

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

MINUTES OF MEETING

November 15, 2001

The Board of Trustees for the State Retirement and Pension System of Maryland met in the Boardroom of the SunTrust Building, 120 East Baltimore Street, Baltimore, Maryland, at 9:30 a.m. There were present Richard N. Dixon, Chairman, William Donald Schaefer, Vice-Chairman, Arthur N. Caple, Jr., George R. Tydings (via teleconference), Debra B. Humphries (via teleconference), William D. Brown, Carl D. Lancaster, Colonel David B. Mitchell, Major Morris L. Krome, G. Bruce Harrison, Ali A. Alemi, Trustees, and Peter Vaughn, Secretary. Agency staff members also attending were Deborah Bacharach, Robert Feinstein, Rachel Cohen, Assistant Attorneys General, Carol Boykin, Chief Investment Officer, Tracey Ray, Deputy Chief Investment Officer, J. Howard Plimes, Director of Legislation, Rick Harrison, Chief Financial Officer, Thomas Gighotti, Chief Internal Auditor, Gwen Mulkey, Executive Associate, and Gary Scribner, Chief Information Officer.

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| Minutes                     | 1 | On motion made by Dr. Alemi and seconded by Vice-Chairman Schaefer, the Minutes of the regular meeting of the Board of Trustees for the State Retirement and Pension System of Maryland, held on October 16, 2001 were approved.   |
| Minutes                     | 2 | On motion made by Vice-Chairman Schaefer and seconded by Dr. Alemi, the Minutes of the special meeting of the Board of Trustees for the State Retirement and Pension System of Maryland, held on November 6, 2001 were approved.   |
| Investment Committee Report | 3 | Mr. Arthur Caple, Chairman of the Investment Committee, reported on the Investment Committee meeting held November 9, 2001. <u>Attachment A</u><br><br>Mr. Caple advised the Board that Mr. Bill Miller of Legg Mason provided an overview of domestic equity markets, with the objective of putting the events of 9/11/01 into perspective. Mr. Miller also responded to questions on two of the System's holdings with class action implications – Waste Management and Enron. |

Mr Caple advised the Board that the Committee recommended approving the appointment of a new Chairman and Vice Chairman plus additions to the membership of the Real Estate Sub-Committee. Mr Lancaster was appointed as Chairman. Mr Harrison was added as a member of the Sub-Committee, and he was also appointed as Vice Chairman. Ms Humphries was appointed to the Sub-Committee, and Mr Dixon's membership on the Sub-Committee was formalized. The Sub-Committee now consists of 5 members including Vice-Chairman Schaefer. On motion made by Mr Dixon and seconded by Dr Alemi the Board voted unanimously to approve the appointment to a new Chairman and Vice Chairman plus additions to the membership of the Real Estate Sub-Committee.

Mr Caple then advised the Board that the Committee recommended approving the appointment of Mr Lawrence Bach to one of the System's 3 seats on the Board of the Maryland Venture Capital Trust. Mr Bach will fill a vacancy that was created by the expiration of Mr Patzwall's term. On motion made by Mr Caple and seconded by Mr Lancaster, the Board voted unanimously to approve the Investment Committee's appointment of Mr Lawrence Bach to the Board of the Maryland Venture Capital Trust.

Mr Caple reported the Committee reviewed the System's response to the Joint Pension Committee and provided supplemental information on the health of the System.

- The Committee agreed to refer review of the DLS request for a written asset allocation policy to the Investment Operations Manual Sub-Committee. It was noted that the Sub-Committee plans to complete its review of the entire manual before releasing any updated sections.
- The Committee responded to the DLS recommendation to hire an investment consultant by asking staff to study the use of consultants by its peers (as defined to be public pension funds of similar size to the MSRA).
- The Committee asked staff to provide an analysis of the TUCS universe at its next meeting in December 2001. At such time, the Committee will decide whether to accept the staff report or engage a consultant for further study of the matter. Mr Caple stressed that the driving force behind Board actions to date has been the System's own mission and objectives.
- The Committee asked for a modified peer asset allocation chart, which shows the System's weightings as of 6/30/00 as well as the NASIO weightings as of 6/30/01 once NASIO releases that information.
- The Committee recommended the creation of the System's own peer universe with a combination of 4-5 neighboring pension funds and 4-5 pension funds in the \$25-35 billion size range.

Mr. Caple advised the Board of a letter to the System from Chapman Capital Management, Inc. This letter was in response to Staff's inquiry related to a record low price for Chapman's stock. Mr. Caple stressed that the securities were not at risk, since they are in safe-keeping at the Custody Bank.

Mr. Caple reviewed the System's Performance. As of 10/31/01, the market value was estimated to be \$27.1 billion. This figure has been confirmed. As of 11/13/01, the un-audited estimate is \$29.4 billion.

Mr. Caple reported the minutes for the October 12, 2001 meeting were approved with two minor amendments.

Mr. Caple stated that Mr. Lancaster requested broker specific data related to the System's brokerage policy. This request was forwarded to the Minority Sub-Committee for consideration and the potential development of a new reporting format.

Mr. Brown asked whether or not the Board signed a release of information with State Street so that information could be released for the TUCS report. Ms. Boykin replied that she would find out.

Mr. Harrison stressed that he made a motion during the Investment Committee meeting that would provide an analysis of TUCS at its next meeting in December 2001. At that time, the Committee would decide whether to accept the staff report or engage a consultant for further study of the matter.

Vice-Chairman Schaefer stated that he was embarrassed by the Sun article of November 15, 2001, he also noted that instead of ignoring the TUCS report the system should be finding out why we were last. Vice-Chairman Schaefer also noted that he felt that the letter to the Pension System Members should have gone out right away and that the System needed good public relations.

Mr. Harrison stated that the Board letter should have gone out immediately. Mr. Harrison also stated "we look bad" and that the Agency must restore confidence in the System.

Mr. Lancaster stated this is serious business, changes are going to take place either from within or without. Mr. Lancaster then stated that the Board must make positive changes with respect to the Trustees. Mr. Lancaster stated that there will be no favoritism in the selection of managers.

The Board accepted Mr. Caple's report.

Amizi Springs  
(Remanded Case)

- 4 At the claimant's request, Mr Spring's case was deferred until the December 2001, Board meeting

On motion made by Colonel Mitchell and seconded by Mr Brown, the Board unanimously voted to meet in Executive Session to receive legal advice from its Counsel. State Government Article Section 10-508(a)(7) authorizes the Board to meet in closed session to consult Counsel to obtain legal advice

#### EXECUTIVE SESSION

The Board met in Executive Session at 9:55 a.m. in the SunTrust Building to receive legal advice. All of the persons present at the beginning of the meeting were present in Executive Session except Mitchell Gordon. The Board adjourned its Executive Session at 10:25 a.m. and returned to regular session to complete the agenda.

#### REGULAR SESSION

Executive  
Director's Report

- 5 Mr Vaughn informed the Board that the letter which the Board Members Directed Agency Staff to draft had been completed and awaited their approval and signatures. The purpose of the letter was to address any concerns active and retired System members may have in light of recent press coverage of the Pension Fund. Attachment B

Vice-Chairman Schaefer expressed concern that the letter had not been sent out earlier, and stated he held Ms Boykin and Mr Vaughn responsible for the delay in mailing the letter. Mr Vaughn gave his assurance that he would secure signatures of the entire Board and send the letter to print that afternoon.

Mr Vaughn asked Mr Rick Harrison, the Agency's Chief Financial Officer, to update the Board on the Mandatory Statewide Cost Reduction Initiative. Attachment C

Mr Harrison advised the Board as to how the Agency plans to implement the statewide Cost Containment Initiative resulting in approximately \$923,000 dollars.

Additionally, Mr Harrison advised the Board that a second wave of cost reductions that could result in an additional 5% reduction contingent upon the State's December revenue projections.

Mr Lancaster expressed his concerns over the State imposing budget reductions on the Agency, since our funding comes from investment income, not State general funds.

The Board accepted Mr Vaughn's report.

Mr William D Brown, Chairman of the Executive Committee, reported on the regular meeting held November 6, 2001 Attachment D

Mr Brown informed the Board that the Executive Committee received two additional requests from members of the Law Enforcement Officers' Pension System (LEOPS) for a hearing to address their membership in the LEOPS Deferred Retirement Option Program (DROP). The two retirees Sergeant William E Leyda and Ranger David C Tull want the Board to extend their participation in DROP to the maximum five years, and to permit each to return to employment after their DROP period closes.

Mr Brown noted that the law is very clear on DROP participation. Pension law establishes the length of participation. For Sergeant Leyda, his maximum participation is 41 months. For Ranger Tull, the period of DROP is 32 months. To grant an extension to five years would be a violation of State law.

Mr Brown noted for the Board members that both Sergeant Leyda and Ranger Tull could return to State employment after DROP ends. Existing law gives them that right although they would not be eligible to earn any additional State provided pension benefits.

Mr Brown advised the Board that the Executive Committee recommends that Mr Vaughn's denial of the requests for hearing by Sergeant William E Leyda and Ranger David C Tull be upheld. On motion made by Mr Brown and seconded by Major Krome the Board voted unanimously that Mr Vaughn's denial of the requests for hearing by Sergeant William E Leyda and Ranger David C Tull be upheld.

Mr Brown indicated that Mr Peter Vaughn received a request from a retired member of the Teachers' Retirement System (TRS) for relief from the earnings limitation requirement for a teacher who elected an early service retirement benefit and returned to classroom teaching. Under current pension law, Ms Schiesz was subject to an earnings limitation during her first 12 months of retirement.

Mr Brown stated that Ms Schiesz retired from Calvert County Board of Education 4 months shy of 30 years of service. Prior to her retirement, she arranged with Calvert County to return to classroom teaching at a salary of \$42,088. Ms Schiesz contends that she was not advised by her employer or the Retirement Agency of the earnings limitation that applied during the first 12 months of her retirement because of her decision to retire early. Therefore, she does not believe that she should be subject to an offset of her pension. Mr Vaughn stated that the "excess" earnings in the first 12 months of her retirement totaled \$14,813.46.

Mr Brown reported that the Committee suggested that Ms Schiesz's request for relief be deferred until the next meeting. During the interim, staff was to work with Ms Schiesz to determine if there can be a resolution to her current dilemma. The Executive Committee asked Mr Vaughn to meet with Ms Schiesz to try resolve this issue and report back to the Executive Committee in December on the results.

Mr Brown advised the Board that Mr Gary Scribner would give a progress report on the Strategic System project.

Mr Scribner gave the following report:

From a positive standpoint, the Agency has seen much progress on work related to the Payroll process, which has been a major effort during the past several years. In addition, the Agency recently received a document describing the Transfer of Service process in the system. Documents from both efforts are under intense Agency review at this time.

On Monday, November 5, 2001, Syscom submitted two formal change order requests to the Agency. Change Order Request 120, for approximately \$4 million, is a task titled "Assess the Current Situation of the Strategic System Development Project - Initiative to Refresh Functional Requirements, Research MSRA Issues, Provide Additional Technical Training and Prepare to Validate Converted Legacy Data." The second, Change Order 119, for \$880 thousand, represents work that Syscom states it has already completed to "Investigate and Plan Comprehensive Integration Testing."

This "requirements/design recovery" task, by Syscom's estimate, would require approximately 5 months to complete. At the conclusion of this effort, all design gaps and deficiencies should be identified, resulting in follow on effort on the contractor's part beyond the five month period to correct the deficiencies. Syscom has already informed the steering committee that further change order requests would be submitted for "correction" of the software, once again claiming that the work is out of scope and additional cost.

The Steering Committee has performed a preliminary evaluation of the "requirements/design recovery" task plan. The plan's basic outline has merit. However, some details, in particular the tight schedules for Agency review of deliverables, would require modification. This assumes, of course, that there is no cost to the Agency for this work to be done.

The Steering Committee has no plans to approve and/or ask for a contract modification to provide additional funding for any of the aforementioned change orders, believing wholeheartedly that the contractor is contractually responsible for ensuring that the requirements and resultant design are correct. The Steering Committee is consulting with the Agency's legal counsel and other parties to determine what is the best path to take from this point forward from a technical, financial and legal position.

Mr. Brown stated that the Executive Committee revisit the issue of including the so-called 415 limits on the purchase of certain service credits in the legislative proposals submit to the Joint committee on Pensions. He noted that State law permits members to purchase up to 10 years of certain types of service credits at full cost (employee and employer costs). Federal law, however, may limit the purchase of service for members hired after July 1, 1999 and for Plan amendments made after August 5, 1997.

These conflicting provisions have led to confusion among the membership and participating employers. The Executive Committee suggested that the Board clarify State law to comply with federal law and, at the same time, notify our federal delegation of the board's concern with these restrictions.

The Executive Committee recommends to the Board of Trustees that the legislative proposals submitted to the Joint Committee on Pensions include language to limit the purchase of service credits as is mandated by federal law. On motion made and duly seconded, the Board voted to include language to limit the purchase of service credit with the Legislative proposals. In addition, the Retirement Agency will draft a letter for the Board to Maryland's elected federal representatives voicing the Board's concerns with the limitation placed on the membership to purchase service credits.

The Board accepted Mr. Brown's report.

Medical Board  
Reports

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The Board, on motion made by Major Krome and seconded by by Mr. Caple, voted unanimously to approve the reports of the Medical Board in connection with applications of members for ordinary, accidental and special retirement allowances. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants.

Attachment E

Supplemental  
Medical Board  
Reports

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The Board, on motion made by Dr. Alemi and seconded by Mr. Brown voted unanimously to approve the supplemental reports of the Medical Board in connection with applications of members for ordinary, accidental and special retirement allowances. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants. Attachment F

Other Business

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There being no further business, on motion made and duly seconded, the Board adjourned at 11:47 a.m.

Respectfully submitted,

Peter Vaughn, Secretary

PV/gm