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

Two candidates qualify for seats on Board

TWO CANDIDATES FOR THE BOARD OF TRUSTEES of the State Retirement and Pension System of Maryland were successful in collecting the 500 required signatures to vie for seats on the Board this spring.

As the only qualified candidates, incumbent employees' representative John W. Douglass will retain his Board seat and new teachers' representative Theresa Lochte will assume the seat currently held by Trustee Carl D. Lancaster, who chose not to seek reelection after 20 years of dedicated Board service.

Because Mr. Douglass and Ms. Lochte are unchallenged, a trustee election will not be conducted. The two successful candidates will serve terms on the Board from August 1, 2007 to July 31, 2011. Mr. Douglass has served on the Board since 2004.

The Board of Trustees is charged with the fiduciary responsibility for properly administering the retirement and pension allowances of more than 103,000 retirees and beneficiaries as well as the future benefits for more than 188,000 active members. These groups include state government employees, teachers, law enforcement personnel, legislators, judges and local government employees and fire fighters whose employers have elected to participate in the System.

COLA for July 2007 is 3.230%; Pension System retirees' COLA capped at 3%

ELIGIBLE RETIREES WILL RECEIVE A SLIGHTLY LARGER RETIREMENT PAYMENT IN JULY as the annual cost-of-living adjustment (COLA) takes effect.

This year's adjustment has been set at 3.230%. This COLA rate exceeds the system limit or cap in place for retirees of the Pension Systems (see question three for details).

Answers to retirees' most common COLA questions are provided below.

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, 2007, qualifies for this year's COLA. Those who retired after July 2006 (August 2006 or later) will receive their first COLA increase in July 2008.

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

Q. Which payment shows the new COLA increase?

A. Qualifying retirees will see the adjustment in their July 31, 2007 benefit payments.

Q. Does my system limit its COLA?

A. Certain State Retirement and Pension System plans limit the COLA rate a retiree may receive. Although the rate for 2007 is 3.230%, retirement law caps the COLA at 3% for Pension System retirees. Review the following list to determine if your COLA will be capped this year.

- Employees' and Teachers' Alternate Contributory, Contributory and Non-Contributory Pension System
  3.0% cap
- Employees' and Teachers' Retirement System
  Plan A - No cap
  Plan B - 5.0% cap
  Plan C - A dual calculation applies: no cap or a 5.0% cap on funds paid out under the retirement system and a 3.0% cap on the portion paid out under the pension system.
- State Police Retirement System
  No cap
- Correctional Officers' Retirement System
  No cap
- Law Enforcement Officers' Pension System (LEOPS)
  3.0% cap (LEOPS retirees who transferred from Plan A or Plan B of the Employees' Retirement System and did not elect the contributory

See COLA for July 2007, page 4

How employment affects your retirement check

FOR RETIREES OF THE 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 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, 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 the same employer. 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.

Service retirees are exempt from earnings limits after nine full calendar years of retirement. (This exemption does not apply to retired judges or legislators.)

SPECIAL EXEMPTION FOR 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.

SPECIAL EXEMPTION FOR 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 for not more than four years.

SPECIAL EXEMPTION FOR 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 Pretrail Detention and Services, or the Patuxent Institution as correctional officers in correctional facilities defined in §1-101 of the Correctional Services Article.

REEMPLOYMENT RULES FOR DISABILITY RETIREES

Earnings limit

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.

See How employment affects your retirement check, page 3

'07 Maryland Charity Campaign preparing for September launch

WELCOME TO THE 2007 MARYLAND CHARITY CAMPAIGN!

This year, the campaign's goal is to increase participation and raise $4 million. This is a great way for you to help families, friends and neighbors right here in Maryland.

The campaign kicks off in September 2007, so be on the lookout for your pledge card to arrive in the mail. Once again, the MCC is offering you the easiest way to make a charitable donation – pension deduction.

Your contribution helps adults learn to read, recruits volunteers to help clean streams, provides meals and shelter to the homeless, and creates safe places for children after school. Your donation is critical to ensure that these and many other services remain available. It has never been more important to give.

Thanks to the generosity of Maryland State employees and retirees, last year the MCC raised over $3.8 million and hundreds of non-profit organizations were able to reach out and help Marylanders in need. If you do not receive a pledge card, please contact Rosanne Lombardo at rosanne.lombardo@uwcm.org or (410) 895-1493 or visit the campaign's Web site at www.mdcharity.org to download a form.

Changing tax withholdings? Follow these handy tips

RETIREES WHO WISH TO UPDATE THEIR TAX WITHHOLDING ELECTIONS must file a combined *Federal and Maryland State Tax Withholding Request* (Form 766) covering both federal and state taxes.

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*.

Under current federal law, you cannot only designate a specific dollar amount to be withheld for federal tax. You must first designate your marital status and number of allowances on line 2 of the form. Then you can designate an additional amount to be withheld on Part I, line 3 of Form 766.

Form 766 can be found on our Web site at www.sra.state.md.us or you can request the form by calling a retirement benefits counselor at 410-625-5555 or toll free 1-800-492-5909.

Specific addressing ensures prompt delivery

IF YOUR MAILING ADDRESS ON FILE with the State Retirement Agency includes a Rural Route, it is important for the Agency to have your updated address with street name and number in order to ensure prompt and efficient delivery of important retirement information in the future. Mail your signed change of address request to the Retirement Agency at the address printed on page 4.

How employment affects your retirement check, continued from page 2

Note: 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.

ADDITIONAL REEMPLOYMENT RULES

If you are considering reemployment with the *same employer* from whom you retired, you should also be aware of the following important information.

There can be significant 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 of 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.

Legislative Update

THE 2007 MARYLAND GENERAL ASSEMBLY ENACTED AND GOVERNOR MARTIN O'MALLEY SIGNED into law several bills of special interest to retirees of the State Retirement and Pension System (SRPS). The new legislation became effective July 1, 2007.

Chapter 443, Acts of 2007: Teachers' Retirement System and Teachers' Pension System – Reemployment of Retirees
Synopsis: Expands the earnings limit exemption for Teachers' System retirees to include retirees who are reemployed as classroom teachers, substitute classroom teachers, teacher mentors or principals in public schools in which more than half the students are eligible for free or reduced-price meals.

Also permits school superintendents to hire an increased number of Teachers' System retirees to teach or provide educational services at any school, without an earnings limit, in areas of critical shortage or in classes for students with special needs or limited English proficiency.

Chapter 465, Acts of 2007: Correctional Officers' Retirement System – Division of Pretrial Detention and Services and Patuxent Institution – Reemployment of Retirees
Synopsis: Expands the earnings limit exemption for eligible retirees of the Correctional Officers' System to include those reemployed by the Division of Pretrial Detention and Services or by Patuxent Institution. To be eligible for the exemption, a retiree must be rehired on a contractual basis for not more than four years and work as a correctional officer in a correctional facility.

Chapters 39 / 40, Acts of 2007: Darfur Protection Act – Divestiture from the Republic of Sudan
Synopsis: Requires the SRPS Board of Trustees to review the System's investments to identify funds invested in companies doing business with Sudan. Also requires the Board to encourage such companies not to promote or enable human rights violations in Sudan, authorizes the Board to divest in such companies and prohibits the Board from investing net new funds in such companies.

Chapter 334, Acts of 2007: Administration – Simplification
Synopsis: Provides that retired judges who accept employment that is wholly or partly compensated with State, county or municipal funds are exempt from an earnings limit *unless* they retired from any unit of State government and return to work for any unit of State government. If a retired judge, through such reemployment, subsequently earns an additional retirement benefit, the benefit from the Judges' Retirement System will be reduced by the amount of this additional benefit.

COLA for July 2007, continued from page 1

Law Enforcement Officers' Modified Pension Benefit have either no cap [Plan A] or a 5% cap [Plan B].)

- Judges' Retirement System
  Retired judges receive a COLA based on increases received by sitting (active) judges.
- Local Fire and Police System
  3% cap (Retirees who transferred into this plan from the Employees' Retirement System are not subject to a cap.)

Q. How is the annual COLA increase calculated?
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 the following systems:

- Employees' and Teachers' Alternate Contributory Pension Selection
- Employees' and Teachers' Contributory Pension System
- Employees' and Teachers' Retirement System
- State Police Retirement System
- Correctional Officers' Retirement System
- Law Enforcement Officers' Pension System

The **simple rate** applies for eligible retirees of the following systems:

- Employees' Non-Contributory Pension System
- Local Fire and Police System (For retirees who transferred into this plan from the Employees' Retirement System, the compound rate applies.)

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