

# Retiree News & NOTES



MARYLAND  
STATE RETIREMENT  
and PENSION SYSTEM

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

## Legislative update

A NUMBER OF BILLS OF SPECIAL INTEREST TO RETIREES were enacted during the 2012 session of the Maryland General Assembly and signed into law by Governor Martin O'Malley. The following legislation became effective July 1, 2012.

### Chapters 470 and 469, Acts of 2012: Reemployment of Retirees – Exemptions

*Synopsis:* Reduces from nine years to five years the length of time that new retirees in the State Police Retirement System and Correctional Officers' Retirement System are subject to an earnings limit. The five-year time period already applies for retirees of the Employees' and Teachers' systems.

### Chapter 471, Acts of 2012: Reemployment of Retirees – Maryland School for the Deaf Exemption

*Synopsis:* Adds the Maryland School for the Deaf to the list of schools at which a retiree of the Teachers' Systems may be reemployed and be exempt from the reemployment earnings limi-

See Update, page 5

## Cost-of-living adjustment is payable in July 2012

ELIGIBLE RETIREES WILL NOTICE A BOOST IN THEIR MONTHLY BENEFIT in July as the 2012 cost-of-living adjustment (COLA) takes effect.

Retirees of the Maryland State Retirement and Pension System must have been retired at least one full year as of July 1, 2012 to receive the COLA.

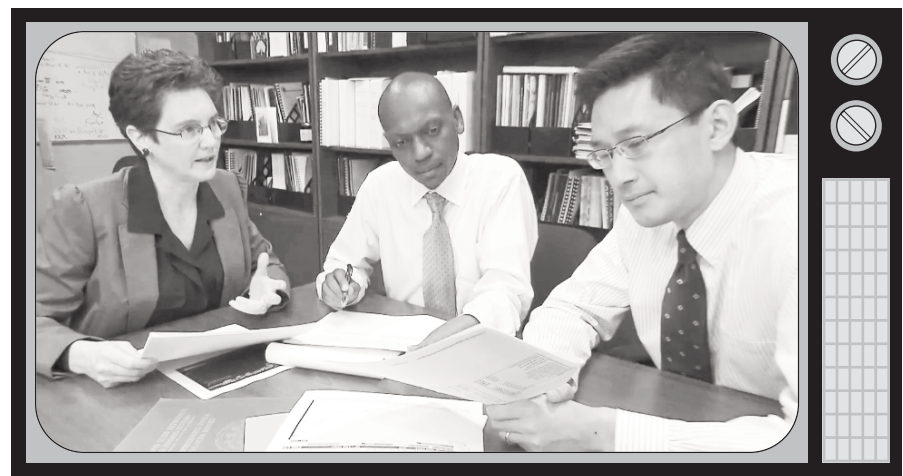
Because this year's COLA rate of 3.157% exceeds the statu-

tory 3% cap applicable for most payees, retirees and beneficiaries of the following plans will receive the 3% maximum COLA provided under law:

- Employees' and Teachers' Alternate Contributory, Contributory, and Non-Contributory Pension System
- Law Enforcement Officers' Pension System (LEOPS):

See COLA, page 5

New video shows the dramatic impact of pensions (page 2)



In a scene from the new video "Retirement Security Benefits Everyone," from left, Chief Investment Officer A. Melissa Moye, Senior Investment Analyst Stephen Muturi and Managing Director Michael Cheung review investment returns at the Maryland State Retirement Agency.

# New video touts value of pensions to workers, retirees and the state

THE MARYLAND STATE RETIREMENT AGENCY'S NEW VIDEO, "Retirement Security Benefits Everyone," is now available on the following video-sharing websites:

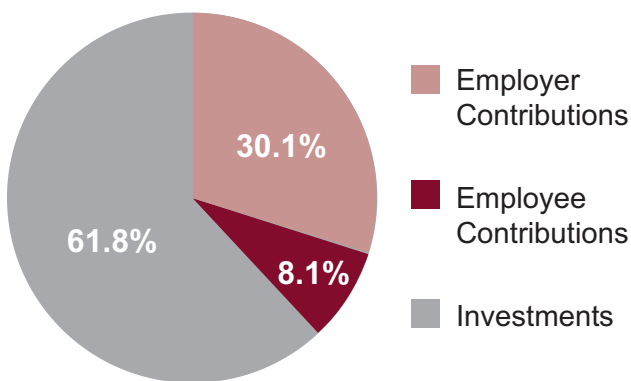


The informative 11 minute video provides viewers with insightful context to the ongoing conversation about public pension benefit plans. To view the video, simply visit the retirement agency website at [sra.maryland.gov](http://sra.maryland.gov) and click on the YouTube or Vimeo logos.

Some of the key points addressed in "Retirement Security Benefits Everyone" include:

- Defined Benefit plans, in combination with Social Security and personal savings, provide a secure retirement for Maryland's public employees and school teachers.
- Nearly two thirds of annual contributions to the fund come from investment income.

## Contribution Sources\*

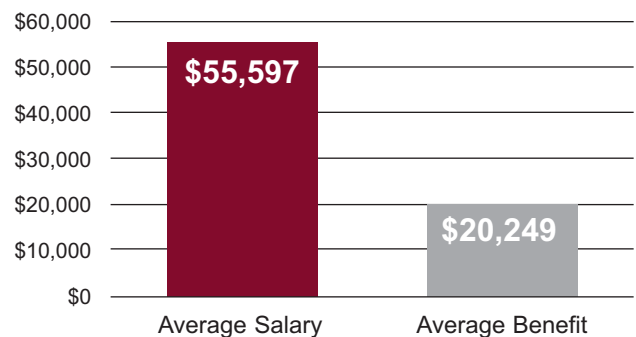


\*Average of Fiscal Years 1985 — 2011

- Nearly 80% of all pension benefits are recycled back into Maryland's economy.

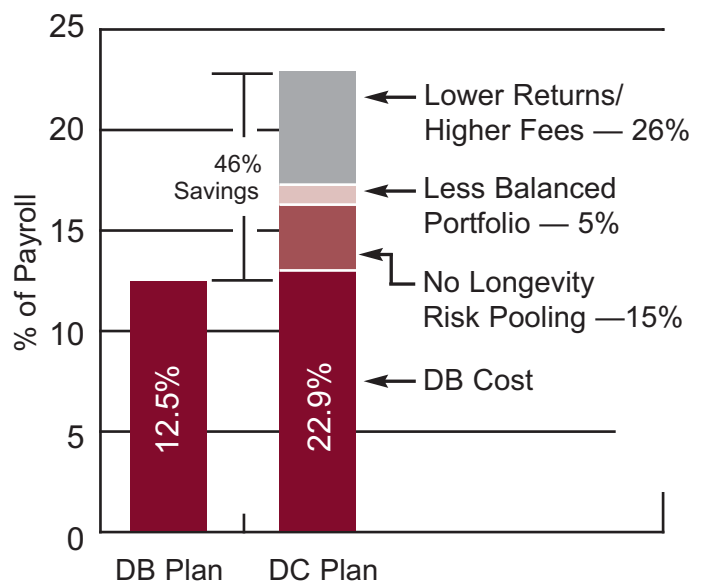
- The average benefit that's paid out currently is well under half of the average per-capita personal income of the state. [Maryland Bureau of Revenue and Estimates and the retirement agency]

## Modest Benefit



- A dollar of benefit can be delivered to a retiree under a defined benefit plan at roughly half the cost of a defined contribution plan. [Source: National Institute on Retirement Security: "A Better Bang for the Buck" 2008]

## Cost of Defined Benefit and Defined Contribution Plans as Percentage of Payroll



# Returning to work? Read this first.

## *Employment during retirement can cost you*

**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, 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. 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 are exempt from earnings limits after five full calendar years of retirement. Effective July 1, 2012, this rule also applies for service retirees of the State Police and Correctional Officers' Retirement Systems.

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 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.

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.

# Earnings limit exemptions apply for some groups

## Parole, probation employees

Effective July 1, 2012, 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 are receiving a service retirement benefit and are under age 60 are exempt from an earnings limit if employed on a contractual basis with the State Police as a Trooper First Class for not 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.

## 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.

## 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, sus-

pended 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.

Effective July 1, 2012, 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.



*Update, from page 1*

tation. This bill would allow teachers retired from the Maryland School for the Deaf to participate in the retire/rehire program currently in place if they are reemployed by that school.

**Chapters 527 and 526, Acts of 2012: Reemployment of Retirees - Parole and Probation Employees**

*Synopsis:* Provides that a retiree of the Employees' Systems who is reemployed as a parole and

probation employee is not subject to the reemployment earnings limitation.

**Chapters 85 and 84, Acts of 2012: Maryland General and Limited Power of Attorney Act**

*Synopsis:* With regard to the Maryland State Retirement Agency, this legislation alters the provisions in statutory forms for a power of attorney relating to granting authority to create or change a beneficiary designa-

tion. Specifically, the altered language provides that a member, former member, or retiree of the Maryland State Retirement and Pension System may grant an agent the authority to designate the agent as the member's, former member's, or retiree's beneficiary only if the member, former member, or retiree explicitly grants this authority in the power of attorney.

*COLA, from page 1*

Cap does not apply to those retirees who transferred from Plan A or Plan B of the Employees' Retirement System and did not elect the contributory Law Enforcement Officers' Modified Pension Benefit.

- Employees' and Teachers' Retirement System (Plan C retirees only): Cap is applied to portion of benefit paid under the pension system formula
- Local Fire and Police System: Cap does not apply to those retirees who transferred into this plan from the Employees' Retirement System.

Those retirees whose COLA is not capped will receive the full cost-of-living adjustment of 3.157% this year.

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, 2012, qualifies for this year's COLA. Those who retired after July 2011 (August 2011 or later) will receive their first COLA increase in July 2013.

**Q.** *Which payment shows the new COLA increase?*

**A.** Qualifying retirees will see the adjustment in their July 31, 2012 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.”

# Reemployment may affect your federal income tax

**IF YOU ARE CONSIDERING REEMPLOYMENT** with the same employer from which you retired, you should also 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.

## Board notes: Investment performance

**A PERFORMANCE UPDATE ON THE INVESTMENT FUND** was offered at the March 20, 2012 meeting of the Board of Trustees of the Maryland State Retirement and Pension System.

Robert Burd, deputy chief investment officer for the system, reported that February was a good month for the fund, led by continued strength in the public equity markets. The total fund returned 2.82% for the month, exceeding the policy benchmark by 16 basis points.

For the fiscal year to date as of February 29, the total fund was up 1.50%, lagging the policy benchmark by 12 basis points, Mr. Burd said. For the month of February, all asset classes posted a positive return, and all but one outperformed its benchmark.

### January results

The total market value of the investment fund was \$36.7 billion as of January 31, 2012, reported Dr. A. Melissa Moye, chief investment officer of the system, at the board's February 21 meeting. The total plan earned 3.68% in January, outperforming the policy index by 17 basis points. For the fiscal year to date as of January 31, the fund earned -1.3%, trailing the policy benchmark by 30 basis points.

The 14-member board, 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.



## '12 Maryland Charity Campaign slated

**THE 2011 MARYLAND CHARITY CAMPAIGN RAISED \$3,473,626** that will help so many in need. Maryland state retirees were among the most generous, donating \$171,193! More than 950 retirees gave the highest average gift in recent retiree history of \$181.

With more than 800 participating charities, there are sure to be a few that inspire you.

If you do not receive a pledge card this fall, please contact Andrea Hill at [Andrea.hill@uwcm.org](mailto:Andrea.hill@uwcm.org) or 410-895-1493 or download a pledge card at [www.mdcharity.org](http://www.mdcharity.org)

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