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

December 20, 2011

The Board of Trustees for the Maryland State Retirement and Pension System met in the Boardroom of the SunTrust Building, 120 East Baltimore Street, Baltimore, Maryland, beginning at 9:17 a.m.

The Trustees present included:

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

Mr. Hagans abstained from voting.

Agency Staff members attending included:

Anne Budowski	Melody Countess	Patricia Fitzhugh	Michael Golden	Ira Greenstein
Dennis Krysiak	A. Melissa Moye	Kenneth Reott	Janet Sirkis	Patrice Sowah
Toni Voglino				

Assistant Attorneys General present included:

Deborah Bacharach Rachel Cohen Melissa Warren

Also attended by: John Kenney, Phillip Anthony, Randy Mickens (MSTA).

- | | |
|-------------------------------|--|
| Minutes | 1. On a motion made by Ms. Hill and seconded by Ms. Lochte, the Board approved the minutes of the November 15, 2011 open session meeting. |
| Trustee Election Results | 2. Mr. R. Dean Kenderdine reported that Mr. Kenneth Haines was the only candidate to qualify for the Teachers' System election. As such, there was no need for an election to be held and Mr. Haines is elected to serve as Trustee for the term ending July 31, 2013. |
| Trustee Committee Assignments | 3. Chairman Kopp presented new committee assignments.

On a motion made by Major Krome and seconded by Mr. Zirkin, the Board approved the following committee assignments. |

Administrative Committee

James Harkins, Chairman
Major Krome, Vice Chair
John Douglass
Eloise Foster (or designee)
Kenneth Haines
Sheila Hill
Nancy Kopp (or designee)

Investment Committee

Harold Zirkin, Chairman
F. Patrick Hughes, Vice Chair
Davis Blitzstein
Eloise Foster
Peter Franchot
Robert Hagans, Jr.
Sheila Hill
Nancy Kopp
Major Krome

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Theresa Lochte
Thurman Zollicoffer, Jr.
Public Advisors:
Larry Jennings, Jr.
Wayne Shaner
Brian Topping

Audit Committee

F. Patrick Hughes, Chairman
John Douglass, Vice Chair
Robert Hagans, Jr.
Kenneth Haines
James Harkins
Major Krome
Theresa Lochte

Corporate Governance Committee

Sheila Hill, Chairman
Thurman Zollicoffer, Vice Chair
David Blitzstein
Peter Franchot
Nancy Kopp
Harold Zirkin

Securities Litigation Committee

Thurman Zollicoffer, Chairman
Harold Zirkin, Vice Chair
F. Patrick Hughes

Administrative
Committee
Report

4. Mr. James Harkins, Chairman of the Administrative Committee, reported on the Administrative Committee's December 6, 2011 meeting.

Mr. Harkins reported that the Administrative Committee reviewed the evaluation criteria for the Executive Director for the performance period January 16, 2011 through January 15, 2012.

On a motion made by Mr. Harkins and seconded by Ms. Hill, the Board approved the evaluation criteria for the Executive Director for the performance period January 16, 2011 through January 15, 2012.

Mr. Harkins reported that the Administrative Committee heard the appeal of Jeffrey Jones and adopted the Executive Director's summary decision as the Proposed Summary Decision in this matter, and recommends its adoption to the Board.

Mr. Harkins invited Mr. Jones and his counsel to address the Board.

Mr. Jeffrey Jones', represented by his attorney, Mr. Steven Cohen, presented his appeal to have the Administrative Committee reject the Summary Decision of the Executive Director regarding statutory offset of his ordinary disability benefits as a result of his reemployment following retirement.

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- ▶ The Agency's records reflect that Mr. Jones became a member of the Employees' Retirement System (ERS) effective July 1, 1975, while working as an employee of the Maryland Department of Human Resources (DHR).
- ▶ On or about April 18, 1991, Mr. Jones applied for ordinary disability from his position. On July 18, 1991, the Board of Trustees granted his request for ordinary disability retirement benefits. The notice of retirement allowance sent to Mr. Jones in September, 1991 advised him that his annual earnings limitation on reemployment is \$26,576.68.
- ▶ Mr. Jones' payroll records reflect that he returned to work for DHR in November, 1996. Mr. Jones' post-retirement earnings first exceeded his annual earnings limitation during calendar year 1998, when he earned salary of \$27,914.74 while also receiving a disability retirement allowance. Thereafter, for calendar years 1999 through 2004, Mr. Jones was notified by letter that he had exceeded his earnings limit and advised that his disability benefits would be reduced in light of his excess earnings.
- ▶ Due to a logic error in the Agency's legacy computer system, the Agency did not identify Mr. Jones' excess earnings for calendar years 2005 through 2009, and therefore did not offset his retirement benefits as required under SPP § 29-116. This issue was first identified during an internal audit conducted by Retirement Agency staff in 2010. Mr. Jones was advised that he had exceeded his earnings limit and that his benefits would be reduced.

Mr. Steven Cohen argued that under the terms of the "correction of errors" statute at SPP § 21-113, the authority is not mandatory but discretionary in nature, and that the Board should exercise its discretion in this case. He cited the statute's use of "shall" in one part of the section and "may" in another part as proof that the Board has the discretion he believe should be exercised in this case.

Mr. Steven Cohen requested that the offset be forgiven or, in the alternative, that the repayment time be extended to perhaps 120 months. Extending the repayment time would lessen the financial burden and diminish the possibility of hardship to Mr. Jones if a medical relapse should occur. In addition, Mr. Jones would have more money in his monthly pension check as he plans to retire within the near future.

Ms. Rachel Cohen, Assistant Attorney General, argued on behalf of the Agency. She argued that the Agency interprets the recovery of overpayments provision consistent with the Board of Trustees' statutory and fiduciary duties to pay each participant the amount to which he or she "is correctly entitled," in accordance with the terms of the statute.

Ms. Rachel Cohen further argued that Mr. Jones' benefits were offset annually for calendar years 1998 through 2004, and he was explicitly advised that the offset would continue if he had excess earnings until he reached normal retirement age. As a result of the prior offsets and the

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Agency's letters to Mr. Jones, he should have known that his retirement benefits were subject to reduction while he earned a salary with the same participating employer from whom he obtained a disability benefit. Also, in light of Mr. Jones' hardship concerns, his offset was previously extended from 44 months to 60 months.

The Board considered this matter in closed session.

At Mr. Harkins request Mr. Ken Reott reported on an enrollment issue related to eight Baltimore County Public Schools employees.

Mr. Reott reported that Baltimore County Public Schools (BCPS) recently notified the Agency that it has identified eight employees with a possible enrollment issue. The employees are currently enrolled in the Baltimore County Retirement Plan (BCRP). However, either at their date of hire, or at some point during their career with BCPS, BCPS advises that it believes they were eligible for enrollment in the Teachers' Pension System (TPS). With the exception of two of the employees who only recently became eligible to participate in the TPS in 2010, these employees have participated in BCRP for approximately two to four decades, and enrollment in the TPS at this time would create serious problems for both the employees and the System. Maryland State Personnel and Pensions § 23-210 grants authority to the Board of Trustees to determine eligibility for membership "if eligibility of an individual for membership in the Teachers' Pension System is unclear."

On a motion made by Mr. Harkins and seconded by Mr. Hughes, the Board approved the individuals identified as Employee Numbers 1, 2, 4, 5, 6, and 8 in the tables provided to the Board not be enrolled in the TPS due to BCPS' prior determination of their eligibility in the BCRP and the harsh results that would flow to the employees and the TPS if enrolled at this time; the six employees should continue their participation in the BCRP and not be enrolled in the TPS. The remaining two employees, #3 and #7, who recently became eligible for membership in the TPS, should be permitted to enroll in the TPS and transfer their service from the BCRP through the provisions of Title 37 of the State Personnel and Pensions Article.

At Mr. Harkins request Ms. Anne Budowski and Ms. Rachel Cohen discussed with the Board the following four COMAR Regulation changes:

1. Payment of Allowance (22.01.06) Revision
2. Applications for Service Retirement (22.01.14) Revision
3. Enrollment in the State System (22.01.12) Revision
4. Transfers of Service Credit Waivers (22.05.05) Revision

On a motion made by Mr. Harkins and seconded by Mr. Brown, the Board approved the four COMAR Regulations.

Ms. Anne Budowski and Ms. Rachel Cohen further reported that staff is finalizing amendments to the disability retirement regulations that will remove obsolete language, clarify existing administrative procedures, and refine the timelines of the disability retirement process generally. When staff's internal review is complete, the proposed regulations will be sent out to the Administrative Committee for review and comments prior to the committee's

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February 7, 2012 meeting.

Mr. Harkins reported that the Administrative Committee accepted the Administrative Expenses Report ending September 30, 2011 and the MBE Performance Report quarter ending September 30, 2011.

Mr. Harkins reported that changes being made to MPAS to support the pension plan changes effective FY12 project is progressing well and remains well within the \$4.6M budget.

Mr. Harkins reported that HP is scaling back its programming and technical staff to match the Agency's needs. The PMO business sponsor is comfortable with the progress.

Mr. Harkins reported that in October 2011 the performance of the Member Services Unit as measured by the abandonment percentage was 2.83% and the average speed of answer was 49 seconds, and; that 94.9% of the membership that responded to the monthly survey indicated they were satisfied with the services provided.

Audit
Committee
Report

5. Mr. F. Patrick Hughes, Chairman of the Audit Committee, reported on the Audit Committee's November 15, 2011 meeting.

Mr. Hughes presented to the Board changes to the Internal Audit Division Charter.

On a motion made by Mr. Hughes and seconded by Major Krome, the Board approved the changes to the Internal Audit Division Charter.

Mr. Hughes reported that SB & Company presented the results of the System's financial statements audit to the Audit Committee and discussed the FY 2012 draft financial statements. A letter from Mr. Hughes was sent to Chairman Kopp and the Board indicating that the committee unanimously found that the draft FY2011 financial statements appeared reasonably stated and therefore should be included in the 2011 Comprehensive Annual Financial Report.

Mr. Hughes reported that the Agency received Board of Public Works approval to exercise the contract renewal option with Clifton Gunderson to perform audits of participating employers for another three years.

Mr. Hughes concluded his report by indicating that he had provided a detailed written report. See Attachment A.

6. Ms. Melody Countess, CPA, Chief Operating Officer, presented an overview of the System's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2011.

- CIO Report 7. Dr. A. Melissa Moye reported preliminary investment results as of November 30, 2011.

As of November 30, 2011, total plan assets totaled \$35.4 billion. For the

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one-month ending 11/30/11, the Total Plan returned -1.61%, beating the policy benchmark by 8 basis points. FYTD ending 11/30/11, the Total Fund returned -4.9%, trailing the policy benchmark by 45 basis points. Total Plan performance for the 3, 5, and 10 years ending 11/30/11 was 12.2%, 1.1% and 4.8% respectively.

Executive
Director's
Report

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

Mr. Kenderdine presented the 2011 Trustee Attendance Report and the 2011 Trustee Training Report.

Mr. Kenderdine reported that the Joint Committee on Pensions approved all of the 2012 legislative proposals with the exception of the request to phase out the corridor funding method over 10 years, and change the amortization to 25-year closed.

Mr. Kenderdine reported that the Office Legislative Audits completed their Compliance and Information Technology audits. The auditors' report should be issued in January.

On behalf of the Board of Trustees, Treasurer Kopp and Comptroller Franchot presented Mr. William D. Brown with a Board resolution formally recognizing his years of service to the System as a Trustee (copy included in these minutes).

Litigation Update

9. Ms. Deborah Bacharach provided the Board with a written Litigation Update memorandum.

Medical Board
And
Supplemental
Medical Board
Reports

10. On a motion made by Mr. Hill and duly seconded, 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.

CLOSED SESSION

The Board met in a Closed Session 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 a tax issue, pursuant to State Government Article § 10-508(a)(7), receiving advice of counsel;
3. to provide a report regarding the budget, pursuant to State Government Article § 10-503(a)(1)(i), the exercise of an administrative function, and;
4. to deliberate regarding the Jeffrey Jones case, pursuant to State Government Article § 10-503(a)(1)(iii), the exercise of a quasi-judicial function.

The Trustees present included:

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

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Agency Staff members attending included:

Anne Budowski	Melody Countess	Patricia Fitzhugh	Michael Golden	Dennis Krysiak
A. Melissa Moyer	Kenneth Reott	Janet Sirkis	Patrice Sowah	Toni Voglino

Assistant Attorneys General present included:

Deborah Bacharach	Rachel Cohen	Melissa Warren
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Also attended by John Kenney.

The Board reported that during the closed session the Board approved the closed session minutes.

REGULAR SESSION – APPEALS AND HEARINGS

- Troy A. Munson 11. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Troy A. Munson 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. Troy A. Munson 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 E. Boyer 12. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Robert E. Boyer 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. Robert E. Boyer 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.

- Blake E. Sites 13. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Blake E. Sites 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. Blake E. Sites 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.

- Rosa M. Kouassi 14. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Rosa M. Kouassi 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

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presented.

Ms. Rosa M. Kouassi 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 (12:33 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:

Peter Franchot, Vice-Chairman	David Blitzstein	William Brown	John Douglass
James Harkins	Sheila Hill	Major Morris Krome	Harold Zirkin
Thurman Zollicoffer, Jr.	R. Dean Kenderdine		

Agency Staff members attending included:

Kenneth Reott Patrice Sowah Janet Sirkis
Assistant Attorneys General attending: Deborah Bacharach.

The Board ended its closed session at 12:45 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:

- | | | |
|-----------------|-----|--|
| Troy A. Munson | 15. | The Board voted to <u>ADOPT</u> the Administrative Law Judge's Proposed Decision and <u>DENY</u> Troy A. Munson's request for accidental disability benefits. |
| Robert E. Boyer | 16. | The Board voted to <u>REJECT</u> the Administrative Law Judge's Proposed Decision and <u>GRANT</u> Robert E. Boyer's request for accidental disability benefits. |
| Blake E. Sites | 17. | The Board voted to <u>ADOPT</u> the Administrative Law Judge's Proposed Decision and <u>DENY</u> Blake E. Sites' request for accidental disability benefits. |
| Rosa M. Kouassi | 18. | The Board voted to <u>ADOPT</u> the Administrative Law Judge's Proposed Decision and <u>DENY</u> Rosa M. Kouassi's request for accidental disability benefits. |
| Adjournment | 19. | There being no further business before the Board, the meeting adjourned at 1 p.m. |

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

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ATTACHMENT A

**Audit Committee Meeting of November 15, 2011
Chairman's Report**

A. Minutes of the August 16, 2011 Audit Committee Meeting

The Audit Committee met on November 15, 2011, following the Board of Trustees meeting. The minutes of the August 16, 2011 Audit Committee meeting were approved.

B. MSRPS Draft Financial Statements and Auditor's Report

SB & Company communicated the results of the System's financial statements audit to the Committee and discussed the FY 2012 draft financial statements.

- SB & Company will issue an unqualified opinion on the financial statements.
 - The audit provides reasonable assurance that the financial statements are free of material misstatements.
 - Significant accounting policies and principals were reasonable.
 - Estimates used in investment valuations used sound approaches.
 - There were no significant unusual transactions.
 - No instances of fraud, or illegal acts, were identified.
 - No material weaknesses in internal control were identified.
 - Management fully cooperated with the auditors and imposed no limitations, or restrictions.
- The Committee received and reviewed the System's FY 2012 draft financial statements.
- The Committee and SB & Company discussed the valuation and audit opinions of alternative investment funds.
- The Committee unanimously voted to recommend to the Board that the FY 2012 draft financial statements, be incorporated into the System's CAFR, subject to there being no material changes.

C. Participating Employer Audits - Update

The Agency received Board of Public Works approval to exercise the contract renewal option with Clifton Gunderson to perform audits of participating employers for another three years.

- All 148 participating employers will be audited over the three-year cycle.
- Clifton Gunderson will merge with LarsonAllen in January. The same audit personnel and procedures employed during the first cycle of audits will be applied.

D. Internal Audit Division Charter Review

The Committee approved changes to the Internal Audit Division's charter.

- Changes are not substantial.
- Redundant and non-applicable sections were removed.

The Board will be asked to approve the revised Internal Audit Division Charter.

E. Completed Audits

The Committee accepted the following previously-issued audit reports:

- Travel Expenses Follow-up Audit

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- The audit considered all travel expenditures occurring since the initial audit.
- The overall rating for this audit is “green”, indicating a satisfactory level of controls and compliance. There have been significant improvements in regard to employees traveling in a more economical manner.

- Capital Equipment Inventory
 - The overall rating for this audit is “yellow”, indicating that there are deficiencies in the process.
 - The audit noted significant issues related to internal controls and compliance with State guidelines.
 - Segregation-of-duties issues were identified. Management will implement compensating controls.

F. Audits in Progress

The Committee was advised that the following audits are currently in progress:

- Death Match (Follow-up)
- Transfer of Files Containing Sensitive Personal Data (Follow-up)
- EFT Processing

The Committee will be provided with reports for these audits upon their completion.

G. Other Business

The next Audit Committee meeting is scheduled for February 21, 2012, following the Board of Trustees meeting.

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Board of Trustees
Maryland State Retirement and Pension System

Resolution

WHEREAS, William D. Brown was elected by the members and retirees of the Teachers' Retirement System and Teachers' Pension System to serve on the Board of Trustees of the Maryland State Retirement and Pension System and has rendered loyal and faithful service in that position since August 1, 1997,

WHEREAS, William D. Brown performed his responsibilities in an exemplary manner for 14 years and, by virtue of his commitment to public service and prudent approach to financial, administrative and investment issues, will be missed by the Board of Trustees and the employees, beneficiaries and members of the Maryland State Retirement and Pension System,

WHEREAS, William D. Brown has served as Chairman of both the Administrative and Audit Committees, Vice Chairman of the Investment Committee and member of the Corporate Governance Subcommittee, during which time his specialized insight, sound judgment, diligent effort and persistent energy earned him the highest respect of both his fellow trustees and the professional staff,

WHEREAS, William D. Brown also served on the Board of the Maryland State Education Association from 1995 to 2001 and 2006 to 2008 and Chaired the Pension Task Force and, on the county level, served on the Board of the Montgomery County Education Association from 1989 to 1994,

WHEREAS, William D. Brown has been active in national teacher retirement issues, having served in a leadership role on the Executive Committee of the National Council on Teacher Retirement,

NOW, THEREFORE, BE IT RESOLVED by the Board of Trustees of the Maryland State Retirement and Pension System that deep appreciation and gratitude are hereby expressed to William D. Brown for his service that reflects great credit on the Retirement System and the people of Maryland.

BE IT FURTHER RESOLVED that the Board of Trustees hereby records and gratefully acknowledges his valued service by the presentation of this resolution.

Chairman

Vice Chairman

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