's designated beneficiary or estate may receive a one-time payment equal to 100% of the member's annual earnable compensation. If the member was eligible for a service retirement or had 15 years of creditable service at the time of death, the surviving spouse or surviving minor children, if designated as the beneficiary, may receive a retirement allowance, in lieu of other benefit payments, based on service years equivalent to *Option 2*.

Summary of Plan Provisions, continued

(B) A firefighter's or police officer's designated beneficiary or estate receives a lump sum payment consisting of the member's accumulated contributions plus interest. Additionally, after one year of creditable service, the member's designated beneficiary or estate may receive a one-time payment equal to 50% of the member's annual earnable compensation. If the firefighter or police officer had two years of creditable service, a surviving dependent family member, if designated as the beneficiary, may receive an allowance equal to 25% of AFC in lieu of another benefit. If the firefighter or police officer had 15 years of creditable service or was eligible for a service retirement, the surviving spouse or surviving minor children, if designated as the beneficiary, may receive a retirement allowance in lieu of other benefit payments based on service years equivalent to *Option 2*.

Accidental Death Benefit is granted as the result of death from an occupational related injury as follows:

(A) The dependent beneficiary of a general employee may receive an allowance equal to $66^2/_3$% of AFC plus the annuity.

(B) The dependent beneficiary of a firefighter or police officer may receive an allowance equal to 100% of the annual earnable compensation at the time of death plus the annuity.

TERMINATION BENEFITS

Employees hired prior to July 1, 2007, with 5 or more years of membership service have the option of requesting a refund of their contributions and interest or remain in the System. If such member terminates employment or dies in service, with less than 5 years creditable service, the employee contributions plus interest are refundable to the former member or a designated beneficiary.

Employees hired on or after July 1, 2007, with 10 or more years of creditable service have the option of requesting a refund of their contributions and interest or remain in the System. If such member terminates employment or dies in service, with less than 10 years creditable service, the employee contributions plus interest are refundable to the former member or a designated beneficiary.

POST-RETIREMENT ALLOWANCE INCREASES

Retirement allowance increases can be granted each July 1 if sufficient investment income has accumulated in the Post-Retirement Increase Fund balance account. Increases will be granted in an amount equal to the Consumer Price Index - All Urban Consumers (CPI-U) increase for the previous calendar year. The increase cannot exceed 3%. If there are insufficient funds in the Post-Retirement Increase Fund balance account to finance the full CPI increase, the allowance will be increased to the nearest ¼% for which there are sufficient moneys. If there are insufficient funds to finance a one percent increase, no retirement allowance increase shall be granted. Effective July 1, 2010 the following changes regarding COLAs were implemented:

- Active members hired prior to July 1, 2007 must have at least 20 years of creditable service to be eligible for post-retirement COLAs.
- Active members hired on or after July 1, 2007 must have at least twenty five (25) years of creditable service to be eligible for post- retirement COLAs.
- The cap on post-retirement COLAs has been reduced from 4% to 3% for all members.
- The maximum account balance in the PRIF has been reduced from 2 times the cost of a 4% COLA to 2 times the cost of a 3% COLA for all members.
- For active members who do not select the Deferred Retirement Option Program (DROP), the eligibility period to receive post-retirement COLAs has been increased from a minimum of 12 months to a minimum of 60 months.
- For active members who select the DROP program, the eligibility period to receive COLAs in the DROP remains a minimum of 12 months. Once the member actually retires, the eligibility period for a post-retirement COLA is a minimum of 48 months.

STATISTICAL SECTION

STATISTICAL SECTION

The purpose of the Statistical Section is to provide historical perspective and detail to assist the reader to better understand and assess the System's overall economic condition. The data presented is intended to provide users with a broader and more complete understanding of the System than is possible from the information presented in the Financial Section alone.

The schedules within the Statistical Section are classified into the following categories.

Financial Trends

The schedules on Page 68 show financial trend information to help the reader understand how the System's financial position has changed over the last 10 years. The schedules presented are:

- Schedule of Changes in Net Assets
- Schedule of Benefit and Refund Deductions from Net Assets by Type

Other Information

The schedules beginning on Page 69 provide information to assist the reader to understand the retired member characteristics and the participating employer composition of the System. The schedules presented are:

- Retirees and Beneficiaries - Distribution to Members by Type of Retirement
- Retirees and Beneficiaries - Distribution to Members by Option Selected
- Schedule of Average Benefit Payments
- Schedule of Participating Employers

Schedule of Changes in Net Assets
For the Ten Years Ended June 30
(Expressed in thousands)

	ADDITIONS				DEDUCTIONS				
Fiscal Year	Member Contributions	Employer Contributions	Investment Income (Loss)	Total Additions to Plan Net Assets	Benefit Payments	Refunds of Contribution	Administrative Expenses*	Total Deductions from Plan Net Assets	Changes in Net Assets
2002	$21,914	$11,175	$(117,431)	$(84,342)	$94,546	$2,261	$232	$97,039	$(181,381)
2003	22,257	18,241	75,993	116,491	99,663	2,264	889	102,816	13,675
2004	22,927	24,617	239,148	286,692	105,713	2,203	871	108,787	177,905
2005	23,880	29,968	163,170	217,018	118,663	2,625	907	122,195	94,823
2006	26,173	34,433	167,538	228,144	125,253	2,674	1,037	128,964	99,180
2007	27,773	40,065	331,810	399,648	139,357	3,263	1,066	143,686	255,962
2008	29,962	44,168	(124,713)	(50,583)	134,991	2,949	1,009	138,949	(189,532)
2009	31,423	49,763	(396,596)	(315,410)	147,062	3,400	947	151,409	(466,819)
2010	33,236	57,976	254,805	346,017	150,704	2,235	1,099	154,038	191,979
2011	36,567	58,340	372,715	467,622	164,655	2,726	2,541	169,922	297,700

* Beginning in FY 2000, consultant fees were transferred from the County to the System. In FY 2003, all administrative expenses were transferred from the County to the System.

Schedule of Benefit and Refund Deductions from Net Assets by Type
For the Ten Years Ended June 30,
(Expressed in Thousands)

Year Ending June 30	Age & Service Benefits		Disability Benefits					Refunds		
			Retirees							
	Retirees	Beneficiaries	Occupational	Non-Occupational	Bene-ficiaries	Death Benefits	Total Benefits	Separation	Death*	Total Refunds
2002	$70,714	$4,992	$14,261	$4,256	$220	$104	$94,547	$2,261	-	$2,261
2003	74,865	4,943	14,645	4,503	269	438	99,663	2,031	-	2,031
2004	79,880	5,208	15,099	4798	273	455	105,713	2,126	-	2,126
2005	92,473	5,357	15,397	4,831	320	285	118,663	2,577	-	2,577
2006	97,912	5,751	15,879	4,978	377	356	125,253	2,579	-	2,579
2007	111,831	6,030	15,800	5,035	457	204	139,357	3,020	$243	3,263
2008	106,383	6,420	16,087	5,309	501	291	134,991	2,678	271	2,949
2009	116,697	7,102	16,922	5,584	480	277	147,062	2,998	402	3,400
2010	120,063	7,395	16,857	5,625	579	185	150,704	2,043	192	2,235
2011	132,008	8,561	17,077	5,870	634	505	164,655	1,892	834	2,726

*Data to allocate refunds by type (i.e. death) were not available prior to FY2007. Refunds due to death were included in refund-separation prior to FY07.

Retirees and Beneficiaries - Distribution of Members by Type of Retirement

Fiscal Year Ended June 30, 2011

Amount of Monthly Benefit	Number of Retirees	Type of Retirement					Deferred Future Benefits
		1	2	3	4	5	
Deferred	583	-	-	-	-	-	583
$1 - $300	502	390	104	-	8	-	-
$301 - $600	811	601	142	-	64	4	-
$601 - $900	709	498	100	1	108	2	-
$901 - $1,200	570	422	69	7	65	7	-
$1,201 - $1,500	516	350	65	40	43	18	-
$1,501 - $1,800	464	313	44	35	36	36	-
$1,801 - $2,100	464	306	24	35	45	54	-
$2,101 - $2,400	463	330	19	18	15	81	-
$2,401 - $2,700	432	287	17	33	11	84	-
$2,701 - $3,000	361	258	9	18	6	70	-
Over $3,000	1,480	1,212	38	42	20	168	-
Totals	7,355	4,967	631	229	421	524	583

Type of Retirement:

1 = Normal retirement for age and/or service
2 = Survivor payment - normal, early or disability retirement
3 = Discontinued service retirement
4 = Ordinary disability retirement
5 = Accidental disability retirement

Deferred future benefits - Terminated employees entitled to benefits but not yet receiving them.

Retirees and Beneficiaries - Distribution to Members by Option Selected

Fiscal Year Ended June 30, 2011

Amount of Monthly Benefit	Number of Retirees	Option Selected								Deferred Future Benefits
		M	1	2	3	4	5	6	7	
Deferred	583	-	-	-	-	-	-	-	-	583
$1 - $300	502	271	161	15	9	-	31	15	-	-
$301 - $600	811	383	283	31	17	-	47	50	-	-
$601 - $900	709	333	238	19	28	-	33	58	-	-
$901 - $1,200	570	247	195	17	22	3	34	52	-	-
$1,201 - $1,500	516	211	152	22	28	2	36	65	-	-
$1,501 - $1,800	464	208	123	12	29	8	36	48	-	-
$1,801 - $2,100	464	200	123	20	22	7	38	54	-	-
$2,101 - $2,400	463	206	110	18	16	19	45	49	-	-
$2,401 - $2,700	432	219	81	9	16	21	33	53	-	-
$2,701 - $3,000	361	180	54	7	11	25	30	54	-	-
Over $3,000	1,480	509	210	35	47	150	47	143	339	-
Totals	7,355	2,967	1,730	205	245	235	410	641	339	583

Option Selected:

M = Maximum. At member's death, all payments cease. Surviving beneficiary will receive pro-rated payment for number of days in final month.

Option 1. Guarantees the return of the member's accumulated contributions and interest less the member's accumulated reserves already paid.

Option 2. Guarantees 100% of the member’s payment to the designated beneficiary for their lifetime.

Option 3. Guarantees 50% of the member's payment to the designated beneficiary for their lifetime.

Option 4. Guarantees an alternative specified % of the member’s payment to the designated beneficiary for their lifetime.

Option 5. Guarantees 100% payment to beneficiary, unless beneficiary divorces or predeceases member. Allowance then pops-up to maximum.

Option 6. Guarantees 50% payment to beneficiary, unless beneficiary divorces or predeceases member. Allowance then pops-up to maximum.

Option 7. Guarantees 50% of the member's payment to the designated beneficiary for their lifetime, at no cost. (*Option 7* is applicable to police and firefighters only).

Deferred future benefits - Terminated employees entitled to benefits but not yet receiving them.

Schedule of Average Benefit Payments
For the Six Years Ended June 30,

Retirement Effective Dates	Years Creditable Service					
	0-10	10-15	15-20	20-25	25-30	30+
July 1, 2005 to June 30, 2006						
Average Monthly Benefit	$413	$761	$1,393	$1,577	$2,578	$3,137
Average - Average Final Compensation	$31,955	$38,953	$41,875	$43,996	$56,981	$56,004
Number of Active Retirees	31	29	22	45	37	78
July 1, 2006 to June 30, 2007						
Average Monthly Benefit	$359	$746	$1,332	$1,887	$2,746	$3,482
Average - Average Final Compensation	$34,008	$38,959	$47,974	$52,399	$59,949	$61,572
Number of Active Retirees	34	24	34	75	55	112
July 1, 2007 to June 30, 2008						
Average Monthly Benefit	$541	$918	$1,084	$1,894	$2,719	$3,034
Average - Average Final Compensation	$37,342	$48,597	$41,554	$53,626	$61,120	$59,733
Number of Active Retirees	37	32	33	50	32	69
July 1, 2008 to June 30, 2009						
Average Monthly Benefit	$703	$969	$1,537	$2,107	$3,609	$4,160
Average - Average Final Compensation	$36,062	$43,864	$49,797	$58,813	$72,423	$74,099
Number of Active Retirees	26	29	20	51	41	89
July 1, 2009 to June 30, 2010						
Average Monthly Benefit	$471	$832	$1,497	$1,977	$3,530	$3,982
Average - Average Final Compensation	$34,090	$43,041	$55,274	$56,968	$72,755	$70,323
Number of Active Retirees	37	24	27	47	43	85
July 1, 2010 to June 30, 2011						
Average Monthly Benefit	$452	$833	$1,369	$2,093	3,679	$4,153
Average - Average Final Compensation	$42,818	$42,066	$49,118	$57,874	$75,447	$75,539
Number of Active Retirees	41	33	29	47	55	123

Schedule of Participating Employers
Current Year and Nine Years ago

Participating Government Employers	2010 Covered Employees	2010 Rank	2010 Percentage of Total System		2001 Covered Employees	2001 Rank	2001 Percentage of Total System
Baltimore County, Maryland	7,048	1	73.16%		6,544	1	72.49%
Certain employees of:							
Board of Education	2,350	2	24.40		2,239	2	24.80
Community College	138	3	1.43		151	3	1.67
Revenue Authority	57	4	0.59		65	4	0.72
Board of Library Trustees	40	5	0.42		29	5	0.32
Total	9,633		100.00%		9,028		100.00%