

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

MINUTES OF MEETING

June 15, 2004

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 9:00 a.m. There were present: William Donald Schaefer, Chairman; Nancy K. Kopp, Vice-Chairman; William D. Brown; Carl D. Lancaster; Dr. Melissa Moye; Morris L. Krome; John W. Douglass; David B. Hamilton, Trustees; and, Thomas K. Lee, Secretary. Agency Staff members also attending were: Margaret Bury, Retirement Administrator, Deborah Bacharach, Robert Feinstein, Jill R. Leiner, Assistant Attorneys General and Laura Burns, Staff Attorney; Margo Wheat, Chief Financial Officer; Jeannie Abramson, Finance; Steve Huber, Chief Investment Officer; Howard Pleines, Director Legislation and Research; Sherlynn Matesky, Legislation and Research; Thomas Gigliotti, Chief Internal Auditor; Joseph Coale, Public Information Officer; Gary Scribner, Chief Information Officer; and Monica Bias, Executive Associate.

Also attending were Dean Kenderdine, Comptroller's Office; Mary Jo Neville and Randy Mickens, Maryland State Teachers Association; Anne Gawthrop and Daniel Tompkins, Legislative Services; Robert Palumbi, Maryland Retired Teachers Association; Sue Estey and John Keenan, AFSCME; Henry O. Jackson and Paige T. Davis Jr., Bancker Capital Management; Jill D. Millineaux and Joel E. Segall, Esquire; Hillary Galloway Davis, Esquire; and Rhonda I. Framm, Esquire.

Chairman Schaefer noted that Secretary James C. DiPaula, Jr. was excused from the meeting in order to attend the funeral for retired judge Warren Duckett, Jr.

Prior to discussing the agenda, Comptroller Schaefer welcomed Mr. John Douglass to the Board as the newly elected retired member representing the various Employees' Systems on the Board of Trustees.

Following his opening remarks, Comptroller Schaefer, Mr. Lancaster, Treasurer Kopp, and Mr. Lee shared their thoughts on the loss of Mr. Arthur Caple. All expressed their admiration for the service rendered and knowledge shared by Mr. Caple during his many years of service as Trustee.

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| Minutes | 1. On a motion by Major Krome, seconded by Treasurer Kopp, the Board approved the minutes of the May 18, 2004 meeting. |
| Board Officers | 2. On a motion by Mr. Lancaster, seconded by Mr. Hamilton, the Board voted to retain the current Board Officers: Chairman – William Donald Schaefer; Vice-Chairman – Nancy K. Kopp; and Secretary – Thomas K. Lee. While expressing his appreciation for Comptroller Schaefer's leadership over the past several years, Major Krome abstained from the vote. |

Chairman Schaefer indicated that as a result of Mr. Caple's death, he was appointing Mr. Lancaster as Chairman of the Investment Committee, and Treasurer Kopp as Vice-Chair.

Investment
Committee Report
and Recommendations

3. Mr. Carl Lancaster, Chairman of the Investment Committee, reported on the meeting held June 11, 2004.

Mr. Lancaster noted that the Investment Committee moved to approve the open session minutes of the May 14, 2004 Investment Committee meeting.

Mr. Lancaster indicated that Mr. Huber presented his monthly market overview. Mr. Huber advised that interest rates continue to increase as anticipated, and that despite interim volatility, stocks had changed very little during the current year.

Mr. Lancaster reported that Mr. Feinstein had reviewed a memorandum addressing the allocation and rebalancing of monies related to the CIGNA cash out. The Committee agreed that the rebalancing motion approved by the Board in March 2004 permits staff to move the proceeds from the CIGNA cash out from the Real Estate Cash Account to the System's passively managed fixed income account without Board approval.

Mr. Lancaster also reported that Ms. Ray reviewed her memorandum on Treasury Inflation Protected Securities (TIPS). Ms. Ray reported that staff believes inflation increases are fully priced into TIPS, and real rates are not compelling. While staff did not recommend a tactical allocation at this time, she noted that plans are to consider TIPS as part of the System's asset/liability review later this year.

The Board accepted Mr. Lancaster's report.

Administrative
Committee Report
and Recommendations

4. Mr. William D. Brown, Chairman of the Administrative Committee, reported on the meeting held June 1, 2004.

On motion made by Mr. Brown, seconded by Major Krome, the Board upheld the Executive Director's recommendation to deny Ms. Lillian James' request for an exemption from the earnings limitation. As a media specialist, pension law did not exempt Ms. James from the earnings limitation when reemployed after retirement by Prince George's County Board of Education.

Mr. Brown indicated that Mr. Lancaster had requested that the Committee review the Board's regulation related to retirees being subject to an earnings limitation for a 10-year period following their retirement. The current regulation initiates the 10-year period in January following the actual retirement date unless the retirement is effective January. Mr. Lancaster believes this approach could cause problems for the Agency in the future. Staff is to gather additional information on the costs and benefits related to this issue and report to the Committee in August. The Board suggested that this issue be included as part of the discussions on why retiree earnings limitations need to be eliminated.

Mr. Brown requested Mr. Lee to speak on the Retirement Agency's Business Plan. Mr. Lee noted that the business plan is a requirement of the recently completed fiduciary audit. The initial plan concentrates on the infrastructure of the Agency. The Administrative Committee is to discuss the plan at its August 10 meeting; then it will be discussed by the full Board at the August 17 Board meeting. Mr. Lee asked all Trustees to submit their comments to him prior to the August meetings.

Mr. Brown advised that the newest participating municipality was the City of District Heights. The City enrolled effective May 1.

With the death of Trustee Arthur Caple, Mr. Brown stated that the Agency is prepared to hold a special election following an aggressive schedule that would place the new trustee on the Board as of October 2004. The term ends July 31, 2005 and must be filled by an active member of the Employee's Systems. Treasurer Kopp noted that there were discussions of not holding an election, but it is generally believed that the seat of an elected representative should not be held open for any reason.

On motion of Mr. Brown, seconded by Treasurer Kopp, the Board accepted the scheduling for the special election to fill the remainder of Mr. Caple's term. The Board also requested Mr. Lee to contact the Governor's Office for information on filling the seat for the representative of participating municipalities that has been vacant since May 2003.

The Board accepted Mr. Brown's report.

Audit Committee
Report and
Recommendations

5. Mr. David B. Hamilton, Chairman of the Audit Committee, reported on the meeting held May 18, 2004.

Mr. Hamilton advised that the Task Order RFP under the statewide contract had been issued for the Internal Control Assessment. Bids were being evaluated at the present time.

Mr. Hamilton noted the continued difficulties in competing for auditing staff. At the suggestion of Mr. Douglass, who asked if a salary waiver for auditing positions could be obtained, the Board requested Mr. Lee to speak to the Department of Budget and Management about the hiring and retention problems for auditors.

The Board accepted Mr. Hamilton's report.

Executive
Director's Report

6. Mr. Thomas Lee provided the Board with the tentative agenda for the Board's educational training session scheduled for Annapolis on Friday, June 25.

Mr. Lee indicated that he would be attending a meeting with Mr. Huber for the Bond Rating Agencies on June 16. Their message is to emphasize the improved performance, indicating the pro-active posture the Board has assumed in asset allocation and improving returns.

The Board accepted Mr. Lee's report.

- Business Plan 7. Mr. Lee presented information on the Retirement Agency's Business Plan as part of the Administrative Committee report.
- Yearly Attendance Report 8. Mr. Lee notified the Board that the Retirement Agency was submitting the attendance report for the Board to the Department of Legislative Services for the period January 1, 2004 through June 30, 2004. The report is required under Chapter 403 of the Acts of 2003.
- Earnings Limitation 9. Ms. Margaret Bury advised the Board as to the number of retirees and amount of recovery required to be offset for service retirees who had returned to work and were subject to an earnings limitation. On motion made by Treasurer Kopp, seconded by Mr. Brown, the Board voted to accept the report and offset the retirement benefits in the amounts stated.
- The Board directed staff to continue working towards eliminating the earnings limitation for all retirees by including such a proposal in the Board's 2005 legislative packet.
- Disability Offset 10. Ms. Margaret Bury also advised the Board that the Retirement Agency was required to offset the disability benefits of retirees who were working in any employment following their retirement and who were not of normal retirement age. On motion made by Treasurer Kopp, seconded by Mr. Brown, the Board voted to accept the report and offset the disability benefits in the amounts stated.
- Jill D. Mullineaux 11. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Jill D. Mullineaux for accidental disability benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.
- Ms. Mullineaux appeared before the Board with her attorney, Joel E. Segall, and opposed 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.
- Roy M. Davies 12. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Roy M. Davies for accidental disability benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.
- Ms. Hillary Galloway Davis, attorney for Mr. Davies, opposed the Agency's position and the Administrative Law Judge's recommendations. Mr. Davies was not present. 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.

- Patricia Reinhold 13. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Patricia Reinhold for ordinary disability benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.
- Ms. Rhonda I. Framm, attorney for Ms. Reinhold, opposed the Agency's position, the Medical Board reports and the Administrative Law Judge's recommendations. Ms. Reinhold was not present. Ms. Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should accept the Medical Board report and the Administrative Law Judge's recommendations. Following discussion, the Board deferred further consideration to Executive Session.
- Remand of Richard Miller 14. The appeal of Richard J. Miller for accidental disability has been remanded to the Board by the Circuit Court of Baltimore City for reconsideration. Following discussion, the Board deferred further consideration to Executive Session.
- Medical Board Reports 15. On motion made by Major Krome, seconded by Treasurer Kopp, the Board accepted the reports of the Medical Board in connection with applications of members for ordinary, accidental and special disability retirement allowances. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants.
- Supplemental Medical Board Reports 16. On motion made by Major Krome, seconded by Treasurer Kopp, the Board accepted the supplemental reports of the Medical Board in connection with applications of members for ordinary, accidental and special disability retirement allowances. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants. Exhibit A

On motion made and duly seconded, the Board voted unanimously to meet in Executive Session to consider investment matters and 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. State Govt. Article, Section 10-508(a)(5) authorizes the Board to meet in closed session to consider the investment of public funds. The Board also discussed the issue of compensation for the Executive Director. State Govt. Article 10-508(a)(1)(i) authorizes the Board to discuss compensation for employees of the Retirement Agency.

EXECUTIVE SESSION

The Board met in Executive Session at 11:25 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider investment and to discuss the disability cases. The persons present at the beginning of the meeting were present in Executive Session for discussion except: Morris Krome (left at 11:40 a.m.), Jill R. Leiner, Laura Burns, Robert Feinstein, Jeannie Abramson; Sherlynn Matesky, Robert Palumbo, Randy Mickens Mary Jo Neville, Anne Gawthrop, Daniel Tompkins, Hillary Galloway Davis, Jill D. Millineaux, Joel E. Segall, and Rhonda I. Framm.

Following these discussions, William Donald Schaefer, Nancy K. Kopp, William D. Brown, Carl D. Lancaster, Dr. Melissa Moye, David B. Hamilton, and John W. Douglass remained in closed session to discuss compensation issues. The Board ended its closed session at 11:55 a.m. 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. Mr. Douglass, because this was his first meeting and he wished to become familiar with the process, abstained from voting on the disability cases.

Jill D. Mullineaux The Board considered the appeal of Jill D. Mullineaux. Following a discussion, on a motion made by Mr. Hamilton, seconded by Mr. Brown, the Board voted to **adopt** the Administrative Law Judge's Proposed Decision and deny Ms. Mullineaux's request for accidental disability benefits.

Patricia Reinhold The Board considered the appeal of Patricia Reinhold. Following a discussion, on a motion made by Dr. Moye, seconded by Mr. Hamilton, the Board voted to **accept** the Medical Board's report and the Administrative Law Judge's Proposed Decision and deny Ms. Reinhold's request for ordinary and accidental disability benefits. In addition, the Board declined to consider new evidence of the Claimant's mental and physical disability resulting from her automobile accident because those injuries were incurred more than two years after she left State employment and, therefore, did not prevent her from continuing to work for the State and were not relevant to her claim for State disability benefits.

Richard Miller On remand from the Circuit Court for Baltimore City, on motion made by Mr. Hamilton, and duly seconded, the Board voted to issue a Final Decision and Order denying Mr. Miller's appeal for accidental disability benefits. The Board found that Mr. Miller failed to prove that his disability was the natural and proximate cause of a workplace accident.

There being no further business before the Board, the meeting adjourned at 12:00 noon.

Respectfully submitted,



Thomas K. Lee
Secretary to the Board

TKL/mcb