

**Department of Legislative Services**  
 Maryland General Assembly  
 2012 Session

**FISCAL AND POLICY NOTE**  
**Revised**

House Bill 806  
 Appropriations

(Delegate Griffith)(Chair, Joint Committee on Pensions)

Budget and Taxation

**State Retirement and Pension System - Investment Division - Salary Setting**

This bill gives the Board of Trustees of the State Retirement and Pension System (SRPS) independent authority to determine the qualifications and compensation for the deputy chief investment officer and managing director positions within the State Retirement Agency's (SRA) Investment Division, subject to specified limitations.

The bill takes effect July 1, 2012.

**Fiscal Summary**

**State Effect:** General, special, and federal fund expenditures by all State agencies increase by a total of \$23,400 in FY 2013 for SRA's administrative expenses. Those costs are assumed to be allocated 60% general funds, 20% special funds, and 20% federal funds. Out-year expenditure increases reflect annual increases in compensation subject to the bill's 10% annual cap.

(in dollars)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	14,000	25,600	37,500	49,600	61,900
SF Expenditure	4,700	8,500	12,500	16,500	20,600
FF Expenditure	4,700	8,500	12,500	16,500	20,600
Net Effect	(\$23,400)	(\$42,700)	(\$62,500)	(\$82,600)	(\$103,100)

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect*

**Local Effect:** Local governmental expenditures by school boards, community colleges, and participating governmental units (PGUs) increase by a total of \$43,400 in FY 2013, which is allocated proportionately among all local employers in SRPS. Out-year expenditure increases reflect annual compensation increases subject to the bill's 10% annual cap.

**Small Business Effect:** None.

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## **Analysis**

**Bill Summary:** The salary for the deputy chief investment officer (CIO) may not exceed the maximum salary under the ES 11 scale of the Maryland Executive Pay Plan (EPP). The salary for a managing director may not exceed the maximum salary under the ES 9 scale of EPP. Any salary increase for either position may not be greater than 10% of the lowest salary for the position in the prior fiscal year. The board may not provide bonuses to either of the positions covered by the bill.

By October 1, 2012, and each year thereafter, SRA must report to the appropriate committees of the General Assembly on the salaries and salary increases provided to specified staff in the agency's Investment Division, as well as specified information about any individuals who terminated employment with the Investment Division during the preceding year.

**Current Law:** Chapter 368 of 2007 gave the SRPS Board of Trustees independent authority to determine the compensation for the system's CIO based on specific criteria.

Chapter 397 of 2011 (the Budget Reconciliation and Financing Act) requires the State and each local employer within SRPS to pay its prorated share of SRA's administrative and operational expenses, based on the proportion of the system's total members employed by each employer in the second prior fiscal year. However, the State pays the local share attributable to local public libraries.

**Background:** In response to Chapter 368, the board voted to increase the base salary for the CIO from \$133,000 to between \$200,000 and \$300,000, depending on qualifications and experience.

The deputy CIO and each of four managing directors in SRA's Investment Division currently earn \$115,000 and \$103,000, respectively. A recent compensation analysis conducted on behalf of the board found those compensation levels to be substantially below the median compensation levels for similar positions in peer pension plans (\$164,000 and \$140,000, respectively). Within the past year, the system's deputy CIO and one managing director left for other state pension plans, in both cases earning higher compensation.

For fiscal 2012, the salary range for ES 11 positions in EPP is from \$124,175 to \$166,082, and the range for ES 9 positions is from \$107,196 to \$143,270.

**State Fiscal Effect:** Of the system's 195,059 total active members as of June 30, 2011, 101,289 (51.9%) are employed by local school boards or community colleges, and 25,633 (13.1%) are employed by PGUs. Therefore, local employers are responsible for a combined total of 65.0% of SRA's administrative and operational expenses (including employee compensation), and the State is responsible for the remaining 35%.

In addition to the deputy CIO, there are four managing directors in the Investment Division. Legislative Services' estimate of the fiscal effect is based on several assumptions. First, the initial increase in compensation for the five positions, in addition to subsequent annual increases, is subject to the 10% cap in the bill. Second, a 2% annual increase in EPP salary rates is assumed each year. Third, any increase in base compensation also results in adjustments to payments for fringe benefits that are linked to compensation, most notably pension costs and turnover calculations (health care benefits are a fixed amount and therefore are not affected).

Based on these assumptions, total compensation for the five positions increases by \$66,723 in fiscal 2013; the fiscal effect grows annually as compensation for the affected positions continues to increase faster than it does under current law, but subject to the statutory cap. By fiscal 2017, the gap between projected compensation under current law and projected compensation under the bill is \$294,694. Given the current 65%/35% split between local and State responsibility for SRA's administrative costs, State agencies are responsible for \$23,353 of the increased compensation in fiscal 2013 and \$103,143 by fiscal 2017. Those costs are assumed to be divided 60% general funds and 20% each for special and federal funds.

**Local Fiscal Effect:** The local share of the fiscal 2013 increase in compensation for the five positions is \$43,370 in fiscal 2013, which is divided proportionately among school boards, community colleges, and PGUs. Out-year costs continue to grow to reflect annual salary increases subject to the 10% cap, reaching \$191,551 in fiscal 2017.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 672 (Senator Jones-Rodwell)(Chair, Joint Committee on Pensions) - Budget and Taxation.

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

**Fiscal Note History:** First Reader - February 23, 2012  
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Analysis by: Michael C. Rubenstein

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510