

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

MINUTES OF MEETING
June 21, 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 00 a m There were present William Donald Schaefer, Chairman, Nancy K Kopp, Vice-Chair, Cecilia Januszkiewicz, David B Hamilton, Morris L Krome, William D Brown, Carl D Lancaster, 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, and Laura Burns, Assistant Attorneys General, Steve Huber, Chief Investment Officer, Arthur Broadwick, Deputy 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, Larry Martin, Information Systems, Dale Markle, Chief Information Officer, and Monica Bias, Executive Associate

Also attending were Dean Kenderdine, Comptroller's Office, Thomas E Patti, Harford County Government, Anne Gawthrop, Lori O'Brien, Department of Legislative Services, Robert Palumbi, Maryland Retired Teachers' Association, Randy Mickens, Maryland State Teachers' Association, Penn L Parks, Brian K Malpasso and Dennis M Gottesman, Esquire, and Sarah J Griffin

Mr Carl Lancaster, at the request of Chairman Schaefer, read a resolution from the Board of Trustees to Mr Joseph Coale, recognizing his excellent service to the State of Maryland Mr Coale is to retire effective July 1, 2005

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| Minutes | 1 | On motion made and duly seconded, the Board approved the minutes of the April 19, 2005 regular meeting |
| Board Officers | 2 | In accordance with State Personnel and Pensions Article, Section 21-105 (1) and (2), the Board of Trustees re-elected the following individuals Chairman - William Donald Schaefer, Vice-Chair - Nancy K Kopp, and Secretary - Thomas K Lee |
| | | Chairman Schaefer asked Mr Lee to look into limiting the number of years during which a trustee may serve as Chairman or Vice-Chairman and report back to the Board -Major Krome voted a Nay vote-for-the position of the Chairman only |
| Investment Committee Appointment | 3 | On motion made by Mr Carl Lancaster, and duly seconded, the Board of Trustees approved the re-appointment of Mr Wayne H Shaner as a public member of the Investment Committee for the term of July 1, 2005 to June 30, 2008 |

Investment
Committee
Recommendations and
Information Items

- 4 Mr Carl Lancaster, Chairman of the Investment Committee, reported on the meeting held April 8, 2005

On motion made by Mr Lancaster, and seconded by Mr Hamilton, the Board accepted the recommendation from staff and Pension Consulting Associates, Inc (PCA) to approve Alex Brown Realty's request for a waiver of the 100% exclusivity provision in its contract with the System

On motion made by Mr Lancaster, and seconded by Mr O'Shea, the Board accepted the recommendation from staff and PCA to give the Real Estate Subcommittee the authority to respond to any future requests from Alex Brown Realty regarding such variances from their guidelines If the subcommittee is unable to act, investment staff, with the concurrence of the real estate consultant, is delegated the authority to respond to future requests from Alex Brown Realty for a variance from their guidelines which require a response within 5 days

Mr Lancaster indicated that there were additional items to address during the closed session

The Board accepted Mr Lancaster's report

Administrative
Committee
Report
and Recommendations

- 5 Mr William D Brown, Chairman of the Administrative Committee, reported on the meeting held June 7, 2005

On motion made by Mr Brown, seconded by Ms Hill, the Board of Trustees accepted the Retirement Agency's Fiscal Year 2006 Business Plan Chairman Schaefer asked that future business plans include a one page summary of the events and proposals for the year

Mr Brown stated that the survey results from the Board's Self Assessment Discussion Guide would be discussed with Mr Thomas Iannucci in closed session

At Mr Brown's request, Mr Lee advised the Board that the Retirement Agency faced the prospect of the General Assembly enacting major benefit enhancements in 2006 Since it is likely that the existing legacy system could not support complicated changes, he noted that the Agency was developing an action plan to deal with benefit enhancements as well as continuing to develop a new, modernized information system The complexity of existing programs, antiquated file and system design, and limited documentation, greatly increase the risk of programming error and system failure when changes are made to the Legacy system He estimated modifying Legacy to add an additional tier would cost approximately \$1 million, most of which would be to hire additional personnel In addition, changes to the system are needed to mitigate risk

On motion made by Mr Brown, seconded by Ms Hill, the Board agreed to approve up to \$1 million to be spent for modifying the Legacy system to mitigate system risks such as rewriting the Mark IV programming language. Staff will not proceed on expending resources on a new tier implementation until the Board makes a decision on whether or not to proceed with programming changes to accommodate a new tier in September. The necessary budget amendments are to be requested.

Mr Lee also advised the Board that the Internal Auditor, Mr Tom Gigliotti, had completed two audits. The first resulted from a 2003 audit of the investment Division, and indicated there are still 4 areas from the original audit that need improvement. Under the direction of the new Chief Investment Officer, Mr Huber, and following a reorganization of the investment Division, it is believed that these remaining concerns will be addressed and corrected. The second audit resulted from an allegation of non-compliance with State rules and regulations by employees of the Retirement Agency. Mr Gigliotti found no evidence to support the former employee's allegations.

Mr Brown advised the Board that the new policy for advice slips for monthly checks would begin in the fall, with notices sent in July and January to provide cost-of-living and tax information respectively, and when the net check amount changes. Ms Bury noted that implementation was delayed until the fall in order to replace the existing Voice Response System (IVR) so that the Agency could expand on its ability to provide information through this system (expanding from 8 lines to 24 lines) **Exhibit A**

The Board accepted Mr Brown's report.

Executive
Director's Report

5. Mr Lee advised the Board that the Corridor Funding Committee had completed its work. Dr Moye will be making a full report to the Board, with the Committee's recommendation at the July Board of Trustee meeting.

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 following:

(1) recommendations for a global equity manager, source of funds and asset allocation issues, pursuant to State Government Article, Section 10-508(a)(5) which authorizes the Board to meet in closed session to consider the investment of public funds, (2) a decision with respect to the retention of an Optional Retirement Program (ORP) consultant, pursuant to State Govt Art Section 10-508A)(14) which authorizes the Board to meet in closed session to discuss issues related to the award of a contract, and, (3) the Board's Self-Assessment survey, pursuant to State Govt Art Section 10-503(a)(1)(i) which authorizes the Board to meet in closed session to exercise an executive function.

EXECUTIVE SESSION

The Board met in Executive Session at 9 55 a m in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider investment matters, discuss a contract, and exercise an executive function. There were present William Donald Schaefer, Nancy K. Kopp, Cecilia Januszkiewicz, David B Hamilton, Morris L Krome, William D Brown, Carl D Lancaster, Patrick O'Shea, F Patrick Hughes, John W Douglass, James Harkins, Sheila Hill, Trustees, and, Thomas K Lee, Secretary. Agency staff also attending was Margaret A Bury, Deborah Bacharach, Robert Feinstein, Howard Pleines, Steve Huber, Thomas Patti; Thomas Iannucci, 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

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| Medical Board Reports | 6 | On motion made and duly seconded, 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 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. <u>Exhibit B</u> |
| Yearly Attendance Report 2005 | 8 | Mr. Lee advised the Board that the required attendance report is to be submitted to the General Assembly for the months January through June. He asked that each Trustee review the report for accuracy. |
| Earnings Limitation Recovery Report | 9 | In accordance with State Personnel and Pensions Article, Sections 22-406(B)(2) and 23-407(B)(2), pensions of retirees who exceeded their earnings limitation in calendar 2004 are to be offset from pensions paid in fiscal year 2006. On motion made by Mr. Brown, and seconded by Major Krome, the Board approved the offset of calendar 2004 earnings. |
| Disability Offset Report | 10 | On motion made by Ms. Hill, and seconded by Mr. Hughes, the Board approved the offset of disability retirees who exceeded their earnings limitation in calendar 2004. |
| Darlene J Benedict-Samaras | 11 | At the request of Ms. Benedict-Samaras' attorney, the Board agreed to postpone Ms. Benedict-Samaras' appeal for accidental disability. |
| Perrin L Parks | 12 | The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Perrin L. Parks 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 Parks appeared before the Board to oppose 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

Brian K Malpasso 13 The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr Brian K Malpasso 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 Malpasso appeared before the Board with his attorney, Mr Dennis Gottesman and opposed the Agency's position and the Administrative Law Judge's recommendations Ms Laura Burns, 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

Milburn J Ponder 14 The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr Milburn J Ponder 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 Dennis M Gottesman appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendations Mr Ponder did not appear Ms Laura Burns, 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

Sarah J Griffin 15 The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms Sarah J Griffin 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 Griffin 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

On motion made and duly seconded, the Board voted unanimously to meet in Executive Session to consider disability appeals, pursuant to State Government Article, Section 10-503(a)(1)(iii) which authorizes the Board to meet in closed session to carry out a quasi-judicial function

EXECUTIVE SESSION

The Board met in Executive Session at 12 42 p 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, Morris L Krome, William D Brown, Carl D Lancaster, Patrick O'Shea, F Patrick Hughes, James Harkins, Sheila Hill, Trustees, and, Thomas K Lee, Secretary Agency staff also attending was Margaret A Bury, Deborah Bacharach, Howard Pleines, Thomas Patti, and Monica Bias

The Board ended its closed session at 12 55 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

Minutes On motion made and duly seconded, the Board approved the minutes of the April 19, 2005 closed session meeting

Perri Parks The Board considered the appeal of Perri Parks Following a discussion, on a motion made by Mr Lancaster, and seconded by Mr O'Shea, the Board voted to accept the Administrative Law Judge's Proposed Decision and deny Mr Parks' request for accidental disability benefits Major Krome and Ms Hill voted Nay against the motion

Brian Malpasso The Board considered the appeal of Brian Malpasso Following a discussion, a motion made by Mr Hughes, seconded by Ms Hill, the Board voted to accept the Administrative law Judge's Proposed Decision and deny Mr Malpasso's request for accidental disability benefits

Milburn Ponder The Board considered the appeal of Milburn Ponder Following a discussion, a motion made by Mr Brown, and seconded by Major Krome, the Board voted to accept the Administrative Law Judge's Proposed Decision and deny Mr Ponder's request for accidental disability benefits

Sarah Griffin The Board considered the appeal of Sarah Griffin Following a discussion, a motion made by Mr O'Shea, and seconded by Mr Harkins, the Board voted to accept the Administrative Law Judge's Proposed Decision and deny Ms Griffin's request for accidental disability benefits Mr Hughes and Ms Hill voted Nay against the motion

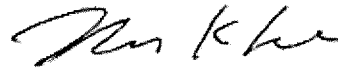
Remand Roy Davies On motion made by Mr Lancaster, and seconded by Mr O'Shea, the Board approved remanding Mr Davies' appeal back to the Administrative Law Judge for the purpose of explaining why he accepted the opinions of the Agency's witness while rejecting the opinions included in the Claimant's medical records

Other Business

On motion made by Mr O'Shea, and duly seconded, the Board approved a Special Option 7 Allowance for Martha Seraphin providing \$4,710 54 to the retiree and at her death, a survivor allowance of \$1,413 16 to Michael Seraphin

There being no further business before the Board, the meeting adjourned at 1 00 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 June 7, 2005 MEETING

The Administrative Committee met on Tuesday, June 7, 2005, beginning at 9:32 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, David B. Hamilton, John W. Douglass, and James M. Harkins were present. Also attending were Thomas K. Lee, Executive Director, Margaret Bury, Harvey Raitzyk, Deborah Bacharach, Jeannie Abramson, Steve Huber, Will Morrow, Larry Martin, Dale Markel, Joseph Coale, Thomas Gigliotti, Brian Feilinger, Robert Woodward, Joseph Coale, Sherlynn Matesky, and Howard Pleines. Others in attendance were Amy Maloney, Maryland State Teachers Association, and Mr. Tom Iannucci, Cortex.

A. Minutes of the Administrative Committee held April 12, 2005

On motion made by Major Krome, seconded by Mr. Freedlander, the minutes of the April 12, 2005 Administrative Committee were approved with one minor correction.

B. Administrative Expenses

Ms. Jeannie Abramson advised the Administrative Committee that administrative expenses for the year were in line with the Agency's budget. She noted that the budget amendment for paying off the balance of the tenant improvements (approximately \$3.6 million), which was approved as part of the Agency's FY2006 budget request, has been approved by the Department of Budget and Management, and now is under review by the Department of Legislative Services. It is expected to be finalized shortly.

C. Agency Fiscal 2006 Business Plan- Discussion and Approval

Mr. Tom Lee presented to the Administrative Committee the Retirement Agency's Fiscal Year 2006 Business Plan. He noted that this is the second year that the Agency had prepared a business plan. Like the first plan, the FY2006 plan focuses on the Agency's infrastructure to ensure that necessary resources are available to the Retirement Agency to realize the Agency's mission. Mr. Lee advised the committee members that the report summarizes those initiatives completed in FY2005, as well as denoting those new or continuing initiatives for FY2006. Copies of the final plan will be provided to the Trustees and added to the Agency's web site.

Action Item: On motion made by Major Krome, seconded by Mr. Harkins, the Administrative Committee recommends to the Board of Trustees that it accept the Retirement Agency's Fiscal Year 2006 Business Plan.

D Board Self Assessment Discussion Guide – Survey Results- Closed Session

Discussion of this item was deferred until Executive Session

E. Legacy Enhancement Project Update

Mr Lee advised the Administrative Committee that the Board and the Retirement Agency were facing a major challenge during the next fiscal year as the Retirement Agency faces the prospect of the General Assembly enacting major benefit enhancements in 2006. The existing antiquated Legacy System likely could not support complicated changes, thus increasing the risk for system failures. To minimize such risk, the Retirement Agency is developing an action plan to deal with the anticipated benefit enhancements in July 2006, as well as continuing to develop the long range solution of a new, modernized information system that provides the agility necessary for the future growth of the System.

Mr Lee noted that it is important for the Board and the Retirement Agency to work with the General Assembly, through the Joint Committee on Pensions, to support a simple benefit enhancement package that would minimize the changes needed in the Legacy system. The earlier an agreement can be reached, the more time the Agency would have to modify the Legacy system to prepare for the anticipated enhancements.

If more complex enhancements are approved (multi-tiered benefits, optional participation), there is both a greater risk of failure of the current system to correctly modify and test these modifications in the time available. Also, there would be an impact on the development of a new information system as Agency systems and pension administration resources must be diverted to incorporate these new benefits requirements.

Mr Morrow indicated that it would be impossible to implement a totally new information system (MRIS) to accommodate benefit changes for next year. The biggest challenge for the Legacy system is risk. Since the Legacy system currently operates with 5 computer source code languages (some obsolete), it is increasingly difficult to maintain and modify programs. The Legacy has surpassed its useful life making it increasingly difficult to find knowledgeable staff to maintain it. Furthermore, the complexity of existing programs, antiquated file and system design, and limited documentation, greatly increase the risk of programming error when changes are made.

However, there may be little that can be done to accommodate a legislative mandate of benefit enhancement in 2006 other than enhancing the Legacy System. Providing a new benefit tier or tiers, and other benefit improvements, would require enhancing the Legacy System programs. These changes should be considered along with redevelopment of existing programs that use obsolete languages like the Mark IV programming language.

Mr Douglass noted that a complex enhancement bill must have a delayed implementation date in order to give the Retirement Agency time to prepare implementation. Mr Douglass also expressed his concerns that enhancing the Legacy system today further delays the implementation of a new information system, which is at least 7 years in the future at this time. Mr Lee agreed that the present situation is

challenging. Mr. Lee stated that investing in mitigating risk today by stabilizing the current system is a priority. He estimates the cost for modifying the Legacy for the proposed additional tier project at approximately \$1 million, the majority of which would be spent on additional personnel. Staff is finalizing the project plan and cost estimates and will be updating the Committee at its next meeting.

Mr. Harkins expressed his concern with spending these dollars without more direction from the General Assembly. Some members expressed concerns that a simplified benefit enhancement would not satisfy the membership, indicating it may be necessary to plan for more complex changes.

At the direction of the Administrative Committee, Mr. Lee agreed that the Agency would collaborate with the General Assembly (Joint Committee on Pensions), the Department of Legislative Services, and the various employee/teacher groups to develop the parameters of an enhancement bill. Mr. Lee also is to express to all parties the Board's concerns as to the impact complex enhancements may have on the Retirement Agency's implementation capabilities, as well as the increased risk of system failures that could result from reprogramming for enhancements within the Legacy system.

F. Internal Audit Reports

Mr. Thomas Gigliotti reported on two issues that had come before the Audit Committee. As a result of an audit report in 2003 related to the monitoring of external managers, the Investment Division was given six areas in need of improvement. The recent report indicates that four of the six areas had not yet been adequately addressed. Under direction of the new Chief Investment officer, Steve Huber, and following a reorganization of the Investment Division, it is believed that these remaining concerns will be addressed and corrected.

Mr. Gigliotti also noted that the Internal Audit staff had completed a review of allegation of non-compliance with State rules and regulations by employees of the State Retirement Agency. He noted that following a thorough review of the recruiting and hiring practices of the Agency, he found no evidence in support of the former employee's allegations. As a result of concerns raised by Mr. Hamilton pertaining to direct involvement of the System's Attorney General in future investigations, staff is researching the issue and will address it at a future Administrative Committee meeting.

G. Advice Notice Mailings

Ms. Marge Bury advised the Administrative Committee that the Retirement Agency will be instituting the new policy on advice notices beginning in the fall. Implementation is being delayed until then to replace the Agency's existing Interactive Voice Response System (IVR) that will expand on the ability of members and retirees to get information from the IVR system (increasing lines from 8 to 24).

Under the new policy, advice notices will be issued with the first payment to all new retirees. Notices also will be sent in July and January for cost-of-living and tax information respectively, and when the net check amount changes. It is believed that the new policy, in the long run, will result in savings to the Agency. Mr. Lee concluded the discussion by noting that in his meeting with various retiree groups there is little opposition to this new policy.

EXHIBIT A

On motion made and duly seconded, the Administrative Committee voted unanimously to discuss the Board's Self Assessment Survey, discuss possible litigation and to discuss a procurement issue in Executive Session. State Government Article, 10-503(a)(1)(i) authorizes the Board to meet in **closed session** to carry out an executive function. Section 10-508(a)(1) authorizes the Administrative Committee to discuss personnel issues, §10-508(a)(7) authorizes the Committee to consult with counsel to obtain legal advice, §10-508(a)(14) authorizes the Committee Board to meet concerning a contract proposal.

EXECUTIVE SESSION

The Board met in Executive Session at 11:15 a.m. in the Boardroom of the State Retirement Agency to consider an executive issue, obtain legal counsel, and discuss a contract proposal. Those persons present in Executive Session for discussion were William D. Brown, Morris L. Krome, David B. Hamilton, Howard Freedlander, representing Treasurer Kopp, John W. Douglass, James M. Harkins, Thomas K. Lee, Margaret Bury, Deborah Bacharach, Jeannie Abramson, and Howard Pleines were also present. Mr. Tom Ianucci participated in the discussion of the Board Self Assessment Survey.

The Board ended its closed session at 11:52 a.m. and returned to regular session to complete the agenda.

REGULAR SESSION

H. Other Business

Mr. Lee updated the Administrative Committee on the Agency's efforts to retain the services of a court reporter to provide verbatim transcripts of Board meetings. This item was approved as part of the Agency's FY2006 appropriation. The Agency will issue an RFP this month.

I. Adjournment

There being no further business, Mr. Brown adjourned the meeting at 11:55 a.m.



J. Howard Pleines