ADMINISTRATIVE COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM

August 6, 2019

The Administrative Committee met in the Boardroom of the SunTrust Building, 120 East Baltimore Street, 16th Floor, Baltimore, Maryland, beginning at 9:34 a.m.

The Trustees present included:

Richard Norman, Chairman, presiding
Kenneth Haines, Vice Chairman
David Brinkley
Sheila Hill (via phone)
Nancy K. Kopp

Agency Staff members attending included:

R. Dean Kenderdine, Executive Director/Board Secretary (via phone)
Melody Countess
Patricia Fitzhugh
Anne Gawthrop
Ira Greenstein
Van Lewis
Harvey Raitzyk
Kenneth Reott
David Rongione
Janet Sirkis

Assistant Attorneys General present included: Rachel Cohen and Kathleen Wherthey

Other attendees included: Matt Jackson

Minutes

Treasurer Kopp asked if Agency staff has further investigated a waiver of the one year requirement to request a service credit transfer for Ms. Tammy Cook as reflected in the June 4, 2019 minutes. Mr. Raitzyk replied that staff has confirmed Agency records are correct and noted that Ms. Cook is planning to appear before the Administrative Committee at the September 3, 2019 meeting.

Treasurer Kopp asked Mr. Greenstein when the Committee would be receiving an in-depth report on cyber security. Mr. Greenstein responded that he would be presenting an in-depth report in closed session. Treasurer Kopp asked Mr. Greenstein to meet with her staff and discuss IT security measures taken by her office.

Treasurer Kopp asked what the Agency has done to meet MBE performance goals in light of the Agency's FY 2019 underperformance against the State's goal. Mr. Lewis responded that the MBE performance went down in FY 2019 due to a major IT contract that did not have MBE participation. Treasurer Kopp stated the Committee needs to be more aware of the Agency's procurement and asked Mr. Lewis to report to the Administrative Committee, over the course of the fiscal year, reports if the Agency is not going to make the goal, why and what is being done do to improve. Mr. Kenderdine stated that the preponderance of all contracts are related to the MPAS project and given their weight, can skew MBE performance significantly lower or significantly higher as has been the case in recent past years.

Treasurer Kopp stated that the Committee should know more about the efforts staff have made to follow up on various agenda items, and for that reason, she had reviewed the minutes to identify issues requiring follow-up. Mr. Kenderdine stated that minutes of the meetings need to reflect better information.

Ms. Lochte asked if any communications were sent out to members regarding their Personal Statement of Benefit (PSB). Mr. Raitzyk responded that post cards will not be released until the Agency has a firm date when the website will be ready for members to go on-line and print their PSBs. Mr. Raitzyk stated that notifications should go out during the latter part of August. Mr. Raitzyk also stated that the Agency is working to set up a separate Agency email address for members to request via email having their PSB mailed.

On a motion made by Ms. Hill and duly seconded, the Administrative Committee approved the June 4, 2019 open session meeting minutes.

Board Requested Legislation

Ms. Anne Gawthrop presented a document outlining the details of several legislative proposals for the Administrative Committee's consideration and recommendation to the Board of Trustees for inclusion in its 2020 legislative proposals to the Joint Committee on Pensions (JCP). (*See Attachment 1.)*

The legislative proposals, which include the following topics, are either intended to clarify or correct perceived inconsistencies within existing law and remove obsolete provisions within the State Personnel and Pensions Art.; result in more freedom for staff to complete the tasks required to help the Agency and System run efficiently; or provide guidance to the Agency as to how it should proceed with regard to inadvertent overpayments that were made to a group of retirees and beneficiaries.

- Investment Risk Assessment Report
- Death Benefits for Children – Age
- Obsolete Reemployment Provisions
- Reemployment Code Revision
- Modification of Municipal Pension Surcharges
- Overpayment of Pension Benefits

Concerning the proposed legislation regarding the Investment Risk Assessment Report, Ms. Gawthrop explained that this proposal was being presented because the Investment Division believes that changes in the area of risk assessment are very slow and there will be very little change to report from year to year under the current requirement for an annual report. Therefore, the proposal would extend the requirement for the Board to submit the Risk Assessment Report from every year to every three years. Treasurer Kopp asked what the basis was for staff's observations as to why they believe change in this area slow moving. Ms. Gawthrop stated that she would speak with the Chief Investment Officer about this issue and have an answer for the August 20, 2019 Board of Trustees meeting. Ms. Gawthrop also pointed out that the Board could delay voting on this proposal until the October Board meeting. Treasurer Kopp commented that the legislature is very interested in climate risk issues and that staff should be prepared, if this proposal is introduced as legislation, to see other climate risk amendments offered on the legislation.

Regarding the technical and clarifying changes to Obsolete Reemployment Provisions, Treasurer Kopp pointed out that removing references to the federal No Child Left Behind Act of 2001, would eliminate an entire group of schools to which reemployed retired teachers and principals could return to work and not be subject to an earnings limit. She encouraged staff to work with the legislature to redefine the type of schools that could participate in the reemployment program. Secretary Brinkley added that the legislature may also want to look at schools based on the regions where they are located. He also stressed that staff should reach out to the Maryland State Department of Education to keep them informed on this particular proposal.

Regarding the Overpayment of Pension Benefits, Ms. Gawthrop informed the Committee that she did meet with the Senate JCP Subcommittee Chair as directed by the Board of Trustees. Ms. Gawthrop added that the Senate Chair stated she would be supportive of the proposal, provided the State Retirement Agency could show that a precedent had been set by 2010 legislation that was enacted to address overpayments to retirees of the Maryland School for the Deaf.

On a motion made by Treasurer Kopp and seconded by Mr. Haines, the Administrative Committee approved the legislative proposals as presented, for recommendation to the Board of Trustees, with the exception of Investment Risk Assessment Report, which will be discussed further at the September 3, 2019 Administrative Committee.

Earnable Compensation and Enrollment of Certain Elected and Appointed Officials of the St. Mary's Metropolitan Commission

Mr. Reott reported that through a contracted auditor, compliance reviews are completed on each Participating Governmental Unit ("PGU") at least every three years.

Mr. Reott reported that during the last compliance review for St. Mary's Metropolitan Commission ("SMMC"), the auditors reported a finding that SMMC did not enroll six SMMC Commissioners into the Employees' Pension System ("EPS"). SMMC argues that these appointed officials should not be enrolled in the EPS. However, the law, particularly Title 23, Subtitle 2 of the State Personnel and Pensions Article and implementing regulations in the Code of Maryland Regulations, requires enrollment of these officials unless the payments that they receive do not meet the Agency's definition of earnable compensation.

Mr. Reott stated that the Agency does not believe the SMMC Commissioners should be enrolled, as the payments paid to them do not meet the definition of earnable compensation, based upon the small amount of the payments and the quarterly frequency of the payments.

Mr. Norman asked if the SMMC Commissioners were paid on a W-2 tax form and would it make a difference if it was on a Form 1099. Mr. Reott responded that the SMMC Commissioners were paid on a Form W-2, but that other types of compensation, bonuses and overtime, are reported on a Form W-2 and these compensation types do not meet the Agency's definition of earnable compensation.

On a motion made by Ms. Hill, and seconded by Mr. Haines, the Administrative Committee approved for recommendation to the Board of Trustees that payments paid to these six SMMC Commissioners are not earnable compensation and therefore do not require enrollment in the EPS.

Summary of the Agency's IT Master Plan for FY20

Mr. Ira Greenstein presented a summary of the Agency's IT Master Plan which includes the MPAS-3 project.

Mr. Greenstein informed the Committee that the initiation of Customer Relationship Management (CRM) program, a part of the MPAS 3 project, went live Tuesday, August 6th.

Mr. Greenstein stated that the initiation of the *mySRPS* secure participant portal permitting participants to view Agency records and produce/compare retirement estimates themselves has been postponed to November 2019 due to issues with the vendor providing the member identity authentication software.

Member Services Update

Mr. Raitzyk reported that the Member Services unit was not able to meet its goals for the call abandonment rate and average call wait time for the month of June 2019 and for the fiscal year. The unit's call abandonment rate was 15.00% and the average speed of answer was 204 seconds for the month of June.

Secretary Brinkley asked how staff are trained to assist callers with the Customer Relationship Management (CRM) tool going live. Mr. Raitzyk responded that callers will not be impacted by CRM, as it is strictly and internal tool for the Benefits Administration staff.

Mr. Raitzyk stated that staff will be trained and have practice sessions before the initiation of the *mySRPS* secure participant portal before going live in November 2019.

Secretary Brinkley asked if the Agency will have resources in place to help members with any issues they may have when *mySRPS* goes live in November.

Mr. Raitzyk responded that the Agency will have a dedicated team to assist members. Mr. Raitzyk also noted that prior to going live, there will be a test group of members as part of a roll-out of *mySRPS* which will be a phased roll-out beginning with active members, followed by retirees.

Treasurer Kopp asked what the Agency does with survey responses and suggestions to improve our services.

Mr. Raitzyk responded that the Agency had not acknowledged and responded to customer surveys in the past.

Treasurer Kopp suggested that all survey responses, suggestions, and complaints deserve a response to acknowledge receipt.

Mr. Raitzyk agreed that such acknowledgements are appropriate. He will meet with the Member Services Division to develop a plan for responding to all surveys and will provide an update to the Committee at the September 3, 2019 Administrative Committee meeting.

On a motion made by Mr. Haines and seconded by Treasurer Kopp, the Administrative Committee voted to meet in a Closed Session beginning at 10:41 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street, 16th Floor, for the purposes of:

a) reviewing the closed session Administrative Committee meeting minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function; and

b) discussing the offset of retirement benefits of individual participants under State Personnel and Pensions Art., § 21-113, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosure about a particular proceeding or matter, namely, General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records.

CLOSED SESSION

The Trustees present included:

Richard Norman, Chairman, presiding
Kenneth Haines, Vice Chairman
David Brinkley
Sheila Hill
Nancy K. Kopp

Agency Staff members attending included:

R. Dean Kenderdine, Executive Director/Board Secretary (via phone)

Melody Countess
Patricia Fitzhugh
Anne Gawthrop
Van Lewis
Harvey Raitzyk
Ken Reott
David Rongione
Janet Sirkis

Assistant Attorneys General present included: Rachel Cohen and Kathleen Wherthey

On a motion made by Secretary Brinkley and seconded by Mr. Haines, the Administrative Committee returned to open session at 11:05 a.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor.

OPEN SESSION

During closed session, the Administrative Committee discussed and took action on the following matters:

Closed Session Minutes	The Administrative Committee reviewed and approved the June 4, 2019 closed session minutes.
Correction of Errors – Offset of Retirement Benefits	The Administrative Committee approved the offset recovery schedule as presented.
Adjournment	There being no further business before the Committee, on a motion made by Treasurer Kopp and seconded by Mr. Haines, the meeting adjourned at 11:06 a.m.

Respectfully submitted,

R. Dean Kenderdine,
Secretary to the Board

2019 Board Requested Legislation

The following legislative proposals are recommended by staff for the State Retirement Agency (Agency) for review by the Administrative Committee of the Board of Trustees for the State Retirement and Pension System (System) for the Joint Committee on Pensions' consideration for the 2020 legislation session. These legislative proposals are intended to clarify or correct perceived inconsistencies within existing law and remove obsolete provisions within the State Personnel and Pensions Article. In addition, some of these proposals will result in more freedom for staff to complete the tasks required to help the Agency and System run efficiently. Finally, one proposal would provide guidance to the Agency as to how it should proceed with regard to inadvertent overpayments that were made to a group of retirees and beneficiaries. These proposals, if approved by the Board, will be presented to the Joint Committee for its consideration to sponsor as legislation for the 2020 legislative session.

Investment Risk Assessment Report

Chapter 769 of 2018, Maryland Pension Risk Mitigation Act, requires the Board to submit an annual report on the risk assessment of the several systems, including climate risk, to the General Assembly. In this report, the Board is required to:

1. identify recent studies or actions by other U.S. state public pension funds, financial institutions, or climate risk experts, including those related to disclosure, risk assessment, investment principles, or other related issues or activities;
2. based on the information obtained in item 1, recommend best practices and consider whether these best practices can be incorporated into the Investment Policy Manual;
3. examine the potential magnitude of the long–term risks and opportunities of multiple climate scenarios and related regulatory developments across industry sectors, asset classes, and the total portfolio of the several systems; and

The Chief Investment Officer for the System submitted the first risk assessment report to the General Assembly in January 2019 and is in the process of preparing the 2020 report. While preparing the 2020 report, the Chief Investment Officer is finding there is very little new information to be added since 2019. He has reported that the risk assessment practices of public pension funds, financial institutes, and climate risk experts change very slowly. Additionally, this is supported by consultants that assist public pension funds in these assessments and can be seen through their practice to update their findings in this area every three to five years. As a result, staff is recommending proposed legislation to amend the reporting requirements for the risk assessment to every three years. The Investment Division believes that in doing so, the Board and the Legislature will receive more meaningful and informative data in this area. Moreover, reporting every three years could result in savings to the System in that the Board would be seeking the services of a consultant less frequently. If the Board continues to report on an annual basis, it will also pay for consulting services, annually, that will not vary much over the course of one year.

Technical and Clarifying Changes

Death Benefits for Children – Age

Over the last several years, provisions of the State Personnel and Pensions Article have been amended to provide that children of deceased members and retirees who are receiving death benefits from the several systems may receive these benefits until the children reach age 26. Staff has found provisions in the State Personnel and Pensions Article that were not included in the past legislation and still state that certain children of deceased members or retirees will cease receiving death benefits at age 18. Staff is recommending proposed legislation that would amend these provisions to increase the age to 26.

Obsolete Reemployment Provisions

A second technical change staff is recommending is found in the reemployment provisions for the Teachers' Pension and Retirement Systems. Current law reads that retired teachers or principals are exempt from the earnings limitation if they return to a public school that is not making adequate yearly progress or is a school in need of improvement under the federal No Child Left Behind Act of 2001. This Act was repealed in 2015. Therefore, staff is recommending repealing the reemployment provisions in the State Personnel and Pensions Article that reference this Act.

Reemployment Code Revision

Each of the several systems, except the Law Enforcement Officers' Pension System, include provisions that address the amount by which the Board may reduce a retiree's allowance when the retiree is subject to the reemployment earnings limitation. Specifically, these sections are intended to provide that a retiree's allowance may not be reduced to less than what is required to be deducted for the retiree's monthly State-approved medical insurance premiums. Staff for the Agency and the Department of Legislative Services (DLS) have long agreed that these provisions are not a model of clarity. Staff for the Agency is recommending working with DLS to clarify these provisions. Any change made to these provisions would be non-substantive.

Modification of Municipal Pension Surcharges

The 2011 legislative reforms substantially revised the benefit provisions and employee contribution rates for the MSRPS Municipal Employees' Combined System. When plan changes such as the 2011 reforms affect different PGUs differently, equity relationships can be affected to the systematic benefit of some and to the systematic detriment of others. It is recommended that legislation be introduced to convert or phase in a more equitable allocation of contribution requirements among the PGUs.

The 2011 reforms caused the pooled employer cost to decrease by about 2% of pay. Most of that decrease was due to the increase in employee contribution rates for the Alternate

Contributory Pension Selection (ACPS) participants, from 5% to 7%. PGUs with participants subject to the Non-Contributory Pension Benefit (NCPB) or the Employees' Contributory Pension Benefit (ECPB) (nine employers) benefitted from the decrease in employer contributions although there was no offsetting increase in employee contributions from their NCPB and ECPB participants. This was the result of a specific provision included in the 2011 reforms that exempted these nine employers from having to participate in the Reformed Contributory Pension Benefit.

The Board of Trustees is recommending the establishment of a new surcharge of 2% of pay for each of the nine employers participating in the NCPB or ECPB. Because of the magnitude of the proposed changes to the employer contribution rate and the impact on these nine PGUs, the Board is also recommending these changes be implemented over a period of five years. This 5-year phase-in would begin with the December 2021 billing and would be fully implemented by the December 2022 billing.

Overpayment of Pension Benefits

Staff recently identified a Maryland Pension Administration System (MPAS) program logic flaw that occurred in 2010, at the inception of MPAS. This logic flaw has resulted in 34 retirees and beneficiaries being overpaid through their monthly benefits. The total overpayment amount for the 34 annuitants is $104,296.06 through May 31, 2019.

To determine an annuitant's monthly retirement allowance, the staff calculates the basic allowance (also referred to as the "maximum" allowance) in accordance with statutorily provided benefit formula for the appropriate system. If a retiree elects an optional form of allowance, the retiree's basic allowance is reduced by the actuarially-determined option factor to yield a monthly allowance amount payable to the retiree for the selected option. Agency benefit calculation procedures and methodologies require staff to allocate the monthly benefit between the portion based on the member's contributions and interest (the annuity portion) and the employer-funded contributions (the pension portion).

The MPAS program logic flaw affects those particular cases where the annuity portion of the monthly retirement benefit allowance exceeds the monthly retirement benefit allowance after any adjustments for the option selected. The program logic did not apply a cap to the annuity portion of the benefit, and thus allowed payment of an allowance exceeding the statutorily authorized amount. Staff is in the process of correcting this logic flaw to prevent any future instances of this type of overpayment.

To address the overpayments and miscalculations for the 34 retirees affected by this logic flaw, staff is recommending legislation that would authorize the Board to not recover the overpayments currently made. Additionally, this proposed legislation would not correct the retiree's or beneficiary's monthly retirement allowance, but would, instead, suspend any annual COLAs until the individual's current allowance equals or exceeds the corrected reduced allowance including any suspended annual COLAs. This proposed legislation is similar to legislation that the Board requested the Joint Committee to sponsor in 2010 to address a comparable overpayment issue for retirees and beneficiaries at the Maryland School for the Deaf. In that situation, the legislation provided that the staff would not correct the individuals' monthly retirement allowances, and would suspend any annual COLAs until the allowance each affected retiree or beneficiary is entitled to receive (including any suspended annual COLAs) equals or exceeds the allowance the individual was receiving when the overpayment was identified on July 1, 2010.