

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

October 18, 2011

The Board of Trustees for the Maryland State Retirement and Pension System met in the Boardroom of the SunTrust Building, 120 East Baltimore Street, Baltimore, Maryland, beginning at 9:12 a.m.

The Trustees present included:

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

Agency Staff members attending included:

Anne Budowski	Robert Burd	Margaret Bury	Melody Countess	Patricia Fitzhugh
Anne Gawthrop	Michael Golden	Ira Greenstein	Dennis Krysiak	A. Melissa Moye
Harvey Raitzyk	Kenneth Reott	Janet Sirkis	Patrice Sowah	Toni Voglino

Assistant Attorneys General present included:

Deborah Bacharach Rachel Cohen Melissa Warren John Kuchno

Also attended by: John Kenney, Amber Teitt, Dylan Baker, Michael Rubenstein, Randy Mickens (MSTA), Ken Haines, Troy Munson, Hazel Bradford (Pensions & Investments)

Minutes 1. On a motion made by Mr. Hughes and seconded by Mr. Brown, the Board approved the minutes of the September 20, 2011 open session meetings.

GRS
2011 Valuation 2. Mr. Brian Murphy, from Gabriel Roeder Smith and Company (GRS), presented the results of the State Retirement and Pension System's Actuarial Valuation period ending June 30, 2011 for the Board's consideration.

The Board discussed this matter at length. A vote on the certification of rates was deferred.

Ad Hoc Committee on
Funding Methodology
Report 3. Mr. Robert Schaefer, Chairman of the Ad Hoc Committee on Funding Methodology, and Mr. Brian Murphy from GRS, reported on the Ad Hoc Committee's September 6, 2011 meeting.

Mr. Murphy provided a presentation that covered:

- Projections under the 2011 General Assembly Reforms with the reinvested savings up to \$300 million annually using the MSRPS current funding methodology and three alternate funding methodologies. All three alternative methodologies incorporate a 10-year phase out of corridor funding.
 - 20-year open
 - 25-year "Clopen" (closed for first 10 years, open at 15 years for the remaining years)
 - 25-year closed.
- Implications of different funding methodologies under GASB Exposure Draft (discount rate and Net Pension Liability);

After Mr. Murphy's presentation, he answered questions from the Board.

On a motion made by Mr. Schaefer and seconded by Major Krome, the Board approved a recommendation to the Joint Committee on Pensions for

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- ▶ These provisions established procedures for collecting the administrative costs and included statutory deadlines by which the school boards and community colleges were to be notified of the amount of administrative costs that they are required to pay to the SRA. Specifically, § 21-316(e) of the State Personnel and Pensions Article requires that on or before May 1 of each year, the Board of Trustees for the State Retirement and Pension System shall certify to the local school boards and community colleges the administrative costs they are required to pay during the fiscal year beginning the July 1 immediately following.
 - ▶ However, to require the board of trustees to certify administrative costs by May 1 does not allow sufficient time for the SRA to determine these amounts following the conclusion of the state's budget process for the upcoming fiscal year.
 - ▶ In all likelihood this process will have been completed less than 3 weeks prior to the statutory deadline for notifying local school boards and community colleges. As an example, the 2011 legislative session ended April 10, 2011; however, the SRA did not receive notification of its final administrative cost appropriation until mid-June. As a result, SRA was not able to complete final certification of the administrative costs owed by the local school boards and community colleges until late June.
 - ▶ To provide the SRA with sufficient time to calculate the administrative costs owed by the local school boards and community colleges, the staff is recommending amending the statutory certification deadline from May 1 to preliminary certification by May 1st and final certification deadline by July 1st.
2. Salary Setting Authority
- ▶ The Board has, for a number of years, expressed the belief that its authority needs to be expanded so that the Board, the Executive Director, and the Chief Investment Officer of the SRA have the flexibility to manage resources to meet its fiduciary obligations, while ensuring full accountability to the Administration, General Assembly, and membership of the System.
 - ▶ The distinct responsibilities of the Investment Division and the System's need to hire and retain individuals who have in-depth knowledge of very complex asset classes and investments, as well as very high-level analytical skills of both a quantitative and qualitative sort, are well understood by the Board.
 - ▶ The demands for such skills will only increase, as the asset allocation adopted by the Board in 2008 calls for the System to increase its exposure to these complex asset classes and investments.
 - ▶ It is an increasingly high level of responsibility that has been placed with the Board, the Chief Investment Officer and the investment professionals employed by the Investment Division.
 - ▶ The Administrative Committee is once again recommending that the Board seek the statutory authority to set salaries for a select number of positions within the Agency's investment workforce.

On a motion made by Mr. Harkins and seconded by Mr. Zollicoffer, the Board

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approved adding 1) the Administrative Fees proposal 2) the proposal to grant the board additional salary setting authority for professional positions within the Investment Division to the 2012 Board sponsored legislation, and; that a study be conducted of the System's current method of conducting trustee elections, including the means by which partial terms are filled, and report back to the Board with its recommendations in time for the 2013 session of the General Assembly.

Secretary Foster abstained from the Salary Setting Authority vote.

Mr. Harkins reported on the progress of the Strategic Plan Initiatives developed in 2009.

1) Member Services Initiative:

Create an Online Reference Manual for Retirement Benefits Counselors so that all information disseminated is uniform and maintained in the most up-to-date fashion.

Target Date for Completion: 5/2010
Status: COMPLETED.

Follow-on initiative: Web-based training for employees
Target Date for Completion: 6/2012
Status: Deferred pending resource availability.

2) Workforce Development Initiative:

Develop a Workforce Development Plan; Conduct a Current Skills Analysis; Conduct Future Skills Needs Analysis; Gap Analysis

Target Date for Completion: 12/09
Status: COMPLETED.

Follow-on initiative: Training Plan Consistent with Gap Analysis

Target Date for Completion: 6/10
Status: Training plan is completed and implementation has been underway since 2/11. Twenty-one staff have completed the first phase. The overall plan has been modified to incorporate a five-session training for all SRA senior (division directors/assistant directors) staff. This component is intended to result in the development of an SRA succession plan by the end of the fiscal year.

3) Communications Initiative

Establish Office of Communications (External Affairs)

Target Date for Completion: 12/09
Status: COMPLETED.

Follow-on Initiative: Produce "member-friendly" auto-generated letters, e-mails, acknowledgements

Target Date for Completion: 3/10
Status: Agency "Style Guide" COMPLETED.
Revision of auto-generated letters to be more "member friendly"

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For the quarter ending September 30, 2011, the Total Plan returned -8.34%, trailing the policy benchmark by 17 basis points. For the month of September, 2011, the Total Plan returned -5.10% vs. the policy benchmark of -4.96%. The market value of the plan as of October 14, 2011 was \$35.34 billion.

Executive
Director's
Report

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

Mr. Kenderdine introduced Ms. Lanette McClurkin, Internal Auditor.

Mr. Kenderdine reported that National Council on Teacher Retirement (NCTR) recently met here in Baltimore for their 89th Annual Convention. Treasurer Kopp served as a panelist on their Elected Official Panel. Dr. Moye served as a panelist during their Alternatives Outlook discussion.

Mr. Kenderdine reported that the Joint Committee on Pensions will meet on Thursday, October 20th at 10 a.m. in the House Appropriations Committee Room.

Medical Board
And
Supplemental
Medical Board
Reports

8. On a motion made by Mr. Hughes and seconded by Ms. Lochte, the Board of Trustees accepted all the reports of the Medical Board in connection with applications of members for ordinary, accidental and special disability retirement allowances. The Medical Board's conclusions were reached after its review of the documentation in the file.

CLOSED SESSION

The Board met in a Closed Session in the Boardroom of the SunTrust Building at 120 East Baltimore Street:

1. to approve the closed session minutes, pursuant to State Government Article §10-503(a)(1)(i), the exercise of an administrative function;
2. to receive information and discuss the Countrywide Opt-Out case, pursuant to State Government Article § 10-508(a)(7) and (8), receive advice of counsel; and to discuss pending or potential litigation;
3. to discuss a tax issue, pursuant to State Government Article § 10-508(a)(7), receiving advice of counsel;
4. to discuss a pending IT procurement, pursuant to State Government Article § 10-508(a)(14), to discuss a procurement in process, and;
5. to deliberate regarding the Jannette Edwards case, pursuant to State Government Article § 10-503(a)(1)(iii), the exercise of a quasi-judicial function.

The Trustees present included:

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

Agency Staff members attending included:

Anne Budowski	Margaret Bury	Melody Countess	Patricia Fitzhugh	Anne Gawthrop
Michael Golden	Ira Greenstein	Dennis Krysiak	Harvey Raitzyk	Kenneth Reott
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Assistant Attorneys General present included:

Deborah Bacharach Rachel Cohen Melissa Warren John Kuchno

Also attended by John Kenney.

REGULAR SESSION – APPEALS AND HEARINGS

- Helen L. Schrock 9. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Helen L. Schrock 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. Helen L. Schrock did not appear 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.

- James Drotar 11. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of James Drotar for ACCIDENTAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Mr. James Drotar, and his attorney Michael Davey, appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Jill Leiner, 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.

- Paul J. Hammons 12. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Paul J. Hammons for ACCIDENTAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Mr. Paul J. Hammons, and his attorney, Mr. John Kelly, appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Jill Leiner, 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.

- Lois Myers 13. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Lois Myers for SURVIVOR BENEFITS FOR GENE MYERS 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. Lois Myers, and her attorney Mr. William Schildt, appeared before the Board to oppose the Agency's position and the Administrative Law Judge's

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recommendation. Mr. John Kuchno, 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.

CLOSED SESSION – APPEALS AND HEARINGS

The Board met in a Closed Session in the Boardroom of the SunTrust Building at 120 East Baltimore Street for the purpose of:

1. to discuss the disability appeals pursuant to State Government Section 10-503(a)(1)(iii), the exercise of a quasi-judicial function.

The Trustees present included:

T. Eloise Foster	William Brown	John Douglass	James Harkins
Sheila Hill	Major Morris Krome	Theresa Lochte	Thurman Zollicoffer, Jr.

Agency Staff members attending included:

Margaret Bury	Janet Sirkis	Patrice Sowah	R. Dean Kenderdine
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Assistant Attorneys General present included:

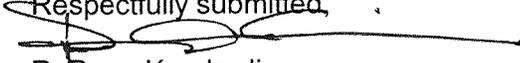
Deborah Bacharach Rachel Cohen
Also attended by John Kenney.

REGULAR SESSION

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

- | | | |
|------------------|-----|---|
| Helen L. Schrock | 14. | The Board voted to <u>ADOPT</u> the Administrative Law Judge's Proposed Decision and <u>DENY</u> Helen L. Schrock's request for accidental disability benefits. |
| James Drotar | 15. | The Board voted to <u>ADOPT</u> the Administrative Law Judge's Proposed Decision and <u>DENY</u> James Drotar's request for accidental disability benefits. |
| Paul J. Hammons | 16. | The Board voted to <u>REJECT</u> the Administrative Law Judge's Proposed Decision and <u>GRANTED</u> Paul J. Hammons' request for accidental disability benefits. |
| Lois Myers | 17. | The Board voted to <u>ADOPT</u> the Administrative Law Judge's Proposed Decision and <u>DENY</u> Lois Myers' request for survivor benefits for Gene Myers. |
| Adjournment | 19. | There being no further business before the Board, the meeting adjourned at 2:47 p.m. |

Respectfully submitted,


R. Dean Kenderdine
Secretary to the Board

RDK/pws