

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

February 20, 2018

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 9:07 a.m.

The Trustees present included:

Nancy Kopp, Chairman, Presiding	Lisa James-Henson
Peter Franchot, Vice Chairman	Charles Johnson
David Brinkley, (via phone)	Theresa Lochte
Eric Brotman	Richard Norman
David Hamilton (via phone)	Douglas Prouty
Linda Herman	Michael Stafford, Jr.
Sheila Hill	

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

Antionette Butcher	Angie Jenkins	David Rongione
Melody Countess	Van Lewis	Janet Sirkis
Anne Gawthrop	Andrew Palmer	Toni Voglino
Michael Golden	Harvey Raitzyk	Patricia Wild
Ira Greenstein	Ken Reott	

Assistant Attorneys General present included: Rachel Cohen, Alexander Harisiadis, Jody Shaw and Kathleen Wherthey

Other attendees included: Susanne Brogan, John Kenney, Justin Hayes, Michael Barry and Larry Jennings, Jr.

2018 Legislative
Bill Review

Ms. Anne Gawthrop provided the Board of Trustees an overview of the 2018 pension related legislation introduced to the General Assembly to date. See *Attachment A*.

Ms. Gawthrop reported on the following (new) bills:

HB 164 / SB 176	Judge's Retirement System – Mandatory Retirement Age – Clarification of Eligibility for Allowance	Board Requested
HB 1020 / SB 178	State Retirement and Pension System – Board of Trustees – Oath	Board Requested
HB 1019 / SB 699	Alternate Contributory Pension Selection – Former Members – Member Contributions	Board Requested
HB 1018 / SB 788	Pensions – Administrative and Operational Expenses – Limitation and Calculation	Board Requested
HB 1012 / SB 899	State Retirement and Pension System – Investment Division	Board Requested

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

February 20, 2018

HB 993 / SB 898	Maryland Pension Climate Change Risk Act	Support this legislation. Staff has reviewed the requirements this bill would impose on the Investment Division and believe much of what is being requested the Division is already addressing. The requirements that the Investment Division is currently not performing would not be a hardship to the division to complete. Finally, the sponsor asked the Agency to review his draft prior to introducing the bill. Staff informed the sponsor of the issues we had with the draft, and the sponsor accepted all of the changes to this draft that staff recommended.
HB 36	Correctional Officers' Retirement System – Membership	Provide informational testimony addressing the strain on Agency resources that similar legislation passed in previous years has caused. Staff also reached out to the sponsor and employee organizations that are supporting this legislation.
HB 414	Correctional Officers' Retirement System – Membership	Provide informational testimony addressing the strain on Agency resources that similar legislation passed in previous years has caused. Staff also reached out to the sponsor and employee organizations that are supporting this legislation.
SB 510	Correctional Officers' Retirement System – Membership	Provide informational testimony addressing the strain on Agency resources that similar legislation passed in previous years has caused. Staff also reached out to the sponsor and employee organizations that are supporting this legislation.
SB 63	Correctional Officers' Retirement System – Membership	Provide informational testimony addressing the strain on Agency resources that similar legislation passed in previous years has caused. Staff also reached out to the sponsor and employee organizations that are supporting this legislation.

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

February 20, 2018

HB 354 / SB 299	Income Tax Subtraction Modification – Correctional Officers (Hometown Heroes Act of 2018)	With regard to the first component of the bill, staff recommends providing informational testimony addressing the strain on Agency resources that similar legislation passed in previous years has caused. Staff also reached out to the sponsor and employee organizations that are supporting this legislation. Inasmuch as the second component of the bill does not impact the Agency or the fund, staff recommends taking no position on this piece of the legislation.
HB 1182 / SB 988	Correctional Officers' Retirement System - Membership	Provide informational testimony addressing the strain on Agency resources that similar legislation passed in previous years has caused. Staff also reached out to the sponsor and employee organizations that are supporting this legislation.
SB 620	Correctional Officers' Retirement System – Former Baltimore City Jail Employees	Oppose this legislation. While staff is aware of only one individual that currently meets the criteria of this legislation, that individual is a retiree of the CORS and is seeking to have his creditable service adjusted to reflect his time with Baltimore City. The Board has historically opposed any legislation that would amend an individual's service after the individual has retired.
HB 1042	Law Enforcement Officers' Pension System – Benefit Cap Increase	No Position
HB 1049 / SB 895	State Police Retirement System – Deferred Retirement Option Program – Alterations	No Position
HB 1165 / SB 378	Military Service Credit – Eligibility	No Position

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

February 20, 2018

HJR 7 / SJR 9	General Assembly Compensation Commission – Legislative Pension Plan – Closure of Current and Future Members	Staff is looking into whether this bill would present an impairment of contract issue for existing members of the Legislative Pension Plan. To the extent that it would, staff recommends submitting informational testimony to the Committees informing them of this issue.
SB 31	State Retirement and Pension System – State Employees and Teachers – Benefits	Staff submitted informational testimony on behalf of the Board, regarding any necessary changes relating to the implementation of the IPS and the financial impact such a plan would have on the System. Following the bill hearing, staff met with the sponsor to assist in drafting amendments to address the concerns raised in our testimony.
HB 822	Personnel and Pensions – Phased Retirement Plan – Development and Implementation	Provide informational testimony stating that staff does not foresee any issues in working with DBM to develop a phased retirement program for State employees and teachers.
HB 1625	Elected and Public Officials – Crimes – Pension Forfeiture (Clean Up Annapolis Act)	Staff recommends working with the sponsor and Committee to amend and correct unconstitutional provisions currently in the bill.

Mr. Brotman asked, regarding the Maryland Pension Climate Change Risk Act legislation, what the reporting requirements would cost the plan participants.

Mr. Palmer responded that staff have looked at other plans such as CalPERS and the cost ranges between \$75,000 and \$400,000. Staff estimates that for this plan it would be approximately \$200,000 every four years.

Mr. Brotman asked if the legislation would open us up to addressing other risk issues the same way.

Mr. Palmer responded that it could and that those issues would be discussed at the Investment Committee meeting, following the Board meeting.

Ms. Herman, concerning bills that increase benefits, asked if the Board is opposing such bill unless funding is provided by the State. Ms. Herman asked if the Board has ever taken the position to oppose a benefit increase unless the funding of the increase is addressed.

Ms. Gawthrop responded that the Board, in general, takes no position on legislation that would increase a benefit. For the legislation recently proposed, the fiscal notes

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

February 20, 2018

have not posted yet, however, the budget analyst provides information on funding. Ms. Gawthrop added that statute prohibits the Board from taking action on plan design matters.

Comptroller Franchot asked when the Board's authority over the Investment Division salary setting would start if the legislation passes.

Ms. Gawthrop responded that it would begin July 1, 2018.

Comptroller Franchot expressed his concern with the Board exercising this authority and approving salary increases for Investment Division staff.

Mr. Brotman commented that he believes that the legislation would save the plan money and that the Board's concern should be in the details of how the salary setting process is governed.

Ms. Gawthrop responded that the legislation provides a very extensive reporting requirement with quarterly reports to the legislature.

Treasurer Kopp commented that if the bill passes, the Board will fulfill its responsibilities under the law to set a very detailed and transparent policy for setting compensation and properly resourcing the division.

Mr. Palmer commented that Maryland is one of five public pension plans of our size where the Board does not have the authority to set salaries of Investment staff. What is being requested is common in large public funds.

Mr. Stafford asked how closely this legislation compares to the authority of other plans.

Mr. Palmer responded that the legislation will make Maryland very comparable to other plans in terms of authority and accountability for their investments.

Treasurer Kopp commented that it also allows us to compete with other public pension plans, not the private sector, which is a reasonable goal.

Mr. Kenderdine commented that at both the House and Senate hearings, representatives from AFSCME, the Maryland Troopers Association, the State Law Enforcement Officers' Alliance, and the Maryland State Education Association (MSEA), testified in support of this legislation. The Maryland Retired School Personnel Association (MRSPA) wrote letters in support of the legislation.

Comptroller Franchot asked what the timeframe is for seeing improvements from the legislation.

Mr. Palmer responded that improvement should be seen right away in terms of our ability to attract qualified staff. Mr. Palmer further commented that he currently has a vacant position that he cannot fill due to the starting salary of \$113,000, when the same position in Pennsylvania has a starting salary of \$163,000.

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

February 20, 2018

Overview of the
System's
Comprehensive
Annual Financial
Report (CAFR)

The Board deferred this discussion until the March meeting of the Board of Trustees.

Executive
Director's Report

Mr. Kenderdine reminded the Board that the evaluation of the Executive Director was due to the Department of Budget and Management by March 1, 2018.

Mr. Kenderdine reminded the Board that Financial Disclosure forms are due to the State Ethics Commission by April 30, 2018.

Mr. Kenderdine informed the Board that Michelle Lowery, Deputy Chief Operating Officer, is leaving the Agency to take a position with the Department of Housing and Urban Development.

Mr. Kenderdine announced that he has been informed by Trustee Lisa James-Henson that she is retiring from State service, effective March 1, 2018 and therefore, is resigning from the Board as the representative for active State employees.

Mr. Kenderdine reported that an Election Schedule will be presented to the Board at its March meeting.

Mr. Kenderdine reported that at the request of Trustee Lochte, the Board is being provided with an update of the Board's deliverables checklist on a monthly basis.

On a motion made by Comptroller Franchot and seconded by Mr. Brotman, the Board voted to meet in a Closed Session, beginning at 2:46 p.m., in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor, for the purpose of:

1. reviewing the closed session Board minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function;
2. reviewing the Medical Board reports regarding individual participants' claims for disability retirement benefits, 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

**Legislative Update
2018 Session
February 20, 2018**

BOARD REQUESTED LEGISLATION

1. House Bill 164/Senate Bill 176 (Barnes/Guzzone)

Judges' Retirement System - Mandatory Retirement Age - Clarification of Eligibility for Allowance

This Board requested legislation clarifies the eligibility for a retirement allowance for members of the JRS who reach the mandatory retirement age required by Article IV, § 3 of the Maryland Constitution and have less than 5 years of eligibility service.

- HB164: Hearing scheduled in Appropriations – 2/8/18
- SB176: Passed the Senate, no hearing scheduled in Appropriations

Board requested legislation

2. House Bill 1020/Senate Bill 178 (Barnes/Guzzone)

State Retirement and Pension System – Board of Trustees – Oath

This Board requested legislation alters from 10 to 30 days after the appointment or election of an individual to the Board of Trustees during which the individual is required to take the oath of office. The bill also clarifies that individuals appointed or elected to the Board take the constitutional oath required by Article I, § 9 of the Maryland Constitution and that such oath be taken before a clerk or deputy clerk of a circuit court.

- HB1020: Hearing scheduled in Appropriations – 2/22/18
- SB178: Passed the Senate; no hearing scheduled in Appropriations

Board requested legislation

3. House Bill 1019/Senate Bill 699 (Barnes/Guzzone)

Alternate Contributory Pension Selection – Former Members – Member Contributions

This Board requested legislation requires that an individual who is an active members of the Reformed Contributory Pension Benefit in either the EPS or TPS, earn regular interest on any former member contributions in the Alternate Contributory Pension Selection that the member may have made if the member did not withdraw those former member contributions prior to joining the Reformed Contributory Pension Benefit.

- HB1019: Hearing scheduled in Appropriations – 2/22/18
- SB699: Hearing scheduled in Budget and Tax – 2/22/18

Board requested legislation

4. House Bill 1018/Senate Bill 788 (Barnes/Guzzone)

Pensions - Administrative and Operational Expenses - Limitation and Calculation

This Board requested legislation would expand the base upon which the Agency’s administrative and operating expense cap is calculated to include not just member payroll, but also retiree payroll, and former member projected payroll. Additionally, this legislation increases the Agency’s administrative and operating expense cap from .22% to .26% of this expanded payroll for fiscal years 2019 through fiscal 2022. However, this increase to the expense cap will only be increased if proposed legislation moving the Investment Division budget “off-budget” is passed by the legislature this session.

- HB1018: Hearing scheduled in Appropriations – 2/22/18
- SB788: Hearing scheduled in Budget and Tax – 2/22/18

Board requested legislation.

5. House Bill 1012/Senate Bill 899

State Retirement and Pension System - Investment Division

This legislation requires the Board to adopt objective criteria for setting the qualifications and compensation of the Chief Investment Officer and the investment staff of the Investment Division. It also requires the Board to adopt objective criteria for granting financial incentives to investment staff in the Investment Division. The legislation authorizes the Board to determine and create the type and number of positions necessary for carrying out investment functions within the Investment Division. The funding for all positions, including financial incentives, and the operating expenses of the Investment Division are moved off budget and are to be paid for from the trust. The bill clarifies that the compensation of the Executive Director and non-Investment Division staff shall be as provided in the State budget. The bill also includes extensive and detailed reporting requirements to the General Assembly on a quarterly basis.

- HB1012: Hearing scheduled in Appropriations – 2/22/18
- SB899: Hearing scheduled in Budget and Tax – 2/22/18

Board requested legislation.

INVESTMENTS

6. House Bill 993/Senate Bill 898 (Korman/Guzzone)

Maryland Pension Climate Change Risk Act

This legislation would require the Board of Trustees for the State Retirement and Pension System to amend its Investment Policy Manual (IPM) to include policies regarding the management of climate risks in the investment of System assets. Additionally, this bill requires the Board to conduct or commission a climate risk assessment of the investments of the several systems by January 31, 2019 and every four years, thereafter. The Board is required to post a report about this assessment on its website.

- HB993: Hearing scheduled in Appropriations – 2/22/18
- SB898: Hearing scheduled in Budget and Tax – 2/22/18

Staff recommends supporting this legislation. We have reviewed the requirements this bill would impose on the Investment Division and believe much of what is being requested the

Division is already addressing. The requirements that the Investment Division is currently not performing would not be a hardship to the division to complete. Finally, the sponsor asked the Agency to review his draft prior to introducing the bill. Staff informed the sponsor of the issues we had with the draft, and the sponsor accepted all of the changes to his draft that staff recommended.

CORRECTIONAL OFFICERS' RETIREMENT SYSTEM LEGISLATION

7. House Bill 36 (Jackson)

Correctional Officers' Retirement System - Membership

This proposed legislation would require employees of the Department of Juvenile Services who are employed in positions that would require them to work in State juvenile correctional facilities, to become members of the CORS on July 1, 2018. All new employees in these positions would be members of the CORS.

- Hearing scheduled in Appropriations – 2/8/18.

Staff provided informational testimony addressing the strain on Agency resources that similar legislation passed in previous years has caused. Staff also reached out to the sponsor and employee organizations that are supporting this legislation.

8. House Bill 414 (Vogt)

Correctional Officers' Retirement System - Membership

This proposed legislation would require employees of the Department of Juvenile Services who are employed in positions that would require them to work in State juvenile correctional facilities, to become members of the CORS on July 1, 2018. All new employees in these positions would be members of the CORS.

- Hearing scheduled in Appropriations – 2/8/18.

Staff recommends providing informational testimony addressing the strain on Agency resources that similar legislation passed in previous years has caused. Staff will also reach out to the sponsor and employee organizations that are supporting this legislation.

9. Senate Bill 510 (Guzzone)

Correctional Officers' Retirement System - Membership

This proposed legislation would require employees of the Department of Juvenile Services who are employed in positions that would require them to work in State juvenile correctional facilities, to become members of the CORS on July 1, 2018. All new employees in these positions would be members of the CORS.

- Hearing scheduled in Budget and Tax – 2/8/18.

Staff recommends providing informational testimony addressing the strain on Agency resources that similar legislation passed in previous years has caused. Staff will also reach out to the sponsor and employee organizations that are supporting this legislation.

**10. Senate Bill 63 (Chair, Budget and Taxation Committee (By Request – Departmental – Public Safety and Correctional Services))
Correctional Officers' Retirement System - Membership**

This legislation would require parole and probation administrators, psychology services chiefs, or Correctional Maintenance Services Administrators to become members of the CORS on July 1, 2018. All new employees in these positions would be members of the CORS.

- Hearing scheduled in B&T - 1/25/18

Staff provided informational testimony addressing the strain on Agency resources that similar legislation passed in previous years has caused. Staff also reached out to the sponsor and employee organizations that are supporting this legislation.

**11. House Bill 354/Senate Bill 299 (Speaker/President)
Income Tax Subtraction Modification - Correctional Officers (Hometown Heroes Act of 2018)**

This bill has two components. The first component would require employees of the Department of Juvenile Services who are employed in positions that would require them to work in State juvenile correctional facilities, to become members of the CORS on July 1, 2018. All new employees in these positions would be members of the CORS.

The second component would allow retirement income to qualify for the State pension exclusion if the individual is at least age 50 and the retirement income is attributable to employment as a correctional officer of the United States, the State, or a local jurisdiction. This expansion of the pension exclusion is phased in over two years, beginning with tax year 2019.

- HB354: Hearing scheduled in Ways and Means – 2/21/18
- SB299: Hearing scheduled in Ways and Means – 2/21/18

With regard to the first component of the bill, staff recommends providing informational testimony addressing the strain on Agency resources that similar legislation passed in previous years has caused. Staff will also reach out to the sponsor and employee organizations that are supporting this legislation.

Inasmuch as the second component of the bill does not impact the Agency or the fund, staff recommends taking no position on this piece of the legislation.

**12. House Bill 1182/Senate Bill 988 (Beitzel/Edwards)
Correctional Officers' Retirement System – Membership**

This proposed legislation would require employees of the Department of Public Safety and Correctional Services who are employed as correctional maintenance officer supervisors or managers to become members of the CORS on July 1, 2018. All new employees in these positions would be members of the CORS.

- HB1182: Hearing scheduled in Appropriations – 2/22/18
- SB988: Hearing scheduled in Budget and Tax – 2/22/18

Staff recommends providing informational testimony addressing the strain on Agency resources that similar legislation passed in previous years has caused. Staff will also reach out to the sponsor and employee organizations that are supporting this legislation.

13. Senate Bill 620 (Klausmeier)

Correctional Officers' Retirement System – Former Baltimore City Jail Employees

This legislation would apply to an individual who when serving as a Baltimore City Jail employee elected to stay in the Baltimore City Employees' Retirement System and who later accepted employment with the State and is now a vested member of the CORS. This bill provides that individuals meeting those criteria would be entitled to combine their Baltimore City ERS service with their CORS service for purposes of reaching 20 years of eligibility service in the CORS.

- Hearing scheduled in Budget and Tax – 2/22/18

Staff recommends opposing this legislation. While staff is aware of only one individual that currently meets the criteria of this legislation, that individual is a retiree of the CORS and is seeking to have his creditable service adjusted to reflect his time with Baltimore City. The Board has historically opposed any legislation that would amend an individual's service after the individual has retired.

PUBLIC SAFETY LEGISLATION

14. House Bill 1042 (Barnes)

Law Enforcement Officers' Pension System – Benefit Cap Increase

This legislation increases the maximum benefit a member of the LEOPS may earn as an active member of the plan from 60% to 65% of the member's average final compensation.

- Hearing scheduled in Appropriations – 2/22/18

Staff recommends taking no position on this legislation.

15. House Bill 1049/Senate Bill 895 (Barnes/Guzzone)

State Police Retirement System - Deferred Retirement Option Program – Alterations

These bills increase the maximum number of years of eligibility service that a member of the State Police Retirement System may have to participate in the Deferred Retirement Option Program (DROP) from 29 to 30. The legislation also increases the number of years that a member of the State Police Retirement System may participate in the DROP from four to five years.

- HB1049: Hearing scheduled in Appropriations – 2/22/18
- SB895: Hearing scheduled in Budget and Tax – 2/22/18

Staff recommends taking no position on this legislation.

16. House Bill 1165/Senate Bill 378 (Young/DeGrange)

Military Service Credit – Eligibility

This legislation would remove the restriction to claim military service credit in either the SPRS, LEOPS, or CORS, if the member is already receiving or will receive a benefit on that same military service from another pension system.

- HB1165: Hearing scheduled in Appropriations – 2/22/18
- SB378: Hearing scheduled in Budget and Tax – 2/8/18

Staff recommends taking no position on this legislation.

PLAN CLOSURES

17. House Joint Resolution 7/Senate Joint Resolution 9 (Krebbs/Serafini)

General Assembly Compensation Commission - Legislative Pension Plan - Closure to Current and Future Members

These resolutions would close the Legislative Pension Plan for all members on January 9, 2019.

- HJ7: Hearing scheduled in Rules and Executive Nominations – 2/26/18
- SJ9: Hearing scheduled in Budget and Tax – 2/22/18

Staff is looking into whether this bill would present an impairment of contract issue for existing members of the Legislative Pension Plan. To the extent that it would, staff recommends submitting informational testimony to the Committees informing them of this issue.

18. Senate Bill 31 (Bates)

State Retirement and Pension System - State Employees and Teachers - Benefits

This proposed legislation is a reintroduction from last session. It proposes to close the EPS and TPS and establishes the State Employees and Teachers' Integrated Pension System (IPS) for all existing members and new members of these plans as of July 1, 2019. PGU employees are not included in this bill. It would appear from the drafting of the bill that all new employees who would otherwise be eligible for the ORP would now be required to join the IPS.

The Board is responsible for administering the plan.

The IPS would provide a two-part benefit. The first is a defined benefit plan for all service earned on or after July 1, 2018. The defined benefit plan has a 3% employee contribution rate and a 1% multiplier. The second component is a supplemental plan that allows for employee contributions in accordance with the IRC. The employer is required to match 100% up to 3% of the employee contribution and 50% for any additional employee contributions from 3% to 5%. This would result in a maximum employer contribution of 4% of an employee's annual earnable compensation. Employees are immediately vested in their employee contribution and 100% vested in their employer contributions after 3 years.

At retirement, a member may receive a lump sum benefit or an annuity with no survivor benefit, a 100% joint and survivor benefit, or a 50% joint and survivor benefit.

- Hearing scheduled in B&T - 1/25/18

Staff submitted informational testimony on behalf of the Board, regarding any necessary changes relating to the implementation of the IPS and the financial impact such a plan would have on the System. Following the bill hearing, staff met with the sponsor to assist in drafting amendments to address the concerns raised in our testimony.

MISCELLANIOUS

19. House Bill 822 (Krimm)

Personnel and Pensions - Phased Retirement Plan - Development and Implementation

This legislation requires that on or before July 1, 2020, the Department of Budget and Management and the State Retirement Agency develop and, to the extent authorized under law, implement a certain phased retirement plan for certain eligible individuals. Additional reporting requirements are included in the bill that require DBM and the Agency to report to the budget committees and DLS on the progress of the development of this program.

- Hearing scheduled in Appropriations – 2/20/18

Staff recommends providing informational testimony stating that staff does not foresee any issues in working with DBM to develop a phased retirement program for State employees and teachers.

20. House Bill 1625 (Miele)

Elected and Public Officials - Crimes - Pension Forfeiture (Clean Up Annapolis Act)

This legislation amends the existing forfeiture provisions to include certain State employees and the members of the LPP. House Bill 1625 also removes any discretion currently allowed by the courts to only have a portion of the member's pension forfeited. This discretion is based on the court weighing a number of factors included in the current forfeiture provisions. This bill also removes those factors.

- Hearing scheduled in Environment and Transportation - 3/6/18

Staff recommends working with the sponsor and Committee to amend and correct unconstitutional provisions currently in the bill.

**BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

***AUDIT COMMITTEE MEETING SUMMARY
January 16, 2018***

Internal Audit Quality Assurance Results	Mr. Rongione presented the results of the Internal Audit Division's quality assurance efforts for calendar year 2017. There were two components to the quality assurance efforts – reviews of selected audits, and a review for compliance with general internal audit standards. There were no recommendations for the general standards review.
Internal Audit Peer Review	Mr. Rongione informed the Committee that the Internal Audit Division is seeking a peer review of its operations for conformance with Generally Accepted Government Auditing Standards (GAGAS). GAGAS requires a peer review once every three years. Internal Audit's last peer review was performed in May 2015, so the current peer review is due in May 2018. Internal Audit has solicited vendors and is currently awaiting their responses.
MPAS 3	Mr. Rongione informed the Committee of Internal Audit's participation in the MPAS 3 project, which involves the reengineering of Agency business processes. Internal Audit will provide input on proposed processes to help assure that they contain appropriate controls. Involvement in MPAS 3 could affect the annual audit plan, due to the use of resources normally assigned to audits. Mr. Norman requested that the Committee be informed of any audit plan changes, once they are known.
Audit Committee Responsibilities	Mr. Rongione told the Committee that he mapped their responsibilities, as spelled out in the Audit Committee Charter, to when they were last performed. He presented a table summarizing the results. There were a few items identified that required discussion with the Committee. Based on the discussions, Mr. Rongione will make some minor changes to the Audit Committee Charter, and include additional information items in future Audit Committee meetings.
Evaluations	Mr. Rongione informed the Committee that he will be sending the Audit Committee self-evaluation forms next week, as well as an Internal Audit performance survey. The results of these will be presented at the April 17 th Audit Committee meeting. Mr. Norman requested that Committee members complete and return the evaluation and survey by the requested due date.
Status of FY 2018 Audit Plan	<p>Mr. Rongione provided the Committee with a status update for the FY 2018 audit plan.</p> <p>For full-scope audits, the System Transfer Processing, Retiree Earnings Limitations, and Deceased Payments audits have been completed. Audits of Buy Backs, Manual Check Processing, and Disability Claims are currently in progress.</p> <p>For outsourced audits, a risk assessment of investment activities and an audit of private equity processes are currently underway. A future audit of another investment asset class is planned, and will be determined by the risk assessment results.</p>

**BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

***AUDIT COMMITTEE MEETING SUMMARY
January 16, 2018***

There are 68 audits of participating employers to be completed in FY 2018. Of these, 24 % have been completed, 34% are currently in progress, and the remaining 43% have not started.

Status of
Open Issues Log

Mr. Rongione provided a summary of open audit issues, by division, as well as a listing of the specific open audit issues. Mr. Rongione told the Committee that the first six issues listed are related to recently completed audits. None of these have been checked by Internal Audit yet, to see if the recommended action items have been implemented.

Three issues related to the Electronic Funds Transfer audit have reportedly been addressed by Finance. An additional item related to the Network Server Maintenance & Support audit has also been reportedly addressed. Internal Audit will test these to verify the implementation of changes prior to the next Audit Committee meeting.

The remaining open issue, related to the Eligibility Service audit, requires an update to regulation. It is scheduled to be included in the next update.

Completed Audits

Mr. Rongione summarized the results of the recently completed audits of the death match and retiree earnings limitation processes.

He noted that the Death Match audit had an overall rating of "green", indicating an acceptable state of control and level of compliance. No significant issues were identified. The audit scope included a review of processes for the national death match, Maryland death match, retirees over age 95, and retirees living overseas.

Mr. Rongione told the Committee that the Earnings Limitation audit also received an overall rating of "green". The audit identified one retiree that was overpaid. Management has sent a letter to the retiree notifying them of the overpayment and requesting repayment.

**BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

***ADMINISTRATIVE COMMITTEE MEETING SUMMARY
FEBRUARY 6, 2018***

MPAS-3 Project
Kick-Off
Presentation

Mr. Kenderdine introduced William Morrow from LRWL, Inc., the consultant firm for the third and final phase of the MPAS project.

Mr. Morrow, Project Manager of the MPAS-3 project, presented to the Administrative Committee an overview of the MPAS-3 project work plan and the consultant team that will be supporting the effort. Mr. Morrow reported that the MPAS-3 project will involve assessment and re-engineering of the 48 business processes currently in place for benefits administration, accounting and member services. Mr. Morrow emphasized that the priority for the project will be to provide the System's members with on-line access to their accounts. The first phase of the on-line access would allow a member to (1) view their account information and (2) estimate a retirement benefit. Mr. Morrow reported that the work plan will be carried out over a four-year period.

Ms. Brogan asked how much money the Agency has to cover the cost of this project.

Mr. Greenstein responded that for FY18 the Agency has \$2.275 million. Mr. Greenstein further reported that the Governor's allowance presently before the legislature has requested \$7.9 million for FY19, and no cuts have been recommended to that amount.

Ms. Brogan asked what role the "voice of customer" as well as LRWL's experience with other plans and their best practices will influence the re-engineering of our business processes.

Mr. Morrow responded that it will be a combination of Agency staff's ideas from their experience, as well as best practices from peers.

Mr. Kenderdine further responded that the Agency is close to entering into a contract to redesign the public website and there will be a purposeful coordination between MPAS and the website projects.

Ms. Lochte asked if there is one system for managing public plan business processes that is preferred.

Mr. Morrow responded that there is not a single approach and that what is built for each plan is based on the individual needs of that plan.

Mr. Harkins asked how the project management will interface with the Department of Information Technology (DoIT).

Mr. Morrow responded that bi-weekly status calls with DoIT have been scheduled.

Mr. Harkins asked if DoIT will enforce any milestones with regarding to funding.

Mr. Greenstein responded that there is but one milestone at this point that is when we have completed the planning phase of the project and are prepared to move into the implementation phase of the project.

**BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

***ADMINISTRATIVE COMMITTEE MEETING SUMMARY
FEBRUARY 6, 2018***

Ms. Brogan asked if security was part of what LRWL was responsible for.

Mr. Morrow responded yes, working in collaboration with the Agency's IT staff. System security, particularly what will be needed for member authentication to allow member access will be of highest priority.

Mr. Greenstein further commented that language for a Request for Proposal (RFP) for an independent testing firm for penetration testing and security systems validation is already in the works.

2018 Legislative
Review

**THIS MATTER WILL BE DISCUSSED OUTSIDE OF THE CONSENT AGENDA
IN OPEN SESSION.**

Ms. Anne Gawthrop provided the Committee an updated overview of the 2018 pension related legislation introduced to the General Assembly to date.

Member
Services Update

Mr. Raitzyk reported that the Member Services unit was able to meet its performance goals for both the call abandonment rate and for the average call wait time for December 2017. The unit's call abandonment rate was 3.23% and the average speed of answer was 0:57.

Ms. Hill asked if the Agency's receives more favorable survey comments from walk-in member appointments.

Mr. Raitzyk responded in the affirmative.

Ms. Brogan asked if the January numbers were in for the Member Services unit.

Mr. Raitzyk responded that the unit's call abandonment rate was 6.675% and the average speed of answer was 1:09 for January. The increase was due to increased called volume concerning 1099R tax documents, which is typical each year at this time.