

**BOARD OF TRUSTEES FOR THE
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
MINUTES OF MEETING**

December 17, 2013

The Board of Trustees for the Maryland State Retirement and Pension System met in the Board Room of the SunTrust Building, 120 East Baltimore Street, Baltimore, Maryland beginning at 10:07 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	Kenneth Haines
Peter Franchot, Vice Chairman	James Harkins
David Blitzstein	Linda Herman
James Bush, Jr.	F. Patrick Hughes
John Douglass	Theresa Lochte
T. Eloise Foster	Harold Zirkin
Robert Hagans	Thurman Zollicoffer

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Anne Budowski	Anne Gawthrop	Van Lewis
Margaret Bury	Michael Golden	A. Melissa Moye
Melody Countess	Ira Greenstein	Kenneth Reott
Brian Feilinger	Angie Jenkins	Janet Sirkis
Patricia Fitzhugh		

Assistant Attorneys General present included: Deborah Bacharach, Rachel Cohen, Carla Katzenberg, Jill Leiner, Melissa Warren and Josephine Yuzuik.

Also attended by: Phillip Anthony, John Kenney, and Rick Norman.

Consent Agenda

Mr. Harkins requested that the December 3, 2013 Administrative Committee Report be removed from the Consent Agenda. The Board agreed.

On a motion made by Mr. Harkins and seconded by Mr. Blitzstein, the Board approved the consent agenda, which included:

- November 19, 2013 Open Meeting Board Minutes
- November 19, 2013 Corporate Governance Report

**December 3, 2013
Administrative
Committee Meeting
Report**

Mr. Harkins reported that at its December 3, 2013 meeting, the Administrative Committee discussed and approved the following issues:

Executive Director's Evaluation

- At the request of Ms. Lochte the Administrative Committee agreed to add a new category to each evaluation line item entitled "not observed."

Benefits Administration Report

- At the June 4, 2013 meeting of the Administrative Committee, Deputy Treasurer Suzanne Brogan commented on the member services unit update and the unit's inability to meet its monthly performance goals. As a result of that meeting, Ms. Margaret Bury prepared a Benefits Administration Division FY2014 Performance Report, which was presented to the Administrative Committee.

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- The performance report provided highly detailed information regarding the staffing levels, major responsibilities, goals, backlogs and other statistics associated with each unit of the Benefits Administration Division.
- David Romans offered suggestions on how to offer this information to the Department of Budget and Management (DBM) to address staffing needs.

Mr. Blitzstein asked as to the reasons for the number of vacancies in the division.

Ms. Bury responded that vacancies are due to turnover and described the process for requesting to fill vacancies for the Agency and the State budgetary process for addressing all agencies' turnover rates. Ms. Bury indicated that compensation is a major issue when trying to identify qualified individuals to fill vacancies.

Mr. Blitzstein requested that Ms. Bury present an updated Benefits Administrative report at a future Board of Trustees meeting, so that the full Board may monitor the Agency's management of member services and benefits processing.

Ms. Herman commented that as a fiduciary of a trust fund, the Board should obtain legal guidance as to what can be done to ensure adequate staffing of the Agency with proper compensation.

After discussion, on a motion made by Mr. Harkins and duly seconded, the Board approved the December 3, 2013 Administrative Committee meeting report.

Administrative Appeal
of Coreta B. Osborne

Mr. Harkins, Chairman of the Administrative Committee, reported that at its December 3, 2013 meeting, the Administrative Committee heard the appeal of Coreta B. Osborne.

Mr. Harkins informed the Board that Ms. Osborne is requesting that the Agency discontinue offsetting her monthly allowance and that after full consideration the Administrative Committee adopted the Executive Director's summary decision as the Proposed Summary Decision in this matter, and recommends its adoption to the Board.

Neither Ms. Osborne nor her attorney, Jon W. Sargent, Esquire, appeared to present argument before the Board.

Ms. Josaphine Yuzuik, Assistant Attorney General, argued on behalf of the Agency. Ms. Yuzuik argued that pursuant to SPP, Section 21-113(a) the Board of Trustees is obligated to correct any errors which results in a retiree receiving a benefit that differs from the benefit to which the retiree is entitled.

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In addition, Ms. Yuzuik argued that SPP, Section 21-113(b)(2)(ii), specifically authorizes the Board of Trustees to recover the amount of any improper payment by adjusting any future monthly payments of that person's allowance to recover the amount owed.

The Board considered this matter in closed session.

Comptroller Franchot requested that the Board of Trustees be kept informed on future MPAS developments regarding matters involving Domestic Relations Orders.

COMAR Regulations

Mr. Harkins, Chairman of the Administrative Committee, requested that Ms. Anne Budowski and Rachel Cohen, Assistant Attorney General, present to the Board, the recommended amendments to the following regulations, which were approved by the Administrative Committee at its December 3, 2013 meeting:

22.01.03 – Domestic Relations Orders

The System is responsible for administering domestic relations orders that divide pension benefits in a divorce. In addition to the regulations, since 2004, the Agency has made available a Model EDRO for Members and Former Members, and a Model EDRO for Retirees, which provide model language for attorneys who are involved in the preparation of a domestic relations order.

To assist the Agency in the administration of EDROs, an attorney in the Office of the Attorney General (OAG) reviews all domestic relations orders submitted to the Agency to determine whether the orders satisfy the requirements of the statute and regulations. The OAG also reviews draft orders to assist in the submission of orders that can be administered by the Agency. If an order is an EDRO, the Agency issues a "Notice of Administration" that specifies how the Agency will administer the division of a participant's plan benefits under the EDRO.

The Board of Trustees regulations regarding domestic relations orders have not been amended since 2004. At this time, staff recommends minor but important updates to the regulations. The main purpose of these updates is to:

- 1) Explicitly require an EDRO to include a statement regarding the tax consequences of payment of benefits to an alternate payee.
- 2) Allow the parties to provide the Agency their social security numbers and dates of birth in a separate letter accompanying the submission of a domestic relations order, to allow the parties to protect this sensitive personal information. Although the regulations currently permit the parties to provide their social security numbers to the Agency in a separate letter contemporaneous with the submission of an Order, the regulations require the parties to include their dates of birth in the

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EDRO issued by the court, which becomes a public document. The regulations will place the burden of providing this information on the Alternate Payee.

- 3) Require an EDRO to include a statement that the Alternate Payee must submit the Alternate Payee's address, telephone number and proof of birth to the Agency, and when the Alternate Payee becomes eligible to receive a monthly allowance, submit the required forms to receive the allowance by electronic fund transfer.
- 4) Specify that out-of-state orders must be filed in a circuit court in this State in accordance with the Uniform Enforcement of Foreign Judgments Act.
- 5) Require a party who disagrees with the Agency's proposed administration of an EDRO to notify the Agency within 45 days of the date of our notice of administration, and generally update the process for disputing the Agency's proposed administration.

Therefore, Staff recommends the adoption of the proposed changes to the regulations regarding Domestic Relations Orders. The Agency will also adopt corresponding changes to the Model Orders.

22.04.02 – Membership in the Employees' System or the Teacher's System – General

The Retirement Agency performs audits of the System's participating employers to determine if they comply with the enrollment and reporting requirements of the System. The audits are necessary to help ensure that membership is granted to all eligible employees, and is limited to only those employees that are eligible, as defined by statute.

Statute requires employers participating in the System to enroll their employees in the System, with limited exceptions. A common exception is for "contractual", "emergency", or "temporary extra" employees. However, the definition of these terms contained in statute is fairly specific to Maryland state employees, rather than employees of the System's participating employers. As a result, it is often difficult to apply the statutory enrollment requirements to participating employers.

Staff believes that by defining "contractual employee", "emergency employee", and "temporary extra employee" in regulations it can then be applied to participating employers. This addition would clarify what is already required by statute.

Therefore, Staff recommends that the Board of Trustees adopt the clarifying language in the regulation.

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22.05.01 – Qualifying Leaves of Absence

A member may request a leave of absence from his/her employer. Further, a member may be entitled to receive eligibility and creditable service for certain periods of employer leaves of absences from employment, if the leave of absence meets the criteria for a “qualifying leave of absence.”

The Board of Trustees regulations regarding qualifying leaves of absences have not been comprehensively amended since 2004. At this time, staff recommends minor but important updates to the regulations. The main purpose of these updates is to:

- 1) Clarify the term of a qualified leave of absence is not to exceed two years.
- 2) Clarify the types of qualified leaves of absence.
- 3) Clarify the process for how the Agency determines creditable service and member contributions for a qualified leave of absence.
- 4) More clearly explain the procedures to properly file for a qualified leave of absence.
- 5) Define the term of a qualifying leave of absence – clarify when a qualified leave of absence ends and how that impacts a service or disability effective date of retirement.

Therefore, Staff recommends the adoption of the proposed amendments to the regulations regarding Qualifying Leaves of Absences.

The Board of Trustees agreed to vote on approval of the regulations as a whole.

Therefore, on a motion made by Mr. Harkins and seconded by Mr. Hughes, the Board of Trustees approved the recommended amendments to the regulations to publish for comment.

Charters and Policies

Mr. Harkins, Chairman of the Administrative Committee, requested that Mr. Kenderdine, present to the Board, the changes to the Charters and Policies which were presented to the Administrative Committee at its December 3, 2013 meeting, and approved by the Committee for recommendation to the Board.

Mr. Kenderdine reported that in addition to formatting changes which were made for greater consistency throughout the document, the more significant changes were the result of statutory, or policy changes, including:

- › On page 60 – changed number of Board members from 14 to 15.
- › On page 67 – changed language regarding Investment Division travel plan having to be approved by the Investment Committee.
- › On page 70 – changed Appointment of Service Providers section under Administrative Committee Charter.

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- On page 109 – changed Evaluation Criteria for Chief Investment Officer to be consistent with the Evaluation Criteria for Executive Director's evaluation and the Board's actual practice.

Mr. Kenderdine reported that he will seek a review of the revised Charters and Policies by Hewitt EnnisKnupp as well as by a public plan governance consultant.

Mr. Bush asked if there was a process in place that notifies Trustees of the potential hiring of new managers for the fund, and whether a Trustee would be prohibited from speaking with potential new managers.

Melissa Warren, Assistant Attorney General, responded that given the statutory provisions of the role of the Chief Investment Officer and the Board as rebates to manager hiring and termination, there is no need for policy in this regard.

Dr. A. Melissa Moye added that a manager referral guideline memo is available and that she would recirculate it to the Board.

On a motion made by Mr. Harkins and seconded by Mr. Bush, the Board approved the recommended changes to the Charters and Policies.

CIO Report

Dr. A. Melissa Moye reported that the total market value of the fund, as of November 30, 2013, was \$42.8 Billion.

Dr. Moye reported that the fund return for one month is 0.86% and 7.25% fiscal year to date. Dr. Moye also reported that the policy benchmark for one month is 0.65%

Executive
Director's
Report

Mr. Kenderdine called the Trustees' attention to the Board reports and asked that if any Trustees had changes to the reports soon to be submitted to the General Assembly, to let Angie Jenkins know as soon as possible.

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Mr. Kenderdine reported that the Board of Trustees Education Session meeting has been moved to Thursday, May 22, 2014.

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Anne Gawthrop reported that the Joint Committee on Pensions met last week and approved the Board requested legislation.

Ms. Gawthrop also reported the General Assembly Compensation Commission voted to amend the Legislative Pension Plan to include the following changes: mandatory participation in the plan at the start of every term; increasing the employee contribution rate to 7%; raising the age of regular retirement to age 62 and early retirement to age 55; and removing certain optional forms of allowance available to members at the time of retirement.

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Edward C. Rosemary

The Board considered the recommendation of the Medical Board in connection with the claim of Mr. Edward C. Rosemary DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Michael P. May, Esq., Mr. Rosemary's attorney, appeared before the Board to oppose the Agency's position and the Medical Board's recommendation. Ms. Carla Goldman Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should accept the Medical Board's recommendations. Following discussion, the Board deferred further consideration to Closed Session.

Kristi Meakin

The Board considered the recommendation of the Medical Board in connection with the claim of Ms. Kristi Meakin for SPECIAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Rebecca Smith, Esq., Ms. Meakin's attorney, appeared before the Board to oppose the Agency's position and the Medical Board's recommendation. Ms. Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should accept the Medical Board's recommendations. Following discussion, the Board deferred further consideration to Closed Session.

Kenneth Maynard, II

The Board considered the recommendation of the Medical Board in connection with the claim of Mr. Kenneth Maynard's DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Michael E. Davey, Esq., Mr. Maynard's attorney, appeared before the Board to oppose the Agency's position and the Medical Board's recommendation. Ms. Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should accept the Medical Board's recommendations. Following discussion, the Board deferred further consideration to Closed Session.

Robert T. Farrare

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Robert T. Farrare for ACCIDENTAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Ms. Farrare appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. 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 Closed

CORPORATE GOVERNANCE COMMITTEE
CHAIR'S REPORT
MEETING HELD: November 19, 2013

Informational Items for the Board

- The Committee unanimously accepted the minutes from the August 20, 2013 meeting.
- The Committee unanimously accepted the Proposed Meeting Schedule for 2014.
- The Committee unanimously accepted the designation of Toni Voglino to receive Open Meeting Act Training on behalf of the Committee.
- Mr. Doug Cogan from MSCI provided an overview of the Iran-Sudan services that MSCI provides the System.

The Committee discussed the System's current proxy voting guideline on guns and agreed to review the issue further.

- The Committee was made aware that Mercer proposes to offer clients Climate Change Scenarios II in 2014.