

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

MINUTES OPEN SESSION MEETING

August 15, 2006

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 9:05a.m. There were present: Nancy K. Kopp, Vice-Chairman; William D. Brown; John W. Douglass; David B. Hamilton; James M. Harkins (via telephone); Sheila Hill; F. Patrick Hughes; Cecilia Januszkiewicz; Morris L. Krome; Carl D. Lancaster; Dr. Melissa Moye (via telephone); and, Patrick O'Shea, Trustees; and, Thomas K. Lee, Secretary.

Agency Staff members attending were: Jeannie Abramson; Deborah Bacharach; Monica Bias; Laura Burns; Robert Byrd; Cassandra Carrington; Rachel Cohen; Melody Countess; Vanessa Garrett-Ingram; John Greenberg; Jill Leiner; Dale Markel; Vincent Marsiglia; Sherlynn Matesky; Will Morrow; Howard Pleines; Kenneth Reott; Barbara Swain; and Victoria Willard.

Also attending were Bill Anderson; Howard Freedlander; Dean Kenderdine; and Robert Palumbi. Appeal cases present were Betty Howie; and Henry G. Zukowski.

Minutes

1. On motion made by Mr. Brown, and seconded by Mr. Lancaster, the Board approved the minutes of the July 18, 2006 regular meeting.

Investment  
Committee  
Recommendations and  
Information Items

2. Mr. Carl Lancaster, Chairman of the Investment Committee, reported on the meeting held August 11, 2006.

On motion made by Mr. Lancaster, and seconded by Mr. O'Shea the Board adopted PIMCO's request to amend the guidelines for the System's "core plus" portfolio as follows:

1. include credit default swaps (CDS) in the section of the investment guidelines that lists the types of permissible securities; and,
2. add a guideline permitting foreign currency exposure of developed countries up to a maximum of 5% on an absolute basis.

On motion made by Mr. Lancaster, and seconded by Mr. O'Shea, the Board approved staff's recommendation to expand the Tactical Asset Allocation (TAA) programs to permit SRA staff to shift up to 2% of the total assets between growth and value styles within the US equity passive asset class.

On motion made by Mr. Lancaster, and seconded by Treasurer Kopp, the Board accepted the updated version of the Investment Policy Manual.

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Administrative  
Committee  
Recommendations and  
Information Items

3. Major Morris Krome, Vice-Chairman of the Administrative Committee reported on the meeting held August 1, 2006.

On motion made by Major Krome, and seconded by Ms. Hill, the Board approved the 2007 Business Plan.

Major Krome deferred action on the Administrative Committee's recommendation by Mr. James Hester to be granted credits for unused sick leave until the appeal cases were heard. Mr. Hester was to be given time to address the Board about his issue.

On motion made by Major Krome, and seconded by Ms. Hill, the Board agreed to sponsor legislation to base projected service credits for ordinary disability on full time, rather than part-time employment worked if the part time employment status resulted solely from the disability. There is to be a retroactive provision to cover Ms. Janine Richmond, whose case - service credit was projected at 50% because of her disability forced her to go part-time prior to her retirement - brought this issue to the attention of the Retirement Agency.

On motion made by Major Krome, and seconded by Ms. Hill, the Board accepted the extraordinary salary increases for Shirley Nelson and Elizabeth Wheeler.

On motion made by Major Krome, and seconded by Ms. Hill, the Board approved the request of the Maryland Charity Campaign on the mailing and presentation of information on the charity campaign to retirees.

On motion made by Major Krome, and seconded by Ms. Hill, the Board accepted the reclassification of 3 investment positions (PINs 005367, 083488, and 053063) and the change of a management services PIN to a special appointment (PIN 076755) to be designated as Assistant Deputy Retirement Administrator.

On motion made by Major Krome, and seconded by Ms. Hill, the Board approved the following to be included in the 2007 Legislative proposals:

**Alternate Contributory Pension Selection:**

Retirement Agency staff will work with our legal counsel and Legislative Services to develop clarifying language as deemed necessary to ensure that the ACPS is properly identified throughout pension system law in all appropriate provisions.

**Combining Accounts:** Sections 23-303.1, 23-306.3

In 2000, the General Assembly enacted Chapter 396 which, in part, permitted members of the Employees' and Teachers' Contributory Pension Systems (ECPS/TCPS) to combine their current active ECPS/TCPS account with a previous membership in the non-contributory Employees' or Teachers' Pension System (EPS/TPS). The amended law required that the members return to employment for at least one year before being allowed to combine their service from the prior EPS/TPS account with the current ECPS/TCPS account.

If the members were vested in the EPS/TPS (more than 5 years of eligibility service), the members are eligible to combine their prior account with their current ECPS/TCPS account at any time during membership, once the year of employment is completed. However, if the members were not vested in the prior EPS/TPS account, then there was a time restriction. The members had to return to employment by June 30, 2003 in order to be eligible to combine their accounts.

With the creation of the ACPS, the Board may wish to consider additional legislation to permit members of the ACPS to combine their previous memberships in the Non-contributory and/or Contributory Employees' and Teachers' Pension Systems with their ACPS accounts. The legislation would be similar to the previous bill in that it would permit members with prior vested accounts to combine their accounts at any time, while those who held non-vested accounts would be required to return to employment within a fixed period - 3 years was the requirement of the prior legislation.

It is noted that the proposal should include language to require the repayment of accumulated contributions withdrawn when membership terminated from the contributory pension systems. It is also noted that ACPS members could hold a previous account with an employer that did not elect to participate in the ECPS when offered in 1999 (Prince George's County Government is the largest non-participating employer). The Board should decide if for those ACPS members who have an EPS/TPS account after July 1, 1998 should be required to make up the "missed" 2% employee contributions that would have been paid under the ECPS/TCPS.

**Purchase of Service – Timing:** Section 23-304.1

Under code simplification legislation (Chapter 493 of the Acts of 2005), the General Assembly enacted new language to require that members be employed (and in active status) or on a Board approved leave of absence in order to purchase service. It has been brought to the Retirement Agency's attention that this could produce a hardship to

certain members seeking to retire at the end of an approved leave. If the members wish to retire, and if the members are not returning to active employment and does not purchase the time in the last month of the leave period, then the members are not eligible to purchase this time under the 2005 code simplification amendments.

This is an unforeseen consequence of the Retirement Agency's efforts to eliminate the requests/appeals of former members who sought to purchase time long after their active membership ended. It was not the intention of the Retirement Agency to keep members on approved leaves (primarily members on personal illness leaves) from purchasing that time as they retired. As the law applies now, if the members do not purchase while on payroll or during the final month of the approved leave period, those members cannot purchase the leave time. The Board may wish to seek an exception to permit members who are no longer employed or on an approved leave of absence to purchase such leave if they are retiring following the end of that leave. The Board could limit this exception to only personal illness leaves, or consider it for any approved leave. Approved leaves currently include birth of a child, adoption of a child, personal illness, study, service in a professional or employee organization, and government sponsored or subsidized employment.

**Final Payments – Pop Up Options:**

Under Code Simplification (Chapter 618 of the Acts of 2006), the final payment due retirees and/or beneficiaries was altered to eliminate the need to prorate retirement or survivor benefits in the month of death of the retiree or beneficiary. Based on the date of death, either the entire monthly benefit was payable (died on or after the 16<sup>th</sup> of the month) or none of the monthly payment was due for that month of death (died before the 16<sup>th</sup>). These changes eliminated a great deal of calculation work for the Retirement Agency since it was no longer necessary to prorate the check based on the date of death to reflect partial payment of an allowance or survivor benefit. It also reduced the number of unclaimed benefits since many small prorated payments went unclaimed.

In making these simplification changes, the effect of the death of the beneficiary under the pop-up options, Options 5 and 6, was overlooked. Under a pop-up option, the retirees are to pop up to the basic allowance (maximum benefit) when the beneficiary predeceases the retiree. The law for these two options still requires that the allowance be calculated from the date of death of the beneficiary, which require a prorating of the benefit amounts in that month to the retirees – reduced pop-up option payment to date of death with maximum benefit payment for the remainder of that month.

The Agency is asking that the Board seek changes for the pop-up options similar to those provided in 2006 to Options 2 and 3. This would provide either a full payment of the basic allowance or continue the option payment for the month in which the beneficiary dies. If the

beneficiary dies on or after the 16<sup>th</sup> of the month, the retiree receives the full month under the basic allowance. If the beneficiary dies before the 16<sup>th</sup>, the retiree's allowance is not increased to the basic allowance until the month following the death of the beneficiary.

**Suspension of Allowance:** Section 29-115(d)

Under Code Simplification (Chapter 618 of the Acts of 2006), the law was amended to delete an obsolete requirement that disability retirees provide annual information related to their disability and earnings (if employed after retirement). The need for the completion of that form no longer existed (data was no longer needed or could be obtained from other sources) and, therefore, the Board requested that the section related to the annual reporting of data be deleted.

Section 29-115(d) requires that the disability benefits of retirees be suspended if the retirees refuse to provide the annual information that was repealed last year. Section 29-115(d) is, therefore, obsolete and the Retirement Agency requests that it be deleted from pension law.

**Military Service Interrupting Membership:** Section 38-103

The General Assembly enacted Chapter 277 of the Acts of 2006 to be effective October 1, 2006. This new law provides that military service credits granted for military duty that occurred prior to enrollment, is to be based on the highest benefit multiplier in effect at the time of retirement.

There are members of the pension systems (132) who have military service that interrupted their membership (the so-called "old Military") prior to July 1998. Since their military duty occurred prior to 1998, it also has been credited under the 1.2% benefit multiplier, but it has not been increased. The Retirement Agency recommends that this inequity be eliminated by amending Section 38-103 to grant military service credit that interrupts membership in a pension system on the highest benefit multiplier in place at time of retirement, similar to Chapter 277.

**Correctional Officers' Retirement System (CORS) – Membership**

During the 2006 session, the General Assembly enacted two bills that alter the membership of the Correctional Officers' Retirement System: Chapter 258 permits local governments to place their detention center officers in CORS from July 1, 2007 (creates a local CORS membership pool); and, Chapter 740 adds dietary, supply and maintenance correctional officers to the State pool beginning July 1, 2006 (current eligible officers are transferred into CORS).

As with Chapter 110, staff will work with legal staff and Legislative Services to develop the necessary clarifying language and references to include the local detention center officers, and the State dietary, supply and maintenance officers in the Correctional Officers Retirement System.

**Workers' Compensation Benefits – State Offset:** Section 29-118

Current pension law provides that the Retirement Agency does not offset disability benefits for retirees/beneficiaries of participating governmental units, including boards of education, against workers' compensation awards that are paid after retirement. This limitation currently applies to the Employees' Retirement System and the Employees' Pension System (non-contributory, contributory, and alternative plans). Since there are three additional systems in which local employees now participate and for which the local governments pay the employer costs, the Retirement Agency is recommending that the Law Enforcement Officers' Pension System, the Local Fire and Police System and the Correctional Officers Retirement System be added to the exemption from offset against workers' compensation by the Retirement Agency.

**Dorchester County – Participation:** Sections 23-201(a)(9), and 21-309(e)

Obsolete language within pension law (Section 23-201(a)(9)) implies that Dorchester County operates a county plan for some of its employees. Only those employees not in the local system are to participate in the State System. Section 21-309(e) also suggests that the County should be paying the State employer contribution rate for its members who are in the System. However, Dorchester County does not have a local plan. It places all of its employees in the State System and routinely has been paying a municipal contribution rate for that participation. Therefore, the Retirement Agency recommends that the obsolete sections, 23-201(a)(9) and 21-309(e), be deleted from pension law.

Mr. Will Morrow provided the Board with an update on the MPAS project, noting that the kick-off for the project occurred in July. The project is on schedule and there have been no changes to its scope. There are to be monthly status reports which will be made available before the Board meetings. He also noted that the Agency is working on a RFP to obtain services for the Independent Verification and Validation of the project.

Mr. Morrow stated that he is working with staff to seek his replacement as project manager. Until his replacement is found, the existing MPAS staff can handle the day-to-day operations to keep the project moving forward.

Uniform Management of  
Public Employee Retirement  
Systems Act  
(UMPERSA)

4. On motion of Major Krome, and duly seconded, the Board authorized Mr. Thomas Lee as Executive Director of the State Retirement Agency and Secretary to the Board to sign an affidavit that certifies the System adheres to the five generally accepted principals incorporated in the Uniform Management of Public Employees Retirement Systems Act.

Executive  
Director's  
Report

5. Mr. Thomas Lee indicated that Mr. Vince Marsiglia and Ms. Melody Countess were working on the CAFR with the goal of presenting it to Board at the December meeting. He also noted that The Segal Company is working on its first Valuation and will be presenting an overview of their findings at the September meeting. An advance copy will be forwarded to the Board as soon as it is received from Segal.

At Mr. Lee's request, Ms. Jeannie Abramson reported that the budget proposal will be presented to the Administrative Committee on September 12. The proposal again focuses on infrastructure and information technology.

Mr. Lee also requested that Treasurer Kopp update the Board on the efforts to recruit for the Chief Investment Officer. Treasurer Kopp noted that the group has agreed that the CIO salary and bonuses should be similar to those provided by medium to large public plans. The next efforts are to draw up the specific qualification and functions of the CIO. It was noted that there is now a need to seek a new Executive Director before selecting a CIO.

Treasurer Nancy Kopp, on behalf of the Board of Trustees, and the employees of the State Retirement Agency, read a resolution to Mr. Thomas Lee, Secretary to the Board of Trustees and Executive Director of the State Retirement Agency. The resolution recognized Mr. Lee's outstanding accomplishments and service to the State Retirement and Pension System during his 3-plus years with the State Retirement Agency. All wished him continued success in his future endeavors with the New York State Teachers' Retirement System.

Information/  
Action

6. On motion made by Mr. Brown, and seconded by Mr. Hughes, and approved 9-0, the Board approved the appointment of Mr. R. Dean Kenderdine as Acting Executive Director of the State Retirement Agency, effective September 6, 2006. Mr. Douglass abstained from the vote.

Medical Board  
Reports

7. On motion made by Mr. Brown, 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 Reports

8. On motion made by Mr. Lancaster, and seconded by Mr. O'Shea, 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. Major Krome voted against the motion in response to concerns raised by the employer on one specific case. The Administrative Committee has been asked to review the issue. **EXHIBIT A**

On motion made and duly seconded, the Board voted unanimously to meet in Executive Session to discuss information regarding investment in a private market real estate investment, pursuant to State Government Article, Section 10-508(a)(5) which authorizes the Board to meet in closed session to discuss the investment of public funds; to review the watch list, pursuant to State Government Article, Section 10-508(a)(5) which relates to the investment of public funds; and, to discuss information regarding compensation changes for particular employees/positions, pursuant to State Government Article, Section 10-508(a)(1), which relates to personnel issues.

#### CLOSED SESSION

The Board met in Closed Session at 10:20 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider investment issues and to discuss compensation issues. There were present: Nancy K. Kopp, Vice-Chairman; William D. Brown; John W. Douglass; David Hamilton; James M. Harkins(via phone); Sheila Hill; F. Patrick Hughes; Cecilia Januszkiewicz; Morris L. Krome; Carl D. Lancaster; Dr. Melissa Moye (via phone), Patrick O'Shea, Trustees; and, Thomas K. Lee, Secretary. Agency Staff members attending were: Deborah Bacharach; Monica Bias; Rachel Cohen; John Greenberg; Howard Pleines; Kenneth Reott; Barbara Swain and Cindy Kollner. For the discussion on compensation, only the trustees and Ms. Kollner were present.

The Board ended its closed session at 11:05 a.m. and returned to regular session to complete the agenda.

#### REGULAR SESSION

Betty Howie

9. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Betty Howie for disability benefits. The Medical Board report, the Administrative Law Judge's Proposed Decision, and all related documents submitted by the parties were presented.

Ms. Howie appeared before the Board to oppose the Agency's position, the Medical Board report and the Administrative Law Judge's Proposed Decision. Ms. Laura Burns, attorney for the Agency, addressed the Board and argued that the Board should accept the Medical Board report and the Administrative Law Judge's Proposed Decision. Following discussion, the Board deferred further consideration to Executive Session.

Rita M. Donahoe

10. The Board considered the Proposed Decision of the Administrative Law Judge in connection with the claim of Ms. Rita Donahoe 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. Donahoe's case was heard on the record. Ms. Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's Proposed Decision. Following discussion, the Board deferred further consideration to Executive Session.

- Henry G. Zukowski 11. The Board considered the Proposed Decision of the Administrative Law Judge in connection with the claim of Mr. Henry Zukowski 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. Zukowski appeared before the Board to oppose the Agency's position and the Administrative Law Judge's Proposed Decision. Ms. Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's Proposed Decision. Following discussion, the Board deferred further consideration to Executive Session.

- James Hester Mr. Hester spoke to the Board seeking the addition of unused sick leave to his retirement benefit that had been lost when he returned to State employment after a break that exceeded 3 years. Mr. Hester argued that the sick leave had been part of a previous vested benefit. Major Krome explained that this issue had been presented to the Administrative Committee, which concluded at its August 1 meeting that State law did not permit the Board from giving Mr. Hester credit for the additional sick leave requested. 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 deliberate 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; and, to discuss information regarding pending and possible new securities litigation, pursuant to State Government Article 10-508(a)(8), which related to consultations regarding litigation.

#### CLOSED SESSION

The Board met in Closed Session at 11:55 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider disability appeals. There were present: Nancy K. Kopp, Vice-Chairman; William D. Brown; John W. Douglass; James Harkins(via phone); Sheila Hill; F. Patrick Hughes; Morris L. Krome; Carl D. Lancaster, Patrick O'Shea, Trustees; and, Thomas K. Lee, Secretary. Agency Staff members attending were: Deborah Bacharach; Monica Bias; Rachel Cohen; Howard Pleines; Kenneth Reott; and Barbara Swain.

The Board ended its closed session at 12:16 p.m. and returned to regular session to complete the agenda.

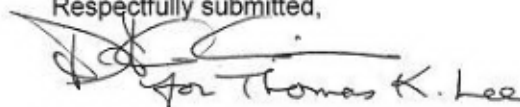
REGULAR SESSION

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 July 18, 2006 closed session meeting.
- Betty Howie                      The Board considered the appeal of Betty Howie. Following a discussion, on a motion made by Ms. Hill, and seconded by Mr. Douglass, the Board voted to remand the case to the Medical Board for further fact findings.
- Rita M. Donahoe                      The Board considered the appeal of Rita M. Donahoe. Following a discussion, on a motion made by Mr. Hughes, and seconded by Mr. Brown, the Board voted to adopt the Administrative Law Judge's Proposed Decision and deny Ms. Donahoe's request for accidental disability benefits.
- Henry G. Zukowski                      The Board considered the appeal of Henry G. Zukowski. Following a discussion, on a motion made by Mr. Hughes, and seconded by Mr. Brown, the Board voted to adopt the Administrative Law Judge's Proposed Decision and deny Mr. Zukowski's request for accidental disability
- James Hester                      On motion made by Major Krome, and seconded by Mr. Brown, the Board adopted Mr. Lee's summary decision and denied Mr. Hester's request regarding unused sick leave.

There being no further business before the Board, the meeting adjourned at 12:25 p.m.

Respectfully submitted,



Thomas K. Lee  
Secretary to the Board

TKL/mcb