

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

MINUTES OF MEETING

September 21, 2004

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 02 a m There were present William Donald Schaefer, Chairman, Nancy K Kopp, Vice-Chair, James C DiPaula Jr , David B Hamilton, Morris L Krome, William D Brown, Carl D Lancaster, Dr A Melissa Moye, Patrick O'Shea, F Patrick Hughes, John W Douglass, Trustees, and, Thomas K Lee, Secretary Agency Staff members also attending were Margaret A Bury, Retirement Administrator, Deborah Bacharach, Robert Feinstein, Carla G Katzenberg, and Jill Leiner, Assistant Attorneys General, Margo Wheat, Chief Financial Officer, Jeannie Abramson, Finance, Victoria Willard, Robert Burd, Investments, Howard Pleines, Director Legislation and Research, Sherlynn Matesky, Legislation and Research, Thomas Gigliotti, Chief Internal Auditor, Joseph Coale, Public Information Officer, Dale Markel, Chief Information Officer, and Monica Bias, Executive Associate

Also attending were Dean Kenderdine, Comptroller's Office, Robert Palumbi, Retired Teachers' Association, Randy Mickens, Maryland State Teachers' Association, Anne Gawthrop and Martin Levin, Department of Legislative Services, Kelle Thomas, Banneker Capital Management, Darlene R Muhammad, Betty M Lowman and Michael E Davey, Esquire, and Frank Sladko

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| Minutes | 1 | On motion made Mr DiPaula and seconded by Mr Hamilton, the Board approved the minutes of the August 17, 2004 regular meeting |
| Investment
Committee
Recommendations and
Information Items | 2 | Mr Carl Lancaster, Chairman of the Investment Committee, reported on the meeting held September 10, 2004

Mr Lancaster stated that the Investment Committee had unanimously approved the August 13, 2004 open session minutes

Mr Lancaster indicated that there were no changes to the watch list

Mr Lancaster stated that other items discussed at the meeting would be held until executive session

The Board accepted Mr Lancaster's report |

Administrative Committee
Recommendations and
Information Items 3

Mr William D Brown, Chairman of the Administrative Committee, reported on the meeting held September 7, 2004

Mr Brown stated that the Administrative Committee is submitting the Retirement Agency's 2006 budget proposal without recommendation He noted that the proposal would be discussed in executive session

Mr Brown presented 14 legislative proposals for the Board to consider The proposals are (1) Purchase of Service – Simplification, (2) Annuity Options – Adjustments, (3) Annuity Options – Payments, (4) Termination of Membership, (5) Discontinue Transfer of Unclaimed Funds to Abandoned Property, (6) Correctional Officers – Disability Benefits, (7) Five Year Transfer Restriction – Disability Retirees, (8) Special Death Benefit – Law Enforcement Officers' Pension system, (9) Dual Employment – Different Systems, (10) Maximum Service Credit in a Calendar Year, (11) Optional Retirement Program – Allocation of Expenses, (12) Membership Legislative Pension Plan – State Police, (13) State Police - Option Selection, and (14) Governmental Units – Participation

On motion by Mr Brown, and seconded by Major Krome, the Board accepted the 14 legislative proposals with the following modifications

- 1 Purchase of Service – Simplification Enact regulation to enable the Actuary to develop charts for the purchase of full cost service based on age and compensation, with potential for legislative change, if necessary, in 2006
- 2 Discontinue Transfer of Unclaimed Funds to Abandoned Property Division Include in proposals only if attorney opines that legislation, rather than regulation, is needed to discontinue such transfers
- 3 Governmental Units – Participation Hold the proposal to restrict membership to a minimum 25 employees for further discussion by the Administrative Committee

On motion by Mr Brown, and seconded by Major Krome, the Board approved amending pension law concerning earnings limitations to provide that the limitation is to apply for nine full calendar years following retirement

Mr Brown indicated that the Retirement Agency would include this issue as another reason to support a proposal to eliminate the earnings limitations entirely

Mr Brown indicated that at the request of a candidate for the current employee systems election, staff was considering methods of presenting information on the candidates to the membership through the Agency web-site Staff also is seeking information from other public systems on how they distribute information for elections

On motion made by Mr Brown, and duly seconded, the Board approved the election schedule for the 2005 election of two trustees - active members to serve for the Employees' Systems and the Teachers' Systems

The Board accepted Mr Brown's report

Executive
Director's Report

- 4 Mr Thomas Lee advised the Board that the Governor's Appointment Office had notified the Retirement Agency that Governor Erhlich would shortly announce who is to serve as trustee to represent participating governmental units

Mr Lee asked Robert Feinstein to provide an update on a second restitution payment received by the Retirement Agency related to claims filed against Alan Bond Mr Feinstein stated that the System originally received about \$2.9 million In September, a second payment of \$29,000 was received, making the total restitution over \$3 million

Mr Lee stated that the Joint Committee on Pensions canceled its September meeting The agenda items for that meeting will be heard in October and November

Mr Lee concluded his remarks by noting that Gary Scribner, System's Project Manager, had resigned Mr Lee is working with the Department of Budget and Management to find a suitable replacement

The Board accepted Mr Lee's report

On motion made and duly seconded, the Board voted unanimously to meet in Executive Session to consider the 2006 budget proposal and procurement matters related to the Optional Retirement Program State Govt Article, Section 10-503(a)(1)(i) authorizes the Board to meet in closed session to carry out an executive function Section 10-508(a)(14) authorizes the Board to meet in closed session to a matter related to a procurement

EXECUTIVE SESSION

The Board met in Executive Session at 9:26 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street Those persons present in Executive Session for discussion were William Donald Schaefer, Chairman, Nancy K Kopp, Vice-Chair, James C DiPaula Jr, David B Hamilton, Morris L Krome, William D Brown, Carl D Lancaster, Dr A Melissa Moye, Patrick O'Shea, F Patrick Hughes, and John W Douglass, Trustees Agency Staff members also attending were Thomas K Lee, Margaret A Bury, Deborah Bacharach, Robert Feinstein, Margo Wheel, Jeannie Abramson, Victoria Willard, Robert Burd, Howard Pleines, Thomas Gigliotti, Joseph Coale, Dale Markel, and Monica Bias, Executive Associate

The Board ended its closed session at 10:27 a.m. and returned to regular session to complete the agenda

REGULAR SESSION

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| Earnings Limitation
Recovery | 5 | On motion made by Mr Brown, and seconded by Mr Hughes, the Board approved the Agency's report for Mr William Canoles, a retiree who exceeded the maximum earnings allowable under current law during calendar 2001, 2002 and 2003. The pension of Mr Canoles will be reduced as specified by law during fiscal year 2005. |
| Medical Board
Reports | 6 | On motion made by Mr Brown, and seconded by Major Krome, the Board accepted the reports of the Medical Board in connection with applications of members for ordinary, accidental and special disability retirement allowances. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants. |
| Supplemental
Medical Board
Reports | 7 | On motion made by Mr Brown, seconded by Treasurer Kopp, the Board accepted the supplemental reports of the Medical Board in connection with applications of members for ordinary, accidental and special disability retirement allowances. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants. |
| Darlene Muhammad | 8 | <p>The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms Darlene Muhammad for accidental disability benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.</p> <p>Ms Muhammad appeared before the Board and opposed the Agency's position and the Administrative Law Judge's recommendations. Carla G Katzenberg, 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.</p> |
| Betty M Lowman | 9 | <p>The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms Betty M Lowman for accidental disability benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.</p> <p>Ms Lowman appeared before the Board with her attorney, Michael E Davey, and opposed the Agency's position and the Administrative Law Judge's recommendations. Carla G Katzenberg, 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.</p> |

Frank Sladko 10 The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr Frank Sladko for accidental disability benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Mr Sladko appeared before the Board with his attorney, Michael E Davey, and opposed the Agency's position and the Administrative Law Judge's recommendations. 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.

Mary L Bennett 11 The Board deferred the appeal of Ms Mary L Bennett at the Vice-Chair's request since Ms Bennett did not appear at the hearing. Ms Bennett's claim for accidental disability benefits will be rescheduled for the Board meeting to be held on December 21, 2004.

On motion made by Mr O'Shea, and seconded by Mr Hughes, the Board voted unanimously to meet in Executive Session to consider disability appeals. State Govt Article, Section 10-503(a)(1)(iii) authorizes the Board to meet in closed session to exercise a quasi-judicial function.

EXECUTIVE SESSION

The Board met in Executive Session at 11:50 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street. Those persons present in Executive Session for discussion were Nancy K Kopp, Vice-Chair, David B Hamilton, Morris L Krome, William D Brown, Carl D Lancaster, Melissa Moye, Patrick O'Shea, F Patrick Hughes, and John W Douglass, Trustees. Agency Staff members also attending were Thomas K Lee, Margaret A Bury, Deborah Bacharach, Howard Pleines, Joseph Coale, and Monica Bias.

The Board ended its closed session at 12:04 p.m. and returned to regular session to complete the agenda.

REGULAR SESSION

On motion made and duly seconded, the Board voted to ratify actions taken in Executive Session.

Darlene Muhammad --- The Board considered the appeal of Darlene Muhammad. Following a discussion, a motion made by Mr Brown, seconded by Mr O'Shea, the Board voted to adopt the Administrative Law Judge's Proposed Decision and deny Ms Muhammad's request for accidental disability benefits. Mr Douglass abstained.

Betty M Lowman

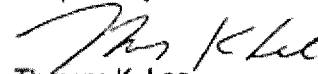
The Board considered the appeal of Betty M Lowman. Following a discussion, a motion made by Mr Brown, seconded by Major Krome, the Board voted to reject the Administrative Law Judge's Proposed Decision and approve Ms Lowman's request for disability benefits. The Board found that the accident of May 1999, and not a pre-existing condition, was the direct cause of her disability.

Frank Sladko

The Board considered the appeal of Frank Sladko. Following a discussion, on a motion made and duly seconded, the Board voted to adopt the Administrative Law Judge's Proposed Decision and deny Mr Sladko's request for disability benefits.

There being no further business before the Board, the meeting adjourned at 12:07 p.m.

Respectfully submitted,



Thomas K. Lee
Secretary to the Board

TKL/mcb

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

MINUTES OF THE SEPTEMBER 7, 2004 MEETING

The Administrative Committee met on Tuesday, September 7, 2004, beginning at 9 35 a m in the Boardroom of the State Retirement Agency, 120 East Baltimore Street, Baltimore, Maryland

William D Brown, Chairman, Morris L Krome, Vice-Chairman, David B Hamilton, and John W Douglass were present Also attending were Thomas K Lee, Executive Director, Carl Lancaster, Trustee, Margaret Bury, Deborah Bacharach, Margo Wheat, Jeannie Abramson, Harvey Raitzyk, Gary Scribner, Dale Markel, Thomas Gigliotti, Sherlynn Matesky, and Mr Howard Pleines

The Administrative Committee discussed the following matters

A. Minutes of the Administrative Committee held August 10, 2004

The minutes of the August 10, 2004 Administrative Committee were approved

B. Administrative Fees

Investment Manager fees through July 31, 2004 were accepted

C. FY2006 Budget

EXECUTIVE SESSION

On motion made -by Mr Hamilton, and seconded by Major Krome, the Administrative Committee met in Executive Session at 9 37 a m to discuss the 2006 budget proposal State Government Article, Section 10-508(a)(1)(i) gives the Administrative Committee the authority to meet in Executive Session to discuss an executive function All those present at the start of the meeting remained in the Board room for the Executive Session

On motion made and duly seconded, the Administrative Committee voted unanimously to end Executive Session at 10:33 a.m. and return to regular session.

REGULAR SESSION

Action Item On motion made by Major Krome, and seconded by Mr. Hamilton, the Administrative Committee submits the Retirement Agency's 2006 budget packet to the Board without recommendation.

D. 2005 Legislative Proposals

Mr. Howard Pleines presented a report containing fourteen proposals to be considered by the Administrative Committee for inclusion in the Board of Trustees' annual legislative packet. The Board approved proposals will be presented to the Joint Committee on Pensions at its meeting on October 12, 2004.

As with many proposals considered in 2004, the emphasis from the Retirement Agency again is on simplifying the understanding and administration of pension law. The proposals are as follows:

1. Purchase of Service The Committee requested an advice from Ms. Bacharach to determine if the Board could simplify its method of calculating so-called full cost purchases by regulation - having the Actuary develop charts for each system to establish the percentage of compensation necessary to purchase full cost service credits. If Ms. Bacharach opines that legislation is needed, then the necessary language to include the concept of using actuarial charts for the purchase of full cost service is to be included in the proposal submitted to the Joint Committee on Pensions (JCP).

The Administrative Committee recommends (1) to eliminate references to outdated types of purchases, (2) to standardize the types of purchases among systems as much as practical (note additional costs when applicable), (3) to clarify that purchases must occur while actively employed, and, (4) to meet federal requirements, clarify that no more than 5 years of "non-qualified" service can be purchased by members who enroll after July 1, 1999.

2. Annuity Options - Adjustments The Administrative Committee agreed to follow outside tax counsel's recommendations on two matters impacting on annuity options. First, the Committee recommends to require under a 100% survivor option (Options 2 and 5) that the retiring member may not designate a non-spouse as beneficiary who is younger than a 10 years' age difference. Second, the Committee recommends that Option 7 be eliminated both to comply with the now finalized federal regulations and as part of code simplification.

3 Annuity Options – Payments The Administrative Committee recommends that payments of survivor benefits be altered to eliminate the pro-rated payment of the monthly benefit at time of death, thus reducing the need for manual input in the payment process. If a retiree or beneficiary in receipt of a benefit dies from the 1st through the 15th day of the month, and no additional benefits are due, no payment is due for that month. If, however, the retiree or beneficiary dies on or after the 16th of the month, then the full monthly benefit is to be paid. If additional payments are due (optional payment of monthly or lump sum benefit), the same breakdown by date of death would be followed. If death occurs from the 1st to the 15th day, the optional payment only would be in effect from the first of that month (no pro-rated monthly benefit). If death occurs on or after the 16th, then the full monthly benefit is paid for that final month, with the option payment due effective from the following month.

4 Termination of Membership The Administrative Committee recommends that provisions for termination of membership be standardized among the various systems at 4 years. The exceptions would be (1) the Teachers' Retirement System, which remains at 5 years, and (2) the Judges' Retirement System, where termination occurs when the member ends active employment.

5 Discontinuing Transferring Unclaimed Funds to Abandoned Property The Administrative Committee recommends that the System cease transferring unclaimed funds to the Comptroller's Office, Abandoned Property Division. Thus, any funds from unclaimed benefits would remain as assets of the Trust fund. The Retirement Agency would continue to advertise the unclaimed property through the Abandoned Property Division, with unclaimed payments remaining in the System unless/until claimed by the appropriate individual(s). The Comptroller's Office estimates that the average recovery in a given year is between \$200,000 and \$300,000.

6 Correctional Officers – Disability Benefits The Administrative Committee recommends that correctional officers who are promoted out of the Correctional Officers Retirement System (CORS) into the Employees' Contributory Pension System (ECPS) be permitted to receive disability benefits based on all service rendered as a correctional officer. For Accidental Disability, the disabled member would receive 2/3rds of the current annual salary, plus an annuity based on all contributions (contributions to CORS and ECPS). For Ordinary Disability, the disabled member would receive a bifurcated allowance – (1) for service under the ECPS, the ECPS ordinary disability benefit, and (2) for previous service under CORS, the CORS disability benefit.

7 Five Year Transfer Restriction – Disability Retirees The Administrative Committee recommends that the requirement that benefits paid on transferred service revert to the benefits of the original system should a benefit claim be filed within 5 years of the transfer, be amended so that this provision would not apply

to claims for disability benefits. A retroactive application for this proposal is needed to impact one known member.

8. Special Death Benefit – Law Enforcement Officers' Pension System. The Administrative Committee recommends correction of an oversight to provide that accumulated employee contributions of a Law Enforcement Officers' Pension System member, whose death occurs in the performance of duty, are payable to the designated beneficiary(ies) (same provision as provided to State Police). A retroactive application is needed for this proposal to impact on the family of an MTA officer killed in the line of duty during fiscal year 2004.

9. Dual Employment – Different Systems. The Administrative Committee recommends limiting participation in the State Retirement and Pension System to one system should a System member be employed in a second position that also requires membership, but in a different State system or plan (would not apply to membership in the Legislative Pension Plan). The individual would choose in which of the two systems or plans he or she wants to participate.

10. Maximum Service Credit in a Calendar Year. The Administrative Committee recommends extending provision that not more than 1 year of service is to be credited in a calendar year to the Employees' and Teachers' Pension Systems, and the Law Enforcement Officers' Pension System.

11. Optional Retirement Program – Allocation of Expenses. The Administrative Committee recommends that the operational cost of the Optional Retirement Program (ORP) be based on a more equitable basis such as membership or assets held by each provider, rather than the current practice of sharing costs equally among the current providers.

12. Membership in Legislative Pension Plan – State Police. The Administrative Committee recommends that an active or retired member of the State Police Retirement System be eligible to participate in and to earn a benefit from the Legislative Pension Plan. A retroactive provision is needed to cover a retired trooper who entered the General Assembly in 1995.

13. State Police – Option Selection. The Administrative Committee recommends correction of an apparent contradiction within current pension law. Under the basic benefit, which provides a 50% survivor benefit (generally to the spouse), dependent children could be entitled to a monthly allowance until age 18 if there is no spouse at time of the retiree's death. However, if there is no spouse at time of retirement, the retiring member may elect an option that does not provide protection to dependent children. The law should clearly state that dependent children are not entitled to any payment unless appropriately designated under the option selected.

14 Governmental Units - Participation The Administrative Committee recommends that governmental units be permitted to enroll in the System as of July 1, the beginning of the new fiscal year (applies currently to transfer and withdrawals)

Concerning the request that participation be limited to employers with a minimum of 25 employees, the Committee requests this provision receive additional discussion from the full Board

E. Report on the Earnings Limitation and the Ten Year Rule

At both the June and August Administrative Committee meetings, Mr Carl Lancaster had expressed his concerns with the Board regulation, which deals with the 10-year period following retirement when a retiree is subject to the earnings limitation Mr Lancaster had argued that certain retirees were disadvantaged under the regulation by having an extended period (possibly 10 years 11 months) during which the earnings limitation would apply The Committee had requested staff to examine this issue again and recommend a solution which would follow the intent of the law without adding to administrative costs

Ms Bury - noting that employers continue to express the administrative and financial difficulties they could experience if required to alter current earnings reporting for their retirees - suggested that pension law be amended as follows Retirees would be subject to the earnings limitation for nine full calendar years following their retirement, rather than the current language of, "no more than 10 years" making it clear that no retiree would be subject to the earnings limitation beyond 10 years

Action Item On motion made by Major Krome, and seconded by Mr Douglass, the Administrative Committee recommends amending pension law to provide that the earnings limitation is to be applied for 9 complete calendar year following retirement

F. Compliance Management Program

Mr Lee, with agreement from Mr Hamilton who had asked staff to consider this issue, stated that this request was being held at this time The Retirement Agency is completing a task order for an Agency-wide risk assessment More information will be provided to the Committee when this review is completed

G. Trustee Candidate Request

Ms Marge Bury indicated that the Retirement Agency had received a request from one of the candidates seeking the active member seat for the Employees' Systems to supply that candidate with names and addresses of the voters for the Employees' Systems election To maintain the privacy of membership

information, member data (names, addresses) is not provided to any candidate by the System. Staff has looked at options to facilitate candidates' distribution of literature about themselves.

Ms. Bury noted that providing labels or having the Agency issue materials could prove too expensive to the candidates and/or to the Retirement Agency. The Agency is suggesting that each candidate be permitted to post election materials on the Agency web site. She indicated that regulations would be needed to specify the type of information that would be accepted on the web site.

Mr. Brown asked if the Agency monitored web activity. Mr. Market indicated that the usage, which is increasing, is monitored, and he would get the information for the Committee. Mr. Brown also asked staff to research what other systems do for their elections.

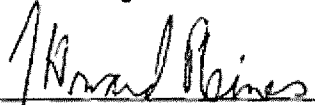
H. Proposed Board of Trustees' Election Schedule

Ms. Bury presented a schedule for the separate but simultaneous election of two trustees during FY2005. The election process is to begin in September 2004 and run through early July, 2005. Election results are to be announced at the July Board meeting. Both seats are for active members, with the term of office running from August 1, 2005 through July 31, 2009.

Action Item: On motion made by Major Krome, and seconded by Mr. Douglass, the Administrative Committee recommends the Board of Trustees accept the election schedule for the FY2005 elections.

I. Adjournment

There being no further business, Mr. Brown adjourned the meeting at 11:50 a.m.



J. Howard Pleines

STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND
STATE RETIREMENT AGENCY
120 EAST BALTIMORE STREET
BALTIMORE, MD 21202

MEMORANDUM

TO Members of the Administrative Committee

FROM Margaret A. Bunnell
Retirement Administrator

DATE August 26, 2004

SUBJECT Proposed Election Schedule

I present, for your review and approval, a tentative schedule to conduct two separate but simultaneous elections – one to elect a Teachers' Systems' representative and one to elect an Employees' Systems' representative to the Board of Trustees. Since both seats coming up for renewal are currently filled by active members, candidates must also be active members of their respective systems.

The terms of office for the successful candidate in each election will be from August 1, 2005 through July 31, 2009.

The employee trustee candidate may be an active member of the Correctional Officers' Retirement System, the Employees' Pension System, the Employees' Retirement System, the Judges' Retirement System, the Legislative Pension Plan, the Local Fire and Police System, or the Law Enforcement Officers' Pension Plan and shall be elected by the members and the retirees of those Systems.

The Agency will inform the eligible voters of the upcoming election through the following methods.

1. Notify active participants of the upcoming nomination period and election through an electronic notice released through all retirement coordinators.
2. Notify all active participants by sending a postcard to their home address.
3. Notify retired members and beneficiaries through a newsletter to be included with the monthly checks and advice slips.
4. Post the election schedule on the Agency web page.
5. Add a "hot topic" message on the automated voice response system.

Memorandum to the Administrative Committee
August 26, 2004
Page Two

A tentative election schedule follows

September 1, 2004 through February 24, 2005	An eligible active member may obtain a form from the Executive Office
March 24, 2005	Completed nomination forms must be submitted to the Executive Office by an eligible candidate by 4.30 p m
April 6, 2005	Executive Director certifies candidates who satisfied the conditions set forth in 22 03 01 06 of the Board of Trustees' Regulations (Requires at least 500 valid signatures of eligible voters and biographical statement)
June 8, 2005	Voting begins
July 8, 2005	Last date for voting Deadline is 5 00 p.m
July 19, 2005	Election results shall be announced at the July Board of Trustees' meeting