

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

MINUTES OF MEETING

October 19, 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-Chair, David B Hamilton, Morris L Krome, William D Brown, Carl D Lancaster (arrived at 11 12am), Dr Melissa Moye, Patrick O'Shea, F Patrick Hughes, John W Douglass and James S Harkins, Trustees, and, Thomas K Lee, Secretary Agency Staff members also attending were Harvey Raitzyk, Deputy Administrator, Deborah Bacharach, Robert Feinstein, Jill Leiner, Rachel Cohen, and Laura Burns, Assistant Attorneys General, Margo Wheel, Chief Financial Officer, Jeannie Abramson and Arthur Broadwick, Finance Division, Victoria Willard, Robert Burd, Lawrence Bach, Tracey Ray and John Greenberg, Investment Division, Howard Pleines, Director Legislation and Research, Thomas Gigliotti, Chief Internal Auditor, Joseph Coale, Public Information Officer, Dale Markel, Chief Information Officer, Larry Martin, Information Technology, and Monica Bias, Executive Associate

Also attending were Dean Kenderdine, Comptroller's Office, Robert Dezube, William A Reimert, and Katie Staub, Milliman USA, Martin Levine, Department of Legislative Services, Sue Esty, AFSCME, Thomas E Patti, Harford County Government and Joseph Wilderson

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| Minutes | 1 | On motion made and duly seconded, the Board approved the minutes of the September 21, 2004 regular meeting |
| Administrative Committee | 2 | On motion made by Chairman Schaefer, and duly seconded, the Board appointed James M Harkins to the Administrative Committee On behalf of the Trustees, Comptroller Schaefer welcomed Mr Harkins to the Board |
| Investment Committee
Recommendations and
Information Items | 3 | Treasurer Nancy Kopp, Vice-Chairman of the Investment Committee, reported on the meeting held October 8, 2004

Treasurer Kopp stated that the Committee heard a presentation from Brown Capital Management concerning their small company growth-stock portfolio managed for the System The discussion focused on the portfolio's sustained underperformance, management's risk management process and organizational staffing

Treasurer Kopp also stated that staff presented an overview of the capital markets and a review of the Fund's investment performance for August 2004 |

On motion made by Treasurer Kopp, and duly seconded, the Board agreed to seek legislation to perform a review of the Optional Retirement Program (ORP) every two years and to issue a Request for Proposal to engage a consultant for five years to assist in reviewing and evaluating the companies and products approved under the ORP

On motion made by Treasurer Kopp, and seconded by Major Krome, the Board adopted a new investment manager Watch List Policy based on underperformance for one, three, and five years. Members of the Board made clear that maintenance of the Watch List is the full responsibility of the Investment Division

On motion made and duly seconded, the Board voted unanimously to meet in Executive Session. State Govt Article ("SG"), 10-508(a)(5) authorizes the Board to meet in closed session to consider the investment of public funds, SG Section 10-508(a)(14) authorizes the Board to meet in closed session to discuss matters relating to the contents of proposals before a contract is awarded. State Personnel and Pensions Article, Section 21-123(f) permits the Board not to disclose certain information until such time as public inspection of the documents would not adversely affect the investment of public funds

EXECUTIVE SESSION

The Board met in Executive Session at 9:12 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider investment matters. Those persons present in Executive Session for discussion were William Donald Schaefer, Chairman, Nancy K. Kopp, Vice-Chair, David B. Hamilton, Morris L. Krome, William D. Brown, Dr. Melissa Moye, Patrick O'Shea, F. Patrick Hughes, John W. Douglass and James M. Harkins, Trustees. Agency Staff members also attending were Thomas K. Lee, Deborah Bacharach, Robert Feinstein, Harvey Raitzyk, Margo Wheat, Jeannie Abramson, Victoria Willard, Robert Burd, Tracey Ray, Lawrence Bach, John Greenberg, Joseph Coale, Dale Markel, Howard Pleines, and Monica Bias.

The Board ended its closed session at 9:32 a.m. and returned to regular session to complete the agenda.

REGULAR SESSION

On motion made and duly seconded, the Board ratified the actions taken in the closed session.

The Board accepted Treasurer Kopp's report.

Administrative Committee	4	Mr. William D. Brown, Chairman of the Administrative Committee, reported on the meeting held October 5, 2004.
Recommendations and Information Items		Mr. Brown indicated that staff recently surveyed public systems that have elected trustees. Most of these systems utilize their websites to present information about candidates. The Retirement Agency intends to post information on individual candidates, as it is to appear on the ballots, on the System's website.

Mr Brown noted that Mr Dale Markel provided positive news on the increased use of the System's website – about 35,000 hits per month Staff is continuing its efforts to expand and improve the information available to the membership through its website

Mr Brown noted that Ms Margaret Bury had presented a FY2005 Backlog Report to the Administrative Committee indicating the impact on the Retirement Agency of understaffing and increasing demand for services Mr Harvey Raitzyk highlighted for the Board the main elements in the report, focusing on the current shortage of experienced counselors (hiring five counselors at this time), and temporary reassignment of staff to deal with backlogs Comptroller Schaefer emphasized the need to continue to pay benefits on time, and to provide correct information promptly to members seeking to retire

On motion made by Mr Brown, seconded by Major Krome, the Board accepted the Report on Fiscal Year 2005 Backlogs, and reiterates its strong support for the full Board approved 2006 budget request submitted to the Department of Budget and Management

Mr Brown indicated that the Business Process Reengineering project is underway with PEC Solutions selected to identify the Retirement Agency's business events PEC will be costing the various business events identified and provide a discussion on maintaining or altering those business events

On motion by Mr Brown, and seconded by Major Krome, the Board accepted 3 additional legislative proposals

Alter the Period for ORP Reviews

Amend pension law to provide for an ORP review "at least every 3 years"

Clarify that for Teacher Members and Ten-Month employees, Maximum Service Credit Earned in a Year is Ten-Months

Clarify that 1 year of service for teacher members and 10-month employees equates to 10 months, the school year

Clarifying Crediting of Unused Sick Leave

Clarify that members who file for their retirements within 30 days of terminating employment are to be credited for their unused sick leave – codifies a long-standing Agency practice

Exhibit A

The Board accepted Mr Brown's report

Executive
Director's Report

- 5 Mr. Thomas Lee advised the Board that the Retirement Agency's annual employee recognition day would be held in the Board room on Tuesday, October 26 at 9:00 a.m. He invited all Trustees to attend.

Mr. Lee notified the Trustees of the election results to fill the seat vacated by the untimely passing of Mr. Arthur Caple. He noted that 25,116 ballots of a total of 135,246 were returned (18.57%). The results are: Sheila Hill – 7,608, Joseph C. Bryce – 6,819, Ruth Ann Ogle – 4,917, Joseph Neil Wilderson – 2,985, and James H. McLean – 2,549. Mr. Lee stated that he would notify Ms. Hill of her election to the Board.

The Board accepted Mr. Lee's report.

Actuarial
Valuation Report

- 6 Mr. Robert Dezube, Milliman USA, provided an overview of the process utilized by Milliman USA to prepare the June 30, 2004 actuarial valuation of the State Retirement and Pension System of Maryland, and to prepare the employer contributions rates.

Mr. Dezube and Mr. Reimer explained to the Board that, in the course of an internal audit of the Actuarial Valuation Report for Maryland, conducted by Milliman's Philadelphia office, Milliman discovered that the liabilities associated with the survivor benefits provided in the Judges, LEOPS, and State Police systems were not accurately accounted for. Numerous questions were raised by Board members regarding how this error occurred, as well as what other factors contributed to the increase in contribution rates.

Because of the complexity of this issue, the short time Trustees had to digest the information, and the need to answer numerous questions before certification of the 2006 employer contribution rates, the Board took no action on the rates. Instead, the Board directed Milliman, USA to prepare a full written explanation of the issues involved in the 2004 Valuation process and the development of the 2006 proposed rates. The information is to include background on the development and impact of the "corridor approach" to funding. The Actuary is to present this information and be prepared to discuss it in full at a Special Board meeting to be held in the Retirement Agency on October 27, 2004 at 9:00 a.m.

Medical Board
Reports

- 7 On motion made and duly seconded, 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.

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- Supplemental Medical Board Reports 8 On motion made and duly seconded 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 B**
- Patricia L. Street 9 At the request of Ms. Street's attorney, the Board deferred consideration of the claim of Ms. Patricia L. Street until a future date.
- Christine M. Franklin 10 At the request of Ms. Christine M. Franklin, the Board deferred consideration of Ms. Franklin's claim for accidental disability benefits until a future date.
- Richard Hooper 11 The Board considered the report of the Medical Board and the Proposed Decision of the Administrative Law Judge in connection with the claim of Mr. Richard Hooper for disability benefits. A report by the Medical Board, the Administrative Law Judge's report, and all related documents submitted by the parties were presented.
- Mr. Hooper appeared before the Board and opposed the Agency's position, the Medical Board Report and the Administrative Law Judge's recommendations. 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.
- Roy M. Davies 12 The Board re-considered the claim of Roy M. Davies for accidental disability benefits.

On motion made and duly seconded, the Board voted unanimously to meet in Executive Session to consider 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 10:15 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider disability appeals. Those persons present in Executive Session for discussion were William Donald Schaefer, Chairman, Nancy K. Kopp, Vice-Chair, David B. Hamilton, Morris L. Krome, William D. Brown, Dr. Melissa Moye, Patrick O'Shea, F. Patrick Hughes, John W. Douglass and James M. Harkins, Trustees. Agency Staff members also attending were Thomas K. Lee, Deborah Bacharach, Howard Pleines, and Monica Bias.

The Board ended its closed session at 10:24 a.m. and returned to regular session to complete the agenda.

REGULAR SESSION

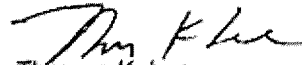
On motion made and duly seconded, the Board voted to ratify actions taken in Executive Session

Richard Hooper The Board considered the appeal of Richard Hooper. Following a discussion, a motion made by Mr. Hughes and seconded by Mr. Hamilton, the Board voted to accept the Decision of the Medical Board and reject Mr. Hooper's request for disability benefits.

Roy M. Davies The Board reconsidered the appeal of Roy M. Davies, originally heard in June. Following a discussion, on a motion made by Treasurer Kopp, seconded by Mr. Douglass, the Board voted to deny Mr. Davies' request for disability benefits. The Board adopted the findings of fact and conclusions of law of the Administrative Law Judge but not the entire Proposed Decision. The Board directed Ms. Bacharach to prepare the final decision for the Board. Mr. Harkins abstained.

There being no further business before the Board, the meeting adjourned at 11:55 a.m.

Respectfully submitted,


Thomas K. Lee
Secretary to the Board

TKL/mcb

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

MINUTES OF THE OCTOBER 5, 2004 MEETING

The Administrative Committee met on Tuesday, October 5, 2004, beginning at 9 30 a m in the Boardroom of the State Retirement Agency, 120 East Baltimore Street, Baltimore, Maryland

William D Brown, Chairman, Morris L Krome, Vice-Chairman, David B Hamilton, John W Douglass, and Howard Freedlander, representing Treasurer Kopp were present Mr James Harkins, newly appointed trustee, also was in attendance

Also attending were Thomas K Lee, Executive Director, Margaret Bury, Deborah Bacharach, Margo Wheat, Jeannie Abramson, Dale Markel, Larry Martin, Joseph Coale, Thomas E Patti, Harford County Government, Sherlynn Matesky, and Howard Pleines

The Administrative Committee discussed the following matters

A. Minutes of the Administrative Committee held September 7, 2004

The minutes of the September 7, 2004 Administrative Committee were approved

B. Administrative Expenses

Administrative expenses and Investment Manager fees through August 31, 2004 were accepted

C. Trustee Candidate Request – Survey of Public Systems

Ms Sherlynn Matesky advised the Administrative Committee that at the request of Mr Brown, staff had contacted major public systems throughout the country to determine if and how these systems provided trustee candidates a means to provide information about their qualifications to eligible voters Twenty-four states responded Thirteen have elected trustees

Eleven of the 13 systems (approximately 85%) post candidate biographies/information on their website No system paid for the cost of

campaign literature or special mailings for the candidates Ms Bury noted that staff's recommendation remains to post biographical information on the website

Mr Lee noted that the information on the website would mirror the information to be included with the ballot in conformance with the Board's current regulation

Mr Brown asked if there were limitations on the information candidates could submit Mr Lee sated that the Board's regulation limited the type of information that would be printed and also limited the total biography to no more than 250 words

At Mr Lee's request, the Administrative Committee agreed to permit staff to place the same information on the website that is to be included with the ballots to assist in the distribution of candidate information to the membership of the System

D. State Retirement Agency Website Usage

Mr Dale Markel indicated that at a previous meeting Mr Brown had raised the issue of website activity Mr Markel noted the positive news that usage of the website increased during calendar 2004 as more information is made available to the membership There are about 35,000 hits per month Mr Brown asked if the system could indicate who the users are and what information they are seeking Mr Markel stated that the present system cannot break down hits for information, forms etc , nor can it identify the users as members, retirees or non-members

Mr Freedlander asked if the usage increased after letters are issued by the Retirement Agency or articles appear in the media Mr Markel believed that there was a correlation of these factors, noting increased activity after such information is released

Mr Brown thanked Mr Markel for his report

E. Backlog Report

Ms Margaret Bury presented a report concerning Fiscal Year 2005 backlogs within the Retirement Agency She began with counseling, noting that for the first time, the Agency has lost 5 retirement benefit counselors at the same time This severely impacts on the ability of Member Relations to provide counseling services to the membership While the Agency hopes to have 4 of the 5 vacant positions filled shortly, Ms Bury noted that it would be a number of months before these new employees would be able to provide counseling services without assistance from an experienced counselor

The Retirement Agency receives about 100,000 telephone calls per year There are 8 lines normally in use and 8 more than can be held in queue If all lines are

EXHIBIT A

in use, the telephone response asks for a call-back number. The Agency works to keep the abandoned calls (those that disconnect before a counselor can respond) to under 5%. However, with the loss of 5 counselors, the abandoned rate is creeping up, reaching 14.5% in September.

Ms. Bury continued by noting that telephone calls drive the work within the Member Relations Section. It is necessary to keep the experienced counselors in-office to work with and train new counselors. Also, there are about 300 individual counseling sessions per month scheduled in the Baltimore office. The limitation of staff has forced the Agency to temporarily discontinue field counseling (individual counseling at sites outside of Baltimore) through June 2005. Members are asked to contact the Agency by telephone, or to arrange counseling in Baltimore – evening and weekend sessions also have been offered.

Ms. Bury also noted the impact the shortage of experienced counselors has had on the correspondence unit. To deal with the daily influx of new letters, as well as respond to special mailing involving an IRS search for vested former members and a mass mailing of 6,700 letters to former non-vested members, a correspondence team has been formed. Five additional staff are assisting to complete correspondence and to remain up to date on responses.

For disability processing, the Agency has 71 cases that are being reconsidered. The Agency must receive additional medical information before it can proceed with the disability claim. In addition, there are 78 appeals being processed through the Office of Administrative Hearing. In time, the majority of these appeals will come to the Board for its consideration.

Ms. Bury continued by stating that the Retirement Agency processed its highest numbers for retirement in a single month this year. In July, 2,529 retirements were processed. The current trend shows increases to retirements for all months in the last year. Also, the number of estimate requests continues to increase. Ms. Bury noted that the Agency is placing more emphasis on reconciliation of data to ensure the correct information is being processed. Service credit and account adjustments are now handled by the Data Control Unit. While this has relieved some of the backlog in Benefits Processing, it has increased the workload for the Control Unit.

Ms. Bury stated that in a year, the Agency processed 810 vouchers, for 4700 payments of approximately \$16.7 million dollars under manual payments. These involved deceased cases (averaging 200 per month) and replacements for payments issued. Such manual payments are very time consuming.

Mr. Harkins asked if the participating employers could provide assistance in any way to alleviate some of the backlogs. Ms. Bury noted that agencies already provide assistance through their retirement coordinators who serve to facilitate

the processing of forms and distribution of information. They are not, however, agents of or for the Retirement Agency and, therefore, should not provide counseling services for the Agency.

The need today is for additional staffing that will provide the positions to keep up with the growing workload and, in time, to reduce the use of overtime. Also, there is a great need to renew efforts to upgrade counseling positions and make these positions more competitive with both other State positions and private employment.

Mr. Lee noted that the biggest help from the Committee would be their continued strong support for the Agency's 2006 budget request. He noted that the State needs to recognize the demographic bubble with greater number of members reaching retirement eligibility, while the Retirement Agency worked to re-configure the skill set for retirement benefit counselors, to increase the use of technology and to conform data needs with the participating employers.

Mr. Lee indicated that the Agency services 300,000 members and 100,000 retirees, paying out about \$1.5 billion per year. The importance and critical nature of these operations cannot be overlooked. He ended his remarks by noting that he and Ms. Bury are to meet with Ms. Andi Fulton, Department of Budget and Management, to discuss upgrading retirement benefit counselor positions.

Action Item: On motion by Mr. Freedlander, seconded by Major Krome, the Administrative Committee accepted Ms. Bury's Report on Fiscal Year 2005 Backlogs, and requests that the Board reiterate its strong support for the Retirement Agency's full 2006 budget request. Mr. Lee is to provide a copy of Ms. Bury's report to all members of the Board.

F. Business Process Reengineering (BPR) Project – Status Update

Mr. Larry Martin provided an overview of the business process re-engineering that is ongoing throughout the Retirement Agency. This review, performed by PEC Solutions, is identifying the Agency's business events before staff begins its efforts to secure a new data processing system. Business events are the high-level areas of the Agency's responsibilities, such as enrollment of members, capturing payroll data, and retirement processing. Public Pension Systems average between 75 and 100 business events. Maryland has 65.

PEC Solutions has completed its interviews with staff and now is preparing workflow documents, business event and system use matrixes. In the near future, PEC Solutions will determine the estimated cost for the various business events and provide a complete discussion on the continuing use of existing systems. There will be a final report, and presentation, to the Board.

Mr Brown thanked Mr Martin for his report, and at the request of Major Krome, requested Mr Lee to provide a one-page summary of this information for the Trustees at the October Board meeting

G. Other Business

Mr Howard Pleines informed the Committee that he and Mr Lee met with Delegate James to discuss the issue of re-employment. While no decisions were reached, Delegate James appeared more receptive to altering the existing provisions that through earnings limitations restrict the re-hiring of an employer's own retirees. The emphasis would be on shifting the issue away from a pension perspective to a personnel perspective. An additional meeting, to include Senator Kasemeyer and Andi Fulton, is scheduled for October 12, at 1 00 p m. Also, the Task Force on the Exemption of Law Enforcement Officers' Pensions from Taxation has been formed, with Mr Lee as Chairman. The first meeting is scheduled for October 15 at the Retirement Agency's offices in Baltimore.

Mr Pleines presented 3 additional items for the Administrative Committee to consider for inclusion in the Board's 2005 legislative proposals.

Alter the Period for ORP Reviews

As part of the Retirement Agency's overall recommendations concerning the Optional Retirement Program, staff is recommending that the law be amended to provide for an ORP review sooner than "every 3 years". If the law is amended to state at least every 3 years, staff believes that a review could be performed as needed, giving the Board the ability to terminate vendors if necessary. Legal staff also is working in strengthening the language in the ORP vendor contracts to provide for termination following such a review.

Clarify that for Teacher Members and Ten-Month employees, Maximum Service Credit Earned in a Year is Ten-Months

Legal staff is recommending that additional language should be included in the Board's proposal to include language for the Pension Systems to clarify that one year of service is to be credited as no more than one year of creditable service. The Agency should add language that for teacher members and 10-month employees, a year of service equates to 10 months.

Clarifying Crediting of Unused Sick Leave

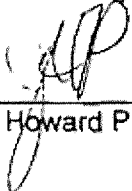
Staff is recommending that the law pertaining to the crediting of unused sick leave be clarified to permit eligible members to file for their retirements within 30 days of terminating employment so that unused sick leave credits may be included in the calculation of benefits. State personnel law states that an employee who is not retiring loses unused sick leave at termination of employment. However, it has long been an Agency practice to grant unused sick leave credits if there is no appearance of a break between employment and filing

for retirement -- within 30 days. Legal staff recommends codifying this practice so that the law clearly indicates the rights of members who delay filing retirement forms do not forfeit their unused sick leave credits if they file within 30 days of termination.

Action Item: On motion made by Major Krome, and seconded by Mr. Hamilton, the Administrative Committee recommends that the Board include the three proposals noted above in its 2005 legislative proposals.

Adjournment

There being no further business, Mr. Brown adjourned the meeting at 11:26 a.m.



J. Howard Pleines