

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

MINUTES OF MEETING

February 17, 2004

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 9:04 a.m. There were present William Donald Schaefer, Chairman, Nancy K. Kopp, Vice-Chair, Dr. Nancy S. Grasmick, Arthur Caple, William D. Brown, Carl D. Lancaster, Dr. Melissa Moye, Patrick O'Shea, Morris L. Krome, David B. Hamilton, Trustees, and, Thomas K. Lee, Secretary. Agency Staff members also attending were Margaret Bury, Retirement Administrator, Deborah Bacharach, Robert Feinstein, Rachel Cohen, Carla Katzenberg, and Jill Leiner, Assistant Attorneys General, Sherlynn Matesky and Howard Pleines, Legislation and Research, Thomas Gigliotti, Chief Internal Auditor, Arthur Broadwick, Finance, Joseph Coale, Public Information Officer, Gary Scribner, Chief Information Officer and Monica Bias, Executive Associate.

Also attending were Dean Kenderdine, Comptroller's Office, Andrea Fulton, Department of Budget & Management, Suzanne Fox and Robert Hahn, State Ethics Commission, Mr. Robert Palumbi, Maryland Retired Teachers' Association, Albert Carrozza, Esquire, Sarah Taylor-Rogers and Anthony Gorski, Esquire, Bernadette Morgan and Morris Lasover, Esquire, and Paul W. Kelley and Jeffrey Schultz, Esquire.

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| Minutes | 1 | On a motion by Mr. Brown, duly seconded, the Board approved the minutes of the meeting held January 20, 2004. |
| Investment Committee Report and Recommendations | 2 | <p>Mr. Arthur Caple, Chairman of the Investment Committee, reported on the meeting held February 13, 2004.</p> <p>On motion made by Mr. Caple, and duly seconded, the Board adopted the Real Estate Registry, removing the Crown Point Property, which was sold to another bidder.</p> <p>Mr. Caple noted that Mr. Huber had updated the Investment Committee on the re-organization of investment staff. More resources are being dedicated to quantitative analysis, including asset allocation, risk management and performance attribution. John Geenberg is heading up the quantitative team, Vicki Willard heads a team dealing with corporate governance and proxy voting, and, Bob Burd will head up the alternative assets team.</p> <p>Mr. Caple also indicated that Mr. Huber advised the Committee that the latest TUCS study showed significant improvement to the 44th percentile for 2003 and the 40th percentile for the 4th quarter.</p> |

Mr Caple stated that investment staff and EnnisKnupp are to work on a procedure for rebalancing asset allocation with triggers on when it should be reviewed

On a motion by Mr Caple, seconded by Dr Grasmick, the Board adopted staff's recommendation that T Rowe Price's use of Exchange Traded Funds be limited to 10% of the portfolio

On motion made by Mr Caple and seconded by Treasurer Kopp, the Board adopted a motion to add Franklin Templeton to the watch list in light of allegation involving excessive trading

On motion made by Mr Caple and seconded by Mr O'Shea, the Board adopted a motion to retain Segal at a reasonable cost to perform a review of the Optional Retirement Program, including a recommendation as to the number of providers that should be included in the ORP

On motion made by Mr Caple, and duly seconded, the Board adopted a motion to approval Artel's request to alter its business structure from a corporation to a limited liability corporation

The Board accepted Mr Caple's report

Administrative 3
Committee Report
and Recommendations

Mr William Brown, Chairman of the Administrative Committee, reported on the meeting held December 16, 2003

On motion made by Mr Brown, and duly seconded, the Board adopted a motion to uphold the Executive Director's recommendation to deny Ms Edwina Henderson's request for an appeal of the Retirement Agency's denial to transfer service and benefits from the Employees' Pension System to the Correctional Officers' Retirement System. The law requires that such transfers may only occur within the first year of membership in the new system. Ms Henderson's request was filed too late.

The Chairman agreed to permit Mr Paul Kelley and his attorney, Mr Jeffrey Schultz, to restate the reasons for seeking a recalculation of Mr Kelley's special disability allowance. Mr Kelley's claim was based on his belief that the annuity portion of his benefit should be calculated from the initial retirement date, and not reflect payments made under the Deferred Retirement Option Program. Following this brief presentation, and on motion made by Mr Brown, and duly seconded, the Board adopted the motion to uphold the Executive Director's denial of Mr Paul Kelley's request that his special disability retirement allowance be recalculated to ignore payments made while participating in the State Police Deferred Retirement Option Program. Mr Brown noted that it is both a logical and fiscally responsible decision to reflect annuity payments made under DROP in the calculation of the special disability allowance granted during DROP participation.

On motion made by Mr Brown, and duly seconded, the Board adopted a motion to uphold the Executive Director's denial of Mr Jake Mohorovic's request to purchase 4 months for teaching night school at Baltimore City Community College Mr Mohorovic already has accrued service credits for this period of time as a State employee and is prohibited by pension law from purchasing duplicate credits

Mr Brown noted that Mr Hamilton had reported on the importance of auditing participating governmental units and the growing need to audit several large employers that have not been audited for several years, as quickly as possible He indicated that audit staff is developing a matrix to schedule these audits, which may be performed by an outside contractor under a State contract that is being finalized at this time

The Board accepted Mr Brown's report

Executive
Director's Report

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Mr Thomas Lee advised the Board that the Agency's budget hearing were held, and that the Agency is working to retain positions that Legislative Services recommended to eliminate These positions, for the most part, have been filled

The Board accepted Mr Lee's report

(Information)
Legislative Report

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Mr Pleines' reported on pension legislation pending before the 2004 Maryland General Assembly He notified the Board that five Board requested proposals recently were introduced These bills relate to clarifying existing practice that workers' compensation not disability benefits are offset when benefits relate to occupational diseases, eliminating restrictions on benefits paid on transferring service credits when members seek disability benefits, clarifying service used to qualify for eligibility in a deferred retirement option program, altering the allocation of costs for administrative expenses and code simplification

While most legislation received a "no position", the Board directed staff to oppose the following bills

- HB188 – Correctional Officers' Retirement System – Membership – Division of Parole and Probation because of the adverse impact on the Board's efforts to simplify pension law This proposal would create a new tier of benefits within the Correctional Officers' Retirement System for parole and probation officers
- HB476/SB145 – Employees' Retirement System and Employees' Pension System – (Comeback Early Out) Deferred Retirement Option Program because of the potential for jeopardizing the System's tax qualification status
- HB643 – State Retirement and Pension System – Disability Retirement Appeals – Procedures because it would impact on the Board's fiduciary responsibilities by eliminating the ability of the Board to hear disability appeals The Comptroller noted that he intended to testify against the proposal
- SB214 – Maryland Technology Investment Program because it mandates specific investments by the Board, which would total \$100 million

- HB643 – State Retirement and Pension System – Disability Retirement Appeals – Procedures because it would impact on the Board’s fiduciary responsibilities by eliminating the ability of the Board to hear disability appeals. The Comptroller noted that he intended to testify against the proposal
- SB214 – Maryland Technology Investment Program because it mandates specific investments by the Board, which would total \$100 million
- SB753 – State Police Retirement System – Disability Retirements because it would provide disability benefits to a withdrawn former member without the determination of a medical disability by the Medical Board and the Board of Trustees

Financial Disclosures 6 Ms Suzanne Fox and Mr Robert Hahn presented information to the Board related to the financial disclosures that all Board members are required to make and file with the State Ethics Commission. Mr Hahn discussed specific aspects of the disclosure statement. In addition, Ms Fox addressed specific questions concerning Trustees recusing themselves from discussions, interactions with investment managers and other vendors, and travel expenses.

Louis Labat 7 The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr Louis Labat 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 Labat did not appear, but Mr Albert Carrozza, attorney for Louis Labat presented argument on his behalf. 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.

Sarah Taylor-Rogers 8 The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms Sarah Taylor-Rogers seeking special early retirement benefits provided for appointed officials pursuant to “the 16-year rule.” The Administrative Law Judge’s report and all related documents submitted by the parties were presented.

Mr Anthony Gorski, attorney for Ms Taylor-Rogers and Ms Taylor-Rogers appeared before the Board and opposed the Agency’s position and the Administrative Law Judge’s recommendations. Ms Rachel Cohen, 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. Chairman Schaefer recused himself from the matter.

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| Bernadette Morgan | 9 | <p>The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms Bernadette E Morgan 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.</p> <p>Mr Morris Lasover, attorney for Ms Morgan and Ms Bernadette Morgan 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.</p> |
| Brian Droneberger | 10 | <p>The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr Brian Droneberger 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.</p> <p>Mr Droneberger notified the Board that he would not appear. 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.</p> |
| Medical Board Reports | 11 | <p>On motion made by Mr Brown, and duly seconded, the Board accepted 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.</p> |
| Supplemental Medical Board Reports | 12 | <p>On motion made by Mr Brown, 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 <u>Exhibit A</u>.</p> |

On motion made and duly seconded, the Board voted unanimously to meet in Executive Session. Section 10-508(a)(1)(i) permits the Board to meet in closed session to discuss the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of appointees, employees, or officials over whom it has jurisdiction. 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 11:40 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider (1) the performance review for the Executive Director, and (2) the appeals of Louis Labat, Sarah Taylor-Rogers, Bernadette E. Morgan, and Brian S. Droneberger. During the performance review, the following persons were in attendance: William Donald Schaefer, Chairman; Nancy K. Kopp, Vice-Chair; Dr. Nancy S. Giasmick; Arthur Caple, William D. Brown, Carl D. Lancaster, Dr. Melissa Moye, Patrick O'Shea, Morris L. Krome, David B. Hamilton, Trustees; Andrea Fulton, Department of Budget & Management; and Thomas K. Lee, Executive Director.

All of the persons present at the beginning of the meeting were present in Executive Session for discussion of the appeals except Robert Feinstein, Rachel Cohen, Carla Katzenberg, Jill Leiner, Arthur Broadwick, Sherlynn Matesky, Gary Scribner, Thomas Gigliotti, Dean Kenderdine, Suzanne Fox, Robert Hahn, Robert Palumbi, Albert Carrozza, Sarah Taylor-Rogers, Anthony Gorski, Bernadette Morgan, Morris Lasover, Paul W. Kelly, and Jeffrey Schultz. The Board adjourned its closed session at 12:25 p.m. and returned to regular session to complete the agenda.

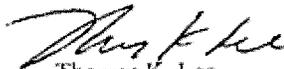
REGULAR SESSION

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

- Louis Labat The Board considered the appeal of Louis Labat. Following a discussion, a motion made by Major Krome, seconded by Mr. Brown, the Board voted to adopt the Administrative Law Judge's Proposed Decision and deny Mr. Labat's request for accidental disability benefits.
- Sarah Taylor-Rogers The Board considered the appeal of Sarah Taylor-Rogers. Following a discussion, a motion made by Major Krome, seconded by Mr. Brown, the Board voted to adopt the Administrative Law Judge's report and deny Ms. Taylor-Rogers' request for the special 16-year retirement benefit. The Board did not find that Ms. Taylor-Rogers was an appointed official during the time frame necessary to qualify for the 16-year benefit.
- Bernadette Morgan The Board considered the appeal of Bernadette Morgan. Following a discussion, a motion made by Major Krome, seconded by Mr. Brown, the Board voted to adopt the Administrative Law Judge's Proposed Decision and deny Ms. Morgan's request for accidental disability benefits.
- Brian Droneberger The Board considered the appeal of Brian Droneberger. Following a discussion, a motion made by Major Krome, seconded by Mr. Brown, the Board voted to adopt the Administrative Law Judge's Proposed Decision and deny Mr. Droneberger's request for accidental disability benefits.

There being no further business before the Board, the meeting adjourned at 12:35pm.

Respectfully submitted,


Thomas K. Lee
Secretary to the Board

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