

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

March 18, 2008

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 9:01 a.m. There were present: Nancy K. Kopp, Chairman; Peter Franchot, Vice-Chairman; William D. Brown; John W. Douglass; T. Eloise Foster; James M. Harkins; Sheila Hill; F. Patrick Hughes; Morris L. Krome; Theresa A. Lochte; Robert W. Schaefer, Harold Zirkin; and, Thurman W. Zollicoffer Jr., Trustees; and R. Dean Kenderdine, Secretary.

Agency Staff members attending were: Deborah Bacharach; Anne Budowski; Margaret Bury; Rachel Cohen; Melody Countess; Jamie Doran; Brian Feilinger; Lauren Frazier; Charles Geis; John Greenberg; Ira Greenstein; Dennis Krysiak; Vincent Marsiglia; Howard Pleines; Harvey Raitzyk; Kenneth Reott; Brian Rowe; Fred Semko; Patrice Sowah; Janet Sirkis; Barbara Swain; Victoria Willard; and, Toni Voglino.

Also attending were Bill Anderson; John Kenney; Melissa Moye; Robert Palumbi; Eli Greenblum (The Segal Company); Doug Rowe (Mercer); James Baughman (Mercer); and Michael Molinaro.

Present only during the disability appeals portion of the agenda was Carla Goldman Katzenberg and Ella Northam-Smith.

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| Minutes | 1. On a motion made by Mr. Zirkin, and duly seconded, the Board approved the minutes of the February 19, 2008 regular meeting. |
| Investment
Committee
Report | 2. Mr. Robert Schaefer, Chairman of the Investment Committee, reported on the meeting held on March 8, 2008. |

Mr. Schaefer reported that the Investment Committee unanimously approved the February 8, 2008 open session minutes as submitted.

Mr. Schaefer reported that Maryland law requires the Board of Trustees, with approval of the Board of Public Works, to appoint three non-Board members with substantial investment experience to serve on the Committee. The Committee currently has one vacant position and one position nearing expiration. The Committee unanimously agreed to recommend to the Board the reappointment of Wayne Shaner to serve another three-year term from July 1, 2008 – June 30, 2011. The Committee will formally recommend a nominee for the second vacant position during the April 2008 meeting.

Mr. Schaefer reported that Agency staff and Ennis Knupp consultants gave an educational presentation on Currency Overlay.

Mr. Schaefer reported that Ennis Knupp provided the Committee with their 4th quarter performance and Tactical Asset Allocation reports, Monthly Investment Update, Market Overview, and Semi-Annual Manager Review.

Mr. Schaefer reported that the Committee received several staff reports.

On motion made by Mr. Schaefer, and seconded by Chairman Kopp, the Board adopted the Investment Committee's recommendations to adopt the United Nations Principles for Responsible Investment, become a signatory of the PRI and to pay a voluntary fee of \$2,500. Agency staff will monitor implementation of the PRI and report to the Subcommittee within 12 to 18 months.

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Mr. Krome voted against the motion stating that he did not agree with abiding by the guidelines of an outside organization. He stated that there remained certain unanswered questions.

On motion a made by Mr. Schaefer, and seconded by Mr. Brown, the Board adopted the Investment Committee's recommendations to: divest all existing holdings of securities issued by Alstom S.A. from all actively managed separate accounts, and prohibit new purchases of securities issued by Alstom S.A. in actively managed separate accounts; not divest existing holdings of securities issued by Total S.A. at this time, and prohibit new purchases of securities issued by Total S.A. in actively managed separate accounts (Total currently has no active oil operations in Sudan, and has stated that it is implementing several humanitarian operations in areas where it owns rights to explore and drill for oil.); and, not divest existing holdings of securities issued by Alcatel-Lucent at this time, and continue to permit the purchase of securities issued by Alcatel-Lucent in actively managed separate accounts (Alcatel-Lucent currently has no operations in Sudan with entities active in the oil, mineral, power, or military equipment industries as defined by the U.S. Sudan Accountability and Divestment Act of 2007.). Staff will continue to monitor all these companies and there activities.

- Legislative Update 3. At Chairman Kopp's request, Mr. Dean Kenderdine and Mr. Howard Pleines reported on the Agency's legislative developments.

Mr. Pleines reported on the status of bills requested by the Agency:

- **HB442/SB422:** Deferred Retirement Option Program Participants – Application of Line of Duty Disability Benefits. HB422 passed House with amendments that conforms the with existing language related to disability benefits for law enforcement (“totally and permanently incapacity for duty arising out of or in the course of actual duty...”). SB422 was passed in Budget & Taxation and is on second reader with the same amendments as HB422.
- **HB472/SB375:** State Retirement and Pension System – Imposition of Administrative Fees on Employers. HB472 passed House and is assigned to Budget & Taxation – no hearing date set. SB375 passed third reader.
- **HB481/SB384:** State Retirement and Pension Systems – Investments. HB481 passed House with clarifying amendment that the Treasurer, Comptroller, and Budget Secretary will review and approve on real estate transactions in their capacity as Trustees. SB384 was passed in Budget & Taxation and is on second reader with the same amendments to HB481.
- **HB482/SB488:** State Police Retirement System – Survivor Benefit HB482 passed House and is assigned to Budget & Taxation – no hearing date set. SB488 passed third reader.
- **HB641/SB487:** Teachers' Pension System – Ineligible Positions – Transferring Membership. HB641 is being held while the pension sub-committee considers if it will amend the proposal or reject it altogether out of concern for the fact that if enacted, costs would be transferred to the local boards of education. SB487 has been heard in Budget & Taxation, but there has been no consideration of the proposal since the hearing.

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- **HB720/ SB564:** State Retirement and Pension System – Reemployment of Retirees. HB720 passed the House with an amendment to exempt retired judges temporarily assigned to the bench from the earnings limitation applicable to an Employees' Retirement System or Employees' Pension System benefit. SB564 has been heard in Budget & Taxation and is likely to be voted out of committee for second reader on March 18.
- **SB672:** Retirement and Pensions – Reemployment of Retired Judge has been withdrawn by Senator Colburn and has been amended into HB720 and SB564.

Mr. Kenderdine reported on **SB214/HB371:** Divestiture from Iran. Hearings have been held in both House and Senate. Language developed by legal staff, Mr. Kenderdine and Dr. Moye designed to amend the bill such that it can be implemented if passed seems to be acceptable to the Governor's office, however the Agency has not received any formal confirmation. **SB22:** State Pension and Retirement System – Divesting from Iran has been withdrawn by Senator Colburn in favor of the Governor's proposal.

Mr. Kenderdine reported on **SB606/HB1277:** State Government - Brokerage and Investment Banking Services - Use of Minority Business Enterprises. SB606 has passed out the Finance Committee of the Senate. In addition to the Agency, this legislation affects the Treasurer's Office, Maryland Automobile Insurance Fund, and the Injured Workers Insurance Fund. The purpose of the bill is to set up a process for the identification and removal of barriers that prevent minority owned businesses from doing business with these agencies. In the case of the Agency, the intent is to identify and remove barriers for minority owned asset management companies and security brokers. The bill has been amended to make it clear that any action to remove identified barriers must be consistent with the Board's fiduciary duty.

Mr. Pleines reported:

- **HB1233/SB859:** Blue Ribbon Commission to Study Retiree Health Care Funding Options – Extension of Reporting and Termination Dates. HB1233 passed House with amendment requiring interim report as of December 2008 (final report would be due December 2009). SB859 was heard in Budget & Taxation, but no discussion has occurred since the hearing.
- **HB725:** Employees' Retirement and Pension System – Line of Duty Death Benefits – State Highway Administration Employees. Passed House with amendment to expand the special death benefit to any State employee killed in the line of duty who was a member of the Employees' or Teachers' Systems. To date a hearing has not been scheduled.

Mr. Pleines reported that hearings have been scheduled for March 18, 2008 at 3 p.m. before the Senate's Budget and Taxation Committee for SB749 Retirement and Pensions – Election of Benefits- Surviving Spouses; SB803 Law Enforcement Officers' Pension System – Membership – Retired Pilots with the Maryland State Police; and, SB910 Law Enforcement Officers' Pension System – Transfer of Membership- Maryland Transit Administration.

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Mr. Pleines reported that hearings have been scheduled for March 25, 2008 at 1 p.m. before the House Appropriations Committee for SB195 Law Enforcement Officers' Pension System – Baltimore City Community College – Police Officers and SB308 Town of Berwyn Heights Employees – Participation in the Employees' Pension System.

Mr. Pleines reported that hearings have been scheduled for March 18th at 1 p.m. before the House Appropriations Committee for HB1523 Law Enforcement Officers' Pension System – Benefit Enhancement and HB1524 Law Enforcement Officers' Pension System – Benefit Enhancement.

On a motion made by Mr. Harkins, and duly seconded, the Board adopted the Administrative Committee's recommendation to oppose HB1523/SB928 and take no position on HB1524/SB929.

Administrative
Committee
Recommendations

4. Mr. James Harkins, Chairman of the Administrative Committee, reported on the meeting held on March 4, 2008.

Mr. Harkins reported that the administrative fees as of January 31, 2008 were accepted. The Agency lost the following two vacant positions as a result of decisions made during the Special Session of the General Assembly: (1.) information services specialist and (2.) benefits counselor.

Mr. Harkins reported that the Committee heard from Wicomico County Board of Education regarding the County's request to have additional compensation provided by the County's Early Notification Program (ENP) considered as earnable compensation. He also reported that the Administrative Committee voted to recommend to the Board that it adopt the Summary Decision of the Executive Director that denied the County's request.

Mr. Molinaro, attorney for the Wicomico County Board of Education, was given the opportunity to address the Board. He stated that Mr. Harkins' summary of his position was fairly accurate. He then stated that he and his client were mostly concerned about the process that had been followed with respect to the appeal and he urged the Board not to accept the Administrative Committee's recommendation. He believes that the case should go to Office of Administrative Hearings because there are material factual issues that remain. He believes that the Board of Trustees' early involvement in the matter of the ENP tainted the administrative process and his client did not receive substantive and procedural due process as required by law. The factual issues that Mr. Molinaro said remain to be resolved are: (1) whether the increased pay is pay for working the normal time ; (2) whether the increased pay is a longevity step; (3) whether incentive programs apply to just certain individuals; (4) the issue of actuarial losses and (5) actuarial benefits to the system from the ENP.

Ms. Rachel Cohen presented the position of the Agency. Ms Cohen argued that there is no right to a hearing at Office of Administrative Hearings, and there is no need for an evidentiary hearing because there are no material facts in dispute. She stated that there was nothing unfair about the process that was followed – allowing the Wicomico County Board of Education to

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present to the Administrative Committee before the Agency reached their initial administrative decision - and no violation of due process. She stated that the early notification payment is not part of salary for working the normal time in the member's position. She stated that it was not salary for working, but payment for not working. She pointed out that the Agency made the same decision in 2000 regarding the same issue that arose at St. Mary's College, and the Agency has taken this same position with respect to all other county Boards of Education.

On a motion made by Mr. Harkins, and duly seconded, the Board voted to uphold the Executive Director's summary decision to deny the Wicomico County Board of Education's request.

Mr. Harkins reported on the Agency's Member Services Performance. After establishing goals for call waiting and call abandonment rates the critical factor in achieving the goals continues to be the availability of qualified counseling staff. Improvements in member services are beginning to show as a result of addressing turnover and compensation. Mr. Harkins stated that the Administrative Committee will continue to monitor Member Services Performance. Chairman Kopp thanked Mr. Harkins and the Administrative Committee for focusing on this issue.

Mr. Harkins reported on the progress of the MPAS project. Mr. Harkins reported that Milestone 4, Member Functions is 99.32% tested with 10 of 1467 items needing to be completed; Milestone 6, Retiree Functions is 79% tested, up from 69%; Milestone 7, Retirement Payment Functions, is 41% tested, up from 24%, with Saber working on coding the final two jobs.

Mr. Harkins reported that the Agency has not received any detailed change orders from Saber to justify an increase in the length of time to complete MPAS-1 or for any additional costs that Saber has previously indicated are justified. No payments will be considered until the appropriate change orders are received and approved.

Mr. Harkins reported the IV&V team has completed its interviews of Agency staff and Titan.

Mr. Harkins reported that Mr. Kenderdine spoke with the State's new Chief Information Officer, Elliott Schlanger, who has expressed his concern with the project and possible additional costs. Mr. Kenderdine will continue to work with Mr. Schlanger to update him on the project's progress, assure him that good work product is being received, and that the project should continue.

Mr. Harkins reported that Mr. Kenderdine has been concerned that the Agency does not have a long term strategic plan. As a result, Mr. Kenderdine contacted Towson University to facilitate developing a strategic plan for the Agency. The project is scheduled to begin in late calendar year 2008 or early 2009 calendar year. In light of the fact that the Agency is undertaking a benchmarking project during the second half of 2008, and given the fact that the benchmarking results will determine much of what will go into the strategic plan it is appropriate that the strategic planning be delayed.

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Executive Director's Report 5. Mr. Kenderdine reminded the Board that their calendar year 2007 State Ethics Commission financial disclosure statement must be submitted before April 30, 2008.

Mercer and The Segal Company 6. At the request of Chairman Kopp, Mr. Kenderdine provided an overview of how and why Mercer was asked to conduct a partial audit of The Segal Company's fiscal year 2009 contribution rates.

Mr. Kenderdine stated that The Segal Company, the System's actuary, reported that as a result of its implementation of a change in funding methodology, an error had occurred in the calculation of contribution rates. The funding methodology change was recommended by the actuary and adopted by the Board. A defect in the computer software used to transition the system to the new methodology caused the error such that in calculating the System's liabilities, the actuary overstated the unfunded accrued liability and understated the normal cost liability. Correcting this error shortens the timeline for pre-funding the liabilities, thereby increasing the State's annual contribution, initially estimated to be \$100 million above the contribution included in the Governor's fiscal year 2009 budget. As a result of the error, the Board solicited the services of Mercer to conduct a partial audit of the System, with the cooperation of The Segal Company.

At Mr. Kenderdine's request, Mr. Doug Rowe and Mr. James Baughman presented Mercer's findings of their detailed review of the June 30, 2007 actuarial valuation of the System performed by The Segal Company.

Mr. Doug Rowe and Mr. Baughman reported that their contribution rates results, using Mercer's standard methodology were sufficiently comparable to the Segal Company's revised rates.

On a motion made by Vice-Chairman Franchot, and seconded by Mrs. Theresa Lochte the Board accepted The Segal Company's fiscal year 2009 revised contribution rates.

Medical Board Reports 7. On a motion made by Mr. Brown, and seconded by Ms. Hill, the Board of Trustees 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 documentation in the file.

Supplemental Medical Board Reports 8. On a motion made by Mr. Brown, and seconded by Ms. Hill, the Board of Trustees accepted the supplemental reports of the Medical Board in connection with applications of members for ordinary, accidental and special disability retirement allowances. The Medical Board's conclusions were reached after its review of the documentation in the file.

Ella M. Northam-Smith 9. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mrs. Ella Northam-Smith 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.

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Mrs. Ella Northam-Smith appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. 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.

- Erik Barciz 10. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Erik Barciz 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.

Mr. Barciz elected not to appear or be telephoned in to speak to the Board. Following discussion, the Board deferred further consideration to Closed Session.

CLOSED SESSION

The Board met in Closed Session at 12:15 p.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street for the purpose of, and pursuant to:

1. approve closed minutes, State Government Article §10-503(a)(1)(i), the exercise of an administrative function;
2. to discuss employment of the Chief Investment Officer pursuant to State Government Article §10-508(a)(1), discussion of a personnel issue;
3. to consider the investment of public funds and marketing of public securities; pursuant to State Government Article §10-508(a)(5);
4. to discuss a contract issue pursuant to State Government Article §§10-508(a)(7) and 10-508(a)(8), consultation with counsel for legal advice and consultation with staff and others regarding litigation; and
5. to discuss the appeals of Ella Northam-Smith and Erik Barciz. pursuant to State Government Section 10-503(a)(1)(iii), quasi-judicial function.

Present during the closed session were Chairman Nancy Kopp; William D. Brown; John Douglass; Sheila Hill; F. Patrick Hughes; Morris L. Krome; Theresa Lochte; Harold Zirkin; and, R. Dean Kenderdine, Secretary.

Agency staff attending were Deborah Bacharach; Margaret Bury; Rachel Cohen; Jamie Doran, Brian Feilinger, Lauren Frazier, John Greenberg, Dennis Krysiak, Vincent Marsiglia, Howard Pleines; Brian Rowe, Janet Sirkis; Patrice Sowah; Barbara Swain; Toni Voglino.

Also attending was John Kenney.

The Board ended its closed session at 12:55 p.m. and returned to regular session to complete the agenda.

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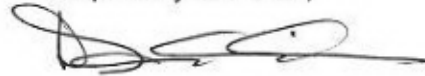
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REGULAR SESSION

During the closed session, the Board approved the closed minutes of the February 5, 2008 and February 19, 2008 meeting, discussed pending litigation, and reviewed and decided on the following disability appeals:

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| Ella M.
Northam-Smith | 11. The Board voted to <u>accept</u> the Administrative Law Judge's Proposed Decision and <u>deny</u> Mrs. Ella Northam-Smith's request for accidental disability benefits. |
| Erik Barciz | 12. The Board voted to <u>accept</u> the Administrative Law Judge's Proposed Decision and <u>deny</u> Mr. Erik Barciz's request for accidental disability benefits. |
| Adjournment | 13. There being no further business before the Board, the meeting adjourned at 1:00 p.m. |

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

RDK/pws