

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

December 6, 2016

The Administrative Committee met in the Boardroom of the SunTrust Building, 120 East Baltimore Street, 16th Floor, Baltimore, Maryland, beginning at 9:27 a.m.

The Trustees present included:

James Harkins, Chairman, Presiding	Kenneth Haines
Theresa Lochte, Vice Chairman	Sheila Hill
Susanne Brogan	Richard Norman
James "Chip" DiPaula	

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

Robert Burd	Angie Jenkins	Ken Reott
Melody Countess	Van Lewis	David Rongione
Anne Gawthrop	Michelle Lowery	Janet Sirkis
Michael Golden	Chandra Puranam	Patricia Wild
Ira Greenstein	Harvey Raitzyk	

Assistant Attorneys General present included: Kathy Brady, Rachel Cohen and Kathleen Wherthey

Other Attendees included: D/Sgt. Bryan Waser

Appeal of
Alison Kelly

Before the start of this appeal, Mr. James Harkins, Chairman of the Administrative Committee recused himself, as he personally knows Ms. Kelly and asked Vice Chairman Lochte to preside, which she did.

Alison Kelly appeared before the Administrative Committee, requesting that the Committee reject the Executive Director's recommendation for a Summary Decision and allow her to join the Optional Retirement Program.

Ms. Kelly argued that her situation was unique in that she was hired under an employment contract, with benefits, with the Anne Arundel Community College ("AACC") on November 3, 2014, at which time she joined the Teachers' Pension System ("TPS"), with the expectation that she would reach 10 years of service and become vested. However, after seven months AACC did not renew her contract and her employment ended on June 30, 2015, at which time Ms. Kelly withdrew her contributions from the System.

Ms. Kelly further argued that in January, 2016 AACC rehired her in the same Instructional Specialist position that she previously held, at which time she chose to enroll in the Optional Retirement Program ("ORP") under the belief that she was eligible to do so. Ms. Kelly argued that she enrolled in the ORP and received account balance statements. Ms. Kelly reported that it was not until June, 2016, when she received a notice from AACC, that she became aware that she was not eligible to participate in the ORP and immediately appealed the decision to the Agency. Ms. Kelly reported that at no time, prior to the June, 2016 notice, did the Human Resource Office at AACC inform her that she was not eligible to enroll in the ORP. In fact, AACC accepted her completed application for enrollment in the ORP and she received account statements.

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Ms. Kathleen Wherthey, Assistant Attorney General, argued on behalf of the Agency. Ms. Wherthey stated that Ms. Kelly was hired as an Instructional Specialist with AACC on November 3, 2014 under an employee contract with benefits. As an Instructional Specialist, Ms. Kelly became an "eligible employee" with the right to join the ORP within one year of her employment. Ms. Kelly's eligibility period expired on November 3, 2015. Md. Code Ann., State Personnel & Pensions Art. ("SPP"), § 30-302. However, Ms. Kelly elected not to join the ORP, and became a member of the TPS.

Ms. Wherthey argued that an "eligible employee" who does not elect to join the ORP becomes a member in the TPS. SPP § 30-303(c). The election by an "eligible employee" to participate in the ORP is a one-time irrevocable election. SPP § 30-302(b).

Ms. Wherthey further argued that the General Assembly passed the law regarding the ORP eligibility period to ensure that the System was compliant with federal tax laws, which provides that a governmental pension plan may allow a one-time, irrevocable election for pre-tax employee contributions by members, but that election must be made upon first becoming eligible under the plan or any plan of the employer. IRS Revenue Ruling 2006-43; Treasury Regulation § 1.401(k)-1(a)(3)(v). Therefore, Ms. Kelly is not eligible to participate in the ORP.

The Committee discussed and voted on this appeal in closed session.

On a motion made by Ms. Hill and seconded by Mr. DiPaula, the Administrative Committee voted to meet in a Closed Session beginning at 9:57 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street, 16th Floor, for the purpose of:

1. Discussing office security protocol, pursuant to General Provisions Art., § 3-305(b)(10), to discuss public security, if the public body determines that public discussion would constitute a risk to the public or to public security, including: (i) the deployment of fire and police services and staff; and (ii) the development and implementation of emergency plans;
2. Reviewing the Closed Session minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function; and
3. Discussing the administrative appeal of Alison Kelly, pursuant to General Provisions Art., § 3-103(a)(1)(iii), a quasi-judicial function.

The Trustees present included:

James Harkins, Chairman, Presiding
Theresa Lochte, Vice Chairman
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Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Robert Burd	Angie Jenkins	Ken Reott
Melody Countess	Van Lewis	David Rongione
Anne Gawthrop	Michelle Lowery	Janet Sirkis
Michael Golden	Chandra Puranam	Patricia Wild
Ira Greenstein	Harvey Raitzyk	

Assistant Attorneys General present included: Kathy Brady, Rachel Cohen and Kathleen Wherthey (except with respect to item 3).

Other Attendees included: D/Sgt. Bryan Waser

On a motion made by Ms. Lochte and seconded by Ms. Brogan, the Administrative Committee returned to open session at 10:40 a.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor.

OPEN SESSION

The Trustees present included:

James Harkins, Chairman, Presiding	Kenneth Haines
Theresa Lochte, Vice Chairman	Sheila Hill
Susanne Brogan	Richard Norman
James "Chip" DiPaula	

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

Robert Burd	Angie Jenkins	Ken Reott
Melody Countess	Van Lewis	David Rongione
Anne Gawthrop	Michelle Lowery	Janet Sirkis
Michael Golden	Chandra Puranam	Patricia Wild
Ira Greenstein	Harvey Raitzyk	

Assistant Attorneys General present included: Kathy Brady, Rachel Cohen and Kathleen Wherthey

Minutes	On a motion made by Mr. DiPaula and seconded by Mr. Norman, the Administrative Committee approved the October 4, 2016, open session meeting minutes.
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Review of the Criteria for the Executive Director's Evaluation	The Committee reviewed the evaluation criteria for the Executive Director for the performance period January 16, 2016 through January 15, 2017.
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Mr. Kenderdine reported that the criteria are the same as those used the previous year.

On a motion made by Ms. Lochte and duly seconded, the Administrative Committee approved the Executive Director evaluation criteria for recommendation to the Board of Trustees.

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Review of the
Governance Charters

Mr. Kenderdine, along with Robert Burd and Rachel Cohen, presented the recommended changes to the Governance Charters, to the Administrative Committee.

Mr. Kenderdine reported that every three years the Board conducts a review of the Governance Charters and Policies. The Charters and Policies were first adopted by the Board in 2003. Staff is presenting recommended amendments to the Governance Charters and will be presenting recommended amendments to the Governance Policies at the February 2017 Administrative Committee meeting.

Mr. DiPaula asked what the schedule for review is.

Mr. Kenderdine responded that the review is done in two parts. Staff reviews both the Governance Charters and Policies and makes recommended changes, which are presented to the Administrative Committee. Once approved by the Administrative Committee, the recommended changes are presented to the Board of Trustees for final approval. Governance Policies will be presented to the Board for approval at the February board meeting.

Ms. Brogan asked if staff could review the Corporate Governance Committee's Charter as it does not appear to fully reflect the policy recommendation of the committee, regarding proxy voting. Ms. Brogan also requested that on page 21, ¶ 5, that the item be revised to remove the split infinitive in the current draft.

After the presentation of the Charters was completed and after further discussion, the Administrative Committee agreed to defer committee's approval of the Governance Charters until February, 2017.

Member Services
Update

Mr. Raitzyk reported that the Member Services unit was able to meet its performance goals for October 2016. The unit's call abandonment rate was 4.38% and the average speed of answer was 0:71.

Mr. Raitzyk reported that the member services unit is fully staffed.

Ms. Hill reported that the Agency may receive calls in the near future, from Department of Public Safety and Correction employees, who have been affected by the state's new timekeeping/payroll system that has not accurately been reporting time and payroll data for a certain number of such employees. Ms. Hill indicates that the employees are not only concerned about their paychecks, including pay increases, but also whether the correct retirement contribution rate is being withheld and also whether the employee is receiving the correct service credit.

Ms. Brogan asked which Agency staff needs to work with on this issue.

Mr. Kenderdine responded that Agency staff will speak with Cindy Kollner at the Department of Budget and Management to get specific information

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and coordinate with the Department of Public Safety and Corrections.

Ms. Brogan asked what the backlog current is on processing retirement estimates.

Mr. Raitzyk responded that the backlog is approximately 700 estimates and that the time frame from receiving a member's request to providing them an estimate is approximately 4-6 weeks. Mr. Raitzyk further responded that the backlog may increase in January, as typically the first of the year Teachers submit requests for a July 1st retirement.

Finance Reports

Ms. Patricia Wild presented the FY2017 Non-Budgeted Investment Manager and Service Related Fees Report. Ms. Wild indicated that when comparing basis points, the fees paid as a percentage of assets during the first quarter of FY2017 were lower than the fees paid during FY2016, by 5 basis points. Within the Equity and Fixed Income categories, the Agency is still experiencing a significant cushion under the statutory fee cap.

Mr. DiPaula asked what is the committee's responsibility concerning investment fee management?

Mr. Kenderdine responded that the Administrative Committee has oversight responsibility for the investment fees and that the fee report is provided to the Investment Committee as well given its oversight responsibility for the investment program. Ultimately, the Board of Trustees is responsible for the total Investment program.

Mr. DiPaula asked who is responsible for managing investment fees.

Mr. Kenderdine responded that the Chief Investment Officer ("CIO") is responsible for the fee structure of all investments and for reporting those fees to the board. It has long been the practice for fee reports to go to the Administrative Committee. In the last several years, the same report has been submitted to the Investment Committee as well.

Mr. DiPaula commented that reporting and managing are two very different things, and that he is not comfortable that the responsibility for fee management is clearly established. Mr. DiPaula recommended there be a review of this policy and that it be more clearly addressed in the appropriate policy or charter.

Mr. DiPaula requested that this matter be reviewed before the February Administrative Committee meeting, as he feels there is room to enhance reporting on fees by adding information on the statutory cap and a comparison chart showing the previous year's data. The committee would benefit from comparative information presented in summary form.

Mr. DiPaula commented that reporting should be more actionable, affirm that the System is on track or is the System at risk. Each report should have key performance indicators ("KPIs").

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Mr. Robert Burd responded that more specific information, such as current fee and expenses compared to expectations, could be included in the report.

Ms. Brogan asked for clarity on fee reporting for the Investment Committee versus the Administrative Committee.

Mr. Kenderdine responded that the Administrative Committee's sole responsible is to ensure the System stays within the statutory fee cap.

Ms. Countess presented the Administrative Expenses Report for the quarter ending September 30, 2016.

Mr. Kenderdine commented that going forward the administrative expenses report will include a variance column and in advance of the report a "dashboard" highlighting key factors.

Mr. Van Lewis presented the MBE Performance Report for the quarter ending September 30, 2016. Mr. Lewis reported that MBE Performance was 23.16%, which is less than the Governor's goal of 29%.

Ms. Brogan requested that since the Agency is no longer required to report on Non-Profit (Certified) MBE awards, that it be removed from the MBE awards list and referenced in a footnote at the bottom of the report.

**Business Plan Status
Report**

Mr. Kenderdine, along with Ken Reott, Ira Greenstein, Chandra Puranam and David Rongione, provided the Administrative Committee with an update to the Business Plan, focusing specifically on the following topics:

- Review and Revision of Code of Maryland Regulations:
 - Disability (22.06) – amendments effective 11/24/16
 - Option and Annuity Factors – amendments effective 08/15/16
 - Investment Division-Brokerage Fees – amendments effective 12/19/16
- Development of an Automated Full Cost Purchase Calculator:
 - Phase 1 to be completed by 12/31/16
 - Completion of calculator now scheduled for June 2017
- Updating of Information provided to the System's Actuary for the Annual Valuation is on target for June, 2017 completion.
- Implementation of new Option and Annuity Factors
 - 65% complete
 - Currently working on incorporating the new annuity and option factors in the MPAS retirement finals and revisions applications and is on target to complete the implementation by 06/30/17

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- MPAS 2 – Improve Data Integrity (Phase 2)
 - The Business Operations Office (“BOO”) successfully completed the 2nd phase of the MPAS 2-Improve Data Integrity project on 07/20/16.
- MPAS 2 – Improve Data Integrity (Phase 3)
 - BOO is on target to complete the 3rd phase of the project by August 2017.
- Analysis and Re-Engineering of Processing and Administration of Domestic Relations Orders within MPAS
 - BOO is on target to complete this initiative by December 2017 pending availability of resources.
- Automate the Average Final Compensation (AFC) Calculations.
 - BOO is on target to complete this initiative by August 2017 pending availability of resources.
- MSRA Public Website
 - RFP to be issued January 2017.
- Revision of Revenue Control Transmittals and PGU Payroll Reporting is complete.
- Disaster Recovery Plan – I.S. Desktop Walk-Through Exercise is complete and all changes determined necessary as a result of the exercise have been incorporated.
- Implement Auto-Audit Modules
 - “Time Tracking” modules have been implemented.
 - “Issue Tracking” modules are 90% complete.
 - Update to policies and procedures on the implementation of the modules is on target to be completed by June 2017.

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

Closed Session Minutes	The Administrative Committee reviewed and approved the October 4, 2016 closed session minutes.
Administrative Appeal of Alison Kelly	The Administrative Committee discussed and adopted the Executive Director’s recommendation for summary decision, for recommendation to the Board of Trustees.

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Adjournment

There being no further business before the Committee, on a motion made by Mr. DiPaula and seconded by Ms. Lochte, the meeting adjourned at 12:19 p.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'R. Dean Kenderdine', written in a cursive style.

R. Dean Kenderdine,
Secretary to the Board