

Department of Legislative Services
Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

House Bill 1170 (Delegate Serafini)
Appropriations

State Retirement and Health Benefits Reporting Transparency Act

This bill requires the Board of Trustees of the State Retirement and Pension System (SRPS) to prepare quarterly reports, beginning September 30, 2011, detailing the performance of the SRPS investment program. The reports must be distributed electronically to the Governor, members of the General Assembly, and major media organizations in the State. The total cost of preparing and transmitting the reports may not exceed \$5,000 annually.

The bill takes effect July 1, 2011.

Fiscal Summary

State Effect: The State Retirement Agency (SRA) can carry out the bill's requirements with existing budgeted resources. However, any staff time spent compiling and disseminating the required reports detracts from the investment division's primary functions: monitoring current investment managers; conducting due diligence on potential new managers; and identifying promising new investment opportunities. Diminished attention to these functions increases risk to the system's portfolio, which cannot be quantified.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The reports must include the following information:

- the total fund balance of the several systems;
- the overall investment return for the several systems for the past three, six, and nine months, compared to industry-standard benchmarks;
- the investment returns by asset class for the several systems for the past three, six, and nine months, compared to industry-standard benchmarks;
- the overall 1-, 3-, 5-, and 10-year annualized investment returns for the several systems, compared to industry-standard benchmarks;
- the 1-, 3-, 5-, and 10-year annualized investment returns by asset class for the several systems, compared to industry standard benchmarks; and
- a comparison of the market value of the assets of the several systems with the market value reported on June 30 of the previous fiscal year.

Current Law: The SRPS Board of Trustees is required to publish an annual consolidated financial report that includes:

- the fiscal transactions of the several systems for the preceding fiscal year;
- the amount of the accumulated cash, securities, and other assets of each State system; and
- the last balance sheet that shows the financial condition of each State system by means of an actuarial valuation of the assets and liabilities of the State system.

Background: SRA posts quarterly investment updates on its website that contain most, but not all, of the information required by the bill. The updates provide the market value of SRPS assets by asset class, annualized investment returns at 1-, 3-, 5-, and 10-year intervals, and annual investment returns for each of the previous 10 fiscal years. The updates do not measure the system's investment returns against benchmarks and do not provide three-, six-, and nine-month returns. SRA's investment division also receives monthly audited investment performance reports from State Street Bank, its custodial bank. The State Street reports do measure performance against industry-accepted benchmarks.

State Fiscal Effect: As noted above, SRPS has access to all of the information that must be included in the quarterly reports, so there is no additional cost to collect the information. The requirement that the reports be transmitted electronically should preclude the need for printing and mailing costs. Therefore, the bill presents only an

operational burden for the board and SRA to compile and report the required information on a quarterly basis. Any staff time devoted to that endeavor detracts from time spent on the investment division's primary functions: monitoring and conducting due diligence on current and potential investment managers; and identifying promising new investment opportunities.

Additional Information

Prior Introductions: HB 1543 of 2010, which contained these and additional provisions, was heard by the House Appropriations Committee, but no further action was taken.

Cross File: None.

Information Source(s): Department of Budget and Management, Maryland State Retirement Agency, Department of Legislative Services

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