

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

March 17, 2020

The Board of Trustees for the Maryland State Retirement and Pension System convened, via video-conference call, at the Board Room of the SunTrust Building, 120 East Baltimore Street, 16th Floor Board Room, Baltimore, Maryland beginning at 9:35 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding (via phone)	David Hamilton (via phone)
Peter Franchot, Vice Chairman (via phone)	Linda Herman (via phone)
David Brinkley (via phone)	Sheila Hill (via phone)
Eric Brotman (via phone)	F. Patrick Hughes (via phone)
Jamaal Craddock (via phone)	Richard Norman (via phone)
Kenneth Haines (via phone)	Douglas Prouty (via phone)
	Michael Stafford, Jr. (via phone)

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

Anne Gawthrop (via phone)	Kim O’Keeffe	David Rongione (via phone)
Ira Greenstein	Andrew Palmer (via phone)	Janet Sirkis
Angie Jenkins	Ken Reott	Toni Voglino

Assistant Attorneys General present included: Rachel Cohen and Kathleen Wherthey (via phone)

Other attendees included: Justin Hayes (via phone)

Consent Agenda	On a motion made by Mr. Norman and seconded by Mr. Brotman, the Board approved the consent agenda, which included: <ul style="list-style-type: none">› February 18, 2020 Open Meeting Board Minutes› February 18, 2020 Corporate Governance Committee Meeting Summary› March 3, 2020 Administrative Committee Meeting Summary
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Recommendation of the Corporate Governance Committee regarding Proposed	Ms. Voglino provided the Board with a memorandum from the Chairman of the Corporate Governance Committee regarding the following proposed changes to the System’s Proxy Voting Guidelines. The Board was also provided a red-lined version of the proposed changes to the Investment Policy Manual to be adopted should the Board approve the modified guidelines:
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Changes to Proxy Voting Guidelines and Investment Policy Manual	<p><u>Topic 1: Board Composition – Diversity</u></p> <p>Voting for Directors</p> <p>Specifically, votes should be withheld from U.S. directors who:</p> <ul style="list-style-type: none">• Generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) at companies where there are no women on the company’s board. The vote is subject to mitigating factors such as firm commitments to appoint at least one woman to the board within a year and other relevant factors as applicable.
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Mr. Hughes asked if a copy of the research on this topic had been shared with the Board.

Ms. Voglino responded no, but that she could post a copy of the research on the Board portal.

Mr. Hughes expressed his interest in seeing the research.

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Ms. Voglino responded that Institutional Shareholder Services Inc. (“ISS”) issues research for their clients each year and that this topic of board diversity was one area of research distributed in October of 2018.

Topic 2: Board Accountability for Newly Public Companies

Voting for Directors

Specifically, votes should be withheld from U.S. directors who:

- For newly public companies, prior to or in connection with the company’s public offering, have adopted bylaw or charter provisions that are considered to be materially adverse to shareholder rights. A reasonable sunset provision will be considered a reasonable mitigating factor. Unless the adverse provision is reversed or removed, vote case-by-case on director nominees in subsequent years.

Mr. Hughes asked if anyone was concerned with ISS’s power and asked if someone could speak with the Corporate Governance Committee regarding the power that ISS has regarding System proxy voting going forward.

Ms. Voglino responded that the System has a custom proxy voting policy that the Board sets and ISS is responsible for voting per that custom policy. The System does not have the staff to review the approximately eighty thousand proxies voted each year. However, she reported that she conducts monthly testing on cast votes to ensure ISS votes per the System’s custom policy and an annual due diligence review.

Topic 3: Diversity – Gender Pay Gap

Gender – Diversity Pay

Generally vote case-by-case on requests for reports on a company’s pay data by gender, race or ethnicity, or a report on a company’s policies and goals to reduce any gender, race or ethnicity pay gap, taking into account:

- The company’s current policies and disclosure related to both its diversity and inclusion policies and practices and its compensation philosophy and fair and equitable compensation practices;
- Whether the company has been the subject of recent controversy, litigation or regulatory actions related to gender, race or ethnicity pay gap issues; and
- Whether the company’s reporting regarding gender, race or ethnicity pay gap policies or initiatives is lagging its peers.

On a motion made by Mr. Norman and seconded by Mr. Prouty, the Board voted to approve the recommendation of the Corporate Governance Committee regarding changes to the Proxy Voting Guidelines and the Investment Policy Manual concerning the same, as presented. Mr. Hughes opposed the motion.

Medical Board
Physicians

The Board of Trustees was provided a copy of the curriculum vitae of Dr. Michael Anthony Sauri and staff’s recommendation that Dr. Sauri replace Dr. Parkerson, as a permanent member of the Medical Board panel.

On a motion made by Mr. Hughes and seconded by Secretary Brinkley, the Board of Trustees approved Dr. Michael Anthony Sauri as a permanent member of the Medical Board.

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2020 Legislative
Bill Review

Ms. Gawthrop provided the Board of Trustees a final report on the 2020 pension related legislation. *See Attachment A.*

Ms. Gawthrop reported that all Board requested legislation passed.

CIO Report

Mr. Palmer provided the Board with two fund tear sheets, one as of January 31, 2020, which showed that the total fund value at approximately \$56.1 Billion, with an increase of 0.11% for the month and an increase of 10.77% for the year. The second tear sheet provided preliminary numbers, as of February 29, 2020, which showed the total fund value to be approximately \$54.8 Billion. The report also showed that the fund's return for the month was -2.12% and that it had decreased to 7.42% for the year.

Mr. Palmer reported that the fund was hit with a double whammy with the corona virus and the oil price feud between Saudi Arabia and Russia. The arrival of the corona virus in Europe and the United States raised concerns about potential impacts on growth if the virus turned out to be a deadly pandemic. Already, the impact on China and global travel had begun to impact the demand for oil before Saudi Arabia announced its decision to increase production and compete for market share on price.

Mr. Brotman asked how Mr. Palmer feels regarding the impact on real estate investments from a drop off in lease payment rates.

Mr. Palmer responded that he shared Mr. Brotman's concern about the health of the asset class in the near term but offered that he System has been deemphasizing office buildings for some time and adding to multifamily and industrial warehouses. Both of those sectors are expected to fair better. For example, Amazon is hiring thousands of people because of the surge in online shopping.

Comptroller Franchot asked what the fund value was at the peak and how far it had fallen to date.

Mr. Palmer responded that the fund value was close to \$57 billion in mid-February. It was \$56.1 billion at the end of January, \$54.8 billion at the end of February and as of March 16, 2020, the fund value was at \$51.0 billion.

Comptroller Franchot asked if there would be different approaches to equities. He expressed concern about the continued risk in equity markets and the fund overall.

Mr. Palmer responded that staff had made some rebalancing investments in equities, but the primary focus was on building liquidity to ensure availability of funds to make benefit payments, meet capital calls and to rebalance to risk assets at the appropriate time.

Comptroller Franchot raised the possibility of the Governor being asked to use part of the \$500 million rainy day fund to improve the funded status of the System

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while asset prices were low. He further inquired what staff had done in response to the changing circumstances.

Mr. Palmer responded that nothing specific has been done over the last couple weeks, but over the last years, the System has been working to reduce risk within asset classes by reducing leverage, moving to more senior positions and engaging with firms that have a process that has been proven effective in different environments.

Comptroller Franchot asked Mr. Palmer to comment on Treasury fund yields and their impact on the System's actuarial rate.

Mr. Palmer responded that he has been in contact with Frank Benham at Meketa to discuss the structure of the portfolio going forward if interest rates stay at or below 2%. With regard to the actuarial rate he noted that 2.6% of the 7.4% rate was the inflation assumption. Recent events were exerting a downward pressure on inflation which would favorably impact the liabilities. In his view, the key was the ability to earn 4.8% real return over time which might become easier with lower valuations and the creative destruction that often comes with downturns.

Mr. Stafford commented that relative to our peers, it appears that we are picking up ground, but asked if we should consider realigning the bond allocation in light of its long duration and low yields. In addition, Mr. Stafford asked Treasurer Kopp if the Board should supply the legislature with an update on the unfunded liability.

Mr. Palmer responded that bonds still have a diversified impact on the portfolio but acknowledged that the diversification benefit is becoming more expensive as yields have fallen.

Comptroller Franchot commented that he strongly encourages the Board to send a letter to legislature regarding the pension fund and the long-term implications. Comptroller Franchot further commented that the current situation is only going to get worse and that small business are going to get hammered.

Treasurer Kopp responded that it was her intention to follow-up, with the legislature, when we have all the numbers. Treasurer Kopp commented that she could distribute the letter to the Board before sending.

Ms. Gawthrop responded that staff from both the Appropriations and Budget and Taxation have been in contact with her and Mr. Palmer regarding the status of the System's investments.

Executive
Director's Report

Mr. Kenderdine reminded the Board of the recent memo he issued regarding the actions taken during the State of Emergency by the Governor.

Mr. Kenderdine updated the Board on the reduction of employees working on-site in light of the Governor's executive order regarding teleworking. He noted that the number of employees working on-site was down to 25, approximately 12-13% of the Agency's total staff, to make sure that payroll is completed and to process retirement applications and any legal documents.

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Mr. Kenderdine reported that the Agency's mail room has been reduced to 2-3 people 2 days per week.

Mr. Kenderdine reported that the remote call center has been tested in the past, but not at this level, and so far, there have not been any issues.

Mr. Kenderdine further reported that the Agency's website and Facebook page carries a message that benefits will be paid.

Mr. Kenderdine reported that the roll-out of the *mySRPS* has been suspended due to the mailroom's limited service, as it is through the mail room staff that member portal registration packets are produced and sent out. Mr. Kenderdine further reported that as of March 16, 2020, approximately 10,000 members have registered for *mySRPS*.

Ms. Cohen advised that the Governor issued an executive order permitting State agencies to extend or suspend certain statutory deadlines administered by those agencies. Ms. Cohen commented that there may be a potential need for the Board to extend statutory deadlines that could be difficult for System participants to meet during the state of emergency. For example, in the pursuit of a disability claim, the law requires that a claimant respond in 45 days of the Agency's request for documents such as medical records, and claimants may not be able to comply with this time requirement during the state of emergency. Ms. Cohen reported that there could be other types of situations where a deadline could be extended. Ms. Cohen will work with Agency staff to identify all such situations and will issue a proposal to the Board in the near future, which could be voted on electronically and ratified at a future Board meeting.

On a motion made by Mr. Hughes and seconded by Mr. Prouty, the Board voted to meet in a Closed Session, beginning at 10:30 a.m., via conference call, in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor, for the purpose of:

1. reviewing the closed session Board minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function and General Provisions Art., § 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosure, namely General Provisions Art., § 3-306(c)(3)(ii), requiring that the minutes of a closed session be sealed and not be open to public inspection; and
2. reviewing the Medical Board reports regarding individual participants' claims for disability retirement benefits, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter namely, General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records, and General Provisions Art., § 4-329 regarding the prohibition on disclosing medical and psychological information.

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CLOSED SESSION

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding (via phone)	David Hamilton (via phone)
Peter Franchot, Vice Chairman (via phone)	Linda Herman (via phone)
David Brinkley (via phone)	Sheila Hill (via phone)
Eric Brotman (via phone)	F. Patrick Hughes (via phone)
Jamaal Craddock (via phone)	Richard Norman (via phone)
Kenneth Haines (via phone)	Douglas Prouty (via phone)
	Michael Stafford, Jr. (via phone)

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

Anne Gawthrop (via phone)	Kim O’Keeffe	David Rongione (via phone)
Ira Greenstein	Andrew Palmer (via phone)	Janet Sirkis
Angie Jenkins	Ken Reott	Toni Voglino

Assistant Attorneys General present included: Rachel Cohen and Kathleen Wherthey (via phone)

Other attendees included: Justin Hayes (via phone)

On a motion made by Mr. Prouty and seconded by Mr. Norman, the Board returned to open session at 10:32 a.m., via conference call, in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor.

OPEN SESSION

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding (via phone)	Linda Herman (via phone)
Peter Franchot, Vice Chairman (via phone)	Sheila Hill (via phone)
David Brinkley (via phone)	F. Patrick Hughes (via phone)
Eric Brotman (via phone)	Richard Norman (via phone)
Jamaal Craddock (via phone)	Douglas Prouty (via phone)
Kenneth Haines (via phone)	Michael Stafford, Jr. (via phone)
David Hamilton (via phone)	

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

Anne Gawthrop (via phone)	Kim O’Keeffe	David Rongione (via phone)
Ira Greenstein	Andrew Palmer (via phone)	Janet Sirkis
Angie Jenkins	Ken Reott	Toni Voglino

Assistant Attorneys General present included: Rachel Cohen and Kathleen Wherthey (via phone)

Other attendees included: Justin Hayes (via phone)

During closed session, the Board of Trustees discussed and took action on the following matters:

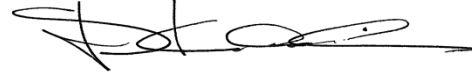
Closed Session Minutes	The Board reviewed and approved the February 18, 2020 closed session minutes.
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- Medical Board Reports The Board reviewed and adopted the medical board reports from February 19, February 27, March 4 and March 12, 2020.
- Adjournment There being no further business before the Board, on a motion made by Mr. Prouty and seconded by Mr. Norman, the meeting adjourned at 10:32 a.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

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**CORPORATE GOVERNANCE COMMITTEE MEETING SUMMARY
February 18, 2020**

Update and
Review of
Iran and
Sudan

The Committee considered staff's recommendation to approve the proposed Iran and Sudan Restricted List. Ms. Voglino informed the Committee that one company is recommended for removal from the Iran Sudan Restricted List and four companies are recommended to be added to the Iran and Sudan Restricted List. AviChina Industry and Technology Company Limited is recommended for removal as they are no longer wholly-owned subsidiaries of Aviation Industry Corporation of China, a Chinese state-owned company that sold military equipment to Sudan. China Petrochemical Corporation, CNPC (HK) Overseas Capital Limited, Sinopec Group Overseas Development (2017) Limited and Gaz Capital S.A. are recommended for addition to the Restricted List because they either meet the divestment requirements because of oil or power production activities in Iran or Sudan or because they have issued capital on behalf of a company that has oil or power production activities in Iran or Sudan. The Agency sent engagement letters to all four companies as required by statute and has received no response. As such, a recommendation to add these companies to the Restricted List is warranted.

Ms. Voglino explained to the Committee that the divestment analysis, performed by the System's general investment consultant Meketa, detailed that divestment has a minimal impact on the portfolio. Specifically, the estimated impact on equity investments is a -1 to 2 basis point impact, and a +1 basis point impact for the bond securities.

Mr. Brinkley made a motion to accept staff's recommended Iran and Sudan Restricted List and Mr. Prouty seconded the motion. The Committee unanimously agreed on the motion. The restricted list will be provided to the Board of Trustees for approval at the March 17, 2020 meeting. Below is the Iran and Sudan Restricted List.

<u>Iran and Sudan Restricted List</u>		
<u>February 18, 2020</u>		
<u>ISSUER NAME</u>	<u>Country</u>	<u>Sudan or Iran</u>
Bharat Heavy Electricals Limited	India	Sudan
China National Petroleum Corporation (PetroChina Co)	China	Both
China Petrochemical Corporation	China	Both
CNOOC Curtis Funding NO.1 PTY LTD	Australia	Iran
CNPC (HK) Overseas Capital Ltd.	British Virgin Islands	Both
El Sewedy Electric Co. SAE	Egypt	Sudan
Energy House Holding Company	Kuwait	Sudan
Gaz Capital S.A.	Luxembourg	Iran
Gazprom Capital OOO	Russia	Iran
Gazprom PAO	Russia	Iran
Harbin Power Equipment Co., Ltd	China	Sudan
Kuwait Finance House K.S.C.	Kuwait	Sudan
Managem S.A.	Morocco	Sudan
Oil and Natural Gas Corporation Limited	India	Sudan

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OIL India International PTE. LTD.	Singapore	Sudan
Oil India Ltd.	India	Sudan
ONGC Videsh Limited	India	Sudan
ONGC Videsh Vankorneft PTE. LTD.	Singapore	Sudan
Orca Gold Inc.	Canada	Sudan
Petroliam Nasional Berhad (Petronas)	Malaysia	Sudan
Petronas Capital Limited	Malaysia	Sudan
Schneider Electric S.A.	France	Sudan
Siemens Aktiengesellschaft	Germany	Sudan
Siemens Financieringsmaatschappij N.V.	Netherlands	Sudan
Sinopec Group Overseas Development (2012) Limited	British Virgin Islands	Both
Sinopec Group Overseas Development (2013) Limited	British Virgin Islands	Both
Sinopec Group Overseas Development (2014) Limited	British Virgin Islands	Both
Sinopec Group Overseas Development (2016) Limited	British Virgin Islands	Both
Sinopec Group Overseas Development (2017) Limited	British Virgin Islands	Both
Total		29

Update and Review of the Proxy Voting Guidelines

THIS MATTER WILL BE DISCUSSED AND VOTED ON OUTSIDE OF THE CONSENT AGENDA IN OPEN SESSION.

The Committee reviewed staff’s memorandum outlining four recommended changes to the System’s proxy voting guidelines, which was presented to the Committee by Ms. Voglino, along with Andrew Lindberg from ISS (Institutional Shareholder Services).

Ms. Voglino outlined the recommendation to modify the guidelines to allow the System to vote against directors if a company board has no women on the board. Ms. Voglino further detailed that the recommendation is due to an increased interest in board diversity and the correlation between board diversity and company performance and shareholder value. Mr. Lindberg explained that ISS has added the policy to vote against directors if there are no women on the board due to the company’s failure to implement board diversity within the one-year grace period. Ms. Voglino directed the Committee to the page in the agenda that illustrated the red-lined suggested changes to the policy.

Ms. Voglino outlined the recommendation to modify the guidelines to allow the System to vote against directors that have adopted problematic governance provisions — either prior to, or in connection with a public offering — such as a classified board structure, a supermajority vote requirement to amend by-laws, or a multi-class structure. These types of structures diminish shareholder rights and adversely impact shareholders. Ms. Voglino further noted that a policy to address such problematic governance structures should be implemented and also should incorporate a sunset provision such that, if a newly public

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company does not reverse or remove the problematic governance structure, the System may vote against the directors that put the problematic structure in place. Mr. Lindberg commented that ISS has implemented this policy as they have seen an increase in companies implementing these problematic structures when they go public. Ms. Voglino directed the Committee to the page in the agenda that illustrated the red-lined suggested changes to the policy.

Ms. Voglino outlined the recommendation to modify the guidelines related to pay gaps. Specifically, it was recommended that the System modify the proxy policy related to gender-based pay gap reports, policies, and goals to address not just gender, but also race- and ethnicity-based pay gaps. The proposed update to the policy will better align the System's policy with shareholder proposals that include reporting on race- or ethnicity-based pay inequities. Ms. Voglino directed the Committee to the page in the agenda that illustrated the red-lined suggested changes to the policy.

After discussion by the Committee on the specific proxy topics and suggested changes, the Committee considered the recommendations to alter the language of three of the proxy voting guidelines within the Investment Policy Manual.

On a motion by Mr. Prouty, and seconded by Ms. Johnson, the Committee voted, all in favor, to approve staff's recommended changes to the System's proxy voting guidelines in the Investment Policy Manual as outlined in the memorandum.

The proxy voting guideline changes approved by the Committee will be presented at the Board of Trustees meeting on March 17, 2020, for approval.

**Corporate
Governance
Committee
Charter**

Ms. Voglino directed the Committee to the page in the agenda that illustrated the Corporate Governance Committee Charter. Ms. Voglino informed the Committee that the System reviews the charters every three years and a review was due this year. Ms. Voglino detailed that she had performed a review of the charter and found that the requirements and responsibilities of the charter are still true and had no recommended changes at this time. She requested the Committee review the charter and contact her with any recommended changes. The Committee will vote the charter at the next Corporate Governance Committee meeting. Ms. Kopp asked if there had been any instances of necessary changes noted. Ms. Voglino responded no. Ms. Kopp asked that all board members review the charters and to contact her if they noted any necessary changes.

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**ADMINISTRATIVE COMMITTEE MEETING SUMMARY
MARCH 3, 2020**

2020 Legislative
Review

THIS MATTER WILL BE DISCUSSED OUTSIDE OF THE CONSENT AGENDA IN OPEN SESSION.

Ms. Anne Gawthrop provided the Committee an updated overview of the 2020 pension related legislation with developments that have occurred since the February Board of Trustees meeting.

Review and
Discussion of
Governance
Recommendati
ons Assigned to
Administrative
Committee

Mr. Kenderdine provided the Administrative Committee with a document outlining the recommendations assigned to them by the Ad Hoc Committee on Governance and Strategic Planning, in priority order.

Mr. Kenderdine reported that for the recommendations under the “Board Charters and Governance Policies” section, staff would bring forward proposed changes to the Charters and Policies for the Committee to consider.

Mr. Kenderdine also reported that some recommendations, such as the one for having the Board gain the authority to set the compensation for all executive staff will need to be deferred given there is another related recommendation that is assigned to the Ad Hoc Governance Committee. That recommendation calls for the Board of Trustees having authority of the Agency’s budget, personnel, compensation, and procurement.

Treasurer Kopp, regarding first priority under the Board Charter to “Revise Board Charter to expressly provide for all powers that should be exclusively reserved for the Board...” expressed concern that enumerating specific powers might be interpreted to limit the Board’s authority to those powers.

Ms. Cohen responded that the language could be revised to include a catch-all phrase such as “any other powers not expressly delegated by law or these Charters are reserved for the Board.”

Discussion of
Agency’s Policy
on Unused Sick
Leave

Mr. Reott reported that differences exist between how participating employers report unused sick leave days for their employees as they retire. Eligible members generally may receive one month of creditable service for every 22 days of unused sick leave. Credit for unused sick leave is used solely for purposes of increasing the amount of a retirement allowance. However, some participating employers may pay to a member the monetary value of their unused sick leave days and also certify those same unused sick leave days to the Agency. Some may pay to a member the monetary value of their unused sick leave days and not report those unused sick leave days to the Agency, while others do not pay out the monetary value of a member’s unused sick leave and report the number of unused sick leave days to the Agency. These different practices, which are often identified during the compliance reviews being performed on the participating employers, put the Agency in a difficult position when responding to participating employers who ask for guidance on the correct practice.

Mr. Reott reported that this issue was brought before the Joint Committee on Pensions (JCP) during the 2007 interim as Board requested legislation to prohibit the receipt of unused sick leave credit to the extent that a member has received a cash payout for the unused sick leave. The Joint Committee agreed to sponsor the legislation and it was cross-filed during the 2008 session by the Joint Committee chairs as House Bill

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480 and Senate Bill 376. However, both bills were withdrawn by the Chairs. Staff brought the issue back to the JCP during the 2018 interim again as Board requested legislation due to it being listed as an audit finding in the Agency's 2018 legislative audit. At its decision meeting in December 2018, the JCP voted not to sponsor this requested legislation.

Recently, the auditors have been identifying instances where participating employers other than local Boards of Election are both paying out the monetary value of a retiring member's unused sick leave days and also reporting these same days to the Agency as the retiring member's balance of unused sick leave days. Additionally, the Agency is receiving questions from participating employers as to whether this practice is permissible or impermissible. Therefore, the Agency is seeking guidance from the Administrative Committee and Board of Trustees on how to uniformly address the practice of payment for unused sick leave when awarding service credit, and how to communicate about this issue with employers and auditors going forward.

Mr. Reott presented the following options for the Committee's consideration:

- 1) Request that the JCP introduce legislation in 2021 to amend SPP § 20-206 or otherwise to resolve any uncertainty regarding eligibility for unused sick leave that is paid out to the member at retirement. Such legislation could either:
 - a. prohibit the receipt of unused sick leave where an employee has been compensated at retirement for the leave; or
 - b. expressly permit the award of unused sick leave under these circumstances.
- 2) Propose a regulation to provide that if the participating employer pays out the monetary value of unused sick leave days at retirement, the participating employer may not also certify these days to the Retirement Agency. An exception could be made for existing collective bargaining agreements to allow for this practice; but make the practice impermissible after the existing collective bargaining agreement expires.
- 3) Issue a communication to all participating employers advising that, because the legislature has not expressly prohibited the practice, a participating employer may certify unused sick leave days at retirement even if the employer pays out the monetary value of unused sick leave days at retirement, so long as the unused days were actually available to the employee as sick leave during employment.

Mr. Nicole commented that this is a basic fiduciary issue and that double-dipping would harm the System. Therefore, Mr. Nicole expressed favor of Option 2. Mr. Nicole commented that he agrees with the auditors on the legislative intent behind current law and any proposed regulation could receive comment that we could address at that time.

Ms. Gawthrop responded that all proposed regulations would be reviewed by the AELR Committee before publication.

Mr. Kenderdine commented that he is concerned about Option 2 being viewed as an "end run" to get around the legislature.

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Mr. Prouty asked if the regulation would allow for proportional pay-outs.

Ms. Cohen responded that the regulation could be written to include proportional pay-outs.

Ms. Hill commented that the Agency should be setting the standard that the participating employers should be following.

Treasurer Kopp asked if the JCP has been informed that the Agency is looking for direction on this matter.

Mr. Reott responded that he does not believe the matter has been proposed to the JCP in that way.

Mr. Reott commented that staff could draft a regulation to present to the Administrative Committee for review.

Finance
Reports –
Quarter Ending
12/31/19

The Committee was provided with an Administrative Expense Report Dashboard, which provided an overview of the Agency’s expenditures and encumbrances through the second quarter of FY2020 and provided a discussion for several line items in the Agency’s budget.

Mr. Lewis reported that the Agency, as of December 31, 2019, has expended/encumbered 43.63% of its appropriation.

Mr. Norman asked if, with six months left of the fiscal year, the \$700,000 total remaining appropriation will be reduced.

Mr. Lewis responded in the affirmative. Mr. Lewis further responded that he believes salaries will remain steady with a possible reversion of healthcare costs of approximately \$85,000; however, he does anticipate a surplus this year.

Mr. Lewis presented the MBE Performance Report for the quarter ending December 31, 2019, with MBE performance of 22.78%. The purchases are grouped as follows:

- 43 purchase orders totaling \$802,485, with MBE participation dollars totaling \$204,543
 - 28 were processed using the statewide contracts managed by DoIT - \$192,585 in MBE participation dollars.
 - Two not related to statewide contracts - \$8,651 in MBE participation dollars.
 - Credit Card purchases - \$3,307 in MBE participation dollars

Member
Services
Update

Mr. Reott reported that the Member Services unit was unable to meet its performance goals for both the call abandonment rate and for the average call wait time for January 2020. The unit’s call abandonment rate was 24.25% and the average speed of answer was 520 seconds, with an average talk time of 4 minutes 33 seconds.

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Mr. Reott reported that, following last month's report where he informed the Committee of steps being taken to address the unit's performance issues, he listened to several recorded phone calls where the members were all asking the same question regarding one of the Agency's forms. Staff, after receiving those calls, reviewed the form and determined that the question being asked was not necessary and since has removed that question.

Mr. Haines asked how mySRPS is doing so far.

Mr. Reott responded that staff continues with send the roll-out letters in waves, and that, to date, there were 2,500 registered users.

Legislative Update

2020 Session

March 17, 2020

BOARD REQUESTED LEGISLATION

House Bill 251/Senate Bill 236 (Jackson/Elfreth)

Teachers' Retirement and Pension Systems - Obsolete Reemployment Provisions

This Board requested legislation repeals obsolete provisions addressing the federal No Child Left Behind Act of 2001 within the reemployment provisions for teachers and principals who are retirees of the Teachers' Retirement and Pension Systems.

- House Bill 251 scheduled in Budget and Tax – 3/19/20
- Senate Bill 236 scheduled in Appropriations – 3/18/20

Presented to the Board on 1/21/20

House Bill 634/Senate Bill 462 (Jackson/Elfreth)

State Retirement and Pension System - Death Benefits for Children - Age

This Board requested legislation corrects certain instances in the State Personnel and Pensions Article that continue to provide that death benefits payable to children of deceased members and retirees will end when the child reaches age 18. This bill changes those provisions to age 26 to conform with legislation over the past several sessions to move the age to 26 in all systems.

- House Bill 634 scheduled in Budget and Tax – 3/19/20
- Senate Bill 462 passed the Senate

Presented to the Board on 2/18/20

House Bill 753/Senate Bill 463 (Jackson/Elfreth)

State Retirement Agency – Monitoring and Recording of Automated Outgoing Telephone Calls – Authorization

As amended, this Board requested legislation permits the State Retirement Agency to record outbound calls from the Member Services Division that are placed through the Agency's Automated Call Distribution System for training and quality control. The bill was amended to require the Agency to adopt a retention policy for the recordings which would include prohibiting the Agency from retaining the recordings for more than 10 years.

- House Bill 753 scheduled in Budget and Tax – 3/19/20
- Senate Bill 463 scheduled in Appropriations – 3/18/20

Presented to the Board on 2/18/20

House Bill 942/Senate Bill 809 (Jackson/Elfreth)

State Retirement and Pension System - Reemployment Earnings Offset – Clarification

This Board requested legislation clarifies provisions of law that require the Board to limit the amount by which the Board may reduce a retiree's allowance when the retiree is subject to the reemployment earnings limitation to the amount that is required to be deducted for the retiree's monthly State-approved medical insurance premiums.

- House Bill 942 passed the House
- Senate Bill 809 scheduled in Appropriations – 3/18/20

Presented to the Board on 2/18/20

House Bill 948/Senate Bill 764 (Jackson/Elfreth)

State Retirement and Pension System - Pension Benefits – Calculation

This Board requested legislation would codify the Agency’s existing practice that if a member’s annuity exceeds the member’s statutorily calculated normal service retirement allowance, the member’s normal service retirement allowance shall equal the member’s annuity.

- House Bill 948 passed the House
- Senate Bill 764 scheduled in Appropriations – 3/18/20

Presented to the Board on 2/18/20

INVESTMENT RELATED BILLS

House Bill 1101 (Grammar)

State Retirement and Pension System – Financial Reporting

This proposed legislation would require the Board to publish an additional CAFR that includes: (1) a comparison of the System’s 1-, 3-, 5- and 10-year compounded annualized returns to the various hypothetical asset allocations included in the bill; (2) the median performance of public plans with assets exceeding \$25 million, as reported by TUCS; (3) an analysis of the impact the System’s investment performance has had on System revenues, in a dollar amount; (4) a comparison of the returns and volatility of the System’s investments to appropriate benchmarks; (5) a description of how the Board determined the System’s internal benchmarks during the fiscal year; and (6) an explanation of the System’s investment performance relative to the fund’s internal benchmarks during the fiscal year. Additionally, the bill would require the Board to report to the General Assembly its quarterly returns for each year. Finally, the bill would require the Board to hire an additional consultant to assess the capital market assumptions made by the Investment Division staff or another System investment consultant.

- Hearing scheduled in Appropriations – 3/10/20

Staff recommended to the Board and the Board voted to oppose this legislation. The majority of the information required for the Board to prepare under this legislation is already available. Additionally, as the bill is drafted, it would require the Board to publish a second CAFR and hire an additional consultant to review the work of the Investment Division staff and the Board’s existing consultants. Staff believes these are unnecessary expenses to the trust.

Presented to the Board 2/18/20

House Bill 1254 (Barve)

State Retirement and Pension System - Investment Management Fees

This proposed legislation would cap external investment management fees in a fiscal year to .2% of the market value of the fund on the last day of the fiscal year. This cap would not apply to investment manager agreements entered into on or before June 30, 2020. The bill prohibits the Board from entering into agreements on or after July 1, 2020 with external management services that would pay fees for unrealized investment gains. House Bill 1254 also includes language that states it is the intent of the General Assembly that the Board shall utilize low-fee, passive investment strategies in the management of system assets, consistent with its fiduciary responsibilities.

- Hearing scheduled in Appropriations – 3/10/20

This bill is almost identical to the sponsor’s bill from last year except the fee cap is smaller in House Bill 1254. Therefore, consistent with last year’s recommendation, staff recommended to the Board and the Board voted to oppose this legislation. As drafted, provisions that address implementing a specified investment management fee cap and how it would be applied would not be administratively feasible for all investment management agreements to which the System is a party. Additionally, staff believes the bill should provide greater clarity with regard to the sponsor’s intent when barring the Board from entering into agreements that would pay fees for unrealized investment gains. Finally, limiting the asset classes available to the Board for investing purposes, ultimately, could create fiduciary issues inasmuch as the fund could be exposed to greater risk than necessary.

Presented to the Board on 2/18/20

BENEFIT LEGISLATION

House Bill 115 (Davis)

Teachers' Pension System - Option Election

This proposed legislation allows retirees of the Teachers' Pension System who were employed by Prince George’s County School Board, retired on or after July 1, 2017, and elected Option 1 to elect to change this election by December 31, 2020.

- Voted unfavorable by Appropriations

Staff recommended to the Board and the Board approved opposing this legislation. As drafted this legislation would jeopardize the System’s tax qualified status. Additionally, allowing a retiree to change his or her Option 1 election years after the retiree’s retirement date, will set a precedent for any other retiree from any other employer, who selected any optional allowance, to ask for the same opportunity. This opportunity to change elections would come at a significant cost to the plan as it is likely anyone making such a change would opt to receive an election that would provide a greater benefit.

Presented to the Board on 1/21/20

House Bill 588/Senate Bill 587 (Jackson/Griffith)

State Police Retirement System and Law Enforcement Officers' Pension System - Member Contributions

This legislation provides that once active members of the SPRS and LEOPS accrue the years of service necessary to receive the maximum benefit available in those plans, the members will cease making member contributions. Currently, the maximum benefit a member of the SPRS can earn is 71.4% of the member’s AFC after 28 years of service, while a LEOPS member may earn 65% of the member’s AFC after 32.5 years of service.

- House Bill 588 scheduled in Budget and Tax – 3/19/20
- Senate Bill 587 passed the Senate

Staff recommended to the Board to take no position on this legislation as it is a plan design and benefit determination matter.

Presented to the Board on 2/18/20

House Bill 659 (Jackson)

Law Enforcement Officers' Pension System - Benefits

This legislation would increase the benefit multiplier from 2% to 2.5% for service earned on or after July 1, 2020 by members in the LEOPS.

- Hearing scheduled in Appropriations – 2/18/20

Staff recommended to the Board to take no position on this legislation as it is a plan design and benefit determination matter.

Presented to the Board on 2/18/20

House Bill 683/Senate Bill 960 (Hettleman)

Optional Retirement Program – Membership

This legislation prohibits certain members of the EPS who satisfy certain requirements from participating in the ORP on or after July 1, 2020. The Agency is currently aware of one individual who would be impacted by this legislation.

- House Bill 683 passed the House
- Senate Bill 960 passed the Senate

Staff recommended to the Board to take no position on this legislation as it addresses benefit eligibility. As drafted, it does not present any legal issue with IRS rulings regarding plan elections.

Presented to the Board on 2/18/20

Senate Bill 489 (Peters)

Teachers' Retirement and Pension Systems - Reemployment – Clarification

This legislation clarifies that a reemployed teacher is not subject to the reemployment earnings offset if the retiree's compensation is fully funded by a grant from a non-State source that specifically requires the use of the grant funds to pay the full amount of the compensation for the position. The bill also provides additional guidance as to what the employer must provide the State Retirement Agency to demonstrate that the retiree's compensation is funded entirely by non-State funds.

- Senate Bill 489 scheduled in Appropriations – 3/18/20

Staff recommended to the Board and the Board voted to support this legislation as it will ease the administrative burden for staff in administering this particular exemption from the reemployment earning limitation provisions.

Presented to the Board on 2/18/20

CORRECTIONAL OFFICER LEGISLATION

House Bill 446 (McKay)

Correctional Officers' Retirement System - Membership – Chaplains

This legislation would require employees of the Department of Public Safety and Correctional Services who are employed as prison chaplains in State correctional facilities, to become members of the CORS on July 1, 2019. All new employees in these positions would be members of the CORS.

- Hearing scheduled in Appropriations – 2/4/20

Staff recommended to the Board and the Board voted to oppose this legislation based on advice received last year from the System's tax counsel who expressed concern that prison chaplains would not meet the definition of qualified public safety officers under proposed IRS regulations addressing normal service retirement age. Individuals who meet this definition are eligible for a 20-year retirement, regardless of age. Currently correctional officers in the CORS meet the definition of qualified public safety officers.

Presented to the Board on 2/18/20

**House Bill 778/Senate Bill 622 (Jackson/Rosapepe)
Correctional Officers' Retirement System - Membership**

As amended, this legislation would require employees of the Department of Juvenile Services who are employed as a case management specialist I, II, or III or a case management specialist supervisor, in State juvenile facilities, to become members of the CORS on July 1, 2020. All new employees in these positions would be members of CORS.

- Hearing scheduled in Appropriations – 2/18/20
- Hearing scheduled in Budget and Tax – 2/20/20

These bills have been amended to remove reference to individuals who are employed as: (1) a residential group life manager; (2) a youth center cook or cook lead; (3) a food service worker or supervisor; or (4) a maintenance assistant, chief, mechanic, mechanic senior, or supervisor, in State juvenile facilities, to become members of the CORS on July 1, 2020. Instead, the bills, as amended, now only address case managers employed by DJS. Staff spoke with the System's tax counsel, who has determined these employees would qualify as correctional officers under proposed IRS regulations addressing normal retirement age for public safety officers. Accordingly, staff recommended to the Board and the Board voted to take no position as this would be an issue of plan design and benefit determination.

Presented to the Board on 2/18/20

MILITARY SERVICE LEGISLATION

House Bill 633 (Cox)

State Retirement and Pension System - Military Service - Purchase of Credit

This legislation would allow members of the System who have claimed five years of pre-employment military service credit to purchase up to five additional years of military service. The cost of this service would be an amount equal to the annuity reserve and pension reserve required to fund the additional allowance. The purchase may only be made in the year of retirement of the member.

- Bill was withdrawn.

Staff has reached out to the sponsor and explained that this legislation is unnecessary and recommends working with the sponsor to explain that members of the System may already purchase up to 10 years of additional military service credit under the purchase provisions for each of the several systems.

Presented to the Board on 2/18/20

House Bill 1027/Senate Bill 487 (Young/Serafini)

Military Service Credit – Eligibility

This legislation would allow any member of the CORS, LEOPS, or SPRS who is currently receiving a military retirement to claim up to five years of military service in the plan in which they are a member.

Currently, members are prohibited from making a claim for military service if they are receiving a benefit from any other pension system for that same service.

- Hearing scheduled in Appropriations - 2/27/20
- Hearing scheduled in Budget and Tax – 3/5/20

Staff recommended to the Board to take no position on this legislation as it is a plan design and benefit determination matter.

Presented to the Board on 2/18/20

House Bill 1073 (Johnson)

Law Enforcement Officers' Pension System – Military Service Credit

This legislation would allow any member of the LEOPS who is currently receiving a military retirement to claim up to five years of military service in the plan in which they are a member. Currently, members are prohibited from making a claim for military service if they are receiving a benefit from any other pension system for that same service.

- Hearing scheduled in Appropriations - 2/27/20

Staff recommends taking no position on this legislation as it is a plan design and benefit determination matter.

Presented to the Board on 2/18/20

MISCELLANEOUS BILLS

House Bill 401 (Barron)

Public Information Act - Remote Access, Fee Complaints, Fee Waivers, and Inspection of Judicial Records (Open Government, Better Government Act)

This proposed legislation addresses, in part, fees charged by custodians under the Public Information Act when requests for documents are made. Specifically, it would require the official custodian to waive any fees that are not standard charges for document production. In other words, the custodian would be required to waive fees for the staff time required to produce any documents requested under the Public Information Act by any representative of the news media.

- Hearing scheduled in Judiciary - 2/12/20

Staff recommended to the Board and the Board voted to oppose this legislation due to the fact that it requires the Agency to waive fees for staff time required to produce documents requested under the Public Information Act by any representative of the news media. Many of the requests staff receives are from the news media and are huge in scope and require extensive staff time. The vast majority of media requests seek investment records and reports, each of which require careful review and redaction before distribution. Because we are able to negotiate the fees with the requester, we are able to work with the person or organization to make the request for documents more manageable. Without the ability to charge a fee for staff time, the Agency could be faced with numerous requests that would be overwhelming for the existing staff.

Presented to the Board on 2/18/20

House Bill 483/Senate Bill 297 (Krebs/Hough)

Administrative Procedure Act - Dispositions and Summary Suspensions - Time Periods

This proposed legislation requires a State agency or the Office of Administrative Hearings (OAH) to dispose of a contested case within 90 days after the date of any evidentiary hearing held on the case. If the agency or the OAH does not dispose of a case within 90 days, the named party to the contested case may provide written notice to the agency or the OAH the decision is due. If an agency or the OAH does not dispose of the case within 30 days after receiving this notice, the decision of the contested case shall be deemed to be in favor of the named party.

- House Bill 483 voted unfavorable by Judiciary Committee
- Hearing scheduled in Education, Health, and Environmental Affairs Committee – 2/5/20

Staff recommended to the Board and the Board voted to oppose this legislation because it provides that if OAH does not timely issue a decision, the decision shall be deemed in favor of the claimant. For the Agency, this could result in a claimant being improperly awarded lifetime disability benefits even where the medical board has properly concluded the individual is not eligible, simply because an administrative law judge did not timely issue a decision.

Presented to the Board on 2/18/20

BUDGET

House Bill 152/Senate Bill 192 (The Administration) Budget Reconciliation and Financing Act of 2020

Provisions of the 2020 BRFA include cutting the “sweeper” funds for fiscal 2021. Sweeper funds are scheduled to resume in fiscal 2022. Additionally, the BRFA provides the Governor with authority to take \$50 million of sweeper funds that were available for fiscal 2020 by June 30, 2020.

- Senate Bill 192 scheduled in Appropriations – 3/13/20

Inasmuch as the actuary does not factor in sweeper funds when preparing the annual actuarial valuation coupled with the fact that the System has not received sweeper funds since fiscal 2017, staff is recommending not taking a position on these provisions of the BRFA, at this time. However, this recommendation may change depending on how this bill is amended as it moves through the budget committees.

Presented to the Board on 1/21/20