

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

MINUTES OF MEETING

June 17, 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 9 30 a m There were present William Donald Schaefer, Chairman, Nancy K Kopp, Vice-Chair, James C DiPaula, Arthur Caple, Jr , William D Brown, Carl D Lancaster, Morris L Krome, G Bruce Harrison, Nancy S Grasmuck (arrived at 10 29am), Ali Alemi, Trustees, and Thomas K Lee, Secretary Agency Staff members also attending were Margaret A Bury, Retirement Administrator, Deborah Bacharach and Robert Feinstein, Assistant Attorneys General, Dean Kenderdine, Acting Chief Investment Officer, Howard Pleines, Legislative Director, Victoria Willard, Director, Risk Management, Thomas Gighotti, Chief Internal Auditor, Joseph Coale, Public Information Officer, Gary Scribner, Chief Information Officer, Monica Bias and Shirley Hartnett, Executive Associates

Also present were Jill Leiner, Rachel Cohen, and Carla Katzenberg, Assistant Attorney Generals, Christina Lockerman and Dennis Gottesman, Esq attorney for Elva M Sisco, Theresa White and Christina Lockerman

Minutes 1 On motion made by Mr Caple and duly seconded, the minutes of the regular meeting of the Board of Trustees for the State Retirement and Pension System of Maryland, held on May 20, 2003, were unanimously approved

Board Officers 2 On motion made by Mr Caple and seconded by Treasurer Kopp, the Board of Trustees, in accordance with State Personnel and Pensions Article, Section 21-105(1&2), elected the Officers of the Board of Trustees as shown below, for the period July 1, 2003 through June 30, 2004 Major Krome abstained from the vote on the office of Chairman

Chairman	William Donald Schaefer
Vice-Chairman	Nancy K Kopp
Secretary	Thomas K Lee

Executive Committee 3

On motion made by Mr Caple and duly seconded, the Board of Trustees, in accordance with the Resolution adopted on November 9, 1982, appointed the following members to the Executive Committee for the period July 1, 2003 through June 30, 2004

William D Brown, Chairman
Morris L Krome, Vice-Chairman
Nancy K Kopp
Ali A Alemi (term expires 7/31/03)
Nancy S Grasmick
James C DiPaula
Vacancy (as of 7/01/03)

Investment Committee 4

On motion duly made and seconded, the Board of Trustees, in accordance with State Personnel and Pensions Article, Section 21-115 (a)(2), (b)&(d), appointed the following officers and members of the Investment Committee for the period July 1, 2003 through June 30, 2004

Board Members Arthur N Caple, Jr, Chairman
 Carl D Lancaster, Vice-Chairman
 Nancy K Kopp
 William Donald Schaefer
 James C DiPaula
 Morris L Krome
 Vacancy (Humphries)
 Vacancy (Rakes)

Public Members Wayne H Shaner, Jr
 Robert W Schaefer

Investment Committee Report and Recommendations 5

Mr Arthur Caple, Jr, Chairman of the Investment Committee, reported on the meeting held June 13, 2003

On motion duly made and seconded, the Board voted to accept the Real Estate Registry dated May 31, 2003

Mr Caple noted that the Committee heard presentations from four US Large Cap Equity manager finalists, including Dresdner RCM Global Investors, Wellington Management Company, Barclays Global Investors and Capital Guardian

On motion made by Mr Caple and seconded by Dr Alemi, the Board voted unanimously to appoint Mr Brian B Topping, as a public member of the Investment Committee. This appointment will further require Board of Public Works approval. Treasurer Kopp noted for the record, if Mercantile bids and wins the contract with the Board, it will be necessary for Mr Topping to resign from the Investment Committee. Treasurer Kopp further noted she supports Mr Topping in this appointment

On motion made by Mr Caple and seconded by Dr Alemi, the Board voted unanimously to reappoint Mr Robert W Schaefer, as a public member of the Investment Committee This appointment will further require Board of Public Works approval

Mr Caple reported the Committee received a report from EnnisKnupp and Ms Tracey Ray concerning the Investment Guidelines for fixed income that will be incorporated into the contracts with Payden & Rygel and Western Asset Management, as well as PIMCO

The Committee also received a report on the System's investment relationship with Freddie Mac from Ms Victoria Willard

Mr Caple acknowledged that Deborah Bacharach did an excellent job in pursuing the System's claim for restitution against Alan Bond The System will receive \$2.9 million and possibly an additional \$500,000 in restitution

Mr Caple recognized the loss of two board members serving on the Investment Committee, G Bruce Harrison and George Tydings Chairman Schaefer commented about Senate Bill 721, and the resulting loss of two good board members Chairman Schaefer noted that the Board fought hard to keep its members He further noted that he did not fault the Governor for signing the Bill

Mr Caple noted that the Committee received an update on responses received for the Agency's request for proposal to select a new consultant for the Optional Retirement Program

Dr Alemi commented that during his tenure on the Board, he served with "top notch individuals and the cream-of-the-crop" He noted that one of the nominees in the Employees' election had published and distributed a derogatory flyer to the Board, to which he was vehemently opposed Mr Brown voiced his opinion that this was a campaign dispute and inappropriate for the Board meeting Chairman Schaefer then ruled the item out of order

The Board accepted Mr Caple's report

Executive
Committee Report
and Recommendations

6

Mr William D Brown, Chairman of the Executive Committee, reported on the regular meeting held June 3, 2003

Mr Brown reported that Ricky Harrison discussed the Agency's remaining budget for FY 2003 and appropriation for FY 2004 He addressed Mr Brown's concerns regarding a computer upgrade program noting special legislation would likely be required

Two presentations were also made before the Committee First, Secretary Christopher McCabe, Department of Human Resources, requested the Board's assistance with the upcoming United Charities Campaign Secretary McCabe stated that any assistance from the Board has been and will be greatly appreciated Mr Brown advised the Board that the Maryland Charity Campaign is the only solicitation the System's members receive during the year and retirees may elect to be removed from the mailing list

Secondly, Dr Jack Osman, a faculty member from Towson University expressed his concerns on the crediting of unused sick leave for faculty members. The Committee requested Mr Lee include a review of the Sick Leave Conversion Chart in the review of pension law and practices being considered to simplify existing business practices.

The Committee reviewed current guidelines for determining if a retiree should be granted a "hardship waiver" exempting the retiree from the required Direct Deposit (Electronic Fund Transfer) of the monthly retirement benefit. The Committee accepted the guidelines for waivers on Electronic Fund Transfers.

On motion made by Mr Brown and seconded by Major Krome, the Board voted to accept the Executive Committee's recommendation that the Agency be given the authority to automatically suspend the disability benefit for any disability retiree ineligible for a normal service retirement who has returned to work for a participating employer at a salary equal to or greater than the average final compensation on which the disability benefit was based. Mr Caple requested that a special article be written for publication in the Agency's newsletter concerning this item. Mr Harrison further requested that a letter be sent to the approximate 5,000 retirees possibly affected by Section 29-115.

The Executive Committee requested staff to draft a proposal for the Committee to consider allocating administrative costs on membership rather than assets.

Mr Brown reported that Ms Alice Todd's appeal of the Retirement Agency's intended reduction of her benefits was resolved. Ms Todd agreed to have her retirement benefit reduced.

Mr Brown also reported that Mr Gigliotti advised the Committee that the Retirement Agency is responsible for audits of the various boards of education, libraries and community colleges (local education agencies - LEAs). The Agency costs, to date, have been paid from the recovery realized from the audits however, under the most recent audit, the recovery did not cover the Agency's costs. The Executive Director recommended and the Committee agreed that it seems appropriate to take this issue to the Joint Committee on Pensions. The Committee further recommended the Joint Committee consider the following options: eliminate the audits, reassign the audits to the Department of Education, and increase the audit cycle to 4 or 5 years.

The Minutes of the meeting are shown as Exhibit A.

The Board accepted Mr Brown's report.

Audit Committee
Report and
Recommendations

7 Mr. William D. Brown, Chairman of the Audit Committee, reported on the Audit Committee meeting of May 20, 2003

The Board accepted Mr. Brown's report

Executive
Director's Report

8 Mr. Thomas K. Lee's report including the following items

The Board received a brief report from Victoria Willard on the payment of benefits as a result of the restructuring of assets. Before the restructuring, the internally managed fixed income portfolios generated enough cash flow to cover the shortfall. When notified by the Finance Division each month, the Investment Division staff would withdraw the funds needed from the various accounts. As a result of the restructuring, no portfolios are managed internally. Ennis Knupp has recommended that staff withdraw the funds needed from the three index funds managed by State Street Global Advisors on a pro rata basis as part of the month rebalancing and transfer the cash to the existing equity and fixed income cash or benefit reserve accounts. At the end of each month when benefits are paid, the cash will be available to pay them. Chairman Schaefer requested information on the total assets for the end of May, and the highest and lowest it had been. Ms. Willard replied that total assets for May were \$26.4 billion, that the highest level was over \$33 billion in June 2000 and the lowest was \$23.7 billion earlier this year *[September 2002]*

Mr. Lee noted the closing date for submission of resumes for the Chief Investment Officer position is June 20, 2003. The composition of the interview panel for the position will consist of Nancy K. Kopp, Arthur N. Caple, Jr., Dean Kenderdine, Steve Cummings of Ennis Knupp, Robert W. Schaefer, Trustee, and Thomas Lee. Background and criminal checks will be done on potential candidates. Interviews are scheduled for the first week of July and the top candidates would be presented to the Investment Committee on July 11, 2003 with the Board's approval on July 22, 2003. The new Chief Investment Officer should be on board by August 2003.

Mr. Lee updated the Board on his meetings with Delegate Mary-Dulany James and Senator Edward J. Kasemeyer to discuss the complexity of the pension statutes and the development of a new strategic pension system. Senator Kasemeyer and Vicky Gruber are scheduled to tour the Agency as well as Warren Deschenaux and his staff from the Department of Legislative Services.

At the request of the Director, Marge Bury presented a brief report on the numerous retirement calculations that are processed manually. In summary, Ms. Bury advised the Board the Annotated Code should be reviewed for possible revision to alleviate the labor intensive work required by the Agency. Ms. Bury also noted that CEM will report to the Board in August.

Mr Lee stated the Agency is working with the Department of Budget and Management to develop a RFP to go out on a statewide basis for audit related tasks without using a separate agency RFP process

Mr Coale discussed the further development of the Agency's website into a user friendly, graphically appealing information resource to better serve the retirees and members The improved website should aid in a more efficient administration of the system itself Mr Coale noted the changes that have been and will continue to be made to the website

The Board accepted Mr Lee's report

Committee and Sub-Committee Reports and Recommendations 9 No reports were given

Because the appeal cases were scheduled for 1:00pm, the Board continued with the remainder of the agenda.

Earnings Limitation Recovery 13 The report of the Agency for offsets of certain retirees was accepted by the Board The Board, on motion made by Treasurer Kopp and duly seconded, authorized the reduction of the pensions of affected retirees as provided for under the current law [State Personnel and Pensions Article] The pension offsets are based on calendar 2002 earnings that will be offset from pension benefits paid in fiscal year 2004

Disability Offset Report 14 The reports of the Medical Board for offsets of disability retirees were accepted by the Board The Board, on motion made by Treasurer Kopp and duly seconded, authorized the reduction of the pensions of affected retirees as provided for under the current law (State Personnel and Pensions Article), effective July 1, 1990 The offsets are based on calendar 2002 earnings, which will be offset from pension benefits paid in fiscal year 2004

Medical Board Reports 15 On motion made by Treasurer Kopp and duly seconded, the Board accepted and approved 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

Supplemental Medical Board Reports 16 The Board, on motion made by Dr Alemi and seconded by Dr Grasmick unanimously voted to accept 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 The Supplemental Report of the Medical Board is shown as Exhibit B.

6

Mr. Lee discussed with the Board the current backlog of appeal cases waiting to be presented to the Board for final decision. Several possible options were discussed: 1) increase the number of cases heard at each Board meeting, 2) schedule an all-day session to hear backlog cases, 3) consider a separate committee to hear the appeal backlog cases, or 4) limit the allotted time for presentation of the cases by each claimant and by counsel for the Agency. Several board members were in favor of imposing a time limit, while several others were opposed. A two-day meeting in July was suggested to consider all of the pending cases, however due to time constraints this was not feasible. Treasurer Kopp was troubled by the time frame it takes each case to come before the Board for final decision. The Chairman believes it is the Board's responsibility to personally hear appeal cases and that setting a time limit would be difficult to enforce. The Board agreed, for future cases, that a reasonable time limit should be set. After much discussion, the Board agreed to temporarily increase the number of hearings each month until the backlog is eliminated. Should an influx of cases create a future backlog, an all-day meeting will be considered.

On motion made by Mr. Harrison and seconded by Mr. Caple, the Board voted to meet in Executive Session. The Board considered the following matters: investment of public funds, consultation with counsel to obtain legal advice on a legal matter and consultation with staff about pending or potential litigation. State Govt 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 consult with counsel to obtain legal advice on a legal matter, 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 11:13a.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street to consider investment of public funds, consultation with counsel to obtain legal advice on a legal matter and consultation with staff about pending or potential litigation. All of the persons present at the beginning of the meeting were present in Executive Session. The Board adjourned its Executive Session at 11:42am and returned to regular session to complete the agenda.

REGULAR SESSION

On motion made and duly seconded, the Board voted to ratify actions taken in Executive Session.

On motion made by Mr. Caple and seconded by Mr. Krome, the Executive Session minutes of April 15, 2003 and May 20, 2003 were approved.

On behalf of the Board, the Chairman and Vice Chairman presented Mr Harrison with a Resolution. Chairman Schaefer expressed deep appreciation and gratitude to Mr Harrison for his outstanding service to the Board and extended best wishes for his future endeavors.

Major Krome noted the Legislature had made a grave error by eliminating this elected member on the Board. He acknowledged Mr Harrison's hard-working dedication to the Board and the System's members and beneficiaries.

The Board of Trustees adjourned its meeting at 11:50am for lunch. The Board resumed its meeting at 12:50pm. During the lunch break, Mr Brown and Secretary DiPaula left the meeting.

Theresa L. White

10 The Board considered the report of Brian Zlotnick, the Administrative Law Judge in connection with the claim of Theresa L. White, for accidental disability benefits. The report included a report by the Medical Board and related medical documentation. Ms White appealed the Medical Board's decision.

The Medical Board denied Ms White's claim for accidental disability retirement benefits based on its determination that the evidence did not support a conclusion that an accident caused her disability as required by Md. Annotated Code, State Personnel & Pensions Article, Section §29-109.

Dennis Gottesman, attorney for Ms White, appeared before the Board and presented his arguments opposing the Agency's position and the Administrative Law Judge's recommendations. Ms Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations. Following discussion, the Board deferred further consideration to Executive Session.

Elva M. Sisco

11 The Board considered the report of Georgia Brady, the Administrative Law Judge in connection with the claim of Elva M. Sisco, for accidental disability benefits. The report included a report by the Medical Board and related medical documentation. Ms Sisco appealed the Medical Board's decision.

The Medical Board denied Ms Sisco's claim for accidental disability retirement benefits based on its determination that the medical evidence submitted did not prove that her disability was caused by the April 17, 1998 accident.

Dennis Gottesman, attorney for Ms Sisco appeared before the Board and presented his arguments opposing the Agency's position and the Administrative Law Judge's recommendations. Ms Carla Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations. Following discussion, the Board deferred further consideration to Executive Session.

Christina Lockerman 12

The Board considered the report of Susan Officer, the Administrative Law Judge in connection with the claim of Christina (Garrett) Lockerman, for accidental disability benefits. The report included a report by the Medical Board and related medical documentation.

The Medical Board denied Ms. Lockerman's claim for accidental disability retirement benefits based on its determination that the facts alleged did not constitute an accident as required by Maryland Annotated Code, State Personnel & Pensions Article, Section §29-109.

Dennis Gottesman, attorney for Ms. Lockerman, appeared before the Board and presented his arguments opposing the Agency's position and the Administrative Law Judge's recommendations. Ms. Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations. Following discussion, the Board deferred further consideration to Executive Session.

On motion made and duly seconded, the Board voted to meet in Executive Session. The Board deliberated regarding the disability appeals. State Govt. Article, Section 10-503(a)(1)(iii) authorizes the Board to meet in closed session to exercise a quasi-judicial function.

EXECUTIVE SESSION

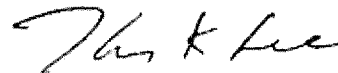
The Board met in Executive Session at 2:08pm in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider the appeals of Theresa White, Elva Sisco and Christina (Garrett) Lockerman. The following persons were present when the meeting resumed at 12:50pm: Chairman William Donald Schaefer, Vice-Chair Nancy K. Kopp, Mr. Arthur Caple, Jr., Dr. Ali A. Alemi, Major Morris Krome, Mr. Carl Lancaster, Dr. Nancy Grasmick, Mr. G. Bruce Harrison, Mr. Thomas K. Lee, Mr. Howard Pleines, Ms. Deborah Bacharach, Ms. Margaret Bury, Ms. Monica Bias, Ms. Shirley Hartnett, Ms. Carla Katzenberg, Ms. Jill Leiner, Ms. Christina Lockerman and Mr. Dennis Gottesman, Esquire. The following persons were not present in Executive Session: Ms. Carla Katzenberg, Ms. Jill Leiner, Ms. Christina Lockerman and Mr. Dennis Gottesman, Esquire. The Board adjourned its Executive Session at 2:20pm and returned to regular session to complete the agenda.

REGULAR SESSION

- Theresa L. White The Board considered the record of Theresa L. White. Following a discussion, Dr Alemi made a motion to reject the Administrative Law Judges report and grant accidental disability retirement. The motion failed for lack of a second. On motion made by Dr Grasmick and seconded by Mr Lancaster, the Board voted 7-1 to adopt the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and denied Ms. White's request for accidental disability retirement benefits. Dr Alemi registered a nay voted.
- Elva M. Sisco The Board considered the record of Elva M. Sisco. Following a discussion, on motion made by Dr Alemi and seconded by Major Krome, the Board voted unanimously to adopt the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and denied Ms. Sisco's request for accidental disability retirement benefits.
- Christina Lockerman The Board considered the record of Christina Lockerman. Following a discussion, a motion was made by Mr. Harrison and seconded by Dr. Alemi, the Board voted 7-1 to reject the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and grant Ms. Lockerman accidental disability retirement benefits. Major Krome registered a nay note.

There being no further business before the Board, the meeting adjourned at 2:22pm

Respectfully submitted,



Thomas K. Lee
Secretary to the Board

TKL/mcb