



Maryland  
Teachers & State Employees  
Supplemental Retirement Plans

**BOARD OF TRUSTEES FOR THE  
MARYLAND TEACHERS & STATE EMPLOYEES  
SUPPLEMENTAL RETIREMENT PLANS  
MINUTES OF THE November 20, 2017 MEETING**

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The Board of Trustees of the Maryland Teachers & State Employees Supplemental Retirement Plans convened at 9:55 a.m. on November 20, 2017, in Baltimore. A quorum was present.

**BOARD OF TRUSTEES**

T. Eloise Foster  
*Chairperson*

Thomas M. Brandt, Jr.  
Lynne M. Durbin, Esq.  
Nancy K. Kopp  
John D. Lewis  
Johnathan R. West

Members Present

Ms. T. Eloise Foster  
Mr. Thomas Brandt, Jr.  
Ms. Lynne Durbin (*by phone*)  
Ms. Nancy Kopp  
Mr. John Lewis  
Mr. Johnathan West

Michael T. Halpin, CRC®, CRA®  
*Secretary/ Executive Director*

Debra L. Roberts, MBA, CPA, CRC®  
*Director of Finance*

Richard A. Arthur, MBA, CPM  
*Director of Operations & Technology*

Louis A. Holcomb, Jr., MA, CRC®  
*Director of Participant Services*

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*Visit the MSRP Board website at  
<http://.MSRP.maryland.gov>*

*Call About the Plans  
or to Enroll  
1-800-545-4730  
or Enroll on-line at  
[www.MarylandDC.com](http://www.MarylandDC.com)*

Representatives and Guests

Mr. Michael Halpin, Staff  
Ms. Lara L. Hjortsberg, Board Counsel  
Mr. Richard Arthur, Staff  
Ms. Debra Roberts, Staff  
Mr. Louis Holcomb, Staff  
Ms. Anna Marie Smith, Staff  
Mr. Jeffrey Francis, Nationwide  
Mr. Daniel Wrzesien, Nationwide  
Ms. Wendy Shaw, Nationwide  
Ms. Rochelle Grandy, Nationwide  
Mr. William Weber, Galliard Capital Management  
Mr. Peter Schmit, Galliard Capital Management  
Mr. John DeMairo, Segal Marco Advisors  
Ms. Vanessa Vargas, Segal Marco Advisors  
Ms. Kim Young, T. Rowe Price  
Ms. Kasi Boyles, Voya Financial

## I. Chairperson's Remarks

Upon motion duly made and seconded, the minutes of the following meetings of the Board of Trustees were unanimously approved:

- Regular Meeting of the Board of Trustees held on August 28, 2017 (Exhibit A);
- Special Meeting of the Board of Trustees held on July 10, 2017 (Exhibit A-1); and
- Special Meeting of the Board of Trustees held on September 29, 2017 (Exhibit A-2).

## II. Administrator's Report & Marketing Plan Update

Ms. Wendy Shaw, Vice President of Operations, introduced herself, and proceeded to present two administrative issues to the Board. Ms. Shaw noted that the first issue involved the incorrect crediting of mutual fund savings to participants and was detailed on Exhibit B-1. Ms. Shaw explained that MSRP participants invested in certain plan types in the T. Rowe Price Balanced Fund, 2045 Fund, 2050 Fund, Mid Cap Value Fund, 2005 Fund and 2060 Fund were credited with the incorrect mutual fund savings on a monthly basis. She attributed this mistake to a change in the format T. Rowe Price used on its invoice, which Nationwide misinterpreted and that this resulted in 10, 526 accounts being shorted units in the various T. Rowe Price funds, resulting in approximately \$104,000 owed to these impacted participants. To correct the error, Ms. Shaw stated that Nationwide would process adjustments on all impacted accounts to reimburse them for the missing units and that these participants would also receive an explanatory letter. To the extent participants are no longer in the Plans, these participants would receive checks and an explanatory letter. She further noted that another 6,000 participants were overpaid by approximately \$104,000 but that Nationwide would not attempt to collect these overpayments. Ms. Shaw explained that on a go-forward basis, the reporting of mutual fund savings would be simplified so as to avoid these errors, a dual quality control process had been implemented, and the process had been moved from the reconciliation team to a team that is expert in handling these types of transactions. She also confirmed that there were no negative tax implications for those to whom overpayments had been made. Ms. Shaw was asked to follow-up with respect to several issues, including those participants who would be receiving checks and deceased participants with closed estates. It was noted that Mr. Wrzesien was reaching out to participants receiving \$500 or more (4 so far).

Ms. Shaw next proceeded to describe an issue regarding participant loans that were re-amortized or refinanced after July 2017. The Board members were directed to Exhibit B-2. Ms. Shaw noted that participant loans that were re-amortized or refinanced after July 2017 had a correct first repayment date on Nationwide's recordkeeping system but different dates for subsequent repayment dates. She noted that this repayment date matter was a global IT issue – traced to a July systems release – and that it impacted 247 MSRP participants. As a result of this issue, 75% of the affected participants missed or skipped a payment and 25% had a double payment. Ms. Shaw explained that all affected participants had been called, all participants who had been charged double payments had been refunded (including NSF charges and penalties), and accounts had been corrected. She noted that letters would also be mailed to the impacted participants. She noted that on a go-forward basis, application updates are being reviewed to ensure the appropriate regression and testing is completed, additional procedures would be added in

refinancing/re-amortization, and additional business checks would be added when loans are taken.

Mr. Wrzesien next presented the Administrator's Report for the third quarter of 2017 (Exhibit B). He first reviewed the Executive Summary and highlighted the following:

- Current Assets: \$3.8 billion
- Total Participant Accounts: 66,901
- Enrollments: 911
- Deferrals: \$50.233 million
- Mutual Fund Savings: \$1.563 million
- Rollovers-In: 167/\$7.4 million
- Distributions: \$36.4 million
- Rollovers-Out: 438/\$34.4 million
- Loans: 736 active/\$7.905 million
- Hardship/UE: 653

Mr. Francis noted that with the implementation of the DOL Fiduciary Rule, Nationwide is expecting a decline in rollovers out of the Plans as the rule becomes fully evolved.

Mr. Wrzesien highlighted the following achievements and initiatives for the third quarter of 2017:

- ABC investment relaunch results – 3,326 group meeting attendees and 7,367 one-on-one consultations; through 10/31/17 – 1,480 ProAccount applications
- 2017 NAGDCA Award Recipient – recipient of the 2017 Leadership Recognition Award for the suite of on-site instructor-led educational offerings

Mr. Wrzesien returned to key points in the Administrator's Report from the Executive Summary. He noted that, as compared with the third quarter of 2017 contributions had increased by over \$5 million, but that rollovers out had also increased by approximately \$11.5 million. With respect to the increase in Plan assets from the third quarter of 2016 to the third quarter of 2017, Mr. Wrzesien noted that a lot of the increase was attributable to increases in market value. He also noted that average deferrals increased during the period, attributing this to the inclusion of the paycheck impact calculator on the DC direct website. He reported a net increase for the second and third quarter of 2017 (\$5.8 million and \$6.4 million, respectively).

Mr. Wrzesien proceeded to the service updates, stating that there was a participation rate of 70.78%, with 40.96% actively deferring. Mr. Wrzesien next noted an increase of 416 as compared to the third quarter of 2016 and an increase of 867 in increases during this time period. Mr. Wrzesien provided the loan and hardship analysis, noting an uptick in the number and dollar amount of loans. He reported 1,758 hardship/UE withdrawals for the year-to-date, noting that foreclosure/eviction and utility disconnections were the most common reasons.

Mr. Wrzesien next presented the rollovers report, noting that 2017 looked like it would have one of the highest rollover totals. He noted that with 4 personal retirement counselors, Nationwide was hoping to see the numbers improve. Mr. Francis also noted that you tend to see higher rollover numbers when the markets are high, as was the case in 2007/2008.

Mr. Wrzesien then reported a year-to-date Minority Business Enterprise (MBE) participation rate of 16%.

Mr. Wrzesien closed the Administrator's report by reporting that the Plans had received 94 requests for service credit withdrawals, totaling \$2.6 million, through September 30, 2017, as compared to 77, totaling \$1.5 million, for the whole of 2016.

### III. Investment Advisors' Reports:

#### A. Segal Marco Advisors ("Segal")

Mr. John DeMairo noted that the fee analysis was covered in the Investment Committee meeting immediately preceding the Board meeting and that all members of the Board present at this meeting were present at that meeting. Ms. Vanessa Vargas, therefore, proceeded to present the third quarter performance report for the quarter ended September 30, 2017 (Exhibit C).

After providing a summary of the financial market conditions for the third quarter of 2017, Ms. Vargas highlighted the following:

- The allocation to each of the Plans was as follows: 457 Plan – 44%, 401(k) Plan – 49%, 403(b) Plan – 2.5%, and 401(a) Plan – 5%.
- The investment contract pool (ICP) represented 20% of the market value in the Plans; active options accounted for 75%; and passive options accounted for 25%.
- Performance versus market index for the active and TDFs -- for the quarter, 6 of 11 outperformed their benchmarks and 5 underperformed; the Target Date Funds exhibited mixed results, with those funds closer to retirement outperforming; for the year-to-date (YTD), 6 of 11 funds outperformed their benchmarks and 5 underperformed; in the longer-term, there was more outperformance.
- On a peer-to-peer basis – for the quarter, one (Parnassus Core Equity) of the 11 active core options was in the 4<sup>th</sup> quartile and three funds (TCW Core Fixed Income, American Funds Growth Funds and T. Rowe Price Small Institutional Small Cap) were in the 3<sup>rd</sup> quartile; for the YTD, three funds were in the 4<sup>th</sup> quartile (Delaware Institutional Trust, Parnassus Core Equity and American Funds Growth Fund) and two funds were in the 3<sup>rd</sup> quartile (TCW Core Fixed Income and T. Price MidCap Value).

Ms. Vargas reviewed the performance of each of the investment options. She noted that the Plans may now qualify for a lower fee share class for the Vanguard options. She also noted that American Century Equity Growth, the only fund on the Watch List, was up for review for removal from watch at the next meeting, which would mark one year on the Watch List. With respect to TCW, Mr. DeMairo noted that the funds length of experience with the Plans had been less than a year. Ms. Vargas noted that Parnassus' 5-year numbers were above median but that if underperformance continues for another quarter, the 5-year performance could come down, which would cause the fund to be recommended for the Watch

List. Mr. DeMairo also noted that there was a social responsibility component to the Parnassus option (representing 0.7% of assets, or \$30 million), that it was differently situated than the other options in that space.

B. Galliard Capital Management (“Galliard”)

Chairperson Foster asked if there were any additional questions for Galliard, given that the full Board had been in attendance during the Investment Committee earlier in the day. There being no questions, the meeting proceeded to the next item on the agenda.

V. Staff Reports

A. Finance

Ms. Debra Roberts presented the agency budget and expenditure report (Exhibit E) as of September 30, 2017. She noted revenues of \$641,465, which were \$179,739, or 38.98% more than budget. Ms. Roberts noted that expenditures were \$382,834, which are lower than budget with a variance of \$59,484 or 13.45%. She explained each of the favorable and unfavorable variances for the expenditure lines. Ms. Roberts noted a reserve balance as of June 30, 2017 of \$795,640. She stated that the reserve balance as of September 30, 2017 was \$808,092.

B. Field Services

Mr. Holcomb presented the field staff report (Exhibit F), which included a field benefit fair summary. He then distributed and discussed the new “*If you are under age 35 – How to put yourself in control of your future*” communication brochure designed to encourage young employees to become members and start saving early for retirement.

VI. Board Secretary’s Report

Mr. Halpin presented the Board Secretary’s Report (Exhibit G). He first directed the Board’s attention to the proposed calendar for Calendar Year 2018. He noted that the dates for February and May needed to be changed based on conflicts. He next proceeded to a discussion of the Board asset for Calendar Year 2018. He distributed a chart of MSRP Total Invested Assets from 3/31/2009 to 11/15/2017, noting assets of \$3.82 billion as of November 15, 2017. Mr. Halpin noted two options:

- Plan A: Board fee holiday through the end of Fiscal Year (6 months)
- Plan B: Reduce Board fee permanently to 4 bps and collect less money going forward

Mr. Halpin noted that with Plan A, it was possible for the Board to declare the Board fee holiday but model Plan B to determine the effect on the reserve account.

After discussion, and upon motion duly made and seconded, the Board approved the implementation of Plan A (the Board fee holiday through the end of the Fiscal Year).

VII. Board Counsel's Report

Ms. Hjortsberg noted that she would present her report during the Executive Session.

VIII. Executive Session

Chairperson Foster noted the Executive Session on the agenda. At the Chairperson's request, Ms. Hjortsberg explained that the reasons for closing the meeting was in accordance with (a) General Provisions Article ("GP") §3-305(b)(7), to consult with counsel to obtain legal advice on a legal matter (potential litigation); (b) GP §3-305(b)(8) to consult with staff, consultants or other individuals about potential litigation; (c) GP §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, specifically pursuant to, GP §4-312(a) with respect to the retirement records of an individual. Ms. Hjortsberg noted that Chairperson Foster had signed the *Presiding Officer's Written Statement for Closing a Meeting* ("Statement to Close") with respect to §§3-305(b)(7), (8) and (13) to this effect.

Upon motion made and seconded, it was unanimously

**RESOLVED**, that the Board of Trustees of the Maryland Supplemental Retirement Plans move into a closed session in accordance with §§ 3-305(b)(8), 3-305(b)(7), and 3-305(b)(13) to (a) consult with staff, consultants or other individuals about potential litigation, (b) obtain the advice of counsel with respect to such potential litigation; and (c) to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter, pursuant to GP §3-305(b)(13), specifically, GP §4-312(a), with respect to the retirement records of an individual.

The Board members and the following persons remained present for the Executive Session: Mr. Halpin, Ms. Roberts, and Ms. Hjortsberg.

The Executive Session concluded and the regular session resumed at 11:42 a.m. At the Chairperson's request, Ms. Hjortsberg announced the following actions by the Board during the Executive Session:

- Receipt of an update from counsel and staff regarding potential litigation (*information only*)

IX. New Business

Chairperson Foster noted that Mr. Wilson Parran had resigned from the Board over the weekend due to increased commitments associated with his position as the Calvert County Deputy County Administrator. She also noted that Ms. Anna Marie Smith has the forms for the Board members' evaluation of Mr. Halpin.

X. Adjournment

A motion to adjourn was entered at 11:44 a.m., seconded, and carried unanimously.