

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

August 20, 2019

The Board of Trustees for the Maryland State Retirement and Pension System convened at the Board Room of the SunTrust Building, 120 East Baltimore Street, 16th Floor Board Room, Baltimore, Maryland beginning at 9:32 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman, presiding	Linda Herman (via telephone)
Peter Franchot, Vice Chairman	Sheila Hill
David Brinkley	F. Patrick Hughes
Eric Brotman (via telephone)	Charles Johnson (via telephone)
Jamaal Craddock	Richard Norman
Kenneth Haines (via telephone)	Douglas Prouty (via telephone)
David Hamilton	Michael Stafford

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

Melody Countess	Van Lewis	David Rongione
Patricia Fitzhugh	Kimberly O’Keeffe	Janet Sirkis
Anne Gawthrop	Andrew Palmer	Toni Voglino
Michael Golden	Harvey Raitzyk	
Ira Greenstein	Kenneth Reott	

Assistant Attorneys General present included: Jody Shaw and Kathleen Wherthey

Other attendees included: Brad Armstrong (GRS), Brian Murphy (GRS), Justin Hayes, and Tom Brennan

Consent Agenda

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

- July 26, 2019 Open Meeting Board Minutes
- July 26, 2019 Audit Committee Meeting Summary
- August 6, 2019 Administrative Committee Meeting Summary

Earnable
Compensation
and Enrollment
of Certain
Elected and
Appointed Officials
of the St. Mary’s
Metropolitan
Commission

Mr. Norman reported that the Administrative Committee was presented with an issue related to whether payments to certain appointed officials at the St. Mary’s Metropolitan Commission met the Agency’s definition of earnable compensation.

Mr. Norman explained that if these payments met the Agency’s definition of earnable compensation, then these appointed officials would be required to enroll as members of the System. The Metropolitan Commission views these officials as volunteers and pays them stipends on a quarterly basis, of between \$2,000 and \$2,500 per year.

Mr. Norman reported that it is staff’s recommendation that these payments do not meet the Agency’s definition of earnable compensation based upon the very small dollar amount of the payments and their infrequent nature which does not indicate that these payments are meant to be a salary to these officials.

On a motion by Mr. Norman and seconded by Ms. Hill, the Board approved the recommendation to determine that the payment of stipends to the appointed officials for the St. Mary’s Metropolitan Commission do not meet the Agency’s definition of earnable compensation, and to delegate to the Executive Director the authority to make future determinations based upon whether:

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

August 20, 2019

1. The payments are made to a member of a board or commission;
2. The payments do not exceed \$5,000 annually; and
3. The payments are made less frequently than monthly.

Board Requested
Legislation

Ms. Anne Gawthrop presented descriptions of several legislative proposals being recommended by the Administrative Committee for the Board's consideration. These legislative proposals would be submitted to the Joint Committee on Pensions (JCP) for introduction in the 2020 session of the General Assembly.

Ms. Gawthrop presented three proposals that are intended to clarify or correct perceived inconsistencies or remove obsolete provisions within existing law. Generally, these proposals included: (1) correcting the age for death benefits for children; (2) removing certain obsolete reemployment provisions in the Employees' and Teachers' Retirement and Pension Systems; and (3) clarifying certain reemployment provisions for each of the several systems. Additionally, Ms. Gawthrop presented a legislative proposal that if passed, would correct inequities in the employer contribution rate for certain employers in the participating governmental units municipal pool. Finally, a proposal was presented that would address overpayments that were inadvertently made to certain retirees of the several systems. This legislative proposal would provide direction to the Board with regard to what actions should be taken with regard to these overpayments.

With regard to the proposal addressing inequities in the employer contribution rate for the PGU's, Ms. Gawthrop reminded the Board that this proposal has been presented to the JCP in previous years. Specifically, this proposal would add a surcharge to the employer contribution rates for the ten PGUs that have remained within the Non-contributory Pension Benefit plan. Ms. Gawthrop reminded the Board that the 2011 pension reforms resulted in these ten PGUs having their annual contributions subsidized by all of the other PGUs and the proposed legislative surcharge would correct this inequity.

Mr. Kenderdine informed that Board that he has been contacted by staff to the current Chairman of the Maryland Association of Counties (MACo), who has expressed an interest in matter and the Board's legislative remedy.

On a motion made by Mr. Norman and seconded by Mr. Hughes, the Board approved staff's recommendations regarding the legislative proposals.

Gabriel Roeder
Smith & Company
(GRS) Presented
the Results of the
July 1, 2014 to
June 30, 2018
Experience Study
and Demographic
and Remaining
Economic
Assumption
Recommendations

Brian Murphy and Brad Armstrong from Gabriel Roeder Smith & Company (GRS), the System's actuary, presented the results of the System's July 1, 2014 to June 30, 2018 Experience Study and presented their recommended changes to the Board's actuarial assumptions:

GRS recommended that the Board consider the following:

- modify the current salary increase assumptions from being "age-based" to "service based" to reflect a 3.10% wage inflation, ranging from 3.1% to 11.6% based on years of service and system;
- modify the post retirement cost of living range of increases to 1.42% to 2.60%;

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

August 20, 2019

- decrease the overall rates of normal retirement for State Police, Judges, and LEOPS and increase the overall rates of normal retirement for the Teachers' Combined System and Employees' Combined System;
- increase the early retirement rates for the Teachers' Pension System and decrease the early retirement rates for the Employees' Pension System;
- for active member mortality, change from the RP 2014 mortality tables to the "Pub-2010 Employee Tables for pre-retirement based on job classification" categorized as "Teachers," "General," and "Public Safety" where Judges were considered General Above Median Employee;
- for disabled retiree mortality, change from the RP-2014 Disabled Annuitant mortality tables to The "Pub-2010 Disabled Retiree Tables for post-retirement disabled retirees based on job classification" categorized as "Teachers," "General," and "Public Safety" where Judges were considered General Above Median Healthy Retiree;
- for healthy retiree mortality, adopt the "Pub-2010 Healthy Retiree Tables for post-retirement based on job classification" categorized as "Teachers," "General," and "Public Safety" where Judges were considered General Above Median Healthy Retiree;
- for turnover, increase the termination rates overall for the Employees' Combined System and State Police, and decrease the termination rates overall for the Teachers' Combined System, the Correctional Officers' Retirement System, and the Law Enforcement Officers' Pension System;
- for disability, keep the same disability rates for Judges and decrease the disability rates for all other Systems and base State Police female rates as a percentage of male rates.

Treasurer Kopp asked Mr. Murphy if there was anything in the System's last four years of experience, in terms of member demographics, that was not seen in other public plans.

Mr. Murphy responded there was nothing atypical.

Comptroller Franchot addressed the GRS projections of cost impact to the plan resulting from the proposed demographic assumption changes. Mr. Franchot asked that the projected total State contribution of \$1.78 Billion be clarified as to funding source.

Mr. Murphy responded \$1.7 Billion is the total State contribution comprised of the actuarially determined requirement which excludes the Teacher Systems normal cost contribution made by the State's 24 subdivisions, plus the expected \$75 reinvested savings contribution.

Comptroller Franchot asked what the projected state employee contribution would be.

Mr. Armstrong responded that the employees' contribution of 7% of pay was \$724 Million in FY 2018 and that they are projected to have been \$738 Million in FY 2019.

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

August 20, 2019

Treasurer Kopp reminded the Board that staff provides regular updates of all System statistics, including contribution statistics, on the Board portal, with the document titled "SRPS By the Numbers".

Mr. Stafford asked if the same mortality tables used for the System are used by life insurance companies.

Mr. Murphy responded that the same tables are not used, as insurance companies must factor in things such as smoking, lifestyle differences, and that state by state guidelines are set by each state's insurance commissioner.

Mr. Stafford asked if all public pension systems use the same tables as Maryland.

Mr. Murphy responded that large systems like Maryland use the standard tables but scaled for their specific observed experiences. Mr. Murphy also stated that there are multiple published tables available with the two newest base mortality tables being the most commonly used among Maryland's peers, and that GRS recommends adoption of the newest tables which are the only tables based entirely on public plan mortality experience.

Mr. Brinkley asked about how the demographics of same sex marriages are now being factored in.

Mr. Armstrong replied that there is not enough data yet for actuaries to do that.

Mr. Hamilton stated that with respect to judges' mandatory retirement age of 70, judicial appointments in recent years have involved younger appointees than in previous years.

Mr. Armstrong responded that for the period of 2014-2018 used for this experience study, the age demographics for the judges have been scaled to judges recently being appointed at younger ages, but the bulk of the data is for previously appointed judges.

On a motion made by Mr. Brinkley and seconded by Ms. Hill, the Board approved all of the economic and demographic assumptions recommended by GRS.

Chief Investment
Officer's Report

Mr. Palmer presented an update on investment performance for July and a preview of the September Investment Committee meeting agenda

Mr. Palmer reported that at the end of July, System assets were just over \$54 billion, reflecting a return for the month of 0.18% compared to the benchmark of 0.08%. He noted that the Absolute Return portfolio was the largest contributor to outperformance. Mr. Palmer also provided some preliminary peer data for the fund for the fiscal year.

Mr. Palmer referenced two data sources: TUCS and Investorforce. The TUCS service compares plans based on gross of fees return and has preliminary versions, one with a small number (20) of large plans and a larger universe (57) including plans greater than \$1 billion. The system was 60th and 53rd percentile in these reports for the year. The policy benchmark was in the mid-30th

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

August 20, 2019

percentile on both plans. The Investorforce universe is larger (78 plans) and compares returns net of fees. In that universe, the system was 27th percentile for the one year. Mr. Palmer stated that the difference in rankings may relate to the relatively large portion of private assets held by the System compared to peers. Only the fees for which the System is invoiced (primarily public securities) are included in this calculation. For 2019 the invoiced fees were approximately 25 of the 70 basis points of fees the System incurred. While other Systems follow the same process, it may be that other plans have a larger portion of their fees captured in the TUCS report.

Mr. Hughes asked whether, if in looking back 10 years, a record similar to the system's current longer term track record, showing returns in excess of the actuarial rate and in excess of the policy benchmark, would be considered a success. Mr. Palmer agreed that it would be a success and even if the plan matched the returns of the benchmark but at lower risk, as has been the case for the past three years, the returns would be considered successful.

Ms. Herman commented that the performance relative to peers and relative to the benchmark for the current year reflected poor manager selection and may cause a large financial impact for plan sponsors. Mr. Palmer responded that the relative performance to the benchmark was disappointing for the year but within expectations for variability and the fact that longer term periods were still exceeding the benchmark reflected the strong implementation in prior years. He cautioned that care should be used in comparing net performance for the System to gross median performance in the TUCS report and reinforced the importance of asset allocation in the long term comparison to peers.

Mr. Palmer encouraged members to participate in the annual review of Meketa.

Executive
Director's Report

Mr. Kenderdine informed the Board that the Agency's Customer Relationship Management (CRM) tool went live on August 4, 2019 with no issues or errors.

Mr. Kenderdine reported that a Request for Proposals (RFP) was issued to procure an actuary to perform a full replication audit with respect to the FY2019 valuation. He informed the Board that five (5) bids were received, four (4) of which are familiar to the Agency. The Evaluation Committee will recommend appointment of the Actuarial Audit Services provider for approval at the September 17, 2019 Board of Trustees meeting.

On a motion made by Ms. Hill and seconded by Mr. Hughes, the Board voted to meet in a Closed Session, beginning at 11:21 a.m., in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor, for the purpose of:

- a) reviewing the July 26, 2019 closed session Board minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function; and
- b) 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

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

August 20, 2019

specific statutory requirement that prevents public disclosure, 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 psychological information.

CLOSED SESSION

The Trustees present included:

Nancy K. Kopp, Chairman, presiding	Linda Herman (via telephone)
Peter Franchot, Vice Chairman	Sheila Hill
David Brinkley	F. Patrick Hughes
Eric Brotman (via telephone)	Charles Johnson (via telephone)
Jamaal Craddock	Richard Norman
Kenneth Haines (via telephone)	Douglas Prouty (via telephone)
David Hamilton	Michael Stafford

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

Melody Countess	Kimberly O’Keeffe	Janet Sirkis
Patricia Fitzhugh	Harvey Raitzyk	Toni Voglino
Anne Gawthrop	Kenneth Reott	
Michael Golden	David Rongione	

Assistant Attorneys General present included: Jody Shaw and Kathleen Wherthey

Other attendees included: Justin Hayes and Tom Brennan

On a motion made by Mr. Hughes seconded by Mr. Johnson, the Board returned to open session at 11:22 a.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor.

OPEN SESSION

During closed session, the Board of Trustees discussed and took action on the following matters:

Closed Session Minutes	The Board approved the July 26, 2019 closed session minutes.
Medical Board Reports	The Board adopted the medical board reports from August 1, August 7, and August 15, 2019.

Adjournment There being no further business before the Board, on a motion made by Mr. Hughes and seconded by Ms. Hill, the meeting adjourned at 11:23 a.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board