

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

MINUTES OF MEETING

October 18, 2005

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 9:02 a.m. There were present: William Donald Schaefer, Chairman; Nancy Kopp, Vice-Chair; William D. Brown; John W. Douglass; David B. Hamilton; James M. Harkins; Sheila Hill; F. Patrick Hughes; Cecilia Januszkiewicz; Morris L. Krome; Carl D. Lancaster; Dr. Melissa Moye, Patrick O'Shea, Trustees; and, Thomas K. Lee, Secretary.

Agency Staff members attending were: Jeannie Abramson; Monica Bias; Margaret Bury; Deborah Bacharach; Laura Burns; Rachel Cohen; Melody Countess; Robert Feinstein; Thomas Gigliotti; Carla Katzenberg; Jill R. Leiner; Dale Markel; Larry Martin; Vincent Marsiglia; Will Morrow; Howard Pleines; Patricia Wild; Barbara Swain; and, Harvey Raitzyk.

Also attending were Bill Anderson; Robert Dezube, Hassan Ghazi and Katie Staub, Milliman, USA; Rick Johnson and Leon Joyner, Segal, Inc.; Donald Dixon, Ken Sprinkle, Clara Smith, Deloitte and Touche'; Anne Gawthrop; Martin Levine; Randy Mickens; and Robert Palumbi. Disability claimants in attendance were Elsie Brooks; Jacalyn Ford and Kevin Albert Clasing, Esquire; William Hoffman; Julie Mitchell and Kenneth D. L. Gaudreau, Esquire; Schequelia Mosby and Robert Silberman, Esquire; and Darren Stotelmeyer and Hillary Galloway Davis, Esquire.

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| Minutes | 1. On motion made and duly seconded, the Board approved the minutes of the September 20, 2005 regular meeting. |
| Investment
Committee
Recommendations and
Information Items | 2. Mr. Carl Lancaster, Chairman of the Investment Committee, reported on the meeting held October 14, 2005.

Mr. Lancaster reported on the following information items discussed at the Investment Committee meeting: <ul style="list-style-type: none">• The Committee heard from five finalists of the Enhanced Index search: T. Rowe Price Associates Inc., Payden & Rygel Investment Management, Smith Breeden Associates, Western Asset Management, and Quantitative Management Associates.• Staff reported on Asset Class Expected Returns, and Ennis Knupp reported on Capital Markets Modeling Assumptions.• The Committee received staff's Tactical Asset Allocation update and Ennis Knupp's Tactical Asset Allocation Value Added Report. |

- Ennis Knupp updated the Committee on the impact of the Legg Mason/Citigroup Asset Management merger on Western Asset Management and Legg Mason Capital Management. Ennis Knupp expressed concern on the merger's potential impact on Western.
- Staff presented a list of individuals identified to State Street Bank & Trust and to State Street Global Advisors as authorized initiators for letters of direction.

On motion made by Mr. Lancaster, and duly seconded, the Board accepted Altius Associates' recommendation to change the System's target allocation to fund of funds vs. direct funds from a 50% allocation to up to 100% to direct fund investments, while still allowing for possible investments in niche fund of funds on an opportunistic basis.

On motion made by Mr. Lancaster, seconded by Ms. Januszkiewicz, the Board agreed to change the System's Private Equity Strategy Paper to reflect that the System's target allocation to fund of funds vs. direct funds will permit up to 100% in direct fund investments, while still allowing for possible investments in niche fund of funds on an opportunistic basis.

On motion made by Mr. Lancaster, seconded by Ms. Januszkiewicz, the Board accepted Ennis Knupp's recommendation to sign the Robert E. Torray ownership change consent agreement.

On motion made by Mr. Lancaster, seconded by Treasurer Kopp, the Board accepted Ennis Knupp's recommendation that the System invest in DFA's mutual (commingled) fund vehicle for the international small-cap strategy.

The Board accepted Mr. Lancaster's report on items reported by the Investment Committee in open session.

Administrative
Committee
Recommendations and
Information Items

3. Mr. William Brown, Chairman of the Administrative Committee, reported on the meeting held October 11, 2005.

On motion made by Mr. Brown, seconded by Mr. Douglass the Board voted to include the following in its 2006 legislative proposals:

- Purchase of Service – Full Cost: amend pension law to permit members to purchase full cost purchases at any time during their membership based on charts being developed by the Actuary.
- Purchase of Service Clarifications: amend various sections of pension law related to purchases for clarity and standardization of language. Also will include federal requirement that no more than 5 years of private post-secondary teaching service may be purchased.

- State Police – Reemployment Restriction: Clarify that a 45 day break is required between retirement and returning to permanent, temporary or contractual employment with the State for State Police retirees.
- Local Fire and Police System – Reemployment Exemptions: exempt disability retirees of the Local Fire and Police System from the temporary suspension of benefits and earnings limitations if reemployed by a participating employer with retroactive application to January 1, 2005.

The Board referred proposals to amend service credits, alter average final compensation, access State tax files to locate former members and retirees; and staff's recommendation to enhance benefits for members who transferred to a pension system after April 1998 to the Administrative Committee for future considerations.

On motion made by Mr. Brown, and duly seconded, the Board agreed to include 23 retirement agency skilled professional positions in its proposal to seek independent salary setting authority for these positions. Ms. Januszkiewicz noted her opposition to the proposal.

On motion made by Mr. Brown, seconded by Ms. Hill, the Board approved amending its regulation concerning exception hearings.

On motion made by Mr. Brown, seconded by Ms. Hill, the Board voted to uphold its previous decision to discontinue providing a monthly direct deposit payment notice and directed staff to proceed on implementing this change. Staff will approve requests from members who wish to receive monthly advice notices. Ms. Januszkiewicz asked to be recorded as opposed.

Mr. Brown noted that the Committee reviewed again with Ms. Bacharach her memorandum concerning delegation of final decision making on disability appeal cases. The Committee agreed to table this issue for the present time.

Mr. Brown stated that Ms. Bacharach performed an informal survey of other public systems to determine if these systems recorded their monthly meetings. The results indicate that few use tape recordings or transcribe their meeting. The Committee agreed that the Board's present method of preparing written minutes from staff's notes is satisfactory at this time.

Mr. Will Morrow, Project Manager, reported that staff had finalized a proposal to permit the Retirement Agency to upgrade its existing pension administration system to provide the flexibility to react to new legislative initiatives in a timely fashion. Staff's proposal is to hire a firm to redo its existing Legacy system programs in modern computer language with a new architecture over a 24 month period to provide core service to the Retirement Agency and flexibility to implement benefit enhancements.

On motion by Mr. Brown, and duly seconded by Mr. Hughes, the Board approved issuing an RFP to acquire the services of a contractor under a time and materials contract to replicate the functions of the existing system by recreating those processes using modern technologies. Chairman Schaefer asked to be recorded as opposed, noting his concerns with the short time frame for completion of the project.

Exhibit A

The Board accepted Mr. Brown's report.

Executive
Report

4. Mr. Lee advised the Trustees that he continues to meet with interested parties to stress the importance of keeping benefit enhancements simple in order for the Retirement Agency to implement those changes in a timely fashion. Robert Dezube is reworking his model that provides potential employer costs for enhancing the benefit multiplier with potential increases to employee contributions. This model will be shared with the various employee and teacher groups.

Mr. Lee stated that an additional item had been added to the Board agenda as Mr. Hughes wished to report on the Audit Committee meeting held on October 14, 2005.

Audit
Committee
Recommendations and
Information Items

5. Mr. Patrick Hughes, Chairman of the Audit Committee, reported on the meeting held October 14, 2005

Mr. Hughes indicated that Mr. Donald Dixon of Deloitte & Touché would be presenting an overview of the risk management study conducted for the Retirement Agency to identify key risks and managements ranking of those risks.

Mr. Hughes stated that the Internal Control Assessment report prepared by Clifton Gunderson provided an excellent overview of benefit administration, with most of the recommendation interrelated to upgrading the Legacy System.

Mr. Hughes commented that the Lindsey & Associates report of ten participating governmental units showed general compliance with reporting requirements. The exception involved missing enrollment application at several PGUs.

Mr. Hughes noted that an auditor trainee had left to take another State position. The Agency is already recruiting to fill the position.

Exhibit B

The Board thanked Mr. Hughes for his report.

6. Mr. Leon Joyner and Mr. Rick Johnson of The Segal Group, Inc., presented results from Segal's replication audit of Milliman USA's June 30, 2004 valuation. Segal found that Milliman used data appropriately and reasonably applied assumptions approved by the Board.

Two issues were raised. First, Segal questioned the use of the aggregate entry age normal funding method which is no longer acceptable for plans subject to ERISA and not utilized by most public plans. Second, the present corridor funding method does not provide reasonable funding and is likely not to meet Government Accounts Standard Board acceptable parameters without change or modification.

Mr. Robert Dezube of Milliamn USA was given an opportunity to respond to Segal's Actuarial Audit Report. He indicated that the Aggregate Entry Age Normal method is an issue that needs to be further discussed with the Board. He also indicated that very few States use corridor funding.

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| Milliman USA | 7. Mr. Robert Dezube, Actuary Milliman USA, presented the Actuary's findings for its June 30, 2005 valuation. He indicated that under the corridor funding method, the employees' systems remained out of the corridor for a second year, and for the first time the teachers' system fell below the 90% funding level. These results contributed, in large part, to the overall rate of contribution increasing from 8.46% to 9.18%. |
| Milliman USA
Rate Certification | 8. On motion made by Mr. Hughes, and seconded by Mr. Harkins, the Board approved the employer contribution rates as certified by Milliman USA. Mr. Brown, Major Krome and Mr. Lancaster asked to be recorded as opposing. |
| Risk Assessment | 9. Mr. Donald Dixon, Deloitte & Touche, presented findings from its risk assessment study of the Retirement Agency. Key issues that were identified impacted on IT infrastructure and IT project execution, operations, and investment management. It was suggested that the Audit Committee review the risk management assessment and program initiatives on an annual basis. |
| Medical Board
Reports | 10. On motion made 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. |
| Supplemental
Medical Board
Reports | 11. On motion made and duly seconded, the Board accepted the supplemental reports of the Medical Board in connection with application 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. <u>Exhibit C</u> |

EXECUTIVE SESSION

The Board met in Executive Session at 1:15pm in the Boardroom of the SunTrust Building at 120 East Baltimore Street to discuss (1) the Enhanced Index Manager Selection and GlobeFlex Update pursuant to State Government Article 10-508(a)(5) and 10-508(a)(14); (2) transition update pursuant to 10-508(a)(5), investment of public funds; and (3) potential litigation with counsel pursuant to State Government Article §

10-508(a)(7) and (a)(8). There were present: William Donald Schaefer, Chairman; Nancy Kopp, Vice-Chairman; William D. Brown; John W. Douglass; James M. Harkins; Sheila Hill; F. Patrick Hughes; Morris L. Krome; Carl D. Lancaster; Patrick O'Shea, Trustees; and, Thomas K. Lee, Secretary.

Agency Staff members attending were: Monica Bias; Margaret Bury, Deborah Bacharach; Rachel Cohen; Vincent Marsiglia; and Howard Pleines.

The Board ended its closed session at 1:45 p.m. and returned to regular session to complete the agenda.

- Darren M. Stotelmyer 12. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Darren M. Stotelmyer 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. Stotelmyer and his attorney, Hillary Galloway Davis, appeared before the Board to oppose 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.

- Schequelia Mosby 13. The Board considered the Medical Board Report and the recommendation of the Administrative Law Judge in connection with the claim of Ms. Schequelia Mosby for disability benefits. A report by the Medical Board, the Administrative Law Judge's report, and all related documents submitted by the parties were presented.

Ms. Mosby and her attorney, Robert Silberman, appeared before the Board to oppose the Agency's position. Ms. Carla Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should accept the Medical Board Report and the Administrative Law Judge's recommendations. Following discussion, the Board deferred further consideration to Executive Session.

- Julie A. Mitchell 14. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Julie A. Mitchell 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. Gaudreau, appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendations. Ms. Mitchell did not appear. Ms. Laura Burns, 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.

William Hoffman

15. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. William Hoffman 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. Hoffman appeared before the Board to oppose 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.

Jacalyn Ford

16. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Jacalyn Ford 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. Ford and her attorney, Kevin A. Clasing, appeared before the Board to oppose 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.

Elsie Brooks

17. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Elsie Brooks 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. Brooks appeared before the Board to oppose 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.

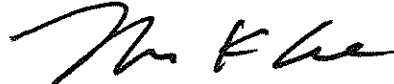
On motion made and duly seconded, the Board voted unanimously to meet in Executive Session to deliberate disability appeals, pursuant to State Government Article, Section 10-503(a)(1)(iii) which authorizes the Board to meet in closed session to carry out a quasi-judicial function.

Elsie Brooks

The Board considered the appeal of Elsie Brooks. Following a discussion, on a motion made by Mr. Hughes, and seconded by Mr. O'Shea, the Board voted to adopt the Administrative Law Judge's Proposed Decision and deny Ms. Brooks' request for accidental disability benefits.

There being no further business before the Board, the meeting adjourned at 4:35 p.m.

Respectfully submitted,



Thomas K. Lee
Secretary to the Board

TKL/mcb