

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

June 16, 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 9:03 a.m.

The Trustees present included:

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

Agency Staff members attending included:

Deborah Bacharach	Margaret Bury	Steve Cichelli	Rachel Cohen	Melody Countess
Robert Feinstein	Ira Greenstein	Dennis Krysiak	Mansco Perry	Howard Pleines
Kenneth Reott	Brian Rowe	Fred Semko	Janet Sirkis	Patrice Sowah
Toni Voglino	Melissa Warren			

Also attended by:

Bill Anderson	John Kenney	Melissa Moye	Robert Palumbi	Michael Rubenstein
Dylan Baker	Lisa Campbell			

Present only during the disability appeals portion of the agenda included:

Carla Katzenberg Jill Leiner

Minutes 1. On a motion made by Mr. Hughes and seconded by Mr. Blitzstein, the Board approved the minutes of the April 21, 2009 open session meeting.

On a motion made by Mr. Hughes and seconded by Ms. Lochte, the Board approved the minutes of the May 19, 2009 open session meeting.

Board Officers 2. On a motion made by Mr. Brown, and seconded by Mr. Zirkin, the Board elected the following officers: Nancy K. Kopp, Chairman; Peter Franchot, Vice-Chairman; and R. Dean Kenderdine, Secretary.

Investment Committee Report 3. Mr. Schaefer, Chairman of the Investment Committee, reported on the Investment Committee's meeting held on May 8, 2009.

Mr. Schaefer reported that the Investment Committee approved the open session minutes.

Mr. Schaefer reported that the Investment Committee received presentations from Elizabeth Philipp (PIMCO) and Joseph Carieri and Donald Plotsky (Western Asset Management), regarding the fixed income markets. Ms. Suzanne Bernard shared her current thinking on fixed income which included a separation of fixed income into two distinct components. One component would consist of a truer set of "anchor" investments (that is, more conservative, risk adverse securities), while the second would consist of more aggressive, return-seeking strategies that would be measured against appropriate benchmarks.

Mr. Schaefer reported that at the February, 2009 meeting of the Investment Committee, Mr. Blitzstein requested that Ennis Knupp provide the members of the Committee with information about liability benchmarking. In response to this request, Ms. Bernard and Mr. Armand Yambao (via conference call)

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Investment
Committee
Report

presented a brief report on liability benchmarking, as well as an update to the asset-liability study that was performed last year as part of the board's asset allocation review.

Mr. Schaefer reported that the Investment Committee received a summary of investment-related legislation enacted during the 2009 session of the General Assembly.

Mr. Schaefer reported that the Investment Committee received Ennis Knupp's 1st Quarter Performance Report for the System, as well as an update regarding State Street's securities lending program.

Mr. Schaefer reported that staff would incorporate the actions approved at the May meeting prior to posting a revised version of the Investment Policy Manual on the Agency website and Board portal.

Mr. Schaefer reported that the Investment Committee received investment reports.

Administrative
Committee
Report

4. Major Krome, Vice-Chair of the Administrative Committee, reported on the Administrative Committee's meeting held June 2, 2009.

Maj. Krome reported that Colonel Terrence B. Sheridan, Superintendent, Maryland State Police, and Donald G. Lewis, Director, Labor Relations, Maryland State Police, attended the Administrative Committee meeting. They presented their concerns regarding 1.) State Troopers who have been awarded Special Disability benefits and their subsequent employment at other law enforcements agencies, and; 2.) State Troopers who seek disability retirement at the point in time when criminal or civil charges are being brought against them.

Maj. Krome reported that Col. Sheridan offered his opinion that some State Police personnel are taking advantage of Special Disability. In particular, their research has found that a relatively high percentage of Troopers file for Special Disability immediately following an allegation of misconduct or criminal action.

Maj. Krome reported that Col. Sheridan stated that this issue has a negative impact on morale within the department.

Maj. Krome reported that Ms. Lochte noted that it was the State Police Medical Director who had been evaluating and determining that these individuals were in fact disabled. Col. Sheridan acknowledged that fact and stated the department has a new medical director and new processes have been put in place.

Maj. Krome reported that the Agency will provide assistance to the State Police as they address this matter administratively or through legislative action.

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Administrative
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On a motion made by Maj. Krome and seconded by Ms. Hill the Board approved the following amendments to the Monitoring and Reporting Policy effective September 1st:

To ensure that the costs of the benefits are properly measured and reported, an audit of the System's actuarial valuations shall be performed by an independent actuary in accordance with generally accepted actuarial principles and practices. The purpose of such an audit is to provide an independent critique of the reasonableness of the actuarial methods and assumptions in use and the validity of the resulting actuarially computed liabilities and required contributions. An independent actuarial audit shall be performed as follows:

- a) A partial audit shall be conducted least once every five (5) years. The audit shall include an appropriate sampling of "test lives", sufficient to reach a conclusion on the validity of the actuarially computed liabilities of each plan and the required contributions
- b) In any year in which a new consulting actuary is hired, a full replication audit of the System shall be performed concurrently with the first annual actuarial valuation performed by the new consulting actuary.
- c) In any year in which the actuarial assumptions are changed, significant plan changes are made, or actuarial errors occur, based upon the magnitude of the change(s) or errors, and at the discretion of the Board of Trustees, a partial (sampling of "test lives") or full replication audit of the System may be performed.
- d) Notwithstanding any other independent actuarial audit, a full replication audit of the System's liabilities and contributions shall be performed at least once every ten years.

Maj. Krome reported that the Agency received a request, as it does each year, from the Maryland Charity Campaign (MCC). MCC has asked the Agency's assistance in (1.) contracting with an outside vendor to mail campaign packets to approximately 3,500 recent retirees; (2.) that we include an article in support of the campaign in our July newsletter and to also post the article on our website as part of the newsletter's electronic version; and, (3.) that we include a link to the Campaign's home page on our website.

On a motion made by Maj. Krome, and duly seconded, the Board approved the Maryland Charity Campaign's 2009 request and all future such requests unless there are any changes to the request. Chairman Kopp asked that the Board be advised of this request each year.

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Administrative
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On a motion made by Maj. Krome and seconded by Mr. Schaefer the Board approved the following recommendations regarding active, inactive and vested members of the Maryland School for the Deaf:

Reduce (convert from 12 month to 10 month basis) the reported salary of all members and vested former members retroactively and prospectively and calculate future retirement benefits based upon these adjusted salaries.

- a) Correct the salary data on the Active Master file by reducing (converting from 12 month to 10 month basis) the reported salary of all members and vested former members retroactively and prospectively;
- b) Remove any deficiencies that have been posted to the Active Master File as a result of the higher employer reported salaries or refund any paid deficiency amounts to the members;
- c) Send letters to the impacted employees to explain the changes made to their membership records and the impact these changes will have on their final retirement benefit,
- d) Continue to work with DBM and Central Payroll Bureau to develop an automated, long term solution to this reporting issue.

Mr. Douglass abstained.

After much discussion concerning actions to be taken by the Board with respect to Maryland School for the Deaf retirees, Mr. Harkins, Chairman of the Administrative Committee, recommended the convening of an Administrative Committee meeting to further discuss the matter. The meeting will be held before the end of the month.

Maj. Krome reported that Member Services' succeeded in meeting Agency performance goals again in April 2009. Currently, the average abandonment rate for FY09 is 5.8% and our average call wait time is 1 minute and 23 seconds (83 seconds). Management remains focused on the performance goals and continues to anticipate successful attainment of both goals for fiscal year 2009.

Maj. Krome reported that the call monitoring legislation did pass, however we are not yet monitoring calls. Staff is in the process of drafting call monitoring regulations. Ms. Sheila Hill recommended that management involve the staff, in particular the Retirement Benefit Counselors, in the development of the call monitoring regulations.

Maj. Krome reported that in a response to concerns that the new IRS withholding tables would create underwithholding for a significant number of retirees, the IRS issued Notice 1036-P on May 14th. The Notice permits pension plans to choose either of the following options:

- Option 1: Continue using tables issued in February.
- Option 2: Adopt an additional procedure that increases the withholding by a specified amount depending on the

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Administrative
Committee
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pensioner's payment frequency, marital status and pension amount. The IRS has not specified an effective date for this new procedure but has encouraged plans that choose this option to do so as soon as possible.

Maj. Krome reported that we will continue using the February tax tables.

On a motion made by Maj. Krome and seconded by Ms. Hill the Board approved the FY10 Rotating Disability Case Hearing Schedule.

Maj. Krome reported that MPAS-1 remains on track for implementation in July 2010. Mr. Cichelli noted that testing continues and is going well, a code freeze has been instituted, and that planning for the transition to MPAS from the legacy is proceeding as well.

Mr. Douglass commented that he is pleased with the progress so far.

On a motion made by Maj. Krome and seconded by Mr. Schafer the Board approved the FY10 SRA Business Plan including three additional initiatives.

Audit
Committee
Report

5. Mr. Douglass, Vice-Chairman of the Audit Committee, reported on the meeting held on April 21, 2009.

Mr. Douglass reported that the Audit Committee approved the Internal Audit Division's FY 2010 Business Plan Goals and Initiatives. The new initiatives include:

1. Staff's investment audit expertise will be developed through audits performed in conjunction with an outside contractor in a co-sourcing arrangement.
2. A quality assurance program for internal audits will be implemented.
3. Electronic working papers will be employed.
4. Non-technical audit procedures of information systems (e.g., access controls) will be developed.

Mr. Douglass reported that the Audit Committee was updated on the results of the recently completed legislative audit. Two audit findings were reported: (1.) The Agency's procedures for Information Systems security monitoring were inadequate. The Agency agrees with the Office Legislative Audit's recommendations, and has already taken steps to address the issue. (2.) The Agency does not have a process to ensure that employer contributions are properly reimbursed to the State for local employees whose compensation is paid from federal aid. The Audit Committee believes that this should not be the responsibility of the Agency. Internal Audit is working with the appropriate State agencies to resolve this issue as recommended by the auditors.

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Audit
Committee
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Mr. Douglass reported that the Audit Committee was updated on the status of audits of local government employers. Clifton Gunderson has started fieldwork for the audits of employers with members in the system. No reports have been issued to date. At the prior committee meeting, a question was raised as to possible conflicts of interest by the external auditor. Based on advice of counsel and information provided by the external auditor, the Committee was satisfied that a conflict of interest does not exist when the auditor is also the auditor for the local government employer with regard to other matters.

Mr. Douglass reported that the Audit Committee was briefed 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 is under final review by the agency. The objectives of this arrangement would be to:

- ▶ Provide a knowledge transfer to internal audit staff so that future audits could be conducted internally;
- ▶ Provide investment audit coverage over a three-year period, and;
- ▶ Provide audit programs to ensure that future audits are comprehensive, risk based and consistent.

Mr. Douglass reported that the Audit Committee received and accepted audit reports for the following completed audits.

- ▶ Cash Receipts: There were a number of findings reported. Management agreed and is taking corrective action. One finding will be referred to legal counsel for advice. It relates to the receipt of checks that need to be researched (e.g., roll-over distributions) prior to being deposited or refunded.
- ▶ Electronic Funds Transfers – No significant findings were reported.

Mr. Douglass reported that the Audit Committee was advised that the following audits are in progress: (1.) Eligibility Service Verification; (2.) Deceased Payments; (3.) Benefit Adjustments, and; (4.) DROP Calculations.

Mr. Douglass reported that the Audit Committee was updated on the following special projects assigned to Internal Audit. MPAS and Legacy Pension System File Comparison - this was requested by the Administrative Committee to validate that the MPAS payment file agreed with the legacy payment file. Work has been completed and no exceptions were noted. Disability Earnings Match – A project was requested to determine the amount of earnings by disability retirees. This project was discontinued due to the unavailability of independent income information.

2009 Attendance
and
Training Report

6. Mr. Kenderdine presented the required annual Attendance Report and Training Report for January 1 through June 16, 2009 for review. The Attendance Report will be updated to reflect June attendance and then filed with the General Assembly by June 30, 2009 as required.

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| Earnings Limitation
Recovery Report | 7. On motion made by Ms. Hill, and seconded by Mr. Hughes, the Board approved the Earnings Limitation Recovery Report and authorized the Agency to reduce the FY10 benefits of the affected retirees. |
| Disability Offset
Report | 8. On motion made by Ms. Hill, and duly seconded, the Board approved the Earnings Limitation Recovery Report and authorized the Agency to reduce the FY10 benefits of the affected retirees. |
| GRS | 9. Brian Murphy and Brad Armstrong of Gabriel, Roeder, Smith & Company (GRS) presented an explanation of their approach and considerations of a comprehensive review of funding policy, which had been recommended to the Board by the Administrative Committee. |

On a motion made by Maj. Krome, and seconded by Mr. Harkins, the Board approved GRS completing comprehensive review of the System's funding policy including the following:

- ▶ A thorough review of amortization policy including a comparison of the current amortization schedule for each group to 30 year open and partially closed periods.
- ▶ An update of the Recommendation on Corridor Funding Methodology dated July 19, 2005 and referred to in less depth on page 222 of the most recent Experience Study for the period July 1, 2002 to June 30, 2006 dated July 17, 2007.
- ▶ A review of the asset valuation method adopted as part of the most recent Experience Study for the period July 1, 2002 to June 30, 2006 dated July 17, 2007.
- ▶ An evaluation of the schedule for implementing contribution rate changes.
- ▶ An evaluation of the effect of any changes on computed contribution rates (base rates in the case of Municipals), budgeted or certified amounts and Annual Required Contribution amounts using June 30, 2008 as the base.

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| Executive
Director's
Report | 10. Mr. R. Dean Kenderdine reported on recent Agency developments.

Mr. Franchot acknowledged Mr. John Kenney who will be retiring from the Comptroller's Office at the end of June. Mr. Kenderdine and Ms. Margaret Bury acknowledged Mr. Bill Legg who will be retiring from the Agency, after 38 years, on June 30 th . |
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Mr. Kenderdine reported that the Board Self Evaluation questionnaire is due. The results will be discussed at the July Board meeting.

Mr. Kenderdine reported that the National Association of Security Professionals has presented the Agency with its Pacesetter Award the Agency their 2009 Pacesetter Award at their June conference for the innovation, implementation, and success of the System's Emerging Manager Program. Mr. Kenderdine acknowledged Mansco Perry, and the entire Investment staff, for program's success and recognition.

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- Medical Board 11. On a motion made by Mr. Hughes, and duly seconded, the Board of
 And
 Supplemental Trustees accepted all the reports of the Medical Board in connection with
 Medical Board applications of members for ordinary, accidental and special disability
 Reports retirement allowances. The Medical Board's conclusions were reached after
 its review of the documentation in the file.

FIRST CLOSED SESSION

The Board met in a Closed Session (12:27 p.m.) in the Boardroom of the SunTrust Building at 120 East Baltimore Street:

1. to approve the closed session minutes, State Government Article §10-503(a)(1)(i), the exercise of an administrative function;
2. to discuss a contract dispute, State Government Article §10-508(a)(7)&(8), to consult with counsel about pending or potential litigation.

The Trustees present included:

Nancy K. Kopp, Chairman	Peter Franchot, Vice-Chairman	David Blitzstein	Theresa Lochte
James M. Harkins	Robert Schaefer	William D. Brown	Sheila Hill
Major Morris Krome	Thurman W. Zollicoffer, Jr.	Harold Zirkin	John Douglass
R. Dean Kenderdine, Secretary			

Agency Staff members attending included

Deborah Bacharach	Margaret Bury	Rachel Cohen	Melody Countess
Carla Katzenberg	Dennis Krysiak	Howard Pleines	Brian Rowe
Janet Sirkis	Patrice Sowah	Melissa Warren	

Also in attendance: John Kenney and Melissa Moye.

The Board ended its closed session and returned to regular session to complete the agenda at 12:45 p.m.

REGULAR SESSION

- Jay H. Creech 12. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Jay H. Creech 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.

Mr. William Ray Ford, Mr. Creech's attorney, appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. 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 Closed Session.

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SECOND CLOSED SESSION

The Board met in a Closed Session (1:05 p.m.) in the Boardroom of the SunTrust Building at 120 East Baltimore Street for the purpose of:

1. to discuss the appeal of Jay H. Creech pursuant to State Government Section 10-503(a)(1)(iii), the exercise of a quasi- judicial function.

The Trustees present included:

David Blitzstein	William D. Brown	James Harkins	Sheila Hill
Major Morris Krome	Theresa Lochte	Harold Zirkin	Thurman Zollicoffer, Jr.

Agency Staff members attending included:

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

Also in attendance: John Kenney.

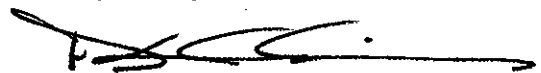
The Board ended its closed session at 1:06 p.m. and returned to regular session to complete the agenda.

REGULAR SESSION

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

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| Jay H. Creech | 13. | The Board voted to <u>ADOPT</u> the Administrative Law Judge's Proposed Decision and <u>DENY</u> Ms. Jay H. Creech's request for accidental disability benefits. |
| Adjournment | 14. | There being no further business before the Board, the meeting adjourned at 1:07 p.m. |

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

RDK/pws