

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

March 21, 2017

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, 16th Floor Board Room, Baltimore, Maryland beginning at 9:31 a.m.

The Trustees present included:

Nancy Kopp, Chairman, Presiding
Peter Franchot, Vice Chairman
Eric Brotman
James Bush, Jr.
James "Chip" DiPaula
David Hamilton

James Harkins
Linda Herman (via phone)
Sheila Hill
F. Patrick Hughes (via phone)
Charles Johnson
Theresa Lochte
Richard Norman

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

Melody Countess
Brian Feilinger
Anne Gawthrop
Michael Golden
Ira Greenstein

Angie Jenkins
Van Lewis
Michelle Lowery
Kimberly O'Keeffe
Andrew Palmer

Harvey Raitzyk
Ken Reott
Ben Robb
Toni Voglino

Assistant Attorneys General present included: Rachel Cohen, Jody Shaw and Kathleen Wherthey

Other attendees included: Susanne Brogan, John Kenney, and Doug Prouty.

Consent Agenda

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

- February 21, 2017 Open Meeting Board Minutes
- February 21, 2017 Audit Committee Meeting Summary
- February 21, 2017 Corporate Governance Committee Meeting Summary
- March 7, 2017 Administrative Committee Meeting Summary

**Certification of the
2017 Active
Employees'
System
Representative**

Mr. Kenderdine certified to the Board that only one eligible candidate, Lisa James-Henson, met the requirements to be included on the ballot for the 2017 Active Employees' System Trustee Election.

Mr. Kenderdine indicated that when only a single candidate qualifies to be placed on the ballot, that candidate shall be considered nominated to serve as Trustee for his or her system and, upon the Board's certification, the candidate shall serve as trustee for the appropriate term. Ms. James-Henson would serve a new four-year term beginning August 1, 2017 through July 31, 2021.

On a motion made by Mr. Bush and seconded by Mr. Johnson, the Board certified that Ms. James-Henson is deemed nominated to serve as a trustee for four years, beginning August 1, 2017.

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Mr. Kenderdine then introduced Douglas Prouty, who was in attendance at the meeting. The Board certified Mr. Prouty as the Active Teachers' Systems representative at its February meeting.

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Changes to the
Investment Policy
Manual

Toni Voglino reported that the Corporate Governance Committee at its February 21, 2017 meeting, reviewed and approved, for recommendation to the Board, amendments to the Investment Policy Manual (IPM) concerning the proxy voting policies relating to board of director elections and board of director compensation. The Board was provided with a red-lined version of the recommended changes.

Mr. Hamilton asked for an explanation of the basis for certain recommended changes related to non-employee director compensation and asked for examples of relevant situations that had brought about this recommendation.

Ms. Voglino responded that the System's proxy advisor Institutional Shareholders Services (ISS) recommended the changes to the proxy voting guidelines to provide an adequate framework for the evaluation of non-employee director compensation on a more in-depth basis.

Ms. Voglino explained that the current policy does not provide a framework for the evaluation of non-employee director compensation plans on ballots. The recommended changes to the language would provide factors that could be used to evaluate compensation plans.

Following further discussion, Mr. Hamilton stated that he preferred permitting voting on a case by case basis rather than adopting specific language that could limit the Board to the factors listed.

Mr. Brotman commented that he was not sure what we would gain or lose with the recommended language, but thought adding "including, but not limited to" to the list of factors would resolve Mr. Hamilton's concern.

Mr. Hamilton stated that he believed monitoring any specific factor would overemphasize them and that this policy could detrimentally affect the recruitment of non-employee directors to serve on the boards of public companies in which the Board invests. Following further discussion, Mr. Hamilton stated that he did not believe the issue was ready for a vote, because staff had not shared any examples of the types of problems that the recommended changes would resolve.

Ms. Voglino indicated that detailed examples of proxy proposals illustrating issues with non-employee director compensation proposals would be provided to the Board.

Mr. Hamilton made a motion that the Board defer voting on the recommended changes to the IPM. Ms. Hill stated that the matter should be presented for a vote. Mr. Hughes asked Mr. Hamilton whether his concerns related to the policies regarding compensation or included the issue of shareholder rights. Mr. Hamilton then withdrew his motion to defer voting on the recommended changes to the IPM, and Ms. Hill made a motion to approve all of the proposed changes, except for the proposed changes regarding non-employee director compensation, and to table and defer action regarding non-employee director compensation. Mr. Hughes seconded that motion.

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The Board unanimously voted to (a) defer voting on the changes to the IPM concerning non-employee director compensation only, and (b) approve all of the other recommended changes to the IPM.

Revisions to the
Governance
Charters

Mr. Kenderdine reported that at the February 21, 2017 Investment Committee meeting, the Committee requested additional changes to the Investment Committee Charter concerning monitoring and reporting. The Board was provided a red-lined version of that charter, which contained those recommended changes. Mr. Palmer discussed the changes to the charter.

Ms. Herman asked why the charter did not reflect reporting from specialty consultants and how those consultants would be evaluated.

Mr. Palmer explained that, in accordance with the Chief Investment Officer Charter, he would be evaluating those consultants and providing the Investment Committee with his evaluations on their performance.

On a motion made by Mr. Brotman and seconded by Mr. Hughes, the Board approved the Investment Committee's recommended changes to the Investment Committee Charter.

Revisions to the
Governance
Policies

Mr. Kenderdine reported that at its February 21, 2017 the Board requested additional changes to the Communications and Code of Conduct and Policy on Gifts and Travel policies. The Board was provided a red-lined version of those policies, which contained the recommended changes.

On a motion made by Treasurer Kopp and seconded by Mr. Bush, the Board approved the recommended changes to the Communications and Code of Conduct and Policy on Gifts and Travel policies.

2017 Legislative
Bill Review

Ms. Anne Gawthrop provided the Board of Trustees an overview of the 2017 pension related legislation. See Attachment A.

Ms. Gawthrop reported that all of the joint committee bills had crossed over and were moving through with no issues.

Ms. Gawthrop specifically reported on House Bill 1580/Senate Bill 914 – State Retirement Agency – Investment Division. The Senate version had been heard, however, the bill did not meet the crossover date. Staff had met with the Senate chairman of the joint committee and another committee member to address their concerns.

Treasurer Kopp asked what information the Committee was looking for.

Ms. Gawthrop responded that the Committee was looking for specifics on how the Investment Division would be staffed and organized once fully staffed and how the investment staff would be held accountable in terms of individual performance.

Ms. Herman inquired as to the status of board requested legislation that would correct the inequity in the employer contribution rates among

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participating governmental units (PGUs) and the need for a new surcharge for the System's ten employers in the non-contributory systems.

Ms. Gawthrop responded that the joint committee did not introduce the recommended legislation and that it is anticipated that the Board will want to bring back the matter next session.

System's
Participation in a
U.S. Supreme
Court Amicus Brief

Ms. Kathleen Wherthey, Deputy Counsel, reported to the Board that on February 14, 2017 the Office of the Attorney General (OAG), on behalf of the System, received a request to join an amicus brief in the California Public Employees' Retirement System v. ANZ Securities, Inc., case, which at issue are the time limitations for filing a securities action under § 13 of the Securities Act of 1933, 15 U.S.C. § 77m.

Ms. Wherthey reported that this matter was brought to the Securities Litigation Committee on March 1, 2017. After discussing this matter, at length, the Securities Litigation Committee voted unanimously to authorize the Executive Director to sign the brief on behalf of the Board. Therefore, on March 6, 2017, Bernstein Litowitz Berger & Grossman LLP, one of the System's securities litigation firms, filed the brief in the Supreme Court on behalf of 75 pension funds and other prominent institutional investors, including the System, with total assets under management exceeding \$4 trillion.

Chief Investment
Officer's Report

Mr. Palmer provided the Board with the monthly fund summary, which showed that the total fund value, as of February 28, 2017, was \$47.3 billion, with a 1-month fund return of 1.53% and a 1-month benchmark of 1.59%.

Treasurer Kopp asked about the status of the Terra Maria program.

Mr. Palmer responded that all of the changes in program manager assignments have been made, and the relevant contracts are completed with the exception of those having the emerging market mandates. Most of the assets will have been transitioned by the end of the month.

Executive
Director's Report

Mr. Kenderdine announced that the annual conference for the National Association of State Retirement Administrators (NASRA) will be held in Baltimore at the Baltimore Marriott Waterfront, on August 6-8, 2017 and extended an invitation to the Trustees who are interested in attending.

Mr. Kenderdine reported that the contract with Gabriel Roeder Smith (GRS) expires at the end of December and that the Request for Proposals (RFP) should be finalized and sent to the Department of Budget and Management by March 22, 2017. The Administrative Committee will be advised of all developments regarding this procurement.

Mr. Kenderdine reported that the Agency was unable to overturn the Department of Legislative Services (DLS) recommendation to cut \$550,000 from the IT budget.

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Mr. Kenderdine announced that Kimberly O’Keeffe, formerly Director of Data Control, was promoted to the position of Deputy Benefits Administrator.

On a motion made by Ms. Lochte and seconded by Mr. Brotman, the Board voted to meet in a Closed Session, beginning at 10:43 a.m., in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor, for the purpose of:

1. reviewing the closed session Board minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function; and
2. reviewing the Medical Board reports, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter namely, General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records, and General Provisions Art., § 4-329 regarding the prohibition on disclosing medical and personal information.

CLOSED SESSION

The Trustees present included:

Nancy Kopp, Chairman, Presiding
Peter Franchot, Vice Chairman
Eric Brotman
James Bush, Jr.
James “Chip” DiPaula
David Hamilton

James Harkins
Linda Herman (via phone)
Sheila Hill
F. Patrick Hughes (via phone)
Charles Johnson
Theresa Lochte
Richard Norman

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

Melody Countess	Angie Jenkins	Andrew Palmer
Brian Feilinger	Van Lewis	Harvey Raitzyk
Anne Gawthrop	Michelle Lowery	Ken Reott
Michael Golden	Kimberly O’Keeffe	

Assistant Attorneys General present included: Rachel Cohen, Carla Katzenberg, Jill Leiner, Jody Shaw and Kathleen Wherthey.

Other attendees included: Susanne Brogan, John Kenney and Doug Prouty.

On a motion made by Mr. Brotman and seconded by Mr. DiPaula, the Board returned to open session at 10:50 a.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor.

OPEN SESSION

During closed session, the Board of Trustees discussed and took action on the following matters:

Closed Session
Minutes

The Board reviewed and approved the February 21, 2017 closed session minutes.

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Medical Board
Reports

The Board reviewed and adopted the medical board reports from February 22, March 2, March 8 and March 16, 2017.

OPEN SESSION – APPEALS AND HEARINGS

The Trustees present included:

Peter Franchot, Vice Chairman, Presiding
Eric Brotman
James Bush, Jr.
James “Chip” DiPaula

James Harkins
Sheila Hill
Charles Johnson
Theresa Lochte
Richard Norman

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

Assistant Attorneys General present included: Rachel Cohen, Carla Goldman Katzenberg, Jill Leiner and Kathleen Wherthey.

Other attendees included: John Kenney

Joint Request for
Remand –
Emmanuel Fadipe

The Board was provided with a Joint Request for Remand in the disability appeal of Emmanuel Fadipe.

Jill R. Leiner, Assistant Attorney General, appeared before the Board of Trustees and requested that the Board remand the proposed decision back to Administrative Law Judge Latonya B. Dargan at the Office of Administrative Hearings so that she could address the issue of causation in this case.

On a motion made by Mr. Harkins and seconded by Mr. Bush, the Board voted to remand the disability appeal of Emmanuel Fadipe back to Administrative Law Judge Latonya B. Dargan, to consider both issues in this matter: whether Mr. Fadipe is disabled, and if so, whether his disability is the natural and proximate result of an accident that occurred in the actual performance of duty at a definite time and place.

Earnest A. Ford

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Earnest A. Ford 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 L. Smith, Esq., and Mr. Ford, appeared to oppose the Agency’s position and the Administrative Law Judge’s recommendation. Jill R. 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 Session.

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Louise Scarborough

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Louise Scarborough 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.

Bernice L. Latou, Esq., on behalf of Ms. Scarborough, appeared to oppose the Agency's position and the Administrative Law Judge's recommendation. Jill R. 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 Session.

Doris Rainey

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Doris Rainey 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. Rainey appeared to oppose the Agency's position and the Administrative Law Judge's recommendation. Jill R. 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 Session.

Katherine Garrett

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Katherine Garrett 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.

Neil J. Bixler, Esq., on behalf of Ms. Garrett, appeared to oppose the Agency's position and the Administrative Law Judge's recommendation. Carla Goldman 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 Closed Session.

On a motion made by Ms. Lochte and seconded by Mr. DiPaula, the Board voted to meet in a Closed Session (12:30 p.m.) in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor, for the purpose of:

1. considering the disability appeal pursuant to General Provisions Art., § 3-103(a)(1)(iii), the exercise of a quasi-judicial function.

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CLOSED SESSION – APPEALS AND HEARINGS

The Trustees present included:

Peter Franchot, Vice Chairman, Presiding
Eric Brotman
James Bush, Jr.
James “Chip” DiPaula

James Harkins
Sheila Hill
Charles Johnson
Theresa Lochte
Richard Norman

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

Assistant Attorneys General present included: Rachel Cohen and Kathleen Wherthey.

Other attendees included: John Kenney

On a motion made by Ms. Hill and seconded by Mr. Bush, the Board returned to open session at 12:45 p.m.

OPEN SESSION

During closed session, the Board of Trustees discussed and took action on the following disability appeals:

Earnest A. Ford The Board voted to **ADOPT** the Administrative Law Judge’s Proposed Decision and **DENY** Earnest A. Ford’s request for special disability benefits.

Louise Scarborough The Board voted to **ADOPT** the Administrative Law Judge’s Proposed Decision and **DENY** Louise Scarborough’s request for accidental disability benefits.

Doris Rainey The Board voted to **ADOPT** the Administrative Law Judge’s Proposed Decision and **DENY** Doris Rainey’s request for accidental disability benefits.

Katherine Garrett The Board voted to **ADOPT** the Administrative Law Judge’s Proposed Decision and **DENY** Katherine Garrett’s request for accidental disability benefits.

Adjournment There being no further business before the Board, on a motion made by Ms. Hill and seconded by Mr. Bush, the meeting adjourned at 12:47 p.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

**BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

**AUDIT COMMITTEE MEETING SUMMARY
February 21, 2017**

Contractual Audits Update	Mr. Rongione provided an update on the status of contractual audits. He noted that Internal Audit has issued an RFP for Investment Audit Services. Three responses have been received. Internal Audit is currently reviewing the technical proposals.
Internal Quality Assurance Results	<p>Mr. Rongione discussed Internal Audit's quality assurance efforts for calendar year 2016. This included quality assurance reviews of selected audits and an overall review of Internal Audit's compliance with general auditing standards. Brian Feilinger, Internal Audit Contract Manager, performed quality assurance reviews of two internal agency audits and three external audits of participating employers during the year. He also completed the annual review of Internal Audit's compliance with auditing standards. There were no significant recommendations in this area.</p> <p>Mr. Rongione noted that Internal Audit also receives an external peer review for quality assurance every three years.</p>
Status of FY 2017 Audit Plan	Mr. Rongione provided the Committee with a status update for the FY 2017 audit plan. Three full-scope audits have been completed, and audits of Payroll Data & Contributions and System Transfer Processing are currently in progress. Staff is wrapping up fieldwork for an audit of EFT Application Processing, and a report is expected to be issued shortly. For external employer audits, 27 of 60 have completed, 32 are in progress and one has not yet begun. All are expected to be completed on schedule.
Status of Open Issues Log	Mr. Rongione provided a summary of open audit issues. For FY 2017, a total of 26 issues were closed and 12 new issues were added. There is a current balance of nine open issues. Details of the open issues were provided to the Committee. Mr. Rongione told the Committee that open issues for the Network/Server Maintenance and Capital Equipment audits are awaiting review. These are expected to be removed after their testing is completed.
Completed Audits	Mr. Rongione discussed the Power of Attorney audit, which was issued on January 25 th , 2017. He stated that the audit had an overall rating of "green", indicating an acceptable state of controls. The audit identified one issue related to procedures that were not followed. Management agreed with the finding and has agreed to take corrective actions.

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**CORPORATE GOVERNANCE COMMITTEE MEETING SUMMARY
February 21, 2017**

**Update and Review
of Iran-Sudan
Divestment**

The Committee considered staff's recommendation to reaffirm the System's Iran-Sudan Restricted List as no new companies meet the requirements of the Maryland Iran-Sudan divestment statute and no companies are eligible for removal from the Restricted List at this time. Ms. Voglino confirmed that all 21 companies on the Iran-Sudan Restricted List currently meet the requirements of the Maryland Iran-Sudan divestment statute SPP 21-123.1.

Ms. Voglino provided the semi-annual Iran & Sudan Divestment Impact Analysis to the Committee as prepared by Meketa Investment Group, the System's general investment consultant. The report provided an updated analysis of all companies on the Iran-Sudan Restricted List and the divestment impact regarding these companies.

On a motion by Mr. Brotman and seconded by Mr. Johnson, the Committee unanimously agreed to approve Staff's recommendation to reaffirm the Iran-Sudan Restricted List, and to recommend the list, set forth below, to the Board of Trustees for approval at their meeting on March 21, 2017.

ISSUER NAME	Country	Sudan or Iran
ASEC Co for Mining SAE	Egypt	Sudan
AviChina Industry & Technology Company Limited	China	Sudan
Bharat Heavy Electricals Limited	India	Sudan
China National Petroleum Corporation	China	Both
Daelim Industrial Co.,Ltd.	Korea	Iran
El Sewedy Electric Co. SAE	Egypt	Sudan
Energy House Holding Company	Kuwait	Sudan
Harbin Power Equipment Co., Ltd	China	Sudan
Jiangxi Hongdu Aviation Industry Co., Ltd.	China	Sudan
Kuwait Finance House K.S.C.	Kuwait	Sudan
LS Industrial Systems Co., Ltd	Korea	Sudan
Managem S.A.	Morocco	Sudan
Oil and Natural Gas Corporation Limited	India	Sudan
Oil India Ltd.	India	Sudan
ONGC Videsh Limited	India	Sudan
Orca Gold Inc.	Canada	Sudan
Petroliam Nasional Berhad (Petronas)	Malaysia	Sudan
Petronas Capital Limited	Malaysia	Sudan
Petronas Global Sukuk Ltd	Malaysia	Sudan
Regency Mines PLC	UK	Sudan
Schneider Electric S.A.	France	Sudan

**BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

**CORPORATE GOVERNANCE COMMITTEE MEETING SUMMARY
February 21, 2017**

Review and Update
of the Investment
Policy Manual

THIS MATTER WILL BE DISCUSSED AND VOTED ON OUTSIDE OF THE CONSENT AGENDA IN OPEN SESSION.

The Committee reviewed staff's memorandum outlining the recommended changes to the System's Proxy Voting Guidelines, which was presented to the Committee by Ms. Voglino, along with Mr. Garcia and Mr. Oliveira from ISS. After discussion by the Committee on the specific proxy topics and suggested changes, the Committee considered the recommendations to alter the language of three of the Proxy Voting Guidelines related to director elections, director compensation, and age and term limits. The Committee requested that the language related to the director compensation voting policy recommendation be revised to state, "Meaningful limits on director compensation based on factors such as, but not limited to, comparison to companies of a similar industry and tenure of the company." In addition, the Committee requested that the language of the voting policy recommendation be revised to state, "The company's three year equity grant practices relative to its industry."

On a motion by Mr. Haines, and seconded by Mr. Johnson, the Committee voted, all in favor, to approve staff's recommended changes to the System's Proxy Voting Guidelines as outlined in the memorandum with revisions as noted above.

The Proxy Voting Guideline changes approved by the Corporate Governance Committee will be presented at the Board of Trustees meeting on March 21, 2017, for approval.

Council of Institutional
Investors Winter
Conference Agenda

The Committee discussed the CII Winter Conference that will be held February 27, 2017 through March 1, 2017 and was provided an agenda.

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**ADMINISTRATIVE COMMITTEE MEETING SUMMARY
MARCH 7, 2017**

Work Plan – Actuarial
Consulting Services
Provider – Request
for Proposals

Mr. Kenderdine provided the Administrative Committee with background information on the current contract with Gabriel Roeder Smith & Company (GRS), which will expire on December 31, 2017.

The Committee was provided with a proposed timeline for completing the procurement for an Actuarial Consulting Services Provider, prior to the expiration of the current contract with GRS.

DATE	ITEM
March 7, 2017	Submit work plan to Administrative Committee. Submit draft RFP for internal review by MSRA Legal Division.
March 28, 2017	Draft RFP for actuarial services finalized by MSRA Procurement Evaluation Committee. Submit RFP to DBM for review and approval.
April 17, 2017	Issue RFP to E-Maryland Marketplace
May 17, 2017	Completed proposals due.
June 1 – June 30, 2017	Evaluation period. Evaluation Committee reviews proposals and conducts preliminary interviews of all qualified candidates. Administrative Committee members will be advised of all interviews and are welcomed to attend them. The Evaluation Committee will then identify finalists based upon the candidates' technical and financial proposals.
August 1, 2017	Finalist(s) presented to the Administrative Committee.
August 15, 2017	Administrative Committee recommends the appointment of Actuarial Services provider to the Board of Trustees (BOT).
August 21, 2017	Deadline for BOT to submit contract award to DBM for approval.
September 1, 2017	Deadline for DBM to submit Agenda item to BPW for MSRA's contract award.
September 20, 2017	BPW Meeting/Approval
October 1, 2017	Contract begins

On a motion made by Ms. Brogan and seconded by Mr. Norman, the Administrative Committee approved the work plan regarding the actuarial consulting services provider RFP.

Member Services
Update

Mr. Raitzyk reported that the Member Services unit was able to meet its performance goals for January 2017. The unit's call abandonment rate was 5.49% and the average speed of answer was 0:91.

Mr. Raitzyk reported that next month's report will likely reflect heavier call volume due to the Agency's distribution of 1099Rs to retirees.

Finance Reports

Mr. Kenderdine introduced to the Committee the new Administrative Expense Report Dashboard, which provided an overview of the Agency's expenditures and encumbrances through the second quarter of FY2017 and provided the following discussion points for several line items in the Agency's budget:

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***ADMINISTRATIVE COMMITTEE MEETING SUMMARY
MARCH 7, 2017***

1. Custodial Banking Services Contract
The procurement for a new custodial bank contract is in its final stage. The budget for these services increased in FY2017 and this increase is only partially being expended through an extension of the previous contract with State Street
2. Printing and Production
The Agency has typically spent the full budget for printing by this point in the year. The line item was reduced by \$5,000 during the FY2017 budgetary cycle.
3. Equipment and Leasing
This item includes both the leasing of photocopier equipment and equipment maintenance charges. The Agency expects to spend approximately \$31,439 over budget in this area due to maintenance on the IVR system, maintenance agreements on newly acquired laser-jet color printers, and maintenance agreements on new acquired microfilm readers.
4. Data Processing
The Agency anticipates running more than \$1M over budget in this area due to increased utilization of the Agency's two contractual programming vendors. It is anticipated that the Agency will generate purchase orders in the current year that will exceed the line item budgetary provisions.
5. Overtime
The Agency anticipates that it will exceed the overtime budget in the current fiscal year with projected overtime costs at \$66K. With the implementation of the new annuity and option factor effective July 1, 2017, the Agency anticipates that the volume of estimates and finals requesting a retirement date of July 1, 2017 may significantly increase over the next several months requiring greater staff overtime.

Mr. Kenderdine also reported that the dashboard should have included a sixth item for Legal and Medical Support, as the Agency anticipates over expenditures in that line item due to the increased number of Independent Medical Evaluations (IME), which may continue through the balance of the fiscal year.

Mr. Harkins asked if the Agency could shift funds from unfilled positions to cover deficiencies.

Mr. Lewis responded that excess funds in various line items, with the exception of health insurance costs can be used to cover deficiencies.

Ms. Brogan asked about the surplus in the Board of Trustees Election Services.

**BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

**ADMINISTRATIVE COMMITTEE MEETING SUMMARY
MARCH 7, 2017**

Mr. Kenderdine responded that the Board certified the sole candidate for the Active Teachers' System Representative at its February meeting and that for the Active Employees' Systems Representative, there was also only one candidate that met the requirements. That candidate's information will be provided to the Board for certification at its March meeting. Due to both Systems having a sole candidate, there will be no elections this year. Therefore, the total savings, in that line item, would be approximately \$137,500.

Ms. Brogan asked about the FY2018 budget as it relates to the Department of Legislative Services (DLS) recommendation to cut data processing.

Mr. Kenderdine responded that the DLS recommendation to cut funds would affect the development of the member access portal for the System's website and would delay MPAS III, approximately eight months to one year. The Agency is in the process of preparing the major IT development plan for submission to DoIT and then to DLS.

Mr. Lewis presented the MBE Performance Report for the quarter ending December 31, 2016. Mr. Lewis reported that MBE performance was 16.58%, with the lion's share of MBE awards going to women owned businesses. Mr. Lewis reported that the MBE performance is less than the Governor's goal of 29%.

2017 Legislative Bill
Review

**THIS MATTER WILL BE DISCUSSED OUTSIDE OF THE CONSENT
AGENDA IN OPEN SESSION.**

Ms. Anne Gawthrop provided the Committee an updated overview of the 2017 pension related legislation introduced to the General Assembly to date.

**Legislative Update
2017 Session
March 21, 2017**

House Bill 28 (Krimm)

Unappropriated General Fund Surplus – Appropriation to Pension Fund and Postretirement Health Benefits Trust Fund

This proposed legislation requires, beginning in fiscal year 2021, an appropriation to the State Retirement and Pension System, up to a maximum of \$25,000,000 that is equal to one-quarter of the amount by which the unappropriated General Fund surplus as of June 30 of the second preceding fiscal year exceeds \$10,000,000. Additionally, the proposed legislation also provides for a similar appropriation to the Postretirement Health Benefits Trust Fund. House Bill 28 also amends a reporting date by which DLS is required to review the amounts required to be appropriated to the System from December 1, 2019 to December 1 of the year in which the System's funded ratio reaches 85%. This review includes findings and recommendations regarding the appropriate amount of funding under this provision for the System and whether the existing required amount of funding should be altered or eliminated.

- Hearing scheduled in B&T - 3/30/17

The Board supports this legislation due to the increased funding it would provide the System.

House Bill 40 (McConkey)

State Retirement and Pension System - Funding Ratio Report - Market Value of Assets

Requiring the Board of Trustees to submit a report on or before December 1 of each year to the Joint Committee on Pensions and the General Assembly on the funding ratio of the State Retirement and Pension System based on the market value of the assets.

- Voted unfavorable by Appropriations

The Board is taking no position on this legislation. The System's funded ratio, based on market value of assets is already disclosed in the annual CAFR.

House Bill 62 (McConkey)

State Retirement and Pension System – Disability Retirement - Alterations

As amended, this proposed legislation adjusts the formula used to determine a disability retiree's earning limit as a reemployed retiree by providing that the limit should be increased each year to reflect the percentage growth in the CPI.

- Hearing scheduled in B&T - 3/16/17

The Board is took no position on this legislation. The Board took no position on the same bill last year. Staff sent a letter to the House Subcommittee Chair expressing the Board's commitment to protecting the System's assets as fiduciaries of the plan, and accordingly, would welcome any additional means the legislature would provide to assist the Board in ensuring that only individuals, who are legitimately disabled, receive disability benefits.

**House Bill 201/Senate Bill 256 (Barnes/Guzzone)
Employees' and Teachers' Pension Systems - Reformed Contributory Pension Benefit - Service Credit Purchase Clarification**

This board requested legislation clarifies that a member of the EPS or the TPS who is subject to the RCPB is eligible to purchase service credit for a specified period of employment under specified circumstances.

- Hearing scheduled in B&T - 3/16/17
- Hearing scheduled in Appropriations - 3/21/17

Board requested legislation

**House Bill 202/Senate Bill 255 (Barnes/Guzzone)
State Retirement Agency - Authority to Arrange Custody of Investments and Procurement Exemption**

This board requested legislation exempts from State procurement law, Agency expenditures made for the custody of investments of the State Retirement and Pension System and transfers the authority to arrange for the safe custody of investments from the State Treasurer to the Chief Investment Officer of the Investment Division in the Agency.

- Hearing scheduled in B&T - 3/16/17
- Hearing scheduled in Appropriations - 3/21/17

Board requested legislation

**House Bill 225/Senate Bill 147 (Chang/McFadden)
Correctional Officers' Retirement System - Deferred Retirement Option Program**

This proposed legislation would establish a DROP program for members of the CORS.

- Hearing scheduled in Appropriations – 2/7/17
- Hearing scheduled in B&T - 2/2/17

Staff recommends taking no position on this legislation

**House Bill 304/Senate Bill 353 (Barnes/Guzzone)
Optional Retirement Program - Annuity Contracts - Employee Rights**

This board requested legislation repeals the requirement that annuity contracts purchased under the ORP be issued to and become the property of participating employees of the program. Additionally, this legislation clarifies that, in accordance with the Internal Revenue Code, the rights of participating employees who purchase annuity contracts under the program are not subject to forfeit. As amended, this bill also authorizes the Board, in the event it eliminates a designated company or withdraws approval for a type of annuity contract, to withdraw and transfer past contributions to the extent possible under existing annuity contracts, and to the extent determined by the Board to be in the best interests of participating employees.

- No hearing scheduled in B&T
- Hearing scheduled in Appropriations – 3/23/17

Board requested legislation

House Bill 328/Senate Bill 752 (Barnes/Guzzone)

Optional Retirement Program - Annuity Contract Providers

This proposed legislation clarifies that all ORP vendors are subject to review and possible termination by the Board by repealing provisions of law that refer to annuity contract providers that were hired by the Board as vendors for the ORP on or before a certain date.

- No hearing scheduled in B&T
- No hearing scheduled in Appropriations

Staff provided informational written testimony confirming that this legislation would codify the Agency's interpretation of these provisions of law.

House Bill 344/Senate Bill 751 (Lierman/Guzzone)

State Retirement and Pension System - Disability Retirement and Workers' Compensation Benefits – Offsets

This legislation would exempt ordinary disability retirement benefits from the requirement to be offset by related workers' compensation benefits, repeal the requirement for the Board to reduce accidental or special disability retirement benefits by related workers' compensation benefits, and require the Workers' Compensation Commission to reduce workers' compensation benefits by related accidental or special disability retirement benefits.

- Voted unfavorable by Economic Matters
- Hearing scheduled in B&T - 3/2/17

Staff recommends taking no position on this legislation

House Bill 589 (Frick)

Corporations and Real Estate Investment Trusts - Corporate Bylaws and Elections of Directors and Trustees

This legislation provides that when holding elections for members of Boards of Directors for corporations and REITS incorporated in Maryland, if the nominee is uncontested, the nominee must win by a majority shareholder vote. Alternatively, the bill provides that if the position for director is contested, the nominee must win by a plurality shareholder vote. Additionally, the bill removes a provision that would allow boards for these corporations and REITS to implement bylaws that prohibit shareholders from adopting, altering, or repealing corporate or REIT bylaws.

- This bill was referred to summer study

Staff submitted informational written testimony on behalf of the Board stating this bill is consistent with the Board's corporate governance policy.

**House Bill 748/Senate Bill 540 (Speaker/President on behalf of the Governor)
State Retirement Choice for the 21st Century Workforce**

This proposed legislation would provide individuals employed by a participating employer of the EPS on or after July 1, 2018, with an election to join either the EPS or a defined contribution plan. The defined contribution plan provides a mandatory 5% employee and employer contribution rate.

The Senate amended Senate Bill 540 to have DLS study retirement plan alternatives during the 2017 interim. The House has not taken an action on the cross-file, House Bill 748. Amended Senate Bill 540 has not been scheduled for a hearing in the House at this time.

- Hearing scheduled in Appropriations – 3/3/17
- No hearing scheduled in Appropriations on the amended Senate Bill at this time.

Staff submitted informational testimony on behalf of the Board to the Committees regarding any changes to the implementation of the defined contribution plan that tax counsel for the System may recommend and the financial impact such a plan would have on the System.

**House Bill 815/Senate Bill 401 (Barnes/Guzzone)
State Retirement and Pension System - Membership Elections**

This Board requested legislation amends the optional membership provisions in the ORP and the several systems to comply with IRC provisions and IRS letter rulings.

- No hearing scheduled in B&T
- Hearing scheduled in Appropriations – 3/23/17

Board requested legislation

House Bill 817/Senate Bill 399 (Barnes/Guzzone)

Employees' Pension System - Purchase of Credit for Eligibility Service - Legislative Employees
This Board requested legislation alters the amount that a member of the EPS who is considered to have been a legislative employee must pay to the Board to purchase credit for eligibility service they earned prior to joining the EPS. Specifically, this legislation amends the interest rate to be applied to such a purchase to conform to all other purchases in the EPS.

- Hearing scheduled in B&T – 3/30/17
- Hearing scheduled in Appropriations – 3/21/17

Board requested legislation

House Bill 823/Senate Bill 448 (Barnes/Guzzone)

State Retirement and Pension System - Small Procurements - Medical Evaluations for Disability Retirement Benefits

This Board requested legislation increases from \$25,000 to \$50,000 the maximum threshold amount for a small procurement by the Agency for an independent medical evaluation by a physician and related testimony for purposes of disability retirement benefits.

- Hearing scheduled in B&T – 3/30/17
- Hearing scheduled in Appropriations – 3/21/17

Board requested legislation

House Bill 896/Senate Bill 602 (Aumann/Bates)

State Retirement and Pension System - State Employees and Teachers – Benefits

This proposed legislation closes the EPS and TPS and establishes the State Employees and Teachers' Integrated Pension System (IPS) for all existing members and new members of these plans as of July 1, 2018. PGU employees are not included in this bill. It would appear from the drafting of the bill that all new employees who would otherwise be eligible for the ORP would now be required to join the IPS.

The Board is responsible for administering the plan.

The IPS would provide a two-part benefit. The first is a defined benefit plan for all service earned on or after July 1, 2018. The defined benefit plan has a 3% employee contribution rate and a 1% multiplier. The second component is a supplemental plan established under either a 401(k) or 403(b) of the IRC. The supplemental plan allows for an unlimited employee contributions up to the IRC limits provided for under a 401(k) or 403(b) plan (\$18,000, annually). The employer is required to match 100% up to 3% of the employee contribution and 50% for any additional employee contributions from 3% to 5%. This would result in a maximum employer contribution of 4% of an employee's annual earnable compensation. Employees are immediately vested in their employee contribution and 100% vested in their employer contributions after 3 years.

At retirement, a member may receive a lump sum benefit or an annuity with no survivor benefit, a 100% joint and survivor benefit, or a 50% joint and survivor benefit.

- Hearing scheduled in Appropriations – 2/21/17
- Hearing scheduled in B&T - 3/2/17

Staff submitted informational testimony on behalf of the Board to the Committees regarding any necessary changes relating to the implementation of the ISP and the financial impact such a plan would have on the System.

House Bill 949/Senate Bill 739 (Kramer/Zirkin)

Procurement and Pensions - State Sanctions - Discriminatory Boycott of Israel

This proposed legislation amends the State procurement law relating to the debarment of specified persons engaged in investment activities in Iran to include persons participating in a boycott of the State of Israel. Additionally, it also alters the provisions of law addressing the divestiture from Iran and Sudan to include a company participating in a boycott of Israel.

- Hearing scheduled in HGO – 2/28/17
- Hearing scheduled in B&T - 3/1/17

Staff submitted informational testimony on behalf of the Board to the Committees regarding any necessary changes that would be needed to protect the Board's fiduciary responsibility to the System. This is consistent with the Board's position with regard to Senate Bill 214 of 2008, Divestiture from Iran and Sudan.

**House Bill 981/Senate Bill 664 (Allegany County Delegation/Edwards)
Correctional Officers' Retirement System – Membership**

This legislation would require employees of the Department of Public Safety and Correctional Services who are employed in positions that would require them to work in certain positions in State correctional facilities, to become members of the CORS on July 1, 2017. All new employees in these positions would be members of the CORS.

- Hearing scheduled in Appropriations – 3/2/17
- Passed the Senate

Staff recommends taking no position on this legislation.

House Bill 982 (Jacobs)

Law Enforcement Officers Pension System – Separation Requirement - Exemption

This bill would exempt a sheriff who is a member of LEOPS DROP from having to end employment after the sheriff's DROP term ends wait 45 days to be reemployed if that sheriff continues to serve as sheriff.

- Voted unfavorable by Appropriations

Staff opposed this legislation on behalf of the Board because exempting a LEOPS retiree from the 45-day break in service could jeopardize both the System's tax qualified status and the private letter ruling approval the Agency received for the LEOPS DROP.

House Bill 1064/Senate Bill 478 (Krebs/Eckardt)

State Retirement and Pension System - Guaranteed Retirement Income Plan and Retirement Savings Plan

This proposed legislation closes the EPS and TPS as of June 1, 2018 and requires all existing members and new members to elect to join either the guaranteed retirement income plan or the retirement savings plan established under this bill. New employees of a PGU who joined the EPS prior to July 1, 2018, remain members of the EPS. Employees of new PGU's would be required to make the election between the guaranteed retirement income plan and the retirement savings plan.

A more detailed analysis of this legislation will be provided at the Administrative Committee meeting.

- Hearing scheduled in Appropriations – 2/21/17
- Hearing scheduled in B&T - 2/16/17

Staff submitted informational testimony on behalf of the Board to the Committees regarding any necessary changes relating to the implementation of the guaranteed retirement income plan or the retirement savings plan and the financial impact such a plan would have on the System.

**House Bill 1072/Senate Bill 486 (Szeliga/Serafini)
State Employees and Teachers - Cash Balance Plan**

This proposed legislation closes the EPS and TPS and establishes a cash balance plan for all existing members and new members of these plans as of July 1, 2018. New employees of a PGU who joined the EPS prior to July 1, 2018, remain members of the EPS. New PGU's would go into the cash balance plan. Existing members of the ORP on July 1, 2018, remain in the ORP, but all new employees after that date no longer have the option to join the ORP and are required to join the cash balance plan.

The Board is responsible for administering the plan.

Under the provisions of this bill, the employee contribution rate and employer contribution rate are 5%, each. Normal service retirement is age 62 with 10 years of service. Members of the cash balance plan will receive 5% compounded annually on their contributions (employee and employer). At retirement, a member may receive a lump sum benefit or an annuity with no survivor benefit, a 100% joint and survivor benefit, or a 50% joint and survivor benefit.

Local employers (school systems, libraries, and community colleges) shall pay 80% of the employer cost for their employees, while the State pays the remaining 20%.

Current vested members of the EPS and TPS who are involuntarily transferred into the cash balance plan will receive a benefit in accordance with the provisions of the EPS and TPS. Current non-vested members may either receive a return of contributions or roll their contributions over into an equivalent benefit in the cash balance plan.

- Hearing scheduled in Appropriations – 2/21/17
- Hearing scheduled in B&T - 2/16/17

Staff submitted informational testimony on behalf of the Board to the Committees regarding any necessary changes relating to the implementation of the cash balance plan and the financial impact such a plan would have on the System.

**House Bill 1081/Senate Bill 650 (Jackson/Guzzone)
Correctional Officers' Retirement System – Membership**

This legislation would require parole and probation agents and employees of the Department of Juvenile Services who are employed in positions that would require them to work in State correctional facilities, to become members of the CORS on July 1, 2017. All new employees in these positions would be members of the CORS.

- Hearing scheduled in Appropriations – 3/2/17
- Passed the Senate

Staff recommends taking no position on this legislation.

House Bill 1095 (Rosenberg)

Teachers' Retirement and Pension System – Credit for Unused Sick Leave – Time Period for Eligibility

This bill requires that for members of the TRS or TPS, the 30-day break in service between separating from employment and retiring, for purposes of receiving creditable service for unused sick leave, would not begin until the member has exhausted or terminated all rights to appeal.

- Voted unfavorable by Appropriations

Staff recommends taking no position on this legislation, but will work with the sponsor to address certain technical issues.

House Bill 1109/Senate Bill 1001 (Barnes/Guzzone)

Teachers' Retirement and Pension System – County Boards of Education Payments

This legislation provides that county boards of education shall be relieved of paying \$19,695,182 of the total normal cost for fiscal 2017 due by the county boards of education. The bill requires the Governor to use funds in HB150 that have been designated to all local employers to reimburse them for their fiscal 2017 administrative fees to the Agency. If the Governor does not redirect these funds, the bill requires that the Governor shall fund an additional \$19,695,182 for this purpose. The System's actuary determined the total normal cost for local boards of education for FY17 was \$279.8 million.

- No hearing scheduled in B&T
- No hearing scheduled in Appropriations

Staff recommends taking no position on this legislation.

House Bill 1110/Senate Bill 754 (Barnes/Guzzone)

Law Enforcement Officers' Pension System – Membership

This legislation would require any individual who is employed as a warrant officer who is a member of the EPS to become a member of the LEOPS on July 1, 2017.

- Passed the House
- No hearing scheduled in Appropriations

Staff recommends taking no position on this legislation.

House Bill 1122/Senate Bill 913 (Barnes/Guzzone)

State Retirement and Pension System – Death Benefits

This bill amends how all active death benefits and LEOPS, SPRS, and JRS survivor benefits are distributed to surviving children under age 26 and all disabled children, regardless of age. The bill also provides that in the event of a line of duty death of a member who dies without a surviving spouse but does have children, if the non-line of duty death benefit results in a greater benefit than a line-of-duty death benefit, the deceased member's children may elect to receive the non-line of duty death benefit instead of the line of duty death benefit.

- Passed the House
- Passed the Senate

Staff recommends taking no position on this legislation, but does recommend working with Committee staff for technical amendments

House Bill 1171/Senate Bill 1137 (Vogt/Oaks)

Public School Employees – Required Training on Retirement Benefits

This legislation would require the Agency to assist MSDE in preparing at least one mandatory retirement training session annually for all employees of local school boards, both teachers and board members. This training would include EPS and TPS retirement benefits.

- Voted unfavorable by Ways and Means
- Hearing scheduled in B&T - 3/16/17

Staff recommends providing informational written testimony to the Committee outlining the training sessions Agency staff already provide, not only for teachers, but all State employees

House Bill 1178/Senate Bill 1135 (Ghrist/Oaks)

Employees’ Pension System – Incorrect Enrollments

As amended, this bill requires the Agency and DLS to conduct a study regarding membership in the EPS for individuals who are employed in positions for which the budgeted hours are less than 500 hours per fiscal year.

- Passed the House, no hearing scheduled in B&T
- Senate Bill was heard in B&T - 3/16/17

Staff recommends not taking any position on this legislation. Our analysis of the bill is that the legislation is not necessary and we are reaching out to the sponsor to discuss.

House Bill 1580/Senate Bill 914 (Barnes/Guzzone)

State Retirement Agency – Investment Division

This legislation would authorize the Board to set qualifications and compensation for senior investment analysts and any professional investment staff position that it creates. Compensation for these positions and the existing positions for which the Board sets compensation shall now be included in the calculation of investment management service fees, that currently has a cap of .5% of the market value of the assets of the fund that are externally managed, not including real estate or alternative investments. The bill also requires the Board to establish criteria for setting the qualifications and compensation for the investment staff in question. Additionally, the legislation amends the Agency’s reporting requirements to the legislature to reflect these changes in compensation and staff.

- House Rules
- Hearing scheduled in B&T - 3/2/17

Board requested legislation

Senate Bill 356 (Serafini)

Workgroup to Study the Optional Retirement Program

This proposed legislation creates a workgroup to study the ORP, including eligible members, participation rates, contributions, health benefits, and potential changes to the plan. A representative from the SRA, designated by the Executive Director of the SRA, is a member of the workgroup.

- Hearing scheduled in Appropriations – 3/21/17

Staff recommends taking no position on this legislation. The Board took no position on this legislation last session.

Senate Bill 598 (Guzzone)

State Retirement and Pension System - Military Service Credit – Eligibility

This proposed legislation would allow a member of any of the several systems, except the LPP, to use any state employment, including employment as a Senator or a Delegate, towards the 10 year requirement to earn military service credit.

- Unfavorable by B&T

Staff recommends taking no position on this legislation.

Senate Bill 845 (Mathias)

Employees' Pension System - Optional Membership - Concurrent Membership Prohibition

This legislation applies to an individual who has two active EPS accounts, one of which is a result of membership under § 23-204 of SPP (elected and appointed official membership). This bill would terminate the individual's membership stemming from § 23-204. The individual would be disenrolled and receive a return of their member contributions. The bill also provides that the individual's second EPS membership account would be unaffected.

- Hearing scheduled in B&T - 3/2/17

Staff opposed this legislation on behalf of the Board because as drafted it raises impairment of contract issues and could create plan qualification issues.