

**BOARD OF TRUSTEES FOR THE  
MARYLAND STATE RETIREMENT AND PENSION SYSTEM  
MINUTES OF MEETING**

April 16, 2013

The Board of Trustees for the Maryland State Retirement and Pension System met in the Board Room of the SunTrust Building, 120 East Baltimore Street, Baltimore, Maryland beginning at 10:01 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	James Harkins
Peter Franchot, Vice Chairman	Sheila Hill
David Blitzstein (via telephone)	F. Patrick Hughes
John Douglass	Major Morris Krome
T. Eloise Foster	Theresa Lochte
Kenneth Haines	Harold Zirkin

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Anne Budowski	Ira Greenstein	Kenneth Reott
Melody Countess	Angie Jenkins	Ben Robb
Patricia Fitzhugh	Van Lewis	Janet Sirkis
Anne Gawthrop	Robin McClelland	Toni Voglino
Michael Golden	A. Melissa Moye	

Assistant Attorneys General present included: Deborah Bacharach, Rachel Cohen, Carla Goldman Katzenberg, Jill Leiner and Melissa Warren.

Also attended by: John Kenney, Phillip Anthony, Nathan Bowen, Len Lazarick, Brian Murphy, Rick Norman and Dana Tagalicod.

**Consent Agenda**

On a motion made by Major Krome and seconded by Mr. Hughes, the Board approved the consent agenda, which included:

- › March 19, 2013 Open Meeting Board Minutes
- › April 2, 2013 Administrative Committee Report
- › Disability Reports from the Medical Board

**Board Performance  
Self-Evaluation –  
Discussion Guide**

The Board was provided with a Discussion Guide for the Performance Evaluation of the Board of Trustees. Mr. Harkins indicated that the guide was identical to what had been used in past years and that the Schaefer Center would be used to tabulate the information and present the results to the Trustees.

Several Trustees including Treasurer Kopp, Ms. Lochte and Mr. Hughes voiced their concerns with some of the current wording of certain questions in the Discussion Guide.

After further discussion, the Board agreed to defer approval of the Discussion Guide until the May 2013 meeting, to allow the Board to further review the guide and make editing suggestions. The Trustees are to provide to the Treasurer, Mr. Harkins and/or Mr. Kenderdine, within 1 week, any editing suggestions to the Discussion Guide. The suggestions will be compiled for review at the May 2013 meeting.

**BOARD OF TRUSTEES FOR THE  
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Certification of the  
2013 Active  
Teachers' System  
Trustee Election

Mr. Kenderdine certified to the Board that only one eligible candidate, incumbent Trustee Kenneth B. Haines, met the requirements to be included on the ballot for the 2013 Teachers' Systems Trustee Election.

Mr. Kenderdine indicated that when only a single candidate qualifies to be placed on the ballot, that candidate shall be considered nominated to serve as Trustee for his or her system and, upon the Board's certification, the candidate shall serve as trustee for the appropriate term. The Trustee would serve a four-year term beginning August 1, 2013 through July 31, 2017.

On a motion made by Major Krome and seconded by Ms. Hill, the Board certified that Mr. Haines is deemed nominated to serve as a trustee for four years, beginning August 1, 2013.

2013 Active  
Employees' Trustee  
Election –  
Certification of  
Candidates

Mr. Kenderdine certified to the Board, that for the Active Employees' Systems Trustee Election, two eligible voters met the requirements to be included on the ballot. They are Linda G. Tilghman and James A. Bush, Jr. Voting will begin on May 14, 2013 and continue through June 17, 2013.

Mr. Kenderdine reported that the elected Trustee would serve a four-year term beginning August 1, 2013 through July 31, 2017.

GRS – Overview of  
the Effect of the New  
GASB Statement on  
Employer Financial  
Statements

Brian Murphy from Gabriel Roeder Smith & Company (GRS), the System's actuary, provided the Board with an overview of the effect of the new Governmental Accounting Standards Board (GASB) Statement No. 67 on Pension Plan Financial Statements and Statement No. 68 on Employer Financial Statements.

GRS used the System's June 30, 2012 valuation in calculating the Statements' effect. Statement No. 67 will be first implemented with the System's FY 2014 CAFR and Statement No. 68 will be first implemented with the State's 2015 CAFR. Mr. Murphy reported that based on a projection of the benefit payments and the assets, including future contributions and earnings, (the fiduciary net position) as defined in GASB Statement No. 67, the System would not have been required to use a "blended" discount rate, but would have been able to use the full 7.75% discount rate.

Treasurer Kopp requested that Mr. Kenderdine provide to the Board a link to GRS's website.

In a related matter, Mr. Kenderdine indicated that GRS would be returning for the June 2013 Board meeting in order for the Board to reconsider the System's assumed rate of return.

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**BOARD OF TRUSTEES FOR THE  
MARYLAND STATE RETIREMENT AND PENSION SYSTEM  
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April 16, 2013

GRS – Overview of  
the Funding Policy  
Recommendations  
under GASB  
Statements 67 and  
68

Brian Murphy from Gabriel Roeder Smith & Company (GRS), the System's actuary, provided the Board with an overview of Funding Policy Recommendations under GASB Statements No. 67 and 68.

Mr. Murphy reminded the Board that Defined benefit pension plans are typically funded through a combination of employer and employee contributions and earnings from investments. Under GASB Statements No. 67 and 68, which take effect for pension plan financial statements beginning after June 15, 2013 and June 15, 2014 for pension plan sponsors, respectively, the new accounting standards will change the way public pensions and their sponsoring governments report their pension liabilities.

Specifically, under the new GASB rules, there will no longer be a link between pension accounting and funding. The new GASB rules govern pension accounting only and leave funding policy to the plan sponsor.

Mr. Murphy discussed a number of recommendations for funding policy "post-GASB" but focused on those developed by a consortium of national associations including the National Association of State Retirement Administrators (NASRA), the National Council on Teacher Retirement (NCTR), the National Governors Association (NGA), and the National Association of State Auditors, Comptrollers and Treasurers (NASACT.) The recommendations include three "core elements" of a sound funding policy, including:

- Actuarial cost method – The Entry Age Normal (level percentage of payroll) actuarial cost method is especially well-suited to meeting these policy objectives;
- Asset smoothing method – The use of a five-year period for "smoothing" investment experience is especially well-suited to meeting these policy objectives; and
- Amortization policy – Amortizing the various components of the unfunded actuarial accrued liability over periods that focus on matching participant demographics but also, except for plan amendments, consider managing contribution volatility, is especially well-suited to meeting these policy objectives.

2013 Legislative  
Update

Anne Gawthrop reported to the Board on the results of the 2013 legislative session. All Board requested legislation passed.

Ms. Gawthrop reported that House Bill 390/Senate Bill 741- State Retirement and Pension System – Board of Trustees passed. This requires the addition of a new Trustee to the Board. This trustee will be appointed by the Governor to represent the interests of county governments. The term for this trustee will begin July 1, 2013.

Ms. Gawthrop indicated that four studies were expected to be conducted as a result of actions taken by the General Assembly:

- The first study related to House Bill 258/Senate Bill 800-Task

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Force to Study Phased Retirement for Maryland State Employees. Ms. Gawthrop indicated that the bill did not pass, but the budget narrative included in the Joint Chairman's Report requires the State Retirement Agency and the Department of Budget and Management to conduct this study over two years, and submit their findings and recommendations to the Joint Committee on Pensions on or before December 1, 2014.

- The second study relates to House Bill 718/Senate Bill 813 – State Retirement and Pension System – Service Credit for Unused Sick Leave. The State Retirement Agency and Department of Legislative Services are to conduct a study to determine the legislative history behind the statute requiring that certain members of the Correctional Officers' Retirement System be transferred into the EPS if they are promoted into certain positions and what the cost would be to eliminate the provision. The findings will be reported to the Joint Committee on Pensions on or before December 1, 2013.
- The third is a study of the current reinvestment of savings policy under the 2011 pension reform. The Department of Budget and Management, in conjunction with the State Retirement Agency, shall determine whether a reinvestment contribution in excess of the amount funded in fiscal year 2013 is appropriate in light of the State's simultaneous goals of reducing unfunded liabilities and budget sustainability. The amount funded in fiscal year 2013 was \$206 million. The determination shall be reported to the Governor, the budget committees, and the Joint Committee on Pensions on or before December 1, 2013.
- The fourth is the Title 37 Study, which the Department of Legislative Services and the State Retirement Agency are charged with examining issues relating to Title 37 system transfers, including the legislative history and intent of the General Assembly in the enactment of Chapter 337 of 2007, whether any State or local retirement or pension systems are experiencing issues regarding § 37-203(f) of the State Personnel and Pensions Article; and how State or local retirement or pension systems are interpreting and implementing § 37-203(f). The findings of this study shall be submitted to the Joint Committee on Pension on or before December 1, 2013.

Ms. Gawthrop addressed the FY 2014 budget provisions passed by the General Assembly. The budget withholds \$100 million of the \$300 million reinvestment. \$87 million of the \$100 million are General Fund dollars. The balance comes from Federal and Special Funds. The money is restricted until January 1, 2014. If the Governor determines that the funds are not needed to offset federal sequestration, the money reverts back to the pension trust fund.

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Secretary Foster indicated that the Department of Budget and Management had set aside \$10 million, in their budget, to cover budget cuts from sequestration.

Chairman Kopp commended Ms. Gawthrop on a marvelous job during the legislative session.

Ms. Gawthrop commented that she could not have done it without the help from Marge Bury, Debbie Bacharach and Rachel Cohen.

CIO Report

Dr. A. Melissa Moye provided the Board with a preliminary unaudited investment report for the month of March, 2013. Dr. Moye indicated that there was a slightly positive return for the month of February and that the current total fund market value was \$40.2 Billion.

Dr. Moye reported that the fund was performing over the policy benchmark at 44 basis points for the quarter and 131 basis points for the fiscal-year-to-date.

Mr. Zirkin commented that he commends the investment team on the 131 basis points over the policy benchmark.

Executive  
Director's  
Report

Mr. Kenderdine reminded the Board that the deadline to file the 2012 Financial Disclosure Forms is April 30, 2013.

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Mr. Kenderdine provided the Board with a copy of the Agenda for the 2013 Board of Trustees Education Session. Mr. Kenderdine thanked Melissa Moye and Debbie Bacharach for their assistance with securing speakers for the session.

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Mr. Kenderdine reminded the Board to submit any expenses that they have incurred to date, as the end of the Fiscal Year was fast approaching.

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Mr. Kenderdine reminded the Board to send Angie Jenkins a list of any conferences they attended that would qualify as fiduciary training.

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**BOARD OF TRUSTEES FOR THE  
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**CLOSED SESSION**

On a motion made by Ms. Hill and seconded by Ms. Lochte, the Board voted to meet in a Closed Session (11:47 a.m.) in the Board Room of the SunTrust Building at 120 East Baltimore Street for the purpose of:

1. approving the closed session minutes, pursuant to State Government Article § 10-503(a)(1)(i), the exercise of an administrative function;
2. consulting with staff and counsel regarding a suit filed against the System related to a disability award, pursuant to State Government Article §§ 10-508(a)(8) and 10-508(a)(7).

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding  
Peter Franchot, Vice Chairman  
David Blitzstein (via telephone)  
John Douglass  
T. Eloise Foster  
Kenneth Haines

James Harkins  
Sheila Hill  
F. Patrick Hughes  
Major Morris Krome  
Theresa Lochte  
Harold Zirkin

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Anne Budowski	Michael Golden	Kenneth Reott
Melody Countess	Angie Jenkins	Janet Sirkis
Patricia Fitzhugh	Van Lewis	Toni Voglino
Anne Gawthrop	Robin McClelland	

Assistant Attorneys General present included: Deborah Bacharach, Rachel Cohen, Carla Goldman Katzenberg, Jill Leiner and Melissa Warren.

Also attended by: John Kenney.

**OPEN SESSION**

The Board returned to open session at 12:15 p.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street.

Florence Carroll-  
Gray

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Florence Carroll-Gray for ACCIDENTAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Neither Ms. Carroll-Gray nor her attorney, Stephen Christopher Swift, Esq. appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Jill R. 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 Closed Session.



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**BOARD OF TRUSTEES  
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

***ADMINISTRATIVE COMMITTEE MEETING REPORT  
APRIL 2, 2013***

Board Performance  
Self Evaluation –  
Discussion Guide

The Administrative Committee was provided with a Discussion Guide which, if approved, would be used to conduct a Self-Evaluation of the Board's Performance.

Mr. Haines asked if the evaluation could be done on-line. Mr. Kenderdine indicated that in the past the Trustees were provided with a postage pre-paid envelope to submit the Board's Self-Evaluation, but that we would look into whether an on-line submission could be a possibility.

On a motion made by Ms. Hill and seconded by Mr. Romans, the Administrative Committee approved, for recommendation to the Board of Trustees, the Board Performance Self-Evaluation Discussion Guide.

Surcharge applied to  
Normal Contribution  
Rate for Certain  
Participating  
Governmental Units  
as a Result of  
Pension Reform

The Administrative Committee was provided with a letter issued by Gabriel Roeder Smith & Company, the System's actuary, which documented the effect of the 2011 General Assembly pension reform on the pooled municipal contribution rates on those PGUs that participate in the Non-Contributory Pension System and the Employees' Contributory Pension System (12 total) Town of Frostburg, Town of Taneytown, Town of Middletown, Town of Emmitsburg, City of Crisfield, Housing Authority of Crisfield, Garrett County Commissioners, Garrett County Roads, Town of Elkton, Town of North Beach, Prince George's County Government and the Prince George's County Crossing Guards. The letter contained a recommendation to modify the surcharge rates for those plans.

Mr. Harkins asked if this would affect the other PGUs not in those plans. Mr. Kenderdine responded that they would not. Deborah Bacharach, Assistant Attorney General, responded that the surcharge would bring those PGUs, not affected by the 2011 pension reform to the appropriate contribution rate.

Ms. Brogan asked what the projected dollar impact would be on each affected PGU. Mr. Kenderdine responded that staff would provide that information.

Ms. Brogan also asked what the process would be for informing the PGUs of the surcharge. Mr. Kenderdine responded that a letter would go out to each PGU with the calculations and an explanation of the change.

Mr. Harkins suggested that SRA staff verbally inform the Chief Financial Officer of each PGU of the surcharge, in addition to sending letters. Mr. Kenderdine explained that he would contact each PGU, by telephone, prior to sending the letter.

On a Motion made by Ms. Brogan and duly seconded, the Administrative Committee approved, for recommendation to the Board of Trustees, the Surcharge applied to the Normal Contribution Rate for Certain Participating Governmental Units as a result of the Pension Reform.



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**BOARD OF TRUSTEES  
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***ADMINISTRATIVE COMMITTEE MEETING REPORT  
APRIL 2, 2013***

Subsequent to the Administrative Committee meeting and after further staff consideration, the Executive Director determined that this matter required additional analysis by agency staff and the actuary. Therefore, with the approval of the Administrative Committee Chairman, this matter is not being brought before the full Board for consideration or action as part of the April 16, 2013 Board of Trustees agenda.

2013 Legislative Bill  
Review

Ms. Anne Gawthrop provided the Committee an update of the 2013 pension related legislation. Ms. Gawthrop commented that no new legislation had been submitted and believed that no new legislation would be submitted at this time.

Ms. Gawthrop reported that the majority of the Board Requested legislation returned passed, except for the 45-day break-in service bill (HB 494/SB 447–State Retirement and Pension System–Employment of Retirees–Required Break in Service) because of a drafting concern. Also, the unused sick leave bill (HB 495/SB 476–State Retirement and Pension System–Unused Sick Leave Calculation–Clarification) due to a technicality with calculating credit for members who have between 11-22 days of sick leave.

Ms. Gawthrop reported that HB 390/SB 741 – State Retirement and Pension System–Board of Trustees returned passed, therefore, a new member will be appointed to the Board of Trustees.

Ms. Gawthrop reported that HB 902/SB 751–State Police Retirement System–Reemployment of Retirees were voted favorable with amendments. The amendment would allow retirees of the State Police to be reemployed as a member of the Law Enforcement Officers' Pension System.

Ms. Gawthrop also reported that SB 1051–Maryland Private Sector Employees Pension Plan and Trust was voted favorable with amendments. The amendments would require the Task Force to be on a volunteer basis and not be a State agency.

Member Service  
Update

Ms. Anne Budowski updated the Committee on the performance of the Member Services Unit.

Ms. Budowski reported that the Agency continues to operate within the standards for average call wait time and call abandonment. However, for the month of February, 2013, the unit did not meet its performance goals. The abandonment percentage was 7.54% and the average speed of answer was 2:25. Following the January mailing of 146,000 1099Rs, the unit handled 1,163 calls regarding 1099Rs. There are 2 vacancies in the unit and staff is in full swing with scheduled pre-retirement seminars and field counseling. The recent member satisfaction survey found 98.1% of respondents rating the service received as satisfactory or better.

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**BOARD OF TRUSTEES  
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***ADMINISTRATIVE COMMITTEE MEETING REPORT  
APRIL 2, 2013***

Communications  
Update

Mr. Michael Golden provided a communications update to the Committee. Mr. Golden reported the following:

- In January, MarylandReporter.com announced that it had received a \$35,000 grant from the Abell Foundation to produce a year-long series of stories about the state retirement system.
- Throughout the session, Len Lazarick has credited his coverage of some of his pension stories to the grant. Once the session is over, Mr. Golden plans to reach out to Mr. Lazarick to offer assistance to help cover the rest of the year.
- Late January, MarylandReporter.com and Baltimore Business Journal took the bait from the joint "study" issued by the Maryland Public Policy Institute and Maryland Tax Foundation—the system pays too much in investment fees. Bob Burd was interviewed by both publications and effectively shot down the argument using facts.
- February 11, the first Stakeholders Meeting was held in Annapolis. Mr. Kenderdine, Dr. Moye and Ms. Gawthrop made brief presentations. Following the meeting Mr. Golden included the Stakeholders on the distribution list to receive the Retirement News Highlights. The plan is have meetings at least twice a year.
- Mid February, Marta Mossburg wrote a column in The Sun critical of the Treasurer and the system for allegedly overestimating the rate of return. Mr. Golden reported that SRA sent a letter to the editor for the Treasurer's signature detailing how Mossburg not only misrepresented the Treasurer's statements in the Retiree News and Notes newsletter, but she also got her data wrong. In

addition, thanks in part to our Stakeholder relationship, we were able to encourage AFSCME to respond, which resulted in a letter to the editor from Pat Moran, president of council 3, entitled, "Mossburg fails math on pensions."

- At the beginning of March, Gazette.net announced they were dropping political coverage in favor of business news.
- March 7<sup>th</sup> Mr. Golden attended US Markets Center for Institutional Investor Education conference in Denver to participate in a panel discussion about the use of social media to communicate with members. At the conference Mr. Golden met Pat Robertson from Mississippi PERS who informed him about NPEA - National Pension Education Association.

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**BOARD OF TRUSTEES  
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

***ADMINISTRATIVE COMMITTEE MEETING REPORT  
APRIL 2, 2013***

- Shelley Powers, Communications Director for MS PERS invited Mr. Golden to join the National Pension Education Association (NPEA). This group is fantastic for any communicator/educator in the pension industry. Mr. Golden stated that he has never attended one of these conferences where he didn't leave enriched, educated, and equipped with new ideas and tools.
- Washington Examiner will be closing up shop as a free daily tabloid and will instead become a weekly print magazine focusing on national politics.
- SRA will have a news release waiting to be issued regarding the legislature's passage of the bill phasing out of corridor. Mr. Golden is working with the Treasurer's office for the right time to issue the press release.
- Established a Twitter account for the agency, which is: @SRA\_MD.

2013 Trustee  
Elections Update

Mr. Kenderdine provided the Committee with an update on the 2013 Trustee Elections. Mr. Kenderdine indicated that two terms were ending, the first for Sheila Hill's position (Active Employees' Systems Representative) and the other for Kenneth Haines' position (Active Teachers' Systems Representative.)

Mr. Kenderdine indicated that only one qualified individual voter was received for the Active Teachers' Systems Representative, which was Kenneth Haines, therefore there would be no election for that position.

Mr. Kenderdine reported that for the Active Employees' Systems Representative two eligible voters were successful in collecting the required signatures. Those candidates are Linda G. Tilghman and James A. Bush, Jr.

Mr. Kenderdine indicated that ballots would be mailed on May 13, 2013 and the Interactive Voice Response System would be open on May 14, 2013. Voting will run for 1 month.