Retiree News & NOTES

MARYLAND STATE RETIREMENT and PENSION SYSTEM

JULY 2013
VOL. 31 NO. 2

A Newsletter for Retirees from the Maryland State Retirement & Pension System

Board votes to reduce expected investment rate of return

THE MARYLAND STATE RETIREMENT AGENCY'S INVESTMENT TARGET will be reduced to 7.55% incrementally over the next four years to more accurately reflect the pension fund's expected long-term future investment gains. Currently set at 7.75%, the assumed rate will be lowered 0.05% each fiscal year beginning with the July 2013 actuarial valuation of the system for a total reduction of 0.2%.

"This decision to lower the assumed rate of return was made after careful analysis by the board, with significant input from the system's actuary and investment consultant," said State Treasurer Nancy K. Kopp, Chair of the Board of Trustees of the Maryland State Retirement and Pension System. "On the basis of its assessment of the long-term expectations for the financial markets, the lowered assumed rate was adopted as a more accurate estimation

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Eligible retirees to receive 2.069% COLA

ELIGIBLE RETIREES AND BENEFICIARIES of the Maryland State Retirement and Pension System will receive a 2.069% increase in their retirement payment in July 2013 as the annual cost-of-living adjustment (COLA) takes effect.

Since this year's COLA rate does not exceed the cap in place for some plans, all eligible retirees will receive the full COLA applied to their July 31 benefit.

Retirees must have been retired at least one full year as of July 1, 2013 to receive the COLA.

The COLA does not apply to most legislative and judicial retirees. Retirees from the legislative and judicial systems receive adjustments based on the increases received by active legislators and judges.

Frequently asked questions

Q. *Who qualifies to receive the COLA this July?*
A. A retiree who has completed at least one year of retirement as of July 1, 2013, qualifies for this year's COLA. Those who retired after July 2012 (August 2012 or

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New pension legislation enacted in Annapolis, see page 2

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Gen. Assembly reforms pension funding policy

Legislation will help sustain system

THE 2013 GENERAL ASSEMBLY PASSED LEGISLATION (HB 496/Chapter 476 and SB 474/Chapter 475) to phase out over ten years the so-called "corridor method" of funding pensions and return to using the more traditional actuarially determined Annual Required Contribution. The move was applauded by State Treasurer Nancy K. Kopp, Chair of the Board of Trustees of the Maryland State Retirement and Pension System.

Since its adoption in 2002, the corridor method has been cited as one of the causes for the current underfunding of the state pension system. Without change, this method would result in taxpayers paying significantly greater amounts over time.

"The Legislature has taken a very important step in eliminating a funding method that has contributed to an underfunding of the system," said Treasurer Kopp. "The pension reforms that the General Assembly enacted two years ago are on course to lead us to our goal of a fully funded system, and this additional reform of the state funding policy will help sustain it in the long term."

Under the corridor method, adopted in 2002, the state could maintain its contribution rate in effect for the Teachers' and Employees' combined systems at prior year levels every year as long as the funding level for the systems remained between a "corridor" of 90% and 110% funded. If either system fell below 90% funded, the contribution rate for the subsequent fiscal year would be set at the rate in effect for the preceding fiscal year, plus 20% of the difference between what is actuarially required and the prior fiscal year contribution rate. Within two years of the corridor method's implementation, the contribution level was less than the actuarially determined amount. The 2013 law now enacted will correct this situation.

Legislative update

A NUMBER OF BILLS of special interest to members of the Maryland State Retirement and Pension System were enacted during the 2013 session of the Maryland General Assembly. Each of the following bills became effective July 1.

House Bill 390 (Chapter 535)/Senate Bill 741 (Chapter 534) – Board of Trustees
Synopsis: This legislation adds one trustee to the Board of Trustees of the Maryland State Retirement and Pension System to represent the interests of county governments. This individual is required to have at least 10 years of experience in financial management and oversight of county government budgets. He or she will be appointed by the Governor and may be selected from a list submitted by the Maryland Association of Counties.

House Bill 494 (Chapter 480)/Senate Bill 477 (Chapter 479) - Employment of Retirees - Required Break in Service
Synopsis: These bills impose a 45-day break in service for any retiree reemployed by a participating employer in the system. This legislation also requires a 45-day break in service for disability retirees who are reemployed by any participating employer in the system.

Please see page 3 for more on reemployment after retirement.

House Bill 496 (Chapter 476)/Senate Bill 474 (Chapter 475) - Funding Method and Amortization of Unfunded Liabilities or Surpluses
Synopsis: These bills amend the amortization period that is used for unfunded liabilities or surpluses of the State Retirement and Pension System to a 25-year closed amortization period. The legislation also phases out the corridor funding methodology used for determining employer contribution rates for the Employees' and Teachers' Retirement and Pension Systems over a 10-year period. See *Gen. Assembly reforms pension funding policy* above for more information.

House Bill 902 (Chapter 649) - State Police Retirement System - Reemployment of Retirees
Synopsis: These bills extend the termination date for the reemployment provisions addressing reemployed Troopers first class to June 30, 2018.

Retirees returning to the workforce may be subject to an earnings limit

FOR RETIREES OF THE MARYLAND STATE RETIREMENT AND PENSION SYSTEM (SRPS), certain types of employment are subject to an earnings limit. Reemployment rules discussed here apply for most retirees. Special rules apply for retired judges, legislators, State Police and law enforcement officers. Contact the Maryland State Retirement Agency for details.

Earnings limits

If your compensation from employment after retirement exceeds your earnings limit, your benefit may be reduced.

Prior to accepting work with any participating employer — that is, any employer that offers Maryland SRPS benefits to its employees — you must notify the retirement agency in writing of your anticipated earnings. Your earnings limit is printed on the Notice of Retirement Allowance that you received upon retirement.

Who is subject to an earnings limit?

All service retirees, returning to work for the same employer, are subject to an earnings limit. There must be at least 45 days between your last day on payroll and the date you are rehired by any participating employer. This rule applies even if you retired from an employer that has withdrawn from the SRPS. All units of Maryland state government, including the University of Maryland, are considered to be one employer.

If a service retiree returns to work for a different employer, only early service retirees within the first 12 months of retirement are subject to an earnings limit.

Retirees of the Employees', Teachers' and Correctional Officers' systems who retire with an average final compensation of $25,000 or less and are reemployed with the same employer are exempt from an earnings limit.

All service retirees from the Employees' and Teachers' systems, State Police and Correctional Officers' Retirement Systems are exempt from earnings limits after five full calendar years of retirement.

Special earnings limit exemptions are described on page 4.

Retirees considering returning to work for the same employer also should consider the possible tax implications. See page 6.

Reemployment rules differ for disability retirees

ORDINARY DISABILITY RETIREES WHO ACCEPT EMPLOYMENT with a participating employer are subject to an earnings limit until they reach normal retirement age for their system. Ordinary disability retirees reemployed by a non-participating employer and accidental disability retirees are exempt from earnings limits.

Suspension rules

An ordinary or accidental disability retiree's monthly allowance shall be temporarily suspended if the retiree:

- Retired on or after July 1, 1998,
- Is not eligible to receive a normal service retirement and
- Is employed by a participating employer at an annual compensation at least equal to his or her average final compensation at time of retirement.

Important: Disability retirees from the State Police Retirement System, Law Enforcement Officers' Pension System, Local Fire and Police System and Employees' Retirement and Pension Systems (former law enforcement officers employed by an employer that participates in the Law Enforcement Officers' Pension System only) are exempt from the earnings limit and suspension if reemployed by a participating employer in any position other than a probationary status law enforcement officer, a law enforcement officer or chief, as defined in §3-101 of the Public Safety Article.

Are you eligible for an earnings limit exemption?

Teachers and principals

A service retiree from the Teachers' Systems is exempt from earnings limits if he or she returns to work for the same employer as a classroom teacher, substitute classroom teacher or teacher mentor in a public school:

- That is not making adequate yearly progress or is a school in need of improvement as defined under the federal No Child Left Behind Act (NCLBA) of 2001, or
- Is receiving funds under NCLBA, or
- Has more than 50% of the students attending that school who are eligible for free and reduced-price meals, or
- Provides an alternative education program for adjudicated youths or students who have been expelled, suspended or identified for suspension or expulsion from public school

AND

- Teaches in an area of critical shortage, or a special education class for students with special needs, or a class for students with limited English proficiency, or
- Is hired to teach any subject or class or provide educational services under a special limited provision granted to the superintendent

AND

- Is or has been certified to teach in the state,
- Has verification of satisfactory or better performance in last assignment prior to retirement,
- Has been appointed in accordance with §4-103 of the Education Article, and
- If receiving an early retirement benefit, has been retired at least 12 months.

Earnings limits also do not apply to a retiree who was employed as a principal within a certain period before retirement AND is rehired as a principal at a public school meeting the requirements listed here. During the period of reemployment, the retiree's performance must be satisfactory.

If you qualify for this exemption as a rehired teacher or principal, your employer must report your hiring to the State Retirement Agency and the Department of Education within 30 days.

Eligible teachers who retired from the Maryland School for the Deaf, and then return to work for that school, will receive this earnings limit exemption.

Judges

Retirees from the Judges' Retirement System who are reemployed in any capacity with the State of Maryland are exempt from an earnings limit until June 30, 2014.

Correctional officers

Retirees from the Correctional Officers' Retirement System who are receiving a service retirement benefit are exempt from an earnings limit if employed on a contractual basis for not more than four years by the Division of Corrections, the Division of Pretrial Detention and Services, or the Patuxent Institution as correctional officers in correctional facilities defined in §1-101 of the Correctional Services Article.

Parole, probation employees

Retirees from the Employees' Systems who are receiving a service retirement benefit and are reemployed on a contractual basis for not more than four years as parole and probation employees in positions with the Division of Parole and Probation in the Department of Public Safety and Correctional Services are exempt from an earnings limit.

State Police

Retirees from the State Police Retirement System who accept permanent or contractual employment are exempt from an earnings limit *unless* they are reemployed on a contractual basis at the rank of Trooper First Class for more than four years. This exemption also extends survivor and special disability benefits for these retirees.

Health care practitioners

Retirees from the Employees' Systems who are receiving a service retirement benefit are exempt from an earnings limit if employed by the Department of Health and Mental Hygiene as contractual health care practitioners in certain state facilities or local health departments. There is no limit on the length of time a retired health care practitioner may be reemployed.

COLA, from page 1

later) will receive their first COLA increase in July 2014.

Q. *Which payment shows the new COLA increase?*
A. Qualifying retirees will see the adjustment in their July 31, 2013 benefit payments.

Q. *How is the annual COLA increase applied?*
A. A retiree's benefit system determines how the annual increase is calculated for his or her payment. Eligible retirees receive either a compound rate or a simple rate. For retirees receiving the compound rate, the COLA increase is based on their current allowance, allowing COLAs to compound over time. Under the simple rate, the increase is based on the retiree's initial retirement allowance.

The compound rate applies for eligible retirees of all systems *except* the Employees' Non-Contributory Pension System and the Local Fire and Police System. (For retirees who transferred into the Local Fire and Police System from the Employees' Retirement System, the compound rate applies.)

Q. *How is the COLA rate determined?*
A. The COLA rate is based on the Consumer Price Index (all urban consumers – United States city average – all items) as published by the United States Department of Labor, Bureau of Labor Statistics. Under Maryland law, the COLA rate is determined "by dividing the Consumer Price Index for the calendar year ending December 31 in the preceding fiscal year by the Consumer Price Index for the calendar year ending December 31 in the second preceding fiscal year."

Trustee Haines reelected to board; Employees' Systems polls closed

A TRUSTEE ELECTION slated for May to elect a Teachers' Systems representative to the board was not needed, as Trustee Kenneth B. Haines was the only teacher to collect the required nominations to qualify as a candidate for the board.

Kenneth B Haines

Haines has served on the board since January 2012.

Voting for an Employees' Systems representative to the board concluded June 17. Candidates are James A. Bush, Jr., and Linda G. Tilghman. The results of the election are slated to be announced at the board's July 16 meeting.

Trustee Hill concludes decade of service

The winning Employees' System candidate will succeed Sheila Hill, who is retiring from the board. Hill, who was first elected by her fellow employees in 2004, has served as a member of the administrative and investment committees and was chairman of the corporate governance committee.

Sheila Hill

During her tenure on the board, Hill became known for her dedicated service on behalf of the stakeholders of the system.

Haines and the successful Employees' Systems candidate will begin their four-year terms on August 1, 2013.

The board of trustees, which is responsible for establishing investment and administrative policy and overseeing the management of the Maryland State Retirement Agency, meets each month at the system's administrative offices in Baltimore. Full meeting minutes, trustee biographies and photos are available online at sra.maryland.gov. Simply click on **Agency**, then **Board of Trustees**.

Rate, from page 1

of investment gains in the long run."

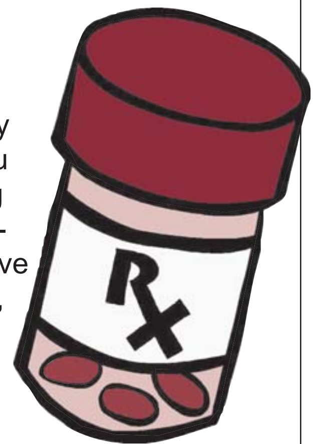
Given current and expected economic and investment environments, including a long-term inflation expectation estimated at 2.8% annually rather than the past assumption of 3%, the lowered assumed rates will provide a more realistic investment target. Changes to this rate will not affect retirees' benefit amounts or the system's ability to pay future benefits.

The 7.75% rate has been in place since 2003.

Maryland state retiree Open Enrollment announced for calendar year 2014

Coming in October 2013

ATTENTION ALL MARYLAND STATE RETIREES! Look for your Open Enrollment packet in September 2013 in the mail! Please read your Open Enrollment packet carefully as there are some important changes to your prescription drug benefits. Don't miss this opportunity to make changes to your health benefits. Any changes you make during Open Enrollment will have a January 1, 2014 effective date.



For the latest state health benefit updates go to www.dbm.maryland.gov/benefits or call 410-767-4775 or 1-800-307-8283.

'13 Maryland Charity Campaign slated

By Meredith Lonberger, Campaign Manager

THE 2012 MARYLAND CHARITY CAMPAIGN RAISED $3,445,846 that will benefit charities uplifting our local communities. More than 750 Maryland state retirees showed their generosity and compassion by donating $130,670. We want you to know how thankful we are for your support in making our Maryland better.

This year, we ask you to browse the nearly 700 participating charities to find one that touches your heart.

New this year, any retiree who has donated in the past five years is now able to donate online! Please visit our Website and click the "Donate Now" link.

Please look for your pledge card this fall and if you do not receive one, contact Andrea Hill at Andrea.Hill@uwcm.org or 410-895-1493 or download a pledge card at www.mdcharity.org.

Reemployment and federal income tax

IF YOU ARE CONSIDERING REEMPLOYMENT with the same employer from which you retired, you also should be aware of the following important information.

There can be significant tax consequences to you and the State Retirement and Pension System if you retire before the normal retirement age of your plan and/or before age 59 1/2 and you are reemployed with the same employer without a bona fide separation from service. In order to avoid this penalty, a bona fide separation must occur.

While the IRS has not specifically defined what constitutes a bona fide separation from service, it is clear that the more differences between your last job before retirement and the job being performed upon your reemployment, and the longer the break between the date of your retirement and the date of your reemployment, the more likely it is that there has been a bona fide separation from service.

If after retirement you consider reemployment with your former employer, you may wish to review and discuss this information with the employer and your tax advisor. Failure to do so could result in a significant tax penalty on your income.

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