

BOARD OF TRUSTEES
FOR THE
STATE RETIREMENT AND PENSION SYSTEM
OF MARYLAND

MINUTES OF MEETING

July 13, 2000

The Board of Trustees for the State Retirement and Pension System of Maryland met in the Boardroom of the Crestar Building, 120 East Baltimore Street, Baltimore, Maryland, at 9:00 a.m. There were present Richard N. Dixon, Chairman, T. Eloise Foster, Frank P. Casula, Morris L. Krome, Carl D. Lancaster, William D. Brown, Debra B. Humphries, David B. Mitchell, Ali A. Alemi, G. Bruce Harrison, George R. Tydings, and, via telephone, Arthur N. Caple, Jr., Trustees, and Peter Vaughn, Secretary. Agency staff members also attending were Margaret A. Bury, Retirement Administrator, Harriet B. Granet, Jill Leiner, Robert Feinstein, Carla Katzenberg, Assistant Attorneys General, Carol Boykun, Chief Investment Officer, Thomas Gighotti, Chief Internal Auditor, Patricia Scott, Administrator, Sherlynn Matesky, Administrator, Rick Harrison, Chief Financial Officer, and Francis Langston, Information Systems Officer.

Douglas Gross, attorney for Mildred Arthur, William Foy of MCEA and Gene Kalwarski and Fiona Liston of Millman and Robertson were also present.

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| Minutes | 1 | On motion made by Dr. Alemi and seconded by Mr. Brown, the Minutes of the regular meetings of the Board of Trustees for the State Retirement and Pension System of Maryland, held on June 20, 2000, were approved. |
| Mildred Arthur | 2 | <p>The Board considered the report of Glendell L. Adamson, sitting as Administrative Law Judge for the Office of Administrative Hearings, in connection with the appeal of Mildred Arthur. Ms. Arthur appealed the Medical Board's denial of accidental disability benefits. The Medical Board reasoned that they did not believe that her disability was the natural and proximate result of an accident that occurred in the performance of duty.</p> <p>The Administrative Law Judge, upon consideration of the record, and following a hearing, affirmed the Agency's decision and concluded that Ms. Arthur's disability was not the "natural and proximate result" of a work-related accident that allegedly occurred on April 15, 1996. Therefore, her application for accidental disability benefits should be denied.</p> |

Mr Douglas Gross, attorney for Ms Arthur, presented his arguments opposing the Agency's position and the Administrative Law Judge's recommendations Ms Carla Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations The Board deferred further consideration to executive session

On motion made and duly seconded, the Board unanimously voted to meet in Executive Session to consider the appeals of Robert Shinaberry, Mary Catherine Nevins, Jacqueline Kessler and Christina Longley State Government Article Section 10-502(i) authorizes the Board to meet in closed session to exercise a quasi-judicial function State Government Article Section 10-508(a)(8) authorizes the Board to meet in closed session to consult with staff, consultants, or other individuals about pending or potential litigation

EXECUTIVE SESSION

The Board met in Executive Session at 9 45 a m in the SunTrust Building to consider the appeal of Mildred Arthur, and to consult with staff about pending or potential litigation All of the persons present at the beginning of the meeting were present in Executive Session except the following Douglas Gross and William Foy The Board adjourned its Executive Session at 9 48 a m and returned to regular session to complete the agenda

REGULAR SESSION

Mildred Arthur The Board considered the record of Mildred Arthur Following a discussion, on motion made by Dr Alem and seconded by Mr Casula the Board voted unanimously to adopt the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and denied Ms Arthur's request for accidental disability retirement benefits

Executive
Director's Report

3 Mr Vaughn informed the Board that the Legislative auditors are here for the year end audit and would be at the Agency until October to review the Systems' financial statements

Mr Vaughn then informed the Board that the System had once again received a Certificate of Achievement for Excellence in Financial Reporting award from the Government Finance Officers Association Mr Vaughn thanked Mr Rick Harrison, Chief Financial Officer, and his staff for producing the Comprehensive Annual Financial Report for the year ended June 30, 1999, that made the award possible

Mr Vaughn then reported that, on June 28, 2000, the Agency had received a favorable ruling from the IRS for approval of the State Police DROP plan July 1, 2000. He further stated that Agency staff had met with 22 participants on July 12, 2000 to review the DROP plan, and that other seminars would be held throughout the state with the cooperation of the State Police. Mr Vaughn also presented the most recent edition of the Agency newsletter that explains the new benefits for members of the LEOPS System.

Mr Vaughn then reported that the System had received a distribution of \$700,000 from HarborVest Partners, the first return on the \$10 million investment.

Next, Mr Vaughn reported that State Street had closed the books for the fiscal year and reported that the asset value of the fund was \$33.064 billion as of June 30, 2000. With this value System is close to being fully funded, well ahead of the target date of 2020. Mr Dixon stated that he would issue a press release to relay this information.

Next, Mr Vaughn informed the Board that he had sent a written report to Senator Hoffman, Delegate Rawlings, and the Joint Committee on Pensions discussing the granting of 5 years of military service credit by the Board in contradiction of Section 38-104(b) of the State Personnel and Pensions Article. The letter also explained that HB 176, which would take effect on July 1, 2000 and sunset on July 31, 2000, would permit Mr Jackson and other members to claim up to 5 years of military credit if the member was hired by the State Police as an aviator for the State Emergency Medical System on or after July 1, 1987. Mr Vaughn explained that one other member, Timothy Berry, was eligible and had applied for the 5 years of military credit. Mr Vaughn stated that the Actuarial liability for these 2 members would be \$292,000.

Mr Vaughn then reminded the Board that the annual Strategic Planning Conference would be held at Rocky Gap Lodge on September 7 and 8, 2000, and invited Board members to present their ideas or recommendations for discussion topics.

The Board reviewed and accepted the System's financial statements and investment performance comparisons for the period ending May 31, 2000 for the State Retirement and Pension System of Maryland.

The Board accepted Mr Vaughn's report.

Executive
Committee Report 10

Mr William D Brown, Chairman of the Executive Committee, reported on the regular meeting held July 11, 2000 (Exhibit A)

Mr Brown informed the Board that the Agency may end the fiscal year with a balance of approximately \$20,000.

Mr Brown then discussed funding of retiree health costs and informed the Board that the Executive Committee recommends that the Board authorize the actuary to analyze the issue related to those for whom the State now subsidizes these benefits. The study would provide costs and liabilities for all retirees as well as for future retirees only (those retired during and after fiscal year 2001). Mr Brown informed the Board that the actuary would provide an estimate and prepare a presentation for the August Executive Committee meeting. On motion made by Mr Brown and seconded by Mr Mitchell, the Board voted unanimously to authorize the analysis by the actuary as stated.

Dr Alemi presented a letter to the Board from Mr William Foy, Maryland Classified Employee Association (MCEA), expressing his opposition, on behalf of MCEA, to the use of retirement staff, funding or other resources in the health benefits proposal. Dr Alemi asked that the letter be distributed to all Board members. (Exhibit B)

Mr Brown then reported on the Committee's discussion regarding the transfer of service credit to and from the State Police Retirement System. The Committee asked Assistant Attorney General, Harriet Granet, to draft a legislative proposal to permit State Police members to transfer service credits on a delayed basis by paying an amount based on the employee contributions held in the former system plus normal interest. Ms Granet will report back to the Committee at their July meeting.

Mr Brown then introduced draft legislation to permit State Police members to purchase service from other public plans within Maryland. He noted that State employees and teachers were able to do this under the Employees' and Teachers' Retirement Systems. The Committee recommended that the Board include the legislative proposal in the 2001 legislative proposal to be submitted to the Joint Committee on Pensions. On motion made by Mr Brown and seconded by Dr Alemi, the Board voted unanimously to include the draft legislation for submission to the Joint Committee on pensions as stated.

Mr Brown then informed the Board that Senator Edward Kasemeyer, Chairman of the Joint Committee on Pensions, requested that the Agency present options to the Joint Committee to modify existing pension law to revise and update the rules on earnings limitations. The Executive Committee has asked staff to prepare an analysis of the current procedures and present a paper with several alternatives to present to the Joint Committee on Pensions. The paper should convey the Board's belief that some earnings limitations are outdated and unnecessary.

Mr Brown requested the Board's approval for Option 7 requests from three retiring members of the Teacher's Retirement System.

William Light – provide the surviving beneficiary with 25% of the retiree's monthly allowance at the retiree's death.

Maxine Himmelfarb – provide the surviving beneficiary with 20% of the

retiree's monthly allowance at the retiree's death

Russel Kacher – provide the surviving beneficiary with 85% of the retiree's monthly allowance at the retiree's death

On motion made by Mr Brown and seconded by Colonel Mitchell, the Board voted unanimously to approve the Option 7 requests as presented

Mr Brown then informed the Board that the State Police DROP plan had been approved by the IRS and that the start-up date is July 1, 2000

Mr Brown then informed the Board that the City of Cambridge had become the first municipal corporation to place their police officers in the new Law Enforcement Officers Pension System (LEOPS) He noted that this benefit became available as of July 1, 2000 and that The City of Cambridge had increased its employer contribution from 6% to 32% to fund the additional benefits

Mr Brown then updated the Board on the progress of the Strategic Systems Development Program He noted that the program was ongoing and that it would be presented for approval of changes and additional costs at the August 2, 2000 Board of Public Works meeting

Mr Brown then informed the Board that the Agency had given an incorrect estimate of benefits to Ms Frances M Lease, and that Ms Lease's actual benefit is lower than the estimate Ms Lease has asked the Agency to pay her the higher estimated benefit Mr Vaughn informed the Executive Committee that the Agency was bound by law to pay the correct benefit and recommended a denial of a hearing for Ms Lease Ms Lease asked that the Board hear her case and grant her request for the higher incorrect benefit On motion made by Mr Brown and duly seconded, the Board voted unanimously to reject the Director's recommendation and to grant a hearing before the Board to Frances Lease

The Board accepted Mr Brown's report

Investment
Committee Report

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Mr Arthur Caple, Jr, Chairman of the Investment Committee, reported on the meeting held June 23, 2000

Mr Caple informed the Board that approval of the Investment Committee minutes had been deferred to a future meeting

Mr Caple then asked Ms Humphries to report on the Minority Sub-Committee's recommended changes to the Brokerage Commission Policy Ms Humphries stated that Section A 3 would be modified to target participation of minority brokerage by internal and external equity managers to 10%, and to set a target of 5% of commissions to Maryland brokerage firms including firms headquartered in Maryland and national firms with

Maryland branches, and that Section A 5 would be modified to direct that 5% of brokerage business for internally managed fixed income securities would be credited to firms that qualify as "Minority Business Enterprises" under the State definition of a minority business. On motion made by Ms. Humphries and seconded by Dr. Alemi, the Board voted unanimously to modify the Brokerage Commission Policy and the Investment Manual as stated (Exhibit C)

Mr. Caple advised the Board that 3 new High Yield Managers had been chosen by the Committee and were recommended for approval by the Board. He further stated that the Committee recommended allocating \$200 million to Morgan Stanley Dean Witter Investment Management and \$100 million each to Fountain Capital Management, Lazard Asset Management, and William R. Huff, for a total of \$500 million. On motion made by Mr. Caple and seconded by Mr. Tydings, the Board voted to approve the managers and amounts recommended by the Committee as stated. Messrs. Caple, Brown, Dixon, Tydings, Casula, Lancaster and Harrison, Ms. Humphries, Ms. Foster, Major Krome and Colonel Mitchell registered yeas. Dr. Alemi registered a nay vote.

Mr. Caple next discussed recommended changes to the Investment Manual and stated that the Committee recommended changing the policy to authorize a 0% to 10% tactical allocation to emerging market and/or international high yield bonds for all high yield bond managers. On motion made by Mr. Caple and seconded by Mr. Tydings, the Board voted to approve the changes as stated. Messrs. Caple, Brown, Tydings, Casula, Lancaster and Harrison, Ms. Humphries, Ms. Foster, Major Krome, Colonel Mitchell and Dr. Alemi registered yeas. Mr. Dixon registered a nay vote.

Mr. Caple then recommended that the Board approve a change in regarding the current 60-Day Rule and the termination of a manager to reflect that (1) the account would be frozen on the day of termination, (2) the manager would be given 30 days notice of termination, and (3) management fees would be paid for the 30 day period. On motion made by Mr. Caple and seconded by Mr. Tydings, the vote resulted in a tie. Mr. Caple stated that the issue would be deferred to a future Investment Committee meeting.

Mr. Robert Feinstein, Assistant Attorney General, updated the Board on Waste Management.

Mr. Caple then thanked Mr. Howard P. Colhoun for his many years of service to the Board and the Committee and suggested that the Board prepare a resolution commemorating Mr. Colhoun's work for presentation at the Strategic Planning Conference at Rocky Gap in September.

Mr. Caple stated that the July 14 Investment Committee meeting had been cancelled and that the next meeting would be held on August 11, 2000.

The Board accepted Mr. Caple's report.

Report

- 11 Mr William Brown, Chairman of the Audit Committee, reported on the regular meeting held on June 20, 2000

Mr Brown informed the Board that the Internal Auditing Department had hired an Internal Auditor Trainee and are in the process of hiring for the three other vacant positions in the department

Mr Brown then advised the Board that the department had received an updated copy of the Investment Manual and would review the manual to ensure that it reflects all Board directives

Mr Brown reported that Mr Gigliotti, Chief Internal Auditor, would arrange a meeting between Brown & Company and the Strategic System Steering Committee to clarify certain terms in their contract regarding Brown's desire to render an opinion on the Agency's evaluation of the System's internal controls, rather than on the design of the System itself

The Board accepted Mr Brown's report

Earnings
Limitation
Recovery

- 12 The report of the Agency for offsets of certain retirees was accepted by the Board The Board, on motion made by Colonel Mitchell and seconded by Ms Humphries, authorized the reduction of the pensions of affected retirees as provided for under the current law [State Personnel and Pensions Article Sections 22-406 (b)(2) and 23-407 (b)(2)] The pensions offset are based on calendar 1998 earnings that will be offset from pension benefits paid in fiscal year 2000

Medical Board
Reports

- 14 The Board, on motion made by Colonel Mitchell and seconded by Mr Brown accepted and approved the reports of the Medical Board in connection with applications of members for ordinary, accidental and special retirement allowances The Medical Board's conclusions were reached after its review of the evidence provided by the claimants

Supplemental
Medical Board
Reports

- 15 The Board, on motion made by Colonel Mitchell and seconded by Mr Brown unanimously accepted and approved the supplemental reports of the Medical Board in connection with applications of members for ordinary and accidental and special retirement allowances The Medical Board's conclusions were reached after its review of the evidence provided by the claimants The Supplemental Report of the Medical Board is shown as Exhibit D

EXECUTIVE SESSION

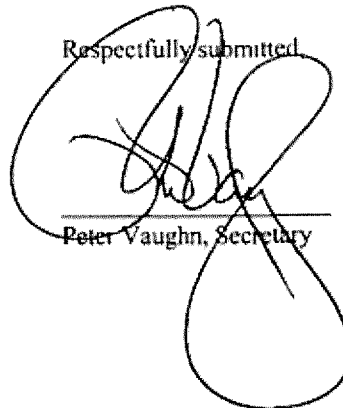
The Board met in Executive Session at 11 15 a m in the SunTrust Building to discuss the Funding Study All of the persons present at the beginning of the meeting were present in Executive Session except the following Douglas Gross and William Foy The Board adjourned its Executive Session at 12 40 p m and returned to regular session to complete the agenda

REGULAR SESSION

Other Business 16

There being no further business, on motion made and duly seconded, the Board adjourned at 12 40 p m

Respectfully submitted

A large, stylized handwritten signature in black ink, appearing to read 'Peter Vaughn', is written over a horizontal line.

Peter Vaughn, Secretary

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