

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

MINUTES OF MEETING

REVISED  
August 20, 2002

The Board of Trustees for the State Retirement and Pension System of Maryland met in the Boardroom of the SunTrust Building, 120 East Baltimore Street, Baltimore, Maryland, at 9:30 a.m. There were present Chairman William Donald Schaefer, Deputy Treasurer Charles G. Williams, Arthur N. Caple, Jr., Debra Humphries (joined meeting at 9:30 a.m. via Tele-conference), William D. Brown, Carl D. Lancaster, David Rakes, Colonel David D. Mitchell, Major Morris L. Krome, G. Bruce Harrison, Dr. Ali A. Alemu (departed meeting at 9:40 a.m.), Trustees, and, Margaret A. Bury, Acting Secretary. Agency Staff members also attending were Deborah Bacharach, Robert Feinstein, and Jill Leiner, Assistant Attorneys General, Carol Boykin, Chief Investment Officer, Howard Plimes, Legislative Director, Sherlynn Matesky, Deputy Legislative Director, Thomas Gigliotti, Chief Internal Auditor, Rick Harrison, Chief Financial Officer, Mr. Joseph Coale, Public Information Officer and Gwen Mulkey, Executive Associate.

Also present were, Steven Cann, Howard Fergus, and their respective attorney Dennis Gottesman, Esq. Ms. Carolyn Rochelle joined the meeting at a later time to discuss her appeal.

- Minutes 1 On motion made by Mr. Brown and seconded by Mr. Caple, the Minutes of the regular meeting of the Board of Trustees for the State Retirement and Pension System of Maryland, held on July 16, 2002, were unanimously approved.
- Minutes 2 On motion made by Mr. Brown and seconded by Major Krome, the revised minutes of the Executive Session of the Board of Trustees for the State Retirement and Pension System, held on June 18, 2002 were unanimously approved.
- Steven Cann 3 The Board considered the report of the Administrative Law Judge in connection with the claim of Steven Cann, for accidental disability benefits. The report included a report by the Medical Board and related medical documentation.
- The Medical Board ~~denied~~ Mr. Cann's claim for accidental disability retirement benefits based on their determination that the reported accident was not the direct cause of the Claimant's disability. Mr. Cann appealed the Medical Board's decision.
- Dennis Gottesman, attorney for Mr. Cann appeared before the Board and presented his arguments opposing the Agency's position and the Administrative Law Judge's recommendations. Ms. Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should adopt the

Administrative Law Judge's recommendations Following discussion, the Board deferred further consideration to Executive Session

Howard Fergus

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The Board considered the report of the Administrative Law Judge in connection with the claim of Howard Fergus, for accidental disability benefits The report included a report by the Medical Board and related medical documentation

The Medical Board denied Mr Fergus' claim for accidental disability retirement benefits based on their determination that the reported accident was not the direct cause of the Claimant's disability Mr Fergus appealed the Medical Board's decision

Dennis Gottesman, attorney for Mr Fergus appeared before the Board and presented his arguments opposing the Agency's position and the Administrative Law Judge's recommendations Ms Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations Following discussion, the Board deferred further consideration to Executive Session

Carolyn Rochelle

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The Board considered the report of the Medical Board in connection with the claim of Carolyn Rochelle for accidental disability benefits The Medical Board report included a report by the Administrative Law Judge and related medical documentation The Medical Board, based on the evidence submitted, did not find any objective evidence to substantiate Ms Rochelle's claim for disability retirement and cannot find that Ms Rochelle is disabled from further performance of duty Ms Rochelle appealed the Medical Board's decision

Ms Rochelle appeared before the Board and presented her arguments opposing positions of the Agency and the Medical Board Ms Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should accept the Medical Board's report The Board deferred further consideration to executive session

Investment Committee  
Report

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Mr Arthur Caple, Chairman of the Investment Committee, reported on the meeting held on August 9, 2002

Mr Caple stated that the August 9, 2002, Investment Committee meeting marked the beginning of the System's relationship with its new general investment consultant, Ennis Knupp, with Steve Cummings and Suzanne Bernard attending the meeting

Mr Lancaster reported that the Investment Committee recommends that the Board approve an amendment to the Real Estate Equity Master Plan, expanding the territory for purchase of properties in the direct program from Maryland to the Eastern Time zone On motion made by Mr Lancaster and seconded by Mr Caple, the Board voted unanimously to approve the amendment to the Real Estate Equity Master Plan

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Mr Lancaster stated that the Real Estate Equity Strategic Plan was approved by the Investment Committee, increasing the System's targeted exposure to the value added and the opportunistic sectors of the real estate market. The strategic plan also allows for increased use of leverage. The Investment Committee recommends to the Board that the Real Estate Equity Strategic Plan be approved. On motion made by Mr Lancaster and seconded by Mr Caple, the Board voted unanimously to accept the Investment Committee's recommendation and approve the Real Estate Equity Strategic Plan.

Mr Lancaster noted that the Investment Committee approved the Real Estate Equity Tactical Plan, authorizing the expenditure of an additional \$100 million in the System's Direct Real Estate Program. The Investment Committee recommends Board approval of the Real Estate Tactical Plan. On motion made by Mr Lancaster and seconded by Mr Caple, the Board voted unanimously to accept the Investment Committee's recommendation and approve the Real Estate Equity Tactical Plan.

Mr Caple informed the Board that the Committee intended to deliver the amended Investment Operations Manual to the Joint Pension Committee prior to its November 2002 meeting. Mr Caple then asked Ms Humphries and Ms Boykin for their comments.

Ms Boykin reported that the first seven sections of the Investment Operations Manual were updated and asked for Board approval with three additional recommended changes:

- 1) Move the fiduciary standard section to the beginning of manual and include investment managers in the section.
- 2) Objectives in Manual - Return 8% target. Include as an objective but not the primary objective.
- 3) Asset Allocation outlines the process. The consultant recommends making the process an addendum to the policy.

Ms Humphries moved to accept the first seven sections of the Investment Operations Manual as amended. On motion made by Ms Humphries, and seconded by Mr Caple, the Board voted unanimously to accept the amended sections of the Investment Operations Manual.

Mr Caple then recommended that the vote taken by telephone and e-mail on July 18, 2002 be modified to include State Street as the transitional manager for the terminated manager. On motion made by Mr Caple and seconded by Major Krome, the Board voted unanimously to include State Street as the transitional manager.

Ms Bury recommended that the Board remand the 'special disability case' of Nilsa Hairston-Proctor, a member of the State Police System to the Office of Administrative Hearings to request that the Administrative Law Judge apply the standards applicable to 'special disability' (State Police) rather than 'accidental disability'. On motion made by Mr Brown and seconded by Mr Caple, the Board approved the recommendation of Ms Bury and remanded the case of Nilsa Hairston-Proctor to the Administrative Law Judge to correct

Executive Director's  
Report

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the record with a unanimous vote

Ms Bury informed the Board that Mr Vaughn's scheduled return date was September 11, 2002 Ms Bury noted that upon his return Mr Vaughn would initially work part-time

Ms Bury stated that Ms Bacharach would discuss in closed session the Board requested Advice of Counsel regarding the Roscoe Johnson death benefit case Discussion was deferred to closed session

Ms Bury reported that during the week of August 12, 2002, a memorandum noting her recommendations regarding the management issues noted in the fact-finding report on DEM-MET was mailed to the Board The Board deferred the discussion of the report to closed session

The Board accepted Ms Bury's report

Executive  
Committee Report

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Mr Brown, Chairman of the Executive Committee reported on the regular meeting held August 13, 2002 Attachment A

Mr Brown reported to the Board that administrative expenses and manager fees were reviewed and accepted

Mr Brown noted that several months ago, following review of a disability benefits appeal, Dr Grasmuck expressed concern that some members, while no longer able to perform the duties of their position, could be retrained and able to continue to work She suggested that the Executive Committee obtain more information from the Division of Rehabilitation Services (DORS) on the availability of retraining for disabled employees

Mr Brown stated that Mr Robert Burns, Assistant State Superintendent in Rehabilitation Services, who serves as the Director of the Division of Rehabilitation Services (DORS) addressed the Executive Committee at its meeting of August 13, 2002 Mr Burns spoke briefly on the background of his Agency, which he identified as part of the State Department of Education He noted that DORS provides services to many thousands of Marylanders with all types of disabilities Mr Burns stated that there are 2 primary means for referrals school systems and Social Security He noted that when individuals seek social security benefits, notice is given to DORS after a claim is settled The individual cases are evaluated and a determination is made on the possibility and availability of retraining The Executive Committee asked staff to provide information on the DORS program in future newsletters

Mr Brown asked Mr Rick Harrison, the Chief Financial Officer, to discuss the Agency's fiscal 2004 budget request Before addressing the budget proposal, Mr Harrison noted that the Retirement Agency closed the 2002 fiscal year slightly under budget with approximately \$119,000 reverting to the Trust Fund

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For the fiscal 2004 request, Mr. Harrison stated that the Agency is requesting \$21,808,967, which is \$1,725,967 over the target set by the Department of Budget and Management. He also noted that the budget proposal is \$1,632,676 or 8.1% greater than the approved fiscal 2003 budget appropriation. The majority of the additional requested funds are attributable to salary and fringe benefit increases and a turnover rate smaller than previously anticipated.

The proposal includes a request for 4 new permanent positions, 3 of which are information technology positions required to maintain the imaging system and the current data processing network. Ms. Bury noted that the fourth position is for 1 additional attorney position. She stated that it is clear with the growth in the System and the additional complicated legal matters that continue to arise concerning both the administration and investment programs, another full-time attorney is greatly needed. She continued by stating that the Agency plans to request the position through the Budget Department and the Board of Public Works this fiscal year. If approved for fiscal 2003, the Agency's request for the attorney position will be removed from the fiscal 2004 budget request.

Mr. Harrison continued by noting that there is a significant increase to equipment items. There is a need to replace a document heat sealer to continue to process computer generated documents under the legacy system. In addition, there is a three-year program to replace aging personal computers throughout the Agency. Fiscal 2004 is the first year of this replacement process.

A number of contractual services are scheduled to increase in fiscal 2004 (banking services, investment consultant, office rent). These increases are offset by reductions to other contractual services, including computer system maintenance, microfilm conversion, and software upgrades.

Mr. Lancaster asked Mr. Rick Harrison, the Chief Financial Officer, "How many new computers are included in the \$200,000 item for computer replacements?" Mr. Harrison responded that it provided for 60 new computers - that the SRA leadership wished to initiate a process of replacing some of the Agency's computers each year. Mr. Lancaster asked what equipment was to be purchased as part of each of the 60 new "computers?" Mr. Harrison was uncertain exactly what hardware was included in the proposal. Mr. Lancaster asked Mr. Harrison if new software is included to which Mr. Harrison, again, seemed unsure of the correct response. Mr. Lancaster observed that the software probably would be merely rolled over to the new machines unless the Agency was going to install new software throughout the Agency. --Lastly, Mr. Lancaster stated that \$3,500 per computer was, in his opinion, a ridiculous amount to be budgeting today for a computer to be utilized by our staff. He added that it is difficult to spend this much for even the most powerful desktop computer with every "bell and whistle" that is available. Further, Mr. Lancaster observed that this is one item that will surely be an object of serious budget cuts by the legislature and including such a proposal damages the credibility of other items in the Agency's budget request.

Mr Brown asked that the Board accept the recommendation of the Executive Committee and approve the fiscal 2004 budget proposal. On motion made by Mr Brown and seconded by Colonel Mitchell, the Board unanimously accepted the Agency's fiscal 2004 budget proposal.

Mr Brown advised that a current retiree, Ms Cynthia Gadarian, who receives an ordinary disability retirement has returned to work as a teacher with Prince George's County Board of Education earning more than her average final salary at retirement. Under the law, Ms Gadarian's benefit shall be suspended.

The Executive Committee recommends that the Board suspend Ms Cynthia Gadarian's ordinary disability benefit until which time the Agency is notified that she is no longer employed with a participating governmental unit. On motion made by Mr Brown and seconded by Colonel Mitchell, the Board accepted the Executive Committee's recommendation to suspend her benefit.

Mr Brown reported that the Agency received a request from an inactive member, Mr Robert Hewitt, to determine the time he would be required to work in order to combine his vested Teachers' Pension System (TPS) account with his current Teachers' Contributory Pension System (TCPS) account. Mr Hewitt returned to membership in 2001 when he began work with the Montgomery County Board of Education but left employment on March 1, 2002 because of injuries he received in a non-related work accident. Since Mr Hewitt did not complete one year of employment, the Retirement Agency has continued to maintain two separate accounts. It is the Agency's and counsel's position that the year of service required under the statute requires one continuous year of employment before accounts may be combined and not a combination of months worked over several years. This is an information item with no board action required.

Mr Brown updated the Board on the Agency's actions with the Maryland Charity Campaign (MCC). He noted that in March the Board of Trustees authorized the Retirement Agency to provide assistance in creating a web-site link and to distribute a campaign kick-off letter. Mr Brown stated that the Maryland Charity Campaign submitted both the kick-off letter and a news article for the Agency to consider. The Executive Committee recommends to the Board of Trustees approval of the Agency's alternative letter. On motion made by Mr Brown and seconded by Colonel Mitchell, the Board voted to include the alternative letter in the mailing to retirees.

The Board accepted Mr Brown's report.

Committee and  
Sub-Committee Reports  
And Recommendations

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The Ad-Hoc Communications Committee will report on actions at a later date.

Ms Humphries reported that the Minority Brokerage Sub-Committee was scheduled to meet and advised the Board that the Sub-Committee would report to the Investment Committee in October or November.

Mr Rakes informed the Board that the Sub-Committee will provide an update on the Minority Participation Policy Sub-Committee at the October meeting.

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Audit Committee

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Mr Brown reported that at the Audit Committee meeting on July 29, 2002, the Committee discussed the Montgomery County billing error. In March 2002, the Agency submitted an invoice to Montgomery County in the amount of \$3.7 million. The invoice covered under-billed employer contributions on supplemental pay the County had paid to certain State employees for fiscal years 1993 through 1996, and for pro-rated salary the County paid that was previously paid for by the State. The billing covered fiscal years 1997 through 2002. Staff plan to meet with County representatives on Tuesday, August 27, 2002 to discuss the revised amount that now totals approximately \$2 million, a reduction of approximately \$1.7 million. Due to the complexity of the issues, Ms Bury agreed to provide the board with a memorandum to explain the circumstances and to address the Agency's recalculation and reduction of the amount due.

Attachment B

Special Option 7 Allowance

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On motion made by Major Krome and seconded by Mr Brown, the Board unanimously approved the selection of Special Option 7 for Charles Patrick. This selection is consistent with the Board's policy and is actuarially sound.

Attachment C

Disability Offset

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The Board accepted the reports of the Medical Board for offsets of disability retirees. The Board, on motion made by Mr Brown and seconded by Major Krome, authorized the reduction of the pensions of affected retirees as provided for under the current law (State Personnel and Pensions Article), effective July 1, 1990. The offsets are based on calendar 2001 earnings that will be offset from pension benefits paid in fiscal year 2003.

Attachment D

Medical Board Reports

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On motion made by Mr Brown and seconded by Mr Caple, the Board voted to accept and approve the reports of the Medical Board in connection with applications of members for ordinary and accidental allowances. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants.

Attachment E

Supplemental Board Reports

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The Board, on motion made by Mr Lancaster and seconded by Mr Brown, voted to accept and approve 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.

Attachment F

On motion made by Major Krome and seconded by Mr Brown, the Board voted to meet in Executive Session, with a unanimous vote to consider the following matters: deliberations regarding the disability appeals, advice and discussion with staff and counsel regarding Syscom litigation. State Govt Article, Section 10-503(a)(1) authorizes the Board to meet in closed session to exercise a quasi-judicial function. Section 10-508(a)(7) authorizes the

Board to meet in closed session to obtain legal advice, and Section 10-508(a)(8) authorizes the Board to meet in closed session to consult with staff or other individuals about pending or potential litigation

### EXECUTIVE SESSION

The Board met in Executive Session at 12 10 p m in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider the appeals of Steven Cann, Howard Fergus, and Carolyn Rochelle, to discuss Chapman, Strategic System issues, and the investment of public funds. All of the persons present at the beginning of the meeting were present in Executive Session except the following: Jill Leiner, Dennis Gottesman, Esq., and Carolyn Rochelle. The Board adjourned its Executive Session at 3 00 p m and returned to regular session to complete the agenda.

On motion made by Major Krome and seconded by Mr Caple, the Board voted unanimously to ratify actions taken in Executive Session.

Steven Cann

On motion made by Colonel Mitchell and seconded by Major Krome, the Board voted to reject the Administrative Law Judge's Proposed Findings and grant Mr Cann accidental disability benefits, with a vote of nine yeas with one abstention. Chairman Schaefer, Colonel Mitchell, Major Krome, and Messrs Williams, Caple, Brown, Lancaster, Rakes, and Harrison registered yeas. Ms Humphries abstained. The Board found that the later accident was the cause of the disability.

Howard Fergus

On motion made by Colonel Mitchell and seconded by Major Krome, the Board voted to reject the Administrative Law Judge's Proposed Findings and grant Mr Fergus accidental disability benefits, with a vote of nine yeas with one abstention. Chairman Schaefer, Colonel Mitchell, Major Krome, and Messrs Williams, Caple, Brown, Lancaster, Rakes, and Harrison registered yeas. Ms Humphries abstained. The Board found that the later accident was the cause of the disability.

Carolyn Rochelle

On motion made by Mr Brown and seconded by Major Krome, the Board voted to remand the case of Carolyn Rochelle to the Medical Board for further consideration with a vote of nine yeas with one abstention. Chairman Schaefer, Colonel Mitchell, Major Krome, and Messrs Williams, Caple, Brown, Lancaster, Rakes, and Harrison registered yeas. Ms Humphries abstained.

Other Business

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Following discussion, the Board approved Mr Brown working with staff to develop the Request for Proposal to procure the services of a consultant to review the effectiveness of the Board and the Executive Director.

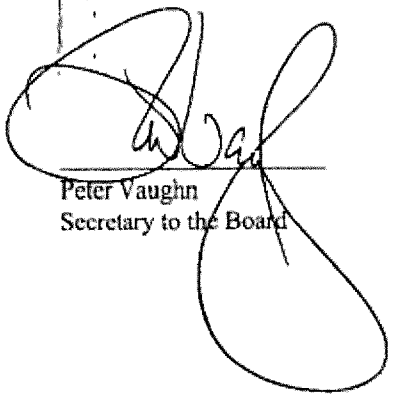
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Adjournment

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There being no further business, the meeting adjourned at 3 35 p m



Peter Vaughn  
Secretary to the Board

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