

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

MINUTES OF MEETING  
[REVISED]  
October 21, 2003

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 9:00 a.m. There were present William Donald Schaefer, Chairman, Nancy K. Kopp, Vice-Chair, James C. DiPaula, Nancy S. Grasmek, Arthur Caple (via conference call at 11:03am), William D. Brown, Carl D. Lancaster, Morris I. Krome, David B. Hamilton, Ali A. Alemt, Trustees, and Thomas K. Lee, Secretary. Agency Staff members also attending were Margaret Bury, Retirement Administrator, Deborah Bacharach, Robert Feinstein, Carla Katzenberg and Jill Leiner, Assistant Attorneys General, Victoria Willard, Acting Chief Investment Officer, Howard Pleines, Director of Legislation and Research, Sherlynn Matesky, Legislation and Research, Thomas Gighotti, Chief Internal Auditor, Arthur Broadwick, Acting Chief of Finance, Jeannie Abramson, Acting Chief of Finance, Harvey Raitzyk, Deputy Retirement Administrator, Joseph Coale, Public Information Officer, Gary Scribner, Chief Information Officer, and Monica Bras, Executive Associate.

Also present were Dean Kenderdine, Robert Dezube and Katie Staub, Miltman USA, Tom Iannuci, Cortex, Michael Dresser, Baltimore Sun, Kirsten Beckerman, Baltimore Jewish Times, Clifford B. Sorbin, Emma Strayhorn and Sharon Wilt.

Minutes 1 Mr. Carl Lancaster presented written changes to the September minutes. The Board, therefore, deferred approval of the September minutes pending the addition of Mr. Lancaster's amendments. The revised September minutes will be submitted at the November 18, 2003 meeting of the Board of Trustees for approval.

Investment Committee Report and Recommendations 2 Mr. Carl Lancaster, Vice-Chairman of the Investment Committee, reported on the meeting held October 10, 2003.

Mr. Lancaster noted that investment staff and EnnisKnupp have arranged with Bridgewater Associates somewhat different guidelines from other managers who invest System assets. Bridgewater utilizes derivatives and currency to a greater degree than other managers, which requires different and greater controls. EnnisKnupp, at the request of Treasurer Kopp, is developing a letter indicating that while utilizing Bridgewater may appear more risky, it is not and, therefore, does not deviate from the Board's general conservative investment approach. On motion of Mr. Lancaster and duly seconded, the Board accepted the recommended investment guidelines for Bridgewater.

On motion by Mr. Lancaster and duly seconded, the Board unanimously agreed to remove Abbot Capital Management and Harbour Vest Partners from the watch list.

On motion by Mr Lancaster and duly seconded, the Board unanimously passed a motion to appoint Treasurer Kopp, Major Krone and Mr Topping to the private equity consultant RFP ad-hoc subcommittee

Mr Lancaster advised that the System sold an office building in Rockville Originally purchased in 1995 for \$10.8 million, the property sold for about \$20 million It had produced an annual income of 10.4%, with a total return of 15.9% per year

The Board accepted Mr Lancaster's report

Executive Committee Report and Recommendations 3

Mr William Brown, Chairman of the Executive Committee reported on the meeting held October 7, 2003

Mr Brown stated that Mr Richard Barilone had petitioned the Retirement Agency for a hearing to remove military service credits from his account in order to participate in the State Police Deferred Retirement Option Program for a full four years There is no provision within pension law to permit the removal of service credits once granted or purchased, nor has the Retirement Agency ever permitted a member to disclaim service On motion of Mr Brown and duly seconded, the Board adopted the motion to accept the Executive Director's recommendation that Mr Barilone's request for a hearing be denied

On motion made by Mr Brown and duly seconded, the Board accepted the motion to approve the following proposals for inclusion in the Board's legislative packet to be presented to the joint Committee on Pensions October 28, 2003

- 1 Amend Section 29-118(b) to remove reference to offsetting pension when the disability is based on an occupational disease
- 2 Amend Section 37-203(f)(3) to clarify that members retiring with a disability benefit are not subject to the 5-year restriction (retroactive to June 1, 2003)
- 3 Amend Section 26-401.1 to clarify that a member must accrue 25 years of creditable service in order to be eligible to participate in the Deferred Retirement Option Program
- 4 Amend Section 21-315(e) to allocate administrative expenses for each system based on membership rather than assets held
- 5 Amend Section 21-116(c) to change the title of the Investment Operations Manual
- 6 Amend Section 29-115 to mandate the suspension of benefits and clarify that the suspension is effective at the point of re-employment

Major Krone asked that the minutes reflect he voted against amending Section 26-401.1 to alter eligibility to participate in DROP

On motion by Mr. Brown and duly seconded, the Board approved the motion to exercise the final one-year extension of the current Milliman USA actuarial contract. Dr. Alemi requested that he be recorded as voting against the motion.

The Minutes of the Executive Committee meeting are shown as Exhibit A.

The Board accepted Mr. Brown's report.

Executive  
Director's Report

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Mr. Thomas Lee notified the Board that the new Chief Financial Officer was starting as of October 22, 2003. The new Chief Investment Officer, who also is an Actuary, should start approximately November 20, 2003. Mr. Lee indicated that both individuals would prove invaluable in preparing the RFP for the next actuarial contract.

The Board accepted Mr. Lee's report.

Experience Study

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Mr. Robert Dezube presented the results of the 2003 Actuarial Valuation of the State Retirement and Pension System. He noted that assets increased slightly to \$26.65 billion, with the System entering the 2004 fiscal year 93.3% funded. Membership has remained flat since 2001, totaling 190,000, retirees increased to 91,000, and their number is growing. Overall, the State employer contribution rate for fiscal 2005 is 7.97%. Mr. Dezube indicated that if the State had not agreed to utilize the corridor method for the Employees' and Teachers' Systems, the contribution rate would be greater than 9%.

On motion made by Treasurer Kopp and seconded by Mr. Brown, the Board, by a vote of 6-2, approved the employer rates certified by the Actuary for the 2005 fiscal year. Mr. Lancaster and Major Krome asked to be recorded as Nay votes, with Major Krome stating that the minutes reflect his Nay vote is based solely on the 0.00% rate for the State Police Retirement System. Dr. Alemi abstained from the vote.

Cortex

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Mr. Tom Iannucci reviewed the proposed charters and policies which Cortex had developed. He indicated that the Board's challenge was to make the Cortex governance document a living document that Trustees would follow and maintain, amending in the future as needed. It provides a formalized approach to education, planning, risk management, leadership evaluation, and Board evaluation. There are guidelines for the Board and policies for the Retirement Agency to follow.

Treasurer Kopp indicated that the Board's intent had been to review the Cortex report at the September retreat and vote on its provisions. Since the retreat was postponed, the report is being held for an in-depth review before the end of this calendar year. She noted that the report made it clear that the

Board of Trustees is the policy making authority and that the Executive Director is the voice of the Retirement Agency to and for the Board

Chairman Schaefer suggested that the Treasurer serve as the Board's guide on governance issues to ensure that the policies in the Cortex report are adhered to following their adoption by the Board

### APPEALS

Nilsa Hairston-Proctor 7

The Board considered the recommendation of Administrative Law Judge James W Power in connection with the claim of Ms Nilsa Hairston-Proctor, for accidental disability benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Mr Clifford Sorbin, attorney for Ms Hairston-Proctor appeared before the Board and opposed 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. Following discussion, the Board deferred further consideration to Executive Session.

Enma Strayhorn 8

The Board considered the recommendation of Administrative Law Judge Noreen A Lynch in connection with the claim of Ms Enma Strayhorn, for accidental disability benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Ms Strayhorn appeared before the Board and opposed 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. Following discussion, the Board deferred further consideration to Executive Session.

Sharon Wilt 9

The Board considered the recommendation of Administrative Law Judge Alan B Jacobson in connection with the claim of Ms Sharon Wilt, for accidental disability benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Ms Wilt appeared before the Board and opposed 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. Following discussion, the Board deferred further consideration to Executive Session.  
Yvonne Taylor

Yvonne Taylor 10 The Board considered the recommendation of the Medical Board in connection with the claim of Yvonne Taylor for disability benefits. The Medical Board report included a report by Administrative Law Judge Guy J. Avery and related medical documentation.

Ms. Taylor did not appear before the Board, nor was she represented by counsel.

Medical Board Report 11 On motion made and duly seconded, the Board accepted and 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 evidence provided by the claimants. Treasurer Kopp suggested to the Secretary for the Board, that consideration should be made to condense the Medical Board Reports for future meetings.

Supplemental Medical Board Report 12 On motion made and duly seconded, the Board unanimously voted to accept the supplemental 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 evidence provided by the claimants. The Supplemental Report of the Medical Board is shown as Exhibit B.

On motion made and duly seconded, the Board voted unanimously to meet in Executive Session, to consider the following matters: deliberations regarding the disability appeals. State Govt. Article, Section 10-503(a)(1)(iii) authorizes the Board to meet in closed session to exercise a quasi-judicial function.

#### EXECUTIVE SESSION

The Board met in Executive Session at 12:15pm in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider the appeals of Nilsa Hairston-Proctor, Emma Strayhorn, Sharon Wilt and Yvonne Taylor. All of the persons present at the beginning of the meeting were present in Executive Session except James C. DiPaula, Arthur Caple, Robert Feinstein, Jill Leiner, Carla Katzenberg, Victoria Willard, Arthur Broadwick, Jeannie Abramson, Harvey Raitzyk, Gary Scribner, Clifford Sorbin, Emma Strayhorn, Sharon Wilt, Dean Kenderdine, Robert Dezube, Tom Ianucci, Michael Dresser, Kristen Beckerman and Howard Pleines. The Board adjourned its Executive Session at 12:33pm and returned to regular session to complete the agenda.

**REGULAR SESSION**

On motion made and duly seconded, the Board voted to ratify actions taken in Executive Session

Nilsa Hairston-Proctor      The Board considered the appeal of Nilsa Hairston-Proctor. Following a discussion, on motion made by Mr. Brown and duly seconded, the Board voted to adopt the Administrative Law Judge's Proposed Decision and deny Ms. Hairston-Proctor's request for accidental disability benefits. Dr. Alemi registered a Nay vote.

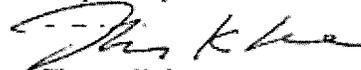
Emma Strayhorn      The Board considered the appeal of Emma Strayhorn. Following a discussion, a motion made by Mr. Brown and seconded by Mr. Krome, to reject the Administrative Law Judge's Proposed Decision, failed by a vote of 2-5. On motion made Dr. Grasmick and seconded by Mr. Hamilton, the Board voted to adopt the Administrative Law Judge's Proposed Decision and deny Ms. Strayhorn's request for accidental disability benefits.

Sharon Wilt      The Board considered the appeal of Sharon Wilt. Following a discussion, on motion made by Mr. Lancaster and seconded by Dr. Grasmick, the Board voted to adopt the Administrative Law Judge's Proposed Decision and deny Ms. Wilt's request for accidental disability benefits.

Yvonne Taylor      The Board considered the appeal of Yvonne Taylor. Following a discussion, on motion made by Mr. Lancaster and seconded by Mr. Brown, the Board voted to defer for consideration the Administrative Law Judge's Proposed Decision and extend another opportunity for Ms. Taylor to appear to present oral argument for special disability benefits. Mr. Hamilton registered a Nay vote.

There being no further business before the Board, the meeting adjourned at 2:00pm

Respectfully submitted,



Thomas K. Lee  
Secretary to the Board

TKL/mcb