

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

MINUTES OF MEETING

July 17, 2001

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 9:30 a.m. There were present: Richard N. Dixon, Chairman, T. Eloise Foster, Frank P. Casula, Major Morris L. Krome, William D. Brown, Col. David B. Mitchell, Dr. Ali A. Alemi, G. Bruce Harrison, George R. Tydings, Dr. Nancy S. Grasmuck (arrived at 10:00 AM), Debra Humphries, Trustees, and Peter Vaughn, Secretary. Agency staff members also attending were Margaret A. Bury, Retirement Administrator, Robert Feinstein, Jill Lerner, Carla Katzenberg, Rachael Cohen, Assistant Attorneys General, Carol Boykin, Chief Investment Officer, Tracey Ray, Deputy Chief Investment Officer, Thomas Gighotti, Chief Internal Auditor, Gwendolyn Mulkey, Executive Associate, Howard Pleines, Legislative Director, Rick Harrison, Chief Financial Officer, and Gary Scribner, Chief Information Officer.

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| Minutes | 1 | On motion made by Dr. Alemi and seconded by Mr. Casula, the Minutes of the regular meetings of the Board of Trustees for the State Retirement and Pension System of Maryland, held on June 12, 2001, were approved. |
| Presentation of
Dr. Morton Rapoport | 2 | The Executive Director announced that the University of Maryland Medical Corporation requested the item be taken off the Agenda. The Board agreed. |
| Investment
Committee Report | 3 | Mr. Frank Casula, reported on the Investment Committee Meeting held on July 13, 2001. |

Mr. Casula advised the Board that the Investment Committee continued to discuss ways to deal with the Harbor fee issue. Mr. Casula then reported that the Investment Committee voted to formally ask Harbor to reduce their fee to a level not to exceed 45 basis points per annum along with a request to grandfather this fee to be effective as of the last date when the Committee met with Mr. Castegren and Mr. Williams. (The date of the last meeting was December 15, 2000.) The motion further required a response from Harbor prior to its next meeting on August 10, 2001.

On Motion made by Mr Casula and seconded by Mr Harrison the board voted unanimously to accept the recommendation by the investment committee to the Board that Harbor be formally asked to reduce their fees

Mr Casula summarized the status of the search for mid and small to mid cap value managers, and noted that finals with the Committee are scheduled for August 10, 2001. Mr Casula noted during the Committee meeting interest was expressed by certain Committee members in giving preference to Maryland managers if they were equal in all other ways to competing candidates, and the Committee asked the Investment Operations Manual Sub-Committee to look into this. Mr Casula also mentioned that Mr Dixon stressed the importance of completing searches as quickly as possible, with an outside limit of 60 days for the entire process.

Mr Casula reported that the Committee was provided with a preliminary overview of the System's benefit payment needs. Concern was expressed over the ability for investment income and dividends to continue to meet these needs. Mr Casula noted that it is likely that the System will need to stop reinvesting investment dividends and income in the near future. In order to pay benefits a report and analysis will be developed and provided to the Board at its Planning Conference in September.

Mr Casula informed the Board that Staff has begun a study of the System's overall fixed income structure in light of several issues.

Mr Casula then informed the Board that Ms Boykin reviewed LaSalle's request to change the guidelines for their REIT portfolio with the Investment Committee, and that Ms Humphries and members of the Investment Operations Manual Sub-Committee are investigating this matter. On Motion made by Mr Casula and seconded by Mr Harrison the board voted unanimously to accept the recommendation by the Investment committee allowing LaSalle to have an exemption to one clause in their contract, the contract clause that currently limits investments to no more than 10% of the portfolio on a market value basis until such time as the Sub-Committee concludes their study. Mr Casula then informed the Board that this contract clause currently limits investments to no more than 10% of the portfolio on a market value basis.

Mr Casula reported that the Manager Meeting Review focused on items that arose from Staff meetings with managers. Chapman Capital Management has requested additional funding, since they view the recent decline in their portfolio value as an opportunity to buy, and Progress Investment Management Company, is due to be acquired by Fleet.

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Mr. Casula advised the Board that Performance was reviewed, and assets as of the end of June 2001 were estimated to be \$29.482 billion. Mr. Casula also noted that Mr. Dixon requested better visibility of the S&P 500 performance information, and Staff agreed to provide this for future meetings.

The Board accepted Mr. Casula's report.

Nancy Larman

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The Board considered the report of J. Bernard McClellan, sitting as Administrative Law Judge for the Office of Administrative Hearings, in connection with the appeal of Nancy Larman. Ms. Larman 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.

The Administrative Law Judge, upon consideration of the record, and following a hearing, affirmed the Agency's decision and concluded that Ms. Larman's disability was not the "natural and proximate result" of a work-related accident that allegedly occurred on June 13, 1996. Therefore, her application for accidental disability benefits should be denied.

Ms. Larman had requested that her case be heard on the record. 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.

Joanne Wilson

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The Board considered the report of Susan Officer, sitting as Administrative Law Judge for the Office of Administrative Hearings, in connection with the appeal of Joanne Wilson. Ms. Wilson 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.

The Administrative Law Judge, upon consideration of the record, and following a hearing, affirmed the Agency's decision and concluded that Ms. Wilson's disability was not the "natural and proximate result" of a work-related accident(s) that allegedly occurred on June 5, 1996 or October 1997. Therefore, her application for accidental disability benefits should be denied.

Ms. Wilson presented her 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 Nancy Larman and Joanne Wilson. 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 10:15 a.m. in the SunTrust Building to consider the appeal of Nancy Larman and Joanne Wilson, 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 10:25 a.m. and returned to regular session to complete the agenda.

REGULAR SESSION

Nancy Larman

The Board considered the record of Nancy Larman. Following a discussion, on motion made by Maj. Krome and seconded by Col. Mitchell, the Board voted to adopt the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and denied Ms. Larman's request for accidental disability retirement benefits. Chairman Dixon, Maj. Krome, Col. Mitchell, Dr. Alemi and Messrs. Tydings, Brown, Casula, Harrison, Ms. Foster, and Ms. Humphries voted yea. Dr. Grasmick Abstained from the vote.

Joanne Wilson

The Board considered the record of Joanne Wilson. Following a discussion, on motion made by Maj. Krome and seconded by Col. Mitchell, the Board voted to adopt the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and denied Ms. Larman's request for accidental disability retirement benefits. Chairman Dixon, Maj. Krome, Col. Mitchell, Dr. Alemi and Messrs. Tydings, Brown, Casula, Harrison, Ms. Foster, and Ms. Humphries voted yea. Dr. Grasmick Abstained from the vote.

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Executive Director's 6
Report

Mr. Vaughn 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, 2000, that made the award possible.

Next, Mr. Vaughn stated his pleasure in announcing the re-appointment of Ms. Debra Humphries to the Board of Trustees, for the Maryland State Retirement System. Governor Glendening re-appointed Ms. Humphries to a four-year term to begin on July 1, 2001.

Mr. Vaughn reported the membership statistics for the end of the fiscal year 2001. The total number of retirees as of June 30, 2001 was 84,200. The number of service retirees for the fiscal year of 2001 was 4917 which is the highest number since 1993. The number of ordinary disability retirees for the fiscal year of 2001 was 739 which is the highest number in ten years. The number of accidental disability retirees for the fiscal year of 2001 was 137, which is a new record number. Mr. Brown requested a breakdown of the statistics by the system.

Mr. Vaughn then reminded the Board that the annual Strategic Planning Conference would be held at Rocky Gap Lodge on September 6 and 7, 2001, and invited Board members to present their ideas or recommendations for discussion topics.

Mr. Vaughn reported that the System received favorable decisions on three disability cases which were appealed in the Courts.

The Board reviewed and accepted the System's financial statements and investment performance comparisons for the period ending May 31, 2001 for the State Retirement and Pension System of Maryland.

The Board accepted Mr. Vaughn's report.

Executive
Committee Report 7

Mr. William D. Brown, Chairman of the Executive Committee, reported on the regular meeting held July 10, 2001.

Mr. William D. Brown reminded the Board that Mr. Arthur Caple had requested that the Executive Committee review the trustee election process.

Mr. Brown reported that the Executive Director of the Retirement Agency stated that he believed that the existing regulations concerning trustee elections, for the most part, were appropriate. He stated there are two areas that the Executive Committee might want to review: (1) the number of signatures required to be placed on the ballot and (2) the limit on number of words each candidate can place in their bio on the ballot (currently limited to 100 words). During the Executive committee meeting Mr. Vaughn stated that in past years a member/retiree was required to get 1% of the membership of the appropriate system(s) to sign a petition in order to become a candidate for trustee and to be placed on the ballot. The Board altered its regulations on elections several years ago to require 500 signatures for employee and teacher candidates, and 100 signatures for state police. The second issue Mr. Vaughn mentioned was the 100 word limit for each candidate's biography. Mr. Vaughn asked if it might be more appropriate to increase this limit to 500 or even 1000 words. He also indicated that some states, such as Illinois, print a special newsletter for trustee elections. The Committee believed that the number of signatures should not be changed but agreed that the bio's should be longer. On motion made by Mr. Brown and seconded by Col. Mitchell the Board voted unanimously to amend the election regulations to provide that information/biography for candidates for the position of trustee to be included on or with the ballot be increased from 100 words to 250 words.

Mr. Brown reported that last year Major Krome had been instrumental in getting the Board of Trustees to include a proposal in its 2001 legislative package to permit certain State Police members to purchase credits for previous police service with another jurisdiction other than the State of Maryland. Unfortunately, the Joint Committee on Pensions rejected the proposal. Attempts to find a sponsor during the 2001 Session also failed. Mr. Brown stated that during the Executive committee meeting the request was made that the issue of State Police purchase of service be brought back to the Executive Committee because he is searching for a solution. He clearly finds that it is wrong that a few members be denied service credits because their employer(s) misguded them. He felt that as a matter of equity the Board should try to find a reasonable solution to this problem. The Executive Committee agreed and asked Col. Mitchell to contact the employee bargaining groups and report back to the Committee.

Mr. Brown stated that Mr. Howard Pleines met with Delegate Wheeler Baker during the 2001 Session of the Maryland General Assembly to discuss the request of a member of the Teachers' Contributory Pension System (TCPS) to combine her TCPS account with a deferred Teachers' Retirement System (TRS) account. Delegate Baker's constituent, Ms. Christine Karmosky, wants to combine her accounts so that all her service credits will count towards the total credit she needs.

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to retire from the TCPS. Ms Karmosky failed to combine her TRS account with her TCPS account before pension law was amended to prohibit the combining of such accounts.

The Executive Committee directed Mr Vaughn to contact the Actuary to determine a cost to permit active contributory pension system members to transfer vested retirement system service credits to their current accounts. Mr Vaughn stated he would contact the Actuary and obtain the requested cost estimate.

Mr. Brown indicated that the Retirement Agency received a request from Maryland Charity Campaign to provide that organization with an automated file listing retirees' names addresses, and social security numbers for the coming State charity campaign. Ms Bury felt that it was not appropriate to release all of the requested data directly to Maryland Charity Campaign.

Mr Brown indicated that he strongly opposes providing any information to Maryland Charity Campaign. He felt that there would be many more groups seeking the Board's help if the Agency provides any information to one group. Mr Brown stated that during the Executive committee meeting Col Mitchell indicated he understood Mr Brown's reluctance based on the problems with leadership from Maryland Charity Campaign in 1990. However, the problems that existed then have been corrected. If the Board does not assist Maryland Charity Campaign, a large contribution anticipated from State retirees may be lost.

The Executive Committee recommended to the Board of Trustees that the Retirement Agency continue the policy of printing names and addresses on pledge cards for the Maryland Charity Campaign to mail to the retirees. Additionally, Maryland Charity Campaign is to submit a letter verifying that it will use the names and addresses for the purpose indicated only, that it would not sell, duplicate or reuse these labels for any other purpose.

Mr Brown stated that he was opposed to the request, but as committee chairman, he was obligated to bring the Committee's recommendation to the Board.

Chairman Dixon expressed his opposition to divulging any information regarding our retirees to outside parties for any purpose, even that of a charitable solicitation without the retiree's permission.

Col. Mitchell stated that he while firmly supported the good works of the Maryland Charity Campaign, he had concerns about the possible security risks associated with providing personal information about our retirees, especially law enforcement retirees.

Several additional members expressed their individual concerns with the recommendation.

Dr. Grasmuck stated her desire to assist the Maryland Charity Campaign, but not as requested. After discussion, Dr. Grasmuck made the following motion, seconded by Mr. Casula. The Retirement Agency is directed to provide only mailing assistance to the Maryland Charity Campaign. The Agency will control the stuffing and mailing process of campaign materials as opposed to providing retiree information directly to the Campaign. Additionally, social security numbers are not to be provided. The motion passed with a vote of 9 to 2. Chairman Dixon, Dr. Grasmuck, Maj. Krome, Col. Mitchell, Dr. Alemi, Ms. Foster, Messrs. Harrison, Tydings, Casula registered yeas. Mr. Brown and Ms. Humphries registered Nays.

The Board also directed the Executive Director to contact the Secretary of State to inform him of the Board's concern of permitting Central Payroll to provide a listing of names, addresses and social security numbers of state employees to the campaign.

Mr. Brown reported Retirement Agency had identified a number of retirees who are receiving disability benefits (special, accidental, or ordinary) and who are employed with a participating employer and subject to the provisions of Section 29-115 of the State Personnel and Pensions Article.

The Executive Committee expressed its general concern that the current law may be too harsh and needs to be repealed. The Committee is seeking to suspend any further actions against disability retirees at this time, and staff is directed to present a legislative history of Section 29-115 at the August or September Executive Committee meeting.

On motion made by Mr. Brown and seconded by Mr. Harrison the Board voted unanimously to direct the Retirement Agency to immediately suspend its actions concerning the provisions of Section 29-115 that call for the possible conversion of a disability benefit to a vested benefit if a disability retiree is working for a participating employer in a similar position to the position at time of retirement, or if the current annualized salary is greater than the average final compensation at retirement, pending the outcome of a study of this issue.

Mr. Brown asked Mr. Scribner to give a brief Strategic system update.

Mr. Scribner stated: "During the past week, the Agency was able to obtain a written certification, signed by the president of Syscom, Inc. that stated that Syscom would warrant defects found in latter stages of testing (CIT and System level) that were not discovered during the unit testing phase, which is now essentially complete. In addition, two separate declarations were received, as attachments to that certification letter, from Syscom's Quality Assurance (QA) team leader. The first

documented how the tests were conducted at Syscom for the 14 test deliverables which were accepted as a result of Syscom's certification, and the second addressed the four other test deliverables that will require some additional work to be accepted. The 14 deliverables were approved by the vote of the steering committee, which authorized for payment to Syscom approximately \$1.2 million. Syscom stated in their certification letter to deliver, by August 10, a high level test plan and a test "template" Syscom and the Agency have agreed to this template for the subsequent testing, including documentation requirements for test results

The Agency still requires a detail design document for the Pension and Tax subsystems of the Strategic System, to enable staff to more fully understand the business rules and logic of this critical portion of the system. A change order for approximately \$185K has been generated by Syscom, and the Agency is currently evaluating the options related to it

The Agency during the past week has been conducting working sessions on a sample business scenario (Enroll a Member) in order to flush out the test suite packages required to reliably and reasonably test the system. In doing so, the Agency is attempting to develop a metric to aid both the Agency and Syscom in the estimation of time required for test suite and script development. Test suite/script packages will need to be developed for testing to be completed by

Syscom (CIT and System level), and by the Agency during User Acceptance Testing

Mr. Brown advised the Board that the Joint Committee on Pensions, as it has done for numerous years, is scheduled to meet three times during the 2001 Interim. The first meeting is scheduled for September 25 (originally scheduled for October 2). The second meeting will be held October 30. At this meeting, the Joint Committee will hear the Board's legislative proposals for 2002. Also, the Retirement Agency will make its annual presentation on investment results. The third meeting will be held November 27. At this meeting, the Actuary will present his 2001 valuation data as well as the 2003 contribution rates. This will also be the decision meeting for the various proposals presented to the Joint Committee

Mr. Brown reported that the Executive committee was presented with the election schedule for the State Police Retirement System election to be held next year. Major Krome's current term of office ends July 31, 2002. Candidates must be retirees of the State Police Retirement System. The schedule of the election will begin in August 2001.

On motion made and duly seconded the Board voted unanimously to accept the election schedule for the position of Trustee to the State Police Retirement System (See Attachment A)

Mr. Brown advised the Board that it is necessary to establish a policy related to certain retirees who return to work after electing an early service retirement. Recent legislation exempts certain employee and teacher retirees from the general earnings limitation if employed by the same participating employer after retirement. This exemption applies to both a vested benefit and full service retirement. It does not apply, however, to early service retirees. These retirees are subject to an earnings limitation during the first 12 months of retirement. Since it is normal to look at excess earning based on annual calendar year earnings (amount reported on 1099R), Ms Bury stated a policy is needed to determine how earnings during the 12 months of initial retirement are to be calculated for comparison against the earnings limitation

On motion made and duly seconded the Board voted unanimously to accept the Executive committees' recommendation that Policy for Early Service Retiree Earnings Limitation Calculation Rules covering Retirees Eligible Under Senate Bills 15 (1999 Session) and SB221 (2001 Session) be approved (See Attachment B)

Earnings Recovery

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On motion made by Mr Casula and seconded by Mr Brown the Board 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 2000 earnings that will be offset from pension benefits paid in fiscal year 2002 (Attachment C)

Disability Offset

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The Board, on motion made by Mr Brown and seconded by Dr. Alemi, voted unanimously to accept the report of the Medical Board which authorized the reduction of the pensions of affected disability retirees to be reduced in accordance with the Annotated code section 29-116. The offsets are based on calendar 2000 earnings, which will be offset from the pension benefits paid in fiscal year 2002 (Attachment D).

Medical Board Report

10.

Mr. Vaughn announced a correction for the June 14, 2001 medical report. The report lists Nilson Hanston-Proctor's reason for denial as A-1, A-7. The reason for denial should be S-6, S-7.

The Board, on motion made by Mr. Brown and seconded by Dr. Alemi, approved the reports of the Medical Board in connection with applications of members for ordinary, accidental and special retirement allowances as corrected. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants (Attachment E).



Supplemental Board Report

11. The Board, on motion made by Colonel Mitchell and seconded by Mr. Brown Medical Board unanimously accepted and approved the supplemental Medical Board Reports 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 (Attachment F).

Other Business

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Adjournment

13. There being no further business, the Board adjourned at 12 05 p m

Respectfully submitted,

Peter Vaughn, Secretary

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