

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

October 20, 2009

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 9:16 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman	Peter Franchot, Vice-Chairman	F. Patrick Hughes	Major Morris Krome
Robert Schaefer	William D. Brown	John Douglass	Sheila Hill
Harold Zirkin	David Blitzstein	James Harkins	Theresa Lochte
Thurman Zollicoffer, Jr.	T. Eloise Foster	R. Dean Kenderdine, Secretary	

Agency Staff members attending included:

Deborah Bacharach	Anne Budowski	Margaret Bury	Steve Cichelli	Rachel Cohen
Melody Countess	Robert Feinstein	Patricia Fitzhugh	Ira Greenstein	Carla Katzenberg
Dennis Krysiak	Jill Leiner	Mansco Perry, III	Howard Pleines	Kenneth Reott
Brian Rowe	Janet Sirkis	Patrice Sowah	Toni Voglino	Melissa Warren
Victoria Willard				

Also attended by:

John Kenney	Melissa Moye	Lisa Campbell	Michael Rubenstein	Dylan Baker
Bill Anderson	Robert Palumbi	Randy Mickens		
Larry Jennings, Investment Committee Public Member				

- Minutes
1. On a motion made by Vice-Chairman Franchot and seconded by Ms. Hill the Board approved the minutes of the September 15, 2009 open session meeting with changes.
- Administrative Committee Report
2. Mr. James Harkins, Chairman of the Administrative Committee, reported on the regular meeting of the Administrative Committee held on October 6, 2009.

Mr. Harkins reported that the Administrative Committee approved the following dates for the Committee meetings for 2010: February 2; March 2; April 6; June 1; August 3; September 7; October 5; and December 7.

Mr. Harkins reported that Mr. Kenderdine advised the Committee that for the first time since the System began paying an annual cost-of-living adjustment (COLA) in 1971, indications are that the COLA for July 2010 will be a negative amount. Based on legal advice, it is clear that under current pension law there is nothing to prevent a negative COLA from being applied. In the event of a negative COLA, State law would not only require the Retirement Agency to pay lower benefits to retirees of specific systems who have been receiving COLAs for a number of years, but for newly retired members it would also require lowering benefits to less than initial payments earned based on service and average final salary at retirement (no minimum base benefit for COLAs in most systems).

Mr. Harkins reported that Ms. Bury also noted that if a negative COLA is to be processed, this will require programming changes to both the current Legacy system (which will be utilized for the July 2010 COLA calculations) and MPAS. Therefore, it is imperative to get a decision on this issue from the General Assembly as quickly as possible as to whether or not legislation will be introduced to soften or eliminate the consequences of a negative COLA.

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Administrative  
Committee  
Report

Mr. Harkins reported that the Administrative Committee directed Mr. Kenderdine to prepare a full report for the Board of Trustee Meeting on October 20 indicating the problems and risks that a negative COLA would produce and the various solutions to resolve these concerns.

Mr. Kenderdine reported that the Agency was scheduled to meet with the Joint Committee on Pensions (JCP) on October 21st. Legislative staff was contacted and advised to include this concern of negative COLA on the agenda.

After a lengthy discussion and on a motion made by Vice-Chairman Franchot and duly seconded the Board voted to defer this matter back to the Administrative Committee to look at the fiscal impact.

Mr. Harkins reported that Ms. Anne Budowski updated the Administrative Committee on the performance of the Member Services Unit for the month of August. She noted that the Agency again succeeded in meeting its performance goals for both the abandonment rate and answering calls in August. September produced over 12,000 telephone calls. She reported while she believed that the counselors did a wonderful job in responding to this high number of calls, September results may not meet performance goals. With the increase in the monthly calls related to issuing the 2009 Personal Statement of Benefits and thousands of letters related to abandoned accounts.

Mr. Harkins reported that Ms. Budowski also provided information on new Member Satisfaction surveys issued by the Agency. All members who receive in-office counseling and 100 randomly selected members who call into the Agency are mailed a survey each week. The results indicate that about 95% of those counseled are satisfied with the services provided.

Mr. Harkins reported that the MPAS Project Director, Mr. Steve Cichelli, reported that he remains confident that MPAS continues on schedule for implementation in July 2010. Milestone 8, Calendar Year End Functions, and Milestone 10, Other Functions, are completed. Milestone 9, Fiscal Year End Functions, is on track for testing and final deliverables. He noted that code baseline changes to the Legacy system – about 300 since the start of the MPAS project – have been “synced-up”, delivered and tested. Mr. Cichelli stated that there remains a great deal of work to accomplish before the go-live date in July, with his greatest concern, and the current greatest risk to the project being the availability of Agency staff resources

Mr. Harkins reported that the Administrative Committee heard the administrative appeal of Barbara Cummings. Ms. Barbara Cummings is the widow of Alexander L. Cummings. She and her attorney, Sheila Sachs addressed the Committee concerning Ms. Cummings' request to receive survivor benefits from her late husband's account. During closed session, the Administrative Committee voted to recommend to the Board that in response to the appeal of Ms. Cummings, the Board adopt the recommended Proposed Summary Decision issued by Mr. Kenderdine in accordance with the State Government Article, Section 10-201, and Code of Maryland Regulation, 22.03.04.07D.

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Ms. Cummings and Ms. Sachs were present and given an opportunity to address the Board. After hearing arguments, the Board decided on this case in closed session.

Mr. Harkins reported that Administrative Committee heard the administrative appeal of State Police Retirees Edwards, Lipsky and Pertain. Mr. Harry Edwards and their attorney, Mr. Michael Marshall, addressed the Administrative Committee pertaining to Mr. Edwards' contention that limiting the period in which Mr. Edwards could participate in the Deferred Retirement Option Program (DROP) to three years was discriminatory. During closed session, the Administrative Committee voted to recommend to the Board that in response to the appeal of Messrs. Edwards, Lipsky, and Pertain, the Board adopt the recommended Proposed Summary Decision issued by Mr. Kenderdine in accordance with the State Government Article, Section 10-201, and Code of Maryland Regulation, 22.03.04.07D.

Mr. Edwards and his attorney, Mr. Marshall were present and given an opportunity to address the Board. After hearing arguments, the Board decided on this case in closed session.

Mr. Harkins reported that Mr. Kenderdine indicated that in August 2007, the Board of Trustees expanded its policy that permitted the Retirement Agency to suspend the benefits for certain retired State managers beyond Cabinet Secretaries to include, Deputy Secretaries and/or Assistant Secretaries who returned to State employment. For these highly compensated retirees, their current salaries are likely to exceed their earnings limitation by a substantial amount, leading to a total offset of pension benefits and, therefore, they sought to have their benefit suspended while working, rather than be subject to an "after-the-fact" reduction to future pension benefits. The Agency has now received a request from Montgomery Community College requesting that a College retiree who is being rehired as interim President be permitted to suspend his benefits during his temporary appointment as President. Mr. Kenderdine indicated that expanding the current policy to include retirees of participating governmental units who return to employment in positions similar to the senior State positions presented no significant administrative difficulty for the Agency.

On a motion made by Mr. Harkins and seconded by Major Krome the Board voted to amend its policy that permits a limited number of retirees subject to an earnings limitation to suspend their pension benefits when re-employed. The policy is to be expanded to include retirees re-employed by a participating governmental unit in senior management positions similar to those State positions that are currently included in the policy. The Executive Director will have the authority to determine whether a position with a participating employer may be subject to the suspension rather than an offset of future benefits.

Mr. Harkins reported that Mr. Kenderdine is requesting the Board of Trustees' approval to request four positions from the Board of Public Works (BPW) under the Rule of 200. The Agency has received the Board's approval to include six investment positions in its FY2011 budget request, with the understanding that the Agency would attempt to obtain three of

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these positions through the BPW. If the BPW approves the three positions, the FY2011 budget request will be reduced from six to three requested positions. The three additional investment positions will provide needed support of the System's investment strategy, risk assessment and mitigation, investment manager monitoring, and portfolio operations.

The fourth position is to support operation of the Maryland Pension Administration System (MPAS) scheduled to move to "production" status in July 2010. The Agency plans to work two shifts each normal work day, with each shift staffed by one IT Functional Analyst. One such position is already filled and this request seeks approval for the second position in order to handle the second shift and be available for training prior to parallel testing of the new system. Once MPAS is operational, this coverage will ensure that MPAS jobs proceed properly and that output is produced prior to the start of the normal work day, replicating functions currently provided by the Annapolis Data Center.

On a motion made by Mr. Harkins and duly seconded the Board voted to request four positions from the BPW under the Rule of 200.

Mr. Harkins reported that the Administrative Committee is charged with reviewing the organizational structure of the System under authority established through the Board's Charters and Policies. Currently the Corporate Governance matters are addressed through a subcommittee of the Investment Committee. Through recent discussions among staff and Investment Committee members, it has been determined that Corporate Governance matters are of such significance that the System should consider making the subcommittee a committee of the Board.

On a motion made by Mr. Harkins and seconded by Mr. Schaefer the Board voted to have the Corporate Governance Subcommittee reconstituted as a committee of the Board.

GRS 4. Brian Murphy and Brad Armstrong of Gabriel Roeder & Smith (GRS), presented a review of the approach they are taking in analyzing the System's current funding policy. The analysis is taking into consideration the System's corridor funding methodology, current amortization policy, and funding value of assets policy. Alternatives for each of these three policies will be identified, evaluated, and presented for consideration at the November meeting.

GRS Brian Murphy and Brad Armstrong of Gabriel Roeder & Smith (GRS), presented the final results of the State Retirement and Pension System's Actuarial Valuation for the period ending June 30, 2009 and the recommended employer contribution rates for the FY2011 budget. GRS also described the impact of corridor funding on the System. The Board deferred the certification of the contribution rates pending the completion of an independent audit of the GRS valuation.

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Executive  
Director's  
Report

5. Mr. R. Dean Kenderdine's reported on recent Agency developments.

Mr. Kenderdine introduced Ms. Patricia Fitzhugh, the new Deputy Chief Operating Officer, to the Board.

Mr. Kenderdine reported that the Agency has developed a new website. Before the website is launched the Agency will solicit the review of a focus group made up of near-by State employees, as well as State and Teachers Retirees. The focus group will be asked to navigate the new website and make comments and suggestions.

Mr. Kenderdine reported that there is a Joint Committee on Pensions meeting, October 21<sup>st</sup> in Annapolis at 2 p.m.

Mr. Kenderdine reported that the Agency has been asked to brief a delegation for public pension plan of Puerto Rico as to how the Agency is structured, governed and administered. The briefing will be held on Thursday, October 22<sup>nd</sup>.

Mr. Kenderdine reported that on Thursday, October 22<sup>nd</sup> the Agency will be meeting with Ann Cotten, Director, University of Baltimore Schaefer Center for Public Policy for the development of the Agency autonomy comparative analysis RFP. Mr. Kenderdine reported that Mr. Zirkin and Mr. Harkins will be participating on the upcoming steering committee as the Board's representatives.

- CIO Report 7. Mr. Mansco Perry, III commented on the portfolio's performance.

Mr. Perry reported that earnings were 12.5% quarter ending September 30, 2009; and essentially flat for the year. As of October 20<sup>th</sup> the trust fund totaled \$32.5 billion.

**FIRST CLOSED SESSION**

The Board met in a Closed Session (12:05 p.m.) in the Boardroom of the SunTrust Building at 120 East Baltimore Street for the purpose of:

1. to approve the closed session minutes, State Government Article §10-503(a)(1)(i), the exercise of an administrative function;
2. to discuss administrative appeal cases pursuant to State Government Section 10-503(a)(1)(iii), the exercise of a quasi-judicial function;
3. to discuss divestment of funds, State Government Article §10-508(a)(5), the investment of public funds.

The Trustees present included:

Nancy K. Kopp, Chairman	Peter Franchot, Vice-Chairman	F. Patrick Hughes	Major Morris Krome
Robert Schaefer	William D. Brown	John Douglass	Sheila Hill
Harold Zirkin	David Blitzstein	James Harkins	Theresa Lochte
Thurman Zollicoffer, Jr.	T. Eloise Foster	R. Dean Kenderdine, Secretary	

Also in attendance: John Kenney.

The Board ended its closed session at 1:03 p.m. and returned to regular session to complete the agenda.

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**REGULAR SESSION**

The Board reported that during the first closed session the Board approved the closed session minutes, as well as reviewed and decided on the following administrative appeals:

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| Alexander Cummings<br>Survivor Benefits                          | The Board voted to approve the summary decision, denying Mrs. Cummings survivor benefits.  |
| Retirees Edwards,<br>Lipsky & Pertain<br>DROP Participation      | The Board voted to approve the summary decision, denying the claimants retirement as if they had participated in the DROP four years instead of three years.   |
| Medical Board<br>And<br>Supplemental<br>Medical Board<br>Reports | 8. On a motion made by Mr. Hughes and seconded by Ms. Hill, the Board of Trustees accepted all 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.  |
| Donna L. Smith   | <p>The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Donna L. Smith for <u>ACCIDENTAL DISABILITY</u> retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.</p> <p>Ms. Donna L. Smith represented herself before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Carla 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.</p> |
| Mildred D. Windsor   | 9. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Mildred D. Windsor for <u>ACCIDENTAL DISABILITY</u> retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.   |
|  | <p>Mr. Bruce M. Bender, Ms. Mildred D. Windsor's attorney appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations. Following discussion, the Board deferred further consideration to Closed Session.</p>  |
| Thornnie O. Rouse  | 10. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Thornnie O. Rouse for <u>SPECIAL DISABILITY</u> retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.  |
|  | <p>Mr. James M. Nichols, Mr. Thornnie O. Rouse's attorney appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should adopt the</p>  |

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Administrative Law Judge's recommendations. Following discussion, the Board deferred further consideration to Closed Session.

**SECOND CLOSED SESSION**

The Board met in a Closed Session (2:33 p.m.) in the Boardroom of the SunTrust Building at 120 East Baltimore Street for the purpose of:

1. to discuss the disability appeals pursuant to State Government Section 10-503(a)(1)(iii), the exercise of a quasi-judicial function.

The Trustees present included:

Nancy K. Kopp, Chairman	F. Patrick Hughes	Major Morris Krome	John Douglass
Robert Schaefer	Sheila Hill	James Harkins	Theresa Lochte
Harold Zirkin			

Agency Staff members attending included:

Deborah Bacharach    Margaret Bury    Rachel Cohen    Patrice Sowah    R. Dean Kenderdine  
Janet Sirkis

The Board ended its closed session at 2:47 p.m. and returned to regular session to complete the agenda.

**REGULAR SESSION**

The Board reported that during the closed session the Board approved the closed session minutes, and reviewed and decided on the following disability appeals:

- |                    |     |   |
|--------------------|-----|---|
| Donna L. Smith     | 11. | The Board voted to <b><u>ADOPT</u></b> the Administrative Law Judge's Proposed Decision and <b><u>DENY</u></b> Donna L. Smith's request for accidental disability benefits.     |
| Mildred D. Windsor | 12. | The Board voted to <b><u>ADOPT</u></b> the Administrative Law Judge's Proposed Decision and <b><u>DENY</u></b> Mildred D. Windsor's request for accidental disability benefits. |
| Thornie O. Rouse   |     | The Board voted to <b><u>ACCEPT</u></b> the Administrative Law Judge's Proposed Decision and <b><u>DENY</u></b> Thornie O. Rouse's request for special disability benefits.     |
| Adjournment        | 13. | There being no further business before the Board, the meeting adjourned at 2:47 p.m.  |

Respectfully submitted,



R. Dean Kenderdine  
Secretary to the Board

RDk/pws