

**AD HOC COMMITTEE ON ACTUARIAL VALUATIONS AND
ECONOMIC ASSUMPTIONS MEETING MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

November 21, 2016

The Ad Hoc Committee on Actuarial Valuations and Economic Assumptions met in the Boardroom of the SunTrust Building, 120 East Baltimore Street, 16th Floor, Baltimore, Maryland, beginning at 9:03 a.m.

The Trustees present included:

F. Patrick Hughes, Chairman, Presiding	James Bush
Linda Herman, Vice Chairman (via phone)	James "Chip" DiPaula
David Brinkley (via phone)	Theresa Lochte
Susanne Brogan (Designee for Treasurer Kopp) (via phone)	John Kenney (Designee for Comptroller Franchot)
Eric Brotman	Nancy K. Kopp (via phone)
	Richard Norman

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Margaret Bury	Michael Golden	Andrew Palmer
Melody Countess	Angie Jenkins	David Rongione
Anne Gawthrop	Michele Lowery	Janet Sirkis

Assistant Attorneys General present included: Rachel Cohen

Other Attendees included: Phillip Anthony, Nathan Bowen, Michael Rubenstein, Dana Tagalicod, Brian Murphy (via phone), Brad Armstrong, Frank Benham (via phone) and Mary Mustard (via phone).

Minutes A motion was made by Mr. Bush and seconded by Mr. Brotman to approve the minutes of August 30, 2016, however, before the Committee voted, Susanne Brogan identified an error on page three where it indicates "Mr. Kenderdine responded that the System is expected to be fully funded in 2027." Ms. Brogan responded that the year is incorrect, in that the System is expected to be fully funded in 2039. Mr. Kenderdine confirmed that the drafted minutes were, in fact, incorrect and that the System is expected to be fully funded in 2039.

Therefore, on a motion made by Mr. Bush and seconded by Mr. Brotman, the Ad Hoc Committee approved, with the amendment to page three, the August 30, 2016 open session meeting minutes.

**Presentation on
Inflation
Assumptions** The Committee was provided a copy of the PowerPoint document on inflation assumptions, which was presented by Andrew Palmer, Chief Investment Officer.

Mr. Palmer reported that inflation impacts the assumptions for both the liabilities and the assets and that the System uses the Social Security long term rate of 2.7%. Mr. Palmer indicated that Social Security lowered their long term assumption to 2.6%. The decrease in the assumption by Social Security was not based on econometric models of forces influencing inflation, but by forecasting the future by looking at past history.

Mr. Palmer reported the OPEC's credible discussion on production cap, the ECB's additional stimulus delays, the BOJ's move to targeting yield curve and the expectations of a big fiscal stimulus from President-Elect Trump, are recent changes to inflation expectations.

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Mr. Hughes indicated that there is a variety of forecasts for inflation and asked how inflation would impact returns and liabilities.

Mr. Palmer indicated that he could respond to Mr. Hughes' question regarding returns, but would defer to Gabriel Roeder Smith & Company (GRS) regarding liabilities. Mr. Palmer responded that as inflation goes higher and remains higher, the reactions would be negative. The reactions to bonds would be down, where the return of cash would move up and where the inflation stops would affect the result.

Brad Armstrong from GRS responded to Mr. Hughes' question regarding liabilities that up to a 3% assumed inflation rate would be favorable in regard to the effect on the System's liabilities.

Presentation on
Real Return
Assumptions

The Committee was provided a copy of the PowerPoint document on Real Return assumptions, which was presented by Andrew Palmer, Chief Investment Officer.

Mr. Palmer reported that real returns are less observable.

- TIPS market provides an estimate of the risk free real return
- Estimates for Real Returns for Equity and Bond investment are estimated from building blocks of return components: yield and capital appreciation
- Social Security Administration lowered their Real Return forecast by 20 bps to 2.5%

Review of
Projections Under
Variable Inflation
and Real Return
Assumptions

As reference, the Committee was provided with an additional copy of the PowerPoint documents presented by Gabriel Roeder Smith & Company (GRS), at the August 30, 2016 Ad Hoc Committee meeting.

Discussion

Ms. Herman stated that future System funds should come from better investment returns and lower fees and not from only increased employer contributions only.

Mr. Brotman commented that he would call upon the System's actuaries to develop the zero-line and discuss lowering fees.

Ms. Lochte commented that the election is the wild card in this discussion as no one knows what will happen in upcoming months at the federal level. Ms. Lochte suggested that the Committee revisit this matter in six months and see what effect the election has on the economy.

Mr. Kenderdine reminded the Committee that any recommendation by the Committee, would be applied to the FY2017 valuation and impact the FY2019 employer contribution rates. Therefore, the Committee should not wait any

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longer than six months to reconvene. Mr. Kenderdine further reminded the Committee that any recommendations by the Committee to the Board of Trustees would be fully presented to all stakeholders to the System. Mr. DiPaula asked what the timeline would be for the Committee to meet.

Brad Armstrong responded that if the Board informed GRS of its decision by June, 2017, that would provide enough time to prepare the valuations and the recommended employer contribution rates for both the State and PGUs.

Mr. Armstrong further responded that August, 2017 would be the absolute final deadline, with final valuation numbers being presented to the Board in November, 2017.

Mr. Hughes stated that based on the discussion, there appeared to be a consensus of the Committee that it keep the 7.55% assumed rate of return and revisit it at the appropriate time consistent with the timing of the next actuarial valuation and asked for a motion.

Mr. Bush made a motion to keep the assumed rate of return at 7.55% and to revisit this discussion at a later time.

Mr. Brotman disagreed with the motion and asked that he go on record that he disagrees with the decision of the Committee, at this time.

Mr. DiPaula commented that the Committee really isn't making a decision to keep the assumed rate of return at 7.55% at this time, but acknowledged that there had been no recommendation by the Committee to the Board after the Committee's first meeting and of necessity, the current 7.55% rate be used for the FY2016 valuation. Mr. DiPaula indicated that the Committee is, at this time, making a decision to defer discussion on this matter, until a later date.

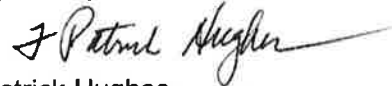
Therefore, on a motion made by Mr. DiPaula and seconded by Ms. Lochte, the Committee deferred discussion of this matter, until March, 2017.

Mr. Palmer reported that the discussion of changing the asset mix to lower fees as a way to improve the probability of earning the assumed rate may not be productive because the return projections used in the presentation are after fees.

Adjournment

There being no further business before the Committee, on a motion made by Mr. Bush and seconded by Ms. Lochte, the meeting adjourned at 10:15 a.m.

Respectfully submitted,



F. Patrick Hughes,
Chairman, Ad Hoc Committee on Actuarial
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