

Retiree News & NOTES



MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

JANUARY 2020

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

Investment fund
earns 6.46% for
fiscal year 2019

THE INVESTMENT PORTFOLIO for the Maryland State Retirement and Pension System returned 6.46%, net of fees, on investments for the fiscal year that ended June 30, 2019—falling short of the System's 7.45% assumed actuarial return rate. The fund's performance raised the System's assets to \$54.2 billion, an increase of \$2.4 billion over last year.

See Fund, page 6

Watch the mail for your 1099-R tax statement

INTERNAL REVENUE SERVICE TAX FORM 1099-R will be mailed to all Maryland State Retirement and Pension System payees by the end of January 2020.

Form 1099-R provides detailed information on your pension income for the previous year.

Most payees receive only one 1099-R tax form each year. However, persons who retired in 2019 will receive a separate

1099-R tax form for any additional refunds they received, such as a refund of voluntary annuity contributions.

Additionally, retirees who turned age 59 ½ in calendar year 2019 will receive two 1099-R forms. These retirees will receive a 1099-R form for annuity payments distributed in the calendar year prior to reaching age 59 ½

See 1099-R, page 2

sra.maryland.gov

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with a distribution code 2.

They also will receive a separate 1099-R form for annuity payments distributed in the calendar year on or after the date they reached age 59 ½ with a distribution code 7.

For your security, your 1099-R form lists only the last four digits of your Social Security number.

The following key describes some of the most important components of your 1099-R form.

BLOCK 1: Gross Distribution

This is the total amount of pension benefits paid to you by the Maryland State Retirement Agency during the 2019 calendar year.

BLOCK 2A: Taxable Amount

This is the taxable amount of your pension benefit. Depending on your retirement date, retirement type and whether you contributed to your plan, you may not be taxed on the total amount of benefits paid to you. If this is the case, the amount shown in this block will differ from the amount in Block 1.

BLOCK 4: Federal Income Tax Withheld

This block shows any federal income tax deducted from your monthly pension benefit. You may change the amount of federal income tax being withheld by completing a tax withholding request form (Form 766). See page 3.

BLOCK 5: Employee Contributions

This is the amount of your contributions that were recovered, tax free, during 2019. The dollar

PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution		OMB No. 1545-0119		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
MARYLAND STATE RETIREMENT AGENCY 120 E BALTIMORE ST BALTIMORE, MD 21202-6700		\$ 12,000.00		2019			
PAYER'S TIN 12-3456789		2a Taxable amount \$ 11,000.00		Form 1099-R			
RECIPIENT'S TIN XXX-XX-6789		2b Taxable amount not determined		Total distribution		Copy 1 For State, City, or Local Tax Department	
RECIPIENT'S name RAMON RETIREE 123 PENSION ST McHENRY, MD 21541-0000		3 Capital gain (included in box 2a) \$.00		4 Federal income tax withheld \$ 500.00			
10 Amount allocable to IRR within 5 years		5 Employee contributions / Designated Roth contributions or insurance premiums \$ 1,000.00		6 Net unrealized appreciation in employer's securities \$.00			
11 1st year of desig. Roth contrib.		7 Distribution code(s) 4A		8 Other			
FATCA filing requirement		9a Your percentage of total distribution 50%		9b Total employee contributions \$ 16,068.51			
Account number (see instructions) 00000000012345		12 State tax withheld \$ 250.00		13 State/Payer's state no. MARYLAND 12-3456789		14 State distribution \$.00	
Date of Payment		15 Local tax withheld \$.00		16 Name of locality		17 Pick-Up Contrib's \$ 3,000.00	

Your IRS Form 1099-R contains important information for your tax preparation. Watch for your form in the mail and store your form in a safe place.

figure in this box does NOT represent the amount of any health insurance premiums withheld from your pension benefit.

BLOCK 7: Distribution Code(s)

IRS distribution codes are explained on the back of the 1099-R form.

BLOCK 9B: Total Employee Contributions

For retirees who received their first pension benefit in 2019, this block contains the value of any contributions made during employment that can be recovered tax-free. Only members who retired in 2019 and made pension contributions will see a value in this block. For members who retired prior to 2019, a zero will be printed in the block.

BLOCK 12: State Tax Withheld

Any Maryland State income tax deducted from your monthly pension benefit is shown in this

block. You may change the amount of Maryland state income tax being withheld by completing a tax withholding request form (Form 766). See page 3.

BLOCK 17: Pick-Up Contrib's

This figure applies to members whose employers participated in the State Pick-up Program. See page 3.

Need a duplicate 1099-R?

For convenient access to your replacement form, go to sra.maryland.gov and follow the instructions provided to print your 2019 tax statement. Forms will be available for reprint no later than February 1, 2020.

To receive a reprinted 1099-R by mail, call the Maryland State Retirement Agency on or after February 1, 2020, at 410-625-5555 or toll-free 1-800-492-5909.

State Retirement Pick-up and your taxes

FOR ELIGIBLE RETIREES, Block 17 of the 1099-R form contains the amount of your tax deferred contributions made under the State Retirement Pick-up Program. This figure is important for Maryland State income tax preparation.

The State Pick-up Program is concerned with the employee pension plan contributions made while working. It provides for the deferral of federal taxes when the contributions are made, but makes them taxable when received in the pension.

Since this program defers only federal taxes at the time the contributions are made, state income taxes were deducted.

Most members participated in the Pick-up Program. Your participation was determined by whether your employer elected to participate and by whether your pension plan required you to make employee contributions.

Federal taxes

Since eligible members did not pay any federal taxes on their pick-up contributions during employment, taxes must be paid during retirement.

You do not need to make any special entries on your federal tax form – the Retirement Agency has included your pick-up contributions when computing the taxable amount of your pension for federal tax purposes.

Maryland State taxes

You have already paid Maryland State taxes on the pick-up contributions listed on your 1099-R.

To avoid paying taxes twice, you must subtract the pick-up amount from your federal adjusted gross income shown on page 2 of your Maryland tax return (Form 502) as follows:

Enter your pick-up amount on line “r” of Form 502SU. Enter the sum of all subtractions from Form 502SU on line 13 of Form 502. Enter code letter “r” in the code letter box of Form 502. Please attach the Form 502SU to the Form 502. This serves as a subtraction from your income which will reduce your taxable net income on line 20 (Form 502).

The subtraction is limited to the amount of pick-up contribution stated on the 1099-R or the taxable pension, whichever is less. The remainder of the pick-up

amount is carried over to next year's taxes. When the pick-up amount reaches zero, “EP USED” will be printed in the pick-up block on your 1099-R. This usually occurs within a few years after the date of retirement.

Did you retire in 2019?

For members who ended active employment and retired in 2019, the W-2 form you receive from your former employer will show 1) your annual wages earned prior to retirement and 2) any state pick-up contributions made in 2019. This state pick-up amount serves as an addition to state income for 2019. Enter this figure on line 3 of your Maryland tax return (Form 502).

Need to update your tax withholding?

TO CHANGE TAX WITHHOLDING ELECTIONS, retirees must file a combined *Federal and Maryland State Tax Withholding Request* (Form 766) covering both federal and state taxes. For your convenience, Form 766 is available online at sra.maryland.gov or by calling or writing to the Maryland State Retirement Agency.

Form 766 revokes all prior federal and state tax withholding elections. For example, if you previously requested federal and state tax withholdings and now submit a new request indicating only state tax, your fed-

eral tax withholdings will be cancelled. You must fill out *both* sections of the form *even if you wish to update only one portion of your withholdings.*

Health insurance

Retirees from Maryland state government agencies with questions about their health coverage should contact the Maryland Department of Budget and Management at 410-767-4775 or toll-free 1-800-307-8283. Retirees from boards of education, counties, towns and other non-state governmental units should contact their former employer for information on health benefits.

Coming soon!

New self-service retiree website

HOW WOULD YOU LIKE to get info about your Maryland State Retirement Agency account and make transactions at your own convenience?

Soon you'll be able to do just that. We're about to roll out a self-service website for all our plan participants. We're making it available to active members first, then retirees (probably in the spring).

Two important things to know about mySRPS:

1. It's **optional**. You can still contact us by phone, mail or in person.
2. It's **secure**. We're protecting your account and access to it. When it's ready, you'll be able to:
 - View your account and payment history
 - Update your tax withholding and contact information
 - Get copies your 1099-R
 - Get an income verification letter on the spot

Want to know more? For status and a lot more info, go to sra.maryland.gov and click on **About**, then click **mySRPS**.

Clip & Save: 2020 Payment dates

THE SCHEDULE FOR DIRECT DEPOSIT of retirement benefits for calendar year 2020 has been announced by the Maryland State Retirement Agency. For retirees with an approved waiver, mailed check delivery dates also are listed.

Date direct deposit is credited to retirees' accounts

- Friday, January 31
- Friday, February 28
- Tuesday, March 31
- Thursday, April 30
- Friday, May 29
- Tuesday, June 30
- Friday, July 31
- Monday, August 31
- Wednesday, September 30
- Friday, October 30
- Monday, November 30
- Thursday, December 31

Date post office begins to deliver retirement checks

- Friday, January 31
- Saturday, February 29
- Tuesday, March 31
- Thursday, April 30
- Saturday, May 30
- Tuesday, June 30
- Friday, July 31
- Monday, August 31
- Wednesday, September 30
- Saturday, October 31
- Monday, November 30
- Thursday, December 31

Following a retiree's month of retirement, deposit advice slips are distributed only in January and July or when a retiree's benefit amount changes. Retirees may obtain their payment information any time using the Retirement Agency's automated telephone system at 410-625-5555 or 1-800-492-5909.

Submit Retirement Agency forms with barcodes for faster service

BARCODES HAVE BEEN ADDED to all forms used by retirees and members of the Maryland State Retirement and Pension System. These codes help staff process your submitted forms more quickly. Before completing a Form 85, Form 766 or any other Retirement Agency form, please be sure it displays a barcode in the top right corner.

Member forms are available online at sra.maryland.gov.

Beneficiary update

Make sure your beneficiaries know how to file for survivor benefits

IN THE EVENT OF YOUR DEATH, will your loved ones know whom to contact to claim any survivor benefits they are due? Planning ahead will help your beneficiaries avoid confusion and unnecessary delays.

Make sure your survivors know to take the following steps at your death:

1 Contact the Maryland State Retirement Agency at 410-625-5555 or 1-800-492-5909 and select menu option 1 for retirees or beneficiaries. Then select option 3. A Retirement Agency staff member will ask for the name and Social Security number of the deceased retiree.

After a retiree's death is reported, the Retirement Agency determines what survivor benefit, if any, is payable to the retiree's beneficiary or beneficiaries.

2 If a benefit is payable: The designated beneficiary will be mailed a claim packet containing written instructions and forms to complete. Before payment, the beneficiary must submit to the Retirement Agency a certified death certificate for the retiree. A photocopy or facsimile (FAX) of the certificate is not acceptable.

If a benefit is not payable: The designated beneficiary will receive written notice by mail.

3 If the beneficiary is eligible for continued health insurance through the State of Mary-

How do I update my beneficiary designation?

If you've experienced a marriage, divorce or the birth or death of a loved one since you retired, you may wish to change the beneficiary you named at retirement.

The process to change your beneficiary varies depending on the benefit option you chose at retirement. Your option selection is listed on the Notice of Retirement Allowance you received when you retired.

For instructions on how to change your beneficiary designation, go to sra.maryland.gov and, at the top of the homepage, click **How Do I Update my Beneficiaries – Retiree?**

land, necessary forms will be included in the claim packet issued by the Retirement Agency. If the deceased retiree retired from a county government, city or town, board of education or other participating governmental unit, survivors should contact that employer to determine if continuing health benefits are available.

Who are my beneficiaries?

Contact the Maryland State Retirement Agency to inquire whose name is on file as your designated beneficiary.

Did you select Option 5 or 6 at retirement?

RETIREES WHO CHOSE benefit option 5 or 6 should be aware of the following.

Options 5 and 6 provide a reduced benefit throughout the life of the retiree and then provide a continuing monthly benefit to a sole surviving beneficiary. These two options also include a "pop-up" provision. If a retiree's beneficiary dies before the retiree, the retiree's reduced monthly benefit will "pop-up" to the unreduced Basic Allowance for the remainder of the retiree's life, or until a new beneficiary is named.

It is very important for a retiree who selected Option 5 or 6 at retirement to notify the Maryland State Retirement Agency as soon as possible upon the death of a beneficiary.

Without this notification, the Agency will not increase the retiree's reduced monthly benefit to the unreduced Basic Allowance.

If you don't recall which option you selected at retirement, please refer to the Notice of Retirement Allowance mailed to you when you retired or call the Retirement Agency at 410-625-5555 or toll-free 1-800-492-5909.

Fund, from page 1

“The System’s returns reflect strong performance of private equity assets and nominal fixed income assets along with positive but more modest returns in the remainder of the asset classes,” said Chief Investment Officer Andrew C. Palmer. “Private equity provided 13.7%, net of all fees and expenses, and continues to be the best performing asset class for the System. Rate sensitive investments provided 9.3% return, while all of the other asset classes contributed positive returns.”

“The Board is focused on its obligation to pay member pension benefits in full and on time,” said State Treasurer Nancy K. Kopp, Chairman of the Maryland State Retirement

and Pension System Board of Trustees. “Investment returns this past year are within the Board’s expectations of variability around the long term average for our diversified asset allocation. Our earnings have averaged 8.6% over the last ten years, well above the plan’s expected rate of return and consistent with the Board’s investment policy.”



Andrew C. Palmer,
Chief Investment
Officer

Board votes to lower assumed rate of return

THE BOARD OF TRUSTEES of the Maryland State Retirement and Pension System voted in July to reduce the System’s actuarial assumed rate of return on its investments from 7.45% to 7.40%. The System’s lower rate took effect at July 1, 2019 at the beginning of fiscal year 2020.

“The Board’s prudent action today is in recognition of ongoing changes in the financial markets, while continuing to achieve



Treasurer Nancy K.
Kopp, Board Chairman

the investment returns required for the System over the long term,” noted State Treasurer and Board Chairman Nancy K. Kopp. “Our goal is to continue to improve the strength of our retirement System and to keep our promise of a secure retirement that our members have worked so hard to earn in their years of service to the public.”

The Board based its decision upon an analysis by its actuary.

Performance by asset class

Asset Class	Allocation	Return
Private Equity	14.1%	13.7%
Public Equity	36.4%	3.9%
Real Assets	13.3%	5.3%
Absolute Return	7.4%	3.0%
Credit	8.9%	6.5%
Rate Sensitive	18.1%	9.3%
Multi Asset	1.3%	4.4%
Cash	0.5%	2.34%
Total	100.0%	6.46%

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EDITOR:
Benjamin Robb

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