

# Retiree News & NOTES



MARYLAND  
STATE RETIREMENT  
and PENSION SYSTEM

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

## Robert Hagans, Kenneth Haines join board

*Trustee Lochte  
reelected; Trustees  
Zirkin, Zollicoffer  
reappointed;  
Trustees Brown,  
Schaefer retire*

**THE BOARD OF TRUSTEES** of the Maryland State Retirement and Pension System in recent weeks welcomed new Trustees Robert R. Hagans, Jr., a gubernatorial appointee to the board, and Kenneth B. Haines, who won an elected board seat. Earlier in 2011, Trustee Teresa Lochte won reelection to a second board term while Trustees Harold Zirkin and Thurman W. Zollicoffer, Jr., were reappointed to new terms by the Governor. Trustees William D. Brown and Robert W. Schaefer retired from the board.

### **ROBERT R. HAGANS, JR.**

Trustee Hagans was tapped for the board by Governor Martin O'Malley in November 2011. Since 2001, Mr. Hagans has served as chief financial officer

*See Trustees, page 6*

## Investing in your future

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

**THE MARYLAND STATE RETIREMENT AND PENSION SYSTEM IS MANAGED TO PRODUCE** long-term investment returns to fund retiree benefits for many decades to come. Despite the peaks and valleys of the financial markets in recent years, the gross return of the system over the last 25 years is 8.6%, a healthy result.

Today as I write the market is rebounding on confidence that the holidays will bring strong retail sales in the U.S. While our portfolio managers will take a view on retail sales for the season, the investment horizon of the overall retirement system is much longer term.

Each year, the board of trustees reviews the allocation of the total fund among the various asset classes (e.g., public equity, fixed income, credit/debt strategies, alternatives and cash) and makes any adjustments judged necessary for optimal fund performance. For example, over the last few years, the board has reduced the target allocation to public equity while increasing allocations to private equity and credit/debt strategies.



**FOLLOWING A NATION-WIDE SEARCH**, the board of trustees in September 2011 announced that A. Melissa Moye, Ph.D., had been selected as the system's chief investment officer (CIO). Dr. Moye previously served as acting CIO. For more on Dr. Moye, go to [sra.maryland.gov](http://sra.maryland.gov) and click on **News**.

*See Investing, page 5*

# Financial report: Investment growth tops 20%

## THE MARYLAND STATE RETIREMENT AND PENSION SYSTEM'S PORTFOLIO

earned 20.04% on investments in fiscal year 2011, raising assets to \$37.59 billion—an

increase of \$5.75 billion over the previous year when the portfolio earned 14.03%.

The investment results were detailed in the system's Consol-

idated Annual Financial Report released in December 2011.

The year also witnessed Governor Martin O'Malley's introduc-

See *Growth*, page 3

### Statement of Plan Net Assets by System for the Fiscal Year Ended June 30, 2011

*Expressed in thousands*

	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	\$ 1,228,307	\$ 616,862	\$ 31,796	\$ 82,741	\$ 43,016	\$ 2,002,722
Investments, at Fair Value	24,568,009	13,891,864	309,163	1,177,023	573,184	40,519,243
Other Assets	496,442	345,828	6,519	25,804	13,179	887,772
<b>Total Assets</b>	<b>26,292,758</b>	<b>14,854,554</b>	<b>347,478</b>	<b>1,285,568</b>	<b>629,379</b>	<b>43,409,737</b>
Total Liabilities	3,527,812	1,993,403	44,517	169,040	82,213	5,816,985
<b>Total Plan Net Assets</b>	<b>\$ 22,764,946</b>	<b>\$ 12,861,151</b>	<b>\$ 302,961</b>	<b>\$ 1,116,528</b>	<b>\$ 547,166</b>	<b>\$ 37,592,752</b>

### Statement of Changes in Plan Net Assets by System for the Fiscal Year Ended June 30, 2011

*Expressed in thousands*

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System	State Police Retirement System	Law Enforcement Officers' Pension System	Total
<b>Additions</b>						
Employer Contributions	\$ 919,313	\$ 467,320	\$ 23,854	\$ 44,915	\$ 57,070	\$ 1,512,472
Member Contributions	316,971	197,300	1,813	6,339	5,605	528,028
Investment Income	3,829,451	2,140,796	48,631	168,187	86,272	6,273,337
<b>Total Additions</b>	<b>5,065,735</b>	<b>2,805,416</b>	<b>74,298</b>	<b>219,441</b>	<b>148,947</b>	<b>8,313,837</b>
<b>Deductions</b>						
Benefit Payments	1,525,781	896,041	24,381	97,905	36,284	2,580,392
Refunds	16,476	16,138	-	380	375	33,369
Administrative Expenses	16,536	13,776	46	215	388	30,961
<b>Total Deductions</b>	<b>1,558,793</b>	<b>925,955</b>	<b>24,427</b>	<b>98,500</b>	<b>37,047</b>	<b>2,644,722</b>
Net System Transfers	1,494	(1,613)	-	(12)	131	-
Net Change in Plan Net Assets	3,508,436	1,877,846	49,871	120,929	112,031	5,669,115
Net Assets at Beginning of Fiscal Year	19,256,510	10,983,303	253,090	995,599	435,135	31,923,637
<b>Net Assets at End of Fiscal Year</b>	<b>\$ 22,764,946</b>	<b>\$ 12,861,151</b>	<b>\$ 302,961</b>	<b>\$ 1,116,528</b>	<b>\$ 547,166</b>	<b>\$ 37,592,752</b>

\*Intersystem transfers have been eliminated in this financial statement.

### Actuarial Funded Status for the Fiscal Year Ended June 30, 2011

*Expressed in thousands*

	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	32,985,145	19,722,264	433,240	1,759,676	1,002,708	14,511	55,917,543
Actuarial Value of Assets	21,868,875	12,387,810	293,801	1,090,383	526,807	9,980	36,177,656
Unfunded Actuarial Accrued Liability	11,116,270	7,334,453	139,439	669,293	475,900	4,531	19,739,887
Funded Ratio	66.3%	62.8%	67.8%	61.9%	52.5%	68.8%	64.7%

# 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 2011 RETIREES

For members who retired in 2011, 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 2011. This amount serves as an addition to state income for 2011. Enter this figure on line 3 of your Maryland tax return (Form 502).

*Growth, from page 2*

tion and the legislature's passage of comprehensive pension reform of the system to ensure the long-term sustainability and affordability of Maryland's defined benefit pension plans. As a result of these reforms, the General Assembly's actuary projects that the system will reach approximately 80% funding by fiscal year 2023—three years faster than pre-reform projections—and full funding in fiscal year 2031.

The 2011 annual report, along with reports from previous years, can be reviewed in their entirety online at [sra.maryland.gov](http://sra.maryland.gov).



**Open enrollment  
slated for retired state  
of Maryland employees**

**STATE OF MARYLAND 2012-2013 OPEN ENROLLMENT IS RIGHT AROUND THE CORNER!** Please watch the mail for your annual open enrollment packet which will be mailed to your home in early spring. If your contact information has changed within the past year, please contact the State of Maryland Employee Benefits Division *as soon as possible* at 410-767-4775 or toll-free at 1-800-30-STATE. For the latest benefit updates go to [www.dbm.maryland.gov/benefits](http://www.dbm.maryland.gov/benefits)

# 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 2012. 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 2011 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

Please note that the IRS renumbered some of the blocks on the 1099-R form this year.

### BLOCK 1. (Gross Distribution)

This is the total amount of pension benefits paid to you by the Maryland State Retirement Agency during the 2011 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 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

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		2011		Form 1099-R	
PAYER'S federal identification number 52-6104406		2a Taxable amount \$ 11,000.00		2b Taxable amount not determined <input type="checkbox"/>		Total distribution <input type="checkbox"/>	
RECIPIENT'S identification number 123-45-6789		3 Capital gain (included in box 2a) \$ .00		4 Federal income tax withheld \$ 500.00		Copy C For Recipient's Records	
RECIPIENT'S name MARY SMITH 123 SUMMER STREET OCEAN CITY, MD 21842		5 Employee contributions / Designated Roth contributions or insurance premiums \$ 1,000.00		6 Net unrealized appreciation in employer's securities \$ .00		This information is being furnished to the Internal Revenue Service.	
7 Distribution code(s) 7		8 Other		9a Your percentage of total distribution % %		9b Total employee contributions 16,868.75	
10 Amount allocable to IRA within 5 years \$		11 1st year of dislg. Roth contrib. \$		12 State tax withheld \$ 250.00		13 State/Payer's state no. MARYLAND 52-6104406	
Account number (see instructions)		15 Local tax withheld \$ .00		16 Name of locality		14 State distribution \$ .00	
Form 1099-R		(Keep for your records)		Department of the Treasury - Internal Revenue Service		17 Pick-Up Contrib's \$ 3,000.00	

form (Form 766), available through the retirement agency.

### BLOCK 5. (Employee Contributions)

This is the amount of your contributions that were recovered, tax free, during 2011. 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 2011, this block contains the value of any contributions made during employment that can be recovered tax-free. Only members

who retired in 2011 and made pension contributions will see a value in this block. For members who retired prior to 2011, 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 14 by calling the State Retirement Agency at 410-625-5555 or 1-800-492-5909.

## 2012 payment dates slated

THE SCHEDULE FOR DIRECT DEPOSIT of retirement benefits for calendar year 2012 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.

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

- Tuesday, January 31
- Wednesday, February 29
- 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 and advice slips

- Tuesday, January 31
- Wednesday, February 29
- 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.

## Are your federal and Maryland 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](http://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 2012

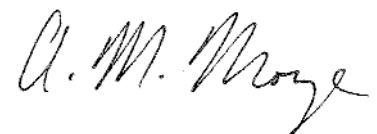
The Maryland State Retirement Agency will begin using the new 2012 federal tax withholding tables beginning with your January benefit payment. The new tables, issued by the Internal Revenue Service, became effective January 1, 2012, and may result in an increased amount of federal taxes being withheld from your benefit payment. Maryland state tax withholding is unaffected. For more information go to [sra.maryland.gov](http://sra.maryland.gov).

### *Investing, from page 1*

The Maryland State Retirement Agency's Investment Division employs 20 qualified professionals to oversee the day-to-day investment of the widely diversified portfolio by over 200 external money managers including T. Rowe Price, State Street Global Advisors, PIMCO, Goldman Sachs, Earnest Partners, Pyramis Global Investors and BlackRock Investment Management.

The combined results of these efforts are reported each quarter on our website. Simply click on

**Agency** then, under **Investments**, click **Reports and Updates**. It is the job of the Baltimore-based SRA Investment Division to invest prudently for your retirement and ours. I am proud to lead a group of investment and accounting professionals dedicated to long-term retirement security for all of the members of the retirement system.



for the American Association of Retired Persons (AARP). In this position he provides strategic guidance and expertise in all areas of AARP's financial management, strategy implementation and policy formulation, in addition to AARP's environmental and physical resources. Mr. Hagans has more than 30 years of work experience in nonprofits and financial management.

#### **KENNETH B. HAINES**

As the only candidate to successfully collect the required nominations needed to vie for an elected position on the board, Trustee Haines acceded to the board seat formerly held by Trustee Brown, who concluded his board service in December 2011.

Because Mr. Haines was the only eligible candidate, the election slated for February will not be conducted.

Mr. Haines is president of the Prince George's County Educators' Association, a bargaining agent with 9,000 members. For each of the last five negotiated agreements since 1998, he has been responsible for the cost-analysis of salary proposals during negotiations with the county school system.

#### **THERESA LOCHTE**

Trustee Lochte was reelected in 2011 by her fellow educators to a second term on the board. Ms. Lochte, who was first elected to the board by active and retired

teachers in 2007, sits on the board's administrative and audit committees. She has been active in the Teachers Association of Baltimore County (TABCO) and the Maryland State Education Association (MSEA).

#### **HAROLD ZIRKIN**

Trustee Zirkín was reappointed by the Governor to a new term on the board beginning July 2011. He is chairman of the board's investment committee, vice chair of the securities litigation committee and member of the audit committee. Mr. Zirkín, president of Zirkín-Cutler Investments, Inc., serves as trustee for more than 50 trusts and foundations and is investment counsel for more than 50 pension and retirement accounts.

#### **THURMAN W. ZOLLICOFFER, JR.**

Trustee Zollicoffer, another gubernatorial reappointee to the board, began his new term August 2011. He is chairman of the securities litigation committee, vice chair of the corporate governance committee and a member of the investment committee. A partner in the Baltimore-based law firm Whiteford, Taylor & Preston, Mr. Zollicoffer previously served as city solicitor and counsel for the City of Baltimore mayor and city council, a position in which he managed a staff of 110 and a budget of \$14 million.

#### **WILLIAM D. BROWN**

Trustee Brown represented the interests of members and retirees of the Teachers' Retirement and Pension Systems, who elected him to four terms in office beginning in 1997. During his 14 years of dedicated board service, Mr. Brown was chairman of both the administrative and audit committees, vice chair of the investment committee and member of the corporate governance subcommittee. Upon retirement from a 30-year teaching career, Mr. Brown became ineligible for his board seat, which by law must be held by an active teacher. At his final meeting, the board thanked Mr. Brown for his "commitment to public service, sound judgment, diligent effort and persistent energy."

#### **ROBERT W. SCHAEFER**

Trustee Schaefer retired from the board in November 2011 after four and a half years of service. Mr. Schaefer, who chaired the board's investment committee, previously served for seven years as a public advisor to that committee. As investment committee chairman, Mr. Schaefer "provided steady guidance during one of the most volatile periods in the history of the financial markets," said Board Chairman and State Treasurer Nancy K. Kopp. The board also thanked Mr. Schaefer for his nearly 12 years of service to the system.

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410-625-5555  
1-800-492-5909  
sra.maryland.gov

**EDITOR:**  
Benjamin Robb

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