

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

Make sure your tax withholdings are correct

CURRENT INTERNAL REVENUE SERVICE (IRS) TAX REGULATIONS require that retirees' federal tax withholding be calculated using IRS tax withholding tables. Because of this rule, retirees can no longer designate only a specific dollar amount to be withheld for federal tax.

To comply with this regulation, retirees must first designate their marital status and number of allowances on line 2 of the form. Once this is done, a retiree may designate an additional amount to be withheld on Part I, line 3 of Form 766.

During the past few months, the State Retirement Agency has contacted thousands of retirees who previously withheld a flat amount for federal tax. Many have responded by updating their tax withholdings. Reminder letters will be mailed this winter to retirees whose withholdings still need adjustment.

Retirees also should be aware that in January a new federal tax withholding table is issued that may affect the amount withheld from their retirement benefit.

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 federal tax, your prior state 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*.

A Message from the Board of Trustees

CURRENT EVENTS IN THE FINANCIAL MARKETS ARE CERTAINLY A CAUSE FOR CONCERN and have generated uncertainty with the American public and throughout the world. But, as members of a "defined benefit" plan, the State of Maryland has a legal obligation to pay your benefits as they come due. The Board of Trustees for the Maryland State Retirement and Pension System wants to reassure you that your pension benefits are secure.



Nancy K. Kopp

The assets of your pension System are invested in a manner that is consistent with the System's long-term obligation to its members. Retirees will continue to receive their benefits as they always have.

The National Association of State Retirement Administrators (NASRA) and the National Council on Teacher Retirement (NCTR) recently issued a report, *State & Local Pensions Navigating the Storm*. Peter Franchot In it, NASRA President Terry Slattery explains, "Public pension funds are intentionally designed to withstand market fluctuations – even ups and downs as dramatic as those in recent days and in years past. Retirement benefits for the nation's public workforce are safe and secure because they are highly diversified and invested with a focus on the long-term."



To read more, visit the State Retirement Agency online at www.sra.state.md.us and click on *The Security of Your Pension in Times of Market Volatility*. The article includes a link to the *Navigating the Storm* document.

Wishing you a safe and healthy new year,

Nancy K. Kopp
Chairman

Peter Franchot
Vice-Chairman

Declining markets yield negative year for investment fund

Downturn follows four years of positive returns

LARGELY DUE TO THE DECLINE IN THE DOMESTIC HOUSING MARKET AND ITS EFFECTS SPREADING TO THE INTERNATIONAL MARKETS, the System's investment portfolio witnessed an overall negative return of 5.4% in fiscal year 2008. The loss follows four straight years of very strong, positive returns and is only the third time in the past 20 years that a negative one-year return has been experienced.

This is a summary of the System's activities for the year ending June 30, 2008. For more detailed information, the System's comprehensive annual financial report is available online at www.sra.state.md.us.

SYSTEM FINANCES

The System is responsible for properly administering retirement, disability, and death benefits for its members and retirees. The System's overall funding objective is to accumulate sufficient assets over time to meet its long-term benefit obligations as they become due.

Revenues

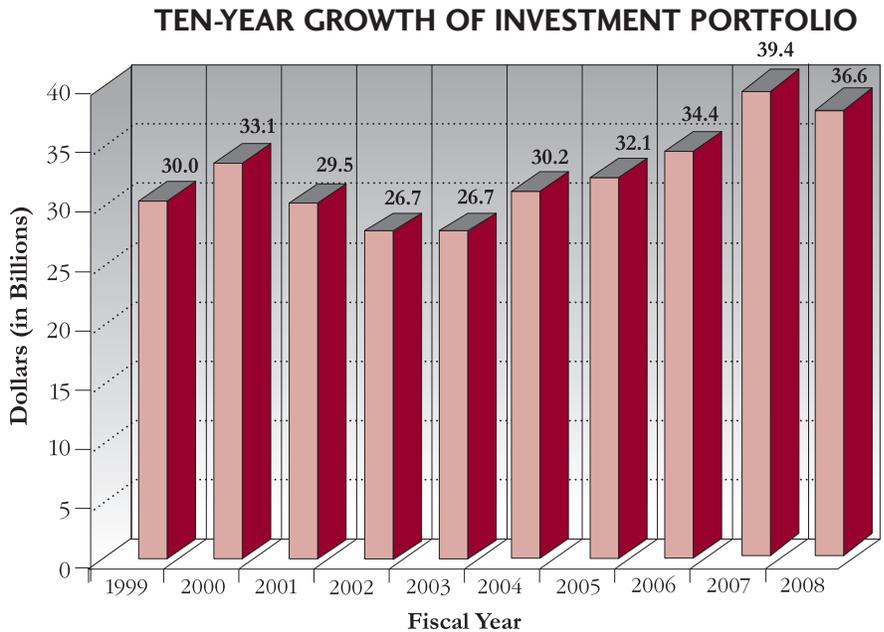
During fiscal year 2008, investment losses were \$2.1 billion, while revenues from employer and member contributions were \$1.05 billion

REVENUES

Employer Contributions
 2008.....\$1.05 billion
 2007\$834 million

Employee Contributions
 2008\$420 million
 2007\$319 million

Net Investment Income
 2008.....(\$2.1 billion)
 2007\$5.9 billion



and \$420 million, respectively. For fiscal year 2008, member contribution rates increased from 3% to 4%, while employer rates varied depending on the system.

Expenses

The System disbursed \$2.12 billion as retirement allowances to members and beneficiaries in fiscal year 2008. An additional \$16 million was paid to members and withdrawing employers as a result of employment terminations and withdrawals from the System. Expenses for management of the investment portfolio totaled \$166.4 million. Of this figure, \$93 million was paid for asset management fees. The cost for administration of the System was \$23.1 million.

EXPENSES

Benefit Payments
 2008\$2.12 billion
 2007\$1.97 billion

Refunds
 2008\$16 million
 2007\$16 million

Funded Status

As of June 30, 2008, the System's actuarial accrued liability was \$50.2 billion. With the actuarial value of assets accumulated to pay the liability at \$39.5 billion, the System now stands at 78.62% funded.

In considering the System's overall funded status, it is important to remember that a retirement system's funding plan is based on a long time horizon, in which fluctuations in the market are expected.

Despite the recent economic events and market volatility, the System is financially sound and committed to its long term funding goals.

INVESTMENTS

Fiscal year 2008 is best characterized by the significant losses in the equity markets, and to a lesser degree, the real estate market. Consequently, the System's total assets under management decreased from \$39.4 billion to \$36.6 billion.

Annualized returns for the three, five, and 10-year periods ending June 30, 2008 were 7.1%, 9.3% and

See Declining markets, page 3

State Retirement Pick-up and your taxes

FOR ELIGIBLE RETIREES, BLOCK 15 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 an employee contribution.

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 14, entering code letter "r." This serves as a subtraction from your income which will reduce your taxable net income on line 22 (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 2008 RETIREES

For members who retired in 2008, 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 2008. This amount serves as an addition to State income for 2008. Enter this figure on line 3 of your Maryland tax return (Form 502).

Declining markets, continued from page 2

5.0%, respectively. The System's total equity investments returned -10.9%, with domestic equities returning -14.0% and international equities returning -6.5%. The System's fixed income investments returned 6.2% and real estate returned -2.9%.

Looking forward to fiscal year 2009, the Agency will continue to implement the asset allocation adopted this year by the Board of Trustees. We believe that this asset allocation is well-diversified and likely to produce solid returns over the long term.

MEMBERSHIP

The System's rolls included 199,255 active members as of June 30, 2008, an increase of 2,993 members from the previous year. The System also served 112,422 retirees and beneficiaries at the end of fiscal year 2008, an increase of 4,067 over the previous year. During fiscal year 2008, the number of former members who are eligible for a future benefit (i.e., vested members) decreased by 232 to a total of 51,795.

FOR MORE INFORMATION...

The System's Comprehensive Annual Report for fiscal year 2008 is available in its entirety online. Visit the State Retirement Agency Web site at www.sra.state.md.us to access a printable version of the report.



Understanding your 1099-R

PERSONALIZED COPIES OF INTERNAL REVENUE SERVICE FORM 1099-R

will be distributed to all State Retirement and Pension System retirees by the end of January, 2009. The forms provide each retiree with detailed information on his or her pension income for the previous year. Most retirees receive only one 1099-R each year. However, members who retired in 2008 will receive a separate form 1099-R 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

BLOCK 1.

(Gross Distribution)

This is the total amount of pension benefits paid to you by the State Retirement Agency during the 2008 calendar year.

BLOCK 2A.

(Taxable Amount)

This is the taxable amount of your pension. Depending on your retirement date 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 IRS Publication 575 before 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 State Retirement Agency.

BLOCK 5.

(Employee Contributions)

This is the amount of your contributions that were recovered, tax free, during 2008. This figure is the difference between the amounts in Blocks 1 and 2a. 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 2008, this block contains the value of any

contributions made during employment that can be recovered tax-free. Only members who retired in 2008 and made pension contributions will see a value in this block. For members who retired prior to 2008, a zero will be printed in the block.

BLOCK 10.

(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 15.

(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.

DUPLICATE 1099-R

To request a duplicate copy of your 1099-R form, please call the State Retirement Agency at 410-625-5555 or 1-800-492-5909.

PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution		OMB No. 1545-0119	
MARYLAND STATE RETIREMENT AGENCY 120 EAST BALTIMORE STREET BALTIMORE, MD 21202-6700		\$ 12,000.00		2008	
PAYER'S federal identification number 52-6104406		2a Taxable amount \$ 11,000.00		Form 1099-R	
RECIPIENT'S identification number 123-45-6789		2b Taxable amount not determined <input type="checkbox"/>		Total distribution <input type="checkbox"/>	
MARY SMITH 123 MAIN STREET BALTIMORE, MD 21201		3 Capital gain (included in box 2a) \$.00		4 Federal income tax withheld \$ 500.00	
1st year desig. Roth contrib.		5 Employee contributions / Designated Roth contributions or insurance premiums \$ 1,000.00		6 Net unrealized appreciation in employer's securities \$.00	
Account number (see instructions)		7 Distribution code(s) 7		8 Other %	
Form 1099-R		9a Your percentage of total distribution %		9b Total employee contributions \$ 16,868.75	
Cat. No. 14436Q		10 State tax withheld \$ 250.00		11 State Payer's state no. MARYLAND 52-6104406	
Department of the Treasury - Internal Revenue Service		13 Local tax withheld \$.00		12 State distribution \$.00	
		14 Name of locality		15 Pick-Up Contrib's \$ 3,000.00	

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