

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

February 16, 2016

The Board of Trustees for the Maryland State Retirement and Pension System met in the Board Room of the SunTrust Building, 120 East Baltimore Street, 16th Floor Board Room, Baltimore, Maryland beginning at 10:02 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	James Harkins
Peter Franchot, Vice Chairman (via phone)	Linda Herman (via phone)
David Blitzstein	Sheila Hill
Eric Brotman	F. Patrick Hughes (via phone)
James Bush, Jr.	Charles Johnson
James C. DiPaula	Theresa Lochte (via phone)
Kenneth Haines	Richard Norman

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Margaret Bury	Angie Jenkins	Ken Reott
Melody Countess	Michelle Lowery	David Rongione
Anne Gawthrop	Andrew Palmer	Janet Sirkis
Michael Golden		

Assistant Attorneys General present included: Kathy Brady, Rachel Cohen and Sharon Street

Other attendees included: Susanne Brogan, John Kenney, Brian Armstrong and Jeff Tebeau

Consent Agenda

On a motion made by Ms. Hill and seconded by Mr. Norman, the Board approved the consent agenda, which included:

- › January 19, 2016 Open Meeting Board Minutes
- › February 2, 2016 Administrative Committee Meeting Report
- › February 4, 2016 Investment Committee Meeting Report

**2016 Legislative Bill
Review**

Ms. Anne Gawthrop provided the Committee an overview of the 2016 pension related legislation introduced to the General Assembly to date. See *Attachment A*.

Ms. Gawthrop reported on the following bills:

- › House Bill 934/Senate Bill 674 – Teachers’ Retirement and Pension System – Employer Contribution for Local Employees.

Ms. Gawthrop reported that this bill would alter the amount county boards of education are required to pay for the normal cost portion of the employer contributions for their members of the Teachers’ Retirement System and the Teachers’ Pension System. The bill caps the total amount at the amount presently established for FY2017 in the original legislation which first provided for local cost sharing of teachers normal cost, or 4.05%.

Ms. Gawthrop reported that Agency staff has spoken with Gabriel Roeder & Smith (GRS), the System’s actuary, who indicates that under current law, by 2022 normal cost portion of the employer contributions will go below 4.05%.

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Ms. Herman requested a copy of the bill.

- Senate Bill 633 – State Employees’ Retirement Savings Plan.

Senate Bill 633 establishes the State Employees’ Retirement Savings Plan, a defined contribution plan for new and existing member of the Employees’ Pension System. This plan would be administered by the Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans. New employees, beginning State employment on or after July 1, 2016, would have the option to participate in either the Savings Plan or the EPS within one year of starting employment with the State. In addition, the bill also states that individuals who are existing EPS members as of July 1, 2016, who withdraw their employee contributions before becoming employees of a participating employer after July 1, 2016, may make an election within one year of withdrawing their contributions, to participate in the Savings Plan.

Mr. Brotman asked if the bill would have an impact on the System.

Brian Murphy from GRS responded that it would have an impact on the System since the EPS is not fully funded and the loss of members to the proposed savings plan would reduce employee contributions to the System.

Ms. Herman asked if an analysis had been performed to support the recommendation that the Board should oppose the legislation based on the actuarial loss the System would sustain.

Mr. Murphy responded that GRS did not separately look at that question but added that it is unlikely that there would be material savings in that the vast majority of individuals going into the savings plan would be low service individuals with a small proportion of the liabilities.

- Survivor Benefit – Line of Duty Death Benefit.

Ms. Gawthrop reported that as a result of the deaths of the two Harford County Deputy Sheriffs, a new bill is expected to be filed relating to the line of duty death benefit. The bill would enable the children of such deceased members of the LEOPs to receive a line of duty survivor allowance until age 26 instead of age 18.

The Board of Trustees requested that Ms. Gawthrop alter her recommendation to oppose Senate Bill 633. The Board requested that the revised recommendation state that the Board provide informational testimony to the legislature that would include opposition based on legal issues to certain provisions of the bill, while also reporting to the legislature of the potential funding impact that could result from the passage of the legislation, as drafted. Following this change to the recommendation for Senate Bill 633, the Board agreed to vote on the bills as a package. Therefore, on a motion made by Mr. Harkins and seconded by Ms. Hill, the Board approved the staff recommendations.

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Gabriel Roeder Smith
& Company (GRS) –
Funding Policies for
Public Pension Plans

Brian Murphy and Jeff Tebeau from the System's actuarial firm of Gabriel Roeder Smith and Company (GRS), presented an overview of the System's current funding policy compared to the funding policies and practices suggested in the recently released White Paper on funding policy by the Conference of Consulting Actuaries.

Mr. Murphy reported that the System currently has in place the following:

- 25 year closed amortization for State plans ending June 30, 2039
- No Corridor funding method
- Legislation pending to provide ECS Municipal employers with a 25 year closed amortization as were provided for the State employee plan in 2013.
- 2011 Reforms in place

Mr. Murphy reported that CCA White Paper focuses on level cost allocation methods and classifies funding policy components according to how well they model level cost.

Mr. Murphy recommended no changes to the System's cost method or asset smoothing policies and practices, however, Mr. Murphy recommended changes to the amortization policy and provided the Board with the following alternatives:

Amortization Alternative 1

- Let State plan amortization dwindle to about 10 or 15 years
- Continue amortization schedule to the end for UAAL that exists at that time
- Consider layered, fixed amortization for changes in UAAL arising after that point
- 5 year amortizations of early retirement incentive liabilities.
- Establish ability to manage bases actively in order to control volatility without statutory change
- Eliminate all bases when going from underfunded to overfunded and conversely
- This would be considered a "model" practice under the CCA white paper.

Amortization Alternative 2

- Convert to 10 or 15 year rolling amortization for future gains and losses.
- Could result in a need for a reduced interest rate for GASB liability calculations
- Would be "acceptable with conditions"
- Might be easier to manage and understand than the layered approach.
- Policy should not let contribution rate go below the normal cost.
- Consider separate policy for unfunded retiree liabilities.
- Reconsider portfolio risk as funding level increases.
- Ideal would be 100% funded at a relatively low level of risk.
- Coordinate the Municipal funding policy with that for the State, but consider Municipal-specific issues.

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Mr. Murphy also recommended to include experience studies, actuarial audits, fiduciary audits as a formal part of the funding policy and to develop a risk centered policy for withdrawal liability (currently statutory) and for early retirement windows.

Mr. Blitzstein recommended that the Board take up the System funding policy for revision soon and not be delayed.

Treasurer Kopp asked if the return assumption of 7.55% and the interest rate assumption of 2.55% are realistic assumptions. Mr. Murphy stated that these assumptions remain appropriate.

Treasurer Kopp requested that staff bring a plan of action to the Board in the next few months to enable the Board to move forward with revisions to the funding policy.

Mr. Kenderdine reported that a funding policy study was conducted by the Board in 2009. He will share the report with the Trustees.

Mr. Blitzstein commented that the policy needs to be integrated with the investment side of the plan in order to de-risk liabilities at the appropriate time.

Adoption of
Proposed
Amendments to
COMAR 22.05.05 –
Transfer of Service
Credit

Mr. Ken Reott presented to the Board amendments to the regulations regarding Transfer of Service Credit.

Mr. Reott reported that staff believes the amendments are necessary to define certain terms, to clarify when a transfer is allowed, to define a break in employment, to clarify language regarding the review of the denial of a request for a waiver and to clarify language permitting the Executive Director to present directly to the Board of Trustees any waiver requests that were not timely made.

Treasurer Kopp asked how often the Agency receive requests to transfer service credit.

Mr. Reott responded that the Agency receives 1-2 requests per month and the Agency is required to report those requests to the Joint Committee on Pensions.

On a motion made by Mr. Harkins and seconded by Ms. Hill, the Board of Trustees approved for adoption, and publication in the Maryland Register for comment, the amendments of the regulation.

Chief Investment
Officer's Report

Mr. Andrew Palmer reported that the performance report from State Street was not yet available. However, Mr. Palmer provided an internal performance summary to the Board, which indicated that the total market value of the fund, as of January 31, 2016, was \$43.3 Billion. Mr. Palmer reported that the fund return for one month was negative 1.86%. Mr. Palmer also reported that equity markets were performing poorly, with US markets down 5.5% and overseas markets down 6%.

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Executive Director's
Report

Mr. Kenderdine reported that Trustee Orientation is scheduled for Thursday, March 17, 2016 from 8:30 a.m. until 4:00 p.m. All Trustees are invited to attend.

Mr. Kenderdine reported that he is serving on a panel at the Pension Bridge Conference in early April.

Mr. Kenderdine reported on the Agency's budget hearings. Our testimony objected to the DLS staff recommendations to reduce postage and IT resources.

At the budget hearing, NEPC presented their analysis of the System's asset allocation findings. NEPC reported that the System has a well-diversified asset allocation.

Mr. Kenderdine reported that Trustee Herman sent an email regarding Moody's analysis. Mr. Kenderdine indicated that the System has not nor is the System planning to be analyzed by Moody's.

On a motion made by Ms. Hill and seconded by Mr. Brotman, the Board voted to meet in a Closed Session (12:09 p.m.) in the Board Room of the SunTrust Building at 120 East Baltimore Street for the purpose of:

1. reviewing the closed session minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function;
2. reviewing the Medical Board reports, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter namely, General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records, and General Provisions Art., § 4-329 regarding the prohibition on disclosing medical and personal information; and
3. receiving legal advice from counsel, pursuant to General Provisions Art., § 3-305(b)(7), regarding (1) the Department of Labor's Interpretive Bulletin on Economically Targeted Investments and (2) the legal authority of the Chief Investment Officer and Board of Trustees regarding investments.

CLOSED SESSION

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding
David Blitzstein
Eric Brotman
James Bush, Jr.
James C. DiPaula
Kenneth Haines
James Harkins

Linda Herman (via phone)
Sheila Hill
F. Patrick Hughes (via phone)
Charles Johnson
Theresa Lochte (via phone)
Richard Norman

Legislative Update 2016 Session February 16, 2016

House Bill 38 (McConkey)

State Retirement and Pension System – Disability Retirement - Alterations

This proposed legislation authorizes the Board of Trustees for the SRPS to require disability retirees who are under normal retirement age to undergo a medical examination if the board believes good cause exists for such a reexamination. The bill further provides that, if, following the reexam, the retiree is no longer found to be disabled, the Board may suspend the retiree's allowance until the individual reaches normal retirement age. In addition, House Bill 38 also adjusts the formula used to determine a disability retiree's earning limit as a reemployed retiree by providing that the limit should be increased each year to reflect the percentage growth in the CPI.

- Hearing in Appropriations – 2/2/16, 12:30 pm

Staff recommends taking no position on this legislation.

House Bill 379 (Barnes as Chair for JCP)/Senate Bill 343 (Peters as Chair for JCP)

Employees' and Teachers' Pension Systems – Reformed Contributory Pension Benefit – Eligibility Service Clarifications

This board requested legislation addresses three instances in which reference to the Reformed Contributory Pension Benefit was inadvertently omitted from various sections of the State Personnel and Pensions Article. The omitted provisions address eligibility service in Title 23 and should have been amended in 2011 to include reference to the RCPB, when the RCPB was established.

- No hearing scheduled in Budget and Tax
- Voted favorable by Budget and Tax

Board requested legislation.

House Bill 380 (Barnes as Chair for JCP)/Senate Bill 344 (Peters as Chair for JCP)

State Retirement and Pension System – Local Fire and Police System – Commingling of Assets

This board requested legislation removes an obsolete reference to the Local Fire and Police System in the State Personnel and Pensions Article that provides that the assets of the LFP may be commingled with other SRPS assets, provided separate documents are maintained.

- No hearing scheduled in Budget and Tax
- Voted favorable by Budget and Tax

Board requested legislation.

**House Bill 381 (Barnes as Chair for JCP)/Senate Bill 321 (Peters as Chair for JCP)
State Retirement and Pension System – Board of Trustees – Designee Appointments and Fiduciary Duties**

This board requested legislation authorizes the Treasurer, Comptroller, and Secretary of Budget and Management to appoint either a deputy or chief of staff as their designees. Additionally, the bills also amend the definition of “fiduciary” to include members of all committees of the board.

- Hearing in Appropriations – 2/2/16, 12:30 pm
- Hearing in Budget and Tax – 2/11/16, 9:00 am

Board requested legislation.

**House Bill 382 (Barnes as Chair for JCP)/Senate Bill 345 (Peters as Chair for JCP)
State Retirement and Pension System – Optional Retirement Allowances – Designated Beneficiaries**

This board requested legislation clarifies that any member, not just JRS members, may designate more than one beneficiary under Option 1 and Option 4. House Bill 382/Senate Bill 345 codify the Agency’s existing practice to allow members of all systems to designate multiple beneficiaries under Options 1 and 4.

- Hearing in Appropriations – 2/16/16, 1:00 pm
- Voted favorable by Budget and Tax

Board requested legislation.

**House Bill 537 (Barnes as Chair for JCP)/Senate Bill 373 (Peters as Chair for JCP)
Teachers’ Retirement and Pension Systems – Reemployment of Retirees - Clarification**

This board requested legislation clarifies that local school systems may hire up to five retirees, total, from TRS or TPS, combined, to work in any position at any public school and be exempt from the reemployment earnings limitation. This legislation addresses confusion that occurred following the passage of Chapter 189 of 2015.

- Hearing in Appropriations – 2/16/16, 1:00 pm
- Voted favorable by Budget and Tax

Board requested legislation.

**House Bill 581 (Barnes as Chair for JCP)/Senate Bill 477 (Peters as Chair for JCP)
State Retirement and Pension System – Reemployment of Ordinary Disability Retirees – Earnings Limitation**

This proposed legislation amends the earnings limitation provision for ordinary disability benefits to provide for an exemption from the limitation and corresponding offset if the retiree’s AFC at the time of retirement is less than \$25,000.

- Hearing in Appropriations – 2/16/16, 1:00 pm
- Hearing in Budget and Tax – 2/25/16, 8:30 am

Board requested legislation.

**House Bill 582 (Barnes as Chair for JCP)/Senate Bill 473 (Peters as Chair for JCP)
Correctional Officers' Retirement System – Clifton T. Perkins Maximus Security Guards – Vested Allowances**

This proposed legislation changes the normal retirement age to age 55 for maximum security attendants at Clifton T. Perkins Hospital Center who join CORS on or after July 1, 2016.

- Hearing in Appropriations – 2/16/16, 1:00 pm
- Hearing in Budget and Tax – 2/25/16, 8:30 am

Board requested legislation.

**House Bill 763 (Dumais)
State Retirement and Pension System – Optional Retirement Allowances – Domestic Relations Orders**

House Bill 763 requires the Board of Trustees to enforce a specific election of an optional retirement allowance for certain members if such a provision is submitted to the Agency on behalf of the member of the member's ex-spouse through an eligible domestic relations order. The proposed legislation also provides that such DROs would supersede a retiree's current election of, receipt of, or failure to elect a specified optional retirement allowance.

- Hearing in Appropriations – 2/23/16, 1:00 pm

Staff recommends opposing House Bill 763. As drafted, this bill would allow the provisions of a DRO to change and expand benefits that are provided for under current law. In addition, this legislation could result in an actuarial loss to the System.

**House Bill 926 (Lierman)/Senate Bill 979 (Peters)
Optional Retirement Program – Eligibility – Alterations**

This proposed legislation allows existing members of the ORP, who as employees of an employing institution, have been reclassified into a position that would no longer be eligible for membership in the ORP, to now remain in the ORP.

- No hearing scheduled in Appropriations
- No hearing scheduled in Budget and Tax

Staff recommends taking no position on this legislation.

House Bill 934 (Barnes)/Senate Bill 674 (Peters)

Teachers' Retirement and Pension System – Employer Contribution for Local Employees

Altering the amount county boards of education are required to pay for the normal cost portion of the employer contributions for their members of the Teachers' Retirement System and the Teachers' Pension System.

- No hearing scheduled in Appropriations
- Hearing in Budget and Tax – 2/25/16, 8:30 am

Staff recommends the Board submit an informational letter to the committees informing them of the normal cost projections made by GRS over the next several years and the importance of ensuring that if this legislation is passed, that the State is aware of the difference it would be responsible for funding if the actual normal cost is greater than the prescribed rate provided for in these bills.

House Bill 940 (Barnes)/Senate Bill 820 (Peters)

State Retirement and Pension System – Disability Retirement – Alterations

This proposed legislation makes several changes to the current disability procedures for members of the System.

1. HB940/SB820 shortens the time period for filing for ordinary disability from four years to two years after a member's paid employment ends.
2. This legislation raises the small procurement amount from \$25,000 to \$50,000 for each doctor that is hired to perform an IME.
3. HB940/SB820 alters the projection of service credit for an ordinary disability from projecting to normal service retirement age to projecting service credit to when the member is first eligible for normal retirement.
4. This proposed legislation authorizes SRA to review the disability status of a disability retiree and suspend the retiree's benefit if an individual is found to no longer be disabled.
5. The changes proposed by this legislation would be tied to an application for disability that is first submitted after the effective date of this bill (July 1, 2016).

- No hearing scheduled in Appropriations
- Hearing in Budget and Tax – 3/10/16, 8:00 am

Staff recommends taking no position on this legislation.

House Bill 1397 (Barnes)/Senate Bill 821 (Peters)

Participating Governmental Units – Amortization Schedule

This board requested legislation changes the funding policy for the PGU pool such that the pooled unfunded liability is amortized over a period that is 25 years or less, similar to amortization schedule in place for the State systems and as proposed by GRS.

- No hearing scheduled in Appropriations
- Hearing in Budget and Tax – 3/10/16, 8:00 am

Board requested legislation

House Bill 1438 (Sophocleus)/Senate Bill 532 (McFadden)

Correctional Officers' Retirement System – Membership – Correctional Case Management Specialist

This legislation transfers members of the ERS or EPS who are employed as correctional case management specialists into the CORS.

- No hearing scheduled in Appropriations
- Hearing in Budget and Tax – 2/25/16, 8:30 am

Staff recommends opposing this legislation as it is drafted. As drafted, HB1438 and SB532 provide that current case managers would have the option of transferring from the ERS or EPS into the CORS. Recent IRS rulings have stated that mid-career elections, as offered in this legislation, are no longer permissible. If the bill is amended to either make the transfer mandatory for everyone or only prospective for individuals hired as case managers after July 1, 2016, staff would recommend withdrawing the board's opposition.

Senate Bill 542 (Feldman)

State Retirement and Pension System – Forfeiture of Benefits

This proposed legislation prohibits the payment of benefits to an EPS member who is a specified elected official if the member is found guilty of, pleads guilty to, or enters a plea of nolo contendere to a felony crime that is committed in the course of the member's duties, through the use of the member's authority, and which results in the gain, profit, or advantage for the member.

- Hearing in Budget and Tax – 2/25/16, 8:30 am

Staff recommends taking no position on this legislation.

Senate Bill 608 (Guzzone)

Employees' Pension System – Redeposit of Contributions

Senate Bill 608 authorizes certain individuals to redeposit their withdrawn accumulated contributions with the System. In addition, this bill requires that, following the redeposit of their accumulated contributions, these individuals be enrolled in the ACPS in the EPS and receive prior service credit for the redeposited employee contributions.

- Hearing in Budget and Tax – 2/25/16, 8:30 am

Staff recommends taking no position on this legislation.

Senate Bill 633 (Serafini)

State Employees' Retirement Savings Plan

Senate Bill 633 establishes the State Employees' Retirement Savings Plan, a defined contribution plan for new and existing members of the Employees' Pension System. This plan would be administered by the Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans. New employees, beginning State employment on or after July 1, 2016, would have the option to participate in either the Savings Plan or the EPS within one year of starting employment with the State. In addition, the bill also states that individuals who are existing EPS members as of July 1, 2016, who withdraw their

employee contributions before becoming employees of a participating employer after July 1, 2016, may make an election within one year of withdrawing their contributions, to participate in the Savings Plan.

- Hearing in Budget and Tax – 2/25/16, 8:30 am

Staff has been working closely with staff for the Supplemental Plans, reviewing this legislation. State Retirement Agency staff recommends opposing this legislation based on the actuarial loss the System would sustain. In addition, Senate Bill 633 offers existing EPS members the option of transferring from the EPS into the Savings Plan. Recent IRS rulings have stated that mid-career elections, as offered in this legislation, are no longer permissible.

Senate Bill 875 (Serafini)

State Retirement and Pension System – Line-of-Duty and Non-Line-of-Duty Disability – Alterations
This legislation makes several changes to the current disability procedures for members of the System. At this time, staff has not had an opportunity to review this bill in detail.

- Hearing in Budget and Tax – 3/10/16, 8:00 am

Staff will offer a recommendation to support, oppose, or take no position on this legislation at the March Administrative Committee meeting.

Senate Bill 982 (Miller)

Maryland Private Equity and Venture Capital Authority

This bill was introduced Friday, February 12, 2016. At this time, staff has not had an opportunity to review this legislation.

- Senate Bill 982 was assigned to the Senate Rules Committee because it was introduced after the Senate introduction deadline. Staff will provide hearing information once it has been referred to the Budget and Tax Committee

Staff will offer a recommendation to support, oppose, or take no position on this legislation at the March Administrative Committee meeting.