

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

December 21, 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 9:11 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
Major Morris Krome	Theresa Lochte	Robert Schaefer	Harold Zirkin
R. Dean Kenderdine, Secretary			

Agency Staff members attending included:

Anne Budowski	Margaret Bury	Melody Countess	Brian Feilinger	Patricia Fitzhugh
Michael Golden	Ira Greenstein	A. Melissa Moye	Howard Pleines	Kenneth Reott
Janet Sirkis	Patrice Sowah	Michael Thompson	Toni Voglino	Victoria Willard

Assistant Attorneys General attending:

Deborah Bacharach Rachel Cohen Kathy Brady

Also attended by:

Robert Palumbi John Kenney Jim Hagerty
Service Employees International Union (SEIU): Christopher Smith, Gary Steinberg, and Vonda Brunsting

- Minutes 1. On a motion made by Ms. Hill and duly seconded, the Board approved the minutes of the November 16, 2010 open session meeting.
- Administrative Committee Report 2. Mr. James Harkins, Chairman of the Administrative Committee, reported on the regular meeting held on December 7, 2010.
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- Mr. Harkins reported that the Administrative Committee received a Strategic Plan update.
- › The Online Reference Manual for counselors is complete and web-based training for all employees will be developed and implemented over the next two years.
 - › A consultant has completed a skills analysis and two focus groups have met to further define the analysis and obtain greater insight as to what skill sets will be needed in future years by staff. This information is to be the basis for designing training courses for selected staff, with the initial training programs to begin in February.
 - › The Agency style guide has been completed. From a recently completed communications audit, there will now be a review and revision process of all Agency "form letters" to make them more user friendly.
 - › The Business Continuity steering committee has been meeting weekly and developing the Agency's Business Continuity Plan. There are three options for alternative space should SRA headquarters be rendered totally inaccessible. These include (1) reliance on DGS and DBM to secure alternative space, (2) contracting with a company which will provide mobile office facilities, or (3) move all business operations toward a "virtual office" capacity such that all critical operations could be achieved through telecommuting. Mr. Kenderdine will initiate an analysis of their virtual office option. With the overall Business Continuity Plan moving toward completion, the next step is for each division (Benefits Administration, Investments, Finance, etc.) to develop its own specific "play book" which

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will detail each division's business continuity requirements.

- › The RFP to obtain a consultant to develop the plan to seek Agency Autonomy generated no responses; the Agency is presently pursuing alternative plans with the University of Baltimore.

Mr. Harkins reported that the Administrative Committee received a Communications update.

Mr. Harkins reported on October 10, a news release was issued noting the appointment of Dr. Moye as acting Chief Investment Officer. The Agency also responded to articles published in the Sun and Washington Post related to the performance of the former investment officer and the high cost of Maryland's pension programs. An audit of Agency form letters has been completed, which will be used as a basis for improving Agency correspondence. The fall issue of the Mentor, the active member newsletter, was issued. The internet based legislative web-site has been completed to improve the distribution of legislative data and responses from staff for fiscal notes.

Treasurer Kopp emphasized the need to be more proactive in our communications efforts to minimize the publication of incorrect information concerning the health of the system and investment performance.

Mr. Harkins reported that the Administrative Committee accepted the reports of the Administrative Expenses and Management Fees ending September 30, 2010.

Mr. Harkins reported that the Administrative Committee accepted the report on MBE Performance for the quarter ending September 30, 2010. Mr. Kenderdine reported that the reason for the drop in MBE participation during the first quarter was the exempt procurement for pre-retirement seminars with the Community Colleges of Baltimore County.

Mr. Harkins reported that the Administrative Committee received a Member Services update, indicating that the Agency did not meet its goals for the abandonment rate and answering calls in October. This reflects the continuing inquiries from former members who received letters from the Agency issued through the IRS. These former members have unclaimed benefits or contributions in the System. These inquiries not only are inflating the number of calls, but also the length as they generally take longer to answer. Ms. Budowski stated that 96.75% of those members surveyed in October were satisfied with the service provided.

Mr. Harkins reported that Mr. Richard Mushotzky has appealed to participate in the Teachers' Pension System.

Mr. Harkins reported that that Agency had denied his request because he had previously elected to participate in the Optional Retirement Program (ORP) briefly while employed by the State in 1979. The election to participate in the ORP in lieu of participation in the defined benefit plan is by law a one-time irrevocable decision under which an individual who is employed or re-employed in a position that is ORP eligible must remain in

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On a motion made by Mr. Harkins and seconded by Ms. Lochte, the Board adopted a new regulation within title 22, Subtitle 7, affirming that the System will administer benefits with respect to the same-gender spouse of a member, former member or retiree from a valid out-of-state marriage in the same manner as an opposite-gender spouse, except where such recognition is inconsistent with federal law. Mr. Harkins abstained.

Mr. Harkins reported that the Agency requires members to submit an application in order to commence payment of benefits. A written application is a necessary step because it is used by members to elect the form of payment (basic or optional allowance) and designate beneficiaries, and it is required in pension law, except for the Judges' and Legislative Pension Plan. Pension law also provides that a former member who is eligible to retire at the time of termination of membership "may not receive benefits for the period before the former member submitted a completed application for retirement to the Board of Trustees."

Ms. Cohen has reviewed the statutory history and advised the Administrative Committee that this restriction is intended to apply to any member who is eligible to retire at the time of separation from employment. However, she noted that a vested member who is not eligible to retire at the time of separation from employment is eligible to receive a vested allowance "that begins at normal retirement age."

Although the statute does not explicitly require an application for a vested allowance, an application is a practical necessity. The statute does not prevent the retroactive payment of vested benefits to a former vested member back to normal retirement age, even if the vested member waits until many years later to submit an application. These vested members are able to make option elections with the benefit of hindsight, impacting the actuarial equivalency of the option election.

A statutory change is required to prevent retroactive payment of a vested benefit to a former member who delayed submitting an application well past normal retirement age.

Counsel and staff recommend that the Board adopt a new regulation clarifying that a former member who is eligible to retire at the time of separation from employment may not receive benefits for the period before the submission of the application. The regulations would specify that teachers and other 10 month employees who separate from employment on June 30 may be paid benefits as of July 1, as long as the application is submitted by September 15. The regulations also would provide an additional 60-day window for applications submitted through a member's employer. Major Krome and other Administrative Committee members expressed concern regarding the inconsistency in the treatment of those eligible to retire vs. those with a vested benefit only in terms of the payment of retroactive benefits and the belief that this inconsistency should be addressed.

On a motion made by Mr. Harkins and seconded by Ms. Hill, the Board adopted a new regulation clarifying that a former member who is eligible to

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retire at the time of separation from employment may not receive benefits for the period before the submission of the application; and, approved staff advising the Joint Committee on Pensions of the inconsistency of current law that provides for retroactive payment of vested benefits to normal retirement age while those eligible to retire at termination of service may receive benefits only after filing an application for those benefits.

Mr. Harkins reported that criteria for evaluating the Executive Director's performance were unchanged from prior years and recommended its use for the Executive Director's 2010 evaluation.

On a motion made by Mr. Harkins and seconded by Major Krome, the Board approved the criteria for evaluating the annual performance of the Executive Director.

Mr. Harkins requested that when the time comes to evaluate the Executive Director that the Board receive detailed instructions to walk them through the process.

Corporate
Governance
Committee
Report

3. Ms. Sheila Hill, Chairman of the Corporate Governance Committee, reported on the regular meeting held on November 16, 2010.

Ms. Hill reported that the Corporate Governance Committee unanimously accepted the minutes for the August 17, 2010 meeting and accepted the minutes as amended for the September 10, 2010 meeting.

Ms. Hill reported that the Corporate Governance Committee was informed that ISS Governance has been reviewing the System's voting guidelines and has recommended several modifications that staff is considering. Staff will present their recommendations to the Committee in February.

Ms. Hill reported that the Corporate Governance Committee was informed that the revised Iran-Sudan Restricted List was sent to all managers of eligible accounts in early October.

Ms. Hill reported that the Corporate Governance Committee unanimously agreed to hold its 2011 meetings following the Board of Trustees' meetings in February, August, and November, and following the Investment Committee meeting in May.

Ms. Hill reported that the Corporate Governance Committee unanimously accepted the revised Charter, which was included in the revised Charters reviewed (and approved) by the Administrative Committee to be presented for Board approval.

Ms. Hill reported that the Corporate Governance Committee unanimously agreed to sign the Global Investor Statement on Climate Change.

Audit
Committee
Report

4. Mr. F. Patrick Hughes, Chairman of the Audit Committee, reported in the regular meeting held on November 16, 2010.

Mr. Hughes' written report included the Audit Committee's review of it's

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proposed revisions to its charter: a requirement to perform a self-evaluation; a requirement to perform an evaluation of the internal audit function every two years; a requirement to perform an evaluation of the Chief Internal Auditor at least annually; a change in the Committee membership to reflect its current members; and other technical changes.

The Audit Committee unanimously voted to support the charter revisions. The revised charter was reported to the Administrative Committee and submitted to the Board for approval.

Mr. Hughes' written report included an update on audits of Local Education Agencies (LEA's). The Agency has proposed legislation to transfer responsibility for auditing LEA's to the Maryland State Department of Education (MSDE) and Maryland Higher Education Commission (MHEC). The objective of the audits is to determine whether the LEAs are properly reimbursing the State for employer retirement contributions for employees who are members of the Teachers' Systems and who are paid from federal funds. The Agency believes that it would be in the best interest of the State to transfer this responsibility to those State agencies having administrative oversight responsibility over the LEAs. The Agency has also suggested that the audits could be accomplished as part of, or in conjunction with, the federal A-133 "Single Audits" that LEAs are required annually. This proposal has been generally agreed to by MSDE and MHEC but some concerns remain to be addressed between MSDE and the Office of Legislative Audits.

Mr. Hughes's written report included an update on audits of local government employers. In a prior audit of a local county government, the auditors found that employees of the county's liquor board were enrolled in the System as county employees, although the liquor board is a separate entity. As a follow-up, the Agency's Office of External Affairs is in the process of surveying county governments to determine:

- › How are liquor boards organized? Are they part of county government?
- › Are liquor board members and employees eligible to participate in the System?
- › To what extent do liquor board members and employees participate in the System?

Many employers do not re-certify their employee's unused sick leave balances at the time of retirement as required. Thus, some members are receiving higher retirements than allowed under the law. The Agency has made great efforts to educate employers on the need to re-certify sick leave balances at the time of retirement but this remains an on-going issue.

Mr. Hughes' written and oral report included the results of the self-evaluation and the evaluation of the internal audit function. Recommended improvements for the Audit Committee:

- › The Audit Committee will meet with the System's financial statement auditor at its November meeting, to review the financial statements, notes, and management discussion items prior to their issuance.
- › The Internal Audit Division will identify training opportunities for Audit Committee members, including orientation for new members.

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CAFR 5. Ms. Melody Countess, Chief Operating Officer, presented an overview of the System's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2010.

2011 Meeting Dates 6. On a motion made by Treasurer Kopp and seconded by Ms. Hill, the Board approved the following dates for meeting in 2011:

January 18 th	February 15 th	March 15 th
April date TBD	May 17 th	June 21 st
July 19 th	August 16 th	September 20 th
October 18 th	November 15 th	December 20 th

The third Tuesday in April (4/19) is the beginning of Passover and that date was not approved. An alternative date will be decided.

Executive Director's Report 7. Mr. R. Dean Kenderdine reported on recent Agency developments.

Mr. Kenderdine reported on the December 20th Sustainability Commission meeting. The Commission voted on a series of recommendations for potential reform of health benefits and pension benefits. These recommendations will be presented to the Maryland Legislature. It was noted by Treasurer Kopp that there was a consensus among the Commissioners that they would have preferred more time to more thoroughly analyze alternatives being presented as well as the potential impact of each alternative on the system and the State's costs. Of particular concern is the alternative for "Cash Balances" option which would likely have consequences for the System's liquidity and asset allocation.

Mr. Kenderdine reported that four proposals have been received in response to the RFP for executive search firms for the CIO search. Treasurer Kopp and others are scheduled to review the proposals at the conclusion of the Board meeting.

Mr. Kenderdine presented the 2010 calendar year Trustee Training Report and Trustee Attendance Report.

On a motion made by Treasurer Kopp, and duly seconded, the Board approved the annual 2010 Trustee Training Report and the 2010 Trustee Attendance Report.

On a motion made by Ms. Hill and seconded by Ms. Lochte, the Board approved the expenditure of trust funds for the Voluntary Separation Program as a permissible expense.

CIO Report 8. Dr. A. Melissa Moye reported on the portfolio's performance. She reported that as of November 30, 2010 assets in the trust total \$34.7 billion. The net fiscal year-to-date return was 10.08%, which is .23% below the policy benchmark, while the one-year return of 9.52% and the two-year return of 16.66% exceeded those periods' benchmark performance.

Dr. Moye reported that Mike Ruetz, Managing Director, will be leaving the Agency in January. Mr. Ruetz has accepted a position with another public fund.

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| Medical Board
And
Supplemental
Medical Board
Reports | 9. On a motion made by Mr. Hughes and seconded by Ms. Hill, the Board of Trustees accepted all 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 documentation in the file. |
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CLOSED SESSION

The Board met in a Closed Session (11:32 a.m.) in the Boardroom of the SunTrust Building at 120 East Baltimore Street for the purpose of:

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 enrollment issues with the ORP, pursuant to State Government Article §10-508(a)(7) receiving advice of counsel, and State Government Article §10-507(a)(8) discussing pending or potential litigation;
3. To discuss lease negotiations for the System's office space, pursuant to State Government Article §10-508(a)(14), discuss matters related to contract negotiation;
4. To discuss the disposition of real estate, pursuant to State Government Article §10-508(a)(5) the investment of public funds, and State Personnel and Pension §21-123(f) relating to the confidentiality of information related to the sale of real estate.

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
Major Morris Krome	Theresa Lochte	Robert Schaefer	Harold Zirkin
R. Dean Kenderdine, Secretary			

Agency Staff members attending included:

Anne Budowski	Margaret Bury	Melody Countess	Brian Feilinger	Patricia Fitzhugh
Michael Golden	Carla Katzenberg	A. Melissa Moye	Howard Pleines	Kenneth Reott
Janet Sirkis	Patrice Sowah	Michael Thompson	Toni Voglino	Victoria Willard

Assistant Attorneys General attending: Deborah Bacharach, Rachel Cohen, Kathy Brady.

Also in attendance: John Kenney.

The Board ended its closed session at 12:00 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.

- Annie K. Rawlings 10. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Annie K. Rawlings 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. Annie K. Rawlings' did not appear 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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- Stephanie Flood 11. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Stephanie Flood 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. Granville Tempteton, III, Esq. and Ms. Stephanie Flood appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. 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 Closed Session.

- William B. Kearney 12. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. William B. Kearney 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 B. Kearney appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Jill Leiner, attorney for the Agency, briefly addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations.

CLOSED SESSION – APPEALS AND HEARINGS

The Board met in a Closed Session (1:25 p.m.) in the Investment Unit Conference Room of the SunTrust Building at 120 East Baltimore Street for the purpose of:

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:

Nancy K. Kopp, Chairman	William Brown	Sheila Hill	F. Patrick Hughes
Major Morris Krome	Theresa Lochte	Robert Schaefer	Harold Zirkin

Agency Staff members attending included:

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

The Board ended its closed session at 1:27 p.m. and returned to regular session to complete the agenda.

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REGULAR SESSION

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

- Annie K. Rawlings 13. The Board voted to **ADOPT** the Administrative Law Judge's Proposed Decision and **DENY** Annie K. Rawlings' request for accidental disability benefits.
- Stephanie Flood 14. The Board voted to **ADOPT** the Administrative Law Judge's Proposed Decision and **DENY** Stephanie Flood's request for accidental disability benefits.
- William B. Kearney 15. The Board voted to **ADOPT** the Administrative Law Judge's Proposed Decision and **DENY** William B. Kearney's request for accidental disability benefits.
- Adjournment 16. There being no further business before the Board, the meeting adjourned at 1:27 p.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

RDK/pws