

Retiree News & NOTES



MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

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

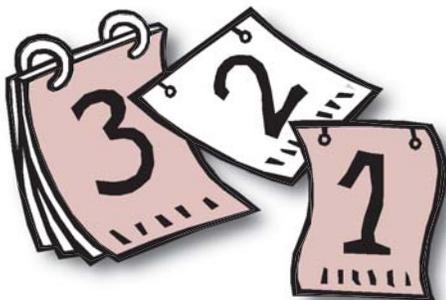
Trustee elections slated for spring

ELECTIONS TO SELECT TWO MEMBERS OF THE BOARD OF TRUSTEES of the Maryland State Retirement and Pension System are slated for the spring and summer of 2015.

The successful candidates will serve four-year terms representing members of the Teachers' and Employees' Systems. These Board seats are currently held by Trustees Theresa Lochte and John W. Douglass, respectively.

Election materials, including candidate biographies, will be mailed to all eligible voters in May 2015.

2015 payment dates announced



See page 5

System investment return tops 14% for fiscal year 2014

Nearly doubles assumed rate of return

THE INVESTMENT PORTFOLIO of the Maryland State Retirement and Pension System returned 14.37%—net of investment manager fees—on investments for the fiscal year ending June 30, 2014.

This return exceeded the fund's 7.7% actuarial target return. The performance also exceeded the market benchmark for the total fund of 14.16%. The performance raised the assets of the

System to \$45.4 billion—a total gain of more than \$5 billion for the year. The investment gains also propelled the System to 68.67% funded at fiscal year end from 65.52% the previous year.

The strong performance was driven by growth-oriented assets, including public and private equity, with additional value generated from active management.

See *Return*, page 6

Search underway for new Chief Investment Officer

INTERVIEWS WILL BEGIN in early 2015 for a new Chief Investment Officer (CIO) for the Maryland State Retirement and Pension System. The successful candidate will replace former CIO A. Melissa Moye, Ph.D., who left the System in July to accept a position with the federal government.

The executive search firm of Heidrick & Struggles is conducting a nationwide search for a new CIO to administer the System's \$45-billion investment program.

Deputy CIO Robert M. Burd is serving as Acting CIO during the search. Burd is a Chartered

See *CIO*, page 6

Annual report released for fiscal 2014

THE MARYLAND STATE RETIREMENT AND PENSION SYSTEM'S COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) for fiscal year 2014 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, 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, 2014

<i>Expressed in thousands</i>	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	State Police Retirement System	Judges' Retirement System	Law Enforcement Officers' Pension System	Total
Cash & Cash Equivalents	\$ 1,239,807	\$ 749,895	\$ 30,001	\$ (8,663)	\$ 43,141	\$ 2,054,181
Investments, at Fair Value	28,206,642	15,498,775	1,346,943	443,887	778,050	46,274,297
Other Assets	475,212	325,979	27,131	6,739	13,707	848,768
Total Assets	29,921,661	16,574,649	1,404,075	441,963	834,898	49,177,246
Total Liabilities	2,430,707	1,209,533	97,528	33,080	66,409	3,837,257
Total Plan Net Assets	\$ 27,490,954	\$ 15,365,116	\$ 1,306,547	\$ 408,883	\$ 768,489	\$ 45,339,989

Statement of Changes in Plan Net Assets by System for the Fiscal Year Ended June 30, 2014

<i>Expressed in thousands</i>	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	State Police Retirement System	Judges' Retirement System	Law Enforcement Officers' Pension System	Total
Additions						
Employer Contributions	\$ 1,000,193	\$ 592,185	\$ 56,243	\$ 21,110	\$ 63,922	\$ 1,733,653
Member Contributions	441,559	267,139	6,592	2,566	9,870	727,726
Investment Income	3,458,512	1,940,319	165,097	50,173	92,166	5,706,267
Total Additions	4,900,264	2,799,643	227,932	73,849	165,958	8,167,646
Deductions						
Benefit Payments	1,842,127	1,090,306	109,612	27,206	52,572	3,121,823
Refunds	22,582	19,494	173	53	620	42,922
Administrative Expenses	14,125	11,703	163	39	100	26,130
Total Deductions	1,878,834	1,121,503	109,948	27,298	53,292	3,190,875
Net System Transfers	-	-	-	-	-	-
Net Change in Plan Net Assets	3,021,430	1,678,140	117,984	46,551	112,666	4,976,771
Net Assets at Beginning of Fiscal Year	24,469,625	13,686,874	1,188,563	362,332	655,823	40,363,217
Net Assets at End of Fiscal Year	\$ 27,491,055	\$ 15,365,014	\$ 1,306,547	\$ 408,883	\$ 768,489	\$ 45,339,988

*Intersystem transfers have been eliminated in this financial statement.

Actuarial Funded Status for the Fiscal Year Ended June 30, 2014

<i>Expressed in thousands</i>	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	State Police Retirement System	Judges' Retirement System	Law Enforcement Officers' Pension System	Municipal Correctional Officers' Retirement System	Total
Actuarial Accrued Liability	36,882,586,657	22,059,764,681	1,966,572,422	459,447,222	1,222,137,287	19,685,305	62,610,193,574
Actuarial Value of Assets	26,067,576,669	14,547,389,616	1,241,758,473	389,071,868	732,333,113	18,826,786	42,996,956,525
Unfunded Actuarial Accrued Liability	10,815,009,988	7,512,375,065	724,813,949	70,375,354	489,804,174	858,519	19,613,237,049
Funded Ratio	70.7%	65.9%	63.1%	84.7%	59.9%	95.6%	68.7%

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 2015. 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 2014 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 2014 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 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 they reached age 59 ½ with a distribution code 7.

The following key describes some of the most important components of 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 2014 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 benefits. To change the amount of federal income tax being withheld, complete a tax withholding request form (Form 766). See instructions on page 5.

BLOCK 5: Employee Contributions

This is the amount of your contributions that were recovered, tax free, during 2014. The dollar 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 2014, this block contains the value of any contributions made during employment that can be recovered tax-free. Only members who retired in 2014 and made pension contributions will see a

value in this block. For members who retired prior to 2014, a zero will be printed in the block.

BLOCK 12: State Income Tax Withheld

Any Maryland State income tax deducted from your monthly benefit is shown in this block. To change the amount of Maryland state income tax being withheld, complete a tax withholding request form (Form 766). See instructions on page 5.

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 4.

Important: Change to Block 17 (Pick-Up Contributions) for calendar year 2014

Retirees receiving a 1099-R form based on a disability retirement that commenced before January 1, 1995, will notice a change in Block 17. On prior 1099-R forms, the original amount of the retiree's state pick-up contributions has been reported in Block 17. Beginning with the 1099-R form for 2014, "EP USED" will be reported in Block 17 for these retirees. This new reporting is based on the assumption that retirees, by this time, have recovered their pick-up contributions.

Need a duplicate?

You may request a duplicate of your 1099-R tax form on or after February 13 by calling the State Retirement Agency at 410-625-5555 or 1-800-492-5909. Retirement Agency staff cannot issue a replacement form before this date.

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.

Did you retire in 2014?

For members who ended active employment and retired in 2014, 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 2014. This state pick-up amount serves as an addition to state income for 2014. Enter this figure on line 3 of your Maryland tax return (Form 502).

Moving? Don't forget to alert the Retirement Agency

IF YOU ARE PLANNING A MOVE, make sure you continue to receive important retirement documents, such as your annual 1099-R tax form, by keeping your mailing address up to date with the Maryland State Retirement Agency. For your security, you must submit your new address in writing. Mail your request to the Maryland State Retirement Agency, 120 East Baltimore Street, Baltimore, Maryland, 21202-6700.

For your convenience, a *Retirees Change of Address* (Form 77) is available online at sra.maryland.gov. From the homepage, click on **Participants**. Then, under the heading **Retirees**, select **Forms and Downloads**. Whether you choose to use the form or write a letter, your change of address request must include your signature.

Mark your calendar for 2015 payment dates

THE SCHEDULE FOR DIRECT DEPOSIT of retirement benefits for calendar year 2015 has been announced by the Maryland State Retirement Agency. For retirees with an approved waiver, mailed check delivery dates also are 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.

Date direct deposit is credited to retirees' accounts

- Friday, January 30
- Friday, February 27
- 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

- Saturday, January 31
- Saturday, February 28
- 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

Updating your tax withholdings is easy

when you follow these tips

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*.

Form 766 (Rev. 1/13)

RETIREMENT USE ONLY

Selections made to Part I (Federal) or Part II (Maryland State) on this form will revoke your prior tax withholding selections. Each Section (Part I Federal or Part II State) of the Tax Withholding Form that is not completed in accordance with form instructions will not be processed.

If you have more than one retirement account, please select the account applicable to this tax withholding request: Retiree Beneficiary All

PART I - FEDERAL TAX WITHHOLDING CERTIFICATE

If you want federal income tax to be withheld, you must designate the number of withholding allowances on line 2 of Form W-4P. Under current federal law, you cannot only designate a specific dollar amount to be withheld. However, you can designate an additional amount to be withheld on line 3 below. If you do not want any federal income tax withheld from your periodic payments, check the box on line 1 of Form W-4P. If you do not submit Form W-4P, the Agency must withhold periodic payments as if you are married claiming 3 exemptions.

Form **W-4P**
Department of the Treasury
Internal Revenue Service
Type or print your full name and middle initial Last name Your social security number
Home address (number and street or rural route) City or town, state, and ZIP code
City or town, state, and ZIP code
Check or identification number (if any) of your pension or annuity contract

Complete the following applicable lines:
1 Check here if you do not want any federal income tax withheld from your pension or annuity. (Do not complete lines 2 or 3.)
2 Enter the total number of allowances you are claiming for withholding from each periodic pension or annuity payment on this line, and check the appropriate marital status box below. (You must enter a number on the line and check a box. You also may designate an additional amount on line 3.)
Marital status: Single or Married, but withheld at higher "single" rate Married (Enter number of allowances)
3 Additional dollar amount. If you want withheld from each pension or annuity payment, state. You also must complete all parts of line 2 above to deduct the number (including parts of allowances and check the marital status box.) \$ _____

YOUR SIGNATURE _____ DATE _____

THIS FORM IS NOT VALID UNLESS YOU SIGN IT.

PART II - MARYLAND STATE INCOME TAX WITHHOLDING REQUEST

Please check the appropriate block indicating your election. Check only one.
1 I am NOT a Maryland resident. Do not withhold Maryland income tax.
2 I AM a Maryland resident. Do not wish to have Maryland income tax withheld.
3 Withhold Maryland income tax from each monthly pension payment the following whole dollar amount: \$ _____

Return this form to the Maryland State Retirement Agency at the address above.

Your Signature _____ Date _____
Daytime Phone # () _____

IT IS IMPORTANT THAT YOU CAREFULLY READ THE FOLLOWING PAGE OF THIS FORM. THIS FORM IS NOT VALID UNLESS YOU SIGN.

CIO, from page 1

Financial Analyst with a degree in Management Science, Finance from the State University of New York at Geneseo.

“The Board holds Bob in high regard and is very confident in his ability to manage the affairs of the Investment Division during the Board’s search process,” said State Treasurer Nancy K. Kopp, Chairman of the Maryland State Retirement and Pension System Board of Trustees.

“Bob has worked closely with Dr. Moye in leading the entire investment team over the last four years and helped engineer the successes the Investment Division achieved in that time.”

Burd has worked for the Maryland State Retirement Agency since September 2001 when he was first hired as Assistant Director of Externally Managed Investments. He became a Senior Investment Analyst in 2004 and held that position for more than four years before being named Managing Director of Private Markets. He held that position until March 2011, when he was named Deputy Chief Investment Officer by Dr. Moye.

The System’s investment program has done well since Dr. Moye took the helm of the Investment Division. The System earned 14.4% in fiscal 2014, which ended June 30, 2014. During her tenure as CIO, the

System has earned 8.26% on average over the last three fiscal years—exceeding the System’s 7.70% actuarially required rate of return and the fund’s market benchmark.

“Although we will miss the excellent leadership she has provided the System’s investment program over the last several years, we are thrilled with the opportunity Dr. Moye will have to apply her wealth of knowledge and experience at the national policy level,” said Chairman Kopp.

Since Dr. Moye’s appointment as CIO nearly four years ago, the fund has grown from \$35 billion to more than \$45 billion, outperforming its policy benchmark for each fiscal year. Dr. Moye led the Investment Division to successfully implement the re-positioning of the portfolio, lowering the volatility profile for the total fund. Additionally, during her tenure the size of the private equity program grew from 3.5% to 7% of the total fund, making substantial and prudent progress toward the long-term allocation target of 10%.

Moye now serves as Senior Policy Advisor focused on public sector pensions with the newly-created Office of State and Local Finance at the U.S. Treasury Department in Washington, D.C.

Return, from page 1

“The fund’s annual returns continue to reflect the strong market environment that has prevailed since the end of the credit crisis,” said State Treasurer Nancy K. Kopp, Chairman of the Maryland State Retirement and Pension System Board of Trustees. “The Board has adopted a balanced and diversified investment program to provide attractive risk-adjusted returns, continuing to meet the objectives of the System in the best interests of the plans’ beneficiaries.”

Asset Allocation

As of June 30, 2014

Public Equity	38.9%
Private Equity	7.0%
Fixed Income	14.8%
Credit	10.0%
Real Return	12.0%
Real Estate	6.8%
Absolute Return	9.4%
Cash	1.1%
Total	100%

For more information on fiscal year 2014 performance, excerpts from the System’s Comprehensive Annual Financial Report are included on page 2.

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EDITOR:
Benjamin Robb

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