

SENATE BILL 999

K4

71r2141

By: **Senator Kramer (Chair, Joint Committee on Pensions)**

Introduced and read first time: March 5, 2007

Assigned to: Rules

Re-referred to: Budget and Taxation, March 12, 2007

Committee Report: Favorable with amendments

Senate action: Adopted

Read second time: March 24, 2007

CHAPTER _____

1 AN ACT concerning

2 **State Retirement and Pension System – Investment Oversight**

3 FOR the purpose of authorizing the Board of Trustees of the State Retirement and
4 Pension System to determine the qualifications, appointment, and
5 compensation of the Chief Investment Officer of the State Retirement Agency
6 after the Board of Trustees receives certain recommendations; authorizing the
7 Board of Trustees to provide certain financial incentives for the Chief
8 Investment Officer; requiring the Board of Trustees to base certain financial
9 incentives on certain criteria; requiring certain criteria to be included in the
10 investment policy manual; requiring the Board of Trustees to submit certain
11 reports to the Joint Committee on Pensions on or before a certain date;
12 providing that the compensation and financial incentives awarded to the Chief
13 Investment Officer shall be in accordance with certain limitations; providing
14 that the Chief Investment Officer is a State employee and entitled to certain
15 benefits; requiring the Executive Director of the State Retirement Agency to
16 terminate the appointment of the Chief Investment Officer under certain
17 circumstances; authorizing the Chief Investment Officer to hire certain
18 investment managers; authorizing the Chief Investment Officer to terminate
19 the appointment of ~~the~~ certain investment managers; requiring the Chief
20 Investment Officer to provide certain written documentation to the Board of

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.

Underlining indicates amendments to bill.

~~Strike out~~ indicates matter stricken from the bill by amendment or deleted from the law by amendment.



1 Trustees and Investment Committee under certain circumstances; requiring the
 2 Board of Trustees to submit certain criteria to certain committees for review
 3 and comment prior to awarding certain financial incentives; requiring certain
 4 committees to submit written comments to the Board of Trustees within a
 5 certain period of time; and generally relating to the investment oversight of the
 6 State Retirement and Pension System.

7 BY repealing and reenacting, with amendments,
 8 Article – State Personnel and Pensions
 9 Section 21–108(c) and 21–122
 10 Annotated Code of Maryland
 11 (2004 Replacement Volume and 2006 Supplement)

12 BY adding to
 13 Article – State Personnel and Pensions
 14 Section 21–118.1
 15 Annotated Code of Maryland
 16 (2004 Replacement Volume and 2006 Supplement)

17 BY repealing and reenacting, without amendments,
 18 Article – State Personnel and Pensions
 19 Section 21–315(c)
 20 Annotated Code of Maryland
 21 (2004 Replacement Volume and 2006 Supplement)

22 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF
 23 MARYLAND, That the Laws of Maryland read as follows:

24 **Article – State Personnel and Pensions**

25 21–108.

26 (c) Subject to [§ 21–123] §§ **21–122 AND 21–123** of this subtitle, the Board
 27 of Trustees shall have full power to invest the assets of the several systems.

28 **21–118.1.**

29 (A) **NOTWITHSTANDING ANY OTHER PROVISION OF LAW, ON THE**
 30 **RECOMMENDATION OF THE EXECUTIVE DIRECTOR AND THE INVESTMENT**
 31 **COMMITTEE, THE BOARD OF TRUSTEES SHALL DETERMINE THE**
 32 **QUALIFICATIONS AND APPOINTMENT, AS WELL AS COMPENSATION AND LEAVE,**

1 FOR THE CHIEF INVESTMENT OFFICER WHO SHALL BE THE HEAD OF THE
2 INVESTMENT DIVISION.

3 (B) IN MAKING DETERMINATIONS AND APPOINTMENTS UNDER THIS
4 SECTION, THE EXECUTIVE DIRECTOR AND THE INVESTMENT COMMITTEE
5 SHALL CONSIDER THE COMPARATIVE ~~STATUS~~ QUALIFICATIONS,
6 COMPENSATION, AND LEAVE OF EMPLOYEES SERVING IN SIMILAR POSITIONS
7 AND DISCHARGING SIMILAR DUTIES AT COMPARABLE PUBLIC PENSION FUNDS.

8 (C) IN ADDITION TO THE BOARD OF TRUSTEES SETTING THE SALARY OF
9 THE CHIEF INVESTMENT OFFICER UNDER SUBSECTION (A) OF THIS SECTION IN
10 ACCORDANCE WITH THE STATE BUDGET, THE BOARD OF TRUSTEES MAY ALSO
11 AWARD FINANCIAL INCENTIVES TO THE CHIEF INVESTMENT OFFICER IN
12 ACCORDANCE WITH SUBSECTION (D) OF THIS SECTION.

13 (D) (1) ON THE RECOMMENDATION OF THE INVESTMENT
14 COMMITTEE, THE BOARD OF TRUSTEES SHALL ESTABLISH CRITERIA FOR
15 AWARDING FINANCIAL INCENTIVES TO THE CHIEF INVESTMENT OFFICER.

16 (2) THE CRITERIA UNDER PARAGRAPH (1) OF THIS SUBSECTION
17 SHALL BE BASED ON:

18 (I) OBJECTIVE BENCHMARKS OF INVESTMENT
19 PERFORMANCE FOR THE ASSETS OF THE SEVERAL SYSTEMS; AND

20 (II) CRITERIA USED BY COMPARABLE PUBLIC PENSION
21 FUNDS AWARDING FINANCIAL INCENTIVES TO CHIEF INVESTMENT OFFICERS;
22 AND

23 ~~(III) THE INVESTMENT PERFORMANCE OF THE SEVERAL~~
24 ~~SYSTEMS AS COMPARED TO COMPARABLE PUBLIC PENSION FUNDS RANKED IN~~
25 ~~THE 25TH PERCENTILE OF THE ANNUAL EVALUATION PERFORMED BY THE~~
26 ~~TRUST UNIVERSE COMPARISON SERVICE.~~

27 (3) THE CHIEF INVESTMENT OFFICER MAY NOT PARTICIPATE IN
28 ANY DELIBERATIONS REGARDING THE ESTABLISHMENT OF CRITERIA UNDER
29 THIS SUBSECTION.

30 (4) THE CRITERIA ESTABLISHED UNDER THIS SUBSECTION SHALL
31 BE INCLUDED IN THE INVESTMENT POLICY MANUAL.

1 **(5) ON OR BEFORE SEPTEMBER 1 OF EACH YEAR, THE BOARD OF**
2 **TRUSTEES SHALL SUBMIT TO THE JOINT COMMITTEE ON PENSIONS, IN**
3 **ACCORDANCE WITH § 2-1246 OF THE STATE GOVERNMENT ARTICLE, A COPY OF**
4 **THE MOST RECENT CRITERIA ESTABLISHED UNDER THIS SECTION AND ANY**
5 **FINANCIAL INCENTIVES THAT WERE AWARDED FOR THE PREVIOUS FISCAL YEAR**
6 **TO THE CHIEF INVESTMENT OFFICER.**

7 **(E) THE COMPENSATION AND ANY FINANCIAL INCENTIVES AWARDED TO**
8 **THE CHIEF INVESTMENT OFFICER SHALL BE IN ACCORDANCE WITH THE**
9 **LIMITATIONS ON ADMINISTRATIVE AND OPERATIVE EXPENSES UNDER §**
10 **21-315(C) OF THIS TITLE.**

11 **(F) THE CHIEF INVESTMENT OFFICER APPOINTED UNDER THIS**
12 **SECTION IS A STATE EMPLOYEE AND SHALL BE ENTITLED TO PARTICIPATE IN**
13 **THE EMPLOYEES' PENSION SYSTEM UNDER TITLE 23 OF THIS ARTICLE.**

14 **(G) ON THE RECOMMENDATION OF EITHER THE INVESTMENT**
15 **COMMITTEE OR THE EXECUTIVE DIRECTOR AND ON RECEIVING AN**
16 **AFFIRMATIVE VOTE FROM A MAJORITY OF THE BOARD OF TRUSTEES, THE**
17 **EXECUTIVE DIRECTOR SHALL TERMINATE THE APPOINTMENT OF THE CHIEF**
18 **INVESTMENT OFFICER.**

19 21-122.

20 (a) There is an Investment Division in the State Retirement Agency.

21 (b) As the Board of Trustees specifies, the Investment Division shall invest
22 the assets of the several systems.

23 (c) [On recommendation of the Executive Director of the State Retirement
24 Agency, the Board of Trustees shall appoint a Chief Investment Officer who shall be
25 the head of the Investment Division.

26 (d)] (1) Quarterly, the Investment Division shall submit to the Board of
27 Trustees a report about the commissions that the State Retirement Agency pays on
28 investments.

29 (2) The report shall detail:

1 (i) the identity of each recipient of a commission that the State
2 Retirement Agency paid during the previous quarter;

3 (ii) the dollar amount of commission business that each
4 recipient performs;

5 (iii) the average price-per-share each recipient charged or, if the
6 commission was paid on a net basis, the markup or markdown that the recipient uses;
7 and

8 (iv) a reasonable history of the allocation of commissions.

9 **(D) THE CHIEF INVESTMENT OFFICER:**

10 **(1) MAY HIRE EXTERNAL INVESTMENT MANAGERS TO INVEST THE**
11 **ASSETS OF THE SEVERAL SYSTEMS; AND**

12 **(2) MAY TERMINATE THE APPOINTMENT OF AN EXTERNAL**
13 **INVESTMENT MANAGER ~~Hired under Paragraph (1) of this subsection.~~**

14 **(E) PRIOR TO TERMINATING THE APPOINTMENT OF AN EXTERNAL**
15 **INVESTMENT MANAGER UNDER SUBSECTION (D)(2) OF THIS SECTION, THE**
16 **CHIEF INVESTMENT OFFICER SHALL PROVIDE WRITTEN DOCUMENTATION TO**
17 **THE BOARD OF TRUSTEES AND THE INVESTMENT COMMITTEE EXPLAINING THE**
18 **BASIS FOR THE TERMINATION.**

19 21-315.

20 (c) Each year the Board of Trustees shall estimate the amount, not
21 exceeding 0.22% of the payroll of members, necessary for the administrative and
22 operational expenses of the Board of Trustees and the State Retirement Agency.

23 SECTION 2. AND BE IT FURTHER ENACTED, That:

24 (1) Prior to awarding financial incentives to the Chief Investment
25 Officer of the State Retirement Agency under Section 1 of this Act, the Board of
26 Trustees of the State Retirement and Pension System shall submit for the review and
27 comment of the Senate Budget and Taxation Committee, the House Appropriations
28 Committee, and the Joint Committee on Pensions, in accordance with § 2-1246 of the
29 State Government Article, a copy of the criteria established by the Board of Trustees
30 for awarding financial incentives to the Chief Investment Officer as provided under §

1 21-118.1(d) of the State Personnel and Pensions Article, as enacted by Section 1 of
2 this Act; and

3 (2) Within 45 days of receiving the criteria under paragraph (1) of this
4 section, the committees shall submit written comments to the Board of Trustees
5 regarding the criteria.

6 SECTION ~~2~~ 3. AND BE IT FURTHER ENACTED, That this Act shall take
7 effect July 1, 2007.

Approved:

Governor.

President of the Senate.

Speaker of the House of Delegates.