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STATE RETIREMENT AND PENSION SYSTEM

Choosing a Retirement Program

Maryland Optional Retirement Plan

Highlights of the SRPS & ORP

Retirement Programs

About This Book

About This Booklet

This booklet addresses only those general provisions applicable under the two retirement programs available to eligible faculty and administrators and does not cover all the technical matters that may affect benefits. This booklet will only indicate the basic points for your consideration. Contact representatives of the State Retirement and Pension System (SRPS) for additional information on the defined benefit plan. Contact your Retirement Coordinator or the Optional Retirement Plan (ORP) vendors for questions on the defined contribution plan.

Some Important Information

The information presented in this booklet is subject to legislative change and judicial interpretation and does not supersede nor restrict procedures or authority established under State statute. If there are questions of interpretation, the provisions of the State Personnel and Pensions Article of the Annotated Code of Maryland will control to resolve them.

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Planning For Your Retirement

During your working years, you're busy with your career, family and social life, but you also need to think about retirement. A comfortable, secure retirement requires planning.

As a faculty member or administrator of one of the public higher education institutions of the State of Maryland or a Community College, you have the option of participating in one of two retirement programs. The purpose of this booklet is to explain how each program works so that you may choose the option that better meets your needs.

Your Retirement Program Options

You are eligible for one of two retirement programs. They are the:

- Teachers' Reformed Contributory Pension System or the Employees' Reformed Contributory Pension System administered by the Board of Trustees for the Maryland State Retirement and Pension System (SRPS), or
- Optional Retirement Program (ORP).

Both programs offer income when you retire. The main difference between the two plans is that the SRPS guarantees a benefit amount while the ORP guarantees a state contribution rate equal to 7.25% of salary.

Making Your Selection

Your election to join the ORP or the SRPS is a one-time, irrevocable election and cannot be changed. Your election must be made upon the commencement of your employment. If you elect to join the ORP, you will never be eligible to participate in the SRPS, unless your employment changes such that you are no longer employed in a position eligible to participate in the ORP. If you elect to join the SRPS, you will never be eligible to join the ORP regardless of any changes in your employment.

After choosing a retirement program, your Retirement Coordinator will assist you in completing the appropriate forms and materials for the program you elect.

Important Terms

This booklet contains a glossary of important terms on page 14. Words that are defined in the glossary appear in **bold** typeface when they are used. Please refer to the glossary as needed.

CHOOSING A RETIREMENT PROGRAM

Some Things To Consider

The following are some questions to ask yourself before choosing your retirement program. If you have any questions, or need more information, contact your Retirement Coordinator in your Benefits Office or Human Resources Department.

- How long do you plan on working for the State of Maryland? Keep in mind that SRPS benefits are based on your length of service, while the ORP benefits are based on the amount of money contributed to your account.
- How comfortable are you with investing your money? Are you able to take risks? How long do you have until you retire? To be an effective investment manager, you need to make a commitment to review and manage your account.
- Do you have any other sources of retirement income, e.g., Social Security, spouse's retirement plan?
- Do you prefer a guaranteed retirement, disability or death benefit or a benefit based upon your investment decisions?
- How much money will you actually need to have when you retire?

YOUR RETIREMENT PROGRAMS AT-A-GLANCE

	SRPS	ORP
Type of Program	**Defined benefit plan** provides a determinable benefit based upon your salary and service	**Defined contribution plan** provides a benefit based upon your accumulated account balance.
How Benefits Are Determined	Benefits are calculated using a specific formula that takes into consideration a fixed percentage of your years of **creditable service** and **average final compensation.**	Benefits are based on your ORP account accumulation, which consists of State contributions, income, expenses and investment gains and losses.
Contributions	The State contributes a certain amount, which is determined annually by the state system's actuary. You must contribute 7% of your salary.	The State contributes a certain percentage of your salary each year to your ORP account. Currently, the contribution rate is 7.25% of salary.
Investment Management	The SRPS assets are invested by professional investment managers chosen by the SRPS Board of Trustees. You do not bear any investment risk.	You choose one of the investment vendors when you join the plan. You may invest your account among your vendor's investment options. You bear all investment risk.
Normal Service Retirement Benefit	**Eligibility service** plus age equal at least 90 (Rule of 90); or Age 65 with 10 years of eligibility service	Benefits may begin upon separation from employment. A **federal penalty tax** may apply.
Early Retirement Benefit	After age 60 with 15 or more years of **eligibility service**, benefit is reduced 1/2% each month by which your retirement date precedes age 65.	Benefits may begin upon separation from employment. A **federal penalty tax** may apply.

YOUR RETIREMENT PROGRAM AT-A-GLANCE

	SRPS	ORP
Disability	Ordinary disability: you must be permanently disabled and have 5 or more years of **eligibility service**. Accidental disability: you must be permanently and totally disabled as a direct result of a job related injury.	The ORP investment accounts do not include disability benefits. However, if you become disabled, you may receive the full value of your current ORP account balance.
Death Benefit	Pre-retirement death benefits are available. The benefit amount depends upon your age, **eligibility service**, accumulated member contributions and your salary at time of death.	Pre-retirement death benefits are available. The benefit is your account balance – including all State contributions and investment earnings – paid to your designated beneficiary(ies) or estate.
Vested Retirement Allowance	You are fully **vested** after completing 10 years of **eligibility service**. Benefit payment may commence at age 65 or reduced payments may commence as early as age 60 with 15 years **eligibility service**.	You are immediately fully vested in your total account balance. Benefits may begin upon separation from employment. A **federal penalty tax** may apply.
How Benefits Are Paid	You may elect one of several payment options available under the program.	You may elect one of several payment options available through your investment vendor.
Cost-of-Living Increases	Adjustment is made each July 1. Cost-of-living adjustment has (i) a 2.5% compounded interest annual cap if the SRPS investment target is reached; or (ii) a 1% compounded interest annual cap if the SRPS investment target is not reached.	ORP benefits do not include an annual cost-of-living adjustment.
Portability	SRPS benefits are transferable among certain governmental plans within the State of Maryland.	ORP accounts may be transferable to a broader array of other employers' retirement programs.

HIGHLIGHTS OF THE SRPS PROGRAM

How SRPS Benefits Are Calculated

The SRPS is the State Retirement and Pension System which provides **defined benefit plan** benefits based on a specific formula. This formula takes into account your years of **creditable service** and your **average final compensation**. When you retire, you have several payment options to choose from.

Contributions To The SRPS

Each year, the State contributes a certain percentage of your salary to the SRPS which is determined annually by the State System's actuary. ***You must contribute 7% of your earnable compensation.***

Investment Management

The assets of the SRPS are invested by professional investment managers who are selected and monitored by the Board of Trustees of the SRPS. Any investment losses or funding shortfalls are the responsibility of the State of Maryland.

Retirement Benefit Eligibility

Generally, you may retire and begin receiving benefits under the SRPS when you reach your normal retirement age as described below.

You may retire with unreduced benefits:

- If your age plus years of **eligibility service** equal at least 90 (Rule of 90), or
- at age 65 with at least 10 years of **eligibility service**.

Benefit Calculation

Special Note: This booklet is primarily intended for individuals who are originally hired in positions eligible for the Optional Retirement Program (ORP) on or after July 1, 2011. If you were a member of either the Teachers' Pension System or Employees' Pension System prior to that date and have just become eligible for ORP, your benefit formulas, vesting and retirement benefit eligibility requirements will differ from those outlined in this booklet. Check with a Retirement Benefits Specialist for full particulars on your specific situation.

Your pension benefit is calculated using the following formula:

1.5% of your **average final compensation*** TIMES your years and months of **creditable service =** Annual Retirement Benefit Amount

*your **average final compensation** equals the average of your five highest consecutive years of **earnable compensation**

An Example

For example, let's assume you retire from the SRPS at age 60 with 30 years of **eligibility service** (age + **eligibility service** = 90), 30 years **creditable service** and an **average final compensation** of $75,000. Your annual pension benefit would be calculated as follows:

1.5% of your **average final compensation** TIMES your years and months of **creditable service**	1.5% of $75,000 = $1,125.00 $1,125.00 x 30 = $33,750.00

Early Retirement Benefit

If you retire early (age 60 with at least 15 years of **eligibility service**), your monthly benefit will be equal to your pension benefit, reduced by 1/2% for each month you retire before age 65.

Using the above example, let's assume you retire age 60 with 15 years of **creditable service** and an **average final compensation** of $75,000. In this case, your retirement benefit ($16,875.00) would be reduced by 30% (5 years x 12 months = 60 months; 60 months x .005 = 30). This means your annual early retirement benefit would equal $16,875.00 x (100% - 30%) = $11,812.50.

Service Under the Program

Your benefits are based on your service as a member of the SRPS - including membership, purchased service, military credit and unused sick leave.

NOTE: Employees who initially enroll under the SPRS and then change to the ORP (after vesting with the SRPS) will not receive any credit for unused sick leave at the time of their deferred vested allowance.

Disability Retirement

There are two types of disability retirement benefits – ordinary and accidental. To qualify for ordinary disability retirement, you must be permanently disabled and have at least 5 years of eligibility service. Accidental disability benefits are paid if you are permanently and totally disabled as the direct result of a job-related injury.

Ordinary Disability Benefit

If you meet the eligibility requirements, you may receive an ordinary disability benefit based on the following formula:

1.5% of your **average final compensation**
TIMES
Your **creditable service** including creditable service projected from the time of disability until age 65

If you are age 65 or older when you become eligible to receive disability benefits, your benefit is based on your actual service.

Disability Earnings Limitation

Your disability benefit may be reduced if you have not reached normal retirement age and your earnings after retirement exceed the limit set by law.

Your disability benefit may be temporarily suspended if you have not reached normal retirement eligibility but return to work with a participating employer and your earnings exceed your **average final compensation**.

Accidental Disability Benefit

Accidental disability benefits are equal to:

The lesser of:
(a) your **average final compensation** or
(b) 66 2/3% of your **average final compensation** *

PLUS

the actuarial equivalent of your **annuity** based upon your accumulated contributions,
payable in monthly installments for life

*your **average final compensation** is the average of your five highest consecutive years of salary

Death Benefit

If you die before retirement, but you are still employed as a member, your designated beneficiary(ies) or estate will receive:

- a lump-sum benefit equal to your contributions plus interest and

- a lump sum equal to 100% of your salary if you had at least 1 year of service or died in the performance of duty.

Your surviving spouse may have a choice of selecting a monthly retirement benefit instead of the lump-sum payments described above provided:

- you were eligible for a service retirement when you died and you named your surviving spouse as your sole primary beneficiary,

OR

- you had at least 25 years of **eligibility service** (regardless of age) when you died and you named your surviving spouse as your sole primary beneficiary

OR

- you were at least age 55 when you died, had 15 or more years of **eligibility service**, and named your surviving spouse as your sole primary beneficiary.

NOTE: If you die as a **former member** of the SRPS eligible for a vested benefit, your contributions with interest are paid in a lump-sum to your designated beneficiary(ies) or estate.

If you die as a **former member** of SRPS but you are not vested and have not withdrawn your accumulated contributions, those amounts will be paid to your designated beneficiary(ies).

You may change beneficiary(ies) at any time before retirement by submitting the applicable change of beneficiary form to the State Retirement Agency.

Vested Retirement Allowance

If you are **vested** (have at least 10 years of **eligibility service**) and you terminate employment, you must leave your accumulated contributions and interest in the plan to retain your rights to a monthly benefit at normal retirement age, 65. If you terminate service with 15 years of **eligibility service** and maintain your funds in the plan, you may elect a reduced monthly benefit beginning at age 60. Any benefit payable before age 65 will be reduced by 1/2% for each month you retire before age 65. If you wait until age 65, you receive a full retirement allowance for the number of years of **creditable service** that you had accrued.

Payment Options

You have several payment options to choose from. If you do not have a beneficiary, you may choose to receive monthly payments throughout your lifetime, with all benefits ending when you die. This option – called the basic allowance – provides the maximum monthly allowance during your lifetime. All payments cease at your death. However, if you would like to receive a reduced monthly benefit so that benefits can be made available for your surviving beneficiary(ies), you may choose one of the following options:

- **Option 1** guarantees a return of your contributions with interest plus the State's contributions. If you die before receiving the full guaranteed amount, the remainder is paid in a single lump-sum payment to your beneficiary.

- **Option 2** provides you with lifetime monthly benefits equal to 100% of your reduced basic allowance – and continues to provide the same payment to your designated beneficiary after you die. Payments end when your designated beneficiary dies.

- **Option 3** provides you with monthly benefits for your lifetime. When you die, your beneficiary may receive 50% of your reduced benefit for the rest of his or her life. Payments end when your designated beneficiary dies.

- **Option 4** guarantees a return of your contributions with interest. If you die before receiving the full guaranteed amount, the remainder is paid in a single lump-sum payment to your beneficiary(ies).

- **Option 5** provides your designated beneficiary a lifetime monthly benefit equal to 100% of your reduced basic allowance. However, if your beneficiary dies, your reduced benefit is increased to the amount you would have received if you elected your basic allowance.

- **Option 6** provides your designated beneficiary a lifetime monthly benefit equal to 50% of your reduced basic allowance. However, if your beneficiary dies, your reduced benefit is increased to the amount you would have received if you elected your basic allowance.

If you choose Option 2 or Option 5, your beneficiary cannot be more than 10 years younger than you unless the beneficiary is your spouse or disabled child.

Cost-of-Living Increases

When you retire under the SRPS program, you may receive an annual cost-of-living increase to your retirement allowance. The amount is based on increases in the average Consumer Price Index – All Urban Index as determined by the U.S. Department of Labor. In years when the SRPS reaches its investment target, your increase cannot exceed 2.5% of your previous year's benefit amount. However, in years when the SRPS does not reach its investment target, your increase cannot exceed 1% of your previous year's benefit amount. You will receive your cost-of-living increase each July 1, provided you have been retired for at least one full year as of July 1.

HIGHLIGHTS OF THE OPTIONAL RETIREMENT PROGRAM (ORP)

How The ORP Benefits Are Determined	The ORP is a **defined contribution plan** which provides benefits based on your account balance at retirement. Your ORP account is made up of contributions from the State and any accumulated investment earnings. You choose an investment vendor when you join the plan, and you can invest your account among the vendor's approved investment options. The growth of your account balance will determine the retirement benefits you will receive.
Contributions To The ORP	Each year, the State contributes a certain percentage of your salary to your ORP account, as determined by law. Currently, the State contribution rate is 7.25% of salary.
Investment Management	When you elect to participate in the ORP, you must choose one investment vendor to initially invest your ORP employer contributions. The names of the approved vendors are available through your Retirement Coordinator.
Transferability	Once your contributions are deposited with your selected vendor, you may elect to invest those contributions among the different investment options offered by that vendor that are approved for the ORP. The investment vendors offer a variety of approved investment options. In some cases, you may also be able to transfer funds previously accumulated in the ORP among the vendors, subject to certain restrictions or charges. For more information including a prospectus, contact the investment vendors. See your Retirement Coordinator for additional information on investment vendors.
Retirement Benefit	Your retirement benefits are determined by the amount of your ORP account at retirement. You can elect to receive your account in a lump-sum payment, periodic distribution or annuity. Your ORP account is based on State contributions, income, expenses and any investment gains or losses in the investment option you selected. Before retirement benefits can begin, you or your surviving beneficiary will need to complete an application and submit it to the applicable ORP vendor. An additional **federal penalty tax** may apply for early withdrawal.

HIGHLIGHTS OF THE ORP

Early Retirement Benefit	Early retirement benefits are determined by the amount of your ORP account at early retirement. You can elect to receive your account in a lump-sum payment, periodic distribution or annuity. Your ORP account is based on State contributions, income, expenses and any investment gains or losses. Before these benefits can begin, you or your surviving beneficiary must complete an application and submit it to the ORP vendor. An additional **federal penalty tax** may apply for early withdrawal.
Disability Benefit	The ORP investment accounts do not provide disability benefits. However, if you become disabled, you may receive the full value of your current ORP account balance.
Death Benefit	If you die after retirement, your beneficiary survivor benefit will be determined by the payment option you selected. If you die before retirement, your account balance – including all State contributions and investment earnings – is paid to your designated beneficiary(ies) or estate. You may change beneficiary(ies) at any time before retirement by submitting the applicable change form to your investment vendor.
Vested Retirement Allowance	Vesting means you have full ownership of your account. Under the ORP, you are immediately 100% vested for all State contributions and any investment earnings credited to your account. Because you are fully vested, you may transfer your account to other 403(b) plans in certain situations. See *Transferring Benefits* on page 13 for more information.
Payment Options	Following separation from service, ORP benefits may be received under any of the approved lifetime annuity or minimum distribution options offered by your investment vendor. Contact the investment vendors for more information. NOTE: If you terminate employment with the State, you may elect to convert your account balance to an annuity. If you leave State employment after age 70 1/2, you may be subject to a 50% penalty tax assessed by the federal government unless you begin to withdraw benefits. Consult a tax advisor for more information.
Cost-of-Living Increase	ORP benefits do not include an annual cost-of-living adjustment.

Some Important Information

Qualified Plans	The Teachers' Pension System and the Employees' Pension System of the State Retirement and Pension System (SRPS) are qualified **defined benefit plans** under Internal Revenue Code Section 401(a). The Optional Retirement Program (ORP) is a **defined contribution plan** under Internal Revenue Code Section 403(b).
Social Security	As State or Community College employees, you must participate in Social Security. Social Security benefits are paid in addition to SRPS or ORP benefits.
Transferring Benefits	Under the SRPS, transfer is possible among certain governmental plans within the State of Maryland if certain conditions are met. However, there is no transfer between out-of-state systems and the State Retirement and Pension System. Under the ORP, your benefits are vested immediately. This means you may accumulate additional funds with the same vendor in another employer's 403(b) retirement program if that same vendor is offered as an investment provider in your new employer's plan. Contact your Retirement Coordinator or the ORP vendor for more information.

GLOSSARY OF IMPORTANT TERMS

Annuity	Under the SRPS program, the annuity portion of your benefit is equal to your accumulated contributions plus any interest they may have earned.
Creditable Service	Employment service recognized for computing the amount of any benefit.
Defined Benefit Plan	Any retirement plan that is not an individual account plan. Under a defined benefit plan, there is a definite formula by which your benefit is calculated.
Defined Contribution Plan	Any retirement plan that provides for an individual account for each participant. Under a defined contribution plan, your benefits are based on contributions to your account and any interest gained or lost and contributions lost due to investment performance.
Earnable Compensation	One-twelfth of the member's annual salary rate payable for working the normal time in your position.
Eligibility Service	Employment service which determines when you are eligible to receive a benefit.
Federal Penalty Tax	A 10% penalty tax is charged on ORP distributions prior to age 59 1/2 unless the distribution was: 1) paid to your beneficiary after your death, 2) due to disability, 3) part of a series of materially equal payments, 4) made following your separation from service following age 55, or 5) made to an alternative payee pursuant to a qualified domestic relations order. Please consult your tax advisor for more information.
Average Final Compensation	The average of your five highest consecutive years of compensation.
Former Member	A former member is an individual who has been a member, but has separated from employment with a participating employer and is not currently a member or retiree.
Normal Retirement Age	Your normal retirement age is: • age 65 with at least 10 years of eligibility service, or • at any time when your age plus your years of eligibility service equal at least 90 (Rule of 90.)
Vesting	Vesting means you are entitled to benefit payments. Under the SRPS, you are 100% vested after 10 years of eligibility service payable at age 65 or reduced payment as early as age 60 if you have 15 or more years of eligibility service. Under the ORP, you are immediately 100% vested in the State's contributions, and any investment earnings accumulated in your account