

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

MINUTES OF MEETING

March 15, 2005

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, beginning at 9:04 a.m. There were present 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 A. Bury, Administrator, Deborah Bacharach, Robert Feinstein, Carla G. Katzenberg, Laura Burns, and Jill Leiner, Assistant Attorneys General, Steve Huber, Chief Investment Officer, Margo Wheat, Chief Financial Officer, Howard Pleines, Director Legislation and Research, Sherlynn Matesky, Legislation and Research, Thomas Gigliotti, Chief Internal Auditor, Joseph Coale, Public Information Officer, Will Morrow, Project Manager, Dale Markle, Chief Information Officer, Larry Martin, Information Systems, and Monica Bias, Executive Associate.

Also attending were Thomas E. Patti, Harford County Government, Bill Anderson, MCEA, Graylin Smith and Alicia J. Foster, of Abrams, Foster, Nole & Williams, PA, Robert Palumbi, MRTA, Noel Godfrey, Evette Wylie, and Robert Hearle (via telephone).

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| Minutes | 1 | On motion made by Mr. Lancaster, seconded by Mr. Brown, the Board approved the minutes of the February 15, 2005 regular meeting. |
| Investment
Committee
Recommendations and
Information Items | 2 | <p>Mr. Carl Lancaster, Chairman of the Investment Committee, reported on the meeting held March 11, 2005.</p> <p>Mr. Lancaster noted that in open session, the Investment Committee received the Fourth Quarter Fund Performance report from Ennis Knupp. The Committee also received a memorandum from Counsel updating the Committee regarding the PIMCO Osprey Notes Litigation.</p> <p>Mr. Lancaster also advised that the Investment Policy Manual Subcommittee would reconvene to continue revising the Investment Policy Manual and would submit a draft to the Investment Committee in June.</p> <p>The Board accepted Mr. Lancaster's report.</p> |

Administrative 3
Committee
Recommendations and
Information Items

Mr William D Brown, Chairman of the Administrative Committee, reported on the meeting held March 8, 2005

At the request of Mr Brown, Mr Will Morrow provided the Board with a summary of the completed Business Process Reengineering, carried out by PEC Solutions, L R Wechsler, and Aquas Inc The contract primary objectives of the study were to identify the major business processes in benefit administration, document current "as-is" business process workflows, document the human effort and cost in hours and dollars for each business process, identify major deficiencies with current processes, and, provide short, mid and long term recommendations

Mr Morrow continued by noting that four problem areas were identified in the study batch processing, incorrect or missing data, workflow, and functionality The next part of this initial stage of developing a new computer system will be to evaluate the information in the study and to develop a concept proposal

Mr DiPaula noted that it is paramount to the successful development of any new data processing system, particularly one that has not been created before, that the Board concentrate its efforts to further simplify Maryland's complex pension laws There needs to be a sense of urgency to reduce complexity before developing a system since complexity greatly increases the risk of failure

Mr Brown stated that Mr Lee and Mr Morrow must keep both the Administrative Committee and the full Board apprised of the progress of this project so that there are no surprises for Trustees during the development of the new system

On motion made by Mr Brown, seconded by Dr Moye, the Board agreed to submit to the Department of Budget and Management a request for three new investment positions Deputy Chief Investment Officer, Real Estate Director, and Quantitative Analyst

Mr Brown also reported that a recommendation had been made to conduct a compensation study of Investment Staff, and that the Administrative Committee has asked Staff to report back to the Committee with an analysis of all positions in the Agency which should be included in a more comprehensive salary review of the Agency

On motion made by Mr Brown, seconded by Ms Hill, the Board accepted staff's recommendation to increase temporarily the number of disability cases heard at the monthly Board meetings In addition, the Administrative Committee is to consider other means to lessen the growing backlog of appeals, and to consider if members who appeal to the Board should be permitted to conduct that appeal via telephone

EXHIBIT A

The Board accepted Mr Brown's report

Executive
Director's Report

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Mr Lee advised the Board that the annual education seminar is to be held May 17, 2005 rather than June

Mr Lee stated that while the House had appeared sympathetic to the Agency's opposition to legislative staff's recommended reductions to contractual employment (7 positions), the House accepted the \$250,000 cut Mr Lee hoped that this reduction could be restored by the Senate

Mr Lee stated the annual ethics forms were now on-line for the Trustees to complete by May 2, 2005 He asked that each Trustee advise the Agency when their forms have been filed with the State Ethics Commission

The Board accepted Mr Lee's report

External Auditor

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Mr Lee introduced Mr Graylin Smith and Alicia J Foster, of Abrams, Foster, Nole & Williams, PA, who will be leading the audit team that prepares the external financial audit statements Mr Smith advised the Board that a consortium of firms, headed by Abrams, Foster, Nole and Williams will perform the audits However, he made it clear that his firm would be directing all work and would retain responsibility for each audit

Treasurer Kopp welcomed Mr Smith and Ms Foster and indicated the Board looked forward to working with them

Legislative Report

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Mr Howard Pleines reported on specific pension bills introduced in the 2005 Maryland General Assembly The numerous bills introduced to provide benefit enhancements to members of the employees, teachers and correctional officers systems are being heard Most are not expected to pass because of their cost However, one proposal from Senator Kasemeyer (SB466) which increases the benefit multiplier to 175% of salary for employees and teachers may be given strong consideration Mr Pleines noted that employee groups have expressed concerns with the proposal because of the 5% employee contribution, which is anticipated to fund the entire benefit increase in the bill

Board requested legislation has passed the Senate, for the most part Mr Pleines anticipated that there would be little discussion in the House on the Board bills and, therefore, he anticipated their enactment

Several other bills of interest were brought to the Trustees' attention SB305 passed the Senate as a task force to study funding retiree health insurance The provisions to create a defined contribution plan as the primary pension benefit for the State was amended out HB619, which would require the Board to restrict its investments with any company doing business with or in the Republic of Sudan, is still before its committee No action has been taken following its public hearing It is hoped that HB619 will receive an unfavorable vote in committee

committee. No action has been taken following its public hearing. It is hoped that HB619 will receive an unfavorable vote in committee.

Mr. Pleines stated that a difficult issue that remains before the General Assembly is the reemployment of retirees. He noted that the efforts to permit retired health care practitioners to return to State employment without an earnings limitation has been segregated from reemployment of retired teachers and principals. The House and Senate are working on proposals that will closely mirror each other, but will not be identical. The Senate is adding an amendment to let each school system hire a limited number of teachers who would not be required to teach in a troubled school and in an area of critical need.

The Board thanked Mr. Pleines for his report.

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| 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 records provided by the claimants. |
| Supplemental Medical Board Report | 8 | On motion made by Mr. Brown, seconded by Dr. Moye, 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 records provided by the claimants.
<u>EXHIBIT B</u> |
| Theresa Broccolino | 9 | The Board, at the request of Ms. Broccolino's attorney, agreed to postpone her appeal for accidental disability benefits. |
| Brian Malpasso | 10 | The Board, at the request of Mr. Malpasso's attorney, agreed to postpone his appeal for accidental disability benefits. |
| Evette Wylie | 11 | The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Evette Wylie 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. Wylie appeared before the Board 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. |
| Robert Hearle | 12 | The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Robert Hearle 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 Hearle, present through a conference call, addressed the Board and opposed 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.

On motion made and duly seconded, the Board voted unanimously to meet in Executive Session to consider the investment of public funds and receive legal advice regarding the watch list and 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. Section 10-508(a)(5) authorizes the Board to meet in closed session to consider the investment of public funds. Section 10-503(a)(1)(i) authorizes the Board to meet in closed session to carry out an executive function.

EXECUTIVE SESSION

The Board met in Executive Session at 10:55 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider investment matters and disability appeals. There were present 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, Sheila Hill, Trustees, and Thomas K. Lee, Secretary. Agency staff also attending were Margaret A. Bury, Deborah Bacharach, Howard Pleines, Steve Huber, Thomas Patti, and Monica Bias.

The Board ended its closed session at 11:20 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.

Minutes On motion made and duly seconded, the Board approved the minutes of the February 15, 2005 closed session meeting.

Evette Wylie The Board considered the appeal of Evette Wylie. Following a discussion, a motion made by Mr. Lancaster, and seconded by Mr. Brown, the Board voted to **adopt** the Administrative Law Judge's Proposed Decision and deny Ms. Wylie's request for accidental disability benefits. Ms. Hill and Mr. Douglass opposed the motion.

Robert Hearle The Board considered the appeal of Robert Hearle. Following a discussion, a motion made by Mr. Lancaster, seconded by Mr. Hamilton, the Board voted to **adopt** the Administrative Law Judge's Proposed Decision and deny Mr. Hearle's request for accidental disability benefits. Ms. Hill and Dr. Moye opposed the motion.

Remand of
Robyn A Grolnic


On motion by Mr Brown, seconded by Ms Hill, the Board agreed to remand the disability case of Robyn A Grolnic to the Office of Administrative Hearings

Remand of
Jill Mullineaux

On motion by Ms Hill, and duly seconded, the Board accepted the order of the Circuit Court of Baltimore County that it was unable to discern the legal and factual basis for the Administrative law Judge's conclusions and, therefore, vacated the Board's decision to reject Ms Mullineaux's claim for accidental disability. The Board remanded the case to the Office of Administrative Hearings

There being no further business before the Board, the meeting adjourned at 11 25 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 MARCH 8, 2005 MEETING

The Administrative Committee met on Tuesday, March 8, 2005, beginning at 9 40 a m in the Boardroom of the State Retirement Agency, 120 E Baltimore Street, Baltimore Maryland

William D Brown, Chairman, Morris L Krome, Vice-Chairman, Howard Freedlander, representing Treasurer Kopp; John Douglass; and James Harkins were present Also attending were Thomas K Lee, Executive Director, Margaret Bury, Deborah Bacharach, Carl Lancaster, Steve Huber, Will Morrow, Larry Martin, Dale Markel, Margo Wheat, Jeannie Abramson; Joseph Coale, Thomas E Patti, Harford County Government, Sherlynn Matesky, and Howard Pleines

A. Minutes of the Administrative Committee held February 1, 2004

On motion made by Major Krome, and seconded by Mr Freedlander, the minutes of the February 1, 2005 Administrative Committee were approved.

B. Administrative Expenses

Mr Tom Lee noted that at the request of the Administrative Committee staff revised the format for presenting administrative expenses He asked Ms Margo Wheat to review the new format

Ms Wheat noted that administrative expenses would be presented in two main categories personnel and operating expenses. Each would show the current year appropriation, and expenditures to date. In addition, the monthly report would indicate approved and pending budget amendments, if any.

C. Business Process Reengineering Project – Final Report

Mr Will Morrow advised the Committee that the study of the Retirement Agency's various business processes had been completed. He indicated that this extremely important step, which is critical to mitigate risk, will be used in preparation of the RFP to create the Agency's needed new computer system

EXHIBIT A

Vendors also will use this information on the 63 identified business events to establish their response to the RFP.

Mr. Morrow introduced Mr. Leon Wechsler, L. R. Wechsler Ltd, who had worked on this project to review various aspects of the report. Mr. Wechsler stated that the scope of the project was to identify existing processes and determine both short-term and long-range solutions for improving current operation as they relate to the well documented "as is" 63 business processes identified in the study. Recommendations could involve improvements to the current Legacy System or existing Agency practices, and/or as part of a new data process system. It was noted that the report related to benefits administration for the Retirement Agency, and did not include data related to investments.

Business areas discussed in the report include finance, data control, office services, member relations, benefits processing, and special projects. Mr. Wechsler noted that in each area, the report determined the hours utilized to complete assigned tasks, current usage of automated systems, and the estimated costs for the work in each.

There are a number of issues that impact on the organization. Mr. Wechsler stated that the Agency currently uses batch processing. This causes both delays in processing as well as inefficiencies. Data from employers is incorrect or incomplete, requiring time consuming audits and reconciliation efforts. Workflow within the Agency is inefficient, with a great deal of duplication of effort throughout. There are no readily available tools to calculate all benefit estimates and no single screen for review of member account data, and no means to review annual benefit statements. Historical data is frozen and not easily corrected.

Mr. Wechsler noted that the report also found that against 26 other public pension systems, Maryland's System was one of the most complicated, involved processing that is most employee intensive, and one whose enabling tools are the least robust. This information correlated with the Board's CEM study.

Mr. Morrow indicated that during the next 30 days, the Retirement Agency would be reviewing the recommendations from this report to determine what, if any, of the short and mid term recommendations should be considered by the Agency. The Agency also would be reviewing long term recommendations during this time. Mr. Morrow concluded his remarks by noting that staff will be making monthly reports to the Administrative Committee to ensure that the Trustees are fully informed on the progress of developing the new computer system.

D. Investment Staff Resources

Mr. Steve Huber advised the Committee that during 2004 the Investment Division had instituted a number of new policy decisions for the Board. As a result, staff responsibilities have been expanded in areas such as Corporate Governance, Risk Management, Quantitative Strategy, Emerging Managers, Asset Allocation, Private Equity, Compliance and the Optional Retirement Program.

With these changes has come the departure of several long term employees who have or will be retiring shortly. With the added responsibilities, and the loss of experience and institutional knowledge, there is a growing void that must be filled. Mr. Huber stated that he is seeking three new positions: Deputy CIO, Real Estate Director, and Quantitative Analyst. He also asked for a study of compensation for investment staff.

Action Item: On motion made by Mr. Harkins, seconded by Major Krome, the Administrative Committee recommends that the Board approve submitting to the Department of Budget and Management a request for three new positions: Deputy Chief Investment Officer, Real Estate Director, and Quantitative Analyst.

Regarding the compensation study, staff is directed to review positions throughout the Agency to determine which positions should be reviewed in a comprehensive study of the Retirement Agency's salary structure.

E. 2005 Legislation – Status Report

Mr. Howard Pleines advised the Committee on the status of specific pension legislation being considered by the 2005 Maryland General Assembly. He noted that Board sponsored legislation is proceeding through the Senate with little discussion. Mr. Pleines anticipated that all of the bills the Joint Committee sponsored for the Board should pass. He noted that SB305, which originally concerned the Board because it contained language to study a defined contribution plan as the primary pension benefit for the State, had passed the Senate only as a study for funding retiree health care costs.

Various bills to enhance benefits within the employees, teachers and correctional officers systems were scheduled for hearing March 10 before the Senate. Mr. Pleines anticipated that the only one of these bills may be given consideration in 2005. This is Senator Kasemeyer's proposal (SB466) to increase the employee and teacher benefit multiplier from the current 1.4% of average final compensation per year of service to 1.75% of AFC for each year of membership from July 2005. The increase would be funded primarily through higher employee contributions – increase contributions from 2% to 5%.

EXHIBIT A

Mr Pleines noted that the proposal to limit the Board's investment with companies doing business in the Republic of Sudan (SB619) has been heard. Mr Lee submitted written testimony in opposition. No additional action has been taken on the proposal.

Mr Pleines presented a possible amendment for the Committee's consideration. In seeking candidates to fill the seat previously held by Dr. Grasmick, the statement in pension law that trustees, "are not affiliated with" external managers has raised questions. The Committee requested that Ms Bacharach redraft the amendment to make it clear that employees, directors and officers of external investment managers and those holding a 10% ownership are not eligible. The redrafted amendment is to be presented to the full Board at its next meeting for further discussion.

F. Other Business

Staff reviewed the time frames for processing disability appeals.

Disability Appeal Cases.

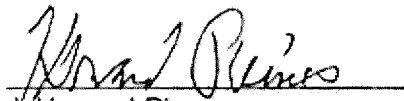
Ms. Bury advised the Committee that the number of appeals for disability cases was continuing to grow. There is both a backlog at the Office of Administrative Hearings and within the Agency. She asked that the Administrative Committee recommend either a special meeting to deal with appeals only or to increase the number of appeals at each Board meeting (staff's recommendation).

Action Item: The Administrative Committee recommends that the Board of Trustees increase the number of appeal cases heard at its monthly meeting to six or seven appeals to eliminate the current backlog.

The Administrative Committee also agreed to schedule all 2006 Administrative Committee meetings at the Retirement Agency.

Adjournment

There being no further business, Mr. Brown adjourned the meeting at 11:40 a.m.


Howard Pleines