

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

March 17, 2009

The Board of Trustees for the State Retirement and Pension System of Maryland met in the Boardroom of the SunTrust Building, 120 East Baltimore Street, Baltimore, Maryland, beginning at 9:03 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman	Peter Franchot, Vice-Chairman	T. Eloise Foster	William D. Brown
John Douglass	James M. Harkins	Sheila Hill	F. Patrick Hughes
Major Morris Krome	Harold Zirkin (via phone)	Theresa Lochte	Robert Schaefer
Thurman W. Zollicoffer, Jr.	R. Dean Kenderdine, Secretary		

Agency Staff members attending included:

Deborah Bacharach	Steve Cichelli	Melody Countess	Mansco Perry	Ira Greenstein
Dennis Krysiak	Howard Pleines	Fred Semko	Marge Bury	Kenneth Reott
Patrice Sowah	Barbara Swain	Toni Voglino	Victoria Willard	Anne Budowski
Angela Jenkins	Janet Sirkis			

Also attended by:

Bill Anderson	John Kenney	Melissa Moye	Robert Palumbi	Michael Halpin
Ben Griffin	Larry Martin			

Present only during the disability appeals portion of the agenda included:

Carla Katzenberg	Catherine P. Mock	John Sica	Lynette C. Darr (via telephone)
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Minutes 1. On a motion made by Mr. Brown and seconded by Ms. Hill, the Board approved the minutes of the December 16, 2008 and February 17, 2009 regular meeting with one modification.

Special Acknowledgment 2. Treasurer Kopp and Comptroller Franchot on behalf of the Agency presented Barbara Swain with a resolution formally thanking her for her dedicated services to the Agency. Barbara is leaving the Agency to serve as an Assistant Attorney General representing the Treasurer's Office.

Administrative Committee Report 3. Major Morris Krome, Vice-Chairman of the Administrative Committee, reported on the Committee's meeting held on March 3, 2009.

At Major Krome's request Dean Kenderdine reported on the Agency's Strategic Plan. Mr. Kenderdine explained the Strategic Initiatives and Action Plan for 2009, and discussed the initiatives that will be pursued in the subsequent four fiscal years. He reported that these initiatives cover Member Services, Workforce Development, Communications, Infrastructure, Agency Autonomy, and Technology.

Mr. Kenderdine reported that the draft version of the Strategic Initiatives and Action Plan for 2009 - 2014 will be expanded to be made more accessible to the public via our website.

After discussion, on a motion made by Major Krome, and seconded by Mr. Schaefer, the Board voted to approve the Agency's Strategic Plan for 2009 - 2014.

Major Krome reported that the Administrative Committee was given a Member Services Update. Performance goals were met in January 2009. The Agency has met performance goals in 15 of 16 months.

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Administrative  
Committee  
Report

Major Krome reported that January historically produces a high call volume due to questions regarding 1099Rs, which this year were mailed January 28<sup>th</sup>. Prior to January 28<sup>th</sup> Member Services received 1000 calls regarding 1099Rs; between January 28-30<sup>th</sup>, the unit received 697 calls regarding 1099Rs.

Major Krome reported that MPAS-1 remains on track for implementation. At Major Krome's request, Mr. Douglass commented on the MPAS audit.

Mr. Douglass indicated that the audit came back with no exceptions and he was very pleased with the project's progress.

Major Krome reported that the Administrative Committee received a chart outlining military service credit a copy of which was provided to each Trustee. The Administrative Committee wanted to ensure that the very complicated provisions of the military service credit was available to the Board.

Legislative  
Update

4. Mr. Howard Pleines provided a summary update on the 2009 legislation.

On a motion made by Major Krome and seconded by Ms. Hill the Board voted to:

Take No Position on:

**HB1348 Judges' Retirement System - Reemployment of Retirees (Frush)** Repealing the earnings limitation for offset of a retirement allowance for retired judges of the Judges' Retirement System who accept employment with the State.

**SB962/HB1383 Town of University Park Employees - Participation in the Employees' Pension System (Pinsky/Gaines)**

Requiring employees of the Town of University Park on July 1, 2009, to participate in the Employees' Pension System; providing for employees of the Town of University Park on July 1, 2009, to receive service credit in the Employees' Pension System equal to 90% of their prior service with the Town of University Park; and, providing that employees of the Town of University Park who become members of the Employees' Pension System after July 1, 2009 may not receive prior service credit.

**HB1495/SB1019: State Police Retirement System – Reemployment of Retirees (Clagett/McFadden, Robey)**

Permits retired State Police Troopers to return to employment on a contractual basis for no more than four years at the rank of sergeant or below; provides for a special disability benefit if disabled as the result of an on-the-job accident; and, provides for a special death benefit if killed in the line-of-duty.

**HB1513: Employees' Retirement and Pension System – Reemployment of Retirees – Health Care practitioners (Conway, requested by DHMH)** Repeals the four-year limitation on the exemption from the earnings limitation for retirees who return to work as contractual health care practitioners.

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Legislative  
Update

**OPPOSE**

**SB960 State Retirement and Pension System - Deceased Retiree's Retirement Application - Medical Board Review (McFadden)**

Requiring the System's Medical Board to determine if a deceased retiree who elected the basic allowance at retirement was mental incapacitated at that time due to a verifiable disease; permitting the surviving spouse of a retiree of the several systems to request this determination within six months of the retiree's death; and, providing for the return of the unpaid employee contributions and interest (member's accumulated contributions) if the Medical Board determines the retiree was mentally incapacitated.

**HB872: Employees' Pension System – Purchase of Service Credit – Washington Suburban Transit Commission (Schuh)**

Permits three known members of the Employees' Pension System who were employed by the Washington Suburban Transit Commission during which time they were members of the Montgomery County Government Retirement Plan (defined contribution plan) to purchase that service prior to December 31, 2009. The Agency is concerned with plan qualification issues.

**HB981: Prince George's County Deputy Sheriffs – Transfer of Service Credit (Prince George's Delegation)**

Permits twelve deputy sheriffs from Prince George's County to transfer from the Employees' Pension System to the County's Deputy Sheriffs Comprehensive Pension Plan by December 31, 2009; requires a transfer of both employee and employer assets.

**SB1018: State Retirement and pension System – Investments – Qualified Technology or Bioscience Businesses (Garagiola)**

Mandates the Board of Trustees invest the greater of 0.5% or \$20,000,000 in qualified technology or bioscience business headquartered and operating in Maryland.

Audit  
Committee  
Report

5. Mr. F. Patrick Hughes, Chairman of the Audit Committee reported on the Committee's meeting held February 17, 2009.

Mr. Hughes reported that the Audit Committee received an update on the results of the recently completed legislative audit. The Agency received six audit findings. Two of the findings are anticipated to be reportable conditions:

1. The Agency does not have a process to ensure that employer contributions are properly reimbursed to the State for local employees, whose compensation is paid from federal aid.

Mr. Hughes reported the Agency does have a process but has identified several issues that must first be addressed. The Committee believes that these audits should not be the responsibility of the Agency. Internal Audit is working with other State agencies to resolve several important issues, including reassigning responsibility for the audits.

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Committee  
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If these issues cannot be satisfactorily resolved, the Committee recommends that the Agency draft legislation to transfer the audit responsibility where it appropriately belongs.

2. The Agency's procedures for Information Systems security monitoring were inadequate.

Mr. Hughes reported that the Agency agrees with the Office of Legislative Audit's recommendations, and has taken appropriate actions. Internal Audit staff will follow up with the Information Systems Division.

Mr. Hughes reported that there were also several other minor findings that have been or soon will be corrected by the Agency.

Mr. Hughes reported that the Audit Committee was briefed on the Internal Audit Division's plan for co-sourcing internal audits of investments in order to provide adequate audit coverage of the investment function. The Internal Audit Division has prepared an RFP that is currently being reviewed by counsel before it is issued.

Mr. Hughes reported that the objectives of co-sourcing internal audits of investments would be, (a) to provide investment audit coverage over a three-year period, (b) to provide a knowledge transfer to internal audit staff so that future audits could be conducted internally; and (c) to provide audit programs to ensure that future audits are comprehensive, risk based and consistent.

Mr. Hughes reported that the Audit Committee received an update on the status of audits of local government employers. Clifton Gunderson was selected through the RFP process to perform audits of approximately 150 employers with members in the system. These are compliance audits to ensure that employers are properly enrolling employees and are accurately reporting payroll data. All employers are to be audited within a three-year period. Forty-four (44) employers have been scheduled for audit in Year One. Work for the initial audits have just started (mid-February).

Mr. Hughes reported that the Audit Committee asked for a review to ensure that the audit firm does not have a conflict of interest since it is under contract with several auditees for other audit services.

Mr. Hughes reported that the Audit Committee received and accepted audit reports for the following completed audits. There were no significant findings reported.

- › Deferred Retirements
- › Non-U.S. Resident Retirees
- › DROP Eligibility
- › Ordinary Disability Eligibility

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Audit  
Committee  
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Mr. Hughes report that the following audits were in progress:

- › Eligibility Service Verification
- › Electronic Funds Transfers
- › Deceased Payments
- › Cash Receipts
- › Benefit Adjustments

Mr. Hughes reported that the Audit Committee received an update on the following special projects:

- › MPAS and Legacy Pension System File Comparison - This was requested by the Board to validate that the MPAS payment file agrees with the payment file from the legacy system.
- › Disability Earnings Match.
- › Check Stock Disposition – Internal Audit witnessed the shredding of checks.

Executive  
Director's  
Report

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

Mr. Kenderdine reported that the Agency is in the process of planning for our 2009 Board Education Session, which will be on Tuesday, May 19<sup>th</sup>. As well as, an Emerging Mangers Briefing and Reception to be held on Monday, May 18<sup>th</sup>.

Mr. Kenderdine reminder the Board to complete their 2008 financial disclosures statements.

Mr. Kenderdine reported that no other candidates submitted the required documentation to run for two of the elected Trustee positions other than Ms. Sheila Hill and Mr. William Brown. Chairman Kopp congratulated Ms. Hill and Mr. Brown, and thanked them for their continued and committed service.

Mr. Kenderdine, accompanied by Ms. Victoria Willard and Ms. Anne Budowski, presented an overview of the CEM Benchmarking report.

Ms. Willard reported on the Investment Benchmarking Results for the five year period ending December 31, 2007.

Ms. Willard reported that the Agency's results were compared to a U.S. a peer group of 20 funds drawn from a universe of 192 funds. The Agency's policy return was equal to the U.S. median of 13%. Our implementation value added (selection of asset managers) was 0% which was lower than the U.S. median of .6%.

Ms. Willard reported that the Agency's investment management costs in 2007 were \$99.9 million, or 26.0 basis points, which were 11.6 bps less than the median of our peer group. However, the System's benchmark cost (an estimate of what the System's cost would have been using the System's asset allocation, but with our peer's median costs) were determined to be high by 2.9 bps. The system is paying 7.6 bps more for asset management compared to its peers, adjusted for asset allocation. These higher costs are offset by savings (4.7 bps) in oversight costs and

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the System's greater use of passive management. (7.6 – 4.7 = 2.9 bps)

Ms. Budowski reported on the Administrative Benchmarking Results for fiscal year 2008.

Ms. Budowski reported that this CEM Benchmarking Report is a management tool to help us understand how we compare to other U.S. public retirement systems that are closest to our size in membership. The analysis was based on our total adjusted administration cost of \$20.7 million.

Ms. Budowski reported that the System's total adjusted administration cost of \$66 per active member and annuitant was equal to the peer median cost. However, when "major project" costs (MPAS) are not counted, the System's total administration cost is \$50 per active member and annuitant which is below the peer median of \$56.

Ms. Budowski reported that CEM measured and compared five factors that impact costs: economies of scale, transaction volumes, cost environment, plan complexity, and service level. Economies of scale, transaction volumes and cost environment have the largest impact. Systems with less than 100K active members and annuitants suffer a scale disadvantage. The System had 315,023 active members and annuitants as of June 30, 2008. Our peer group median was 430,585. Our transaction volume score was 13% below the peer median. Our complexity was above the peer median by virtue of having scored above the peer average in two of the highest weighted causes of complexity: (1) pension payment options and (2) multiple benefit formula. Our total service score was equal to the peer median of 73.

CEM identified certain changes that would increase our service score:

- Single activity focused satisfaction surveys.
- Secure online access area for members.
- Call quality monitoring.

During Mr. Kenderdine's report, Treasurer Kopp discussed her involvement as State Treasurer with the development of Principles of Financial Regulation Reform. The principles were developed by several U.S. public pension funds and two State Treasurers over the last several months in response to the unprecedented instability of worldwide markets. The group believes these principles should be embodied within a strengthened regulatory financial market system. The key elements of the principles are: greater disclosure and transparency; regulatory independence; effective shareholder voice; earlier identification by regulators of issues that give rise to overall market risk; and the preservation of institutional investors' freedom to invest in the full range of investment opportunities.

Treasurer Koop noted that to date, signers include: California Public Employees' Retirement System, California State Teachers' Retirement System, Colorado Public Employees' Retirement Association, Connecticut State Treasurer, Los Angeles City Employees' Retirement System, Los Angeles County Employees' Retirement System, Los Angeles Fire and

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Police Pensions, Maryland State Treasurer, New York State Common Retirement Fund and the State Universities Retirement System of Illinois.

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| Medical Board<br>And<br>Supplemental<br>Medical Board<br>Reports | 7. On a motion made by Mr. Hughes, and seconded by Ms. Hill, the Board of Trustees accepted all the reports of the Medical Board in connection with applications of members for ordinary, accidental and special disability retirement allowances. The Medical Board's conclusions were reached after its review of the documentation in the file. |
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**FIRST CLOSED SESSION**

The Board met in a Closed Session (11:13 a.m.) in the Boardroom of the SunTrust Building at 120 East Baltimore Street:

1. to approve the closed session minutes, State Government Article §10-503(a)(1)(i), the exercise of an administrative function;
2. to discuss litigation, State Government Article §10-508(a)(7)&(8), to consult with counsel to obtain legal advice and with staff, consultants, or other individuals about pending or potential litigation; and,
3. to discuss a personnel issue, State Government Article §10-508(a)(1), personnel matters.

The Trustees present included:

Nancy K. Kopp, Chairman	Peter Franchot, Vice-Chairman	T. Eloise Foster	William D. Brown
John Douglass	James M. Harkins	Sheila Hill	F. Patrick Hughes
Major Morris Krome	Harold Zirkin (via phone)	Theresa Lochte	Robert Schaefer
Thurman W. Zollicoffer, Jr.	R. Dean Kenderdine, Secretary		

Agency Staff members attending included:

Deborah Bacharach	Steve Cichelli	Melody Countess	Mansco Perry	Ira Greenstein
Dennis Krysiak	Howard Pleines	Fred Semko	Marge Bury	Kenneth Reott
Patrice Sowah	Barbara Swain	Toni Voglino	Victoria Willard	Anne Budowski

Also in attendance: John Kenney and Melissa Moye.

During the closed session, the Board approved the closed minutes of the February 17, 2009 meeting and discussed a personnel matter. The Board ended its closed session at 12:10 p.m. and returned to regular session to complete the agenda.

**REGULAR SESSION**

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| Catherine P. Mock | 8. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Catherine P. Mock for <u>DISABILITY</u> retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented. |
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Mr. John Sica, Ms. Mock's attorney, 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.

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- Lynette C. Darr 9. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Lynette C. Darr for ACCIDENTAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Ms. Darr presented her case via telephone 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.

**SECOND CLOSED SESSION**

The Board met in a Closed Session (12:50 p.m.) in the Boardroom of the SunTrust Building at 120 East Baltimore Street for the purpose of:

1. to discuss the appeals of Catherine P. Mock and Lynette C. Darr pursuant to State Government Section 10-503(a)(1)(iii), the exercise of a quasi-judicial function.

The Trustees present included:

Peter Franchot	William Brown	Sheila Hill	Major Morris Krome
F. Patrick Hughes	Robert Schaefer	James Harkins	Theresa Lochte
John Douglass	R. Dean Kenderdine, Secretary		

Agency Staff members attending included:

Deborah Bacharach	Margaret Bury	Janet Sirkis	Patrice Sowah
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Also in attendance: John Kenney.

The Board ended its closed session at 12:53 p.m. and returned to regular session to complete the agenda.

**REGULAR SESSION**

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

- Catherine P. Mock 10. The Board voted to ACCEPT the Administrative Law Judge's Proposed Decision and DENY Ms. Catherine P. Mock's request for disability benefits.
- Lynette C. Darr 11. The Board voted to ADOPT the Administrative Law Judge's Proposed Decision and DENY Ms. Lynette C. Darr's request for accidental disability benefits.
- Adjournment 12. There being no further business before the Board, the meeting adjourned at 1:00 p.m.

Respectfully submitted,



R. Dean Kenderdine  
Secretary to the Board