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State Retirement and Pension System

Choosing a Retirement Program

Maryland Optional Retirement Program

Highlights of the SRPS & ORP

Retirement Programs

Introduction

About This Handbook
This handbook 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 handbook only indicates the basic points of each program for your consideration. Contact representatives of the Maryland State Retirement and Pension System (SRPS) for additional information on the **defined benefit plan**. Contact your Retirement Coordinator or the Optional Retirement Program (ORP) vendors for questions on the **defined contribution plan**.

Some Important Information
The information presented in this handbook is subject to legislative change and judicial interpretation and does not supersede or restrict procedures or authority established under Maryland State law. 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 an eligible employee of certain employing institutions in the field of higher education, you have the option of participating in one of two retirement programs. The purpose of this handbook is to explain how each program works so that you may choose the option that better meets your needs.

Your Retirement Program Options
The two retirement programs are:

- The Reformed Contributory Pension Benefit of the Teachers' Pension System or Employees' Pension System, which are separate systems within the Maryland State Retirement and Pension System (SRPS) or
- The Optional Retirement Program (ORP).

Both alternatives offer income when you retire. The main difference between the two is that the SRPS is a **defined benefit plan** while the ORP is a **defined contribution plan**.

Making Your Selection
Your election to join the ORP or the SRPS is a one-time, irrevocable election and cannot be changed. You must make your election upon the commencement of your employment. If you elect to join the ORP, you will never be eligible to participate in the SRPS, unless you become employed in a position that is eligible to participate in the SRPS but not 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. Words that are defined in the glossary appear in **bold** typeface when they are used. Please refer to the glossary as needed.

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? Keep in mind that SRPS benefits are based on factors including 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? How willing are you 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 such as Social Security or a spouse's retirement plan?
- Would you prefer a retirement benefit or pre-retirement death benefit that is determined by your age,

years of service, and compensation amount? Or would you prefer a retirement benefit or pre-retirement death benefit that is based on the results of your investment decisions?

- How much money will you actually need to have when you retire?

2. Your Retirement Programs at a Glance

	State Retirement and Pension System	Optional Retirement Program
Type of Program	**Defined benefit plan** provides a determinable benefit based upon your age, **average final compensation** 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 your age, a fixed percentage of your years of **creditable service, and** your **average final compensation.**	Benefits are based on your ORP account accumulation, which consists of your employer's contributions, income, expenses and investment gains and losses.
Contributions	Your employer contributes a certain amount, which is determined annually by the state system's actuary. You must contribute 7% of your **earnable compensation**.	Your employer contributes a certain percentage of your **earnable compensation** each year to your ORP account. Currently, the contribution rate is 7.25% of **earnable compensation**.
Investment Management	The SRPS assets are invested by the Investment Division of the SRPS and external professional investment managers chosen by the SRPS Board of Trustees. You do not bear any personal investment risk.	You choose one of the investment vendors when you join the program. You may invest your account among your vendor's investment options. You bear all investment risk.
Normal Service Retirement Benefit	You are eligible when your **eligibility service** plus your age equal at least 90; or at 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.

	State Retirement and Pension System	Optional Retirement Program
Disability	Ordinary disability: you must be permanently disabled from performing the normal duties of your position and have 5 or more years of **eligibility service**. Accidental disability: you must be permanently disabled from performing the normal duties of your position as the natural and proximate result of an on-duty accident without your willful negligence.	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	A pre-retirement death benefit is available. The benefit amount depends upon your age, **eligibility service**, accumulated member contributions and annual **earnable compensation** at time of death.	A pre-retirement death benefit is available. The benefit is your account balance – including all employer contributions and investment earnings – paid to your designated beneficiary 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 of **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.	You may elect one of several payment options available through your investment vendor.
Cost-of-Living Increases	Adjustment may be 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 service and the related 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.

3. Highlights of the State Retirement and Pension System

How SRPS Benefits Are Calculated
The SRPS provides **defined benefit plan** benefits based on a specific formula. This formula takes into account your age, years of **creditable service,** and **average final compensation**. When you retire, you have several payment options from which to choose.

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

Investment Management
The assets of the SRPS are invested by the Investment Division of the SRPS and external 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.

Service 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
  or
- at age 65 with at least 10 years of **eligibility service**

Service Retirement Benefit Formula
This booklet is intended primarily for individuals who are originally hired in positions eligible for the 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 the ORP, then your benefit formulas, vesting and retirement benefit eligibility requirements will differ from those outlined in this handbook. 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***
x
Your years and months of **creditable service =** Annual Basic Allowance Amount

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

Service Retirement Sample Calculation
For example, let's assume you retire from the SRPS at age 65 with 25 years of **eligibility service** (age + **eligibility service** = 90), 25 years **creditable service** and an **average final compensation** of $75,000. Your maximum annual pension benefit would be calculated as follows:

1.5% of $75,000 = $1,125.00

$1,125.00 x 25 = $28,125.00

Early Service Retirement Benefit
If you retire early (age 60 with at least 15 years of **eligibility service**), your monthly benefit will equal your normal service retirement benefit reduced by 1/2% (0.005) for each month you retire before age 65.

Using the above example, let's assume you retire at age 60 with 25 years of **creditable service** and an **average final compensation** of $75,000. In this case, your annual Basic Allowance amount($28,125.00) would be reduced by 30% (5 years x 12 months = 60 months; 60 months x 0.005 = 0.30, that is, 30%). This means your annual early Basic Allowance amount would equal $19,687.50, which is your normal service retirement benefit of $28,125.00 reduced by 30%.

Your benefits are based on your service as a member of the SRPS, including service you have earned by working in your current and past positions with participating employers, purchased service, military credit and unused sick leave.

Disability Retirement
There are two types of disability retirement benefits – ordinary and accidental. To qualify for ordinary disability retirement, you must be permanently disabled from performing the normal duties of your position and have at least five years of **eligibility service**. To qualify for accidental disability benefits, you must be permanently disabled from performing the normal duties of your position as the natural and proximate result of an on-duty accident without your willful negligence.

Ordinary Disability Retirement 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**
x
Your **creditable service** including **creditable service** projected from the time of disability until age 65
=
Annual Basic Allowance Amount

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

Accidental Disability Retirement Benefit
Accidental disability benefits are equal to the lesser of:

Your **average final compensation***
or
66 2/3% of your **average final compensation***
plus
An annuity that is the actuarial equivalent of your accumulated contributions at retirement
=
Annual Basic Allowance Amount

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

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

- A single payment equal to your contributions plus interest
  plus
- A single payment equal to 100% of your annual **earnable compensation** if you had at least one year of service or died in the performance of duty.

Your surviving spouse (or your disabled child or child under 26, if you are unmarried) may have a choice of selecting a monthly retirement benefit instead of the single payments described above, provided that:

- You were eligible for a service retirement when you died,
  or
- You had at least 25 years of **eligibility service** (regardless of age) when you died,
  or
- You were at least age 60 when you died and had 15 or more years of **eligibility service**.

If you die before retirement, you are still employed as a member, and you are killed in the course of your actual performance of duty without your willful negligence, then, in addition to the payment of your accumulated contributions to your designated beneficiary or estate, a special death benefit also may be payable to your spouse, disabled child, child under 26, or dependent parent. This special death benefit is equal to 66 2/3% of your **average final compensation**.

NOTE**:** If you die as a **former member** of the SRPS eligible for a **vested** benefit, your contributions with interest are paid in a single payment to your designated beneficiary 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.

You may change beneficiary 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 and leave your accumulated contributions and interest in the SRPS, then you are eligible to receive a monthly benefit at normal retirement age, 65. If you terminate service with 15 years of **eligibility service** and maintain your funds in the SRPS, 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.

Choice of Payments
You have several payment options from which to choose. The main differences among the seven choices are:

- The amount of your monthly benefit,
- Whether your surviving beneficiary will receive a benefit after you die, and
- Whether the benefit to your beneficiary will be a one-time payment or monthly payments.

Descriptions of Payment Options
Basic Allowance: You will receive the maximum monthly amount. You will get these payments for the rest of your life. After you die, the payments will stop.

Option 1: When you retire, SRPS will calculate the "Present Value" of your benefit. SRPS will pay this entire amount to you or your beneficiary. Each month, SRPS will reduce the Present Value balance by the amount of the benefit SRPS paid you that month. (Plus any cost-of-living adjustments.) Note that even if you "use up" the whole balance, you will continue to receive the same monthly benefit for the rest of your life. After you die, SRPS will look at your balance. If there is any money left, SRPS will pay this amount to your surviving beneficiary in a single payment. If you have more than one beneficiary, SRPS will divide it equally among them. But if you already received the total balance during your lifetime, your beneficiary will not receive any payment after you die.

Option 2: After you die, SRPS will start paying your surviving beneficiary the same monthly benefit SRPS was paying you. Your beneficiary will get those payments for the rest of his or her life. When that beneficiary dies, the payments will stop. Note that your beneficiary cannot be more than 10 years younger than you. But this age restriction does not apply if your beneficiary is your spouse or disabled child. You may change your beneficiary after you retire. But if you do, SRPS will have to recalculate your monthly benefit. The new amount will likely be lower.

Option 3: After you die, SRPS will start paying your surviving beneficiary half of the monthly benefit SRPS was paying you. Your beneficiary will get those payments for the rest of his or her life. When that beneficiary dies, the payments will stop. You may change your beneficiary after you retire. But if you do, SRPS will have to recalculate your monthly benefit. The new amount will likely be lower.

Option 4: When you retire, SRPS will add up the amount of all the contributions you made during your employment. SRPS will also add the interest earned on those contributions. The total is your Accumulated Contributions. SRPS will pay this entire amount to you or your beneficiary. Each month, SRPS will reduce the Accumulated Contributions by a Monthly Reduction amount (plus any cost-of-living adjustments that apply to that portion). Note that even if you "use up" the whole balance, you will continue to receive the same monthly benefit for the rest of your life. After you die, SRPS will look at your balance. If there is any money left, SRPS will pay that amount to your surviving beneficiary in a single payment. If you have more than one beneficiary, SRPS will divide it equally among them. But if you already received the total balance during your lifetime, your beneficiary will not receive any payment after you die.

Option 5: After you die, SRPS will start paying your surviving beneficiary the same monthly benefit SRPS was paying you. Your beneficiary will get those payments for the rest of his or her life.

- If that beneficiary dies after you, the payments will then stop.
- But, if that beneficiary dies before you, your monthly benefit will "pop up" to the amount of the Basic Allowance. You can keep your benefit at that higher level for the rest of your life. Or you may decide to name a new beneficiary. But if you do, you will get a monthly benefit that is lower than the Basic Allowance.

Note that your beneficiary cannot be more than 10 years younger than you. But this age restriction does not apply if your beneficiary is your spouse or disabled child. You may also change your beneficiary any time after you retire. But if you do, SRPS will have to recalculate your monthly benefit. The new amount will likely be lower.

Option 6: After you die, SRPS will start paying your surviving beneficiary half of the monthly benefit SRPS was paying you. Your beneficiary will get those payments for the rest of his or her life.

- If that beneficiary dies after you, the payments will then stop.
- But, if that beneficiary dies before you, your monthly benefit will "pop up" to the amount of the Basic Allowance. You can keep your benefit at that higher level for the rest of your life. Or you may decide to name a new beneficiary. But if you do, you will get a monthly benefit that is lower than the Basic Allowance.

You may also change your beneficiary any time after you retire. But if you do, SRPS will have to recalculate your monthly benefit. The new amount will likely be lower.

Cost-of-Living Increases

When you retire under the SRPS, 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.

4. Highlights of the Optional Retirement Program

How 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 your employer and any accumulated investment earnings. You choose an investment vendor when you join the program, 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, your employer contributes a certain percentage of your **earnable compensation** to your ORP account, as determined by law. Currently, the employer contribution rate is 7.25% of your **earnable compensation**.

Investment Management
When you elect to participate in the ORP, you must choose one investment vendor initially to invest your ORP employer contributions. The names of the approved vendors are available through your Retirement Coordinator.

Transferability
Once your employer's contributions are deposited with your selected vendor, you may elect to invest those contributions among the different investment options that vendor offers. 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 single payment, periodic distribution, or annuity. Your ORP account is based on employer 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 must complete an application and submit it to the applicable ORP vendor. An additional **federal penalty tax** may apply for early withdrawal.

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 single payment, periodic distribution, or annuity. Your ORP account is based on employer contributions, income, expenses and any investment gains or losses in the investment option you selected.

Before these benefits can begin, you or your surviving beneficiary must complete an application and submit it to the applicable 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's survivor benefit will be determined by the payment option you selected. If you die before retirement, your account balance – including all employer contributions and investment earnings – is paid to your designated beneficiary or estate. You may change beneficiary 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 employer 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* 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, you may elect to convert your account balance to an annuity. If you leave 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 Increases
ORP benefits do not include an annual cost-of-living adjustment.

5. Other Important Information

Qualified Plans
The Teachers' Pension System and the Employees' Pension System of the 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
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 SRPS.

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.

Website
The Maryland State Retirement Agency website provides resources for ORP members. Go to sra.maryland.gov/optional-retirement-program to access program information including an overview of available vendors, consultant reports, quarterly performance reports and the most up-to-date version of this handbook.

Glossary

Average Final Compensation — The average of your five highest consecutive years of earnable compensation.

Creditable Service — The service credit of a member that is recognized for computing a benefit.

Defined Benefit Plan — A retirement plan that pays an employee a defined benefit upon retirement based on contributions into a trust by the employee, the employer, or both.

Defined Contribution Plan — A retirement plan that pays an undefined benefit upon retirement based on defined contributions into an individual account for each employee and the investment earnings and losses in that individual account.

Earnable Compensation — One-twelfth of the member's annual salary rate payable for working the normal time in the member's position.

Eligibility Service — The service credit of a member that is recognized for determining eligibility for a benefit.

Former Member — An individual who has been a member, but has separated from employment with a participating employer and is not currently a member or retiree.

Vested — Entitled to receive benefit payments under the terms of your program. Under the SRPS, you are 100% **vested** after 10 years of **eligibility service**, a **vested** allowance is payable at age 65, and a reduced **vested** allowance is payable 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.