

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

November 19, 2019

The Board of Trustees for the Maryland State Retirement and Pension System convened at the SunTrust Building, 120 East Baltimore Street, 16th Floor Board Room, Baltimore, Maryland beginning at 9:08 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	Linda Herman
Peter Franchot, Vice Chairman (via phone)	Sheila Hill (via phone)
David Brinkley (via phone)	Charles Johnson
Eric Brotman	Richard Norman
Jamaal Craddock (via phone)	Douglas Prouty
Kenneth Haines	Michael Stafford
David Hamilton	

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

Melody Countess	Michael Golden	Andrew Palmer
Patricia Fitzhugh	Ira Greenstein	Harvey Raitzyk
Anne Gawthrop	Angie Jenkins	David Rongione
		Janet Sirkis

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

Other attendees included: William Seymour, Tiana Wynn and Gray Smith from SB & Company; Jordan McClane and Tom Lowman from Bolton Partners, Brian Murphy (via phone), Brad Armstrong, Jeff Tebeau from GRS; Frank Benham and Mary Mustard from Meketa and Phillip Anthony.

Financial
Statements Report
for
FYE June 30, 2019

Richard Norman, Vice Chairman of the Audit Committee, reported that the System's annual audited financial statements for the year ending June 30, 2019, were presented to and reviewed by the Audit Committee at its November 12, 2019 meeting.

Mr. Norman stated that the financial statements were audited by the System's auditors, SB & Company, and that the statements received an unmodified opinion. Mr. William Seymour and Ms. Tiana Wynn of SB & Company were present for questions.

Mr. Seymour gave a brief summary of the report, that had been provided to the Board in their meeting book.

Mr. Norman also reported that the Audit Committee had voted unanimously to recommend to the Board that it accept the report for inclusion in the 2019 Comprehensive Annual Financial Report (CAFR).

On a motion made by Mr. Norman and seconded by Mr. Prouty, the Board accepted the FY2019 financial statements for inclusion in the System's FY2019 Comprehensive Annual Financial Report.

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Results of the
Actuarial Audit of
the June 30, 2019
Actuarial Valuation
of the System

Mr. Kenderdine introduced representatives of Bolton Partners, LLC to present the results of the full replication audit performed on the System Actuary's FY2019 valuation of the System.

Thomas Lowman and Jordan McClane of Bolton Partners, Inc. presented the results of the audit. Mr. Lowman reported that all of the audit's findings for replicating the results of GRS were well within acceptable tolerance ranges. Mr. Lowman reported that the full replication results were about the same as the results for the partial audit Bolton performed for the Board in 2014.

Treasurer Kopp asked how tolerance is set.

Mr. McClane responded that there are no set tolerance ranges, but that a 3-5% range is considered reasonable.

Mr. Bowman presented Bolton's recommendations for the Board's consideration, all of which offer what Bolton regards as possible improvements to the System's future valuation, as follows:

Data

- The data would be improved if the system calculated the benefits for all terminated vested members and if GRS had more information on refunds owed.

Valuation Report/Risk Disclosures

- Ask GRS to provide a quantitative risk projection of the plan as it matures in the future.

Assumptions

- Continue to look at lowering the discount rate and real rate of return. Ideally this would be without phasing in assumption changes.
- See if the actuary for the State's OPEB plans could benefit from a separate set of retirement rates (for groups that have a DROP) tied to DROP exist ages instead of entry ages.

Funding Methods

- Adopt layered amortization for all plans and a plan to manage the layers following guidelines in 2014 CCA White Paper contained in our prior audit report.
- Take a fresh look at the three methods that take dollar values (e.g. Normal Cost), turn them into percentages of pay and reconstitute them into dollar contribution amounts.

Expected 2020 study of Actuarial factors used for plan administration

- We have provided ideas to consider when you look at updating actuarial factors (a project recommended in the recent GRS experience study).

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Mr. Brad Armstrong and Mr. Jeff Tebeau from Gabriel Roeder Smith & Company (GRS), the System's actuarial firm commented that GRS is pleased with the results of actuarial audit.

Mr. Armstrong commented on Bolton's recommendation regarding the adoption of layered amortization for all plans in future valuations, indicating that while GRS agrees with this, they would like to see the Board receive legislative authority to control the amortization schedule.

Treasurer Kopp confirmed that the subject of a revised amortization schedule in future years had been raised with the Joint Committee on Pensions.

Mr. Armstrong commented that he recommends seeking legislation once the current amortization schedule timeframe gets down to 15 years remaining.

Mr. Kenderdine responded that there is 19 years remaining on the current amortization schedule.

Mr. Stafford asked for clarification as to who presently controls the amortization schedule.

Mr. Armstrong responded that amortization is in statute.

Mr. Brotman asked how common that is across the country for a retirement system to control.

Mr. Armstrong responded that it is fairly common among GRS clients.

Treasurer Kopp asked that GRS prepare a separate letter to the Board on this subject which can be taken to the legislature.

Regarding Bolton's recommendation concerning updating actuarial factors, Mr. Armstrong reported that GRS will be reviewing the System's option factors in the next 3-4 months.

Mr. Murphy further commented that it is common to change factors when assumptions change.

Ms. Cohen responded that any changes to option factors will require a regulation change. The last time the option and annuity factors changed, there was a lead time of about a year, so that staff could provide members with estimates of how those factor changes would affect the benefits.

Treasurer Kopp asked Mr. Kenderdine to work with the Administrative Committee on the option factor update effort.

Ms. Herman asked if a majority of GRS' clients allow a one-year window before new options are put in place.

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Mr. Armstrong responded that it is typical for GRS clients to provide dual option factors during transition periods, but that they usually allow for a three-month transition period.

Mr. Murphy further commented that in many cases the transition period allows dual calculations, but at differing dates of retirement. In other words, the current factors are used for calculations up to the transition date, and the new factors are used for estimated calculations projected beyond the transition date.

Ms. Herman asked the Board to reconsider the one-year time frame as she believes it is too long a period for staff to run dual calculations.

FY2019 Valuation
Results and
Recommendations
for FY2021
Contributions Rates

Mr. Brad Armstrong and Mr. Jeff Tebeau then presented the results of the State Retirement and Pension System's Actuarial Valuation for the period ending June 30, 2019 for the Board's review.

Treasurer Kopp asked that GRS put in writing the reasons why the Board should be reviewing the amortization policy annually.

Ms. Herman asked what the turnover rate of each plan's participants is.

Mr. Armstrong responded that the turnover rate is less than 10% a year, depending on the system, but they would have to give a more detailed response in writing.

Treasurer Kopp asked if GRS expects the number of vested former members to decrease since legislation has been in place requiring a longer vesting period.

Mr. Armstrong responded that it is difficult to tell at that time as the System transitions from one set of benefit provisions to another, but it is likely the number will decrease.

Mr. Tebeau responded that 10,000+, or 6%, of the population left last fiscal year.

Mr. Haines asked if GRS could provide a break-down of those numbers by plan, to the Board.

Mr. Tebeau agreed that GRS would do so.

Mr. Armstrong reported that the preliminary contribution rates presented to the Board at its September meeting had not changed and were being recommended to the Board of Trustees for certification.

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On a motion made by Mr. Brotman and seconded by Mr. Haines, the Board certified the Fiscal Year 2021 State employer contribution rates, as follows:

Fiscal Year 2021 - State	
Teachers	14.96%
Employees	20.71%
State Police	78.09%
Judges	40.27%
LEOPS	42.96%

The Board also accepted the Fiscal Year 2021 Municipal employer contribution rates, as follows:

Fiscal Year 2021 - Municipal	
Employees	6.71%
LEOPS	34.93%
CORS	9.67%

Consent Agenda

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

- October 15, 2019 Open Meeting Board Minutes
- November 12, 2019 Audit Committee Meeting Summary

FY2019 System
Active Membership

The Board was presented with the System's Active Membership by percentage as employed by the State, the local public libraries, and each participating local employer. The certified percentages are provided to determine each System employer's pro rata share of the amount necessary for the administrative and operational expenses of the Board of Trustees and the State Retirement Agency. This report serves as certification of the System's active membership as of the end of the fiscal year and is submitted to the Secretary of the Department of Budget and Management in accordance with State Personnel and Pensions Article § 21-316(c) of the Maryland Annotated Code.

On a motion made by Mr. Prouty and seconded by Mr. Haines, the Board unanimously voted to certify the required membership percentages to the Secretary of Budget and Management, applicable to FY2021.

State Employees	58,812	
State Teachers	1,937	
Local Public Libraries-TCS Teachers	2,481	
Local Public Libraries-ECS Employees	<u>149</u>	
Subtotal State	63,379	33%
Local Boards of Education	111,550	
Local Community Colleges	5,492	
Local Elected & Appointed Officials	58	
Participating Governmental Units	<u>12,375</u>	
Subtotal Local	129,475	67%
Total	192,854	100%

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Legislative Proposal

Ms. Anne Gawthrop presented to the Board the 2019 Board Requested Legislation packet that was presented to the Joint Committee on Pensions (JCP) last month, but with an additional legislative proposal regarding the recordation of outgoing calls to members and retirees.

Ms. Gawthrop reported that in 2009 a law was passed that authorized the Board to adopt regulations allowing managers to monitor and record incoming telephone conversations to employees of the Member Services Division of the Agency for training and quality control purposes. The Agency then adopted COMAR 22.01.13 – Member Services Unit – Telephone Recording or Monitoring. The regulation states that the Agency may not record or monitor calls from direct individual telephone lines in the Agency.

Ms. Gawthrop further reported that in 2015, the Agency began providing members and retirees who call into the automated call distribution system (ACDS) and are faced with long wait periods to “lock in” their place in the call-in queue and have the ACDS automatically call-back the individual and reconnect the call with a counselor when their position in the queue moves to the second spot. Staff had not considered these calls to be an actual outbound call, since the virtual “call-back” is initiated by the caller. However, it has come to the Agency’s attention that despite the ACDS reconnecting the original call, the virtual call-back feature could be interpreted as an outbound call and therefore, the Agency would not have the authority to record these types of telephone calls. The Agency believes that recording these calls would provide staff with a valuable tool for training and quality control of the counselors in its Member Services Divisions and asks that the Board request that the current provisions of the State Personnel and Pensions Article be amended to clarify that the Agency may record virtual call-backs requested by a caller and placed through the Agency’s ACDS.

Ms. Gawthrop commented that she has reached out to the Senate Sub-Committee Chair who is now aware of this matter. She has been unable to speak with the House Sub-Committee Chair regarding this matter.

On a motion made by Mr. Brotman and seconded by Mr. Norman, the Board approved staff’s recommendation regarding the additional legislative proposal.

Ms. Herman asked that a copy of the report to the Joint Committee on Pensions be circulated to the Board.

Ms. Gawthrop responded that she will post a copy to the Board Portal.

Proposal of the
2020 Board of
Trustees Meeting
Dates

The Board was provided with a chart which provided the proposed Board of Trustees meeting dates for 2020.

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Other Business Ms. Herman asked, regarding next year's meeting dates, if there would be a condensed down meeting schedule.

Mr. Kenderdine responded that topic is part of the recommendation coming from the Ad Hoc Committee on Strategic Planning and Board Governance.

On a motion made by Mr. Brotman and seconded by Mr. Norman, the Board voted to meet in a Closed Session, beginning at 10.38 a.m., at the Board Room of the SunTrust Building, 120 East Baltimore Street, 16th Floor Board Room, Baltimore, Maryland for the purpose of:

- a) reviewing the October 15, 2019 closed session Board minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function;
- b) reviewing the Medical Board reports from October 16, October 24, October 30, November 7 and November 13, 2019, regarding individual participants' claims for disability retirement benefits, 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 psychological information; and
- c) receiving advice of counsel regarding the UMUC Overseas Employee Enrollment question, pursuant to General Provisions Art., § 3-305(b)(7), to consult with counsel to obtain legal advice.

CLOSED SESSION

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	Linda Herman
Peter Franchot, Vice Chairman (via phone)	Sheila Hill (via phone)
Eric Brotman	Charles Johnson
Jamaal Craddock (via phone)	Richard Norman
Kenneth Haines	Douglas Prouty
David Hamilton	Michael Stafford

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

Melody Countess	Michael Golden	Harvey Raitzyk
Patricia Fitzhugh	Angie Jenkins	David Rongione
Anne Gawthrop	Andrew Palmer	Janet Sirkis

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

On a motion made by Mr. Brotman and seconded by Mr. Prouty, the Board voted to return to Open Session, beginning at 10:53 a.m., at the Board Room of the SunTrust Building, 120 East Baltimore Street, 16th Floor Board Room, Baltimore, Maryland.

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November 27, 2018

OPEN SESSION

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	Linda Herman
Peter Franchot, Vice Chairman (via phone)	Sheila Hill (via phone)
Eric Brotman	Charles Johnson
Jamaal Craddock (via phone)	Richard Norman
Kenneth Haines	Douglas Prouty
David Hamilton	Michael Stafford

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


Melody Countess	Michael Golden	Harvey Raitzyk
Patricia Fitzhugh	Angie Jenkins	David Rongione
Anne Gawthrop	Andrew Palmer	Janet Sirkis

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

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

Closed Session Minutes	The Board reviewed and approved the October 15, 2019 closed session minutes.
Medical Board Reports	The Board reviewed and adopted the medical board reports from October 16, October 24, October 30, November 7 and November 13, 2019.
Adjournment	There being no further business before the Board, on a motion made by Mr. Brotman and seconded by Mr. Prouty, the meeting adjourned at 10:54 a.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

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***AUDIT COMMITTEE MEETING SUMMARY
November 12, 2019***

Presentation of FY
2019 Financial
Statement Audit
Results by SB &
Company

Mr. Seymour of SB & Company presented the results of the FY 2019 Financial Statement Audit. He mentioned that the audit was performed in accordance with Generally Accepted Accounting Principles (GAAP) and the Firm Standards. Mr. Graylin Smith and Ms. Tiana Wynn from SB & Company were also present during the meeting. Mr. Seymour mentioned that the scope of the audit included June 30, 2019 financial statements, a review of the comprehensive annual report and an audit of the schedule of contributions and pension amounts. The audit report will include an unmodified opinion meaning a clean opinion on the financial statements. Their audit steps did not discover any instances of fraud however, Mr. Seymour emphasized that their audit is not a fraud audit. Fraud audit steps are designed and conducted in a different manner compared to the financial statements audit. Mr. Seymour noted that no material weaknesses were identified in the Agency's internal controls. He also mentioned SB & Company received full cooperation from management during this audit.

Mr. Seymour noted that for the purpose of GASB 67 and 68 reporting to PGUs, an unmodified opinion will be issued on the 2018 schedule of contributions and pension amounts. Mr. Seymour highlighted a few items from the financial statements indicating the investment is up by 5 billion and funding percentage increased from 71.2% to 72.9%. Mr. Seymour also reviewed the fair value measurements of Level 1, Level 2 and Level 3 investments noting that all amounts appear reasonable. He described the nature of all three levels of investments and noted that Level 1 is the least risky investment and Level 3 is the riskiest. Then he reviewed the schedule of funding progress and employer net pension liability noting that the difference is mainly due to actuarial value. He reviewed the industry and economic highlights mentioning that defined benefit plans are facing challenges related to mortality rate. Lower mortality rate means the cost to maintain the plan is becoming more expensive. He also mentioned cyber security remains to be a risky item for the industry.

Mr. Seymour then reviewed the items that are required to be communicated with management by AICPA noting that there were no significant items or issues to be communicated as the audit was a clean audit. He also mentioned their responsibility related to fraud while performing a financial statements audit and no instances of fraud were noted during their audit. Mr. Seymour mentioned that SB & Company performed an assessment of control environment by following COSO framework and all areas were assessed as "Effective". He also mentioned that their evaluation of key processes related to financial reporting process were also assessed as "Effective". He noted that their presentation included a copy of the draft financial statements to be presented to the Audit Committee.

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***AUDIT COMMITTEE MEETING SUMMARY
November 12, 2019***

Participating
Employer Audits –
FY 2019 Results
Presented by
CliftonLarsonAllen

Mr. Ray and Mr. Maranto from CLA presented the results of FY 2019 compliance review of local government employers. Mr. Maranto mentioned that they perform this review for roughly 150 PGU's on a 3 year rotating basis in order to ensure accuracy of contribution amounts, sick leave balance and demographic and payroll data. He described the six objectives of their review and reviewed the findings by each objective as follows:

Objective #1 – 7 of 52 participating employers failed to enroll one or more eligible employees. 1 employer had similar findings in both current and previous audit.

Objective #2 – No findings were identified for this objective.

Objective #3 – 21 of 52 participating employers misreported payroll data. 9 employers had similar findings in both current and previous audit.

Objective #4 – 7 of 52 participating employers reported incorrect employee and salary information in the annual billing report for employer contribution. 2 employers had similar finding in both current and previous audit.

Objective #5 - 18 of 52 participating employers misreported unused sick leave balance. 9 employers had similar findings in both current and previous audit.

Objective #6 - No findings were identified for this objective.

Mr. Maranto reviewed the graphs included in their report that shows year-to-year analysis of the same set of employers. First graph showed the number of participating employers with findings by objective. The second graph showed the number of findings by objective for the same participating employers. These graphs are an indication whether the compliance level has improved and corrective actions have been taken for the findings identified in previous audits. Mr. Maranto pointed out that there has been significant improvements in many areas i.e. previous review showed that employers failed to enroll almost 900 eligible employees where the current audit shows employers only failed to enroll 35 eligible employees.

Mr. Ray thanked the Agency for engaging CLA for performing a compliance review of local government employers. He also mentioned significant improvements have been made by many PGUs. The Agency had engaged CLA pre GASB 67 and SB and Company relies on CLA's compliance review. Mr. Rongione asked if CLA was not

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performing this review then whether SB and Company will have to perform additional testing. Mr. Ray mentioned that although he can't speak to what type of testing SB and Company will be performing, he can assure they would have to do some level of testing at the employer level. Mr. Raitzyk thanked CLA for their work as their work is a tremendous value add for the Agency. Mr. Kenderdine mentioned that the Agency reviews each of the finding closely and sends letters out to each PGU for their finding. He mentioned that 90% of the time the PGU has already taken corrective actions for the identified issues. Mr. Maranto seconded Dean's comment and mentioned that CLA holds exit meeting with each employer which gives them an opportunity to correct the issues by the time they receive a letter from the Agency.

Internal Audit
Staffing Update

Mr. Rongione mentioned that IT auditor position remains open. The position has been reposted and he is hopeful to receive applications from qualified candidates.

Internal Audit
Charter

Mr. Rongione mentioned that the Audit Committee Charter requires the Internal Audit Division Charter to be approved every three years, with the last approval in 2016. IAD's peer review identified two minor changes. IAD has updated the Charter accordingly to include Core Principles for the Professional Practice of Internal Auditing and Code of Ethics.

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Status of FY 2020
Audit Plan

Mr. Rongione noted that IAD has scheduled an exit meeting for the Retiree Withholding Tax audit this week. IAD has also started the CRM audit and the Entrance conference is scheduled this week as well. Mr. Stafford asked about the current investment status of managing funds internally without having an order management system in place and whether the outside auditors are concerned about this matter. Mr. Rongione mentioned that we have very limited budget for investment audits and outside auditors have not been engaged to perform an audit of the procedures of managing the funds internally. Mr. Stafford asked for clarification if the same person is buying the bonds, managing the portfolio, pricing the bonds, measuring the performance and recording data. Ms. Wild mentioned that the allocation that are being managed internally are relatively small, approximately 20 securities with an approximate value of \$500 million. She also mentioned that the pricing of the bond and performance is measured by the Custodian bank. Internal staff is mainly responsible for buying, selling and monitoring the securities therefore a segregation of duty is in place. Mr. Palmer is performing a cost benefit analysis of implementing an order management system. Mr. Stafford requested that an agenda item be placed on the Audit Committee meeting in January to further discuss tracking the securities without an order management system, and the associated risks.

Status of Open
Issues Log

Mr. Rongione presented the status of the open issue log noting that no significant changes from the prior meeting. IAD closed out 1 issue. Follow-up testing for the issues related to Investment audits will be performed by BD & Company. Some issues included on the issues log will be remediated with the MPAS Plus implementation. The remaining issues are being reviewed by the Agency and IAD will perform follow-up testing to close out the issues.

Completed Audits

Mr. Rongione noted that Internal Audit Division has completed a special project of Date of Birth analysis. An issue was identified during the close session of the Administrative Committee meeting held on August 6, 2019. This special project was a data analysis of the date of birth changes for retirees and active participants, from year to year. Mr. Raitzyk mentioned that Administration is currently looking into the analysis and will issue a response to IAD shortly.

CY 2020 Audit
Committee Meeting
Dates

The Committee approved the following meeting dates for CY 2020:
January 21, 2020
April 21, 2020
July 21, 2020
November 10, 2020.