

Retiree News & NOTES



STATE RETIREMENT
and PENSION SYSTEM
of MARYLAND

JULY 2008
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A Newsletter for Retirees from the State Retirement & Pension System of Maryland

Legislative Update

THE 2008 MARYLAND GENERAL ASSEMBLY ENACTED SEVERAL PIECES OF LEGISLATION

of special interest to retirees of the State Retirement and Pension System (SRPS). The following legislation was signed into law by Governor Martin O'Malley and became effective July 1, 2008.

CHAPTER 250, ACTS OF 2008: JUDGES' RETIREMENT SYSTEM – EMPLOYMENT ON FACULTY OF PUBLIC INSTITUTION OF HIGHER EDUCATION

Synopsis: Removes the earnings limitation for retirees of the Judges' Retirement System who are employed as faculty members at public institutions of higher education in Maryland.

CHAPTER 506, ACTS OF 2008: STATE RETIREMENT AND PENSION SYSTEMS – INVESTMENTS

Synopsis: Improves the investment program by removing the limit on the quantity of non-dividend-paying common stocks that the Board of Trustees may purchase; permits the Board of Trustees to buy or sell real estate without the approval of the Board of Public Works; removes fee caps for alternative investments.

See Legislative Update , page 4

Retirees' COLA for July 2008 is 2.852%

ELIGIBLE RETIREES WILL RECEIVE a slightly larger retirement payment in July as the annual cost-of-living adjustment (COLA) takes effect.

This year's adjustment has been set at 2.852%. Unlike the 2007 rate, this year's rate does not exceed the system limit or cap in place for retirees of the Pension Systems. All eligible retirees will receive the full 2.852% increase.

Answers to retirees' most common COLA questions are provided below.

Q. WHO QUALIFIES TO RECEIVE THE COLA THIS JULY?

A. A retiree who has completed at least one year of retirement as of July 1, 2008, qualifies for this year's COLA. Those who retired after July 2007 (August 2007 or later) will receive their first COLA increase in July 2009.

The annual COLA does not apply to most legislative or judicial retirees. Retirees from the legislative and judicial systems receive adjustments based on the increases received by active legislators and judges.

Q. WHICH PAYMENT SHOWS THE NEW COLA INCREASE?

A. Qualifying retirees will see the adjustment in their July 31, 2008 benefit payments.

Q. HOW IS THE ANNUAL COLA INCREASE CALCULATED?

A. A retiree's benefit system determines how the annual increase is calculated for his or her payment. Eligible retirees receive either a **compound rate** or a **simple rate**. For retirees receiving the compound rate, the COLA increase is based on their **current** allowance, allowing COLAs to compound over time. Under the simple rate, the increase is based on the retiree's **initial** retirement allowance.

The **compound rate** applies for eligible retirees of the following systems:

- Employees' and Teachers' Alternate Contributory Pension Selection
- Employees' and Teachers' Contributory Pension System
- Employees' and Teachers' Retirement System
- State Police Retirement System
- Correctional Officers' Retirement System

See Retirees' COLA, page 3

Make sure your tax withholdings are correct

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. For your convenience, Form 766 is available online at www.sra.state.md.us or by calling or writing to the 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 only designate 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.

Beginning in August, the State Retirement Agency will be contacting those retirees who currently withhold a flat federal tax. The letter will help you determine which marital status, number of allowances and specific dollar amount to fill out to equal the current flat amount withheld. If you have any questions, please contact a Retirement Benefits Counselor at 410-625-5555 or toll free 1-800-492-5909.

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 prior 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*.

How employment affects your retirement check

FOR RETIREES OF THE STATE RETIREMENT AND PENSION SYSTEM (SRPS), certain types of employment are subject to an earnings limit. Reemployment rules discussed here apply for most retirees. Special rules apply for retired judges, legislators, State Police and law enforcement officers. Contact the Retirement Agency for details.

EARNINGS LIMITS

If your compensation from employment after retirement exceeds your earnings limit, your benefit may be reduced. Prior to accepting work with any participating employer, you must notify the Retirement Agency in writing of your anticipated earnings.

Your earnings limit is printed on the *Notice of Retirement Allowance* that you received upon retirement.

WHO IS SUBJECT TO AN EARNINGS LIMIT?

All service retirees, returning to work for the same employer, are subject to an earnings limit. There must be at least 45 days between your last day on payroll and the date you are rehired by the same employer. All units of Maryland State government, including the University of Maryland, are considered to be one employer.

If a service retiree returns to work for a different employer, only early service retirees within the first 12 months of retirement are subject to an earnings limit.

Service retirees are exempt from earnings limits after nine full calendar years of retirement. (This exemption does not apply to retired judges or legislators.)

SPECIAL EXEMPTION FOR TEACHERS AND PRINCIPALS

A service retiree from the Teachers' Systems is exempt from earnings

limits if he or she returns to work for the same employer as a classroom teacher, substitute classroom teacher or teacher mentor in a public school:

- That is not making adequate yearly progress or is a school in need of improvement as defined under the federal No Child Left Behind Act (NCLBA) of 2001, or
- Is receiving funds under NCLBA, or
- Has more than 50% of the students attending that school who are eligible for free and reduced-price meals, or
- Provides an alternative education program for adjudicated youths or students who have been expelled, suspended or identified for suspension or expulsion from public school

AND

- Teaches in an area of critical shortage, or a special education class for students with special needs, or a class for students with limited English proficiency, or
- Is hired to teach any subject or class or provide educational services under a special limited provision granted to the superintendent

AND

- Is or has been certified to teach in the state,
- Has verification of satisfactory or better performance in last assignment prior to retirement,
- Has been appointed in accordance with §4-103 of the Education Article, and
- If receiving an early retirement benefit, has been retired at least 12 months.

See Retirement check, page 3

Governor appoints Blitzstein to Board

GOVERNOR MARTIN O'MALLEY IN APRIL

appointed David S. Blitzstein to serve on the Board of Trustees of the State Retirement and Pension System of Maryland.

Mr. Blitzstein is Special Assistant for Multiemployer Plans for the United Food & Commercial Workers International Union (UFCW). He currently serves as a trustee on five

Taft-Hartley pension funds and two health funds representing a quarter of a million plan participants. In addition, Mr. Blitzstein advises the UFCW International leadership on employee benefit policy issues. Mr. Blitzstein is a graduate of the University of Pennsylvania and holds a master of science in labor studies from the University of Massachusetts in Amherst.

Retirees' COLA , continued from page 1

- Law Enforcement Officers' Pension System

The **simple rate** applies for eligible retirees of the following systems:

- Employees' Non-Contributory Pension System
- Local Fire and Police System (For retirees who transferred into this plan from the Employees' Retirement System, the compound rate applies.)

Retirement check, continued from page 2

Earnings limits also do not apply to a retiree who was employed as a principal within a certain period before retirement AND is rehired as a principal at a public school meeting the requirements listed here. During the period of reemployment, the retiree's performance must be satisfactory.

If you qualify for this exemption as a rehired teacher or principal, your employer must report your hiring to the State Retirement Agency and the Department of Education within 30 days.

SPECIAL EXEMPTION FOR HEALTH CARE PRACTITIONERS

Retirees from the Employees' Systems who are receiving a service retirement benefit are exempt from an earnings limit if employed by the Department of Health and Mental Hygiene as contractual health care practitioners in certain state facilities or local health departments for not more than four years.

SPECIAL EXEMPTION FOR CORRECTIONAL OFFICERS

Retirees from the Correctional Officers' Retirement System who are receiving a service retirement benefit are exempt from an earnings limit if employed on a contractual basis for not more than four years by the Division of Corrections, the Division of Pretrial Detention and Services, or the Patuxent Institution as correctional officers in correctional facilities defined in §1-101 of the Correctional Services Article.

REEMPLOYMENT RULES FOR DISABILITY RETIREES

Earnings limit

Ordinary disability retirees who accept employment with a *participating* employer are subject to an earnings limit until they reach normal retirement age for their system. Ordinary disability retirees reemployed by a *non-participating* employer and accidental disability retirees are exempt from earnings limits.

Suspension rules

An ordinary or accidental disability retiree's monthly allowance shall be temporarily suspended if the retiree:

- Retired on or after July 1, 1998,
- Is not eligible to receive a normal service retirement and
- Is employed by a participating employer at an annual compensation at least equal to his or her average final compensation at time of retirement.

Note: Disability retirees from the State Police Retirement System, Law Enforcement Officers' Pension System, Local Fire and Police System and Employees' Retirement and Pension Systems (former law enforcement officers employed by an employer that participates in the Law Enforcement Officers' Pension System only) are exempt from the earnings limit and suspension if reemployed by a participating employer in any position other than a probationary status

law enforcement officer, a law enforcement officer or chief, as defined in §3-101 of the Public Safety Article.

ADDITIONAL REEMPLOYMENT RULES

If you are considering reemployment with the *same employer* from whom you retired, you should also be aware of the following important information.

There can be significant consequences to you and the State Retirement and Pension System if you retire before the normal retirement age of your plan and/or before age 59 1/2 *and* you are reemployed with the same employer without a bona fide separation of service. In order to avoid this penalty, a bona fide separation must occur.

While the IRS has not specifically defined what constitutes a bona fide separation from service, it is clear that the more differences between your last job before retirement and the job being performed upon your reemployment, and the longer the break between the date of your retirement and the date of your reemployment, the more likely it is that there has been a bona fide separation from service.

If after retirement you consider reemployment with your former employer, you may wish to review and discuss this information with the employer and your tax advisor. Failure to do so could result in a significant tax penalty on your income.

Make sure your beneficiaries know how to file for survivor benefits

IN THE EVENT OF YOUR DEATH, will your loved ones know whom to contact to initiate any survivor benefits that may be payable?

Although it's something we don't like to think about, planning ahead will help your beneficiaries avoid confusion and unnecessary delays.

Make sure your survivors know to take the following steps at your death:

1. Contact the State Retirement Agency at 410-625-5555 or 1-800-492-5909 and select menu option five. A Retirement Agency staff member will ask for the name and Social Security number of the deceased retiree.

After a retiree's death is reported, the Retirement Agency determines what survivor benefit, if any, is payable to the retiree's beneficiary or beneficiaries.

2. **If a benefit is payable:** The designated beneficiary(ies) will be mailed a claim packet containing written instructions and forms to complete to initiate the benefit.

If a benefit is not payable: The designated beneficiary(ies) will receive written notice by mail.

3. If the beneficiary(ies) are eligible for continued health insurance through the State of Maryland, necessary forms will be included in the claim packet issued by the Retirement Agency. If the deceased retiree retired from a

county government, board of education or other participating municipality, survivors should contact that employer to determine if continuing health benefits are available.

As a retiree, you can help your loved ones avoid future confusion by keeping your beneficiary selection up to date. Remember, for most retirees, the designation of your spouse as beneficiary is **not** automatic. If you've experienced a marriage, divorce, the death of a spouse or the addition of a new family member since you retired, you may wish to update your beneficiary selection using the appropriate form available from the Retirement Agency.

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CHAPTER 516, ACTS OF 2008: STATE RETIREMENT AND PENSION SYSTEM – REEMPLOYMENT OF RETIREES

Synopsis: Waives the earnings limit for retirees of the Employees' Retirement System and Employees' Pension System who, as retirees of the Judges' Retirement System, are temporarily assigned to serve on the bench; permits judges who are receiving a service or vested retirement benefit from the Employees' Retirement or Pension System to have this benefit temporarily suspended while earning credit in the Judges' Retirement System; requires local school

systems that rehire a retired teacher as exempt from the earnings limitation but fail to file the corresponding paperwork with the State Retirement Agency to reimburse the Agency for the amount the reemployed teacher's benefit is to be offset against the new earnings.

CHAPTER 229, ACTS OF 2008: BLUE RIBBON COMMISSION TO STUDY RETIREE HEALTH CARE FUNDING OPTIONS – EXTENSION OF REPORTING AND TERMINATION DATES

Synopsis: Requires the Commission to submit an interim report of its findings on December 31, 2008,

and a final report on December 31, 2009.

CHAPTER 342, ACTS OF 2008: DIVESTITURE FROM IRAN AND SUDAN

Synopsis: Prohibits the Board of Trustees of the State Retirement and Pension System from making new investments in companies doing business in Iran or Sudan. Also requires the Board to withdraw existing investments from such companies that do not agree to cease doing business in these nations.

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