

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

September 4, 2018

The Administrative Committee met at the SunTrust Building, 120 East Baltimore Street, 16th Floor, Board Room, Baltimore, Maryland, beginning at 9:30 a.m.

The Trustees present included:

James Harkins, Chairman (via phone)	Sheila Hill
Theresa Lochte, Vice Chairman, Presiding	Marc Nicole
Susanne Brogan (via phone)	Richard Norman

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

Robert Burd	Ira Greenstein	Andy Palmer
Melody Countess	Angie Jenkins	Harvey Raitzyk
Patricia Fitzhugh	Van Lewis	Ken Reott
Anne Gawthrop	Kim O’Keeffe	David Rongione
Michael Golden		

Assistant Attorneys General present included: Rachel Cohen and Kathleen Wherthey

Other attendees included: Phillip Anthony

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| Minutes | On a motion made by Ms. Hill and seconded by Mr. Norman, the Administrative Committee voted to approve the June 5, 2018 and the August 7, 2018 open session meeting minutes. |
| Adoption of Proposed Amendments to COMAR Regulations: | Mr. Reott and Ms. Wherthey presented to the Administrative Committee proposed amendments to the following regulations. Before discussion, the Committee agreed to vote on the regulation amendments as a whole. |
| <ul style="list-style-type: none">• 22.01.07 – Designation of Beneficiary• 22.01.08 – Refund of Accumulated Contributions• 22.07.02 – Code Compliance | <p><u>COMAR 22.01.07 – Designation of Beneficiary.</u>
Mr. Reott reported that the amendments acknowledge that in the future, not all forms may be received at the physical address of the Retirement Agency. Beginning next year, forms may be filed electronically via submission through the Secure Access Participant Portal. The amendments also remove redundant language concerning the designation of a minor beneficiary.</p> <p><u>COMAR 22.01.08 – Refund of Accumulated Contributions</u>
Mr. Reott reported that staff believes that this regulation requires a few minor changes, including:</p> <ul style="list-style-type: none">➤ Properly identifying the name of the form used by a member or former member to request a refund of their accumulated contributions.➤ Conveying the Agency’s requirement that a participant must properly complete the form in accordance with the form’s instructions.➤ Changing the title of the regulation to more accurately describe the purpose of the regulation.➤ Clarifying that it is the Retirement Agency and not the Board of Trustees that makes these payments, and that only a properly completed form will result in a payment to the member or former member.➤ Expanding the permissible methods to submit a refund form to include an electronically transmitted copy such as PDF submitted by email, so long as the applicant retains an original to provide to the Agency upon its |

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request.

- Adding language to document the member or former member's ability to request the rollover of all or a portion of the refund of accumulated contributions to another eligible retirement plan in a direct rollover, and to provide a cross-reference to a new regulation regarding eligible rollover distributions.

COMAR 22.07.02.05 – Compliance with 26 U.S.C. § 401(a)(31) for Eligible Rollover Distributions

Mr. Reott reported that a new regulation (22.07.02.05) is needed to address the procedures to elect to have an eligible rollover distribution paid to an eligible retirement plan in a direct rollover. Mr. Reott reported that during the regulatory review, it was noted that State Personnel and Pensions Art., § 21-603, requires the Board to adopt regulations regarding eligible rollover distributions, consistent with the requirements of § 401(a)(31) of the Internal Revenue Code.

On a motion made by Mr. Nicole and seconded by Mr. Norman, the Administrative Committee voted to recommend that the Board of Trustees vote to submit the proposed amendments to COMAR 22.01.07, 22.01.08 and 22.07.02 to the Administrative, Executive, and Legislative Review Committee, and publish them for comment in the Maryland Register.

FY20 Budget Proposal

Mr. Kenderdine, along with Ira Greenstein, David Rongione, Harvey Raitzyk and Van Lewis presented the Agency's Budget Request for Fiscal Year (FY) 2020.

Mr. Kenderdine reported that as a result of the Legislation passed last session, beginning in FY19, the Investment Division's budget becomes "non-budgeted" and is no longer included with the Agency's operating budget. This results in a reduction in the Agency's operating budget from the FY18 level. The MPAS-3 initiative continues to move forward into FY20; however, funding for the project have been reduced 21% from the FY19 funding level, which was anticipated; the FY19 budget from MPAS-3 included significant equipment purchases which were one-time expenses. The Department of Budget and Management (DBM) has given the Agency a FY20 budget target of \$31 million, which includes \$6.2 million for MPAS-3. The proposed budget being submitted to the Board, inclusive of "Over the Target" requests, is below the statutory cap, with a total budget of \$32.1 million.

Mr. Kenderdine reported that the Agency is submitting, for the Board's consideration, the following three "Over the Target" requests for FY2020:

- Additional Personnel to Support Reengineered Business Operations – (\$724k). This request is to add nine addition positions in the Information System Division (IT) in order to support the Agency's generational-level changes, resulting from the MPAS-3 project and potential in-house Investment Division trading.

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- Contractual Investment Audit Services – (\$150k). This request is to add funding for investment audits, as the Investment Division may be transitioning a portion of the portfolio from external management to internal management.
- Contractual Information Technology Audits – (\$150). This request is to hire a contractor to perform an IT risk assessment and ongoing IT audits, associated with the strategic initiatives of MPAS-3 and Internal Management.

Ms. Brogan asked by how much does removing the Investment Division reduce the Agency's budget.

Mr. Lewis responded that the Agency's budget was reduced by approximately \$8 million when the Investment Division was removed and became non-budgeted expenses.

Ms. Brogan asked why the request for IT personnel for the Investment Division's internal management is included in the Agency's budget and not the Investment Division's budget request.

Mr. Kenderdine responded that all support services such as IT are not included in the new budget language for the Investment Division.

Ms. Lochte asked if those expenses should be part of the Investment Division's budget.

Ms. Cohen responded that she would review the law, discuss internally with staff, and advise the Committee. However, Ms. Cohen advised the Committee, during the meeting, that IT Division's expenses could not be included in the Investment Division's budget.

Mr. Harkins asked if the IT auditing services are critical, given the testing done a few years ago.

Mr. Kenderdine responded that staff does view the auditing services as necessary given what is recognized as growing risk to all financial entities, including public pension plans, and that this required service would go beyond the review and testing performed before.

On a motion made by Mr. Norman and seconded by Ms. Hill, the Administrative Committee approved, for recommendation to the Board of Trustees, the FY20 Budget Proposal. Mr. Nicole abstained.

FY19 and FY20
Budget Request –
Investment Division

Mr. Palmer provided the Committee with the Investment Division's Budget Requests for Fiscal Year (FY) 2019 and 2020. The total budget request for FY19 is \$12.6 million, while the request for FY20 is \$13.5 million, which represents 2.4 and 2.6 basis points to total plan assets, respectively.

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Mr. Palmer reported that eight new positions (PINS) are being requested, as well as a number of investment support services and tools. Mr. Palmer commented that it is fully understood that no action will be taken to create and classify such positions until the OCC has considered these positions and made recommendations for the Board's decision.

Mr. Palmer reported that these items were requested by staff last year, as part of the Agency's FY19 budget request, but were not included in the Governor's allowance.

On a motion made by Ms. Hill and seconded by Mr. Norman, the Administrative Committee approved, for recommendation to the Board of Trustees, the FY19 and FY20 Investment Division Budget Proposals. Mr. Nicole abstained.

Finance Reports
Quarter Ending
06/30/18

Ms. Countess and Mr. Lewis presented the Administrative Expenses report for the quarter ending June 30, 2018. Ms. Countess reported that the Agency expended 98% of its available appropriation, with a year-end surplus of \$314,112. The end-of-year surplus was attributable to underspending in a number of cost categories.

Mr. Lewis presented the MBE Performance Report for the quarter ending June 30, 2018. Mr. Lewis reported that MBE Performance was 49.01%, which is well above the Administrative MBE performance goal of 29.0%.

Member Services
Update

Mr. Raitzyk reported that the Member Services unit was able to meet its goals for the call abandonment rate and average call wait time for the month of July 2018. The unit's call abandonment rate was 5.95% and the average speed of answer was 99 seconds for the month of July.

Ms. Brogan, commenting on the survey response that the Agency should provide information on the website that assists in locations of places to park and rates in the immediate vicinity of the SRA office, asked if the Agency could provide that information.

Ms. Jenkins responded that the Agency's website does provide directions, and the rates for parking at the SunTrust Building.

Adjournment

There being no further business before the Committee, on a motion made by Mr. Nicole and seconded by Mr. Norman, the meeting adjourned at 10:28 a.m.

Respectfully submitted,



R. Dean Kenderdine,
Secretary to the Board