

**ADMINISTRATIVE COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

February 2, 2021

The Administrative Committee meeting convened, via video/audio conference call, beginning at 9:30 a.m.

The Committee Members present included:

Kenneth Haines, Chairman, Presiding	Jamaal Craddock
Richard Norman, Vice Chairman	Marc Nicole
Thomas Brandt	Nancy K. Kopp

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Melody Countess	Angie Jenkins	Ken Reott
Patricia Fitzhugh	Van Lewis	David Rongione
Anne Gawthrop	Kim O’Keeffe	Janet Sirkis
Michael Golden	Andy Palmer	Toni Voglino
Ira Greenstein	Chandra Puranam	Scott Bolander (live stream)

Assistant Attorneys General present included: Rachel Cohen and Kathleen Wherthey

Other attendees included: Trustee Sheila Hill

Minutes On a motion made by Mr. Norman and seconded by Mr. Nicole, the Administrative Committee approved the December 1, 2020 open session meeting minutes.

2021 Legislation Ms. Anne Gawthrop provided the Committee an updated overview of the 2021 pension related legislation introduced to the General Assembly since the January Board of Trustees meeting. Ms. Gawthrop reported that eight bills had been introduced since the January Board meeting, bringing the total number of bills introduced to eleven. Ms. Gawthrop reported on the following legislation, but a complete list of the 2021 legislation can be found in *Attachment A*.

- House Bill 844/Senate Bill 641 – State Retirement and Pension Systems – Fiduciary Insurance

This Board requested legislation clarifies that the current statutory provision that the State must purchase a bond for each fiduciary of the System.

Ms. Gawthrop reported that there are no hearings scheduled for this bill, to date.

- Senate Bill 642 - State Retirement and Pension System – COVID-19 Related Death Benefits – Clarification

Staff has been working with the Department of Legislative Services on the drafting of this clarifying legislation that would provide in-line-of-duty death benefits to active System members who die as a result of COVID-19.

Staff recommends the Board not take a position on this legislation.

- House Bill 456/Senate Bill 606 – Correctional Officers’ Retirement System – Kent County

The proposed legislation is local legislation that provides that if Kent County

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join the CORS, membership in the CORS will be mandatory for individuals who are detention center officers for Kent County before and through the effective date of Kent County's participation in CORS.

Staff recommends that the Board take no position on this legislation.

- House Bill 533 – State Government – Prevention of Genocide and Crimes Against Humanity and the Commission on Genocide Prevention.

This proposed legislation would require the Board to direct the Investment Committee to vote in favor of shareholder resolutions that ask companies in which the System holds shares to adopt a policy of refusing to do business with governments engaged in genocide or crimes against humanity. The Investment Committee is also required to report, annually, to the Board and the State Treasurer regarding the use of shareholder advocacy with companies in which the State invests to persuade those companies to adopt and implement a policy of refusing to do business with governments engaged in genocide or crimes against humanity. This proposed legislation also establishes a Commission of members including the Governor, one State senator, one State delegate, the Attorney General, the State Treasurer, and two members of the public. In part, the Commission is charged with researching governments that are committing genocide or crimes against humanity and holding periodic hearings on the Board's implementation of the provisions of this legislation.

Ms. Gawthrop reported that staff is concerned that, as drafted, the proposed legislation could place the Board in a position where it would be forced to act in a manner that would not be consistent with its fiduciary duties. Therefore, staff is recommending working with the sponsor to amend the bill as it relates to the System to address this issue. Specifically, staff would recommend amending the bill to (1) provide that the Board adopt and implement a policy within its investment policy manual to address the issues; (2) add language that the Board shall act in good faith to carry out the requirements of the bill, as it relates to the System, in compliance with all State and federal laws; (3) add language that the Board shall only act in a manner that is consistent with its fiduciary duties and that the Board or any other fiduciary of the System may not be held liable for any actions taken in good faith for the purposes of complying with or executing the requirements of the bill, as it relates to the System; and (4) require the Board to report to the Joint Committee on Pensions when the annual investment overview is presented each year to the Joint Committee.

Mr. Haines commented that he is worried that we are professing to be against genocide except where it is profitable.

Ms. Cohen responded that staff's proposed amendments regarding fiduciary duties is consistent with amendments added to prior legislation concerning Iran/Sudan divestment and Maryland-based private equity and venture capital investments. These amendments make clear that all of the requested activities shall be taken consistently with the Board's fiduciary responsibilities.

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Mr. Brandt asked what the administrative costs associated with this would be and how staff are dealing with managers and investments that the System is choosing to invest in.

Mr. Palmer responded that there is risk framework that is followed as to when these matters are addressed. Staff works with managers to determine such risk. Staff does not direct managers on specific investments, but to follow the Board's guidelines for proxy voting.

Treasurer Kopp commented that as a member who wears two hats, representing the Treasurer's Office and the System, the Treasurer's Office separately has concerns with a different section of the bill that directs the Treasurer's office to staff the Commission the bill establishes, as her office is presently understaffed. She is providing separate comments on the bill in her role as Treasurer.

Ms. Gawthrop reported that staff recommends working with sponsor, but not provide testimony.

On a motion made by Mr. Norman and seconded by Mr. Nicole, the Administrative Committee approved staff's recommendation to support House Bill 533 with amendments, for recommendation to the Board.

Proposed
Amendments to
COMAR 22.01.13
– Member
Services Unit –
Telephone
Recording and
Monitoring

Mr. Reott presented proposed amendments to COMAR 22.01.13 – Member Services Unit – Telephone Recording and Monitoring. Mr. Reott reported that since the regulation was originally adopted, a feature called the "virtual hold callback" has been added to the Automated Call Distribution System ("ACDS"). The virtual hold callback provides the customer with the ability to control their experience when they call the Agency and a Retirement Benefits Specialist is not immediately available to take their call. It allows the customer to request that the ACDS automatically call them back when a Specialist is available.

Mr. Reott reported that the change in the regulation clarifies that the Agency may record or monitor both incoming telephone calls made to the ACDS as well as outgoing telephone calls solely made by the virtual hold callback feature. The regulation also provides that such outgoing calls will inform the person called that it is the Retirement Agency making the call, and acknowledges that in accordance with law, any recordings will be stored securely and may not be retained for longer than 10 years.

Mr. Haines asked why the agency would hold call recordings for 10 years.

Mr. Reott responded that staff uses recordings of calls for training purposes and also to assist in resolving disputes with a member that may arise at a later date. However, the legislature wanted to make sure that call recordings were not held indefinitely, therefore, they added the 10-year language.

On a motion made by Mr. Norman and seconded by Mr. Brandt, the Administrative Committee voted to recommend that the Board of Trustees vote to submit the proposed amendments to COMAR 22.01.13 to the Administrative, Executive, and Legislative Review Committee, and publish them for comment in

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the Maryland Register.

Proposed
Amendments to
the Board's
Notice of
Extension of
Deadlines during
the State of
Emergency

Mr. Reott presented proposed amendments to the Agency's Notice Extending Certain Time Requirements, in recognition of continuance of the COVID-19 State of Emergency. Mr. Reott reported that the Agency's Notice Extending Certain Time Requirements has been in effect since March 30, 2020 and the environment in which the Agency's customers and staff is operating has greatly changed since that time. Staff feels it is advisable to amend some of the extensions of time requirements with the original notice, as many of those extensions were open-ended and do not expire until thirty (30) days after the COVID-19 State of Emergency ends. Therefore, instead of the current open-ended extensions, staff is proposing a series of rolling extensions that will afford participants additional time to take certain actions during the State of Emergency, but also allow business operations to continue without significant interruption. The amendments are as follows:

Situation	Amended and Restated Requirements
Member accepting an award of a disability retirement.	Member has until the later of: <ol style="list-style-type: none"> 1. 120 days after written notice, or 2. 60 days after the date of this Amended Order* to submit their retirement application.
Diligent pursuit of a disability claim.	Applicant has until the later of: <ol style="list-style-type: none"> 1. 45 days after request, or 2. 60 days after the date of this Amended Order* to provide requested information. Plus, the Retirement Agency may provide two additional extensions of 45 days.
Request for reconsideration of disability decision	Applicant has until the later of: <ol style="list-style-type: none"> 1. 60 days after the Retirement Agency's written notice, or 2. 60 days after the date of this Amended Order* to request reconsideration.
Appeal of denial of disability claim	Applicant has until the later of: <ol style="list-style-type: none"> 1. 60 days after the Retirement Agency's written notice, or 2. 60 days after the date of this Amended Order* to request an appeal.

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Acceptance of disability application from surviving beneficiary	Surviving beneficiary has the later of: <ol style="list-style-type: none"> 1. 60 days of the death of the member, or 2. 60 days after the date of this Amended Order to submit a preliminary application for disability signed by the member within 7 days of their death
Effective date of retirement	If the member separates from employment during the State of Emergency or separated from employment within 30 days prior to the State of Emergency their submission of a retirement application will timely and the member may retire on the 1 st day of the month after separation of employment and may retain eligibility for any unused sick leave credit if the Retirement Agency's receives the retirement application within the later of: <ol style="list-style-type: none"> 1. 90 days after separation from employment, or 2. 60 days after the date of this Amended Order.
Change of optional form of allowance	Retiree has the later of: <ol style="list-style-type: none"> 1. When the second allowance becomes payable, or 2. 60 days after the date of this Amended Order to change their optional form of allowance.
Public Information Act Requests	(No Change.) If compliance is impractical during the State of Emergency, the Retirement Agency may extend the time period to respond under the PIA to not later than 30 days after the State of Emergency ends.
Dispute of distribution of benefits per Retirement Agency's Notice of Administration of an Eligible Domestic Relations Order ("EDRO")	Parties have until the later of: <ol style="list-style-type: none"> 1. 90 days after the date of the Notice of Administration, or 2. 30 days after the date of this Amended Order to advise in writing of their disagreement. If the Retirement Agency determines that a genuine disagreement exists, the parties have the later of: <ol style="list-style-type: none"> 1. 6 months following the Agency's receipt of the written disagreement to submit a consent agreement or amended EDRO, or 2. 60 days after the date of this Amended Order to submit a consent agreement or amended EDRO.

Mr. Reott reported that staff can identify those participants who fall within the deadline and will correspond with them regarding the change in notice.

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On a motion made by Mr. Norman and seconded by Mr. Nicole, the Administrative Committee voted to recommend that the Board of Trustees vote to approve the Amended and Restated Notice Extending Certain Time Requirements, as presented.

Summary of the
Agency's IT
Master Plan for
FY2021

Mr. Ira Greenstein presented the Administrative Committee with the Agency's IT Master Plan for FY2021. Mr. Greenstein reported that the Agency's technology strategy remains unchanged from prior years.

Mr. Greenstein reported on several major accomplishments over the past year, which included:

- Implementation of the "mySRPS" secure member portal
- Integration of intelligent scanning and document management with customer relationship management software
- Implementation of an improved secure employer portal.

Mr. Greenstein also reported that IT security (fraud, authentication, network, back-up security) remains an ongoing challenge for the Agency, as it does elsewhere.

Treasurer Kopp asked how the Board can be assured that the Agency's IT security policies and practices are as strong as possible.

Mr. Greenstein responded that the Agency's security policies and practices are generally considered secure, although this does not make anyone complacent or arrogant about that. In addition, the Agency is audited by Agency internal auditors, the System's financial auditors every year, and every four years by the Office of Legislative Auditors. He added that while there is not a specific benchmark for security compliance, the Agency's security protections seem to compare well with other agencies. We have a self-functioning IT unit, not part of the State Department of Information Technology "enterprise."

Mr. Greenstein further responded that he would be happy to address the Board with a more in-depth discussion of the Agency's IT security in closed session.

Treasurer Kopp agreed that would be beneficial.

Mr. Kenderdine commented that it may be helpful to the Board, if Mr. Greenstein could, during closed session at a future Board meeting, go through the various audits that the IT department receives with an indication of their findings, action items and how the Agency has responded to each.

Member Services
Update

Mr. Reott reported that the Member Services unit was not able to meet its goals for the call abandonment rate and average call wait time for the month of December 2020, however, both metrics improved over December 2019. Mr. Reott reported that the unit's call abandonment rate average for FY21 is 16.86% and the unit's average speed of answer was 369 seconds for FY21. He further reported that for December the average call talk time was five minutes and 24 seconds and that there was an increase of 43% in answering correspondence.

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Mr. Reott reported that there are currently five vacancies in the members services unit, however they have had a successful recruitment to hire three people, who will begin mid-February.

Treasurer Kopp commented that the Agency has consistently fallen short on its performance goals for some time and asked if they remain appropriate.

Mr. Reott responded that the Agency has met the performance goals in the past, but that the goals themselves have been adjusted over time. Mr. Reott commented that he believes that the goals remain appropriate and are achievable, if the division can maintain 10 trained specialists on the phones.

Mr. Kenderdine further responded that consistent staffing remains the challenge even with the dedication of staff to fill vacancies and the latitude granted by the Department of Budget and Management in filling vacancies.

Mr. Haines commented that if we go another year with the performance rate, we may need to adjust the goal.

Treasurer Kopp asked if the Agency has seen any changes in the pattern in retirements.

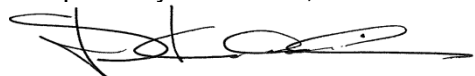
Mr. Kenderdine responded that the total number of retirements in all plans were down for calendar year 2020 as well as the second half of the year, when compared to 2019. He added that there was an increase in Teacher retirements during the last three months of 2020, but they were still down on an annual basis and July through December basis.

Treasurer Kopp commented that it would be beneficial to have the actuaries determine the impact on the System if there were to be an abrupt change in normal pattern of retirements.

Mr. Kenderdine responded that staff has shared this information with the actuary and agrees that the scenario posed by Treasurer Kopp should be part of a future stress test. Mr. Kenderdine further suggested that the Ad Hoc Committee on Economic Assumptions that will be appointed in the coming weeks could include these demographic assumptions in its work, as well.

Adjournment There being no further business before the Committee, on a motion made by Mr. Brandt and seconded by Treasurer Kopp, the meeting adjourned at 10:44 a.m.

Respectfully submitted,



R. Dean Kenderdine,
Secretary to the Board

- **GREEN** HIGHLIGHTED BILLS INDICATE NEW BILLS SINCE 2/4/20
- **YELLOW** HIGHLIGHTED BILLS INDICATE BILLS ON WHICH STAFF IS RECOMMENDING AN ACTION BY THE BOARD

Legislative Update 2021 Session February 2, 2020

BOARD REQUESTED LEGISLATION

House Bill 844/Senate Bill 641 (Lierman/Elfreth)

State Retirement and Pension Systems – Fiduciary Insurance

This Board requested legislation clarifies that the current statutory provision that the State must purchase a bond for each fiduciary of the System, may be satisfied by purchasing an insurance policy. This proposed legislation also clarifies that the State Treasurer, in consultation with the Board, will determine the type and amount of insurance to be purchased.

- No hearing scheduled in Appropriations for House Bill 844
- No hearing scheduled in Budget and Tax for Senate Bill 641

JOINT COMMITTEE ON PENSIONS LEGISLATION

Senate Bill 642 (Elfreth)

State Retirement and Pension System – COVID-19-Related Death Benefits – Clarification

This proposed legislation would provide line-of-duty death benefits for the families of members of the System who have died from COVID-19, provided the member contracted the virus at the member's place of work. This benefit would not apply to members who have been teleworking during throughout the Governor's State of Emergency.

- No hearing scheduled in Budget and Tax for Senate Bill 642

Staff has been working with the Department of Legislative Services on the drafting of this legislation. As we think of implementation issues that should be clarified in the bill, we have and will continue to let the drafters and sponsor know of our concerns. However, as this bill is generally an issue of plan design, staff recommends the Board not take a position on the legislation.

INVESTMENT RELATED LEGISLATION

House Bill 215/Senate Bill 288 (Palakovich Carr/Pinsky)

Income Tax – Carried Interest – Additional Tax

This proposed legislation would impose a state tax of 17% on carried interest received by fund managers of hedge funds and private equity funds. The intent of this bill is to close what is perceived as a federal tax loophole with regard to carried interest. Currently, the federal tax code treats carried interest as a capital gain instead of ordinary income. As a result, it is taxed at 20% as opposed to the ordinary income rate of 39.6%. Adding a State tax of 17% to carried interest is intended to close this gap.

- Hearing scheduled in Ways and Means – 1/21/21
- Hearing scheduled in Budget and Tax – 1/21/21

Staff recommended opposing this legislation based on the impact its passage could have on the System’s ability to meet its long-term assumptions and benefit payments on time and in full. Staff is concerned that this legislation would limit the System’s ability to invest in private partnerships. These types of investments currently represent 30% of System plan assets. Staff submitted letters of concern to the sponsors of the legislation, the members of the House Ways and Means Committee and the members of the Senate Budget and Tax Committee.

Presented to the Board on 1/19/21

House Bill 479 (Barve)

State Retirement and Pension System - Investment Management Fees

This proposed legislation would cap external investment management fees in a fiscal year to .2% of the market value of the fund on the last day of the fiscal year. This cap would not apply to investment manager agreements entered into on or before June 30, 2021. The bill prohibits the Board from entering into agreements on or after July 1, 2021 with external management services that would pay fees for unrealized investment gains. House Bill 479 also includes language that states it is the intent of the General Assembly that the Board shall utilize low-fee, passive investment strategies in the management of system assets, consistent with its fiduciary responsibilities.

- Hearing scheduled in Appropriations – 2/3/21

This bill is identical to the sponsor’s bill from last year. Therefore, consistent with last year’s recommendation, staff recommended opposing this legislation. As drafted, provisions that address implementing a specified investment management fee cap and how it would be applied would not be administratively feasible for all investment management agreements to which the System is a party. Additionally, staff believes the bill should provide greater clarity with regard to the sponsor’s intent when barring the Board from entering into agreements that would pay fees for unrealized investment gains. Finally, limiting the asset classes available to the Board for investing purposes, ultimately, could create fiduciary issues inasmuch as the fund could be exposed to greater risk than necessary.

Presented to the Board on 1/19/21

House Bill 533 (Acevero)

State Government – Prevention of Genocide and Crimes Against Humanity and the Commission on Genocide Prevention

This proposed legislation would require the Board to direct the Investment Committee to vote in favor of shareholder resolutions that ask companies in which the System holds shares to adopt a policy of refusing to do business with governments engaged in genocide or crimes against humanity. The Investment Committee is also required to report, annually, to the Board and the State Treasurer regarding the use of shareholder advocacy with companies in which the State invests to persuade those companies to adopt and implement a policy of refusing to do business with governments engaged in genocide or crimes against humanity. This proposed legislation also establishes a Commission of members including the Governor, one State senator, one State delegate, the Attorney General, the State Treasurer, and two members of the public. In part, the Commission is charged with researching governments that are committing genocide or crimes against humanity and holding periodic hearings on the Board's implementation of the provisions of this legislation.

- Hearing scheduled in Appropriations – 2/3/21

Staff is concerned that, as drafted, this proposed legislation could place the Board in a position where it would be forced to act in a manner that would not be consistent with its fiduciary duty. Staff would recommend working with the sponsor to amend the bill as it relates to the System to address this issue. Specifically, we would recommend amending the bill to provide that the Board adopt and implement a policy within its investment policy manual to address the issues of this bill. Additionally, we would recommend amending the bill to add language that the Board shall act in good faith to carry out the requirements of the bill, as it relates to the System, in compliance with all State and federal laws. Staff would also recommend adding language that the bill that the Board shall only act in a manner that is consistent with its fiduciary duties and that the Board or any other fiduciary of the System may not be held liable for any actions taken in good faith for the purposes of complying with or executing the requirements of the bill, as it relates to the System. Finally, staff would recommend that rather than report to the Commission established under the bill, the Board would report to the Joint Committee on Pensions when the annual investment overview is presented each year to the Joint Committee.

CORRECTIONAL OFFICER LEGISLATION

House Bill 71/Senate Bill 497 (Luedtke/Kelly)

Juvenile Services Education Board and Program – Establishment, Powers, and Duties

This legislation would establish the Juvenile Services Education Board in the Department of Juvenile Services. The Board would be charged with overseeing and approving all educational services to all juveniles who are in a residential facility in the Department of Juvenile Services, beginning July 1, 2022. This legislation provides that individuals serving as a Department of Juvenile Services direct education staff member on or after July 1, 2022 shall be members of the CORS.

- No hearing scheduled in Judiciary and Ways and Means at this time.

Staff asked the System's tax counsel to determine if it believes these employees would qualify as correctional officers under proposed IRS regulations addressing normal retirement age for public safety officers, including correctional officers. Tax counsel recommended that this group of employees not be included in the CORS. Staff has reached out to the sponsors of the legislation and

is working with them to amend the bill to clarify that the individuals addressed in this proposed legislation remain in the EPS.

Presented to the Board on 1/19/21.

House Bill 456/Senate Bill 606 (Jacobs/Hershey)

Correctional Officers' Retirement System – Kent County

This proposed legislation is local legislation that provides that if Kent County joins the CORS, membership in the CORS will be mandatory for individuals who are detention center officers for Kent County before and through the effective date of Kent County's participation in the CORS. The bill further provides that these employees shall receive all creditable and eligibility service earned prior to joining the CORS.

- No hearing scheduled in Appropriations for House Bill 456
- No hearing scheduled in Budget and Tax for Senate Bill 606

Staff recommended to the Administrative Committee to take no position on this legislation as it is a plan design and benefit determination matter.

Benefit Legislation

House Bill 791 (Young)

Military Service Credit – Eligibility

This legislation would allow any member of the CORS, LEOPS, or SPRS who is currently receiving a military retirement to claim up to five years of military service in the plan in which they are a member. Currently, members are prohibited from making a claim for military service if they are receiving a benefit from any other pension system for that same service.

- No hearing scheduled in Appropriations for House Bill 791

Staff recommended to the Administrative Committee to take no position on this legislation as it is a plan design and benefit determination matter.