

**ADMINISTRATIVE COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

September 6, 2016

The Administrative Committee met in the Boardroom of the SunTrust Building, 120 East Baltimore Street, 16th Floor, Baltimore, Maryland, beginning at 9:30 a.m.

The Trustees present included:

James Harkins, Chairman, Presiding	Kenneth Haines
Theresa Lochte, Vice Chairman (via phone)	Sheila Hill
Susanne Brogan	Marc Nicole
James C. DiPaula	Richard Norman

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

Robert Burd	Angie Jenkins	Harvey Raitzyk
Margaret Bury	Van Lewis	Kenneth Reott
Melody Countess	Michelle Lowery	David Rongione
Anne Gawthrop	Andrew Palmer	Janet Sirkis
Ira Greenstein	Chandra Puranam	Patricia Wild

Assistant Attorney General present included: Rachel Cohen

Other Attendees Included: Phillip Anthony, Michael Rubenstein and Dana Tagalicod

Minutes On a motion made by Ms. Hill and seconded by Ms. Lochte, the Administrative Committee approved the July 5, 2016, open session meeting minutes. Ms. Brogan abstained.

2017 Administrative Committee Meeting Dates On a motion made by Ms. Hill and seconded by Mr. Haines, the Administrative Committee approved the 2017 Administrative Committee Meeting dates, as follows:

Tuesday, February 7, 2017	Tuesday, March 7, 2017
Tuesday, April 4, 2017	Tuesday, June 6, 2017
Tuesday, August 1, 2017	Tuesday, September 5, 2017
Tuesday, October 3, 2017	Tuesday, December 5, 2017

Recommendation from the Audit Committee Mr. Kenderdine reported that at the Audit Committee at its meeting on August 16, 2016 received the results of the FY2016 Participating Governmental Units Audit, conducted by CliftonLarsenAllen. The audit is conducted to ensure that the enrollment and payroll being reported to the System by the PGUs is accurate. As a result of those findings the Audit Committee recommended that the Administrative Committee discuss possible solutions to help ensure compliance of those PGUs.

Mr. Kenderdine reported that even though the numbers are declining, there are still a number of repeat offenders that are non-compliant.

Ms. Lochte commented that the System may not have to spend so much money for the audit if the PGUs were compliant.

**ADMINISTRATIVE COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

September 6, 2016

Staff recommended that the Chair and Vice-Chair of the Audit and Administrative Committees meet with the Executive Director and the Chief Internal Auditor to discuss possible remedies, and report back to the Committee.

Board Requested
Legislation

Ms. Gawthrop presented the following proposals for the Administrative Committee's consideration to present to the Board of Trustees for inclusion in its 2017 legislative proposals to the Joint Committee on Pensions:

References to the Reformed Contributory Pension Selection

When the Reformed Contributory Pension Benefit (RCPB) was created under Title 23, Subtitle 2, Part IV of the State Personnel and Pensions Article in 2011, reference to this new tier of the Employees' Pension System (EPS) was inadvertently omitted from various sections of this article. Staff has found two provisions addressing eligibility service in Title 23 (§§ 23-306.2(a) and (c)) that should have been amended in 2011 to include reference to the RCPB. Staff is recommending these sections be amended to now include the RCPB.

Purchase of Employment as a Legislative Employee

Section 23-307 of the State Personnel and Pensions Article addresses the purchase of service credit by members of the EPS. One type of service that may be purchased under this section is up to 130 days of employment as an employee of a member of the Maryland Senate or House of Delegates, prior to the individual joining the EPS. However, the provisions of § 23-307 that address purchasing this service provide a different calculation than what is provided for all other eligible service under this section.

In 2004, all new legislative employees were required to join the EPS as a condition of employment. This was changed to provide these individuals with optional membership beginning in 2015, however, the option to join the EPS is now irrevocable and must be made at the commencement of employment. Therefore, since 2004, legislative employees commencing employment on or after July 1, 2004, will not have any service that could be purchased under § 23-307. However, in the unlikely event this would happen, staff would recommend amending the purchase provisions for this specific type of employment as follows:

- (1) for employment before January 1, 1980, the amount that the member would have been required to contribute for that period of employment, plus 5% interest, compounded annually; and
- (2) for employment on or after January 1, 1980, one-half of the employee cost and one-half of the employer cost for the service.

**ADMINISTRATIVE COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

September 6, 2016

Independent Medical Evaluations – Small Procurements

Independent medical evaluations are required through the Agency's regulations to be performed on ever disability applicant applying for a line of duty disability and at the discretion of the medical board for applicants applying for non-line of duty disability applicants. In order to stay under the small procurement cap, the Agency currently can pay only up to \$25,000 each year to each doctor that performs independent medical evaluations. Once the \$25,000 cap is reached, the Agency is placed in the position of either finding additional doctors willing to do independent medical evaluations or seek increases in funding through the regular procurement process, on a case by case basis. To avoid the seeking out additional doctors to perform the independent medical evaluations and the administrative burden and time delay incurred through navigating the State's regular procurement process, staff is recommending raising the small procurement cap to \$50,000 for the Agency for this purpose only.

Mr. Nicole asked was there a Statewide cap on small procurements.

Mr. Lewis responded that the Statewide cap on small procurements was \$25,000.

Ms. Brogan notes that a commission is currently reviewing Maryland's procurement laws and that any proposals would need to be made in light of statewide efforts to modernize State procurement.

Membership Elections - Prohibited

Recent Internal Revenue Rulings have alerted staff and legal counsel to issues regarding provisions within the State Personnel and Pensions Article that allow certain individuals the election to join various plans within the System throughout the employment careers of these individuals. Generally, these rulings address impermissible cash or deferred arrangements and limit the circumstances under which one-time irrevocable elections are permissible. Based on a review of these rulings, and on advice of tax counsel for the System, staff is recommending changes to several provisions in both the Optional Retirement Program (ORP) and the EPS that are currently in conflict with these rulings.

➤ **Optional Retirement Program**

Based on a review of the recent Internal Revenue Rulings, tax counsel has advised that current and former employees of the State or a participating governmental unit (PGU) who at some point in their careers have been members of one of the several systems, may no longer be offered an election to join the ORP. In addition, tax counsel has also advised that new employees, with no previous membership in one of the several systems may only be offered an election to join the ORP or the TPS at the commencement of employment. In other words, individuals joining the System for the first time may no longer have a year to elect either membership in the ORP or the TPS. Accordingly, staff is recommending changes to Title 30 of the State Personnel and Pensions Article that would reflect the advice of the System's tax counsel.

**ADMINISTRATIVE COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

September 6, 2016

➤ **Optional Membership in Other State Systems**

Tax counsel is recommending that certain provisions that provide for optional membership in the EPS be amended to comply with recent Internal Revenue Rulings.

Additionally, tax counsel is recommending amendments to the provisions allowing employees of a PGU an election at the time a new PGU enters the System or an existing PGU withdraws from the System. According to the recent Internal Revenue Rulings, staff has been advised that current employees of an enrolling PGU may no longer be offered an election between the State or local plan, if at the time the PGU joins the System, it (1) participates in the "pick-up" program of either plan; and (2) the employee contribution rates between the State plan and the PGU plan are different.

In order to remain in compliance with provisions of the Internal Revenue Code and recent Internal Revenue Rulings, staff is recommending the amendments proposed by tax counsel.

Mr. Harkins asked about a county employee who has membership in LEOPS, but is now employed with the State Police, could such an employee be offered an election between the State Police and Employees' systems?

Ms. Cohen indicated that several specific scenarios were taken to tax counsel to get feedback for purposes of this legislation and she feels that this scenario should also be presented to tax counsel for advice. Ms. Cohen will report back to the Committee once she has received information from tax counsel.

Optional Retirement Program – Annuity Contracts

In conducting its bi-annual review of the investment performance of the ORP, Segal Rogerscasey ("Segal") presented the Investment Division staff with several recommendations relating to the board's ORP agreement with TIAA CREF. Investment Division staff supported these recommendations and Segal and staff presented the recommendations to the Investment Committee during the May, 2016 Investment Committee meeting. Several of these recommendations were predicated on moving from TIAA's current individual annuity contract structure to a product known as the Retirement Choice contract. Segal and staff explained that the Retirement Choice contract has lower fees, allows for greater portability and provides a plan sponsor with greater flexibility in managing a plan's investment options.

Segal explained that "[w]hen TIAA was first retained as an ORP vendor, the only contract available to the State was the Retirement Annuity. These are individually-owned contracts or certificates that are controlled by plan participants. Because the contracts are controlled by the participants, the board does not have complete flexibility over investment options and the ability to map assets to other funds." Additionally, the Retirement Annuity structure limits the Board's ability to implement alternative fee sharing structures. Segal further advised that "as the retirement industry has evolved over time, TIAA has created and made available institutionally owned, group contracts (Retirement Choice contracts) as an alternative to the

**ADMINISTRATIVE COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

September 6, 2016

original individual contracts." Segal and Investment Division staff recommended moving to the Retirement Choice contract for all future contributions, including rollovers.

In order to implement the recommended Retirement Choice contract, §30-206 of the State Personnel and Pensions Article would need to be amended to allow the board to enter into a group annuity contract to provide benefits to participating employees. Amendments to §30-206 would clarify that an employee's rights under an annuity contract are nonforfeitable in accordance with IRC § 403(b)(1)(C), but would no longer require that annuity contracts purchased under the program "be issued to and become the property of the participating employees."

Reduction of Accidental Disability Benefits by the Amount of Related Workers' Compensation Benefits

Maryland law general prevents a government retiree covered by workers' compensation and disability retirement from recovering twice for a single injury. Currently, there are two intersecting laws to prevent double recovery, in some cases allowing the System to offset related workers' compensation benefits from a disability retirement benefit, and in other cases allowing the governmental employer to offset any disability award from workers' compensation benefits. The complexity of the statutory schemes has resulted in a disjointed process and inconsistent application, sometimes to the detriment of the disabled employee, who may be subjected to duplicative offsets. To prevent these implementation issues, staff is recommending eliminating the System's offset, and allowing the employer to take the offset in all circumstances.

Board of Trustees Budget Authority – Investment Division

The legislative proposal with respect to Board Authority to approve investment division expenses recognizes that investment division expenses are incurred to preserve and grow the System's assets and should, thereby, be considered investment management expenses for budgetary purposes. The proposed legislation would enable the SRPS Board to establish compensation levels for investment staff, determine the number and types of investment personnel required and approve the budget for non-personnel investment related expenses. As investment management expenses, the division's costs would be incurred by the System in the manner of investment manager fees and not be included in administrative expenses which are reimbursed by the several systems. The recommendation is made to address systematic risks stemming from too few employees supporting the efforts of the investment division and high employee turnover associated with below market compensation as well as providing the resource flexibility required to pursue a program of internal management for certain asset classes.

Mr. DiPaula asked how the legislative package was selected.

Ms. Gawthrop responded that around May an email is sent to senior staff of the Agency asking for topics, then throughout the summer meetings are held with staff to sort out what topics will be presented.

**ADMINISTRATIVE COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

September 6, 2016

Mr. DiPaula asked if there was interaction with the legislature.

Ms. Gawthrop responded that DLS staff is closely involved.

Mr. DiPaula asked how the bills are presented.

Ms. Gawthrop responded that in October the bills will be submitted to the Joint Committee on Pensions (JCP). The JCP will hold a meeting in November and will decide what bills are introduced into the General Assembly.

Mr. Nicole concurred with staff's recommendation for specialized flexibility relating to investment-related expenses, but is uncomfortable allowing SRA to create positions. Positions are created by the Governor.

Mr. DiPaula asked what specific constraints exist regarding compensation and staffing.

Mr. Palmer responded that the Board of Trustees has the authority to set salaries for certain classifications and does not need approval from DBM; however, investment management expenses are capped and are excluded from the State's budget process. Therefore, the work of the Investment Staff has been interpreted to be an administrative expense and has been included in the State's annual budgeting process.

Mr. DiPaula asked what the division's management limitations are.

Mr. Palmer responded that currently four people are responsible for six asset classes, as well as the risk management function. The opportunity for career advancement within the Investment Division is limited due to the lack of hierarchy. Barring turnover at the Managing Director level, analysts have no opportunity for advancement in position or salary.

Mr. Harkins asked Mr. Palmer to comment on the talent pool available and the experience in recent years in the recruitment process.

Mr. Palmer responded that recruitment has been challenging. Since 2015, there has only been two new hires in the investment division, despite the effort to hire more staff.

The Committee agreed to remove the Board of Trustees Budget Authority – Investment Division proposal from the legislative package and vote on that separately.

Therefore, on a motion made by Ms. Hill and seconded by Mr. Norman, the Administrative Committee approved the legislative proposals, the Board of Trustees Budget Authority – Investment Division proposal, for recommendation to the Board of Trustees. Ms. Brogan abstained from the proposal regarding IMEs and the small procurement cap.

**ADMINISTRATIVE COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

September 6, 2016

On a motion made by Mr. Norman and seconded by Ms. Brogan, the Administrative Committee approved the Board of Trustees Budget Authority – Investment Division proposal, for recommendation to the Board of Trustees. Mr. Nicole abstained.

FY2018 Budget
Proposal

Mr. Kenderdine introduced the Agency's Budget Request for Fiscal Year (FY) 2018.

Mr. Kenderdine reported that the Agency's FY17 operational budget totaled \$31.2 million with 96% of the budget attributable to payroll, contractual obligations, fixed charges and communications, as is typical. The Department of Budget and Management (DBM) has given the Agency a FY18 budget target of \$31.8 million, which reflects level funding plus additional funds to provide cost-of-living adjustments for Agency personnel. The proposed budget being submitted to the Board is at the level of the DBM target.

Mr. Kenderdine reported that the Agency is submitting, for the Board's consideration, the following four "Over the Target" requests for FY2018:

- additional personnel (10) to address the growing member service and benefit processing demand of the Agency, as well as enhance benefit administration internal control
- additional funds to meet anticipated custodial bank service costs
- salary enhancements for Investment staff to ensure the System's continued ability to achieve its return objective, enhance staff retention capability by aligning compensation with peer compensation levels, and enable internal management initiatives aimed at lowering System asset management costs; and
- additional resources aimed at providing member services through a secure website, achieving business process improvements, and enhanced/new technology to support them

In addition, Mr. Kenderdine reported that, for the first time, the Agency is requesting two deficiency appropriations for FY2017, each directly tied to the over-the-target requests for the Investment Pay Plan Adjustment and the Business Process Re-engineering initiatives under the FY2018 requests.

Mr. DiPaula asked when the deficiency requests would be approved.

Mr. Kenderdine responded that the request would be submitted to DBM, and if approved by the legislature, resources would be available in April, 2017.

Mr. DiPaula asked if the Agency would spend the resources in two months.

Mr. Kenderdine responded that the Agency most likely would not be able to spend the funds in two months.

Mr. Nicole commented that the Agency could bring these requests to DBM for consideration and that any action now in this regarding would require approval by the Governor and legislative leadership.

**ADMINISTRATIVE COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

September 6, 2016

Mr. DiPaula asked why the increase for Custodial Bank is so much.

Mr. Kenderdine responded that compensation for the current vendor is well below market. The cost, was established at the time the Agency and the Treasurer's Office initiated the current contract and the System has become more expensive to service in the interim as the number of accounts had risen from fewer than 100 to more than 400 today.

Mr. Palmer further responded that in the past during the RFP process, he has observed vendors, submitting low cost bids in an apparent attempt to obtain the contract with the assumption that it will have the opportunity to make up the difference with other services. Mr. Palmer further responded that the services requested by the Agency are included as part of the contract so there was little opportunity for additional fees.

Mr. DiPaula asked what services a Custodial Bank would provide to the Agency.

Mr. Palmer responded that currently State Street is the System's master custodian and recordkeeper, processes all trades and prices assets on a monthly basis, among other reporting and monitoring services.

Mr. DiPaula asked if any of those tasks could be done in-house.

Mr. Palmer responded that none of those services could be done in-house.

Mr. DiPaula encouraged staff to review the FY2017 deficiency requests with Secretary Brinkley and possibly adjust the requests as appropriate before presenting them to the full Board.

Mr. Kenderdine responded that a memorandum has been prepared and presented to Secretary Brinkley and Deputy Secretary Nicole regarding the deficiencies and Agency's FY2018 budget proposal, with a request for a meeting.

On a motion made by Ms. Brogan and seconded by Mr. Haines, the Administrative Committee approved, for recommendation to the Board of Trustees, the FY18 Budget Proposal. Marc Nicole abstained.

Finance Reports
Quarter Ending June
30, 2016

Ms. Patricia Wild presented the FY2016 Non-Budgeted Investment Manager and Service Related Fees Report. Ms. Wild indicated that when comparing basis points, the fees paid as a percent of assets during FY2016 were lower than the fees paid during FY2015 by 9.7 basis points.

Within the Equity and Fixed Income categories, the Agency is still experiencing a significant cushion under the statutory fee cap. All asset classes experienced a decrease in basis points. Ms. Wild reported that the equity asset class had a decrease of 8.9 basis points mainly resulting from lower performance fees.

**ADMINISTRATIVE COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

September 6, 2016

The Fixed Income asset class had a decrease of 4.5 basis points due to a temporary fee break resulting from additional funds being reallocated from the Real Return space, which also had a decrease of 3.9 basis points. The Credit funds were lower by 14.8 basis points as a result of negotiated fees and additional funds being moved into this asset class.

Fees incurred for investment related service providers decreased due to a lower fee structure, which was negotiated by staff in the Record Currency program. Alternative investment experienced a decrease of .4 basis points for FY2016 mainly due to performance fees being lower, which offset the front loaded fees on the additional funds added during the year.

Ms. Melody Countess presented the Administrative Expenses Report for the quarter ending June 30, 2016. Ms. Countess reported that Agency had a surplus of \$198,847, which was due to excess healthcare costs that was reverted at year-end.

Mr. Harkins asked, with regards to the Administrative Fees, why there was a negative balance in the line item for Garage Rent. Mr. Harkins assumed the garage rent was a set fee.

Mr. Van Lewis responded that while the garage rent is a set amount, the Agency purchases parking vouchers for visitor parking, which affected this year's balance.

Mr. Norman asked why there was a substantial negative balance in the Actuarial Services line item.

Mr. Lewis responded that the negative balance was due to having both the first and second contract extensions with Gabriel Roeder Smith and Company (GRS) processed in FY2016. Mr. Lewis further responded that due to an error on Staff's part, the first contract extension, approved by the Board of Trustees in August 2014, was not submitted for approval by the Board of Public Works timely.

Mr. Lewis presented the MBE Performance Report for the FY2016. Mr. Lewis reported that MBE Performance was 29.37, which is slightly above the Administrative MBE performance goal of 29.0%.

Ms. Brogan asked about the Disabled category listed on the MBE report.

Mr. Lewis responded that the vendor, Falcon, provides outside data entry to the Agency and was originally excluded because it is also a preferred provider; however, GOMA has authorized the Agency to include the contract on the MBE report.

**ADMINISTRATIVE COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

September 6, 2016

**Member Services
Update**

The Committee was provided with a report on the June, 2016, including fiscal year end, and the July, 2016 performances of the Member Services Unit.

Ms. Bury reported that the abandonment rate for June and July, 2016 were 14.68% (with a FY average of 9.54%) and 9.59%, respectively. Ms. Bury further reported that the average caller wait time for the same periods were 249 second (with a FY average of 159 seconds) and 151 seconds, respectively.

Ms. Bury commented that since the unit has been unable to meet its call abandonment goal of 6.0% and its average call wait time goal of 105 seconds for some time, the Benefits Administrative Division is requesting to modify its goals in the 2018 Fiscal Year budget submission, Managing for Results. The Division is requesting that the call abandonment rate be set at 7.5% and the average caller wait time increased to 2 minutes 15 seconds.

Ms. Bury reported that the unit did not meet its performance goals for the month of May. Ms. Bury reported that the abandonment rate for May was 10.82% and the average speed of answer was 2:59 minutes.

CLOSED SESSION

On a motion made by Ms. Hill and seconded by Mr. Haines, the Administrative Committee voted to meet in a Closed Session beginning at 11:42 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street, 16th Floor, for the purpose of:

1. reviewing the Closed Session Minutes of the July 5, 2016 Administrative Committee meeting, pursuant to the General Provisions Art., Section 3-103(a)(1)(i), the exercise of an administrative function.

The Trustees present included:

James Harkins, Chairman, Presiding
Theresa Lochte, Vice Chairman (via phone)
Susanne Brogan
James C. DiPaula

Kenneth Haines
Sheila Hill
Marc Nicole
Richard Norman

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

Margaret Bury
Melody Countess
Anne Gawthrop

Angie Jenkins
Van Lewis
Michelle Lowery
Andrew Palmer

Chandra Puranam
Harvey Raitzyk
David Rongione
Janet Sirkis

Assistant Attorneys General present included: Rachel Cohen

On a motion made by Ms. Brogan and seconded by Mr. Norman, the Administrative Committee returned to open session at 11:43 a.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor.

**ADMINISTRATIVE COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

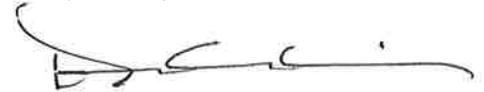
September 6, 2016

OPEN SESSION

During the closed session the Administrative Committee took action on the following:

Closed Session Minutes	The Committee approved the July 5, 2016 closed session Administrative Committee minutes.
Adjournment	There being no further business before the Committee, on a motion made by Mr. Haines and duly seconded, the meeting adjourned at 11:43 a.m.

Respectfully submitted,



R. Dean Kenderdine,
Secretary to the Board