

# Retiree News & NOTES



STATE RETIREMENT  
and PENSION SYSTEM  
of MARYLAND

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

## How to change your tax withholding

**IF YOUR FILING STATUS, EXEMPTIONS OR EXEMPT STATUS HAS CHANGED,** you need to file a new *Federal and Maryland State Tax Withholding Request* (Form 766).

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 prior federal 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*.

Your federal withholding designation is based on your marital status and number of exemptions. If you wish to withhold an additional amount, you may do so *only after you have indicated your marital status and number of exemptions*. Any additional amount should be entered on Part I, line 3 of Form 766, provided you indicated your marital status and number of allowances on line 2 of the form.

Form 766 can be downloaded from the State Retirement Agency Web site at [www.sra.state.md.us](http://www.sra.state.md.us). Click on **Retirees** and then **Forms** to access Form 766. You can also request this form by calling a retirement benefits counselor at 410-625-5555 or toll free 1-800-492-5909.

Also in January, a new federal tax withholding table is issued. The new tax table may affect the amount withheld from your retirement check.

## State Retirement Pick-up and your taxes

**FOR ELIGIBLE RETIREES,** Block 15 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 only defers federal taxes at the time the contributions are made, state income taxes were deducted. The consequence in retirement is that the state income tax is deferred until the pick-up contributions are recovered.

While 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 an employee contribution.

### 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 1 of your Maryland tax return (Form 502) as follows:

Enter your pick-up amount on line 14, entering code letter "r." This serves as a subtraction from your income which will reduce your taxable net income on line 22 (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.

### ATTENTION 2007 RETIREES

For members who retired in 2007, 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 2007. This amount serves as an addition to State income for 2007. Enter this figure on line 3 of your Maryland tax return (Form 502).

# System marks fourth straight year of investment gains

THE INVESTMENT PORTFOLIO OF THE STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND witnessed its fourth consecutive year of strong returns. With a total investment return of 17.6% for the 2007 fiscal year, the System's total assets under management increased from \$34.4 billion to \$39.4 billion, a \$5.0 billion increase. Over the last four fiscal years, net assets have increased \$9.2 billion.

This is a summary of the System's activities for the year ending June 30, 2007. For more detailed information, the System's comprehensive annual financial report is available online at [www.sra.state.md.us](http://www.sra.state.md.us).

## SYSTEM FINANCES

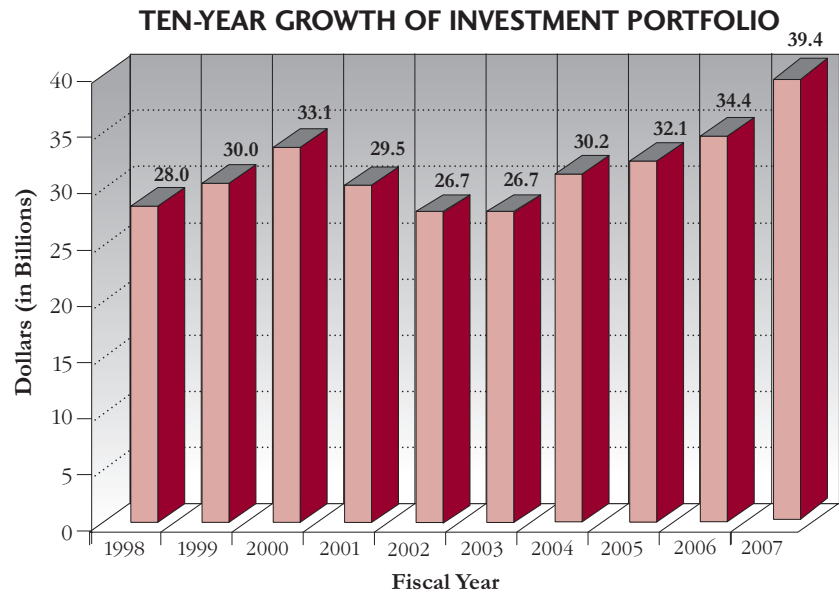
The System is responsible for properly administering the retirement, disability and death benefits for its members and retirees. The System's overall funding objective is to accumulate sufficient assets over time to meet these long-term benefit obligations as they become due.

## Revenues

During fiscal year 2007, investment earnings were \$5.9 billion, while revenues from employer and member

### REVENUES

Employer Contributions	
2007 .....	\$834 million
2006 .....	\$721 million
Employee Contributions	
2007 .....	\$319 million
2006 .....	\$215 million
Net Investment Income	
2007 .....	\$5.9 billion
2006 .....	\$3.2 billion



contributions were \$834 million and \$319 million, respectively. For fiscal year 2007, member contribution rates increased from 2% to 3%, while employer rates varied depending on the System.

## Expenses

Retirement allowances paid to retirees and beneficiaries totaled \$1.97 billion in fiscal year 2007. An additional \$16 million was paid to members and withdrawing employers as a result of employment terminations and withdrawals from the System. Expenses for management of the investment portfolio totaled \$175 million. Of this figure, \$76 million was paid for asset manager fees. The cost for administration of the System was \$21.3 million.

### EXPENSES

Benefit Payments	
2007 .....	\$1.97 billion
2006 .....	\$1.83 billion
Refunds	
2007 .....	\$16 million
2006 .....	\$16 million

## Funded Status

As of June 30, 2007, the System's actuarial accrued liability was \$49.3 billion. With the actuarial value of assets accumulated to pay the liability at \$37.9 billion, the System now stands at 76.84% funded.

Based on an experience study and effective for the June 30, 2007 actuarial valuation, the System changed its actuarial funding method. This change, on the recommendation of the System's actuary, resulted in a decrease in the System's funded ratio from 82.78%. Had this change in actuarial funding method not occurred, the System's funded ratio would have increased to 84.63%. The decision to change the funding method was a responsible and appropriate modification to the reporting of plan liabilities. The System remains financially sound and committed to its long-term funding goals.

## INVESTMENTS

The System continued to experience strong investment gains during fiscal year 2007 with a return of 17.6%.

Annualized returns for the three, five, and 10-year periods ending June 30 were 12.4%, 11.3% and 7.2%,

*See Investment gains, page 3*

# 2007 was year of change for Board of Trustees

SEVERAL MEMBERS OF THE BOARD OF TRUSTEES OF THE STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND concluded their Board service during calendar year 2007. During the same period, several new members joined the panel.

Last winter, newly-elected Comptroller Peter Franchot joined the Board, succeeding former Comptroller William Donald Schaefer. T. Eloise Foster, who was appointed by Governor Martin O'Malley as Secretary of Budget and Management, assumed the Board seat of former Secretary Cecilia Januskiewicz.

William Donald Schaefer provided faithful service on the Board for eight years, first as Vice-Chairman and later as Chairman. During his distinguished 50-year career of public service, he successively served as a Baltimore City Councilman and Council President, Baltimore Mayor, Maryland Governor and Maryland Comptroller.

Cecilia Januskiewicz was a dedicated member of the Board for two years and served on the Investment Committee.

As reported in the *Retiree News & Notes* spring edition, members and retirees elected Theresa Lochte and reelected John W. Douglass to sit on the Board.

Ms. Lochte assumed the seat of former Teachers' Systems representative Carl Lancaster, who retired from the Board after providing dedicated service for 20 years, the longest tenure of any elected Trustee. At his final Board meeting, Mr. Lancaster received certificates from his fellow trustees, Governor O'Malley and teacher organizations thanking him for his commitment to public service.

Over the summer and fall, three gubernatorial appointees concluded their service on the Board. Trustees David B. Hamilton, Dr. A. Melissa Moye and Patrick A. O'Shea each provided four years of faithful serv-

ice to members and retirees of the System and, upon their departure, were commended by the Board for their diligent work.

In recent months, Governor O'Malley appointed three new members to the Board. Trustees Robert W. Schaefer, Harold Zirkin and Thurman W. Zollicoffer, Jr., will serve four-year terms.

Also during the last year, the Board announced its selection of R. Dean Kenderdine as Executive Director of the State Retirement Agency. Mr. Kenderdine, who had served as Interim Executive Director since September 2006, replaces Thomas K. Lee, who accepted a position with the New York State Teachers' Retirement System. Prior to this appointment, Mr. Kenderdine served as the chief of staff for the Maryland Comptroller.

Biographies, photos and committee assignments of all Board members and Mr. Kenderdine are available online at [www.sra.state.md.us](http://www.sra.state.md.us).

## Investment gains, continued from page 2

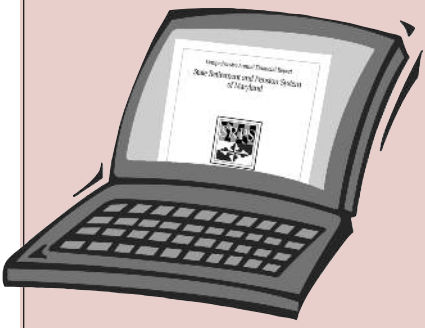
respectively. The market value of System assets increased from \$34.4 billion on June 30, 2006 to \$39.4 billion on June 30, 2007. The System's equity investments returned 23.0%, with domestic equities returning 19.8% and international equities returning 29.6%. The System's fixed income investments returned 6.1% and real estate returned 20.1%.

Looking forward to fiscal year 2008, the Agency will continue to implement the optimal asset allocation necessary to generate an attractive return expectation while maintaining acceptable levels of investment risk.

### MEMBERSHIP

The System's rolls included 196,262 active members as of June 30, 2007, an increase of 4,989 members from

the previous year. The System also served 108,355 retirees and beneficiaries at the end of fiscal year 2007, an increase of 4,524 over the previous year. During fiscal year 2007, the number of former members who are eligible for a future benefit (i.e., vested members) increased by 2,717 to a total of 52,027.



### FOR MORE INFORMATION ...

The System's Comprehensive Annual Financial Report for fiscal year 2007 is available in its entirety online. Visit the State Retirement Agency Web site at [www.sra.state.md.us](http://www.sra.state.md.us) to access a printable version of the report.

# Understanding your 1099-R

**PERSONALIZED COPIES OF INTERNAL REVENUE SERVICE FORM 1099-R** will be distributed to all State Retirement and Pension System retirees by the end of January, 2008. The forms provide each retiree with detailed information on his or her pension income for the previous year. Most retirees receive only one 1099-R each year. However, members who retired in 2007 will receive a separate form 1099-R for any additional refunds they received, such as a refund of State pick-up contributions or a refund of voluntary annuity contributions.

## How to Read Your 1099-R

### BLOCK 1.

#### (Gross Distribution)

This is the total amount of pension benefits paid to you by the State Retirement Agency during the 2007 calendar year.

### BLOCK 2A.

#### (Taxable Amount)

This is the taxable amount of your pension. Depending on your retirement date 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 2B.

#### (Taxable Amount Not Determined)

This block applies only to disability retirees who retired prior to January 1, 1995. These individuals should consult IRS Publication 575 before preparing their tax returns.

### BLOCK 4.

#### (Federal Income Tax Withheld)

This block shows any federal income tax deducted from your monthly retirement checks. To change the amount of federal income tax being

withheld, complete a tax withholding request form (Form 766), available through the State Retirement Agency.

### BLOCK 5.

#### (Employee Contributions)

This is the amount of your contributions that were recovered, tax free, during 2007. This figure is the difference between the amounts in Blocks 1 and 2a. The dollar figure in this box does NOT represent the amount of any health insurance premiums withheld from your benefit payment.

### BLOCK 7.

#### (Distribution Code(s))

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

### BLOCK 9B.

#### (Total Employee Contributions)

For retirees who received their first benefit payments in 2007, this block contains the value of any contributions made during employment that can be recovered tax-free. Only

members who retired in 2007 and made pension contributions will see a value in this block. For members who retired prior to 2007, a zero will be printed in the block.

### BLOCK 10.

#### (State Income Tax Withheld)

Any Maryland State income tax deducted from your monthly checks is shown in this block. To change the amount being withheld, complete a tax withholding request form (Form 766)

### BLOCK 15.

#### (Pick-Up Contributions)

This figure applies to members whose employers participated in the State Pick-up Program. For an explanation of pick-up contributions, see "State Retirement Pick-up and your taxes" on page 1.

### DUPLICATE 1099-R

To request a duplicate copy of your 1099-R form, please call the State Retirement Agency at 410-625-5555 or 1-800-492-5909.

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