

BOARD OF TRUSTEES
FOR THE
STATE RETIREMENT AND PENSION SYSTEM
OF MARYLAND

MINUTES OF MEETING

June 18, 2002

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, at 9:30 a.m. There were present Acting Chairman William Donald Schaefer, Treasurer Nancy K. Kopp, T. Eloise Foster, Dr. Nancy S. Grasmuck, Arthur N. Caple, Jr., Debra B. Humphries (arrived 9:57), William D. Brown, Carl D. Lancaster, Colonel David B. Mitchell, Major Morris L. Krome, G. Bruce Harrison, and George R. Tydings, Trustees, and Margaret Bury, Acting Secretary. Agency staff members also attending were Deborah Bacharach, Carla Katzenberg, Jill Leiner, Rachael Cohen, Assistant Attorneys General, Carol Boykin, Chief Investment Officer, Thomas Gigliotti, Chief Internal Auditor, Howard Pleines, Legislative Director, Gwen Mulkey, Executive Associate, Sherlynn Matesky, Deputy Director of Legislation, Rick Harrison, Chief Financial Officer, and Gary Scribner, Chief Information Officer.

Carolyn White, Esq., attorney for Doris Duncan, Walter A. Reiter, attorney for Joan Marshall, Mr. Robert Fine, attorney for Ms. Regina Holmes in the case of Roscoe Johnson for death benefits, Bruce Ruark, Esq., attorney for the estate of Roscoe Johnson were also present.

Minutes

- 1 On motion made by Mr. Caple and seconded by Dr. Grasmuck, the Minutes of the regular meeting of the Board of Trustees for the State Retirement and Pension System of Maryland, held on May 21, 2002, were unanimously approved.

Board Officers

- 2 On motion made by Mr. Caple and seconded by Dr. Grasmuck, the Board of Trustees, in accordance with State Personnel and Pensions Article Section 21-105(1&2), with a vote of ten and one abstention, elected the Officers of the Board of Trustees as shown below, for the period July 1, 2002 through June 30, 2003. Acting Chairman Schaefer, Treasurer Kopp, Secretary Foster, Dr. Grasmuck, Colonel Mitchell, Messrs. Caple, Brown, Lancaster, Harrison and Tydings registered yeas. Major Krome abstained.

Chairman	William Donald Schaefer
Vice-Chairman	Nancy K. Kopp
Secretary	Peter Vaughn

①

Chairman Schaefer stated that as Chairman of the Retirement Board he had five specific goals

- 1 Make money for the System and increase benefits
- 2 Help small businesses if possible, but the main responsibility of the Board was to make money
- 3 Have the Board work together, stop formation of smaller groups within the Board
- 4 Be independent with money managers and maintain distance
- 5 Examine the effectiveness and efficiency of the Agency

Mr Lancaster commended Chairman Schaefer for the task line and stated that before he could support the Chairman's plan he would need more details

Mr Brown commended Chairman Schaefer for a fine job regarding the task line

Mr Brown stated that while he fully supported the election of the Board officers that had just taken place, in the future he would like the elected officials to be considered for the possibility of Chairman of the Retirement Board. Additionally, Mr Brown referenced the Retirement Board of Ohio, where the position of Chairman of the Board is rotated

Investment
Committee

3

On motion made by Major Krome and seconded by Dr Grasmick, the Board of Trustees, in accordance with State Personnel and Pensions Article, Section 21-115 (a)(2),(b)&(d), appointed the following officers and members of the Investment Committee for the period July 1, 2002 through June 30, 2003

Board Members

Arthur N Caple, Jr, Chairman
Carl D Lancaster, Vice-Chairman
T Eloise Foster
G Bruce Harrison
Debra B Humphries
Nancy K Kopp
William Donald Schaefer
David A Rakes
George R Tydings

Public Members

Wayne H Shaner, Jr (subject to Board of Public Works approval)
Robert W Schaefer
Vacant Member

Executive Committee 4

On motion made by Mr Caple and seconded by Colonel Mitchell, the Board of Trustees, in accordance with the Resolution adopted on November 9, 1982, appointed the following members, to the Executive Committee for the period July 1, 2002 through June 30, 2003

William D Brown, Chairman
Maj Morris L. Krome, Vice-Chairman
Dr Ali A. Alemu
Dr Nancy S. Grasmick
T Eloise Foster
Nancy K. Kopp
Col David B. Mitchell

Doris Duncan 5

The Board considered the report of Mae Catherine Reeves, the Administrative Law Judge in connection with the claim of Doris Duncan, for accidental disability benefits. The report included a report by the Medical Board and related medical documentation.

The Medical Board denied Ms. Duncan's claim for accidental disability retirement benefits based on their determination that the reported accident was not the direct cause of the Claimant's disability. Ms. Duncan appealed the Medical Board's decision.

Carolyn White, attorney for Ms. Duncan appeared before the Board and presented her arguments opposing the Agency's position and the Administrative Law Judge's recommendations. 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 Executive Session.

Jean Marshall 6

The Board considered the report of Neile S. Friedman, the Administrative Law Judge in connection with the claim of Joan Marshall, for accidental disability benefits. The report included a report by the Medical Board and related medical documentation.

The Medical Board denied Ms. Marshall's claim for accidental disability retirement benefits based on their determination that the reported accident was not the direct cause of the Claimant's disability. Ms. Marshall appealed the Medical Board's decision.

Walter Reiter, III, attorney for Ms. Marshall appeared before the Board and presented her arguments opposing the Agency's position and the Administrative Law Judge's recommendations. 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 Executive Session.

Regina Holmes

7

The Board considered the report of Judith Finn Plymer, the Administrative Law Judge in connection with the claim of Regina Holmes, for death benefits in the case of Roscoe Johnson

Robert Fine, attorney for Ms Holmes and Bruce Ruark, attorney for the estate, appeared before the Board Mr Fine presented his arguments, opposing the Agency's position Mr Ruark presented his arguments supporting the Agency's position Ms Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should not adopt the Administrative Law Judge's recommendations Following discussion, the Board deferred further consideration to Executive Session

Investment
Committee Report

8

Mr Arthur Caple, Jr., Chairman of the Investment Committee, reported on the meeting held May 30, 2002 Attachment A

On motion made by Mr Caple and seconded by Major Krome, the Board voted unanimously to reappoint Mr Wayne H Shaner as a public member of the Investment Committee This appointment will further require Board of Public Works approval

On motion made by Mr Caple and seconded by Major Krome the Board voted unanimously to amend Credit Suisse Asser Management's contract to allow them to move their trading operations from New York to their regional facilities and to update the insurance provisions

On motion made by Mr Caple and seconded by Major Krome the Board voted unanimously to take the following actions with respect to WR Huff's litigation on behalf of its clients against Adelphia Communications Corp

- 1) Authorize WR Huff to commence litigation against Adelphia Communications Corp on behalf of the Retirement System
- 2) Authorize the Executive Director to sign any and all documents reasonably required in connection with this litigation, including a power of attorney and a ratification agreement

Mr Harrison and Mr Lancaster requested that staff send the Maryland Compliance Board written justification for their objection over going into closed session at the May 30, 2002 Investment Committee meeting The topic discussed in that closed session was the procedure for taking minutes at Investment Committee meetings, and they objected to summarizing the minutes, preferring a complete record Their request to discuss this matter in open session was overruled Ms Bacharach was to report back

Executive
Director's Report

9

Ms Bury indicated that in the interest of time her only item was an update regarding the Executive Director Mr Vaughn underwent back surgery on Friday June 14, 2002 and was reportedly doing well

The Board accepted Ms Bury's report

The Board recessed from noon to 12:15 pm

Executive
Committee Report

10

Mr William D Brown, Chairman of the Executive Committee, reported on the regular meeting held June 4, 2002 Attachment B

Mr Brown informed the Board that Mr Ricky Harrison indicated to the Executive Committee that Agency expenses were not significantly altered from the May meeting Mr Harrison stated that the previous report showed the Agency would spend about \$890,000 under its FY2002 budget allocation Mr Harrison indicated that the Agency, which had set aside the majority of these dollars to deal with anticipated additional budget cuts for FY2002, has received confirmation that it is no longer subject to an additional cut in FY2002 Therefore, the Agency intends to allocate a portion of these funds to cover consulting costs recently approved by the Board

Mr Brown informed the Board that the Executive Committee discussed the request by Ms Lorraine Purnell-Ayers for a hearing to review the offset of her disability benefits against Workers' Compensation payments Ms Purnell-Ayers is receiving Workers' Compensation benefits during her retirement and, therefore, the Retirement Agency must offset her accidental pension benefit against the payments received from Workers' Compensation

Ms Purnell-Ayers addressed the Executive Committee stating that her concerns with the offset involve medical bills, which she has had to pay out of pocket, those that have not been covered by Workers' Compensation She also noted that the offset produces a monetary hardship to her and her family Furthermore, she stated her attorney misled her to believe that recent litigation permitted her to receive both benefits without offset

Mr Brown noted that the Board of Trustees is sympathetic to her plight, but the Board must comply with the law The offset of benefits is required He regretted that the Board could not be more helpful

The Executive Committee recommended to the Board of Trustees that it accept Mr Vaughn's letter denying a hearing to Ms Purnell-Ayers On motion made by Mr Brown and seconded by Colonel Mitchell the Board voted unanimously to accept Mr Vaughn's letter denying a hearing to Ms Purnell-Ayers

Mr Brown stated that Mr Howard Pleines addressed the Executive Committee concerning eligibility of project Head Start teachers to participate in the Teachers' Contributory Pension System (TCPS). He noted that in August 1999, the Board of Trustees adopted new regulations to permit certified early childhood (pre-school) teachers to enroll in the Teachers' Systems. This enrollment, however, did not apply to employees of programs such as Head Start that are more social programs than educational programs. Mr Pleines stated that most Head Start programs are not administered by educational institutions. Within Maryland, only Montgomery County and Prince George's County operate Head Start through their respective school systems at this time. Ms Jennifer Fung, a Head Start teacher in Montgomery County, appealed the Retirement Agency's decision to deny her membership in the TCPS. Ms Fung is a certified early-childhood teacher who holds a Masters degree in Early Childhood Education. She has been a Head Start teacher in Montgomery County since August 1999. Mr Pleines confirmed that in both Montgomery and Prince George's County Head Start programs are administered as part of the pre-school curriculum. There is no separate administration specific to Head Start, and Head Start teachers are pre-school teachers. They are required to meet the same State and County certification requirements as any other pre-school teacher in Montgomery or Prince George's County. Dr Grasmick indicated that with this additional information, she recommends that Ms Fung (and any other pre-school teachers denied membership), be enrolled in the Teachers' Contributory Pension System. As needed, adjustments for prior service credits are to be made.

The Executive Committee recommends to the Board of Trustees that Head Start teachers employed by the Montgomery County Board of Education or Prince George's County Board of Education where Head Start is an integrated part of pre-school programs, and who are certified as pre-school teachers, be enrolled in the Teachers' Contributory Pension System. Furthermore, the Executive Committee recommends that if additional counties incorporate Head Start programs into their school system, those counties must provide proof to the Board of Trustees that the Head Start program is an integrated part of its pre-school programs, and that Head Start teachers are required to meet the approved pre-school teacher certification requirements for the State. On motion made by Mr Brown and seconded by Dr Grasmick, the Board voted unanimously to approve the motion.

Mr Brown informed the Board that Mr Ricky Harrison shared with the Executive Committee a letter sent to legislative leaders concerning the FICA audits contracted by the Retirement Agency. He reminded the Executive Committee that since 1991, the Retirement Agency has performed audits of boards of education, libraries and community colleges pertaining to the proper payment of employer contributions by the State for "teacher" members. The audits are contracted with outside vendors, and the cost for these audits is paid back to the System from the dollars recovered from the various audited employers. Until this last audit period, the recovery has been greater than the cost of the audit contract. The latest audit, however, produced a recovery much less than the cost of the audit. Therefore, it is

reasonable to anticipate that the Retirement Agency will not recover the full cost of the audit contracts in the future. Mr. Vaughn sent a letter to Senators Hoffman and Kasemeyer, and Delegate Rawlings concerning this problem. In the letter, Mr. Vaughn asked the General Assembly to consider transferring the responsibility for conducting the audits to another agency (i.e., the State Department of Education), or providing a funding mechanism (interagency transfer account) in future general fund budgets to cover that portion of any audits that are not recovered through the assessments of the various boards of education, libraries, and community colleges.

Mr. Brown stated that Mr. Harrison reported to the Executive Committee on the Agency's decision to alter internal accounting procedures that currently apply to the Dedicated Bond Fund that was dissolved by the Board in 1998. Mr. Harrison noted that when the Dedicated Bond Fund was formed in the late 1970's, the Agency recognized a need to account for the assets of the fund separately. An internal accounting infrastructure, still used today, was established to track cash inflows and outflows separately from those related to the Equity, Fixed or Real Estate Funds. For external financial statements and the Annual Financial Report (CAFR) purposes, Mr. Harrison stated that the Dedicated Funds have been combined with and reported as part of the Fixed Fund. There have been no separate financial statements or CAFR disclosures since 1991 on the Dedicated Fund. Mr. Harrison continued by noting that the Board of Trustees basically dismantled the Dedicated Bond Fund in 1998. Monies were reallocated to external fixed-income managers with some to be internally managed. The Actuary acknowledged the dismantling of the Dedicated Fund in its June 30, 1998 valuation with the recognition of a \$330 million gain on the related asset re-valuation to market value. Mr. Harrison again stated that there is no reason to keep internal records for these assets, which originally were divided among the systems participating in the fund. Therefore the Retirement Agency intended to discontinue the separate reporting based on the facts that:

- The Dedicated Fund had been effectively dismantled by the Board since 1997
- The System's actuary ceased to track activities related to the Fund during fiscal year 1998
- There has not been a specific financial statement or CAFR related disclosure of any Dedicated Fund activities in more than a decade

Mr. Brown stated that he would ask Mr. Scribner to give an update on the Strategic System during Executive Session.

Mr. Brown reported that Mr. Gary Scribner would give the Board an update regarding Cobol Migration. Mr. Scribner reminded the Board that the Annapolis Data Center is retiring a Cobol compiler as of July 1, 2002, and the Retirement Agency continues its conversion of programs that use the old compiler. Mr. Scribner stated that the Agency has completed the first phase of the conversion program (re-doing 63 programs) except for testing of the

final program that should be completed this week. The Agency has converted 53 of the next group of programs that are considered less critical, but have been altered in the last several years. The third and fourth groups of programs, which are non-critical and/or non-complex, remain to be converted. Mr. Scribner noted that these programs can be altered with minor changes to the programs. The testing of the changes will occupy most of the time needed to redo these programs.

Mr. Brown stated that Ms. Bury indicated that staff is suggesting an amendment to the current COMAR regulations pertaining to the election of Trustees. Today, a candidate for Trustee must obtain the social security number of each person who signs the candidate's petition to be placed on the ballot for Trustee. The amended regulation would no longer require a social security number, which many members/retirees are reluctant to give. The proposed regulation is to require the name and birth date of the member/retiree. The member/retiree also will be asked to sign and date the petition.

The Executive Committee recommends to the Board of Trustees that its regulations pertaining to the nominating petition to be included on the ballot for position of Trustee be amended. The petitions are to include the name of the member/retiree, the date of birth, the signature of the member/retiree and the date signed, and remove the requirement for social security number. On motion made by Mr. Brown and seconded by Mr. Caple the Board voted unanimously to accept the committee's recommendation that the regulations pertaining to the nominating petition be included on the ballot for position of Trustee be amended.

The Board accepted Mr. Brown's report.

Audit Committee 11

Mr. William D. Brown, Chairman of the Audit Committee, reported on the Audit Committee meeting of May 21, 2002. Attachment C

Mr. Brown then stated that in the interest of time, he would request that the Board read the Audit Committee minutes at their leisure.

Default Order 12

Ms. Bury informed the Board that she had received a Default Order for failure to appear in the case of George A. Vann, Jr. for accidental disability benefits. Mr. Vann informed the Agency that he did not appear because he felt that he could not prevail. Therefore, in accordance with COMAR 22.03.04.11C(2), Ms. Bury found no good cause to excuse the default and so informed the Board, as required in COMAR 22.03.04.11D, that she would issue the Default Order terminating proceedings in this case.

Attachment D

The Board accepted Ms. Bury's report.

8

Earnings
Limitation
Recovery

13

The report of the Agency for offsets of certain retirees was accepted by the Board. The Board, on motion made by Colonel Mitchell and seconded by Mr Brown, the Board authorized the reduction of the pensions of affected retirees as provided for under the current law [State Personnel and Pensions Article Sections 22-406 (b)(2) and 23-407 (b)(2)]. The pension offsets are based on calendar 2001 earnings that will be offset from pension benefits paid in fiscal year 2003.

Attachment E

Disability Offset

14

The reports of the Medical Board for offsets of disability retirees were accepted by the Board. The Board, on motion made by Mr Lancaster and seconded by Dr Grasmick, authorized the reduction of the pensions of affected retirees as provided for under the current law (State Personnel and Pensions Article), effective July 1, 1990. The offsets are based on calendar 2001 earnings that will be offset from pension benefits paid in fiscal year 2003.

Colonel Mitchell stated that the disability offset law was very damaging to the state police, particularly in cases where someone had been hurt in the line of duty and could be used in a less physically demanding position. Treasurer Kopp stated that the law had to be followed unless it could be changed - as the law had been changed for teachers. Major Krome requested that staff prepare a detailed statistical analysis of the offset procedures in an effort to repeal the law. Ms Bury agreed.

Attachment E

Medical Board
Reports

15

On motion made by Mr Lancaster and seconded by Dr Grasmick, the Board accepted and approved the reports of the Medical Board in connection with applications of members for ordinary, accidental and special retirement allowances. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants.

Attachment G

Supplemental
Medical Board
Reports

16

The Board, on motion made by Mr Lancaster and seconded by Dr Grasmick, unanimously voted to accept the supplemental reports of the Medical Board in connection with applications of members for ordinary and accidental and special retirement allowances. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants. The Supplemental Report of the Medical Board is shown as Exhibit D.

Attachment H

Dr Grasmick expressed an interest in gathering information regarding how the vocational rehabilitation services would impact our disability retirees. Ms Matesky stated that she would begin that inquiry.

On motion made by Mr Brown and seconded by Mr Caple the Board voted to meet in Executive Session with a vote of eleven to one Chairman Schaefer, Treasurer Kopp, Secretary Foster, Dr Grasmick, Colonel Mitchell, Major Krome, Messrs Caple, Brown, Lancaster, Tydings and Ms Humphries registered yea votes Mr Harrison registered a nay vote The Board considered the following matters deliberations regarding the disability appeals, advice and discussion with staff and counsel regarding Syscom litigation State Govt Article, Section 10-503(a)(1) authorizes the Board to meet in closed session to exercise a quasi-judicial function Section 10-508(a)(7) authorizes the Board to meet in closed session to obtain legal advice, and Section 10-508(a)(8) authorizes the Board to meet in closed session to consult with staff or other individuals about pending or potential litigation

EXECUTIVE SESSION

The Board met in Executive Session at 12 55 p m in the Board Room of the SunTrust Building at 120 East Baltimore Street to consider the appeals of Doris Duncan, Joan Marshall and Regina Holmes, and Strategic System issues All of the persons present at the beginning of the meeting were present in Executive Session except the following Jill Leuner, Carla Katzenberg, Carolyn White, Esq, attorney for Doris Duncan, Walter A Reiter attorney for Joan Marshall, Mr Robert Fine, attorney for Ms Regina Holmes in the case of Roscoe Johnson for death benefits, Bruce Ruark, Esq, attorney for the estate of Roscoe Johnson The Board adjourned its Executive Session at 2 15 p m and returned to regular session to complete the agenda

REGULAR SESSION

- Doris Duncan The Board considered the record of Doris Duncan Following a discussion, on motion made by Mr Brown and seconded by Dr Grasmick, the Board voted unanimously to adopt the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and denied Ms Duncan's request for accidental disability retirement benefits
- Joan Marshall The Board considered the record of Joan Marshall Following a discussion, on motion made by Dr Grasmick and seconded by Secretary Foster, the Board voted unanimously to adopt the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and denied Ms Duncan's request for accidental disability retirement benefits
- Regina Holmes The Board considered the Claim of Regina Holmes in the death benefit case of Roscoe Johnson Following a discussion, the Board determined the need for further fact finding regarding the death benefit case of Mr Johnson The Board then requested that the case be held over until a summary of the transcript of the OAH hearing and advice of counsel could be reviewed

Recess.

17 The Board considered the request of Dr. Alenu to not decide on a consultant until he could be present. The Board took this under advisement but decided to conduct business without delay.

On motion made by Mr. Brown and seconded by Mr. Caple, the board voted unanimously to recess. The Board recessed at 2:30 p.m. and the Special Investment Committee meeting commenced immediately.

Reconvening of Board Meeting

18 On motion made by Major Krome and seconded by Mr. Caple, the Board voted unanimously to reconvene the Board meeting at 5:10 P.M.

On motion made by Mr. Brown and seconded by Mr. Caple the Board voted to meet in Executive Session with a vote of eleven to one. Chairman Schaefer, Treasurer Kopp, Secretary Foster, Dr. Grasmuck, Colonel Mitchell, Major Krome, Messrs. Caple, Brown, Lancaster, Tydings and Ms. Humphries registered yeas. Mr. Harrison registered a no vote. The Board considered the investment of Public Funds. Article Section 10-508(a)(5) authorizes the Board to meet in closed session to consider the investment of Public Funds.

EXECUTIVE SESSION

The Board met in Executive Session at 5:17 p.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street to consider the investment of Public Funds. All of the persons present at the beginning of the meeting were present in Executive Session except the following: Jill Leiner, Carla Katzenberg, Rachael Cohen, Carolyn White, Esq., attorney for Doris Duncan, Walter A. Reiter, attorney for Joan Marshall, Mr. Robert Fine, attorney for Ms. Regina Holmes in the case of Roscoe Johnson for death benefits, Bruce Ruark, Esq., attorney for the estate of Roscoe Johnson. The Board adjourned its Executive Session at 5:25 p.m. and returned to regular session to complete the agenda.

REGULAR SESSION

On motion made by Mr. Caple and seconded by Mr. Brown the Board voted unanimously to move out of Executive Session to complete the agenda.

Other Business

19

Chairman Schaefer asked Mr Brown to head the task of examining the effectiveness and efficiency of the Agency Mr Brown agreed

Adjournment

20

There being no further business, the meeting adjourned at 5 25 pm

Respectfully submitted,

Margaret A Bury

Margaret A Bury Acting Secretary