

BOARD OF TRUSTEES
FOR THE
STATE RETIREMENT AND PENSION SYSTEM
OF MARYLAND

MINUTES OF MEETING

September 19, 2000

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, at 9:40 a.m. There were present Richard N. Dixon, Chairman, Frank P. Casula, David B. Mitchell, Morris L. Krome, Carl D. Lancaster, Debra B. Humphries, G. Bruce Harrison, T. Eloise Foster, William D. Brown, Ali A. Alemi and Arthur N. Caple, Jr., Trustees, and Peter Vaughn, Secretary. Agency staff members also attending were Margaret A. Bury, Retirement Administrator, Harriet B. Granet, Jill Lemer, Robert Feinstein, Carla Katzenberg, Assistant Attorneys General, Carol Ecykin, Chief Investment Officer, Thomas Gighotti, Chief Internal Auditor, Patricia Scott, Administrator, Sherlynn Matesky, Administrator, Rick Harrison, Chief Financial Officer, and Francis Langston, Information Systems Officer.

Robert Silberman, attorney for Gertrude Hawkins, Gertrude Hawkins and Angeline Farrell were also present.

Minutes 1 On motion made and duly seconded, the Minutes of the regular meetings of the Board of Trustees for the State Retirement and Pension System of Maryland, held on August 15, 2000, were approved.

Gertrude V. Hawkins 2 The Board considered the report of William C. Herzing, sitting as Administrative Law Judge for the Office of Administrative Hearings, in connection with the appeal of Gertrude V. Hawkins. Ms. Hawkins appealed the Medical Board's denial of accidental disability benefits. The Medical Board reasoned that they did not believe that her disability was the natural and proximate result of an accident that occurred in the performance of duty.

The Administrative Law Judge, upon consideration of the record, and following a hearing, affirmed the Agency's decision and concluded that Ms. Hawkins' disability was not the "natural and proximate result" of a work-related accident that allegedly occurred. Therefore, her application for accidental disability benefits should be denied.

Mr Robert Silberman, attorney for Ms Hawkins, presented his arguments opposing the Agency's position and the Administrative Law Judge's recommendations Ms Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations The Board deferred further consideration to executive session

Angeline Farrell

3

The Board considered the report of J Bernard McClellan, sitting as Administrative Law Judge for the Office of Administrative Hearings, in connection with the appeal of Angeline Farrell Ms Farrell appealed the Medical Board's denial of accidental disability benefits The Medical Board reasoned that they did not believe that her disability was the natural and proximate result of an accident that allegedly occurred in the performance of duty

The Administrative Law Judge, upon consideration of the record, and following a hearing, affirmed the Agency's decision and concluded that Ms Farrell was not disabled as the "natural and proximate result" of a work-related accident on September 3, 1996 Therefore, her application for accidental disability benefits should be denied

Ms Farrell presented her arguments opposing the Agency's position and the Administrative Law Judge's recommendations Ms Carla Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations The Board deferred further consideration to executive session

On motion made and duly seconded, the Board unanimously voted to meet in Executive Session to consider the appeals of Gertrude Hawkins and Angeline Farrell State Government Article Section 10-502(i) authorizes the Board to meet in closed session to exercise a quasi-judicial function

EXECUTIVE SESSION

The Board met in Executive Session at 10 25 a m in the SunTrust Building to consider the appeals of Gertrude Hawkins and Angeline Farrell All of the persons present at the beginning of the meeting were present in Executive Session except Robert Silberman, Gertrude Hawkins, and Angeline Farrell The Board adjourned its Executive Session at 10 30 a m and returned

to regular session to complete the agenda

REGULAR SESSION

Gertrude Hawkins. The Board considered the record of Gertrude Hawkins. Following a discussion, on motion made by Dr. Alem and seconded by Mr. Caple, the Board voted unanimously to adopt the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and denied Ms. Gertrude Hawkins' request for accidental disability retirement benefits.

Angeline Farrell. The Board considered the record of Angeline Farrell. Following a discussion, on motion made by Mr. Mitchell and seconded by Major Krome, the Board voted unanimously to adopt the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and denied Ms. Farrell's request for accidental disability retirement benefits.

Executive
Director's Report

4 Mr. Vaughn informed the Board that the lawsuit against the Agency and the Board members by Mark Fogg had been dismissed in federal court on Summary Judgement due to a time bar. Exhibit A.

Mr. Vaughn advised the Board on the status of United States Congress House Resolution 1102 and informed the Board that the proposal would provide enhanced portability between retirement plans and would allow rollovers between 457 plans and other contributory plans including IRAs, 403(b) and 401 plans. HR1102 would also permit the purchase of service credit with 457 and 403(b) assets, or use these funds for the repayment of refunds in public sector defined benefit plans. The Resolution would also provide greater flexibility in 457 plan distributions and provide equitable tax treatment to domestic relations orders, and remove the compensation-based limits on contributions to plans. In addition, the compensation limit would be increased from \$170,000 to \$200,000, benefit limits would be updated, and catch-up contributions would be provided which would stimulate savings in retirement plans. Exhibit B.

Mr. Vaughn noted that he would report to the Joint Committee on Pensions regarding the investment review, retiree health insurance and

on any funding study methodology adopted by the Board that would require legislative approval, including funding the Municipal Corporations

Mr Vaughn next reported on the Joint Committee on Pensions (JCP) meeting held on September 12, 2000 that he attended. He informed the Board that the JCP is currently considering the earnings limitation issue. He also informed the Board that the JCP heard from several retirees who had received incorrect benefit estimates. Mr Vaughn explained that only a very small percentage of calculations were incorrect and that 99.8% of the Agency's benefit estimates were correct. However, the JCP is considering legislation on this issue. Mr Vaughn also said that he updated the JCP on the Agency's Strategic System, advising them that implementation was on a revised schedule. The JCP is also considering abolishing the 5-year limitation period for accidental disability. Mr Vaughn stated that he would send a letter to the JCP clarifying the Board's position on this matter.

Mr Vaughn then updated the Board on the progress of the construction of the Agency's new office space on the 12th floor of the SunTrust building. He advised that the area would be ready for occupancy in the first week of October.

Mr Vaughn informed the Board that the contract with State Street Bank for custody services would soon expire and that the Agency would be sending an RFP in early October for these services.

Mr Dixon congratulated Mr Vaughn and the Agency staff for the outstanding presentations made at the 2000 Rocky Gap Strategic Planning Conference.

The Board accepted Mr Vaughn's report.

Executive

Committee Report: _____

5

Mr William Brown, Chairman of the Executive Committee, reported on the regular meeting held September 12, 2000. Exhibit C

Mr Brown informed the Board that Merrill E. Fisher appealed to the Executive Committee that his earnings at the University of Maryland should not be offset because the University is not listed on the Agency's form regarding re-employment. However, Dr. Fisher knew about the earnings limitation for the University of Maryland because he has applied for a waiver of the limitation in 1998. The Committee recommended that the Board deny Dr. Fisher's request and uphold the offset of \$1,500.22. On motion made by Mr. Brown and seconded by Dr. Alemi, the Board voted unanimously to deny

Dr. Fisher's request

Mr. Brown next reported on the revised draft legislation to permit members of the Teachers' Pension Systems to purchase service credits at 50% of the full actuarial cost. Mr. Brown explained that the legislation is similar to legislation enacted in 2000 for State employees. On motion made by Major Krome and seconded by Dr. Alemi, the Board voted unanimously to include legislation in the 2001 Legislative Proposal that would permit members of the Teachers' Pension Systems to purchase Maryland teaching service in public schools at 50% of full cost. Mr. Brown abstained from the vote.

Mr. Brown then informed the Board that Marge Bury, Retirement Administrator, asked the Committee to approve a policy to calculate the final average compensation of members of the Pension Systems by using active work periods only. He also asked the Board to direct staff to prepare a technical correction to the law stating that "consecutive years" applies to active periods of employment only. On motion made by Mr. Brown and seconded by Dr. Alemi, the Board voted unanimously to approve the calculation policy as stated and to make the technical correction to the law.

Mr. Brown next reported on a request from Carroll County Board of Education to clarify whether a vehicle stipend would be considered earnable compensation for retirement purposes. On motion made by Mr. Brown and seconded by Dr. Alemi, the Board voted unanimously to exclude the vehicle stipend as earnable compensation in the Carroll County Board of Education case, amend the regulation pertaining to earnable compensation to exclude vehicle stipends, but to delay filing for the amendment until they determine if there are other fringe benefits which could be included under the revised regulation.

Mr. Brown advised the Board that the Strategic System was on schedule for the October 2001 implementation date.

Mr. Brown next informed the Board that the IRS needs three items added to the LEOPS DROP plan before they will consider approving the plan: (1) a statement that LEOPS satisfies the minimum distribution rules set forth in the Internal Revenue Code, (2) a statement that if LEOPS is terminated, in whole or in part, the affected members hold a non-forfeitable right to their funded benefits, (3) a listing of the actuarial assumptions adopted by the Board of Trustees. On motion made by Mr. Brown and seconded by Mr. Caple, the Board voted unanimously to adopt the resolution incorporating the three items stated and directed staff to provide the resolution to the IRS.

Mr. Brown updated the Board on a presentation by John Colberg of Milman & Robertson concerning the pre-funding of retiree healthcare insurance. Mr. Colberg was asked to address the Committee because of legislation introduced in 2000 by Senator Robert Neall that would have given the Agency the responsibility for investing funds for the State to use towards the cost of retiree health benefits. Mr. Brown reported that, although the legislation did not go through, Major Krome had asked that staff provide an analysis of Senator Neall's original proposal, as well as any amendment that

may have been introduced or accepted prior to the proposals' demise. Mr. Brown asked the Trustees to review the information and provide their comments to the Executive Committee.

The Board accepted Mr. Brown's report.

Investment
Committee Report 6

Mr. Arthur Caple, Jr., Chairman of the Investment Committee, reported on the meeting held September 15, 2000.

Mr. Caple updated the Board on presentations by Abbott Capital, Brinson, and HarbourVest, the Systems' private equity fund of fund managers. The Committee also heard a presentation from Greenway Partners. Mr. Caple explained that Greenway, like Relational, analyzes large undervalued companies, purchases stock in the company, then tries to use their influence to make changes within the company to increase shareholder value.

Carol Boykin, Chief Investment Officer, updated the Board on the MSRA's \$15 million investment in the Maryland Venture Capital Trust. She stated that the Agency had gotten back more than the \$15 million investment and that the rate of return was subject to some debate. The return will be calculated by the Trust's auditor, Arthur Anderson, and will be reported to the Board when finalized.

Mr. Caple reported that the total rate of return on investments for the Agency for the period ending July 31, 2000 was 11.4%, and that the 3 year, 5 year and 10 year rates of return were 9.3%, 12.5% and 12.2%, respectively. The return for the fiscal year ending June 2000 was 11.9%.

Ms. Boykin then answered a question posed by Trustee Harrison regarding the Crown Central Petroleum buyout offer. She explained that at the previous meeting, she estimated that the Agency owned approximately 5,000 shares of Crown Central through DFA. However, after researching the issue, she reported that the Agency actually owned 37,040 shares on that date. She further explained that the \$9.50 bid by Rosemore for Crown Central had been rejected, but that the Apex bid had not yet been accepted and that other bids were being solicited. She said that ISS had recommended that shareholders vote against the Rosemore proposal to purchase Crown.

Mr. Caple then informed the Board that, in the future, the Investment Committee would distribute the minutes of the closed session of the Investment Committee meeting at each Board meeting, and then collect them at the end of the meeting.

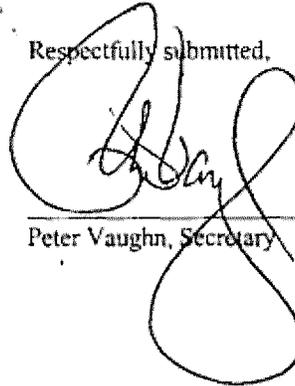
The Board accepted Mr. Caple's report.

- Medical Board Reports 7 The Board, on motion made by Mr Casula and seconded by Mr Mitchell, accepted and approved the reports of the Medical Board in connection with applications of members for ordinary, accidental and special retirement allowances. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants.
- Supplemental Medical Board Reports 8 The Board, on motion made by Mr Casula and seconded by Mr Mitchell, the Board unanimously accepted and approved the supplemental reports of the Medical Board in connection with applications of members for ordinary and accidental and special retirement allowances. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants. The Supplemental Report of the Medical Board is shown as Exhibit D.
- Supplemental Disability Offset 9 The reports of the Medical Board for offsets of disability retirees were accepted by the Board. The Board, on motion made by Dr Alemi and seconded by Ms Humphries, authorized the reduction of the pensions of affected retirees as provided for under the current law (State Personnel and Pensions Article), effective July 1, 1990. The offsets are based on calendar 1999 earnings that will be offset from pension benefits paid in fiscal year 2001. Exhibit E.
- Municipal Corporation Funding Study 10 Mr Eugene Kalwarski of Miliman and Robertson reported on the Municipal portion of the funding study by reviewing the history and past trends. He reviewed the financial situation and stated that this portion of the System was already overfunded.
- Mr Kalwarski recommended that the Board consider a funding system for the municipal corporations that is different from the Systems' funding. He suggested that the withdrawal rules be modified to increase the withdrawal cap from 100% to a higher figure so that the participants could participate in any windfall. He recommended that the System keep a 5% cushion and then return a portion of the surplus to those who withdraw.
- Mr Kalwarski stated that he would make final recommendations in October and asked the Board members to contact him with suggestions.

Other Business 11

There being no further business, on motion made and duly seconded, the Board adjourned at 12:30 p.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Peter Vaughn", written over a horizontal line.

Peter Vaughn, Secretary