

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

MINUTES OF MEETING

December 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 00a 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 Melissa Moye, Patrick O'Shea, F Patrick Hughes, John W Douglass, James Harkins, Sheila Hill, Trustees, and, Thomas K Lee, Secretary Agency Staff members also attending were Margaret Bury, Administrator, Deborah Bacharach, Rachel Cohen, Jill Leiner, Carla Katzenberg, and Laura Burns, Assistant Attorneys General, Margo Wheat, Chief Financial Officer, Jeannie Abramson and Arthur Broadwick, Finance, Steven Huber, Chief Investment Officer, Lawrence Bach, Investments, Howard Pleines, Director Legislation and Research, Shertynn Matesky, Legislation and Research, Thomas Gigliotti, Chief Internal Auditor, Joseph Coale, Public Information Officer, and Monica Bias, Executive Associate

Also attending were Dean Kenderdine, Comptroller's Office, John Keenan, AFSCME, Thomas E Patti, Harford County Government, Robert Palumbi, MRTA, Emma M Worley and Robert Silberman

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| Minutes | 1 | On motion made by Mr Lancaster, and seconded by Mr Brown, the Board approved the minutes of the November 16, 2004 regular meeting |
| Investment
Committee
Recommendations and
Information Items | 2 | <p>Mr Carl Lancaster, Chairman of the Investment Committee, reported on the meeting held December 10, 2004</p> <p>Mr Lancaster indicated that the Committee adopted the recommendation of the Real Estate Subcommittee to hire a consultant to conduct a strategic review, provide future tactical reviews, and assist with manager due diligence Also, the Committee received reports from Ennis Knupp and staff that provided research and analysis of Emerging Manager Programs</p> <p>Mr Lancaster stated that the Committee received the following regular monthly reports summary of capital markets in November 2004, manager meetings for November 2004, authorized manager fee payments for November 2004, activity of Private Equity Program, and State Street Analytics investment performance report for October 2004</p> |

The Committee received a report from Ennis Knupp on the status of the SEC investigation of Wellington Management Company concerning their trading and security allocation practices

On motion made by Mr Lancaster, and seconded by Mr DiPaula, the Board adopted the following

- Change the domestic equity investment benchmark from the Russell 3000 Index to Wilshire 5000 Index
- Change the benchmark from the EAFE to the MSCI All-County ex-U S Index for the passive international equity portfolio
- Invest \$300 million in micro/small capitalization international equity
- Add 2% real return allocation and a 10% global equity allocation (new asset classes)
- To invest in the enhanced equity index investment category by transferring \$1.3 billion from the Russell 3000 Index portfolio managed by State Street Global Advisors
- Adopt the following asset class targets, tactical and policy ranges

	<u>TARGET</u>	<u>TACTICAL</u>	<u>POLICY</u>
Domestic Equity	40%		
International			
Equity	13	11-15	10-16
Global Equity	10	N A	8-12
Private Equity	2	N A	0-3
TOTAL EQUITY	<u>65</u>		
Fixed Income	28	26-30	23-33
Real Return			
Strategies	2	N A	1-3
Real Estate	5	N,A	3-7
Cash	0	N A	0-2
TOTAL	<u>100%</u>		

On motion made by Mr Lancaster, and seconded by Mr DiPaula, the Board amended its Investment Policy Manual by adding the following text to the Investment Manager Selection criteria – "To include emerging managers that meet historical investment standards and have strong business models in investment manager searches"

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 December 7, 2004

On motion made by Mr Brown, and seconded by Major Krome, the Board approved the Administrative Committee's recommendation to deny Ms Rosie Hayes' request to be exempt from the earnings limitation applicable to retirees who return to employment with the employer from which they retired. Should Ms Hayes seek relief due to hardship, the Retirement Agency is authorized to extend her repayment period

On motion made by Mr Brown, and seconded by Treasurer Kopp, the Board approved the Administrative Committee's recommendation to deny Ms Barbara DePauw's request to remove the deficiency on her account

Mr Brown noted that Mr Marc Burford had requested that vested former members receive an annual benefit statement While this is not possible under the Legacy system, the Committee noted that it is included in the planning for a new data processing system Mr Lee is to correspond with Mr Burford indicating the intent to provide a statement for vested members in the future

On motion made by Mr Brown, seconded by Mr DiPaula, the Board approved the extra-ordinary salary increases for Norman Hansen, Gary Helzer, and Kenneth Berg, employees of the University System

On motion made by Mr Brown, seconded by Dr Moye, the Board approved the City of District Heights' participation in the Employer Pick-Up Program

Mr Brown indicated that the Business Process Reengineering project is nearing completion with Milestone IV, recommendations and final report, due the end of December

The Board accepted Mr Brown's report

Executive
Director's Report

- 4 Mr Thomas Lee advised the Board that the work group to review the Corridor Funding Method had met on December 14, 2004 Dr Moye noted that this first meeting was an organizational meeting It is hoped that a thorough review of corridor funding would result in a presentation to the Joint Committee on Pensions during the 2005 Interim with recommendation for improvements, if needed

The Board accepted Mr Lee's report

Committee Report

- 5 Mr William Brown, Chairman, reported on the recommendations of the work group on the optimal level of Board/Committee time management needed to ensure that key responsibilities are addressed during the calendar year He indicated that it appeared from Dr Por's review, that the Board was holding the correct amount of meetings to deal with the various investment and administrative issues that come before the Board

After some discussion, on motion from Mr Brown, seconded by Major Krome, the Board agreed to defer a vote on recommendations from the workgroup until January in order to review the data from the work group and also to permit staff to provide input on the preparation time for agendas and minutes for the various meetings

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| Annual Report | 6 | On a motion made and duly seconded, the Board accepted the System's Comprehensive Annual Financial Report for the period ending June 30, 2004. The Board recognized the work done by Ms Margo Wheat's staff in the preparation of the report. Mr Lee noted that for the 14 th year, the GFOA has awarded the Retirement Agency its award for excellence in financial reporting. |
| Medical Board Reports | 7 | On motion made by Mr Brown, seconded by Mr Hughes, 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 | 8 | On motion made and duly seconded 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. |
| Mary L Bennett | 9 | <p>The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms Mary L Bennett 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>After having been granted a previous postponement, Mr Lee noted that Ms Bennett did not respond to requests to appear before the Board to present her case against 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.</p> |
| Evette E Wylie | 10 | Ms Evette E Wylie requested that her appeal for accidental disability benefits be postponed. The Board agreed to re-schedule in the Spring 2005. |

Emma M Worley 11 The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms Emma M Worley 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

Ms Worley appeared before the Board, with her attorney Mr Robert Silberman, and opposed 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 Following discussion, the Board deferred further consideration to Executive Session

On motion made and duly seconded, the Board voted unanimously to meet in Executive Session to consider investment matters, to obtain legal advice, to decide disability appeals, and to discuss personnel issues State Govt Article, 10-508(a)(5) authorizes the Board to meet in closed session to consider the investment of public funds, Section 10-508(a)(7) authorizes the Board to meet in closed session to consult with counsel to obtain legal advice, Section 10-503(a)(1)(iii) authorizes the Board to meet in closed session to carry out a quasi-judicial function, and Section 10-508(a)(1) authorizes the Board to meet in closed session to discuss compensation for the Executive Director

EXECUTIVE SESSION

The Board met in Executive Session at 10 35 a m in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider the matters referred to above Those persons present in Executive Session for discussion were William Donald Schaefer, Chairman, Nancy K Kopp, Vice-Chair, David B Hamilton, Morris L Krome, William D Brown, Dr Melissa Moye, Patrick O'Shea, F Patrick Hughes, John W Douglass, James Harkins, and Sheila Hill, Trustees Agency Staff members also attending were Thomas K Lee, Margaret A Bury, Deborah Bacharach, Margo Wheel, Steve Huber, Howard Pleines, and Monica Bias

The Board ended its closed session at 11 25 a 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

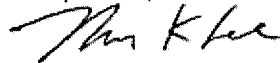
Mary L Bennett The Board considered the appeal of Mary L Bennett Following a discussion, on a motion made by Mr Hamilton, and seconded by Treasurer Kopp, the Board voted to adopt the Administrative Law Judge's Proposed Decision and deny Ms Bennett's request for accidental disability benefits

Emma M Worley

The Board considered the appeal of Emma M Worley Following a discussion, on a motion made by Mr Hamilton, and seconded by Mr DiPaula, the Board voted to adopt the Administrative Law Judge's Proposed Decision and deny Ms Worley's request for accidental disability benefits

There being no further business before the Board, the meeting adjourned at 11 35 a 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 DECEMBER 7, 2004 MEETING

The Administrative Committee met on Tuesday, December 7, 2004, beginning at 9 30 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, Howard Freedlander, representing Treasurer Kopp, James Harkins, and Shirley Hill were present Also attending were Thomas K Lee, Executive Director, Margaret Bury, Deborah Bacharach, Rachel Cohen, Joseph Coale, Will Morrow, Thomas E Patti, Harford County Government, Lori O'Brien and Martin Levine, Legislative Services, Marc Burford, Wendell Brown and Barbara DePauw, Sherlynn Matesky, and Howard Pleines

The Administrative Committee discussed the following matters

A. Minutes of the Administrative Committee held October 5, 2004

The minutes of the October 5, 2004 Administrative Committee were approved

B. Administrative Expenses

Administrative expenses and Investment Manager fees through October 31, 2004 were accepted

On motion made and duly seconded, the Administrative Committee voted unanimously to meet in Executive Session to consider a legal matter State Govt Article, 10-508(a)(7) authorizes the Board to meet in closed session to consult with counsel to obtain legal advice Section 10-508(a)(8) authorizes the Board to meet in closed session to consult with staff, consultants, or other individuals about pending or potential litigation

EXECUTIVE SESSION

The Board met in Executive Session at 9 35 a m in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider a legal matter Those

persons present in Executive Session for discussion were William D Brown, Chairman, Morris L Krome, Vice-Chairman, David B Hamilton, Howard Freedlander, representing Treasurer Kopp, James Harkins, Shirley Hill, Thomas K Lee, Margaret Bury, Deborah Bacharach, Rachel Cohen, Joseph Coale, Will Morrow, Thomas E Patti, Sherlynn Matesky, and Howard Pleines

The Board ended its closed session at 9 40 a m and returned to regular session to complete the agenda

REGULAR SESSION

C. Exemption from Earnings Limitation – Rosie Hayes

Ms Margaret Bury advised the Administrative Committee that Ms Rosie Hayes, a retired media specialist, exceeded her earnings limitation for both 2002 and 2003 During this time, she had been re-employed by Prince George's County as a media specialist She had been advised by the Retirement Agency that she would be subject to an earnings limitation if she returned to Prince George's County Board of Education

Ms Bury noted that pension law requires recovery There is no provision to waive the offset of Ms Hayes pension against her excess earnings in either 2002 or 2003, which were about \$18,077 in 2002 and \$2,240 in 2003 The current recovery amount is about \$850 per month, which cuts her monthly benefit about in half

Action Item: On motion made by Mr Harkins and seconded by Mr Hamilton, the Administrative Committee recommends to the Board that Ms Hayes' request to be exempt from the earnings limitation be denied Should she seek additional relief due to hardship, the Agency is authorized to extend her repayment period

D. Removal of Deficiency – Barbara DePauw

Ms Matesky advised the Administrative Committee that Ms Barbara DePauw retired as of October 1986 She was re-employed in June 1993 and under the existing law at that time, restored to membership with a deficiency based on the retirement payments (\$146,112 02) received during her retirement Ms DePauw was advised upon her return that she had to repay these funds, or her retirement benefits would be reduced accordingly at her second point of retirement

In 1994, re-employment laws were amended, eliminating the repayment provisions However, the law was prospective only Therefore, staff believes that Ms DePauw continues to have the deficiency (without interest) and under pension law, it cannot be waived

Through her financial advisor, Mr Brown, Ms DePauw indicated her willingness to accept the deficiency based on the payments made to her during her first retirement. She will consider the possibility of a legislative solution for her problem.

Action Item: On motion made by Major Krome, and duly seconded, the Administrative Committee recommends that the Board deny Ms DePauw's request to remove the deficiency on her retirement account.

E. Request for Annual Statement for Vested Members – Marc Burford

Ms Margaret Bury notified the Administrative Committee that the current programs for the annual personal statement of benefits do not contain computer logic to produce statements for vested members. The data is geared for future benefit projections based on one's active participation at the end of each fiscal year. A vested allowance is a fixed amount that does not change after active membership ends. Should a vested member seek information on his benefits from the Agency, the information is sent in letter format.

Ms Bury concluded her remarks by stating that while the Agency wants to supply the membership with full benefit information, our efforts now must be directed to resolve major benefit calculation and database issues within the Legacy System. These issues impact on more accounts and, therefore, have a more critical need and a higher priority than providing a statement to vested members.

Mr Burford addressed the Administrative Committee expressing his views that not only was it his right to receive an annual statement, but that the law required it. While it may be a project for the future, he suggested that because of the need for verification of benefits for all, his request to receive a vested statement annually be given a higher priority. At the Chairman's request, Ms Bacharach noted that the law only required statements for members, and not former members such as Mr Burford.

The Administrative Committee requested Mr Lee to correspond with Mr Burford thanking him for bringing this issue to the attention of the Board. The letter is to note that his request for an annual statement is to be included in the development of the new data processing system.

F. Extraordinary Salary Increases

The Board of Trustees is required to approve any extraordinary salary increase in excess of 20% received by members of the System. The following retirees - J Norman Hansen, Gary Helzer, and Kenneth Berg - received a salary increase greater than 20%, which the University System of Maryland has certified to be based on an increase in academic appointment from nine months to twelve months. This was required by USM to meet their academic needs. The change

in salary will increase benefits as follows \$276 24 per month for Mr Hansen, \$42 05 for Mr Helzer, and \$208 23 for Mr Berg

Ms Bury noted that such salary increases have been approved in the past Staff recommends that these salary increases for the three named retirees be approved

Action Item: The Administrative Committee recommends that the Board approve the salary increases for Norman Hansen, Gary Helzer, and Kenneth Berg

G. Approval – Employer Pickup Program – City of District Heights

Ms Matesky notified the Committee that the City of District Heights has obtained the required private letter ruling from the IRS in order to participate in the State's Pick-Up Program The Retirement Agency has taken the necessary steps to begin receiving the pick-up money

Action Item: The Administrative Committee recommends to the Board of Trustees that it approve the City of District heights' participation in the Employer Pick-Up Program

H. Process Reengineering (BPR) Project – Status Report

Mr Will Morrow, the recently appointed IT Project Director, updated the progress of the Business Process Reengineering project for the Committee He reminded the members that the program is to document the Retirement Agency's current business processes, while indicating improvements when needed There are four deliverables Milestone I is the identification and definition of SRA business events, Milestone II, is to document current processes Both are completed Milestone III, to identify costs and issues, will be finished shortly, leaving Milestone IV, recommendations and final report to be completed by the end of the contract period, December 17, 2004 Mr Morrow concluded his remarks by noting that a full presentation to the Administrative Committee and the Board would occur early next year

Major Krome asked when Mr Morrow anticipated that the data processing project would be completed Mr Lee stated that it is difficult to place a final date of this project as the State now was a system of checks and balances to ensure that projects remain on target and will be successful The Agency also is spending more time in this initial planning phase to ensure the project's success

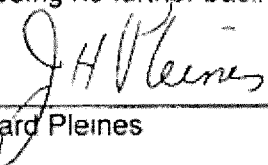
The Committee thanked Mr Morrow for his update

I. Other Business

Mr Pleines informed the Committee that the Joint Committee on Pensions elected to defer its decisions on Board sponsored legislation until January 18, 2004. The Joint Committee stated there are several issues, including re-employment of retirees, which require additional time to resolve.

Adjournment

There being no further business, Mr Brown adjourned the meeting at 10 30 a m



J Howard Pleines