

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

MINUTES OF MEETING

October 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 30 a m There were present Richard N Dixon, Chairman, Arthur N Caple, Jr., George R Tydings, Debra B Humphries, William D Brown, Carl D Lancaster, Frank P Casula, Morris L Krome, G Bruce Harrison, Ah A Alemi, Trustees, and Peter Vaughn, Secretary Agency staff members also attending were Harriet B Granet, Robert Feinstein, Assistant Attorneys General, Carol Boykin, Chief Investment Officer, J Howard Pleines, Director of Legislation, Rick Harrison, Chief Financial Officer, Thomas Gigliotti, Chief Internal Auditor, Patricia Scott, Administrator, and Janet Nathanson, Administrative Officer

Matthew D Riven, Department of Legislative Services, and Eugene M Kalwarski of Milliman and Robertson were also present

- | | | |
|--------------------------------|---|--|
| Minutes | 1 | <p>On motion made by Mr Casula and seconded by Mr Caple, the Minutes of the regular meetings of the Board of Trustees for the State Retirement and Pension System of Maryland, held on September 19, 2000, were approved as amended to reflect that Colonel David B Mitchell was present at the September 19, 2000 meeting</p> |
| Actuarial
Valuation Results | 2 | <p>Mr Eugene M Kalwarski of Milliman and Robertson, Inc reviewed the principal results of the June 30, 2000 actuarial valuation of the State Retirement and Pension System of Maryland</p> <p>The aggregate Employer Contribution Rate dropped from 9 31% to 7 98% for Fiscal Year 2002 due primarily to a 1 29% investment gain Major Krome restated that he believed that the Employer contribution rate should not go below the employee contribution rate, Mr Caple echoed the same sentiment After discussion, on motion made by Mr Casula and seconded by Dr Alemi, the Board voted to 1) approve the actuarial assumptions as recommended by the actuary, and 2) to adopt the Employer Contribution Rates for Fiscal Year 2002 for the several systems as recommended by the actuary Chairman</p> |

Dixon, Mr Tydings, Ms Humphries, Mr Casula, and Major Krome registered yea votes Mr Caple, Mr Brown, Mr Lancaster, and Mr Harrison registered nay votes Dr Alemi abstained The Secretary was directed to certify to the Secretary of Budget and Management and to the Governor, the individual rates shown in Exhibit A

Municipal Corporation 3
Funding Study

Mr Eugene M Kalwarski of Milliman and Robertson reported on the Municipal Corporation Funding Study He reviewed the history of the funding of municipal funding corporations and their past trends He next reviewed the special issues in funding the municipal corporations and made recommendations regarding these issues

On motion made by Mr Casula and seconded by Dr Alemi, the Board voted unanimously to recommend a change to the withdrawal procedures to allow a prorated return of the surplus to prospective withdrawing employers in an amount to be determined

On motion made by Mr Casula and seconded by Major Krome, the Board voted unanimously to recommend changes to current withdrawal procedures to transfer a portion of assets to prospective withdrawing employers reflecting individual election of benefit enhancements Those employers not electing benefit enhancements would have a higher APFR than those electing enhancements

On motion made by Mr Harrison and seconded by Major Krome, the Board voted unanimously to define the portion of surplus assets paid out to future withdrawing employers to be a proration of amounts over the 110% funding ratio

On motion made by Mr Harrison and seconded by Mr Caple, the Board voted unanimously to approve an asset smoothing method using a 5-year smoothing rather than the current 3-year method effective with 2001 valuation

On motion made by Mr Lancaster and seconded by Mr Caple, the Board voted unanimously to recommend that the minimum employer contribution rate for participating government units is not to be lower than 2%, which is the same minimum contribution rate recommended to be paid by the State of Maryland

The Board directed the Secretary to recommend all of the above but the smoothing methodology to the Joint Committee on Pensions and the Legislature for their consideration as a legislative proposal

Executive
Director's Report

4 Mr. Vaughn informed the Board that the Legislative Auditors completed their Fiscal Year 2000 audit on October 13, 2000 with nothing significant to report. The audit report will be dated October 31, 2000.

Mr. Vaughn informed the Board that an article was published in the Fall 2000 Edition of Retiree News & Notes, a quarterly newsletter distributed to all retirees, addressing the earnings limitation.

Mr. Vaughn informed the Board that the firms represented at the pre-proposal conference bidding for a Custody Service with the Agency were Mellon (MA), Citibank (NY), State Street (MA), Bank of New York (NY), Northern Trust (IL), Deutsche-Bankers Trust (NY), and AllFirst Trust (MD). Mr. Vaughn will keep the Board informed as the process continues.

Mr. Vaughn then updated the Board on the meeting of the Joint Committee on Pensions (JCP) held in October.

Ms. Carol Boykin presented the actual investment return results to date, and the Agency's asset allocation schedule to the JCP. She will report the Agency's equity exposure at a future JCP meeting.

Mr. Vaughn also updated the JCP on the current status of municipal funding and will report back to the Committee in November with recommendations from the Board of Trustees.

Mr. Vaughn informed the Board that Senator Kasemeyer is considering State pre-funding for retiree Health Insurance, and that this needs to be brought before the Legislature.

Mr. Vaughn also informed the Board that Senator Kasemeyer indicated that he would not recommend accepting the repeal of the 5-year limit on reporting accidental disabilities.

The Board accepted Mr. Vaughn's report.

On motion made and duly seconded, the Board unanimously voted to meet in Executive Session to discuss proxy issues. State Government Article Section 10-508(a)(5) authorizes the Board to meet in closed session to consider the investment of public trust funds.

EXECUTIVE SESSION

The Board met in Executive Session at 11:05 a.m. in the SunTrust Building to discuss proxy issues. All of the persons present at the beginning of the meeting were present in Executive Session except Matthew Riven, Eugene M. Kalwarski. The Board adjourned its Executive Session at 11:45 a.m. and returned to regular session to complete the agenda.

REGULAR SESSION

Investment
Committee Report

- 5 Mr. Arthur Caple, Jr., Chairman of the Investment Committee, reported on the meeting held October 13, 2000

Mr. Caple stated that it was not necessary to go into Executive Session to discuss the Real Estate Registry, but noted that all Board Trustees were aware of current real estate investment activities. Mr. Caple updated the Board on a presentation made by LaSalle Investment Management on the Real Estate Registry. On motion by Mr. Caple and seconded by Dr. Alemi, the Board voted unanimously to approve the Real Estate Registry as presented.

Mr. Caple informed the Board that Progress Investment Management Company gave an excellent report of progress with their new team. Mr. Caple reminded the Board that Progress Investment Management is a minority investment company and the System was one of the first to hire this investment manager.

Mr. Caple then informed the Board that the Committee considered expanding the Agency Proxy Guidelines for Shareholders. However, the current policy is working and the Investment Committee concluded that proxy issues could be addressed as they arise.

Ms. Humphries updated the Board on implementation of the new brokerage policy. Packages containing the new policy along with reporting requirements were sent to all managers. The new brokerage policy became effective when the packages were sent out. Letters were also sent to all managers addressing the new termination clause in their contract. Ms. Humphries will report to the Board during the first quarter next year on the results from November and December.

Mr. Caple informed the Board that the Investment Committee would continue to watch investment performance in light of the recent downturn in the market.

On motion by Mr. Caple and seconded by Mr. Casula, the Board unanimously voted to adopt the Minutes of the meeting held on September 15, 2000.

The Board accepted Mr. Caple's report.

Executive
Committee Report

- 6 Mr. William D. Brown, Chairman of the Executive Committee, reported on the regular meeting held October 10, 2000. Exhibit B

Mr Brown informed the Board of Dorothy Clayborne's request for relief to the earnings limitation offset Ms Clayborne is arguing that the earnings limitation and the corresponding offset of her pension produces a severe financial burden At the time of Ms Clayborne's retirement, retiring members did not signoff on the SRA Form 127 concerning the potential impact of reemployment However, that information was made available to Ms Clayborne Since 1991, the Retirement Agency has published annual articles relating to employment after retirement and the impact that reemployment may have on pension benefits In 1995, letters were sent to all retired members advising them of the effects of seeking employment with a participating employer after retirement

Mr Brown informed the Board of James True's request for relief to the earnings limitation offset Mr True retired from the Correctional Officer's Retirement System in October 1997 Mr True was hired on a contractual basis by Hagerstown Community College Funding for his position comes from inmate welfare funds, no State or Federal funds are involved Because his position was not funded by the State, he believed he would not be subject to the earnings limitation However, it is not the source of the funds, but rather who the employer is that determines if there is an offset Hagerstown Community College is a participating employer and they are paying Mr True By law, excess earnings must be offset The Committee recommended that the Board deny Mr True's request

On motion made by Mr Brown and seconded by Mr Caple, the Board voted unanimously to deny the request for relief from earnings limitations for both Ms Dorothy Clayborne and Mr James True

Mr Brown informed the Board of Ms Paula Despot's request for an extraordinary salary increase Anne Arundel County certified that the increase resulted from two factors First, a 12% increase for her promotion from Grant Coordinator to Executive Director for Resource Development Second, 33% of her salary increase is attributable to the County's increasing her position from 10 to 12 months While employed by Anne Arundel County, for several years she has been on loan to the State Department of Education In the past, the Board has accepted salary increases when based on employer needs The Executive Committee recommends that the Board accept the extraordinary salary increase for Ms Paula Despot The Retirement Agency is directed to include the higher salary in Ms Despot's benefit, and adjust the benefit amount accordingly On motion by Mr Brown and seconded by Mr Caple, the Board voted unanimously to approve Ms Despot's request

Mr Brown informed the Board on the analysis provided by staff of Senator Neall's proposal for pre-funding of Health Benefits While this is an important issue for the State to study, this is not an issue for the Board of Trustees because the funds should not be co-mingled with pension funds The committee will report to the Board if and when there are new developments concerning this topic

Mr. Brown then informed the Board that the Committee received a favorable determination ruling from the IRS on the Law Enforcement Officers' Pension System. The Committee recommends that the Board accept, and receive the favorable ruling on the LEOPS plan. Effective November 1, 2000 the DROP can be implemented by the Agency. On motion by Mr. Brown and seconded by Major Krome, the Board voted unanimously to accept the favorable ruling from the IRS.

Mr. Brown updated the Board on the Strategic System and informed them that no action is required at this time.

Mr. Brown reported on the 2001 Legislative Package to the Board. Mr. Brown indicated that at this time, there are six proposals for the Joint Committee on Pensions to consider. The Joint Committee will decide on which proposals to sponsor on November 8, 2000.

Mr. Brown informed the Board about concerns using social security numbers on nomination forms for Trustee elections. Most members and retirees are willing to sign their names to a petition, but they are unwilling to give their social security number for privacy reasons. Mr. Brown informed the Board that staff is reviewing alternative ways for identification on nomination forms.

The Board accepted Mr. Brown's report.

Audit Committee
Report

7

Mr. William D. Brown, Chairman of the Audit Committee, reported on the regular meeting held on September 19, 2000.

Mr. Brown informed the Board that the Committee is having trouble staffing the Internal Audit Division due to low salaries but that they are continuing their search.

Default Order

8

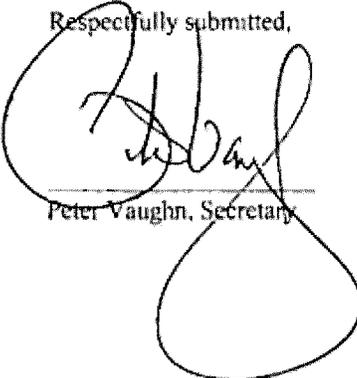
Mr. Vaughn informed the Board that he had received a Default Order for Failure to Appear in the case of Marva Scott for accidental disability benefits. Ms. Scott informed the Agency that she did not appear because she felt that she could not prevail. When told that the case would be closed, Ms. Scott agreed. Therefore, in accordance with COMAR 22.03.04.11C(2), Mr. Vaughn found no good cause to excuse the default and so informed the Board, as required in COMAR 22.03.04.11D, that he would issue the Default Order terminating proceedings in this case.

The Board accepted Mr. Vaughn's report.

- Medical Board Reports 9 The Board, on motion by Mr Harrison and duly seconded, unanimously 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 10 The Board, on motion by Harrison and duly seconded, unanimously accepted and approved the supplemental 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. The Supplemental Report of the Medical Board is shown as Exhibit C.
- Other Business 11 Mr Lancaster distributed a document titled Independent, External Review, attached as Exhibit D, and moved that the Board authorize an independent review of all aspects of the Board's consideration of the Crown Central Petroleum/Rosemore, Inc proxy issues of August 15, 2000. Chairman Dixon ruled that the motion was inappropriate and did not accept Mr Lancaster's motion. Mr Lancaster moved to challenge Chairman Dixon's decision not to accept his motion and asked that the record reflect that Mr Lancaster cited Robert's Rules to support his motion. Chairman Dixon stated that the Board sets its own rules and declined to accept Mr Lancaster's motion.

There being no further business, on motion made and duly seconded, the Board adjourned at 11:55 a.m.

Respectfully submitted,


Peter Vaughn, Secretary