

**BOARD OF TRUSTEES FOR THE
STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND
MINUTES OF MEETING**

August 18, 2009

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 9:06 a.m.

The Trustees present included:

Peter Franchot, Vice-Chairman	T. Eloise Foster	Theresa Lochte	Major Morris Krome
Robert Schaefer	William D. Brown	John Douglass	Sheila Hill
Thurman Zollicoffer, Jr.	David Blitzstein	R. Dean Kenderdine, Secretary	
Nancy K. Kopp, Chairman (via phone)		F. Patrick Hughes (via phone)	
Harold Zirkin (via phone)			

Agency Staff members attending included:

Deborah Bacharach	Margaret Bury	Rachel Cohen	Melody Countess	Brian Feilinger
Ira Greenstein	Dennis Krysiak	Mansco Perry	Howard Pleines	Fred Semko
Janet Sirkis	Patrice Sowah	Toni Voglino	Melissa Warren	

Also attended by:

Bill Anderson	Anne Gawthrop	John Kenney	Melissa Moye	Randy Mickens
Shaka A. Rasheed, Managing Director, J.P. Morgan Asset Management				
Christopher D. Ade, Associate, J.P. Morgan Investment Management, Inc.				

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| Minutes | 1. | On a motion made by Ms. Hill and seconded by Mr. Hughes, the Board approved the minutes of the July 21, 2009 open session meeting. |
| Administrative Committee Report | 2. | Major Krome, Vice-Chairman of the Administrative Committee, reported on the regular meeting of the Administrative Committee held on August 4, 2009. |

Major Krome reported that legislation (SB179/Chapter 214) was enacted this year giving the Agency the authority to record/monitor incoming counseling calls for training and quality control purposes and that the Board must promulgate regulations consistent with that authority.

On a motion made by Major Krome and seconded by Ms. Hill the Board approved the Telephone Monitoring Regulations.

Major Krome presented five legislative recommendations on behalf of the Administrative Committee for submission to the Maryland General Assembly's Joint Committee on Pensions for the 2010 legislative proposals.

On a motion made by Major Krome and seconded by Ms. Hill the Board approved the following 2010 legislative recommendations:

- Corridor Funding: Due to the ongoing financial and budgetary crisis within Maryland, the Committee recommends not to request legislation, but to send a letter to the Joint Committee on Pensions, the Governor, and legislative leadership, restating the Board's continuing concerns with the effects of the corridor funding methodology, the Board's position that the methodology be eliminated and acknowledging the Joint Committee's 2008 adopted motion that the State should eliminate corridor funding when the State's financial position improves.
- State Police – Survivor Benefit: The Retirement Agency provides survivor benefits on the death of a former vested member who has been in receipt of his/her deferred benefit, the same as is provided to

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survivors for service and disability benefits. However, the law does not state that the survivor benefit is paid under a vested benefit. Therefore, this oversight should be corrected to clearly indicate that a survivor benefit is payable at the death of a retiree in receipt of a vested allowance.

- State Police/Law Enforcement Officers – DROP Participation: Under both the State Police Retirement System (SPRS) and the Law Enforcement Officers' Pension System (LEOPS), members may participate in a Deferred Retirement Option Program (DROP) for a maximum four or five years respectively. The law is not clear that unused sick leave credits should not be used to determine the length of time a member may participate in DROP. Therefore, the law should be amended to clarify that unused sick leave is not included as service when determining the eligibility period for DROP.
- Baltimore City Sheriff's Office – Payment of Employer Contributions: In the 2009 Budget Reconciliation & Financing Act (HB101/Chapter 487) provisions were added to require Baltimore City to pay the employer contributions for the Baltimore City deputy sheriffs participating in the Law Enforcement Officers' Pension System. The legislative intent was to shift the employer pension cost for all employees of the Baltimore City Sheriff's Department back to the City, including about 100 non-law enforcement officer employees. The Retirement Agency has been asked by the Joint Committee on Pensions to include this correction with the Board's 2010 legislative proposals.

On a motion made by Major Krome and seconded by Ms. Hill the approved the following legislative proposal regarding Maryland School for the Deaf:

- School for the Deaf – Amending Retirement Benefits: Recalculate the retirement payments for all of the impacted retirees and beneficiaries in order to revise these retirement payments prospectively, beginning with the April 2010 benefit payment, and to seek a legislative remedy so that no offset is necessary to recover the overpaid retirement payments.

Major Krome reported that the Administrative Committee received a recommendation from Mr. Kenderdine to change the monthly schedule for hearing disability cases, such that appeals would be held in two out of three months in each quarter. On the third month of the quarter, meetings of the Audit Committee and Corporate Governance Subcommittee would be held. The proposed schedule eliminates the current situation where committee meetings are delayed until disability appeals are finished. Mr. Kenderdine further recommended that the new schedule begin in September, with the Board hearing disability appeals in September and October, and with committee meetings to be held in November. The new schedule and the flow of disability appeals will be monitored carefully to ensure a backlog of cases does not develop.

Major Krome reported that Ms. Anne Budowski updated the Committee on the performance of the Member Services Unit's Telephone Response Section for the month of June as well as totals for FY2009. She noted:

- the Agency succeeded in meeting its performance goals in June 2009,

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- with an abandonment percentage of 3.2% (against a 7% goal) and answering calls in 48 seconds against a goal of 1:45;
- Member Services successfully attained both performance goals for fiscal year 2009;
- the Member Relations Division answered 117,463 calls in FY '09, a 5.6% increase over FY2008; and
- this continuing strong performance resulted from greater retention of highly trained and experienced counseling staff; the increased analysis of calls and their dispositions; and additional on-going training for the Member Relations staff.

At Major Krome's request Mr. Kenderdine reported on the Board of Trustees Self-Assessment Questionnaire follow-up.

Mr. Kenderdine indicated that during the recently completed Board self assessment, certain Trustees suggested amending a few of the questions contained in the Self-Assessment Discussion Guide. The Committee agreed to the following changes to the guide:

1. Add the Benefits Administrator and the Chief Investment Officer to Q1 which asks how clearly Trustees understand the responsibilities are for the Board, key committees and key positions.
2. Divide Q6 into two parts to ask (1) if a Trustee believes fellow Trustees are familiar with Board rules and policies and (2) if the individual trustee believes he/she is familiar with those same rules and policies.
3. Divide Q7 into two parts to ask (1) if a Trustee believes fellow Trustees comply with Board rules and policies and (2) if the individual Trustee believes he/she complies with those same rules and policies.

Major Krome reported that Ms. Rachel Cohen, Assistant Attorney General, provided a litigation update.

Major Krome reported that the MPAS-1 project continues to proceed on schedule and within budget, with the go-live date of July 2010. A significant amount of work remains to be completed within the next twelve months, including the completion of Milestones 8 through 10. The Agency will have the MPAS source code synchronized with the source code of the Legacy system for Regression Testing, which will use the existing scrambled test database captured in April 2008 to validate that each MPAS program produces identical results to the results previously obtained during the testing of Milestones 2 through 10. The Agency will initiate a Table Value Synchronization process configuring MPAS with the same parameters used in the Legacy system. The Agency also will capture the state of the Legacy system data files and convert this data into MPAS relational database in preparation for Parallel Testing, the goal of which is to match the monthly Legacy business cycle in a MPAS in order to provide the level of confidence needed to go live July 2010. Saber made changes to the Milestone 4 job that updates the Enrollment Master File in order to speed up the execution of that job, resulting in a substantial improvement in processing time that eases concerns over being able to complete the nightly processing stream in MPAS.

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Major Krome reported that the Administrative Committee received a presentation of the newly redesigned Agency website that will replace the current information in the near future. The design is user friendly, eliminating screens that were wordy and too crowded. The new design spreads the information out over more pages making the site more visually pleasing and easier for accessing needed information. Before the new site is installed, staff of the Benefits Administration and Legal Divisions will review the content provided for accuracy and appropriateness of wording. The Committee recommended that the Agency communicate with the membership and retirees before the new web site goes on-line so that they are aware that an improved website will soon be available to them.

Major Krome reported that the Administrative Committee received a FY11 budget preview. There was little preliminary information to share as DBM had not issued its annual letter indicating the Agency's target for the coming budget year. The general consensus is that the target will provide no increase over the Agency's FY2010 operating budget of \$25.7 million, which is 4.76% higher than the FY2009 budget appropriation.

Audit
Committee
Report

3. Mr. F. Patrick Hughes, Chairman of the Audit Committee, reported on the regular meeting of the Audit Committee held on July 21, 2009.

Mr. Hughes reported that the Audit Committee was briefed by the System's Financial Statements Auditor. Clifton Gunderson will be performing the FY 2009 financial statement audit. This is their fifth year. Preliminary testing is underway, including an evaluation of controls. The Committee advised the auditors to use caution in valuing alternative investments. There may have been significant changes between March 31st and June 30th. It is important to confirm asset values to the extent possible, and to know what methodology was used to determine them. Clifton Gunderson advised the Committee that the Agency's due diligence efforts for alternative investments should be increased, in order to keep up with the increased activity for this asset class.

Mr. Hughes reported that the Audit Committee was updated on the status of audits of local government employers. The objective of the audits is to ensure that employers comply with the System's enrollment and reporting requirements. All 147 local government employers will be audited over a three-year period. Clifton Gunderson has completed fieldwork for most of the 44 audits scheduled for this year. There has been good cooperation between the employers and the auditors. Findings will be reported to the Audit Committee on an annual basis.

Mr. Hughes reported that the Audit Committee was updated on the status of audits of Local Education Agencies (Boards of Education, Community Colleges, and Public Libraries). The Office of Legislative Audits had recommended that the Agency conduct these audits. The audits seek to recover the employer contributions paid by the State for Teachers' Systems' members with salaries paid from federal funds. The Audit Committee and Agency management feel that this is not an Agency responsibility. Internal Audit staff will meet with representatives of the Maryland State Department of Education to see if they can meet this responsibility through their current

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audits.

Mr. Hughes reported that the Audit Committee was provided with the Internal Audit Division's FY 2010 Audit Plan and its FY 2009 Audit Time report. The Committee approved the Agency's FY 2010 Audit Plan. The plan is based on Internal Audit's Agency-wide risk assessment, and focuses on the higher risk areas. The plan provides for full-scope internal audits, employer audits, continuous audits, data mining, and special projects. The plan shows improved efficiency over the FY 2009 in terms of the percentage of time allocated to audits. The Committee requested that efforts be made to reduce administrative time so as to increase audit time.

Mr. Hughes reported that the Audit Committee was updated on a prior audit of Cash Receipts. The Agency occasionally receives checks where staff cannot readily determine their purpose, or correctness. Some of these are for roll-over distributions. The audit recommended that these checks be deposited and recorded in a suspense account, rather than held and returned by mail. The Chief Operating Officer has requested an Advice of Counsel, to determine if depositing roll-over distributions into a suspense account has a tax consequence to the member.

The Committee was updated on the Internal Audit Division's plan for co-sourcing internal audits of investments. An RFP for the services of a consultant with experience in training staff and performing audits of investments was issued by the Agency. Two proposals were received. The technical proposals are currently being evaluated by Agency staff to determine if the offerors meet minimum qualifications requirements. Mr. Hughes reported that the Audit Committee will be receiving a questionnaire to help it evaluate the internal audit function. The evaluation is required by the Internal Audit Charter.

Mr. Hughes reported that Internal Audit is developing an internet-based hotline for reporting fraud, waste, and abuse. A link on the System's website will allow Agency employees and outside parties to anonymously report fraud, waste, and abuse.

Mr. Hughes reported that the Audit Committee was advised of the following completed projects:

- › Check Stock Destruction - Internal Audit witnessed the destruction of check stock, ensured that controls were in place, and verified that there was proper documentation.
- › Disbursement Bank Statements - Internal Audit reviewed bank statement activity, ensured that statements were properly reconciled, and looked for misappropriations.

Mr. Hughes reported that the Audit Committee was advised that the following audits are in progress:

- | | |
|-----------------------|-------------------------------------|
| › Deceased Payments | › Member Contributions |
| › Benefit Adjustments | › Incorrect Social Security Numbers |
| › DROP Calculations | › Employee Reimbursements |

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Executive
Director's
Report

4. Mr. R. Dean Kenderdine reported on recent Agency developments.

Mr. Kenderdine reported that dates of the upcoming Joint Committee on Pensions meetings:

September 8, 2009 at 2:00 p.m.	November 3 rd
October 21 st	December 8 th

Mr. Kenderdine reported that pension trade reporters contact the agency on occasion requesting a copy of the Board's monthly meeting agenda. There were no Trustee objections to posting the Board's agenda on the public website.

Mr. Kenderdine reported that the Agency has initiated the billing of participating employers who have failed to properly enroll their employees in the System. Authority for levying these penalties was established via legislation passed during the 2008 session of the General Assembly.

Mr. Kenderdine reported that the Treasurer will be submitting written testimony to GASB responding to the Invitation to Comment, Pension Accounting and Financial Reporting (Project 34). The GASB Board has undertaken a reexamination of its standards for pension accounting and reporting.

CIO Report

5. Mr. Mansco Perry, III provided a portfolio performance update.

Mr. Perry reported that at the upcoming September Investment Committee meeting topics to be discussed include a review of asset allocation and divestment.

Mr. Perry reported that the Investment Division has received the TUCS report and they are reviewing it.

Medical Board
And
Supplemental
Medical Board
Reports

6. On a motion made by Major Krome and seconded by Mr. Hughes, the Board of Trustees accepted all 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 documentation in the file.

Beatrice E. Hemphill

7. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Beatrice E. Hemphill for ACCIDENTAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Neither Ms. Hemphill nor an attorney representing her appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. 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 Closed Session.

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- Laura E. Diaz 8. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Laura E. Diaz for ACCIDENTAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Ms. Diaz appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. 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 Closed Session.

CLOSED SESSION

The Board met in a Closed Session (11:24 p.m.) in the Boardroom of the SunTrust Building at 120 East Baltimore Street for the purpose of:

1. to approve the closed session minutes, State Government Article §10-503(a)(1)(i), the exercise of an administrative function;
2. to discuss the appeal of Laura E. Diaz and Beatrice E. Hemphill pursuant to State Government Section 10-503(a)(1)(iii), the exercise of a quasi-judicial function.

The Trustees present included:

Peter Franchot	William D. Brown	David Blitzstein	Sheila Hill
Major Morris Krome	Theresa Lochte	John Douglass	Thurman Zollicoffer

Agency Staff members attending included:

Deborah Bacharach Margaret Bury Rachel Cohen Patrice Sowah R. Dean Kenderdine
Janet Sirkis

The Board ended its closed session at 11:55 a.m. and returned to regular session to complete the agenda.

REGULAR SESSION

The Board reported that during the closed session the Board approved the closed session minutes, and reviewed and decided on the following disability appeals:

- Laura E. Diaz 9. The Board voted to ADOPT the Administrative Law Judge's Proposed Decision and DENY Laura E. Diaz' request for accidental disability benefits.
- Beatrice E. Hemphill 10. The Board voted to ADOPT the Administrative Law Judge's Proposed Decision and DENY Beatrice E. Hemphill's request for accidental disability benefits, with the amendment that, in addition to her accident on October 21, 2002, Ms. Hemphill's disability is also not the natural and proximate result of her claimed accidents on September 17, 2004, September 20, 2005, and/or January 19, 2007.
- Adjournment 11. There being no further business before the Board, the meeting adjourned at 11:55 a.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board