

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

MINUTES OF MEETING

October 15 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 Chairman William Donald Schaefer, Vice Chairman Nancy K. Kopp, T. Eloise Foster (arrived 10:15 am), Arthur N. Caple, Jr. (departed 11:15 am), Debra Humphries, William D. Brown, Carl D. Lancaster, Colonel David B. Mitchell, Major Morris L. Krome, G. Bruce Harrison, Trustees, and, Peter Vaughn, Secretary. Agency Staff members also attending were Deborah Bacharach, Robert Feinstein, Carla Katzenberg and Jill Leiner, Assistant Attorneys General, Carol Boykin, Chief Investment Officer, Rick Harrison, Chief Finance Officer, Howard Pleines, Legislative Director, Thomas Gighiotti, Chief Internal Auditor, Mr. Joseph Coale, Public Information Officer, Gary Scribner, Chief Information System Officer, and Gwen Mulkey, Executive Associate.

Also present were Mary Jo Neville, Maryland State Teachers Association, Anne Gawthrop, Department of Legislative Services, Gloria Bledsoe, and her attorney Janice Bledsoe, Laverne Barnum, and Dean Kenderdine, Office of the Comptroller.

Minutes 1 On motion made by Major Krome and seconded by Mr. Lancaster, the revised minutes of the meeting of the Board of Trustees for the State Retirement and Pension System of Maryland, held on August 20, 2002, were unanimously approved.

Minutes 2 On motion made by Mr. Lancaster and duly seconded, approval of the minutes of the Executive Session of the Board of Trustees for the State Retirement and Pension System, held on August 20, 2002 was deferred to the end of the agenda for discussion.

Minutes 3 On motion made by Vice Chairman Kopp and seconded by Major Krome, the Board voted to approve the regular minutes of the meeting of the Board of Trustees for the State Retirement and Pension System, held on September 17, 2002.

Gloria Bledsoe

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The Board considered the report of the Administrative Law Judge in connection with the claim of Gloria Bledsoe, for accidental disability benefits. The report included a report by the Medical Board and all related documentation submitted by parties to the Administrative Law Judge are presented.

Ms Janice Bledsoe presented her client's opposition to 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.

Caroline Payne

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The claimant, Ms. Caroline Payne was not present when the case was called. The Board deferred consideration of the case to the end of the Agenda.

Laverne Barnum

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The Board considered the report of the Administrative Law Judge in connection with the claim of Laverne Barnum, for accidental disability benefits. The report, included a report by the Medical Board and all related documentation submitted by parties to the Administrative Law Judge are presented.

Ms Barnum opposed 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.

Kay Kimble

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The claimant Ms. Kay Kimble was not present when the case was called. The Board deferred consideration of the case to the end of the Agenda.

Actuarial  
Valuation Results

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Mr Eugene M. Kalwarski of Milliman USA reviewed the principal results of the June 30, 2002 actuarial valuation of the State Retirement and Pension System of Maryland. *Attachment A*

Mr. Kalwarski reviewed past trends, current results and future outlook. He reviewed the asset and liability growth, employer costs, membership data, investment returns, as well as cash flows of the System over the last 10 years.

The Principle results of the actuarial valuation as of June 30, 2002 produced an aggregate State employer contribution rate of 8.06%, up slightly from last year. Mr. Kalwarski noted the Employee and Teacher System contributions remained the same as last year because the funding corridor legislation approved by the General Assembly last year. State Police rates increased to 7.58%, Judges contribution went down to 43.74% and LEOPS rate was reduced to 35.13%. The aggregate funded status of the State System was 94.0% down from 97.5% last year. The unfunded actuarial liability rose to to \$1.8 billion from \$55 billion the previous year. Mr. Kalwarski also provided some alternative contribution projections under different investment return scenarios.

Mr. Harrison voiced his concern that at the October 11, 2002, Investment Committee meeting, the Consultant spoke about using an 8% investment return assumption. Major Krome stated that he did not know if he was comfortable with 8% and suggested that the Agency needed to work with Eric Knupp and the Actuary to review this issue by the next valuation.

After discussion, on motion made by Mr. Brown and seconded by Vice Chairman Kopp, the Board voted unanimously to 1) approve the actuarial assumptions as recommended by the actuary, and 2) to adopt the Employer Contribution Rates for Fiscal Year 2004 for the several systems as recommended by the actuary. The Secretary was directed to certify to the Secretary of Budget and Management and to the Governor, the individual rates shown in Attachment A.

Vice Chairman Kopp asked Mr. Kalwarski about article on Milliman, USA and liability insurance. Mr. Kalwarski answered that he wants to work with clients and that the limitations listed in the article are not fair to clients.

Mr. Lancaster stated to Mr. Kalwarski that he appreciates the stand that he takes. Major Krome states that he admires Mr. Kalwarski's integrity.

Investment Committee 9  
Report and  
Recommendations

Mr. Arthur Caple, Chairman of the Investment Committee, reported on the meeting held on October 11, 2002. Attachment B

Mr. Lancaster reported on behalf of the Real Estate Sub-committee that properties in Silver Spring, MD and Melville, NY had been removed from the registry. Mr. Lancaster moved that the amended real estate registry be approved by the Board. On motion made by Mr. Lancaster and seconded by Mr. Caple, the Board voted to unanimously approve the Real Estate Registry as amended.

Mr. Caple reported that during the October 11, 2002 committee meeting Ariel Capital Management made a presentation due to the recent departure of Eric McKissack, who was managing a mid cap value portfolio for the System.

Mr Caple noted that representatives from Progress Investment Management Company made a presentation due to concerns over performance, their monitoring capabilities, and organizational issues

Mr Harrison noted that progress admitted to permitting sub-managers to purchase Fleet Boston stock, which should be reviewed

Mr Caple advised the Board that Ms Debra Humphries, Chair of the minority subcommittee and Mr Dick McSherry, Chairman of Elkins McSherry, reviewed (1) equity transaction costs for the total plan and (2) Maryland and minority brokerage Ms Humphries also provided an update on the minority manager search, which has been delayed pending the outcome of legal review

Mr Caple reported that Mr Cummings and Ms Bernard of EnnisKnupp reviewed the inputs that they propose to use in their asset allocation modeling The results of this are to be discussed with the Committee in November On motion made by Mr Caple and seconded by Mr Harrison, the Board voted unanimously to approve the expense of up to \$15,000 dollars for Milliman, USA to work with Enis Knupp on asset allocation as requested by the Committee

Mr Caple noted that Ms Benard of EnnisKnupp recommended the Board retain Morgan Stanley Asset Management on Tier I of the watch list instead of terminating them, at least until after asset allocation review is finished

The Board accepted Mr Caple's report

Executive  
Committee Report

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Major Krome, Vice Chairman of the Executive Committee reported on the meeting held October 1, 2002 Attachment C

Major Krome reported to the Board that the Retirement Agency received a hearing request from former Governor Marvin Mandel on behalf of retired Captain Harry Spicer Jr, a retired member of the Maryland State Police Retirement System, filing for special disability retirement

Since Capt Spicer took no action on his special disability application, the Retirement Agency issued a letter dated October 29, 1999 advising that he had 30 days to supply documentation to support his case Capt Spicer was issued final written notice via certified mail dated January 29, 2000 that his case was closed

Governor Mandel provided a copy of a letter sent to the Agency at the Executive Committee meeting which the Agency did not have, that requested a reopening of the case within the time allowed

Based on the new information, on motion made by Major Krome and seconded by Colonel Mitchell the Board unanimously voted to reject Mr' Vaughn's denial of Capt Spicer's request and permitted Capt Spicer to present his records to the Medical Board for consideration of special disability benefits

Major Krome advised the Executive Committee that staff is requesting that its regulation related to employment of a retiree (COMAR 22 01 11) be modified for clarity and to reflect changes to pension law

On motion made by Major Krome and seconded by Mr Caple, the Board voted unanimously to approve the staff's recommendation to amend COMAR 22 01 11

Major Krome advised the Board that the RFP for a fiduciary audit contained three categories for review He voiced his concern over evaluation of personnel and stated that it needs clarification Major Krome stated that it should be a separate item with separate controls Additionally Major Krome stated that he is more than satisfied with the RFP as constructed

Major Krome stated that the RFP would be completed and if approved by the Board, the vendors who respond to the RFP would be evaluated and a contract awarded

Mr Vaughn advised the RFP is subject to procurement laws & will require BPW approval Mr Vaughn also stated that the RFP if approved by the Board goes to the Department of Budget and Management and will be advertised mid November It is anticipated that the contract will be awarded around March 1, 2003

Ms Humphries stated that she agrees that only a limited number of firms will qualify, possibly three or four at the most

Vice Chairman Kopp stated that it must be done correctly and quickly The Vice Chairman suggested that the draft be adopted immediately in order to get the RFP approved, and again suggested the need for review of the Board, it's organization, structure, bylaws and rules

Mr Lancaster inquired who was RFP Manager? Mr Harrison answered Ms Jeannie Abramson is Procurement Officer and the he (Mr Harrison) is the Contract Monitor Mr Lancaster asked who will be on the evaluation team Mr Harrison suggested staff and Board members Major Krome volunteered as one Board member The combination of 2 Board members and 3 staff was concurred to Mr Lancaster objected to evaluating existing staff as proposed in the RFP

Ms Humphries inquired if EnisKnupp would review the Investment Division Major Krome answered that they would review investment policies, but the new consultant would assess organizational structure as well as policies Ms Humphries inquired as to why EnisKnupp couldn't review investment organizational structure Major Krome answered some of the review may be redundant

Chairman Schaefer advised that the whole process is being made too complicated Chairman Schaefer states that he wants to know who does what, and if there is a table of organization Chairman Schaefer stated that he wants to "get it done", but that Mr Harrison's timeline would take at least a year

Secretary Foster advised the Board that within the Department of Budget and Management there is an Office of Policy Analysis for policy study, and that the Board may desire to treat this as an emergency procurement

Chairman Schaefer asked why not use the services of the Policy Analysis Office at the Department of Budget and Management There was no support for this suggestion nor the emergency procurement suggestion

Following further discussion, on motion made by Major Krome and seconded by Vice Chairman Kopp, the Board voted to approve the RFP contents with a vote of eight to one Vice Chairman Kopp, Secretary Foster, Colonel Mitchell, Major Krome, Ms Humphries, Messrs Brown, Lancaster and Harrison registered yea votes Chairman Schaefer registered a no vote, desiring DBM to review the Agency

The Board accepted Major Krome's report

Executive Director's 11  
Report.

Mr Vaughn reported that the Joint Committee on Pensions would meet on Monday, November 18, 2002 from 1 - 5 p m in the Joint Hearing room of the Department of Legislative Services The topic of discussion is the Chapman issue The Joint Committee on Pensions will also meet on Monday, December 9, 2002, at 2 00 p m on other issues noted the attachment Attachment D

Mr Vaughn advised that Mr Gigliotti would report on the review of Montgomery County contributions due the System Mr Gigliotti stated that Montgomery County agreed to the \$2,011,583 00 in prior Employees Contribution not billed by the Agency, they requested a payment plan, with 50% due on January 1, 03 and the remainder due on July 1, 2003 Secretary Foster asked if there were any interest or penalties due Mr Vaughn answered no if the payment was made within 30 days of the invoice

Mr Vaughn reported that he received a Memorandum dated September 25, 2002, from Secretary Foster outlining a hiring freeze for all State Agencies Mr Vaughn asked the Board to refer to the Memo on page 57 of the Agenda for specifics

Mr Vaughn noted that on September 27, 2002 the Victim's claim letter was sent to of the U S Attorney's office and to stake a claim for restitution in the case of U S versus Alan Bond Mr Vaughn stated that Mr Feinstein would address the Class action lawsuit policy proposal as directed by the Board  
Attachment E

Mr Feinstein outlined 3 steps to the proposal policy

- 1) Claims Monitor to review all pending class actions (dollar threshold \$10 million)
- 2) Evaluation Counsel - Legal review and in-depth assessment of case and recommendation whether to pursue class action
- 3) Litigation Counsel - a group of 3 legal firms to represent the System if the Board agreed to do so

Mr Bruce Harrison questioned the \$10 million-dollar threshold, and stated that it seemed low Mr Harrison then asked how many cases occurred within the last year Mr Feinstein stated between 5 to 10 Mr Harrison stated that since the Agency is limited in amount of cases that can be filed, we should go after the most money

Mr Feinstein noted the evaluation counsel would not be eligible to litigate the case on our behalf

Vice Chairman Kopp questioned the States option to go on our own She questioned whether this issue would be reviewed? Mr Feinstein answered yes

Mr Brown asked if the Agency checked with other Retirement systems Mr Feinstein answered yes several have similar situations Wisconsin, CALPERS, New York, but there are variations on how it is done

Ms Boykin asked Mr Feinstein to explain the responsibilities delegated to investment staff Mr Feinstein stated that the services are outsourced, but need oversight The claims monitor oversight is better handled by Investment Staff The Legal Division would monitor the other 2 components Ms Boykin stated that more data is needed

Mr Brown requested that this issue be held over until the November Board meeting, which the Board agreed to -

Mr Vaughn asked the Board to refer to page 85 for Budget reduction information the Board directed the Agency to promulgate Mr Bruce Harrison asked why 20 - 25% reduction came out of the Investment Division Mr Vaughn stated that all department heads participated in the process, and that the goal is not to reduce current services Mr Harrison inquired about eliminating Bond services, Ms Boykin answered that it depended upon Board action Mr Vaughn noted 2 items (1) reducing postage by not mailing the Statement of Benefits to members (2) eliminating off site hotel costs for the Board Retreat We will have the retreat in Baltimore at the Agency On motion made by Mr Brown and seconded by Major Krome the Board approved the recommended reductions and instructed staff to notify the Department of Budget and Management of the reductions Chairman Schaefer requested Treasurer Kopp attend the Agency's budget meeting with Secretary Foster

Mr Vaughn informed the Board the Board's final decision with reference to the Roscoe Johnson decision was at their station for review Mr Vaughn further stated that the decision would be forwarded to the claimants

Attachment E

The Board accepted Mr Vaughn's report

Committee and  
Sub-Committee Reports  
and Recommendations 12

No reports were necessary for the Ad-Hoc Communications Committee and the Ad-Hoc Benefit Improvement Sub-Committee because no meetings were held

Circuit Court  
Decisions 13

Mr Vaughn stated that the Agency received a favorable outcome of the appeal of Ibnomer Sharafeldin versus the State Retirement & Pension System of Maryland

Attachment G

Medical Board  
Report 14

On a motion by Vice Chairman Kopp and seconded by Major Krome, the Board accepted the reports of the Medical Board in connection with applications of members for ordinary, accidental, and special retirement allowances

Attachment H

Supplemental Medical  
Reports 15

On motion by Major Krome and seconded by Mr Brown, the Board accepted the supplemental reports of the Medical Board in connection with applications of members for ordinary, accidental and special retirement allowances

Attachment I

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On motion made by Mr Brown and seconded by Major Krome, the Board voted unanimously to meet in Executive Session, to consider the following matters deliberations regarding the disability appeals, obtain legal advice and discussion with staff and counsel regarding potential 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 15p m in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider the appeals of Gloria Bledsoe, Caroline Payne, Laverne Barnum, and Kay Kimble, to discuss pending or potential litigation, to obtain legal advice All of the persons present at the beginning of the meeting were present in Executive Session except the following Mary Jo Neville, Maryland State Teachers Association, Anne Gawthrop, Department of Legislative Services, Gloria Bledsoe, and her attorney Janice Bledsoe, Laverne Barnum The Board adjourned its Executive Session at 12 30 p m and returned to regular session to complete the agenda

### REGULAR SESSION

Gloria Bledsoe

The Board considered the record of Gloria Bledsoe Following a discussion, a motion was made by Mr Brown and seconded by Ms Humphries, to reject the Administrative Law Judge's decision and grant Ms Bledsoe accidental disability benefits The motion failed with a vote of 3 to 4 Ms Humphries, Messrs Brown and Lancaster registered yea votes Vice Chairman Kopp, Colonel Mitchell, Major Krome and Secretary Foster registered nay votes

On motion made by Major Krome and seconded by Vice Chairman Kopp, the Board voted to adopt the Administrative Law Judges decision with a vote of six to one Vice Chairman Kopp, Colonel Mitchell, Major Krome, Secretary Foster, Ms Humphries, and Mr Lancaster registered yea votes Mr Brown registered a nay vote

Caroline Payne

The claimant Ms Caroline Payne failed to appear before the Board at the pre-arranged time The Board voted unanimously to defer Ms Payne's case to a future Board meeting

Laverne Barnum

The Board considered the record of Laverne Barnum. Following a discussion, on motion made by Colonel Mitchell and seconded by Vice Chairman Kopp, the Board voted unanimously to accept the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and deny Ms. Barnum's request for accidental disability retirement benefits.

Kay Kimble

The claimant Ms. Kay Kimble failed to appear before the Board at the pre-arranged time. The Board voted unanimously to defer Ms. Kimble's case to a future Board meeting.

Other Business 16

Adjournment 17 There being no further business, the meeting adjourned at 12:35 p.m.

Peter Vaughn  
Secretary to the Board

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