

AMENDED (Pg. 9) BOT Meeting of March 18, 2003  
 BOARD OF TRUSTEES  
 FOR THE  
 STATE RETIREMENT AND PENSION SYSTEM  
 OF MARYLAND

MINUTES OF MEETING

February 27, 2003

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 10:00 a.m. There were present Chairman William Donald Schaefer, Vice Chairman Nancy K. Kopp, Secretary Dr. Nancy Grasmick (arrived 10:30 a.m.), Arthur N. Caple, Jr., Debra Humphries (via phone), William D. Brown, Carl D. Lancaster, Major Morris L. Krome, G. Bruce Harrison (via phone), and Dr. Ali Alemi, Trustees, and Dean Kenderdine, Acting Secretary to the Board. Agency Staff members also attending were Margaret A. Bury, Retirement Administrator, Deborah Bacharach, Robert Feinstein, Assistant Attorneys General, Carol Boykin, Chief Investment Officer, Rick Harrison, Chief Financial Officer, Howard Plemes, Legislative Director, Thomas Gighotti, Chief Internal Auditor, Gary Scribner, Chief Information Officer, and Gwen Mulkey, Executive Associate.

Also present were F. Richard Crowther, Maryland Classified Employees Association, and Mr. Ronald F. Joffe.

Acting Executive Director 1 On motion made by Vice Chairman Kopp and duly seconded the Board unanimously approved the appointment of Mr. Kenderdine as Acting Executive Director.

Minutes 1 On motion made by Vice Chairman Kopp and seconded by Dr. Alemi the Minutes of the regular meeting of the Board of Trustees for the State Retirement and Pension System of Maryland, held on January 21, 2003, were unanimously approved.

On the recommendation of Ms. Carol Boykin, the Board voted to amend the Investment portion of the December 17, 2002, Board Minutes. On motion made by Mr. Caple and seconded by Mr. Brown the Board voted unanimously to amend the Investment portion of the December 17, 2002, Board Minutes.

Investment Committee Report and Recommendations 2 Mr. Arthur Caple, Chairman of the Investment Committee, reported on the meeting held on February 14, 2003.

Mr. Caple reviewed the actions taken at the February 14, 2003 Investment Committee meeting. He began by referring the Board's attention to a handout, which summarized the actions. He noted that the items that had taken place in open session did not need to be reviewed, since they did not require Board ratification.

For the purpose of this record, those items are as follows

- a The Investment Committee interviewed 2 candidates for the Public Member position on the Committee. Selection was deferred until March to enable new Board members to submit candidates for consideration.
- b Committee members agreed to observe a quiet period / blackout period, whereby Committee and Board members will not take meetings with potential investment manager candidates for outstanding searches until conclusion of the respective searches. Staff will provide all Committee and Board members with a list of managers who have been sent RFIs for each search. Staff will also send Committee and Board members the list of semi-finalists for each search.
- c Staff and EnnisKnupp provided the Committee with preliminary schedules with transition and search related items.
- d EnnisKnupp did not recommend any changes to the System's Real Estate program.
- e EnnisKnupp reviewed the System's Private Equity program. EnnisKnupp believes that we should stay at our 1% target level for this asset class for now. Even though we have not invested 1% yet, we have already committed the full 1% among our 3 fund of funds providers: Abbott Capital Management, Adams Street Partners, LLC, and HarbourVest Partners, LLC. At present, EnnisKnupp believes that we should limit ourselves to the 3 fund of funds managers already employed. New offerings may be considered from these 3 vendors at the present time to the extent that they replace capital that has been returned. EnnisKnupp believes that we should not expand this asset class further until we revisit our asset allocation policy. This is done annually. It was last done in November 2002. EnnisKnupp also noted that they are not enthusiastic about Senate Bill 340.
- f Approval of the Investment Committee minutes was deferred.

The remainder to the Investment Committee was deferred until Executive Session.

Executive Committee Report 3

Mr. Brown reported on the Executive Committee meeting held on February 4, 2003. Attachment A

Mr. Brown informed the Board that Administrative expenses and manager fees through December 31, 2002 were reviewed and accepted.

Mr. Brown noted that the Agency anticipated finishing the year under budget. With several unexpected vacancies, including that of Executive Director, there should be a savings on salary and benefits for the year. This savings would be offset, somewhat, by increases reflecting the higher health insurance rates beginning January 2003.

Mr Brown reminded the Board that the System's Actuary is asked to perform an experience study about every 5 years

Mr Brown informed the Board that Mr Robert Dezube and Mr William Reimert of Milliman, USA presented the Actuary's preliminary experience study findings and recommendations for changes to certain actuarial assumptions Mr Brown explained that the Actuary's study analyzed the System's experience compared with the actuarial assumptions Salary growth, cost-of-living increases and System investments are a few of the major components the Actuary reviewed as well as key economic assumptions

Following the presentation and Committee discussions, Mr Brown noted that the Committee asked Mr Dezube, to discuss with the Investment Consultant, his recommended changes to the cost-of-living and investment return assumptions Mr Dezube agreed to do so prior to his presentation of the report to the Board at its March 18, 2003 meeting

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Mr Brown asked the Executive Committee to consider a change to its regulation concerning Electronic Fund Transfer (EFT) He noted that recently the Retirement Agency had experienced a problem in the delivery/ mailing of its retirement checks In error, the mailing service delivered about 5,500 pieces of mail (both advice slips and actual checks) to the wrong area of the Post Office As a result, these documents went into bulk mail and took about 7 days for delivery This resulted in hundreds of telephone calls, and required the Agency to prepare for a major reprinting of lost checks Fortunately, all but a few of the checks were delivered, and a replacement run was not needed

Mr Brown stated that he is recommending that retirees who continue to receive their checks directly be given a lengthy period of time to sign up for the EFT program, perhaps 6 months At the end of this time, the Board would mandate participation unless a waiver was requested and accepted Mr Brown indicated that the current regulation allowed retirees to state their reasons why they did not want their checks mailed to a bank He noted that the Agency was very lenient in accepting these requests and has accepted 479 to date Mr Brown stated that the Executive Director had been delegated that responsibility by the Board

The Executive Committee recommended to the Board of Trustees that the Electronic Fund Transfer program be extended to all retirees who will be given until August 2003 to elect this program

On a motion made by Mr Brown and seconded by Dr Alemi, the Board voted unanimously to extend the Electronic Transfer program to all retirees, and that they be given until August 2003 to elect this program

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Mr Brown reminded the Executive Committee that in January, the University of Maryland Medical System (UMMS), requested assistance in resolving a pension funding issue. The Maryland General Assembly had created UMMS in 1984, and agreed to provide financial assistance to deal with the higher pension costs provided to certain UMMS employees who were permitted to remain in the State Retirement and Pension System.

From 1984 until 1991, UMMS received funding from the State for the "pension gap". This funding was phased out between 1992 and 1996 because of the State's own budgetary problems. UMMS has had to cover the "pension gap" costs, which has contributed to bottom line losses for UMMS in both Fiscal Years 1998 and 1999. Mr Brown stated that UMMS was seeking a reduction to its liabilities. Because discussion of this issue could impact on pending litigation, it was suggested that continuing discussions of the UMMS be held in Executive Session.

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Mr Brown reported on a discussion by the Executive Committee on setting time limits on disability cases and referred to a memorandum on the topic from Assistant Attorney General Deborah Bacharach. In her memorandum, Ms. Bacharach pointed out that the current regulations dealing with disability cases give the presiding officer the ability to limit the period of time for argument. She also noted that the Court of Appeals and Court of Special Appeals have rules limiting arguments to 30 minutes for each side. Ms. Bacharach stated there is no reason that the Board could not establish time limitations for the appeals it is to hear, including the time for questions and rebuttal.

Dr. Alemi again stated his total opposition for any attempt to limit the time members have to appeal to the Board. He stated that this is the last step for the members to state their case and they should be given all the time needed before the full Board. He stated that it can be the function of the presiding officer to limit discussion if it is redundant. However, the Board should not limit discussion of members who do not have professional help and may be slow or nervous when addressing the Board. Limiting their time would only make matters worse.

The Executive Committee recommends to the Board of Trustees that decisions on restricting the time for presentation of disability cases before the Board be deferred until the Cortex report is available and can be reviewed by the full Board.

On motion made by Mr. Brown and seconded by Mr. Caple the Board voted to delay the decision on restricting the time for presentation of disability cases before the Board be deferred until the Cortex report is available and can be reviewed by the full Board.

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Mr Brown stated that the Retirement Agency had received a request from the Wicomico County Free Library to participate in the State's Pick-Up Program. Mr Brown indicated that the library had received its favorable private letter ruling from the Internal Revenue Service.

The Executive Committee recommends to the Board of Trustees that the Board include the Wicomico County Free Library in the Pick-Up Program.

On motion made by Mr Brown and seconded by Dr Alemi, the Board voted unanimously to include the Wicomico County Free Library in the Pick-Up Program.

Mr Brown stated that discussion regarding the Strategic System would be held during Executive Session.

The Board accepted Mr Brown's report.

Acting Executive  
Director's Report

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Mr Kenderdine stated that there were 8 candidates for the Board seat of the Employees' System Trustee Representative. Mr Kenderdine informed the Board that two candidates contacted Agency staff prior to the February 17<sup>th</sup> filing deadline, to advise staff that because of inclement weather, neither candidate could deliver the required nomination forms and valid signatures before the deadline. Staff contacted the two candidates and informed them to deliver the forms and signatures no later than Thursday, February 20<sup>th</sup> with the understanding that extension of the filing date required board approval. If the extension is not approved, nomination forms will be rejected.

On a motion made by Mr Brown and seconded by Dr Grasmick, the Board voted unanimously to approve the employee election filing extension, due to inclement weather, from February 17, 2003 until February 20, 2003.

The following candidates were certified as eligible for the Employees' System Trustee representative:

Dr. Ali Alemi	Retiree
Steve Berger	Active - Public Safety and Corrections
Barry N. Chapman	Active - DHMH
Francis Richard Crowther	Retiree
Ray Dizon	Active - DBED
Rick Hemphill	Active - Circuit Court for Washington County
Dana Thompson	Retiree and reemployed - MVA
Thomas Wendel	Active - DLLR

Mr Kenderdine advised the Board that Mr Carl Lancaster, the sole candidate for the Teachers' System Trustee Representative, satisfied the filing requirements Mr Kenderdine stated that in accordance with COMAR requirements, Mr Lancaster is considered nominated to serve as trustee for the Teachers' Systems and shall serve as trustee for the 4-year term beginning on August 1, 2003

Mr Kenderdine reported on the issue of current policy regarding background checks on agency employees A handout on the topic was provided to the Board In this handout and in Mr Kenderdine's report he reported on

- a) What is currently being done regarding background checks
- b) Steps that could be immediately taken to increase the level of background checks
- c) Recommendation as to what additional steps should be taken in this matter

Chairman Schaefer expressed concern that staff were going "go too far" in this area and advised caution

Audit Committee  
Report

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In the interest of time, Mr Brown asked the Board to review Audit Committee Minutes at their leisure Attachment B

Committee and  
Sub-Committee Reports  
and Recommendations

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Vice Chairman Kopp stated that Joe Coale is doing a good job and working hard to improve communications

Mr Harrison stated that he is still awaiting a response from the Governor's office regarding the letter he wrote to the Governor on behalf of the Benefits Improvement Committee

2003 Proposed  
Legislation

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Mr Howard Pleines gave a legislative report for Legislative 2003 Session of the General Assembly Attachment C

Mr Pleines specifically called the Board's attention to the following pension bills

**SB 92 – Local Fire and Police Retirement System – Reemployment of Retirees** Sponsor Sen. Kasemeyer

Exempts retirees of the Local Fire and Police System from the earnings limitation if the retiree is employed by a participating employer other than the employer at time of retirement Technical correction to provide the same exemption provided to members of the Correctional Officers' Retirement System and the Employees' and Teachers' Retirement and Pension Systems under SB221 (Laws of 2001)

**SB 299 - Employees' and Teachers' Retirement and Pension Systems-  
Vested Allowance-Lump-Sum** Sponsor Sen Kasemeyer

BOT sponsored Permits members of the Optional Retirement Program who are former members of the Employees' and Teachers' Retirement and Pension Systems eligible to receive a vested retirement allowance, to elect to receive a lump-sum payment of the vested retirement allowance if their monthly vested allowance is less than \$50

**SB 332 - State Contributory Law Enforcement Officers' Pension System  
- Transfers of Service Credit** Sponsor Sen Kasemeyer

BOT sponsored Authorizes individuals to transfer service to and from the State Contributory Law Enforcement Officers' Pension System Member must pay 4% employee contributions plus interest for any transferred service credit to LEOPS after July 1, 2000

**SB340 - Maryland Technology Investment Program** Sponsor Sen Hogan

Creates the Maryland Technology Investment Program to be administered by the BOT The purpose of the program is to provide venture capital investment in qualified technology or bioscience business in the State

Regarding SB 340, the Board stated that they would send a letter to the General Assembly expressing concern that their participation was being mandated in a form of a venture capital fund

**SB 721 State Retirement and Pension System - Board of Trustees**

Sponsor Sen Kasemeyer

Comprehensive changes to the Board of Trustees while retaining 14 members Removes the State Superintendent of Schools and the Secretary of the State Police as ex officio Trustees from the Board of Trustees for the State Retirement and Pension System Eliminates the election process of any trustee on the Board of Trustees, requiring the Governor to appoint 11 trustees to the Board of Trustees

Mr Lancaster stated that he is troubled by SB 721 He further stated that while a periodic review of the Board is in order, to make the Board the defacto representation of the Governor of the State is dangerous Mr Lancaster advised that he disagreed with the elimination of the election of trustees, and that maintenance of the election process by employees is important

Dr Grasmuck questioned the legislature's intensity of desire to pass SB 721 in it's current form, versus having the bill held over for Summer study Mr Plenis stated that Sen Kasemeyer is very much interested in passing legislation out of the Senate but that there appears to be less interest in the House

Dr. Alemi stated that he is sorry to see the Board governmentalized and unionized. Dr. Alemi further stated that in a democracy people have the right to choose their representatives and that should be the case with selection of Trustees.

Additionally, Dr. Alemi stated that he felt that in light of SB 721, the election should be placed on hold until the bill is either passed or defeated. Dr. Alemi stated that he felt it to be a waste of time and money to proceed with the election if the possibility of change in the structure of the Board existed. The Board agreed to delay the election process by one month, in order to determine the outcome of the proposed legislation and how it will affect the Board.

Mr. Brown stated that he felt it important to remember the General Assembly's ability to affect changes in the Board's structure and authority. He stated that it is important to make sure that legislators have all of the facts regarding all of the Board's corrective action and current direction. Mr. Brown advised that the issue of benefit enhancement had unnecessarily upset some legislators who felt the Board was slacking on its fiduciary responsibility. Mr. Brown stated that in reality, very little Board time has been spent on benefit enhancement.

Mr. Caple stated that it is most unfortunate that this situation exists and that this legislation has been introduced. Mr. Caple contends that the Bill is the result of distortions and misrepresentations of Board action and system performance. Mr. Caple stated that he keeps hearing that the Board lost \$3 billion, but money is not lost until stocks are sold. Mr. Caple stated that he read that this legislation in question is to improve the professionalism of the Board, and that he takes exception to that because he considers the Board very professional. Finally, Mr. Caple stated that he would like to see the legislation held over for summer study.

The Board accepted Mr. Pleines' report.

Medical Board Reports 8

On a motion by Mr. Brown and seconded by Mr. Caple, the Board accepted the reports of the Medical Board in connection with applications of members for ordinary, accidental, and special retirement allowances.

Attachment D

Supplemental Medical Reports 9

On a motion by Mr. Lancaster and seconded by Mr. Brown, the Board accepted the supplemental reports of the Medical Board in connection with applications of members for ordinary, accidental and special retirement allowances.

Attachment E



On a motion made by Mr Brown and seconded by Mr Lancaster, the Board voted unanimously to meet in Executive Session, to consider the following matters [deliberations regarding the disability appeals, obtain legal advice and discussion with staff and counsel regarding potential litigation State Govt Article, Section 10-503(a)(1) authorizes the Board to meet in closed session to exercise a quasi-judicial function] **Investment and reallocation of public funds; obtain legal advice; consult with staff and counsel regarding potential litigation related to Syscom and Chapman. State Government Article, Section 10-508(a)(5) authorizes the Board to meet in closed session to consider the investment of public funds.** Section 10-508(a)(7) authorizes the Board to meet in closed session to obtain legal advice, and Section 10-508(a)(8) authorizes the Board to meet in closed session to consult with staff or other individuals about pending or potential litigation

#### EXECUTIVE SESSION

[The Board met in Executive Session at 11 40 p m in the Boardroom of the SunTrust Building at 120 East Baltimore Street to discuss pending or potential litigation, to obtain legal advice ] All of the persons present at the beginning of the meeting were present in Executive Session except the following F Richard Crowther, Maryland Classified Employees Association The Board adjourned its Executive Session at 12 35 p m and returned to regular session to complete the agenda

#### REGULAR SESSION

On a motion made by Dr Alemi and seconded by Mr Brown, the Board voted to ratify all actions taken during Executive Session

On a motion made by Dr Alemi and seconded by Mr Caple, the Board voted unanimously to approve the January 21, 2003, Executive Session Minutes

~~Other Business~~ 11

~~Adjournment~~ 12 There being no further business, the meeting adjourned at 1 30 p m

Dean Kenderdine  
Acting Executive Director

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