



Maryland
Teachers & State Employees
Supplemental Retirement Plans

**BOARD OF TRUSTEES FOR THE
MARYLAND TEACHERS & STATE EMPLOYEES
SUPPLEMENTAL RETIREMENT PLANS
MINUTES OF THE November 19, 2012 MEETING**

The Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans convened at 9:42 a.m. on November 19, 2012 in Baltimore. A quorum was present.

BOARD OF TRUSTEES

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Members Present

Ms. T. Eloise Foster
Ms. Sabrina Bass
Mr. Thomas Hickey
Treasurer Nancy Kopp
Mr. Wilson Parran
Ms. Linda Tanton
Ms. Christina Wyskiel
Ms. Marcia Zercoe

Representatives and Guests

Mr. Michael Halpin, Staff
Ms. Lara L. Hjortsberg, Board Counsel
Ms. Debra Roberts, Staff
Mr. Louis Holcomb, Staff
Ms. Anna Marie Smith, Staff
Mr. David Belnick, Nationwide Retirement Solutions
Ms. Brenda Anderson, Nationwide Retirement Solutions
Mr. David Berg, DB Advisors
Mr. John Axtell, DB Advisors
Mr. John DeMairo, Segal Rogerscasey
Ms. Emily Boccuzzi, Segal Rogerscasey
Ms. Cathie Eitelberg, The Segal Company
Mr. Philip Harris, Financial Integrity Resources Mgt.
Mr. Jason Costner, Financial Integrity Resources Mgt.
Ms. Theda Jackson, Financial Integrity Resources Mgt.
Ms. Jeanette Hernandez Harris, Financial Integrity Resources Mgt.

I. Chairperson's Remarks

Secretary Foster noted that Ms. Linda Tanton would be retiring on December 31st after 37 years of dedicated State service. Secretary Foster thanked Ms. Tanton for her service on the Board.

Upon motion duly made and seconded, the minutes of the regular meeting of the Board of Trustees held on August 28, 2012 were unanimously approved (Exhibit A).

II. Administrator's Report & Marketing Plan Update

Mr. David Belnick delivered the Administrator's Report for the third quarter of 2012 (Exhibit B). He noted from the report that assets for the quarter ended September 30, 2012 were \$2.71 billion, the highest total to date; contributions were \$47 million for the quarter, the highest that figure has been since the fourth quarter of 2008; and compared against the third quarter of 2011, both assets and contributions had increased. He reviewed the allocation of assets and contributions in the Plans, noting that with respect to assets, the largest increases from the third quarter of 2011 were seen in the large-cap and retirement date funds and the largest decrease was seen in the fixed income/cash category. He further noted that with respect to contributions, no asset class experienced a change (increase or decrease) of more than 1% and there was similarly little change in the contributions to each of the funds. Mr. Belnick then reviewed the mutual fund reimbursements for the second quarter and year-to-date, noting that both figures were running close to the previous year. He reported on participant account activity for the third quarter, noting that there were 606 new enrollments, the highest number of new enrollments since the first quarter of 2011. With respect to enrollment activity, Mr. Belnick noted that NRS planned to increase communications and coordination with benefit coordinators in the State in order to further improve this number. He closed the administrative portion of his presentation with a comparison of all distributions and contributions for the third quarter of 2012, noting a net decrease of \$4,930,377 for the third quarter of 2012 compared to a net increase of \$514,230 for the third quarter of 2011. He noted that the Plans would expect a net decrease of approximately \$15 million for 2012 if the trend of net decreases continues for the remainder of the year.

Mr. Belnick then proceeded to the marketing update, stating that the overall plan participation rate was 75.47%, as compared to the industry average in the 30s. He continued to the NRS RS/Customer Service Production Summary, noting that new enrollments increased from the third quarter of 2011, whereas increase activity was slightly down from that period. He noted that, consistent with a trend in the industry, decrease activity showed an increase from the second quarter of 2012 but represented a significant improvement from the third quarter of 2011, and suspension activity was flat but slowed measurably compared against the third quarter of 2011. Mr. Belnick then presented the loan and hardship analysis, noting that the Plans were on pace for 2,973 loans and over 3,000 hardship withdrawals for 2012. The Board members asked for information regarding how many of the hardship withdrawals were repeat hardships for the same participant and if there was a way to determine from NRS' information how many State employees were being foreclosed upon. There was a suggestion that the affected participants could be targeted for budgeting seminars. Mr. Belnick noted that

the hardship numbers represented a national trend in other larger plans and that NRS could provide some benchmarking information. He also referenced a presentation from the annual NAGDCA conference, which he would distribute to the Board.

Mr. Belnick provided the field update and rollover report for the quarter and finished his report by noting that the MBE participation rate of 20% for the year to date.

Mr. Jason Costner delivered the F.I.R.M. activity report (Exhibit B-1). He reviewed F.I.R.M. activity, detailed contacts between F.I.R.M. retirement counselors and plan participants and noted monthly trends in appointments, phone calls, retention calls and total interactions. Ms. Theda Jackson then provided an update with respect to the MSRP exit survey efforts. Mr. Philip Harris closed the F.I.R.M. report by noting that the F.I.R.M.'s contract with NRS would expire at the end of the year and thanked the Board and NRS for the opportunity to work with the Plans.

III. Investment Advisors' Reports:

A. Segal Rogerscasey

Mr. John DeMairo delivered the third quarter investment report (Exhibit C). He noted that a detailed report had been provided to the Investment Committee immediately preceding the Board meeting and that he would provide an overview of that report. He highlighted the following:

- Assets in the Plans increased by approximately \$100 million from June 30, 2012 to September 30, 2012, with a net cash outflow of approximately \$5 million.
- The 457 Plan accounted for approximately 47% of the assets and the 401(k) Plan accounted for another approximately 41% of assets.
- The stable value and active core options accounted for 32% and 37%, respectively, of the market value in the Plans.
- The investment contract pool was the single largest investment option, representing 29% of total assets.
- Active core and passive core options represented approximately two-thirds and one-third, respectively, of the total core options in the Plans.
- 80% of the active core options performed better than the median ("red light-green light analysis").
- The American Century Equity Growth Fund replaced the Neuberger Partners Large Cap Value Fund in August 2012.
- The Growth Fund of America remained on the watch list but had exhibited some improvement for the quarter, the nine months and the trailing one year periods.
- There was concern with respect to the Morgan Stanley Institutional Trust, which had a poor quarter and trailing one year period and was off its benchmark; however, Segal recommended no action with respect to watch status until the completion of the bi-annual study.

Ms. Cathie Eitelberg distributed the following publications to the Board members: NCPERS “*The Secure Choice Pension: A Way Forward to Retirement Security in the Private Sector*” and NAGDCA “*The Evolving Role of Defined Contribution Plans in the Public Sector*” and provided a brief commentary regarding both publications. She noted that the defined benefit plan industry had experienced a massive reform, with 44 states implementing changes to their defined benefit plans. She noted the NAGDCA report highlighted that these changes meant defined benefit plans would be replacing less income for new hires following retirement and recognized these changes would also create a new role for defined contribution plans in the public sector. She explained that the NAGDCA report provided examples of approaches to design defined contribution plans in the public sector and included a section on employee behavior. Ms. Eitelberg then explained the public-private approach to pensions offered by the secure choice pension plan concept detailed in the NCSPPERS publication. She briefly reviewed the status of the ongoing fiscal cliff discussions in the U.S. Congress.

B. DB Advisors

Mr. John Axtell noted that he and Mr. David Berg had delivered a detailed report on the third quarter performance report for the investment contract pool (“ICP”) (Exhibit D) at the Investment Committee meeting immediately preceding the Board meeting and that he would provide the Board highlights of that report. He emphasized the following points:

- Yield for the third quarter was 2.14%, a decrease of 8 bps from the second quarter.
- Market-to-book ratio increased slightly during the third quarter to 104.6% from 104.0% at the end of the second quarter.
- Sub-manager performance for the third quarter was mixed (HIMCO +0.33%, JPMorgan +0.03%, PIMCO -0.15%, and Goode -0.25%).
- Assets under management were \$786 million and net participant cash flows for the second quarter were marginally negative at -\$0.2 million.
- Restructuring of the ICP was complete, with both MassMutual (Babson Capital) and MetLife (EARNEST Partners) finalized and funded; Prudential book value exposure was reduced below 30%; and wrapper contracts with Natixis and Royal Bank of Canada and investment management agreements with Goode and HIMCO were terminated.
- The current ICP structure includes four insurance companies with a long-standing presence in the stable value market and who have indicated that they are committed to the stable value market, the hope and expectation being that they will provide more flexibility to the defined contribution plans.

IV. Staff Reports

A. Finance

Ms. Roberts delivered the agency budget and expenditure report (Exhibit E) as of September 30, 2012. She noted that year to date revenues were \$421,724, or 3.55%

more than budget, and expenditures were \$325,199, or 13.03% less than budget. She explained each of the favorable and unfavorable variances for the expenditure line items.

B. Field Services

Mr. Holcomb gave a summary of Exhibit F, which included an overview of MSRP field department 2012 events and activity from January 1 to November 1, 2012; a summary of the State Employees Credit Union partnership; and a report on the 2012 Fall SAVING\$ Expo.

V. Committee Reports

A. Audit Committee

No report at this time.

B. Investment Committee

No report at this time.

C. Executive Committee

No report at this time.

VI. Board Secretary's Report

Mr. Halpin presented the Board Secretary's Report (Exhibit G). He reviewed with the Board the theft of the identity of a State employee, which had resulted in the unauthorized withdrawal of assets from that employee's MSRP account. He noted that in October he had been informed by NRS that it had replaced all of the lost funds in the employee's account. He also noted that this was an isolated case but that MSRP intended to work with NRS to identify different ideas about security and the prevention of identity theft. Mr. Halpin next explained the status of the Board's Reserve fund, noting that it had rebounded well, with the last two fiscal quarters balancing out at approximately 25% of the current fiscal year appropriation; therefore, the recommendation was for the Board's current fee (0.05% of participant assets plus 50 cents monthly from each participant account over \$500 in the 457(b), 401(k) and 403(b) plans) remain the same for 2013. Mr. Halpin then noted that MSRP had received an unsolicited offer from the F.I.R.M. for managed portfolio services. He explained that he had thanked the F.I.R.M. for the offer and noted that MSRP would likely consider managed accounts and investment advice for participants in the next year.

VII. Board Counsel's Report

No report at this time.

VIII. Executive Session

At 11:25 a.m. the Chairperson requested an Executive Session pursuant to State Government Article (“SG”) §10-508(a)(14) to discuss issues pertaining to the Request for Proposals for the Plan Administrator and pursuant to SG §10-508(a)(13) to discuss the status of MSRP’s departmental legislation, discussion of which the Governor’s Office had requested remain confidential until such legislation was formally presented to the General Assembly. Upon motion duly made and seconded, it was unanimously

RESOLVED, that the meeting of the Board of Trustees shall be closed pursuant to State Government Article §10-508(a)(14) to discuss issues pertaining to the Request for Proposals for the Plan Administrator and pursuant to State Government Article §10-508(a)(13) to discuss the status of MSRP’s departmental legislation.

At this time, all guests and representatives left the meeting other than Mr. Halpin, Ms. Roberts and Ms. Hjortsberg.

The regular meeting resumed at 12:10 pm. The Chairperson announced that during the Executive Session the Board had (1) voted to award the contract for the Plan Administrator to Nationwide Retirement Solutions in accordance with the recommendation of the Evaluation Committee which had reviewed the proposals submitted in response to the Request for Proposals for; and (2) voted to withdraw the previously submitted departmental legislation proposals pursuant to which MSRP sought (a) an exemption from the procurement law for investment management agreements and (b) authorization to obtain information regarding State employees from other State agencies in connection with its administration of the Plans.

IX. New Business

No new business was presented for discussion.

X. Adjournment

A motion to adjourn was entered at 12:15 p.m., seconded, and carried unanimously.