

**ADMINISTRATIVE COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

March 2, 2021

The Administrative Committee meeting convened, via video/audio conference call, beginning at 9:30 a.m.

The Committee Members present included:

Kenneth Haines, Chairman, Presiding	Jamaal Craddock
Richard Norman, Vice Chairman	Marc Nicole
Thomas Brandt	Nancy K. Kopp

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

Melody Countess	Angie Jenkins	David Rongione
Patricia Fitzhugh	Van Lewis	Janet Sirkis
Anne Gawthrop	Kim O’Keeffe	Toni Voglino
Michael Golden	Andy Palmer	Scott Bolander (live stream)
Ira Greenstein	Ken Reott	

Assistant Attorneys General present included: Rachel Cohen and Kathleen Wherthey

Minutes Trustee Haines requested that his comment regarding House Bill 533 be amended to say, “Mr. Haines commented that he is worried that we are professing to be against genocide except where it is profitable.”

On a motion made by Mr. Norman and seconded by Mr. Brandt, the Administrative Committee approved the February 2, 2021 open session meeting minutes, as amended.

2021 Legislation Ms. Anne Gawthrop provided the Committee an updated overview of the 2021 pension related legislation introduced to the General Assembly since the February Board of Trustees meeting. Ms. Gawthrop reported that no new bills have been introduced. A complete updated list of the 2021 pension related legislation can be found in *Attachment A*.

Ms. Gawthrop further reported that she received amendments regarding House Bill 533 - State Government – Prevention of Genocide and Crimes Against Humanity and that the amendments only reflect about 60% of the amendments that staff has requested of the sponsor. Ms. Gawthrop commented that she would be working with the sponsor to clarify that the System would withdraw its support of the bill if the bill is presented as is.

Finance Reports – Quarter Ending 12/31/20 Ms. Countess presented the Administrative Expense report dashboard, which provided an overview of the how the Agency expended or encumbered 37.66% of its FY2021 appropriation through the second quarter.

APPROPRIATION EXPENDED/ENCUMBERED	37.66%
REGULAR SALARIES	44.45%
CONTRACTUAL PAYROLL AND TECHNICAL SUPPORT	35.09%
COMMUNICATIONS (INCLUDES POSTAGE)	10.33%
TRAVEL	02.36%
VEHICLE COSTS	49.11%
CONTRACTUAL SERVICES	
(including equipment leasing & building maintenance)	15.82%
SUPPLIES	82.41%

**ADMINISTRATIVE COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

March 2, 2021

EQUIPMENT PURCHASES	16.99%
RENT AND INSURANCE	58.22%
DUES, SUBSCRIPTIONS AND LICENSES	47.73%

Mr. Lewis reported that the report projects a year-end surplus of approximately \$1,757,627 due to:

- Unexpended salary benefit costs, with the largest component being unexpended pension costs
- Unexpended per diem medical consulting costs and independent medical examination costs
- Unexpended contractual personnel costs
- Unexpended postage costs
- Unexpended travel costs
- Unexpended contractual services costs, with the largest component being unexpended outside programming costs.

Mr. Lewis reported that he feels the surplus of funds is more of a timing matter, in that expenses have not yet been allocated to the appropriate line item, as opposed to reflecting the amount of funds actually spent to date.

Treasurer Kopp asked if there is a point that we look at other alternatives for distributing Agency mailings and thereby reduce postage costs as well as reliance on the postal service.

Mr. Kenderdine responded that the Agency has been developing a database of email addresses of members and retirees as part of the MPAS project and the *mySRPS* portal. This will allow us to eventually send newsletters and other mass mailings electronically.

Mr. Brandt asked if there was an overview of what the Agency is spending postage on that would give the Committee a better idea of what could be streamlined and provided electronically.

Mr. Kenderdine agreed that staff would provide that overview.

Mr. Brandt requested information on the total MPAS project budget expenditures to date and how the remaining project budget is expected to be spent.

Mr. Lewis responded that he could provide the Committee with the overall cost associated with MPAS since 2018, but that staff in the IT department would be able to provide a detailed report on how costs were specifically allocated.

Mr. Kenderdine further responded that the budget costs associated with the MPAS project would be provided to the Committee at its April meeting.

-+-----+-----+-----+-----+-----+-----+-----+-----+

Mr. Lewis presented the MBE Performance Report for the quarter ending December 31, 2020. The report showed that the MBE performance was 62.82%.

**ADMINISTRATIVE COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

March 2, 2021

Mr. Lewis reported that the Agency processed twenty-nine (29) purchase orders and one change order totaling \$423,473 during the first quarter. Twenty (20) of these purchase orders were processed off of statewide contracts managed by the Department of Information and Technology (DoIT), yielding \$140,663 in MBE participation dollars. Three other purchase orders, not related to statewide contracts, contributed an additional \$159,056 in MBE participation dollars, bringing the total to \$299,719 for the 2nd quarter. Two of these three purchase orders, which total \$155,056 in MBE participation dollars in this 2nd quarter report, should have been processed in FY20; however, the Procurement Unit was unable to complete the procurement by fiscal year-end. The inability to process this procurement timely last fiscal year has inadvertently benefitted this second quarter MBE report by its contribution of \$155,056 in MBE participation dollars at this point in the fiscal year. There was only one \$355 MBE transaction derived from credit card purchases, and only one \$469 MBE transaction derived from direct voucher transactions during the second quarter.

Treasurer Kopp asked if the IT services are procured directly by the Agency or through DoIT.

Mr. Lewis responded that the Agency uses the State-wide master contract list, that DoIT has procured, but that Agencies can use and take credit for MBE contract awards.

Member Services
Update

Mr. Reott provided a Member Services update, reporting that for fiscal year 2021, the average call abandonment rate is 17.21%, with an average call wait time of 386 seconds. Mr. Reott reported that January and February are typically high call volume months due to members requesting duplicate 1099Rs, this year the numbers have increased due to the delays with the postal service. The Agency mailed the 1099Rs before the required deadline of January 31, 2021, however, many members still have not received them due to the delays with the mail.

Mr. Haines asked if the Agency's automated phone system provides the caller with an estimated wait time.

Mr. Reott responded no, but that after a certain time, the phone system will offer the caller the option to receive a call-back from the Agency without losing their place in line. The phone system will repeat that option in a specific time increment until the member's call is answered by a Retirement Counselor.

Mr. Brandt commented that five vacancies seems like a lot in one unit. He further commented that he hopes that the Agency's phone system does not provide a lengthy recording of information at the onset of a call and allows members to quickly choose the option that pertains to them. In addition, he hopes that staff is being creative to get the performance numbers down.

Mr. Reott responded that he has addressed the performance issues with staff and asked that staff be proactive regarding matters such as contacting a member directly, by phone or email, if a form is not completed correctly, instead of mailing a letter to the member since mail delivery is uncertain at this time.

**ADMINISTRATIVE COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

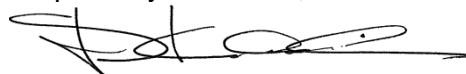
March 2, 2021

Mr. Norman asked if the five vacancies were before or after the three new hires who started on February 10, 2021.

Mr. Reott responded that the five vacancies were before the three new hires.

Adjournment There being no further business before the Committee, on a motion made by Mr. Brandt and seconded by Treasurer Kopp, the meeting adjourned at 10:07 a.m.

Respectfully submitted,



R. Dean Kenderdine,
Secretary to the Board

**Legislative Update
2021 Session
March 2, 2021**

BOARD REQUESTED LEGISLATION

**House Bill 844/Senate Bill 641 (Lierman/Elfreth)
State Retirement and Pension Systems – Fiduciary Insurance**

This Board requested legislation clarifies that the current statutory provision that the State must purchase a bond for each fiduciary of the System, may be satisfied by purchasing an insurance policy. This proposed legislation also clarifies that the State Treasurer, in consultation with the Board, will determine the type and amount of insurance to be purchased.

- HB844 passed the House. No hearing scheduled in Budget and Tax
- SB641 passed the Senate. No hearing scheduled in Appropriations

Presented to the Administrative Committee on 2/2/21

JOINT COMMITTEE ON PENSIONS LEGISLATION

**House Bill 922/Senate Bill 642 (Lierman/Elfreth)
State Retirement and Pension System – COVID-19-Related Death Benefits – Clarification**

This proposed legislation would provide line-of-duty death benefits for the families of members of the System who have died from COVID-19, provided the member contracted the virus at the member's place of work. This benefit would not apply to members who have been teleworking throughout the Governor's State of Emergency.

- Hearing scheduled in Appropriations – 2/17/21
- Hearing scheduled in Budget and Tax – 2/18/21

Staff has been working with the Department of Legislative Services on the drafting of this legislation. As we think of implementation issues that should be clarified in the bill, we have and will continue to let the drafters and sponsor know of our concerns. However, as this bill is generally an issue of plan design, staff recommended to the Administrative Committee that the Board not take a position on the legislation.

Presented to the Administrative Committee on 2/2/21

INVESTMENT RELATED LEGISLATION

House Bill 215/Senate Bill 288 (Palakovich Carr/Pinsky)

Income Tax – Carried Interest – Additional Tax

This proposed legislation would impose a state tax of 17% on carried interest received by fund managers of hedge funds and private equity funds. The intent of this bill is to close what is perceived as a federal tax loophole with regard to carried interest. Currently, the federal tax code treats carried interest as a capital gain instead of ordinary income. As a result, it is taxed at 20% as opposed to the ordinary income rate of 39.6%. Adding a State tax of 17% to carried interest is intended to close this gap.

- Hearing scheduled in Ways and Means – 1/21/21
- Hearing scheduled in Budget and Tax – 1/21/21

Staff recommended opposing this legislation based on the impact its passage could have on the System’s ability to meet its long-term assumptions and benefit payments on time and in full. Staff is concerned that this legislation would limit the System’s ability to invest in private partnerships. These types of investments currently represent 30% of System plan assets. Staff submitted letters of concern to the sponsors of the legislation, the members of the House Ways and Means Committee and the members of the Senate Budget and Tax Committee.

Presented to the Board on 1/19/21

House Bill 479 (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, 2021. The bill prohibits the Board from entering into agreements on or after July 1, 2021 with external management services that would pay fees for unrealized investment gains. House Bill 479 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 – 2/3/21

This bill is identical to the sponsor’s bill from last year. Therefore, consistent with last year’s recommendation, staff recommended opposing 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 1/19/21

House Bill 533 (Acevero)

State Government – Prevention of Genocide and Crimes Against Humanity and the Commission on Genocide Prevention

This proposed legislation would require the Board to direct the Investment Committee to vote in favor of shareholder resolutions that ask companies in which the System holds shares to adopt a policy of refusing to do business with governments engaged in genocide or crimes against humanity. The Investment Committee is also required to report, annually, to the Board and the State Treasurer regarding the use of shareholder advocacy with companies in which the State invests to persuade those companies to adopt and implement a policy of refusing to do business with governments engaged in genocide or crimes against humanity. This proposed legislation also establishes a Commission of members including the Governor, one State senator, one State delegate, the Attorney General, the State Treasurer, and two members of the public. In part, the Commission is charged with researching governments that are committing genocide or crimes against humanity and holding periodic hearings on the Board's implementation of the provisions of this legislation.

- Hearing scheduled in Appropriations – 2/3/21

Staff is concerned that, as drafted, this proposed legislation could place the Board in a position where it would be forced to act in a manner that would not be consistent with its fiduciary duty. Staff recommended to the Administrative Committee to direct the staff to work with the sponsor to amend the bill as it relates to the System to address this issue. Specifically, staff would recommend amendments that would provide that the Board adopt and implement a policy within its investment policy manual to address the issues of this bill. Additionally, staff recommended amending the bill to add language that the Board shall act in good faith to carry out the requirements of the bill, as it relates to the System, in compliance with all State and federal laws. Staff also recommended adding language that the bill that the Board shall only act in a manner that is consistent with its fiduciary duties and that the Board or any other fiduciary of the System may not be held liable for any actions taken in good faith for the purposes of complying with or executing the requirements of the bill, as it relates to the System. Finally, staff recommended that rather than report to the Commission established under the bill, the Board would report to the Joint Committee on Pensions when the annual investment overview is presented each year to the Joint Committee. The Administrative Committee accepted each of these recommendations.

Presented to the Administrative Committee on 2/2/21

CORRECTIONAL OFFICER LEGISLATION

House Bill 71/Senate Bill 497 (Luedtke/Kelly)

Juvenile Services Education Board and Program – Establishment, Powers, and Duties

This legislation would establish the Juvenile Services Education Board in the Department of Juvenile Services. The Board would be charged with overseeing and approving all educational services to all juveniles who are in a residential facility in the Department of Juvenile Services, beginning July 1, 2022. This legislation provides that individuals serving as a Department of Juvenile Services direct education staff member on or after July 1, 2022 shall be members of the CORS.

- Hearing scheduled in Judiciary and Ways and Means – 1/28/21
- Hearing scheduled in Judicial Proceedings – 2/17/21

Staff asked the System's tax counsel to determine if it believes these employees would qualify as correctional officers under proposed IRS regulations addressing normal retirement age for public safety officers, including correctional officers. Tax counsel recommended that this group of employees not be included in the CORS. Staff has reached out to the sponsors of the legislation and is working with them to amend the bill to clarify that the individuals addressed in this proposed legislation remain in the EPS.

Presented to the Board on 1/19/21.

**House Bill 456/Senate Bill 606 (Jacobs/Hershey)
Correctional Officers' Retirement System – Kent County**

This proposed legislation is local legislation that provides that if Kent County joins the CORS, membership in the CORS will be mandatory for individuals who are detention center officers for Kent County before and through the effective date of Kent County's participation in the CORS. The bill further provides that these employees shall receive all creditable and eligibility service earned prior to joining the CORS.

- Hearing scheduled in Appropriations – 2/3/21
- SB606 passed the Senate. No hearing scheduled in Appropriations.

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

Presented to the Administrative Committee on 2/2/21

Benefit Legislation

**House Bill 791 (Young)
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 – 2/24/21

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

Presented to the Administrative Committee on 2/2/21

**House Bill 929/Senate Bill 680 (Arikan/Jennings)
Teachers' Pension System - Vested Allowance - Break in Service**

This legislation applies to vested former members of the Teachers' Pension System who: (1) have worked for various school boards across the State; (2) are currently employed by both a participating employer and Baltimore City in a positions that are not eligible for membership in the System; and (3) on or before June 1, 2021, has reached or exceeded normal retirement age to receive a vested allowance in the Teachers' Pension System. This bill provides that individuals who meet these criteria are not required to

be separated from employment with a participating employer in order to begin receiving a vested allowance from the Teachers' Pension System after reaching normal retirement age. Staff is aware of one individual that would qualify to receive benefits under this legislation.

- Hearing scheduled in Appropriations – 2/24/21
- Hearing scheduled in Budget and Tax – 2/18/21

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

Presented to the Board on 2/16/21

House Bill 1336/Senate Bill 761 (Proctor/Elfreth)

Alcohol and Tobacco Commission – Executive Director – Clarification

This proposed legislation requires the Executive Director of the Alcohol and Tobacco Commission to be a sworn police officer with the police powers granted to an officer or employee of the Field Enforcement Division. It also clarifies that the Executive Director is a member of the Law Enforcement Officers' Pension System.

- No hearing scheduled in Appropriations at this time.
- Hearing scheduled in Budget and Tax – 3/4/21

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

Presented to the Board on 2/16/21