

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

March 16, 2010

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 9:00 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman	Peter Franchot, Vice-Chairman	David Blitzstein	William Brown
John Douglass	James Harkins	Sheila Hill	F. Patrick Hughes
Theresa Lochte	Robert Schaefer	Harold Zirkin	Thurman Zollicoffer, Jr.
R. Dean Kenderdine, Secretary			

Agency Staff members attending included:

Anne Budowski	Margaret Bury	Steve Cichelli	Melody Countess	Patricia Fitzhugh
Michael Golden	Ira Greenstein	Dennis Krysiak	Mansco Perry, III	Howard Pleines
Kenneth Reott	Brian Rowe	Janet Sirkis	Toni Voglino	Vicki Willard

Assistant Attorneys General attending:

Deborah Bacharach	Kathy Brady	Rachel Cohen
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Also attended by:

John Kenney	Melissa Moye	Robert Palumbi
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| Minutes                         | 1. On a motion made by Mr. Hughes and duly seconded the Board approved the minutes of the February 16, 2010 open session meeting.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| CIO Report                      | 2. Mr. Mansco Perry, Chief Investment Officer reported on the System's Investment Program.<br><br>Mr. Perry informed the Board that at the end of February, the System had a market value of \$32.462 Billion and that as of today, he estimates that we had exceeded \$33 Billion. For the twelve months ending February 28 <sup>th</sup> , the System had earned 34.5%. Fiscal Year to date, all asset classes except real estate and private equity have exceeded their benchmarks.<br><br>Mr. Schaefer inquired about the Terra Maria Program. Mr. Perry responded that performance continues to be good. There have been a couple of terminations due to organizational and performance issues. We continue to monitor the program closely and continue to review prospects for expanding the program to alternative asset classes.<br><br>Mr. Brown inquired about the REITS and real estate values. Mr. Perry responded that real estate values continue to be depressed. We are unsure if prices have bottomed out. There continues to be a debt overhang that will influence real estate performance through 2010 and 2011. |
| Administrative Committee Report | 3. Mr. James Harkins, Chairman of the Administrative Committee, reported on the regular meeting of the Administrative Committee held on March 2, 2010.<br><br>Mr. Harkins reported that the Committee received its regular update on the performance of the Member Services Unit through the month of January, noting that the Agency again succeeded in meeting its performance goals for both the abandonment rate and answering calls in January. Member                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

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Satisfaction surveys show about 94% of the membership are satisfied with the services provided.

Mr. Harkins reported that MPAS Project Director, Steve Cichelli, advised the Committee that the MPAS/Legacy Pension System (LPS) parallel testing, the final testing phase was underway. The parallel test interval using input and output data captured from the LPS started as "Day 1" on December 16, 2009. That date was chosen because it was the day benefit payments were generated and, therefore, is the end of a monthly cycle and the beginning of another. The December 2009 – January 2010 first month's activities also capture the tax related jobs needed to be tested, and next month's benefit payments are generated. Mr. Cichelli reported that the reconciliation of MPAS Day 1 outputs with LPS outputs had been completed by the Project Management Office Business Sponsor (PMO) analysts, and in their opinion, with only relatively minor issues to cure.

Mr. Cichelli reported that staff has moved on to work on reconcile MPAS/LPS Day 2, with the running of MPAS/LPS jobs of Day 3 through 6 were planned for the week of March 8<sup>th</sup>. Testing processes enables the PMO analysts to review a day's output as soon as they have been run.

Mr. Kenderdine noted that the Steering Committee learned that a formatting error had been discovered and that MPAS Project staff and Agency IT staff along with staff in the Treasurer's office were working to resolve the issue.

Mr. Cichelli further reported that while parallel testing proved very challenging due to complexity, volume and conditions of data coming from the LPS, he believes that parallel testing will be completed to the Agency's satisfaction to move ahead with Go-Live as scheduled. He also reaffirmed along with the Agency's Chief Information Systems Officer, Ira Greenstein, that at this point MPAS should be completed within its budget given the very few known change requests still to be estimated and resolved before Go-Live. This assumes that the legislative session will not require changes in MPAS.

Mr. Kenderdine advised the Committee that he was not pleased with the progress of effort against the Agency's Strategic Plan. He reported that an online reference manual has been successfully created for Benefit Counselors. Mr. Kenderdine noted that as part of the workforce development initiative, a survey will soon be distributed to all SRA employees designed to assess the skill set of the SRA workforce. Additionally, a second survey for SRA supervisory staff is in development designed to identify the skills which will be needed by the Agency in the future. Once both surveys have been completed, a gap analysis will be conducted so that for a comprehensive training and recruitment program can be developed for the Agency.

Mr. Kenderdine reminded the Committee that the Office of Communications has been established and that Mr. Michael Golden has been hired as the Director.

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Mr. Kenderdine reported that an SRA Business Continuity Plan Steering Committee has been formed and initial analytical work has begun, however, the project is behind schedule. An RFP for the study for autonomy of the System is almost complete. A space management consultant has been engaged to reconfigure existing office space and assist in determining future needs. He noted that the development of a secure internet for employer and member use has been delayed due to the need for personnel to complete MPAS.

Mr. Kenderdine advised the Committee that the majority of items from the FY2010 Business Plan, and carryovers from the 2009 Plan are on target to be completed before the end of the fiscal year. He noted that certain Business Plan items will be deferred, and in each case, that the delays are due to the lack of available resources. These include the Secure Internet Platform project; development of a team-oriented approach to auditing; development of investment audit expertise; PGU Education program; and MPAS-2. Mr. Franchot noted that these are critical projects and that the legislature should be notified, in writing, of the need for the resources to accomplish them.

Mr. Harkins indicated that as part of the Agency's ongoing efforts to update the Board's regulations, staff reviewed the regulations pertaining to the Designation of Beneficiary and recommend the following changes:

1. clarify what is necessary to properly complete and file a designation of beneficiary form with the Retirement Agency, including the fact that the completed form must be filed with the Retirement Agency to be in effect;
2. outline the process for changing a designation of beneficiary by a retiree under the so-called dual life options – Options 2, 3, 5 or 6 that provide a monthly benefit to a beneficiary following the retiree's death – requires the retiree to 1) obtain an estimate as to the effect on the monthly benefit as the result of designating a new beneficiary and, following receipt of that new allowance amount, and 2) complete the Agency's form to change the designation of beneficiary under the dual-life annuity option selected; and,
3. remove the reference to honoring a designation of beneficiary under a court order of divorce in order to clarify that it is a member's, former member's or retiree's responsibility to comply with any court order when designating a beneficiary.

On motion made by Mr. Harkins and seconded by Mr. Zollicoffer, the Board voted to amend regulation 22.01.07 – Designation of Beneficiary – to include the three recommendations proposed above.

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- Legislative Update    4. Mr. Howard Pleines reported on System related legislation that was pending before the 2010 General Assembly as follows:

**HB1008/SB507:** Injured Workers' Insurance Fund – Status and Renaming: Establishes IWIF as a non-profit insurer and, as introduced, removes its employees from State employment.

**HB1113:** State Retirement and Pension System – Retirement Allowance Adjustments: Provides that for any year where there is a negative COLA, that the adjustment for that year would be \$0.00.

**HB1374:** State Retirement and Pension System – Optional Retirement Program – Membership and Participation: Expand the option to be included in the Optional Retirement Program to members of the Employees' and Teachers' Pension Systems.

**HB1379/SB1061:** State Retirement and Pension System – Funding: Moves the funding for the Employees' and Teachers' Pension Systems over several years to 90% of actuarial funding and expands amortization period to 30 years.

**HJ11:** General Assembly Compensation Commission – Recommendations – Optional Retirement Program: Places members of the General Assembly in the Optional Retirement Program.

**HJ12:** General Assembly Compensation Commission – Recommendations – Employees' Pension System: Places members of the General Assembly in the Employees' Pension System.

**SB709:** State Retirement and Pension System – Disability Retirement Application – Surviving Beneficiary: Permits surviving beneficiary of deceased member to file a disability application after the death of the member (applies to the Babra case).

**SB829:** Teachers' Retirement and Pension Systems – Reemployment of Retirees – Retired Higher Education Faculty: Increases earnings limitation to account for salary not included in the calculation of the average final compensation used to determine retirement benefits.

**SB862:** Public Pension Fund Protection Act: Places restrictions on when former Retirement Agency employees may act as placement agents; establishes reporting requires related to placement agents.

**SB894/HB1458:** State Police Retirement System – Special Disability Retirement Allowance – Forfeiture: Provides for the suspension and eventual forfeiture of special disability retirement benefit for members/retirees of the State Police who are convicted of a crime.

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**SB946:** State Retirement and Pension System – Deceased Retiree’s Retirement Application – Retiree’s Mental Incapacity: Provides for the refund of unconsumed employee contributions with interest if surviving spouse of retiree who elected the basic allowance files a certification of mental incapacity within six months of the retiree’s death.

**SB959:** State Retirement and Pension System – Local Employer Contributions – Educators and Educational Staff: Shifts a portion of the teacher employer contribution costs back to the local governments.

**SB974:** Optional Retirement Program – State and Participating Governmental Unit Employees – Participation: Closes all member systems to new membership and places new hires in the Optional Retirement Program.

**SB1012/HB1443:** Employees’ Pension System – Eligibility Service Credit – Early Service Retirement Allowance: Permits use of overtime hours to be included in the determination of eligibility service on a limited basis to qualify for early service retirement.

Staff has asked the Board to reconsider its opposition to HB926 which requires the Agency to assist in two direct mailings for retiree organizations each year. Since being heard, the sponsor has agreed to amend the Bill to address the System’s concerns.

On motion made by Mr. Harkins and duly seconded the Board of Trustees takes the following actions.

- The Board will not support or oppose HB1008/SB507, HB1113, HB1374, HB1379/SB1061, HJ11, HJ12, SB709, SB829, SB894/HB1458, SB946, SB959, and SB974.
- With the amendments that staff provided to the sponsor of SB862, the Board will not oppose SB862
- The Board will oppose SB1012, which permits the use of overtime hours to qualify for an early retirement benefit.
- The Board asked staff to continue working with the sponsor of HB926 on amendments that eliminates System concerns.

Audit Committee  
Report

5. Mr. F. Patrick Hughes, Chairman of the Audit Committee reported on the regular meeting of the Audit Committee held on February 16, 2010.

Mr. Hughes reported that the Committee was updated on the status of the audits of local government employers. A number of audit issues had been identified by the external auditor which the Committee will continue to monitor to ensure proper resolution. The Committee was also updated on the status of the audits of the local education agencies, which are comprised of the boards of education, community colleges, and libraries. Internal Audit is endeavoring to work out a practical solution to this audit requirement with the State Department of Education. This is an ongoing issue that the Committee continues to monitor.

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The Committee was also briefed on the number of completed internal audits as well as the number of audits in progress. Finally, the Committee directed the Internal Audit Division to conduct a review of the Investment Division's policy on placement agents in light of recent reports pertaining to placement agents and other public pension funds.

Executive  
Director's  
Report

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

Mr. Kenderdine reminded Trustees that the deadline for filing their financial disclosure forms with the State Ethics Commission is April 30, 2010.

Mr. Kenderdine reported that Budget Hearings have concluded. The Agency has concurred with three relatively small cuts being recommended by the legislature's analyst and has expressed opposition to the recommendation to cut a vacant position in the Office of External Affairs. Decisions by the budget committees will be made within the next ten days.

Mr. Kenderdine also reported on recent public comments by a member of the State Senate challenging travel by Agency staff during the previous fiscal year. The Senator's remarks indicated a belief that Agency travel has been extravagant and unnecessary given the current budget crisis faced by the State. There had been news coverage of the Senator's remarks between the House and Senate hearings for the Agency. Mr. Kenderdine reported that at the Senate budget hearing he provided a full description of the travel and its purposes, indicating that the majority of travel is conducted for investment due diligence or compliance purposes and is an essential part of staff's oversight of System investments. Mr. Kenderdine reported that the Senate committee members who spoke to the issue were largely supportive of the Agency's use of travel dollars. Mr. Kenderdine reported that subsequent to the hearing, a highly detailed accounting of Agency travel was provided to the Senate committee which also provided detailed justification for each trip taken by staff.

Mr. Kenderdine reported that the Agency has launched a new website.

Mr. Kenderdine reported that the Board's ad hoc Committee on System Funding Policy held its first meeting on February 25, 2010. Meetings will be held on a monthly basis, a summary of which will be incorporated into the monthly Board meeting agenda.

Medical Board  
And  
Supplemental  
Medical Board  
Reports

7. On a motion made by Mr. Brown and seconded by Mr. Hughes, the Board of Trustees voted to defer four identified disability cases back to staff for further review and clarification.

On a motion made by Mr. Hughes and seconded by Ms. Hill, the Board of Trustees accepted the remaining 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.

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**CLOSED SESSION**

The Board met in Closed Session at 11:12 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street for the purpose of:

1. approving the closed session minutes, in accordance with State Government Article §10-503(a)(1)(i), the exercise of an administrative function;
2. discussing the status of a securities litigation matter, pursuant to State Government Article §10-508(a)(7), consulting with Counsel to obtain legal advice, and §10-508(a)(8), consulting with staff and counsel regarding pending or potential litigation;
3. discussing an issue related to corridor funding methodology, pursuant to State Government Article §10-508(a)(7), consulting with Counsel to obtain legal advice.

The Trustees present included:

Nancy K. Kopp, Chairman	Peter Franchot, Vice-Chairman	David Blitzstein	William Brown
John Douglass	James Harkins	F. Patrick Hughes	Sheila Hill
Theresa Lochte	Robert Schaefer	Harold Zirkin	Thurman Zollicoffer, Jr.
R. Dean Kenderdine, Secretary			

Agency Staff members attending included:

Anne Budowski	Margaret Bury	Melody Countess	Michael Golden
Dennis Krysiak	Mansco Perry	Howard Pleines	Kenneth Reott
Brian Rowe	Janet Sirkis	Victoria Willard	

Assistant Attorneys General attending: Deborah Bacharach, Rachel Cohen, Carla Katzenberg

Also in attendance: John Kenney and Melissa Moye

The Board ended its closed session at 12:14 p.m. and returned to regular session to complete the agenda.

**REGULAR SESSION – APPEALS AND HEARINGS**

The Board reported that during the closed session the Board approved the closed session minutes of the February 16, 2010 meeting.

- Louise J. Procopio 9. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Louise J. Procopio 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. Procopio elected not to appear after receiving notice by certified mail and did not request a postponement of the exceptions hearing.

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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**CLOSED SESSION – APPEALS AND HEARINGS**

The Board met in a Closed Session (12:20 p.m.) in the Boardroom of the SunTrust Building at 120 East Baltimore Street for the purpose of and pursuant to:

1. to decide the disability appeals pursuant to State Government Section 10-503(a)(1)(iii), the exercise of a quasi- judicial function.

The Trustees present included:

Nancy K. Kopp, Chairman	William Brown	John Douglass	James Harkins
Sheila Hill	Theresa Lochte	Harold Zirkin	Thurman Zollicoffer, Jr.
R. Dean Kenderdine, Secretary			

Agency Staff members attending included:

Margaret Bury      Michael Golden      Janet Sirkis

Assistant Attorneys General attending:

Deborah Bacharach      Rachel Cohen

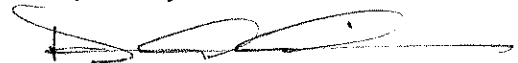
The Board ended its closed session at 12:22 p.m. and returned to regular session to complete the agenda.

**REGULAR SESSION**

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

- |                    |     |                                                                                                                                                                                 |
|--------------------|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Louise J. Procopio | 13. | The Board voted to <b><u>ADOPT</u></b> the Administrative Law Judge's Proposed Decision and <b><u>DENY</u></b> Louise J. Procopio's request for accidental disability benefits. |
| Adjournment        | 8.  | There being no further business before the Board, the meeting adjourned at 12:23 p.m.                                                                                           |

Respectfully submitted,



R. Dean Kenderdine  
Secretary to the Board

RDK/js