

# Retiree News & Notes



MARYLAND  
STATE RETIREMENT  
and PENSION SYSTEM

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

## Investment returns top 10% in FY '17

THE PORTFOLIO of the Maryland State Retirement and Pension System returned 10.02% on investments for the fiscal year that ended June 30, 2017—exceeding the 7.55% assumed actuarial return rate and the plan's policy benchmark of 9.90%. The fund's performance raised the assets of the System to \$49.1 billion, an increase of \$3.6 billion over last fiscal year end.

*See Returns, page 3*

## Retiree tax statements for 2017 to be mailed, posted online

INTERNAL REVENUE SERVICE TAX FORM 1099-R will be mailed to all Maryland State Retirement and Pension System payees by the end of January 2018.

Form 1099-R provides 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 2017 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 2017 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

*See Tax, page 4*

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Retiree News & Notes

## Board of Trustees update

### Gov. Hogan taps investment professional for pension Board

**MICHAEL J. STAFFORD, JR.**, Managing Director and Director of Fixed Income Investments for ASB Investment Management, was appointed in October 2017 to the Maryland State Retirement and Pension System Board of Trustees by Governor Lawrence J. Hogan, Jr.

Trustee Stafford has 30 years of experience in the institutional fixed income business, and previously served as Chief Investment Officer of The St. Paul's (now Travelers) life insurance subsidiary, and Portfolio Manager with Bank of America, Legg Mason, and First National Bank of Maryland. He is a member of the ASB Fixed Income Council.

Mr. Stafford is a past president and director of The Baltimore Security Analysts Society, and has taught investment analysis in the MBA program at Johns Hopkins University.

He is a graduate of Georgetown University and earned an MBA from Loyola College of Baltimore. Mr. Stafford is a CFA charterholder.

The Board of Trustees is responsible for establishing investment and administrative policy and overseeing the management of the Maryland State Retirement Agency. The Agency administers retirement benefits for more than 349,000 active and retired teachers, state and municipal employees, correctional officers, law enforcement officers and state police.



*Trustee Michael J. Stafford, Jr.*

### Board election slated for State Police System

**STATE TROOPERS** will elect a representative to the Maryland State Retirement and Pension System Board of Trustees in an election slated for May 2018.

Both active and retired members of the Maryland State Police Retirement System will be eligible to cast ballots via a secure telephone or internet voting system. Election materials, including candidate biographies and voting instructions, will be mailed to eligible voters on May 21.

The successful candidate will serve a term in office from August 1, 2018, through July 31, 2022.

Incumbent State Police representative Richard E. Norman was elected to the Board in 2014.

### Trustees conclude service on Board

**THREE TRUSTEES** have ended their service on the Board of Trustees of the Maryland State Retirement and Pension System.

As part of the 15-member Board, James A. Bush, Jr., James "Chip" DiPaula and Kenneth B. Haines helped to establish investment and administrative policy and oversee management of the Maryland State Retirement Agency.

During his four years of Board service, Mr. Bush sat on the Investment Committee and was chairman of the Audit Committee. Mr. Haines, who served five years, was vice-chairman of the Corporate Governance Committee and a member of both the Administrative and Investment Committees. Both men concluded their terms in July 2017.

Two-time Trustee James "Chip" DiPaula stepped down from the Board in August following 18 months of service. Mr. DiPaula, an appointee of Governor Lawrence J. Hogan, Jr., sat on the Administrative, Audit, Investment and Securities Litigation Committees. Mr. DiPaula previously served as an ex-officio member of the Board more than a decade ago in his role as Maryland Budget Secretary.

In making the announcement, Chief Investment Officer Andrew C. Palmer said, “Stable and improving economic growth across the globe, along with stabilization in energy markets, supported significant growth in our equity and credit valuations over the past year. While these returns are welcome, as long-term investors, we expect some volatility in meeting the assumed rate of return, which has been and will continue to be our long-term expectation for the System.”

“The Board is pleased with the fund’s performance, thanks to the diligent oversight of the System’s Investment Division and to the prudently diversified asset allocation that they manage,” said State Treasurer Nancy K. Kopp, Chair of the Maryland State Retirement and Pension System Board of Trustees. “We certainly appreciate this year’s outcome, which keeps the System on track toward full funding and meeting our obligation to our members to pay them their pension benefits in full and on time.”

#### **Board reduces assumed rate**

In other investment-related news, the Board of Trustees voted to incrementally reduce the System’s actuarial assumed rate of return on its investments over the next two years from 7.55% to 7.45%. The Board approved the change at its July 2017 meeting and decided to reevaluate the rate in two years to determine if additional reductions will be necessary.

“The action taken by the Board is part of its overall strategy to increase the probability of achieving investment returns required to improve the health of the retirement System and meet its obligations to its members,” noted Treasurer Kopp. “Recognizing that both the inflation experience and expectations for future inflation remain lower than the rate currently assumed, the Board felt it reasonable to reduce the expected return accordingly.”

To develop its expectations for inflation, the Board considered market pricing for inflation protected bonds, inflation projections provided by a range of investment consultants, and the most recent forecasts of the Board of Trustees for the Social Security Administration insurance trust funds.

Before making this change, the Board revised its asset allocation policy to enhance the expected return of the System’s assets. Further, it considered the ongoing work of the System’s Investment Division to improve the net return by reducing fees and other expenses of the System and anticipated program changes to improve cost effectiveness through governance changes.



*Maryland State Treasurer Nancy K. Kopp, Chair of the Maryland State Retirement and Pension System Board of Trustees, and Chief Investment Officer Andrew C. Palmer*

### Performance by asset class

Asset Class	Allocation	Return
Public Equity	38.7%	19.0%
Private Equity	10.3%	16.4%
Rate Sensitive	21.0%	-2.11%
Credit	9.5%	10.0%
Real Assets	12.1%	4.7%
Absolute Return	7.2%	3.3%
Cash	1.2%	5.1%
Total	100.0%	10.02%

The Board last reduced the System’s assumed rate of return in 2013, when it decided to decrease it to 7.55% from 7.75% over a period of four years. The previous rate had been in effect since 2003.

More information on System finances for fiscal year 2017 is provided in the annual report. **See page 6.**

payments distributed in the calendar year on or after the date they reached age 59 ½ with a distribution code 7.

For your security, your 1099-R form lists only the last four digits of your Social Security number.

The following key describes some of the most important components, highlighted at right, of your 1099-R form.

### **BLOCK 1:** Gross Distribution

This is the total amount of pension benefits paid to you by the Maryland State Retirement Agency during the 2017 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 benefit. You may change the amount of federal income tax being withheld by completing a tax withholding request form (Form 766). **See page 6.**

### **BLOCK 5:** Employee Contributions

This is the amount of your contributions that were recovered, tax free, during 2017. The dollar figure in this box does NOT represent the amount of any health insurance premiums withheld from your pension benefit.

## Watch your mail for your 1099-R tax form!

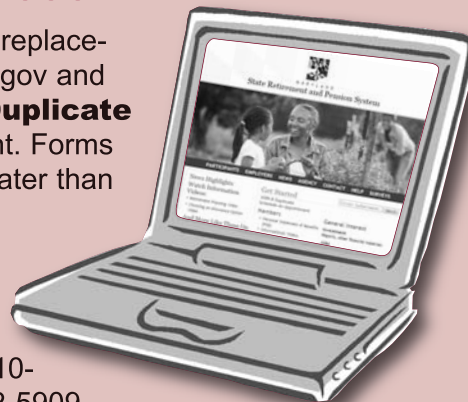
PAYER'S name, street address, city, state, and ZIP code			OMB No. 1545-0119		Distributions Form Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
			2017		
PAYER'S federal identification number			Form 1099-R		
RECIPIENT'S name		RECIPIENT'S identification number	2b Taxable amount not determined <input type="checkbox"/>	Total distribution <input type="checkbox"/>	This information is being furnished to the Internal Revenue Service
			3 Capital gain (included in box 2a) \$	4	
			5	6 Net unrealized appreciation in employer's securities \$	This information is being furnished to the Internal Revenue Service
			7 IRA/SEP/SIMPLE <input type="checkbox"/>	8 Other \$	
10 Amount allocable to IRR within 5 years \$		11 1st year of desig. Roth contrib.	9a Your percentage of total distribution %		9b
Account number (see instructions)		FATCA filing requirement <input type="checkbox"/>	12	13 State/Payer's state no.	14 State distribution \$
			15 Local tax withheld \$	16 Name of locality	17

Form 1099-R www.irs.gov/form1099r Department of the Treasury Internal Revenue Service

## Need a duplicate 1099-R?

For convenient access to your replacement form, go to [sra.maryland.gov](http://sra.maryland.gov) and follow the hyperlink **1099-R Duplicate** to print your 2017 tax statement. Forms will be available for reprint no later than February 1, 2018.

To receive a reprinted 1099-R by mail, call the Maryland State Retirement Agency on or after February 9, 2018, at 410-625-5555 or toll-free 1-800-492-5909.



### **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 2017, this block contains the value of any contributions made during employment that can be recovered tax-free. Only members who retired in 2017 and made pension contributions will see a value in this block. For members who retired prior to 2017, a zero will be printed in the block.

### **BLOCK 12:** State Income Tax Withheld

Any Maryland State income tax deducted from your monthly pension benefit is shown in this block. You may change the amount of Maryland state income tax being withheld by completing a tax withholding request form (Form 766). **See page 6.**

### **BLOCK 17:** Pick-Up Contributions

This figure applies to members whose employers participated in the State Pick-up Program. **See page 5.**



# 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 Maryland State

income tax is deferred until the pick-up contributions are recovered.

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 2 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

The image shows a 2017 Form 1099-R from the Internal Revenue Service. A magnifying glass is positioned over the form, highlighting two specific sections: '14 State distribution' and '17 Pick-up Contrib's'. The '14 State distribution' section shows a dollar sign (\$) and the '17 Pick-up Contrib's' section also shows a dollar sign (\$). The form includes fields for PAYER'S name, PAYER'S federal identification number, and RECIPIENT'S name. It also lists various distribution types and amounts, including 'Total distribution', 'Federal income tax withheld', 'Net unrealized appreciation in employer's securities', 'Other', 'Total employee contributions', 'State/Payer's state no.', 'Name of locality', and 'Pick-up Contrib's'. The form is dated 2017 and includes the OMB No. 1545 0119 and the Department of the Treasury Internal Revenue Service logo.

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 2016?

For members who ended active employment and retired in 2017, 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 2017. This state pick-up amount serves as an addition to state income for 2017. Enter this figure on line 3 of your Maryland tax return (Form 502).

## Retirees may wish to consider recent federal tax legislation when setting withholdings

**THE FEDERAL TAX REFORM BILL**, signed into law on December 22, 2017, is changing federal tax rates and the brackets of taxable income to which the rates apply. Retirees

and beneficiaries may wish to consider whether and how the changes in the new law will affect them, and consult with their tax professionals to determine whether they want to

change their tax withholding for 2018.

The IRS has advised that it is developing withholding guidance to implement the new tax bill. In the event of any updates, information will be shared on the Maryland State Retirement Agency website at

**sra.maryland.gov**. Retirement Agency staff cannot, however, provide tax advice.

To update tax withholdings, retirees must file a combined *Federal and Maryland State Tax Withholding Request* (Form 766) covering both federal and state taxes. The form is available online at **sra.maryland.gov** or by calling the Retirement Agency.

## Payment dates noted for 2018

**THE SCHEDULE FOR DIRECT DEPOSIT** of retirement benefits for calendar year 2018 has been announced by the Maryland State Retirement Agency. For retirees with an approved waiver, mailed check delivery dates also are listed.

### Date direct deposit is credited to retirees' accounts

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

### Date post office begins to deliver retirement checks

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

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.

## Fiscal '17 annual report now online

**THE MARYLAND STATE Retirement and Pension System's** award winning comprehensive annual financial report (CAFR) has been posted on the Retirement Agency website.

The CAFR for fiscal year 2017 can be accessed at **sra.maryland.gov**. Simply click on **Agency**, then **Comprehensive Annual Financial Reports**.

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