

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

MINUTES OF MEETING

December 20, 2005

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, beginning at 9 00 a m There were present Carl D Lancaster, Chairman pro-tem, William D Brown, John W Douglass, David B Hamilton, James M Harkins, Sheila Hill, F Patrick Hughes, Morris L Krome, Dr Melissa A Moye, Patrick O'Shea, Trustees, and, Thomas K Lee, Secretary

Agency Staff members attending were Deborah Bacharach, Monica Bias, Ann Budowski, Margaret Bury, Melody Countess, Vanessa Garrett-Ingram, Thomas Gigliotti, Steve Huber, Carla Katzenberg, Jill Leiner, Dale Markle, Vincent Marsiglia, Larry Martin, Sherlynn Matesky, Will Morrow, Howard Pleines, Harvey Raitzyk, and Barbara Swain

Also attending were Bill Anderson, Randy Mickens, and Robert Palumbi Appeal cases present were Helen L Caesar, John Christmas, Roy M Davies' attorney Hillary Galloway Davis, and Deborah A Suter

On motion made by Mr Brown, and seconded by Major Krome, the Board appointed Mr Lancaster as Chairman pro-tem

- Minutes 1 On motion made by Mr Hamilton, and seconded by Mr Brown, the Board approved the minutes of the November 15, 2005 regular meeting
- Meeting Dates 2 On motion made by Ms Hill, and seconded by Mr Brown, the Board approved its 2006 meeting dates, continuing to meet on the 3<sup>rd</sup> Tuesday of each month at 9 00 a m
- Investment Committee Recommendations and Information Items 3 Mr Carl Lancaster, Chairman of the Investment Committee, reported on the meeting held December 9, 2005
- Mr Lancaster reported on the following information items discussed at the Investment Committee meeting
- Ennis Knupp made an educational presentation on strategies for a Down Market, providing their best thinking in terms of planning for the impact of another major market downturn, including options available to mitigate the downside risk, and providing specific strategies and costs for providing protection in a down market
  - Staff presented responses from four "core plus" fixed income managers and Smith Breeden about the problems that Fannie Mae and Freddie Mac have been experiencing and the

potential effect on both the mortgage markets and the System's portfolio

- Representatives from Western Asset Management Company, Pacific Investment Management and Capital Guardian made presentations on emerging markets, debt exposure and mortgage markets
- Ennis Knupp reviewed the System's 3<sup>rd</sup> quarter performance report and updated the Investment Committee on the Legg Mason/Citigroup transaction
- Staff presented the investment guidelines for the Templeton and Capital Guardian global stock mandate
- Staff reported on its due diligence visit to Smith Breeden Associates, who was hired as an enhanced equity index manager in October

On motion made by Mr Lancaster, and seconded by Major Krome, the Board approved benchmarking the Globeflex International Equity portfolio to the S&P/Citigroup Extended Market (EMI) ex US Index

On motion made by Mr Lancaster, and seconded by Ms Hill, the Board approved the Wellington Management guideline change to allow up to 20% of the account's market value in ADRs of non-U S stocks

On motion made by Mr Lancaster, and seconded by Mr Hughes, the Board approved converting the S&P Barra Growth Index Fund managed by State Street Global Advisors to an S&P/Citigroup Growth Style Index Fund in December 2005 Also, State Street Global Advisors is to execute most of the trading on December 16, 2005 to transition the account

On motion made by Mr Lancaster, and seconded by Ms Hill, the Board authorized the Executive Director to acknowledge receipt from State Street of the use of a new standard form for international securities lending, and to acknowledge that this new, industry standard form will be used in lieu of State Street's old, proprietary form Also, the Executive Director is to negotiate and sign an amendment to State Street's security lending contract that would delegate to staff the responsibility for reviewing and approving future changes that State Street may request to these lending forms

Administrative  
Committee

- 4 Mr William Brown, Chairman of the Administrative Committee, reported on the meeting held December 6, 2005

Recommendations and  
Information Items

On motion made by Mr Brown, and seconded by Mr Hughes, the Board of Trustees ~~approved a budget amendment not to exceed~~ \$200,000 for the audit of 38 participating governmental units

On motion made by Mr Brown, and seconded by Major Krome, the Board of Trustees approves a budget amendment for FY2006 in the amount of \$270,977 for the MPAS-1 implementation, and revises the total MPAS-1 project cost estimate to \$11 million

On motion made by Mr Brown, and seconded by Mr Hughes, the Board of Trustees authorizes Mr Lee to submit the necessary request to the Department of Budget and Management to reclassify a vacant staff auditor position to Administrator VI, Grade 21, Special Appointment

Mr Brown advised that the Administrative Committee approved its meeting schedule for 2006 February 7, March 7, April 11, June 6, August 1, September 12, October 3, and December 5

Mr Brown stated that the Administrative Committee received a report on the recent trustee election that utilized voting on the internet or through a telephone call-in service Staff is to work on improving election results by increasing its efforts to educate the membership as to the duties and responsibilities of the Trustees

Mr Brown noted that the Administrative Committee received a report from Mr Dale Markel on the Retirement Agency's Information Systems Disaster Recovery Plan

Mr Brown advised the Trustees that the forms for the evaluation of the Executive Director would be mailed by the end of the month He requested that they be completed promptly **EXHIBIT A**

Mr Lancaster thanked Mr Brown for his report

Executive Director's Report

5 Mr Lee introduced Ms Anne Budowski as the new Director of Communications and Public Relations for the State Retirement Agency

At Mr Lee's request, Mr Pleines stated that the Joint Committee on Pensions will hold its decision meeting in January, probably after the start of the 2006 Session The JCP is waiting to receive guidance from legislative leadership and the Executive Office concerning benefit enhancements

Annual Report

6 On motion made and duly seconded, the Board approved the publication of its 2005 Comprehensive Annual Financial Report

Medical Board Reports

7 On motion made by Mr Brown, and seconded by Mr Hughes, 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

8 On motion made by Mr Brown, and seconded by Mr Hughes, the Board accepted the supplemental reports of the Medical Board in connection with application 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**

- 
- Alexander Kapstan 9 The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr Alexander Kapstan for accidental disability benefits. The Administrative Law Judge's Proposed Decision, a report by the Medical Board, and all related documents submitted by the parties were presented.

Mr Kapstan's appeal was heard on the record. He did not appear before the Board to oppose the Agency's position and the Administrative Law Judge's Proposed Decision. The Board deferred consideration to Executive Session.

- Deborah A Suter 10 The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms Deborah A Suter for accidental disability benefits. The Administrative Law Judge's Proposed Decision, a report by the Medical Board, and all related documents submitted by the parties were presented.

Ms Suter appeared before the Board to oppose the Agency's position and the Administrative Law Judge's Proposed Decision. Ms Carla Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's Proposed Decision. Following discussion, the Board deferred further consideration to Executive Session.

- 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 Proposed Decision, a report by the Medical Board, and all related documents submitted by the parties were presented.

Ms Mullineaux's appeal was heard on the record. She did not appear before the Board to oppose the Agency's position and the Administrative Law Judge's Proposed Decision. The Board deferred consideration to Executive Session.

- Helen L Caesar 12 The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms Helen L Caesar for accidental disability benefits. The Administrative Law Judge's Proposed Decision, a report by the Medical Board, and all related documents submitted by the parties were presented.

Ms Caesar appeared before the Board to oppose the Agency's position and the Administrative Law Judge's Proposed Decision. Ms Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's Proposed Decision. Following discussion, the Board deferred further consideration to Executive Session.

John Christmas 13 The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr John Christmas for disability benefits . A report by the Medical Board, the Administrative Law Judge's Proposed Decision and all related documents submitted by the parties were presented

Mr Christmas appeared before the Board to oppose the Medical Board's report, and the Administrative Law Judge's Proposed Decision . Ms Carla Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should accept the Medical Board report and the Administrative Law Judge's Proposed Decision . Following discussion, the Board deferred further consideration to Executive Session

Roy M Davies 14 The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr Roy M Davies for disability benefits . The Administrative Law Judge's Proposed Decision on Remand, a report by the Medical Board, and all related documents submitted by the parties were presented

Mr Davies' attorney, Hillary Galloway Davis, appeared before the Board to oppose the Agency's position and the Administrative Law Judge's Proposed Decision on Remand . Mr Davies did not appear . Ms Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's Proposed Decision on Remand . Following discussion, the Board deferred further consideration to Executive Session

On motion made and duly seconded, the Board voted unanimously to meet in Executive Session to deliberate disability appeals, pursuant to State Government Article, Section 10-503(a)(1)(iii) which authorizes the Board to meet in closed session to carry out a quasi-judicial function

#### EXECUTIVE SESSION

The Board met in Executive Session at 11 06 a m in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider disability appeals . There were present William D Brown, John W Douglass, David B Hamilton, James M Harkins, Sheila Hill, Morris L Krome, Carl D Lancaster, Dr A Melissa Moye, Patrick O'Shea, Trustees, and, Thomas K Lee, Secretary . Agency Staff members attending were Deborah Bacharach, Monica Bias, Margaret Bury, Vincent Marsiglia, Howard Plaines, and, Barbara Swain

The Board ended its closed session at 11 28 a m and returned to regular session to complete the agenda

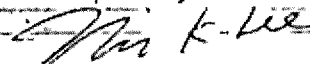
**REGULAR SESSION**

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

- Minutes                      On motion made and duly seconded, the Board approved the minutes of the November 15, 2005 closed session meeting
- Alexander Kapstan            The Board considered the appeal of Alexander Kapstan. Following a discussion, on a motion made by Mr. Hughes, seconded by Mr. Brown, the Board voted to adopt the Administrative Law Judge's Proposed Decision and deny Mr. Kapstan's request for accidental disability benefits.
- Deborah A. Suter             The Board considered the appeal of Deborah A. Suter. Following a discussion, on a motion made by Mr. Hughes, seconded by Ms. Hill, the Board voted to adopt the Administrative Law Judge's Proposed Decision and deny Ms. Suter's request for accidental disability benefits.
- Jill D. Mullineaux            The Board considered the appeal of Jill D. Mullineaux. Following a discussion, on a motion made by Mr. Hughes, and seconded by Mr. Brown, the Board voted to reject the Administrative Law Judge's Proposed Decision and grant Ms. Mullineaux's request for accidental disability benefits.
- Helen J. Caesar                The Board considered the appeal of Helen J. Caesar. Following a discussion, on a motion made by Mr. Brown, and seconded by Mr. Hughes, the Board voted to adopt the Administrative Law Judge's Proposed Decision and deny Ms. Caesar's request for accidental disability benefits.
- John Christmas                The Board considered the appeal of John Christmas. Following a discussion, on a motion made by Mr. Brown, and seconded by Mr. Harkins, the Board voted to accept the Medical Board Report and the Administrative Law Judge's Proposed Decision and deny Mr. Christmas' request for disability benefits.
- Roy M. Davies                 The Board considered the appeal of Roy M. Davies. Following a discussion, the Board agreed to postpone the issuance of a final decision on Mr. Davies' request for accidental disability benefits pending further consideration at the next Board meeting.

There being no further business before the Board, the meeting adjourned at 11:30 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 DECEMBER 6, 2005 MEETING

The Administrative Committee met on Tuesday, December 6, 2005, beginning at 9:30 a.m. in the Boardroom of the State Retirement Agency, 120 E. Baltimore Street, Baltimore, Maryland. William D. Brown, Chairman, Morris L. Krome, Vice-Chairman, John W. Douglass, Howard Freeland (by telephone), David B. Hamilton, and Sheila Hill, Trustees, and Thomas K. Lee were present. Also attending were Deborah Bacharach, Anne Budowski, Marge Bury, Anne Gawthrop, Tom Gigliotti, Vanessa Ingram, Dale Markel, Larry Martin, Sherlynn Matesky, Will Morrow, Howard Pleines, Harvey Ratzky, Charles So, and David Toff.

**A. Minutes of the Administrative Committee held October 11, 2005**

On motion made by Mr. Douglass, and seconded by Major Krome, the minutes of the meeting held October 11, 2005 were approved.

**B. Administrative Fees- Action Item**

On motion made by Mr. Freeland, and seconded by Mr. Hamilton, the administrative expenses through October 31, 2005 were accepted.

**C. PGU Review Budget Amendment – Action Item**

Mr. Tom Gigliotti reported that to shorten the audit cycle of the 113 participating governmental units (PGUs) in the System, a Task Order Request for Proposal (TORFP) was issued on September 1, 2004 to obtain compliance reviews of 10 PGUs. These reviews assess the compliance by PGUs with MSRA reporting requirements, and related laws and regulations. A second TORFP was issued on November 1, 2005 for 38 additional reviews. Four bids for the original TORFP to review 10 agencies ranged from \$33,428 to \$158,720. The new bids for 38 reviews are expected to be approximately three times as much, ranging from \$100,000 to \$475,000. The second TORFP should be awarded in late January or early February 2006.

Mr. Gigliotti concluded his remarks by stating that staff recommends the approval of the submission of a budget amendment for an amount not to exceed \$200,000. If the finalist's bid amount exceeds this amount, staff will notify the committee and request an adjustment.

**Action Item:** On motion made by Major Krome, and seconded by Mr. Douglass, the Administrative Committee recommends to the Board of Trustees that it approve a budget amendment for an amount not to exceed \$200,000 for the audit of 38 participating governmental units.

**D. MPAS-1 Project Budget - Action Item**

Mr Will Morrow informed the Administrative Committee that the Interactive Voice Response System for members and retirees to obtain account information is to be active on December 8. This new system will provide more incoming lines and more account information to our membership.

Mr Morrow also updated the status of the first phase of the Agency's Maryland Pension Administration System (MPAS). Mr Morrow stated that an RFP is to be released by the end of this calendar year to obtain the services of a contractor to redo all existing programs and place them into a modern architecture that will provide the flexibility to respond to legislative changes. The Agency intends to have the contractor begin work in April 2006, with a completion date of April 2008.

Mr Hamilton asked how many bids were anticipated and if the Agency would be able to maintain its tight schedule if more than expected were received. Mr Morrow responded that based on the parameters established in the RFP, including the requirements to have completed a similar project for another public plan and to complete the work in 24 months, he anticipates no more than 10 bids. If more than 10 are received, it would be difficult to meet the suggested time-line of the Agency to implement the project in April 2006.

Mr Morrow stated that the implementation of MPAS-1 would require additional funding for FY2006 as additional staff (project manager and part-time project administrator) and services (certification and accreditation) are needed to move forward with this first phase of the project. In addition to funds currently available, the Agency would need a budget amendment for \$270,977.

Mr Morrow also noted that IT staff, based on a review of similar project implementations from other public pension plans, is estimating the over-all cost of the MPAS-1 project at about \$11 million. Firmer costs will be available in March 2006.

**Action Item:** On motion made by Mr Douglass, and seconded by Ms Hill, the Administrative Committee recommends (1) the approval of a budget amendment for FY2006 in the amount of \$270,977 for MPAS-1 implementation, and (2) the approval of the revision to the total project cost estimate to \$11 million.

**E. Reclassification of Internal Auditor Position - Action Item**

Mr Lee advised the Committee that a reorganization of the Internal Audit Unit had moved Mr Tom Gigliotti to the position of contract manager, leaving open the position of chief internal auditor. The Retirement Agency is asking that the Committee permit the reclassification of a vacant staff auditor position to a special appointment, which would serve at the pleasure of the appointing authority, the Audit Committee.

**Action Item:** On motion by Mr Frelander, and seconded by Mr Douglass, the Administrative Committee recommends to the Board of Trustees that staff be authorized to submit the necessary request to the Department of Budget and Management to reclassify a vacant staff auditor position to Administrator VI, Grade 21, Special Appointment.



**F. 2006 Administrative Committee Meeting Schedule – Action Item**

On motion of Mr. Freeland, and seconded by Major Krome, the Administrative Committee approved the meeting schedule for 2006. There are eight scheduled meetings on the following dates: February 7, March 7, April 11, June 6, August 1, September 12, October 3, and December 5.

**G. BOT Election Survey Results**

Mr. Charles So, Director of Special Projects, presented information related to the recent employee's systems trustee election. For the first time, paper ballots were not distributed to the membership. Instead, the election was conducted by voting on the internet or through a telephone call-in service. The total voting in this election (57.9%) was lower than anticipated. The Retirement Agency conducted a survey of the membership to determine the reason(s) for not voting as well as the improvements needed to enhance voting under the new electronic methods.

Mr. So indicated that there were 138,320 members and retirees eligible to vote in the election. The Agency mailed surveys to 2400 members, receiving 342 responses. Of those who voted that responded, 87.1% indicated that they found the voting experience good, with 89.1% indicating that the new voting process was easy. The vast majority, 95.7%, indicated that they would likely vote in future elections.

Of those who responded who did not vote, the vast majority listed unfamiliarity with candidates as their reason, and about 50% indicated they were unlikely to vote in future elections. Ms. Bury indicated that the results clearly indicate the need for the Agency to increase its efforts to educate the membership as to the duties and responsibilities of the Trustees, with the importance of members and retirees participating in the elections of the 5 remaining elected trustees.

**H. SRA- Information Systems Disaster Recovery Plan**

Mr. Dale Markel presented an overview of the State Retirement Agency's Information Systems Disaster Recovery Plan. Mr. Markel indicated that a disaster recovery plan included not only the Retirement Agency site, but also the Annapolis Data Center and Network Maryland. During 2005, his staff had worked on various disaster scenarios that indicate the Retirement Agency, working with the other agencies, is adequately prepared to deal with potential disasters. In most situations, it is believed that the IT systems could be back up in about 5 days.

Mr. Douglass expressed his concerns that the Agency had no off-site location to deal with a closure of the Sun Trust Building. Mr. Markel indicated that such a facility could require a \$250,000 annual expenditure. Mr. Douglass suggested the Agency see if a location could be shared with other agencies, thereby reducing the cost. Mr. Brown thanked Mr. Markel for his report.

~~On motion made and duly seconded, the Administrative Committee voted unanimously to meet in Executive Session to obtain legal advice related to pending or potential litigation pursuant to State Government Article, Sections 10-508(a)(7) and 10-508(a)(8), which authorizes the Administrative Committee to meet in closed session to obtain legal advice, and to consult with staff about pending or potential litigation.~~

**EXECUTIVE SESSION**

The Board met in Executive Session at 11 07 a m William D Brown, Chairman, Morris L Krome, Vice-Chairman, John W Douglass, Howard Freeland (by telephone), and Sheila Hill, Trustees, and Thomas K Lee were present Also attending were Deborah Bacharach, Anne Budowski, Marge Bury, and Howard Pleines

The Board ended its closed session at 11 30 a m and returned to regular session to complete the agenda

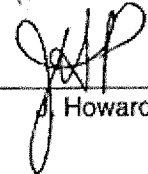
**REGULAR SESSION**

**I. Other Business- Information Only**

Mr Pleines advised the Administrative Committee that it is likely that the Joint Committee on Pensions will not hold its decision meeting until January Therefore, the Board will not know which of its legislative proposals will be introduced by the JCP until that time

**J. Adjournment**

There being no further business, Mr Brown adjourned the meeting at 11 37 a m



Howard Pleines