

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

June 19, 2018

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, 16<sup>th</sup> Floor Board Room, Baltimore, Maryland beginning at 9:32 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	Sheila Hill
Peter Franchot, Vice Chairman (via phone)	F. Patrick Hughes
David Brinkley	Charles Johnson
Eric Brotman	Theresa Lochte
David Hamilton (via phone)	Richard Norman
James Harkins	Douglas Prouty
Linda Herman (via phone)	Michael Stafford

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

Melody Countess	Angie Jenkins	Harvey Raitzyk
Patricia Fitzhugh	Van Lewis	Kenneth Reott
Anne Gawthrop	Kim O’Keeffe	Janet Sirkis
Michael Golden	Andrew Palmer	Toni Voglino
Ira Greenstein	Chandra Puranam	

Assistant Attorneys General present included: Rachel Cohen, Jody Shaw and Kathleen Wherthey

Other attendees included: Susanne Brogan, John Kenney and Phillip Anthony

Consent Agenda

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

- May 15, 2018 Open Meeting Board Minutes
- June 5, 2018 Administrative Committee Meeting Summary, which included the following:
  - adopting the Executive Director’s decision to deny Mr. Neville George’s request for a waiver of the one-year requirement to request a service credit transfer;
  - approving the 2019 Trustee election schedule for the Retired Employees’ System representative and the Retired Teachers’ System representative;
  - approving the Town of Manchester’s request to participate in the Employer Pick-Up Program, effective July 1, 2018; and
  - approving the Town of Sykesville’s request to participating in the Employer Pick-Up Program, effective July 1, 2018.

Administrative  
Appeal of George  
Sparling

George Sparling appeared before the Board of Trustees, requesting that the Board reject the Summary Decision of the Executive Director regarding his request that the Agency adjust his average final compensation (“AFC”), in a manner that would increase his pension allowance.

Mr. Sparling argued that he was employed, under written contracts, as the County Attorney for St. Mary’s County beginning June 14, 2010, and thereafter on March 11, 2014 and May 3, 2016. Mr. Sparling argued that those contracts included a termination without cause clause which provided a vested contractual right to a “severance payment equal to six months of the employees current salary”, among other compensation. Mr. Sparling argued that on October 5, 2017, he

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

June 19, 2018

received by hand delivery, a letter which terminated his contract of employment from St. Mary's County. Mr. Sparling submitted an Application for Service or Disability Retirement with the Agency, with a retirement date of November 1, 2017.

Mr. Sparling argued that the Agency failed to include the \$71,500.00 in severance compensation that he received pursuant to his employment contract. He argued that this payment should be included in earnable compensation because it was a contractually required payment, and not a voluntary, ad hoc payment.

Ms. Kathleen E. Wherthey, Assistant Attorney General, argued on behalf of the Agency. Ms. Wherthey argued that the governing legal provisions do not support including severance payments in earnable compensation for purposes of computing average final compensation. Earnable compensation means "one-twelfth of the member's annual salary rate payable for working the normal time in the member's position." Md. Code Ann. State Personnel & Pensions Art. (SPP) § 21-101(o). Ms. Wherthey argued that language reflects the legislature's intention to base retirement benefits on normal, periodic compensation that is not inflated by one-time or ad hoc payments, and ensures reasonably regular, predictable employee compensation for purposes of the required valuation and funding of the System on an actuarial basis. SPP §§ 21-125, 21-304. Therefore, the one-time severance payment does not represent normal time actually worked, but instead constitutes a "plus" or extra payment added onto the earned salary and therefore, does not constitute "earnable compensation" and cannot be used in calculating his average final compensation.

Ms. Lochte asked if employee contributions had been deducted from the severance payment for retirement benefits.

Mr. Sparling responded that the employer did not deduct employee contributions for retirement from his pay.

Mr. Sparling further argued that under his contract he was a 24/7 employee with no set schedule of regular or normal hours.

Treasurer Kopp asked if it would have made any difference if the contract had language addressing this issue.

Ms. Wherthey responded that the severance payment is not part of the annual based salary, it was payment for not working and the law does not permit the inclusion of those payments.

The Committee discussed and voted on this appeal in closed session.

Recommendation  
of the  
Administrative  
Committee  
regarding the  
FY2019 Business  
Plan

Mr. Harkins, Chairman of the Administrative Committee reported that the Committee received a full report on the FY2019 Business Plan, including new initiatives, and that the Committee voted to approve, for recommendation to the Board, the FY2019 Business Plan as presented.

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

June 19, 2018

On a motion made by Mr. Harkins and seconded by Ms. Hill, the Board of Trustees approved the Administrative Committee’s recommendation to approve the FY19 Business Plan.

Ratification of the Board of Trustees’ Electronic Vote concerning the Compensation Consultant RFP Work Plan

Mr. Kenderdine reported with the Maryland General Assembly’s passage of Senate Bill 899, the Board will, effective Jul 1, 2018, be authorized to set the number of positions within the Investment Division, as well as the compensation for those positions. The new statute establishes an Objective Criteria Committee (OCC) to make recommendations to the Board regarding the objective criteria to be used in setting compensation and awarding financial incentives to eligible employees of the Investment Division. In addition, the law also requires the Board to hire a consultant to assist the OCC with its charge of recommending objective criteria for setting compensation and awarding financial incentives.

Following Board policy, the procurement of the compensation consultant is considered a “key service provider” and as such will be conducted accordingly.

The Board of Trustees, by electronic vote, approved the Compensation Consultant RFP Work Plan, as follows:

June 15, 2018	RFP issued
June 25, 2018	Vendor questions due
June 27, 2018	Responses provided
July 6, 2018	Proposals due
July 30 – August 3, 2018	Evaluation Committee Interviews
August 21, 2018	Finalist presentations & IC/Board decision

On a motion made by Mr. Harkins and seconded by Ms. Lochte, the Board of Trustees ratified the electronic vote that approved the compensation consultant RFP work plan.

Board Officers

On a motion made by Mr. Brotman and seconded by Ms. Hill, the Board elected the following officers:

- › Nancy K. Kopp as Chairman
- › Peter Franchot as Vice-Chairman
- › R. Dean Kenderdine as Secretary

Recommendation of the Investment Committee regarding the Appointment of a Public Advisor

Mr. Hughes, Chairman of the Investment Committee, reported that the Investment Committee approved, for recommendation to the Board, the appointment of Lamont Tarbox as Public Advisor to the Investment Committee, for a term of three-years, beginning July 1, 2018 through June 30, 2021.

Mr. Kenderdine reported that should the Board approve Mr. Tarbox for the Public Advisor position, staff would request that the recommendation for appointment be added, for approval, to the July 19<sup>th</sup> Board of Public Works agenda.

On a motion made by Mr. Hughes and seconded by Ms. Hill, the Board voted to approve the recommendation of the Investment Committee to appoint Lamont Tarbox for the position of Public Advisor to the Investment Committee.

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

June 19, 2018

Certification of the  
Active Employees'  
Systems  
Representative

Mr. Kenderdine certified to the Board that there is one eligible candidate, Jamaal R. Craddock, who met the requirements to be included on the ballot for the 2018 Active Employees' Systems Trustee Election.

Mr. Kenderdine indicated that when a single candidate qualifies to be placed on the ballot, that candidate shall be considered nominated to serve as Trustee for his or her system and, upon the Board's certification, the candidate shall serve as trustee for the appropriate term. Mr. Craddock would serve the remainder of the four-year term that began August 1, 2017 through July 31, 2021, previously held by Ms. Lisa James-Henson.

On a motion made by Ms. Hill and duly seconded, the Board certified that Mr. Craddock is deemed nominated to serve as a trustee for the remainder of the four year term of August 1, 2017 through July 31, 2021.

Mid-Year  
Attendance &  
Training Reports –  
January 1, 2018  
through June 30,  
2018

Mr. Kenderdine presented the six-month attendance and training reports for January 1 through June 30, 2018 to the Board for its review and asked that any corrections be sent to Angie Jenkins. Mr. Kenderdine indicated that the attendance report would be updated to reflect the Board's attendance at the June, 2018 meeting.

CIO Report

Mr. Palmer recognized Dana Johns, representing the agency, as the recipient of a Limited Partnership of the Year Award from the Private Equity Women Investor Network (PEWIN).

Mr. Palmer provided the Board with a summary of fund performance as of May 31, 2018. Mr. Palmer reported that the total fund value was \$52.1 billion, and the estimated return was 0.61% for the month and 8.35% fiscal year-to-date.

Mr. Palmer reported that he received the March 31, 2018 TUCS report, which showed the fund in the top quartile for the one quarter and approximately median for the trailing twelve months. In addition, Mr. Palmer reported that the Private Equity performance ranked among the first percentile among plans larger than \$25 billion for the trailing three year period. He further noted that the poor performance of emerging market assets in the current quarter would likely detract from peer performance for the quarter.

Mr. Hughes asked if Meketa was looking at the changing economic and political landscape for emerging markets, and factoring them in going forward.

Mr. Palmer responded that Meketa updates its capital markets assumptions annually. He also noted that Meketa's long term positive view on emerging markets is likely based on demographic trends, and not likely to be influenced by near term disruptions.

Mr. Hughes asked what the single biggest equity investment the fund has.

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

June 19, 2018

Mr. Palmer responded that the fund's biggest equity investment is with Apple, with approximately 1% of equity assets or \$190 million invested. He estimated there would be a number of emerging market companies among the top ten equity investments, indicating the importance of emerging markets to the System.

Mr. Stafford asked if the State Street performance reports presented private investments using internal rate of return methodology (IRR) or time weighted returns.

Mr. Palmer responded that the total returns are reported as time weighted returns based on monthly cash flows and quarterly valuations with benchmarks reported with a lag as they become available. Mr. Stafford asked if fund managers were overstating performance through manipulating the timing of cash flows to improve IRRs.

Mr. Palmer responded that staff did not observe that behavior pattern among its managers.

Mr. Brotman asked if the "Total Returns by Asset Class" section in the performance exhibit could show the benchmark for longer periods of time. He opined that short term relative performance should not be the focus of the Board but longer term comparisons would be helpful.

Mr. Palmer responded that additional time periods could be added.

Executive  
Director's Report

Treasurer Kopp reported that a workgroup has been established to oversee the Board Governance review, which includes Trustees Lochte, Johnson and Brotman.

Mr. Kenderdine reported that the Funston Advisory Group recently developed a Board Governance survey to go out this week or early next week to Board members and staff.

Ms. Lochte urged all Trustees and staff to complete the survey.

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Mr. Kenderdine asked that all expense reports be submitted by Monday, June 25, 2018, so that staff has time to process them for end of year close-out.

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Mr. Kenderdine welcomed back Patricia Fitzhugh as Deputy Chief Operations Officer.

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Mr. Kenderdine reported on and provided the Board with a copy of the Office of Legislative Audits ("OLA") report and the Agency's response. Mr. Kenderdine reported that the OLA reported five findings and that the Agency has, with the exception of one, addressed each of the findings and in certain cases retroactively corrected the issues.

Mr. Brotman asked if five findings in an audit high.

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

June 19, 2018

Mr. Kenderdine responded that in his tenure at the Agency, five is higher than in past audits. Typically two or three have been the case.

Secretary Brinkley responded that the good thing is that repeat findings were not found. It is the number of repeat findings that draws scrutiny from the General Assembly.

Treasurer Kopp encouraged all to read the full audit report and asked that questions or concerns be addressed to Trustee Norman and the Audit Committee.

On a motion made by Mr. Hughes and seconded by Mr. Brotman, the Board voted to meet in a Closed Session, beginning at 10:48 a.m., in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16<sup>th</sup> Floor, for the purpose of:

- a) reviewing the May 15, 2018 closed session Board minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function;
- b) discussing the Administrative Appeal of George Sparling, pursuant to General Provisions Art., § 3-103(a)(1)(iii), a quasi-judicial function;
- c) reviewing the Medical Board reports from May 16, May 24, May 30, June 7 and June 13, 2018, regarding individual participants' claims for disability retirement benefits, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter 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;
- d) reviewing a the Earnings Limitation Recovery Report, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosure, namely, General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records; and General Provisions Art., § 4-331 regarding the prohibition on disclosing information about public employees;
- e) reviewing the Disability Offset Report, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosure, namely, General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records; and General Provisions Art., § 4-331 regarding the prohibition on disclosing information about public employees;
- f) reviewing a report regarding extraordinary salary increases, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosure, namely, General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records; and
- g) receiving a litigation update from Board counsel pursuant to General Provisions Art., § 3-305(b)(7), to consult with counsel to obtain legal advice and § 3-305(b)(8), to consult with staff, consultants, or other individuals about pending or potential litigation.

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

June 19, 2018

**CLOSED SESSION**

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	Sheila Hill
Peter Franchot, Vice Chairman (via phone)	F. Patrick Hughes
David Brinkley	Charles Johnson
Eric Brotman	Theresa Lochte
David Hamilton (via phone)	Richard Norman
James Harkins	Douglas Prouty
Linda Herman (via phone)	Michael Stafford

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

Melody Countess	Kim O’Keeffe	Kenneth Reott
Patricia Fitzhugh	Andrew Palmer	Janet Sirkis
Michael Golden	Harvey Raitzyk	Toni Voglino
Angie Jenkins		

Assistant Attorneys General present included: Rachel Cohen, Jody Shaw and Kathleen Wherthey (except for agenda item #13)

Other attendees included: Susanne Brogan and John Kenney

On a motion made by Mr. Brotman and seconded by Mr. Norman, the Board returned to open session at 10:57 a.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16<sup>th</sup> Floor.

**OPEN SESSION**

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

Closed Session Minutes	The Board reviewed and approved the May 15, 2018 closed session minutes.
Administrative Appeal of George Sparling	The Board voted to adopt the Administrative Committee’s Proposed Summary Decision and deny Mr. Sparling’s request that the Agency adjust the average final compensation in a manner that would increase his pension allowance.
Medical Board Reports	The Board reviewed and adopted the medical board reports from May 16, May 24, May 30, June 7 and June 13, 2018.
Earnings Limitation Recovery Reports	The Board reviewed and approved the earnings limitation recovery reports as presented.
Disability Offset Report	The Board reviewed and approved the disability offset report as presented.
Extraordinary Salary Increases	The Board reviewed and approved the recommendations regarding the extraordinary salary increases as presented.

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

June 19, 2018

Adjournment      There being no further business before the Board, on a motion made by Mr. Brotman and seconded by Mr. Prouty, the meeting adjourned at 10:58 a.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "R. Dean Kenderdine", written over a horizontal line.

R. Dean Kenderdine  
Secretary to the Board

**BOARD OF TRUSTEES  
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

***ADMINISTRATIVE COMMITTEE MEETING SUMMARY  
JUNE 5, 2018***

Administrative  
Appeal of  
George Sparling

**THIS MATTER WILL BE DISCUSSED IN OPEN SESSION AND VOTED ON IN CLOSED SESSION OUTSIDE THE CONSENT AGENDA.**

Mr. George Sparling filed a Petition for Hearing requesting that the Committee reject the Summary Decision of the Executive Director regarding his request that the Agency adjust his average final compensation (“AFC”), in a manner that would increase his pension allowance.

The Chairman of the Administrative Committee will present, the Committee’s recommendation for the Board’s approval.

Request for a  
Waiver of the  
One Year  
Requirement to  
Request a  
Service Credit  
Transfer

Mr. Ken Reott presented background information regarding Mr. Neville George’s request for a waiver of the one-year requirement to request a service credit transfer and the Executive Director’s recommendation that the Committee uphold his decision in this regard.

Mr. Reott reported that the law allows a member to transfer service between the State and local retirement systems. A member must not have incurred a break in employment and must make a request to transfer of service within one (1) year of becoming a member of the new system. Regulation provides that if a member fails to request to transfer service credit within the initial one (1) year deadline, they may request a waiver of this requirement under certain circumstances. Specifically, a request for a waiver must be submitted to the Executive Director within four (4) years of the individual becoming a member of the new system and must demonstrate that the reason the member failed to meet the original one (1) year deadline was due solely to physical or mental incapacity during the filing period, or was due solely to misinformation or mishandling by the member’s employer.

Mr. Reott reported that Mr. George failed to submit his request for a one-year waiver within the four (4) year deadline and therefore, the Executive Director’s decision to deny Mr. George’s request should be adopted.

On a motion made by Mr. Nicole and seconded by Mr. Norman, the Administrative Committee voted to adopt the Executive Director’s decision to deny Mr. George’s request for a waiver of the one-year requirement to request a service credit transfer for recommendation to the Board of Trustees.

FY2019 Budget  
Request –  
Investment  
Division

Mr. Kenderdine reported that with the enactment of HB1012/SB899 which takes effect July 1, 2018 the new law will affect the Investment Division’s FY2019 budget. He reported that amendments will need to be made to the Board governance policies and charters to reflect the statutory changes to the Board’s authority regarding Investment Division resources. At present, however, since the Administrative Committee has historically been the forum through which budget items are heard, staff is now coming forward with a revised FY19 budget request. The budget request will later be presented to the Investment Committee and full Board in July.

**BOARD OF TRUSTEES  
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

***ADMINISTRATIVE COMMITTEE MEETING SUMMARY  
JUNE 5, 2018***

Mr. Palmer presented a memorandum to the Administrative Committee which presents the revised budget request relating to all Investment Division personnel and operating expenses, which shall be paid from the trust fund of the System.

After further discussion, the Committee asked that a special meeting be held one week to ten days in advance of the July Board meeting to discuss this matter further, and on a motion made by Ms. Lochte and seconded by Mr. Norman, the Administrative Committee deferred this matter.

FY19 Business  
Plan Initiatives

**THIS MATTER WILL BE DISCUSSED OUTSIDE OF THE CONSENT AGENDA IN OPEN SESSION.**

Mr. Kenderdine, with Harvey Raitzyk, Chandra Puranam, Andrew Palmer and Michael Golden, presented the Agency's FY19 Business Plan Initiatives.

Ms. Brogan asked that the last sentence of the first paragraph in the initiative related to the Investment Staff Compensation Criteria, which states "The Investment Division will also begin to install the infrastructure and systems necessary to begin to manage a portion of the System's assets internally." be removed.

On a motion made by Ms. Hill and seconded by Mr. Norman, the Administrative Committee approved the FY19 Business Plan Initiatives for recommendation to the Board of Trustees, as amended.

Trustee Election  
Schedule –  
Retired  
Employees'  
System and  
Retired  
Teachers'  
System  
Representatives

The Committee reviewed the Board of Trustees election schedule.

The term of office for the successful candidate in the Retired Employees' System and Retired Teachers' System Representatives election will be from August 1, 2019 through July 31, 2023.

On a motion made by Ms. Hill and seconded by Mr. Nicole, the Administrative Committee approved the Retired Employees' System and Retired Teachers' System Representatives Board of Trustees election schedule for recommendation to the Board.

Town of  
Manchester –  
Participation in  
the Employer  
Pick-Up  
Program

Mr. Kenderdine reported that the Town of Manchester submitted to the Board for its approval, a request to participate in the Employer Pick-Up Program effective July 1, 2018. A copy of the signed resolution by the Town of Manchester was provided to the Committee in the agenda packet.

On a motion made by Ms. Hill and seconded by Mr. Norman, the Administrative Committee approved the Town of Manchester's request to participate in the Employer Pick-Up Program, effective July 1, 2018, for recommendation to the Board of Trustees.

**BOARD OF TRUSTEES  
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

***ADMINISTRATIVE COMMITTEE MEETING SUMMARY  
JUNE 5, 2018***

Town of  
Sykesville –  
Participation in  
the Employer  
Pick-Up  
Program

Mr. Kenderdine reported that the Town of Sykesville submitted to the Board for its approval, a request to participate in the Employer Pick-Up Program effective July 1, 2018. A copy of the signed resolution by the Town of Manchester was provided to the Committee in the agenda packet.

On a motion made by Mr. Nicole and seconded by Ms. Brogan, the Administrative Committee approved the Town of Sykesville's request to participate in the Employer Pick-Up Program, effective July 1, 2018, for recommendation to the Board of Trustees.

Transfer of  
Members from  
the EPS to  
LEOPS –  
Town of  
Manchester,  
Town of Mt. Airy  
and Town of  
Sykesville

Mr. Kenderdine reported that the Town of Manchester, Town of Mt. Airy and the Town of Sykesville submitted a resolution to withdraw eligible law enforcement personnel from the Employees' Pension System and transfer them to the Law Enforcement Officers' Pension System.

Mr. Kenderdine reported that since State Personnel and Pensions Art., § 31-302 allows law enforcement personnel to withdraw and transfer from one State system to another State system without approval by the Board of Trustees, this matter is before the Committee as an informational item.

Finance Reports  
– Quarter  
Ending March  
31, 2018

Ms. Melody Countess and Mr. Van Lewis presented the Administrative Expenses Report for the quarter ending March 31, 2018. Mr. Lewis reported that the Agency has spent, to date, 61.0% of the FY2018 Appropriation amount, with a current projected end-of-fiscal year surplus of \$2,198,663. However, that projected surplus will be reduced by the following amounts:

- \$1.3 million custodial bank surplus transferred to MPAS-3
- \$186K back of the Budget Bill reduction for healthcare cost savings (two additional payroll health deduction holidays)
- \$402K transfer of anticipated end-of-year surplus, at 12/31/17, to MPAS-3

In addition to the above appropriation reductions, it is anticipated that the end-of-year healthcare reversion will approximate \$356K, as a consequence of unexpended healthcare costs. The forecasted effect of the appropriation reductions, and the healthcare reversion will result in an end-of-year operating deficit of approximately \$46K.

Mr. Van Lewis presented the MBE Performance Report for the quarter ending March 31, 2018. Mr. Lewis reported that MBE Performance dropped to 1.45%, which is well below the Administrative MBE performance goal of 29.0%. The drop in MBE performance is due to two major multi-million dollar contracts being awarded, neither of which has an MBE component. The contracts, which totaled \$6M, were for actuarial services (GRS) and business re-engineering services (LRWL).

Member  
Services Update

Mr. Raitzyk reported that the Member Services unit was not able to meet its goals for the call abandonment rate and average call wait time for the month of April 2018. The unit's call abandonment rate was 9.62% and the average speed of answer was 1:65 for the month of April.

**BOARD OF TRUSTEES  
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

***ADMINISTRATIVE COMMITTEE MEETING SUMMARY  
JUNE 5, 2018***

The issues impacting April's service were one call center employee on FMLA and two others that have been out due to illness. In addition, there has been an increase in call volume due to the State's changes of retiree pharmacy benefits. Also, in response to complaints regarding the inability for callers to easily transfer to a specialist, the Agency changed the structure of the IVR making the choice more prominent. As a result, more callers are pressing "0" for a specialist, increasing the call volume.