

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

July 20, 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 9:10 a.m.

The Trustees present included:

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

Agency Staff members attending included:

Anne Budowski	Margaret Bury	Steve Cichelli	Robert Feinstein	Patricia Fitzhugh
Michael Golden	Ira Greenstein	Dennis Krysiak	Mansco Perry, III	Howard Pleines
Kenneth Reott	Brian Rowe	Janet Sirkis	Patrice Sowah	Toni Voglino

Assistant Attorneys General attending:

Deborah Bacharach    Rachel Cohen    Melissa Warren

Also attended by:

Anne Gawthrop    Michael Rubenstein    Randy Mickens    Robert Palumbi

- Minutes    1.    On a motion made by Mr. Zirkin and seconded by Ms. Hill, the Board approved the minutes of the June 15, 2010 open session meeting.
- Administrative Committee    2.    On a motion made by Mr. Hughes and seconded by Ms. Hill the Board, in accordance with the Board Operations Policy revised and adopted October 16, 2007, appointed the following members and officers to the Administrative Committee to serve for the period of August 1, 2010 through July 31, 2011:
- James Harkins, Chairman
  - Morris L. Krome, Vice Chair
  - Nancy K. Kopp (or designee)
  - John Douglass
  - T. Eloise Foster (or designee)
  - Sheila Hill
  - Theresa Lochte
- Investment Committee    3.    On a motion made by Mr. Hughes and seconded by Ms. Hill the Board, in accordance with State Personnel and Pensions Article, Section 21-115 (a)(2), (b)&(d), appointed the following members and officers to the Investment Committee to serve for the period of August 1, 2010 through July 31, 2011:
- Robert Schaefer, Chairman
  - William D. Brown, Vice Chair
  - Nancy K. Kopp
  - Peter Franchot
  - T. Eloise Foster
  - David S. Blitzstein
  - Sheila Hill
  - F. Patrick Hughes
  - Morris L. Krome
  - Harold Zirkin
  - Thurman Zollicoffer, Jr.

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- Audit Committee 4. On a motion made by Ms. Hill and seconded by Mr. Hughes the Board, in accordance with the Board Operations Policy revised and adopted October 16, 2007, appointed the following members and officers to the Audit Committee to serve for the period of August 1, 2010 through July 31, 2011:
- F. Patrick Hughes, Chairman
  - John Douglass, Vice Chair
  - James Harkins
  - Morris L. Krome
  - Theresa Lochte
  - Harold Zirkin
- Corporate Governance Committee 5. On a motion made by Mr. Hughes and seconded by Ms. Hill the Board, in accordance with the Board Operations Policy revised and adopted October 16, 2007, appointed the following members and officers to the Corporate Governance Subcommittee, of the Investment Committee, to serve for the period of August 1, 2010 through July 31, 2011:
- Sheila Hill, Chairman
  - Thurman Zollicoffer, Jr., Vice-Chairman
  - Nancy K. Kopp
  - Peter Franchot
  - David S. Blitzstein
  - William D. Brown
- Securities Litigation Committee 6. On a motion made by Mr. Hughes and seconded by Ms. Hill the Board in accordance with the Securities Litigation Policy of the System's Investment Policy Manual, adopted June 2009, the Board appointed the following members and officers to the Securities Litigation Committee to serve for the period August 1, 2010 through July 31, 2011:
- Thurman Zollicoffer, Jr., Chairman
  - Harold Zirkin, Vice-Chairman
  - F. Patrick Hughes
  - Robert W. Schaefer
- Executive Director's Report 7. Mr. R. Dean Kenderdine reported on recent Agency developments.
- Mr. Kenderdine reported that MPAS was moving forward to go live as scheduled.
- Mr. Kenderdine reported that in cooperation with the IRS letters, were mailed to 38,000 members indicating that they were either eligible to draw their pension or they have monies that can be refunded to them. The IRS controls and manages the mailing process. The mailing generated an extraordinary volume of member calls. The Agency's call center, and general phone system, was overwhelmed with calls for a few days. Staff managed the event well.
- Mr. Kenderdine reported that Mr. Harkins was reappointed to the Board by the Governor.
- Mr. Kenderdine passed around a copy of the Continuity of Business Plan (COOP) flowcharts that the Agency is using as a pattern our own plan now in development.

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Executive  
Director's  
Report

Mr. Kenderdine reported that he was invited to participate in a forum organized by Delegate Andrew Serafini for State employees in his district. He invited any Trustee who was interested to attend. The forum is scheduled for Thursday, July 29<sup>th</sup> at 7 p.m. at the Hagerstown Community College.

System  
Funding Policy  
Ad Hoc Committee  
Report

8. Mr. Robert Schaefer, Chairman of the System Funding Policy Ad Hoc Committee introduced Mr. Brad Armstrong and Mr. Norman Jones, of Gabriel, Roeder, Smith & Company (GRS) who presented to the Board a summary of the Committee's "Recommendation on the Actuarial Funding Methodology" report.

Mr. Schaefer reminded the Board that the ad hoc committee was charged with studying (1) the funding methodology currently in use, to demonstrate its potential long term effect on the operation of the System, and (2) develop alternatives for the Board's consideration.

Mr. Schaefer reported that the System Funding Policy Ad Hoc Committee understood that its charge is limited to a review of the current methodology for funding the System and making recommendations as to alternatives to the current methodology. The committee did not consider investment policy, policy related to benefit structures, or policy related to employee contributions in its deliberations.

Mr. Schaefer reported that the System Funding Policy Ad Hoc Committee recognized that the objectives of a funding methodology are generally such that Contribution rates:

- › tend to be stable as a percentage of payroll.
- › are sufficient to pay all benefits when due.
- › are sufficient to develop a reasonable margin for adverse experience.

In addition, the study advised the Board that any methodology adopted by the Board should possess the following characteristics:

- › Methodology produces contributions that are sufficient to fund the plan in the long term.
- › Methodology does not have an inherent bias to overfund or to underfund the plan.
- › Methodology would be expected to comply reasonably well with accounting requirements. And, again, the Methodology would
  - result in relatively stable contributions.
  - provide a means to deal with large changes in rates, should they occur.

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System  
Funding Policy  
Ad Hoc Committee  
Report

Mr. Schaefer reported the following recommendations:

1. Funding Methodology – The Committee recommends to the Board of Trustees, the adoption of Alternative 3 which is characterized by the following variables:

<u>Variable</u>	<u>Alt. 3</u>
Cost Method	Entry Age
Amortization Method	
a. Type	Level % Open
b. Period	20 Years
c. Special	NA
Asset Valuation Method	Smoothed
a. Smoothing	5 yr
b. Collar	80% to 120%
Funding Target	100%
Gains and Losses	Level % open amortization
Risks	Employer
Implementation Sched.	1 year delay
Overfunded Plan	Comment 1
Benefit Changes	Level % open amortization
Assumption Changes	Level % open amortization
Other	None

With the added provisions that:

- The Corridor Funding Method would be phased out over ten years, at the rate of 10% per year, which is essentially 8 steps. This would require the enactment of legislation in 2011 and the complete elimination of Corridor by the beginning of the State's Fiscal Year 2022.
  - The FY 2009 System losses will be smoothed over 10 years, outside the collar, while all other years will remain under the five-year smoothing method.
2. Policy for Overfunded Status – The Committee recommends that the Board of Trustees adopt a policy regarding the System's actuarial funded status such that:
    - When the System reaches 100% funded status, the Employer Contribution Rate shall not be less than the Normal Cost. As the System approaches 100% funded status, the Board will consider a reduction of risk in the System's Asset Allocation.
    - When the System reaches 120%, a portion of the Employer Normal Cost Contribution will go into a "Rainy Day Fund" that will be held solely for the purpose of offsetting the impact of significant market events such as those experienced in 2009. The balance of the Employer Contribution may be reverted to the Plan Sponsor for other retirement purposes such as matching contributions to employee Supplemental Retirement Plans. The design is that the Plan Sponsor's Retirement obligation shall never fall below the normal cost.

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Report

Mr. David Blitzstein suggested that the Board build on the momentum of the Committee's work and consider conducting an "Asset-Liability Management" study. In addition, he asked that the language for the Committee recommendation regarding a Policy for Overfunded Status be strengthened such that under this new policy, the Board would consider actions that would, as a risk management measure, "buy down" the Plan's liability discount rate if the Plan reaches a status of 120% funded.

Mr. John Douglass asked that a schedule be produced that shows the impact of adopting Alternative 3, in terms of the State's employer contribution, in dollars.

On motion made by Mr. Schaefer and seconded by Major Krome, the Board approved, in concept, the preceding funding methodology and policy for overfunded status. The details of these policies require legislation.

Executive  
Director's  
Report  
(Continued)

9. At Mr. Kenderdine's invitation, Deputy Counsel Melissa Warren reported on recent rulemaking and legislation that will impact the Investment Division and the System. On June 30, 2010, the Securities and Exchange Commission ("SEC") adopted rules which limit the ability of investment advisers who do business with government clients to make political contributions and to engage certain placement agents to solicit business from government clients. The new rules:
- Prohibit an investment adviser from providing advisory services for compensation — either directly or through a pooled investment vehicle — for two years, if the adviser or certain of its executives or employees make a political contribution to an elected official who is in a position to influence the selection of the adviser.
  - Prohibit an advisory firm and certain executives and employees from soliciting or coordinating campaign contributions from others — a practice referred to as "bundling" — for an elected official who is in a position to influence the selection of the adviser. It also prohibits solicitation and coordination of payments to political parties in the state or locality where the adviser is seeking business.
  - Prohibit an adviser from paying a third party, such as a solicitor or placement agent, to solicit a government client on behalf of the investment adviser, unless that third party is an SEC-registered investment adviser or broker-dealer subject to similar pay to play restrictions."

The rules become effective in September, but investment advisers have a transition period until March 2011 to begin complying with the campaign contribution and record keeping provisions and until September 2011 to begin complying with the placement agent compensation provisions.

On July 21, 2010, President Obama is expected to sign the Dodd-Frank Wall Street Reform and Consumer Protection Act, which provides the most sweeping legislative change to financial regulation since the 1930's. Ms. Warren cited the Conference Committee Report, which includes a summary

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of the legislation, as well as an overview prepared by the law firm of Davis, Polk & Wardwell.

CIO Report 10. Mr. Mansco Perry, III commented on the portfolio's performance.

Mr. Perry reported that the final return for FY10 is 14.05%. An increase of 250 basis points.

Mr. Perry reported that Hewitt Associates announced it entered into a definitive agreement to acquire EnnisKnupp.

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

**CLOSED SESSION**

The Board met in a Closed Session (11:29 a.m.) in the Boardroom of the SunTrust Building at 120 East Baltimore Street:

1. to approve the closed session minutes, pursuant to State Government Article §10-503(a)(1)(i), the exercise of an administrative function;
2. to discuss securities litigation, pursuant to State Government Article §10-508(a)(7)&(8), to consult with counsel to obtain legal advice and to consult with staff, consultants, or other individuals about pending or potential litigation.

The Trustees present included:

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

Agency Staff members attending included:

Anne Budowski	Margaret Bury	Robert Feinstein	Michael Golden	Dennis Krysiak
Mansco Perry, III	Kenneth Reott	Brian Rowe	Janet Sirkis	Patrice Sowah

Assistant Attorneys General attending: Deborah Bacharach, Rachel Cohen, Melissa Warren.

The Board ended its closed session at 12:12 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.

Sarah J. Stewart 12. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Sarah J. Stewart 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. Rueben Collins, Esq., and Ms. Sarah J. Stewart, appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Carla Katzenberg, attorney for the Agency,

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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.

- Mary Ann Frye 13. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Mary Ann Frye 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. Paul Huston, Esq., and Ms. Mary Ann Frye, 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.

- Robert L. Folk 14. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Robert L. Folk 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. Bruce Bender, Esq. appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Carla Katzenberg, attorney for the Agency, briefly addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations.

- Scott H. Anderson 15. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Scott H. Anderson for SPECIAL 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. Michael Davey, Esq., and Mr. Scott H. Anderson appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Carla Katzenberg, attorney for the Agency, briefly addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations.

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**CLOSED SESSION – APPEALS AND HEARINGS**

The Board met in a Closed Session (2:02 p.m.) in the Boardroom of the SunTrust Building at 120 East Baltimore Street:

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

The Trustees present included:

T. Eloise Foster	William Brown	James Harkins	Sheila Hill
F. Patrick Hughes	Major Morris Krome	Theresa Lochte	Robert Schaefer
Harold Zirkin			

Agency Staff members attending included:

R. Dean Kenderdine      Marge Bury      Patrice Sowah      Janet Sirkis  
Assistant Attorneys General attending: Deborah Bacharach, Rachel Cohen

The Board ended its closed session at 2:17 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 appeals:

- |                   |     |   |
|-------------------|-----|---|
| Sarah J. Stewart  | 16. | The Board voted to <b><u>ADOPT</u></b> the Administrative Law Judge's Proposed Decision and <b><u>DENY</u></b> Sarah J. Stewart's request for accidental disability benefits. |
| Mary Ann Frye     | 17. | The Board voted to <b><u>ADOPT</u></b> the Administrative Law Judge's Proposed Decision and <b><u>DENY</u></b> Mary Ann Frye's request for accidental disability benefits.    |
| Robert L. Folk    | 18. | The Board voted to <b><u>AFFIRM</u></b> the Administrative Law Judge's Proposed Decision and <b><u>DENY</u></b> Robert L. Folk's request for accidental disability benefits.  |
| Scott H. Anderson | 19. | The Board voted to <b><u>REJECT</u></b> the Administrative Law Judge's Proposed Decision and <b><u>GRANT</u></b> Scott H. Anderson's request for special disability benefits. |
| Adjournment       | 20. | There being no further business before the Board, the meeting adjourned at 2:30 p.m.  |

Respectfully submitted,



R. Dean Kenderdine  
Secretary to the Board

RDK/pws