

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

MINUTES OF MEETING

February 19, 2002

The Board of Trustees for the State Retirement and Pension System of Maryland met in the Assembly room of the Treasury Building, 80 Calvert Street, Annapolis, Maryland, at 9:30 a.m. There were present William Donald Schaefer, Acting Chairman, Treasurer Nancy K. Kopp, Dr. Nancy S. Grasmick, Arthur N. Caple, Jr. (arrived at 9:45 a.m.), George Tydings, William D. Brown, Carl D. Lancaster, Colonel David B. Mitchell, Major Morris L. Krome, G. Bruce Harrison, and Dr. Ali A. Alemi, Trustees, and Margaret A. Bury, Acting Secretary. Agency Staff members also attending were Deborah Bacharach, Robert Feinstein, and Rachel Cohen, Assistant Attorneys General, Carol Boykin, Chief Investment Officer, J. Howard Pleines, Director of Legislation, Sherlynn Matesky, Administrator, Thomas Gigliotti, Chief Internal Auditor, Gary Scribner, Chief Information Officer, Rick Harrison, Chief Financial Officer, and Gwen Mulkey, Executive Associate.

Also present were, Richard Houston and his Attorney Thomas Eastman, Tammy Kness and Deborah Auerbach.

Minutes 1 Dr. Alemi requested that the minutes of January 15, 2002 be amended to include a letter, which he wrote to the Baltimore Sun, on January 21, 2002. Attachment A

On motion made by Dr. Alemi and seconded by Dr. Grasmick, the minutes of the regular meeting of the Board of Trustees for the State Retirement and Pension System of Maryland, held on January 15, 2002, were approved as amended.

Investment Committee 2 Mr. Caple, Chairman of the Investment Committee, reported on the meeting held on February 8, 2002. As Mr. Caple covered most of this report at the Special February 8, 2002 board meeting, he addressed only additional items. Attachment B

On motion made by Mr. Caple and seconded by Mr. Lancaster, the Board voted to re-appoint Mr. Bruce Harrison and Ms. Carol Boykin to the Maryland Venture Capital Trust Board.

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On motion made by Mr Brown and seconded by Dr Alerni, the Board voted to appoint Mr Carl Lancaster to the Maryland Venture Capital Trust Board

The Board accepted Mr Caple's report

Richard Houston

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The Board considered the report of Guy Avery, sitting as Administrative Law Judge for the Office of Administrative Hearings, in connection with the appeal of Richard Houston Mr Houston appealed the Retirement Agency's decision to offset his lump sum workers' compensation benefit payment over a five-year recovery period

Mr Thomas Eastman, Attorney for Mr Houston, presented arguments opposing the Agency's position and the Administrative Law Judge's recommendations Ms Rachel Cohen, Attorney for the Agency, addressed the Board and argued that the Board should accept the Agency's decision The Board deferred further consideration to Executive Session

Sherry Blank

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The Board considered the report of Judith Finn Plymyer, the Administrative Law Judge in connection with the claim of Sherry L Blank, for accidental disability benefits The report included a report by the Medical Board and related medical documentation

The Medical Board denied Ms Blank's accidental disability retirement benefits based on their determination that the reported accident did not cause the Claimant's disability Ms Sherry Blank appealed the Medical Board's decision

The case of Ms Blank was considered on the record at the member's request Ms Rachel Cohen, 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 by Mr Caple and seconded by Dr Grasmick, the Board voted unanimously to meet in Executive Session to consider the appeals of Richard Houston and Sherry Blank State Government Article Section 10-502(i) authorizes the Board to meet in closed session to exercise a quasi-judicial function

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EXECUTIVE SESSION

The Board met in Executive Session at 10 20 a m in the Assembly Room of the Louis Goldstein Treasury Building at 80 Calvert Street to consider the appeals of Richard Houston, and Sherry Blank. All of the persons present at the beginning of the meeting were present in Executive Session except the following Rachel Cohen, Richard Houston and his Attorney Thomas Eastman, and Tammy Kness and Deborah Auerbach. The Board adjourned its Executive Session at 10 35 a m and returned to regular session to complete the agenda.

Richard Houston Following a discussion, a motion was made by Colonel Mitchell and seconded by Dr. Grasmick to adopt the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and deny Mr. Houston's request to extend the workers' compensation offset recovery period.

Sherry Blank The Board considered the record of Sherry Blank. Following a discussion, on motion made by Dr. Alemi and seconded by Colonel Mitchell, the Board voted unanimously to adopt the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and denied Ms. Blank's request for accidental disability retirement benefits.

Executive Director's Report 5 Ms. Margaret Bury informed the Board that there would be a Trustee election in May to elect the Retired Representative of the Maryland State Police System. The term of the current representative, Major Krome, ends July 31, 2002. Ms. Bury advised that two candidates filed the required nomination forms, Major Krome and Mr. Harrison. The trustee election ballots are to be mailed April 29, 2002 and all completed ballots must be returned by 5 p m on May 31, 2002.

Ms. Bury then announced that this year's cost of living increase payable in July 2002 will be 2.3%.

Ms. Bury informed the Board that during the 'other items' portion of the Agenda she would request the Board's approval for the hiring of a Public Information Officer as a 'special appointment' position that will report directly to the Executive Director.

Ms. Bury introduced Mr. Eugene Kalwarski of Millman USA who addressed the Department of Legislative Services' proposal to change the pension funding methodology for the fiscal year 2003 State contributions.

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Following a lengthy discussion, the Board made the following motions

On motion made by Dr Alemi and seconded by Dr Grasmick, the Board voted unanimously to re-affirm its position approved at the February 8, 2002 meeting to oppose the reduction of the State's required fiscal 2003 pension contributions and to request the Legislature to work with the Governor to restore full funding

On motion made by Dr Grasmick and seconded by Mr Caple, the Board voted to further consider any reasonable funding methodology alternative that the Legislature proposes. The motion passed with a vote of 10 to 1. Chairman Schaefer, Treasurer Kopp, Dr Grasmick, Colonel Mitchell, Major Krome, Dr Alemi, Messrs Caple, Tydings, Brown, and Lancaster registered yea votes, Mr Harrison registered a nay vote

The Board accepted Ms Bury's report

Executive
Committee Report

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Mr William D Brown, Chairman of the Executive Committee reported on the regular meeting held February 5, 2002 Attachment C

Mr Brown reminded the Executive Committee that the Retirement Agency, like State general fund Agencies, is subject to the general budget reductions and hiring freeze put in place by the Department of Budget and Management. He noted that current allocations for the 2002 budget have been adjusted for these reductions and restrictions. A concern is the potential of an additional 5% cost-containment cut of \$972,000 that may occur. If this cut occurs, the Agency faces critical budget decisions later this fiscal year. Additionally, Mr Brown noted that the Agency must request budget amendments to hire the Investment and Strategic System Consultants. Without approved budget amendments, the hiring of consultants this fiscal year may require cuts in other areas of the budget.

Mr Brown reported that the Executive Committee directed Staff to meet with Mr Alvin Collins, the Governor's Chief of Staff and Secretary T. Eloise Foster regarding the second round of budget reductions and the required budget amendments. Mr Brown also attended the meeting. Along with Staff he discussed the issues and raised the Board's concern that additional budget restrictions may affect member services. Secretary Foster responded that the Budget Department had reviewed the Agency's Expense Monitoring Report and confirmed that the Agency was on target with its budget projection. The Agency may continue at its current level but dependent upon the March revenue projections the additional cost-containment reductions may apply.

Mr. Brown updated the Board about the Agency's recent budget hearings. Based on Ms. Bury's report to the Committee, the House had, for the most part, accepted our response on the issues included in the Legislative Services report. The Senate, however, expressed greater concerns, and noted problems in communicating with the Board of Trustees. Ms. Bury had also reported that, as requested, she had met with Delegate Proctor and Senator Kasemeyer to discuss the Board's potential study of benefits. She noted that Delegate Proctor believed that it is a good idea to study all benefits to identify problems and, if appropriate, to recommend a number of potential solutions. Delegate Proctor suggested that the study be delayed, perhaps to the Fall. Senator Kasemeyer, on the other hand, remains negative to the Board's study of benefits. He stated that these are policy issues to be dealt with by the General Assembly and not the Board.

Mr. Brown also reported on the proposed \$76.4 million reduction in the State's pension contributions for fiscal 2003. Ms. Bury advised that she was meeting with Department of Budget and Management staff concerning language in the Budget Reconciliation Act (SB323/HB424) to reduce the State's required contributions.

Mr. Brown advised that Ms. Bury, as Acting Executive Director, had received a request from Officer William R. Longley, a member of the Law Enforcement Officers' Pension System (LEOPS) for a hearing to address his membership in the LEOPS Deferred Retirement Option Program (DROP). Despite having more than 30 years of eligibility service, Officer Longley requests to participate in DROP. Ms. Bury stated that to grant Officer Longley's request would violate State law. The law is clear that a member of LEOPS is eligible to participate in the DROP if the member has less than 30 years of eligibility service.

The Executive Committee recommended that the Board of Trustees uphold the Acting Executive Director's decision to deny Officer Longley's request for a hearing. On motion made and duly seconded, the Board of Trustees upheld the Acting Executive Director's denial decision.

Mr. Brown then asked Mr. Howard Pleines to provide a Legislative update to the Board. Mr. Pleines advised the Board that as of February 4, 2002, the Agency was tracking 16 Senate and 20 House bills. The Board requested legislation introduced to date included HB163 - fee cap for alternative investments, HB165 - payment of employee and employer contributions from Boards of Supervisors of Elections, HB394 - permits retirees to re-designate a beneficiary.

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under Options 5 and 6 after the benefit has "popped up", HB395 - a benefit suspension, rather than loss of disability benefits, if re-employed with a participating employer at a salary at least equal to the average final salary at retirement, and HB534 - compliance with recent federal tax law changes.

Mr. Pleines also noted that the Joint Committee on Pensions has introduced HB164 to establish a Task Force to study liabilities associated with State retiree health insurance costs. Mr. Pleines stated that the Agency, as it has in prior years, would work to transfer the cost of any actuarial study, estimated at \$52,000, to the Department of Budget and Management.

A bill closely being tracked is the Budget Reconciliation Act (SB323/HB424). Mr. Pleines stated, as previously noted by Ms. Bury, that the bill contains language to permit the State to pay less than the required contributions. He noted that the Senate hearing on this bill was scheduled for 1:00 p.m. on February 19, 2002.

On motion made by Mr. Caple and seconded by Dr. Grasmick, the Board unanimously voted to meet in Executive Session to consult with counsel and Staff to obtain advice affecting the Syscom project. State Government Article Section 10-508(a)(7) and (8) authorizes the Board to meet in closed session to exercise a quasi-judicial function.

EXECUTIVE SESSION

The Board met in Executive Session at 11:25 a.m. in the Assembly Room of the Louis Goldstein Treasury Building at 80 Calvert Street to consult with counsel and Staff to obtain advice affecting the on-going project to upgrade the System's data processing capabilities. State Governmental Article 10-508(a)(7), and (8) authorizes the Executive Committee to meet in closed session. All of the persons present at the beginning of the meeting were present in Executive Session except the following: Richard Houston and his Attorney Thomas Eastman, and Tammy Kness and Deborah Auerbach. The Board adjourned its Executive Session at 11:55 a.m. and returned to regular session to complete the agenda.

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Mr. Brown informed the Board that the Town of Mt. Airy is the latest municipality to join the Employees' Contributory Pension System.

The Board accepted Mr. Brown's report.

Audit
Committee Report

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Mr. William D. Brown, Chairman of the Audit Committee reported on the regular meeting held January 15, 2002 Attachment D

Mr. Brown stated that Brown & Company's evaluation of the Strategic System is based on Syscom's testing of the System. Since the Agency is currently negotiating several critical issues with Syscom, it suspended Brown's work for at least 90 days, beginning December 5, 2001, until those issues are resolved.

Mr. Brown informed the Board that Lindsey & Salita, LLC had completed fieldwork for 64 of the 65 local education agencies scheduled for audit. Completion of all audits is anticipated to occur prior to the March 31, 2002 completion date established in the contract.

Next, Mr. Brown stated that the review of the Strategic System was continuing. Several requirements had been identified that Syscom failed to include in the design of the System.

Mr. Brown then informed the Board that the Internal Audit Division (IAD) had issued a draft report on Benefit Payments to Deceased Retirees or Beneficiaries on January 3, 2002. The report recommends improvements in the areas of supervisory review and follow-up.

Mr. Brown noted that fieldwork was complete on the Securities Lending review. Only minor exceptions had been noted. IAD will issue a draft report in the near future.

Mr. Brown stated that no PGU reviews were currently in progress. The reviews were scheduled to resume in February.

Mr. Brown then reported that IAD would review transfer refunds for the 4th quarter of 2001 at the end of January when the records become available.

At the November 15, 2001 Audit Committee meeting, Mr. Bruce Harrison had asked about the financial ratings of sureties providing performance bonds under Agency contracts. In response to this request,

Mr. Gigliotti submitted a review of surety ratings performed by Mr. Ricky Harrison in August 2001. The review disclosed that all of the sureties associated with Agency contracts at that time had acceptable financial ratings.

Based on IAD's annual risk assessment, Mr. Gigliotti submitted a proposed schedule of audits for 2002 for the Committee's review.

The Board accepted Mr. Brown's report.

2002 Proposed
Legislation

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Mr. Howard Pleines reported on the following proposed legislation for 2002 session of the General Assembly Attachment E

SB34 Military Service Credit - Maryland National Guard Membership

SB105 Retirement and Pension Systems - Baltimore City Community College - Nonfaculty Employees

SB166 State Retirement and Pension System - Purchase of Service

SB169 Teachers' Retirement and Pension System - Reemployment of Retired Personnel

SB171 Judges' Retirement System - Death Benefits - Multiple Beneficiaries

SB179 Law Enforcement Officers' Pension System - Membership - Division of Parole and Probation of the Department of Public Safety and Correctional Services

SB202 Pensions - Service Retirement Benefits for Governors and Surviving Spouses

SB204 Retirement and Pensions - Service Retirement Benefits - Governors

SB255 Pensions - Military Service Credit - Membership in United States Reserves

SB278 State police Retirement System - Disability Retirements

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- SB282** Law Enforcement Officers' Pension System - Transfers of Members of the Maryland Transit Administration Police Force
- SB309** Law Enforcement Officers' Pension System - Membership
- SB323** The Budget Reconciliation Act of 2002
- SB337** Retirement and Pensions - Service Retirement Benefit
- SB477** State Police Retirement System - Reemployment as Sheriffs or State's Attorneys
- SB497** Retirement and Pensions - Maryland National Guard - Service
- SB564** Anne Arundel County Circuit Court Employees- Pension and Retirement Health Benefits
- SB569** Law Enforcement Officers' Pension System-Membership
- SB594** State Police Retirement System- Drop- Eligibility and Participation
- SB607** Retirement and Pensions - Military Service Credit
- SB652** State Police Retirement Systems - Benefits
- SB803** Teachers' Retirement and Pension System - reemployment of Retired Speech-Language Pathologists and Audiologists
- HB23** Pensions - Military Service Credit - Membership in United States Reserves
- HB44** Employees' Retirement and Pension Systems - Participating Employers - Reemployment of Retirees
- HB116** Law Enforcement Officers' Pension System - Membership - Division of Parole and Probation of the Department of Public Safety and Correctional Services
- HB163** Retirement and Pension System - Quarterly - Estimate of Manager Fees - Alternate Investment Managers
- HB164** Task Force to Study the State's Retiree Health Insurance Liabilities

- HB165 Retirement and Pension - Boards of Supervisors of Elections - Payment of Contributions
- HB173 Judges' Retirement System - Death Benefits - Multiple Beneficiaries
- HB216 Law Enforcement Officers' Pension System - Membership
- HB258 Pensions - Service Retirement Benefits for Governors and Surviving Spouses
- HB259 Retirement and Pensions - Service Retirement Benefits - Governors
- HB319 Military Service Credit - National Guard Membership
- HB369 State Police Retirement System - Retirees - Reemployment as Sheriffs or State's Attorneys
- HB370 Employees' and Teachers' Retirement and Pension Systems - Reemployment of Retirees
- HB394 State Retirement and Pension System - Optional Forms of Allowance - Designated Beneficiaries
- HB395 Retirement and Pensions - Disability Retirees - Temporary Suspension of Allowance
- HB411 Teachers' Pension System - Purchase of Service Credit
- HB414 Employees' Retirement and Pension System - Reemployment of Retirees - teachers
- HB424 The Budget Reconciliation Act of 2002
- HB527 Pensions - Military Service Credit - Federal law Enforcement Officers
- HB534 Retirement and Pensions - Limitations on Benefits and Contributions
- HB549 Law Enforcement Officer' Pension System - Benefits
- HB616 Retirement and Pensions- Earnable Compensation

HB622 Teachers' Retirement and Pension systems- Reemployment of Retired Personnel- Reading Specialists

HB749 Retirement and Pensions- Service Retirement Benefit

HB834 Teachers' Retirement and Pension Systems- Reemployment of Retired Media Personnel

HB1023 State Police Retirement System- Benefits

HB1160 Retirement and Pensions- Early Retirement Incentives

HB1242 Retirement and Pensions- Military Service Credit-Membership in the United States Coast Guard

HB1255 State Retirement and Pension System- Estimate of Pension Benefits

Following the legislative update, Mr Plenes reported that due to a re-organization within the House Appropriation Committee, Delegate Proctor was no longer Chairman of the Pension Subcommittee. While Delegate Proctor remains a member of the committee, Delegate Thomas Dewberry will assume the Chairmanship. It is assumed that Delegate Dewberry would also serve as co-chair of the Joint Committee on Pensions.

Medical Board

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The Board, on motion made by Dr Alemi and seconded by Dr Grasmick, unanimously approved the reports of the Medical Board in connection with applications of members for ordinary and accidental retirement allowances, with one exception. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants. The Board remanded the claim of Mr Dominic Balsoma to the Medical Board for further medical investigation.

Attachment F

Supplemental

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The Board, on motion made by Mr Caple and seconded by Dr Alemi, unanimously accepted and approved the Supplemental Report of the Medical Board in connection with applications of members for ordinary and accidental 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 G

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Other Business

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Ms. Bury requested the Board's approval for the hiring of a Public Information Officer as a 'special appointment' position under its authority provided in § 21-188 of the State Personnel and Pension Article. On motion made by Dr. Alemi and seconded by Dr. Grasmick, the Board approved Ms. Bury's request to hire a Public Information Officer as a 'special appointment' position. Attachment H

Margaret A Bury
Margaret A. Bury
Acting Secretary to the Board

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