

Retiree News & NOTES



MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

JANUARY 2013

VOL. 31 NO. 1



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

Fund is diversifying in private market assets

*A message from Chief
Investment Officer
A. Melissa Moye*

THE MARYLAND STATE RETIREMENT AND PENSION SYSTEM (MSRPS) FUND INVESTS in private market assets as well as publicly-traded stocks and bonds, using external investment managers for both asset classes. The Investment Division selects and monitors external managers, including those that manage private investment strategies in real estate, other real assets such as timber and infrastructure, private equity and private debt funds.

Private market funds provide opportunity for pension funds to further diversify their portfolios. Unlike many individual investors, pension funds can invest for 10 or more years in private equity or other private market funds, with the potential to earn a return which includes a premium for the longer time horizon of these investments.

See Fund, page 5

Assumed rate of return: the real story

THE ASSUMED RATE OF RETURN for the Maryland State Retirement and Pension System—that is, what we expect to earn on our investments—is currently set at 7.75%. This rate of return is reviewed every year by the System's Board of Trustees. Some critics tell us it is unreasonable to expect those kinds of earnings after the 2008 crisis. Perhaps so, but the assumed rate of return adopted by the Board of Trustees predicts what the system expects to earn on average over a long-term horizon—typically 25 years or more—appropriately reflecting the work life of a typical public employee.

As a real measure, the system has done very well in meeting or exceeding its assumed rate of 7.75% over the long term. The system has earned 7.85% on average over the past 25 years as of June 30, 2012.

How does Maryland compare nationally? A recent public fund survey of 126 plans found that 8.0% remains the predominant rate assumption among 43 plans, with the overall average at 7.80%.

Certainly, it would be ideal if the system matched or exceeded its assumed rate of return every single year, but the volatility of the market makes that unlikely, as evidenced by recent history. For example, the system earned just 0.36% on investments in fiscal 2012, but earned 20% in fiscal 2011 and 14% in fiscal 2010.



Nancy K. Kopp

Treasurer Nancy K. Kopp
Chairman, Board of Trustees

See Assumed rate, page 5

Annual report released for fiscal 2012

THE MARYLAND STATE RETIREMENT AND PENSION SYSTEM'S COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) for fiscal year 2012 is now available for review online at sra.maryland.gov. A summary of the report is provided here.

To access up-to-date figures throughout the year, the system's investment results are reported quarterly online at sra.maryland.gov. Simply click on **Agency** then, under **Investments**, click **Reports and Updates**.

Statement of Plan Net Assets by System for the Fiscal Year Ended June 30, 2012

<i>Expressed in thousands</i>	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System	State Police Retirement System	Law Enforcement Officers' Pension System	Total
Cash & Cash Equivalents	\$ 1,317,342	\$ 687,581	\$ 35,186	\$ 96,838	\$ 34,060	\$ 2,171,007
Investments, at Fair Value	23,673,736	13,288,210	328,257	1,149,813	605,522	39,045,538
Other Assets	586,967	397,215	8,681	31,524	16,281	1,040,668
Total Assets	25,578,045	14,373,006	372,124	1,278,175	655,863	42,257,213
Total Liabilities	3,076,512	1,730,763	42,802	150,791	77,619	5,078,487
Total Plan Net Assets	\$ 22,501,533	\$ 12,642,243	\$ 329,322	\$ 1,127,384	\$ 578,244	\$ 37,178,726

Statement of Changes in Plan Net Assets by System for the Fiscal Year Ended June 30, 2012

<i>Expressed in thousands</i>	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System	State Police Retirement System	Law Enforcement Officers' Pension System	Total
Additions						
Employer Contributions	\$ 917,565	\$ 476,212	\$ 45,537	\$ 96,123	\$ 60,324	\$ 1,595,761
Member Contributions	428,727	258,243	1,818	6,234	8,234	703,256
Investment Income	54,982	30,521	4,067	9,908	4,605	104,083
Total Additions	1,401,274	764,976	51,422	112,265	73,163	2,403,100
Deductions						
Benefit Payments	1,631,469	956,051	25,020	100,977	41,589	2,755,106
Refunds	17,751	15,560	-	280	228	33,819
Administrative Expenses	15,210	12,400	41	189	361	28,201
Total Deductions	1,664,430	984,011	25,061	101,446	42,178	2,817,126
Net System Transfers	(257)	127	-	37	93	-
Net Change in Plan Net Assets	(263,413)	(218,908)	26,361	10,856	31,078	(414,026)
Net Assets at Beginning of Fiscal Year	22,764,946	12,861,151	302,961	1,116,528	547,166	37,592,752
Net Assets at End of Fiscal Year	\$ 22,501,533	\$ 12,642,243	\$ 329,322	\$ 1,127,384	\$ 578,244	\$ 37,178,726

*Intersystem transfers have been eliminated in this financial statement.

Actuarial Funded Status for the Fiscal Year Ended June 30, 2012

<i>Expressed in thousands</i>	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System	State Police Retirement System	Law Enforcement Officers' Pension System	Municipal Correctional Officers' Retirement System	Total
Actuarial Accrued Liability	34,252,715	20,283,028	421,286	1,826,546	1,070,087	15,483	57,869,145
Actuarial Value of Assets	22,523,978	12,667,592	330,154	1,134,511	580,826	11,341	37,248,401
Unfunded Actuarial Accrued Liability	11,728,737	7,615,436	91,132	692,035	489,261	4,143	20,620,744
Funded Ratio	65.8%	62.5%	78.4%	62.1%	54.3%	73.2%	64.4%

Board notes

RETIREMENT SPECIALISTS

with the Maryland State Retirement Agency answered members' and retirees' telephone calls within 54 seconds on average during fiscal year 2012. During a recent month, nearly 98% of persons receiving assistance from the highly-trained Member Services Unit reported satisfaction with the services provided.

The customer service report was presented during the August 2012 meeting of the Board of Trustees of the Maryland State Retirement and Pension System.

To contact a retirement specialist, call 410-625-5555 or toll-free 1-800-492-5909. You also may e-mail your question to sra@sra.state.md.us

Trustees tapped for committees

During the July 2012 meeting, trustee committee assignments were announced for the Administrative, Investment, Audit and Corporate Governance Committees and the Securities Litigation Ad Hoc Committee. Committee membership may be reviewed online at sra.maryland.gov/Agency/Board

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 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 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 1 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.

Attention 2012 retirees

For members who ended active employment and retired in 2012, 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 2012. This state pick-up amount serves as an addition to state income for 2012. Enter this figure on line 3 of your Maryland tax return (Form 502).

Understanding your 1099-R tax form

INTERNAL REVENUE SERVICE TAX FORM 1099-R will be distributed to all Maryland State Retirement and Pension System payees by the end of January 2013. The forms provide each payee with detailed information on his or her pension income for the previous year. Most payees receive only one 1099-R tax form each year. However, persons who retired in 2012 will receive a separate 1099-R tax form 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 Tax Form

BLOCK 1. (Gross Distribution)

This is the total amount of pension benefits paid to you by the Maryland State Retirement Agency during the 2012 calendar year.

BLOCK 2A. (Taxable Amount)

This is the taxable amount of your pension. 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 2B. (Taxable Amount Not Determined)

This block applies only to disability retirees who retired prior to January 1, 1995. These individuals should consult their tax professional when preparing their tax returns.

BLOCK 4. (Federal Income Tax Withheld)

This block shows any federal income tax deducted from your monthly retirement payments. To change the amount of federal income tax being withheld, complete a tax withholding request form (Form 766), available through the retirement agency.

PAYER'S name, street address, city, state, and ZIP code		CORRECTED (if checked)		OMB No. 1545-0119		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
MARYLAND STATE RETIREMENT AGENCY 120 EAST BALTIMORE STREET BALTIMORE, MD 21202-6700		1 Gross distribution \$ 12,000.00		2012		Form 1099-R	
PAYER'S federal identification number 52-6104406		2a Taxable amount \$ 11,000.00		Total distribution <input type="checkbox"/>		Copy C For Recipient's Records	
RECIPIENT'S name MARY SMITH 123 SUMMER STREET OCEAN CITY, MD 21842		2b Taxable amount not determined <input type="checkbox"/>		3 Capital gain (included in box 2a) \$.00		4 Federal income tax withheld \$ 500.00	
RECIPIENT'S identification number 123-45-6789		5 Employee contributions / Designated Roth contributions or insurance premiums \$ 1,000.00		6 Net unrealized appreciation in employer's securities \$.00		7 Distribution code(s) 7	
10 Amount allocable to IRR within 5 years \$		11 1st year of desig. Roth contrib.		7a Your percentage of total distribution %		7b Total employee contributions \$ 16,868.75	
Account number (see instructions)		12 State tax withheld \$ 250.00		13 State/Payer's state no. MARYLAND 52-6104406		14 State distribution \$.00	
Form 1099-R (keep for your records)		15 Local tax withheld \$.00		16 Name of locality		17 Pick-Up Contrib's \$ 3,000.00	

BLOCK 5. (Employee Contributions)

This is the amount of your contributions that were recovered, tax free, during 2012. 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 2012, this block contains the value of any contributions made during employment that can be recovered tax-free. Only members who retired in 2012 and made pension contributions will see a value in this block. For mem-

bers who retired prior to 2012, a zero will be printed in the block.

BLOCK 12. (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 17. (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 3.

Need a duplicate?

You may request a duplicate of your 1099-R tax form after February 15 by calling the State Retirement Agency at 410-625-5555 or 1-800-492-5909.

Payment dates slated for calendar year 2013

THE SCHEDULE FOR **DIRECT DEPOSIT** of retirement benefits for calendar year 2013 has been announced by the Maryland State Retirement Agency. For retirees with an approved waiver on file with the Agency, mailed check delivery dates are also listed.

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

Direct Deposit



Date direct deposit is credited to retirees' accounts

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

Mailed Checks



Date post office begins to deliver retirement checks and advice slips

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

Maryland state employee and retiree open enrollment slated for April 2013

ATTENTION ALL MARYLAND STATE GOVERNMENT RETIREES: You will receive your Open Enrollment Packet in March 2013 through the mail. Do not miss this opportunity to make changes or to enroll in health benefits. Plan year 2013 will be a 6-month (short) plan year; please review your packet for details. For more information, contact the State of Maryland Employee Benefits Division at 410-767-4775 or toll-free at 1-800-30-STATE. Or, go to www.dbm.maryland.gov/benefits for the latest health benefit updates.

Assumed rate, from page 1

Ignoring the success of the system's earnings in the previous two fiscal years—or the previous 25 years for that matter—critics have instead pointed to the FY 2012 earnings as “proof” that our expectations are overly-optimistic. Let us be

clear: One year's worth of earnings does not a trend make; neither do two or three. We take the long view. Benefits are paid out by the system over the long-term, requiring a long-term investment horizon and funding strategy.

Fund, from page 1

For instance, as of June 30, 2012, the Maryland private equity program earned 8.6% annualized over a ten year period, compared to the S&P 500 at 5.3% annualized. Private equity funds account for 6% of the total assets of the MSRPS. Over time, private equity is planned to increase to 10% of the total fund.

The MSRPS will always need to maintain investments in publicly-traded securities to provide diversity and liquidity to the overall fund. However, the private funds in which we invest provide opportunity for strengthening long-term returns and increasing diversification of the total fund.

Trustee elections slated for teachers, employees

ELECTIONS WILL BE CONDUCTED IN SPRING 2013 for two seats on the Board of Trustees of the Maryland State Retirement and Pension System.

A Teachers' Systems representative and an Employees' Systems representative will be chosen in the election. These two board seats are currently held by Teachers' Systems representative Kenneth B. Haines and Employees' Systems representative Sheila Hill, whose terms expire in July 2013.

Although these two board seats are open only to active members, both active members and retirees of the respective systems will be eligible to vote. Election materials, including candidate biographies, will be mailed in May to all eligible voters.

Teachers' Systems candidates must be active members of the Teachers' Retirement or Pension Systems. Employees' Systems candidates must be active members of the Correctional Officers' Retirement

System, Employees' Retirement or Pension Systems, Judges' Retirement System, Legislative Pension Plan, Local Fire and Police System or Law Enforcement Officers' Pension System.

The two successful candidates will serve terms in office from August 1, 2013 through July 31, 2017.

For more information on the Board of Trustees, including member biographies, photos and committee assignments, please visit the Maryland State Retirement Agency website at sra.maryland.gov.

Keep your tax withholdings up to date

RETIREES WHO WISH TO UPDATE THEIR TAX WITHHOLDING ELECTION 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.

Current Internal Revenue Service (IRS) tax regulations require your federal tax withholding to be calculated using IRS tax withholding tables. You can no longer designate only 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 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 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.

NEW TAX TABLES FOR 2013

The Maryland State Retirement Agency will begin using the new 2013 federal tax withholding tables beginning with your January benefit payment. The new tables, issued by the Internal Revenue Service, became effective January 1, 2013, and may result in an increased amount of federal taxes being withheld from your benefit payment. Maryland state tax withholding is unaffected. For more information go to sra.maryland.gov.

Retiree News is published by The Maryland State Retirement Agency
120 East Baltimore Street
Baltimore, MD 21202-6700
410-625-5555
1-800-492-5909
sra.maryland.gov

EDITOR:
Benjamin Robb

BOARD OF TRUSTEES

Nancy K. Kopp
CHAIRMAN

Peter Franchot
VICE CHAIRMAN

R. Dean Kenderdine
SECRETARY

David S. Blitzstein
John W. Douglass
T. Eloise Foster
Robert R. Hagans, Jr.
Kenneth B. Haines
James M. Harkins

Sheila Hill
F. Patrick Hughes
Morris L. Krome
Theresa Lochte
Harold Zirkin
Thurman W. Zollicoffer, Jr.