

SENATE BILL 899

K4

8lr1669
CF HB 1012

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

Introduced and read first time: February 5, 2018

Assigned to: Budget and Taxation

A BILL ENTITLED

1 AN ACT concerning

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

3 FOR the purpose of clarifying that the compensation of the Executive Director for the State
4 Retirement Agency and certain staff shall be as provided in the State budget;
5 requiring the Board of Trustees for the State Retirement and Pension System to
6 adopt certain criteria for setting the qualifications and compensation of the Chief
7 Investment Officer for the State Retirement and Pension System; prohibiting certain
8 adjustments to the compensation of the Chief Investment Officer; requiring certain
9 financial incentives awarded to the Chief Investment Officer and certain employees
10 in the Investment Division to be paid in a certain manner; prohibiting certain
11 financial incentives from being paid under certain circumstances; prohibiting certain
12 financial incentives from being paid in a fiscal year when State employees are subject
13 to a furlough; requiring certain financial incentives not paid under certain
14 circumstances to be paid if certain conditions are satisfied; authorizing the Board of
15 Trustees to determine the qualifications and compensation for positions within the
16 Investment Division of the State Retirement Agency; authorizing the Board of
17 Trustees to determine and create the type and number of certain positions necessary
18 for carrying out certain investment functions; requiring the Board of Trustees to
19 adopt objective criteria to be followed when exercising certain authority established
20 under this Act; altering a requirement that the Board of Trustees report certain
21 information to certain entities; requiring the Board of Trustees to report certain
22 information to certain entities; requiring the Board of Trustees to adopt certain
23 criteria for setting the qualifications and compensation of certain positions in the
24 Investment Division; prohibiting the Board of Trustees from granting any increases
25 in compensation for certain positions in the Investment Division under certain
26 circumstances; prohibiting the Board of Trustees from setting compensation for
27 certain positions in the Investment Division above a certain amount; requiring the
28 Board of Trustees to adopt certain criteria for granting certain financial incentives
29 to certain employees in the Investment Division; prohibiting the Board of Trustees
30 from awarding financial incentives to certain positions; establishing that personnel
31 and operational expenses of the Investment Division are investment management

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.



1 services to be paid from the expense fund of each State system on a pro rata basis;
 2 requiring the personnel and operational expenses of the Investment Division to be
 3 appropriated out of the accumulation fund of each State system on a pro rata basis;
 4 establishing that personnel and operational expenses of the Investment Division are
 5 not included in the calculation of a certain payment by the State and local employers;
 6 making conforming changes; and generally relating to the governance and funding
 7 of the Investment Division of the State Retirement Agency.

8 BY repealing and reenacting, with amendments,

9 Article – State Personnel and Pensions

10 Section 21–118(c)(1), 21–118.1, 21–122, 21–303(d)(2), 21–315, and 21–316(b)

11 Annotated Code of Maryland

12 (2015 Replacement Volume and 2017 Supplement)

13 BY repealing and reenacting, without amendments,

14 Article – State Personnel and Pensions

15 Section 21–303(d)(1)

16 Annotated Code of Maryland

17 (2015 Replacement Volume and 2017 Supplement)

18 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND,

19 That the Laws of Maryland read as follows:

20 **Article – State Personnel and Pensions**

21 21–118.

22 (c) (1) (I) The Executive Director shall employ a staff in accordance with
 23 the State budget.

24 (II) **EXCEPT AS PROVIDED IN § 21–315 OF THIS TITLE, THE**
 25 **COMPENSATION OF THE EXECUTIVE DIRECTOR AND STAFF SHALL BE AS PROVIDED**
 26 **IN THE STATE BUDGET.**

27 21–118.1.

28 (a) Notwithstanding any other provision of law, on the recommendation of the
 29 Executive Director and the Investment Committee, the Board of Trustees shall determine
 30 the qualifications and appointment, as well as compensation and leave, for the Chief
 31 Investment Officer who shall be the head of the Investment Division.

32 (b) (1) In making determinations and appointments under this section, the
 33 Executive Director and the Investment Committee shall consider the comparative
 34 qualifications, compensation, and leave of employees serving in similar positions and
 35 discharging similar duties at comparable public pension funds.

1 **(2) (I) THE BOARD OF TRUSTEES SHALL ADOPT OBJECTIVE**
2 **CRITERIA FOR SETTING THE QUALIFICATIONS AND COMPENSATION OF THE CHIEF**
3 **INVESTMENT OFFICER.**

4 **(II) THE CRITERIA ADOPTED UNDER SUBPARAGRAPH (I) OF**
5 **THIS PARAGRAPH SHALL INCLUDE OBJECTIVE BENCHMARKS OF INVESTMENT**
6 **PERFORMANCE THAT SHALL BE MET OR EXCEEDED FOR THE CHIEF INVESTMENT**
7 **OFFICER TO BE ELIGIBLE FOR AN INCREASE IN COMPENSATION.**

8 **(III) THE BOARD MAY NOT GRANT ANY INCREASES IN**
9 **COMPENSATION TO THE CHIEF INVESTMENT OFFICER IN A FISCAL YEAR IN WHICH**
10 **STATE EMPLOYEES ARE SUBJECT TO A FURLOUGH.**

11 **(IV) THE CHIEF INVESTMENT OFFICER'S COMPENSATION MAY**
12 **NOT BE ADJUSTED IN ACCORDANCE WITH COST-OF-LIVING ADJUSTMENTS AND**
13 **MERIT INCREASES AVAILABLE TO STATE EMPLOYEES.**

14 (c) **(1) In addition to the Board of Trustees setting the [salary]**
15 **COMPENSATION of the Chief Investment Officer under subsection (a) of this section [in**
16 **accordance with the State budget], the Board of Trustees may also award financial**
17 **incentives to the Chief Investment Officer in accordance with THIS SUBSECTION AND**
18 **subsection (d) of this section.**

19 **(2) (I) ANY FINANCIAL INCENTIVES PAID SHALL BE PAID OVER**
20 **MULTIPLE FISCAL YEARS IN EQUAL INSTALLMENTS.**

21 **(II) THE DATES ON WHICH FINANCIAL INCENTIVES AWARDED**
22 **UNDER THIS SECTION SHALL BE PAID SHALL BE SET BY THE BOARD OF TRUSTEES**
23 **AT THE TIME THE FINANCIAL INCENTIVES ARE DETERMINED.**

24 **(III) THE DATES SET UNDER SUBPARAGRAPH (II) OF THIS**
25 **PARAGRAPH MAY NOT BE CHANGED AFTER BEING SET.**

26 **(3) IF THE CHIEF INVESTMENT OFFICER SEPARATES FROM**
27 **EMPLOYMENT, THE BOARD OF TRUSTEES MAY NOT PAY OUT ANY REMAINING**
28 **FINANCIAL INCENTIVES DUE TO BE PAID AFTER THE DATE OF SEPARATION FROM**
29 **EMPLOYMENT.**

30 **(4) (I) THE BOARD OF TRUSTEES MAY NOT PAY FINANCIAL**
31 **INCENTIVES IN A FISCAL YEAR IN WHICH STATE EMPLOYEES ARE SUBJECT TO A**
32 **FURLOUGH.**

1 **(II) THE BOARD OF TRUSTEES SHALL PAY OUT ANY FINANCIAL**
2 **INCENTIVES NOT PAID IN ACCORDANCE WITH SUBPARAGRAPH (I) OF THIS**
3 **PARAGRAPH ONLY:**

4 **1. AFTER THE FURLOUGH PERIOD HAS ENDED; AND**

5 **2. IF THE CHIEF INVESTMENT OFFICER IS CURRENTLY**
6 **EMPLOYED AS THE CHIEF INVESTMENT OFFICER.**

7 (d) (1) **(I)** On the recommendation of the Investment Committee, the Board
8 of Trustees shall establish **OBJECTIVE** criteria for awarding financial incentives to the
9 Chief Investment Officer.

10 **(II) FINANCIAL INCENTIVES MAY ONLY BE AWARDED BASED ON**
11 **THE OBJECTIVE CRITERIA ADOPTED IN ACCORDANCE WITH SUBPARAGRAPH (I) OF**
12 **THIS PARAGRAPH.**

13 (2) The criteria under paragraph (1) of this subsection shall [be based on]
14 **INCLUDE:**

15 (i) objective benchmarks of investment performance for the assets
16 of the several systems **THAT SHALL BE MET OR EXCEEDED; [and]**

17 (ii) **OBJECTIVE** criteria used by comparable public pension funds
18 awarding financial incentives to chief investment officers; **AND**

19 **(III) LIMITATIONS ON THE AMOUNT OF FINANCIAL INCENTIVES**
20 **IN A FISCAL YEAR, NOT TO EXCEED 33% OF THE CHIEF INVESTMENT OFFICER'S**
21 **COMPENSATION EXCLUSIVE OF FINANCIAL INCENTIVES.**

22 (3) The Chief Investment Officer may not participate in any deliberations
23 regarding the establishment of criteria under this subsection.

24 (4) The criteria established under this subsection shall be included in the
25 investment policy manual.

26 (5) On or before September 1 of each year, the Board of Trustees shall
27 submit to the Joint Committee on Pensions, in accordance with § 2-1246 of the State
28 Government Article, a copy of the most recent criteria established under this section and
29 any financial incentives that were awarded for the previous fiscal year to the Chief
30 Investment Officer.

31 (e) [The compensation and any financial incentives awarded to the Chief
32 Investment Officer shall be in accordance with the limitations on administrative and
33 operational expenses under § 21-315(c) of this title.

1 (f) The Chief Investment Officer appointed under this section is a State employee
2 and shall be entitled to participate in the Employees' Pension System under Title 23 of this
3 article.

4 [(g) (F) On the recommendation of either the Investment Committee or the
5 Executive Director and on receiving an affirmative vote from a majority of the Board of
6 Trustees, the Executive Director shall terminate the appointment of the Chief Investment
7 Officer.

8 21-122.

9 (a) (1) There is an Investment Division in the State Retirement Agency.

10 (2) Subject to [paragraph (3) of this subsection] **SUBSECTION (F) OF THIS**
11 **SECTION**, the Board of Trustees shall determine the qualifications and compensation for
12 [the following] positions within the Investment Division[:

13 (i) deputy chief investment officer; and

14 (ii) managing director].

15 (3) The Board of Trustees[may not:

16 (i) set or increase the salary for the deputy chief investment officer
17 at an amount greater than the maximum salary under the ES11 scale of the Maryland
18 Executive Pay Plan;

19 (ii) set or increase the salary for a managing director at an amount
20 greater than the maximum salary under the ES9 scale of the Maryland Executive Pay Plan;

21 (iii) provide bonuses for an employee; or

22 (iv) subject to the limitations under items (i) and (ii) of this
23 paragraph, set or increase the salary for a position that provides more than a 10% increase
24 over the lowest salary for the position in the prior fiscal year];

25 **(I) MAY DETERMINE AND CREATE THE TYPE AND NUMBER OF**
26 **POSITIONS NECESSARY FOR CARRYING OUT THE PROFESSIONAL INVESTMENT**
27 **FUNCTIONS OF THE INVESTMENT DIVISION; AND**

28 **(II) SHALL ADOPT OBJECTIVE CRITERIA TO BE FOLLOWED**
29 **WHEN EXERCISING ITS AUTHORITY UNDER ITEM (I) OF THIS PARAGRAPH AND**
30 **PARAGRAPH (2) OF THIS SUBSECTION.**

1 (4) On or before October 1, 2012, and each October 1 thereafter, the Board
2 of Trustees shall report to the Senate Budget and Taxation Committee, the House
3 Appropriations Committee, and the Joint Committee on Pensions, in accordance with §
4 2–1246 of the State Government Article on:

5 (i) the current [salaries] **COMPENSATION** of the [deputy chief
6 investment officer and the managing directors] **THE CHIEF INVESTMENT OFFICER AND**
7 **EMPLOYEES** of the Investment Division;

8 (ii) any [salary] **COMPENSATION** increases [the deputy chief
9 investment officer or managing directors] **THE CHIEF INVESTMENT OFFICER AND**
10 **EMPLOYEES** of the Investment Division have received in the fiscal year immediately
11 preceding that October 1; [and]

12 (iii) 1. the number of individuals in the Investment Division of
13 the State Retirement Agency who were employed as professional investment staff and
14 terminated employment with the State Retirement Agency in the fiscal year immediately
15 preceding that October 1;

16 2. the number of years of employment an individual
17 described in item 1 of this item had accrued with the State Retirement Agency at the time
18 the individual terminated employment with the State Retirement Agency; and

19 3. to the extent possible, the new employer, position, and
20 [salary] **COMPENSATION** the individual described in item 1 of this item accepted upon
21 terminating employment with the State Retirement Agency;

22 **(IV) THE CRITERIA USED TO SET THE COMPENSATION OF**
23 **EMPLOYEES OF THE INVESTMENT DIVISION;**

24 **(V) THE CRITERIA USED TO DETERMINE THE TYPE AND NUMBER**
25 **OF POSITIONS NECESSARY TO CARRY OUT THE FUNCTIONS OF THE INVESTMENT**
26 **DIVISION;**

27 **(VI) THE NUMBER OF EMPLOYEES ELIGIBLE FOR FINANCIAL**
28 **INCENTIVES, AND THE FINANCIAL INCENTIVES PAID IN THE CURRENT FISCAL YEAR;**
29 **AND**

30 **(VII) THE NET IMPACT ON SYSTEM INVESTMENT RETURNS**
31 **ATTRIBUTABLE TO THE COSTS OF THE INVESTMENT DIVISION FOR THE PRECEDING**
32 **FISCAL YEAR.**

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

1 (c) (1) Quarterly, the Investment Division shall submit to the Board of
2 Trustees a report about the commissions that the State Retirement Agency pays on
3 investments.

4 (2) The report shall detail:

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

7 (ii) the dollar amount of commission business that each recipient
8 performs;

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

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

12 (d) On behalf of the several systems, the Chief Investment Officer:

13 (1) may hire external investment managers to invest the assets of the
14 several systems;

15 (2) may select and invest in specific investment vehicles, including limited
16 partnerships, private equity fund investments, and private real estate fund investments;
17 and

18 (3) may terminate the appointment of an external investment manager.

19 (e) Prior to terminating the appointment of an external investment manager
20 under subsection (d)(2) of this section, the Chief Investment Officer shall provide written
21 documentation to the Board of Trustees and the Investment Committee explaining the
22 basis for the termination.

23 **(F) (1) (I) THE BOARD OF TRUSTEES SHALL ADOPT OBJECTIVE**
24 **CRITERIA FOR SETTING THE QUALIFICATIONS AND COMPENSATION OF POSITIONS**
25 **UNDER SUBSECTION (A) OF THIS SECTION.**

26 **(II) THE CRITERIA ADOPTED UNDER SUBPARAGRAPH (I) OF**
27 **THIS PARAGRAPH SHALL INCLUDE:**

28 **1. CONSIDERATION OF THE COMPARATIVE**
29 **QUALIFICATIONS AND COMPENSATION OF EMPLOYEES SERVING IN SIMILAR**
30 **POSITIONS AND DISCHARGING SIMILAR DUTIES AT COMPARABLE PUBLIC PENSION**
31 **FUNDS;**

1 **2. LIMITATIONS ON THE AMOUNT BY WHICH THE**
2 **COMPENSATION FOR A POSITION MAY BE INCREASED EACH FISCAL YEAR, NOT TO**
3 **EXCEED 10%; AND**

4 **3. OBJECTIVE BENCHMARKS OF INVESTMENT**
5 **PERFORMANCE THAT SHALL BE MET OR EXCEEDED BY AN INDIVIDUAL TO BE**
6 **ELIGIBLE FOR AN INCREASE IN COMPENSATION.**

7 **(III) THE BOARD OF TRUSTEES MAY NOT GRANT ANY INCREASES**
8 **IN COMPENSATION IN A FISCAL YEAR IN WHICH STATE EMPLOYEES ARE SUBJECT TO**
9 **A FURLOUGH.**

10 **(IV) FOR POSITIONS THAT DO NOT INVOLVE DISCRETION OVER**
11 **INVESTMENT-RELATED DECISIONS, THE BOARD OF TRUSTEES MAY NOT SET**
12 **COMPENSATION THAT EXCEEDS COMPENSATION FOR PROVIDING COMPARABLE**
13 **SERVICES IN OTHER STATE EMPLOYMENT.**

14 **(V) EXCEPT FOR POSITIONS UNDER SUBPARAGRAPH (IV) OF**
15 **THIS PARAGRAPH, THE COMPENSATION OF AN EMPLOYEE MAY NOT BE ADJUSTED IN**
16 **ACCORDANCE WITH COST-OF-LIVING ADJUSTMENTS AND MERIT INCREASES**
17 **AVAILABLE TO STATE EMPLOYEES.**

18 **(2) (I) THE BOARD OF TRUSTEES SHALL ADOPT OBJECTIVE**
19 **CRITERIA FOR GRANTING FINANCIAL INCENTIVES UNDER SUBSECTION (A) OF THIS**
20 **SECTION.**

21 **(II) FINANCIAL INCENTIVES MAY ONLY BE AWARDED BASED ON**
22 **THE OBJECTIVE CRITERIA ADOPTED IN ACCORDANCE WITH SUBPARAGRAPH (I) OF**
23 **THIS PARAGRAPH.**

24 **(III) THE CRITERIA ADOPTED UNDER SUBPARAGRAPH (I) OF**
25 **THIS PARAGRAPH SHALL INCLUDE:**

26 **1. LIMITATIONS ON THE AMOUNT OF FINANCIAL**
27 **INCENTIVES FOR A POSITION IN A FISCAL YEAR, NOT TO EXCEED 33% OF A**
28 **POSITION'S COMPENSATION, EXCLUSIVE OF FINANCIAL INCENTIVES; AND**

29 **2. OBJECTIVE BENCHMARKS OF INVESTMENT**
30 **PERFORMANCE THAT SHALL BE MET OR EXCEEDED BY AN INDIVIDUAL TO BE**
31 **ELIGIBLE FOR FINANCIAL INCENTIVES, INCLUDING BENCHMARKS FOR THE ASSET**
32 **CLASS IN WHICH INVESTMENTS ARE UNDER THE DIRECTION OF THE INDIVIDUAL.**

1 (III) 1. ANY FINANCIAL INCENTIVES PAID SHALL BE PAID
2 OVER MULTIPLE FISCAL YEARS IN EQUAL INSTALLMENTS.

3 2. THE DATES ON WHICH FINANCIAL INCENTIVES
4 AWARDED UNDER THIS SECTION SHALL BE PAID SHALL BE SET BY THE BOARD OF
5 TRUSTEES AT THE TIME THE FINANCIAL INCENTIVES ARE DETERMINED.

6 3. THE DATES SET UNDER SUBSUBPARAGRAPH 2 OF
7 THIS SUBPARAGRAPH MAY NOT BE CHANGED AFTER BEING SET.

8 (IV) IF AN INDIVIDUAL WHO HAS EARNED FINANCIAL
9 INCENTIVES SEPARATES FROM EMPLOYMENT IN THE INVESTMENT DIVISION, THE
10 BOARD OF TRUSTEES MAY NOT PAY OUT ANY REMAINING FINANCIAL INCENTIVES
11 DUE TO BE PAID AFTER THE DATE OF SEPARATION FROM EMPLOYMENT.

12 (V) THE BOARD OF TRUSTEES MAY NOT AWARD FINANCIAL
13 INCENTIVES FOR POSITIONS THAT DO NOT INVOLVE DISCRETION OVER
14 INVESTMENT-RELATED DECISIONS.

15 (VI) 1. THE BOARD OF TRUSTEES MAY NOT PAY OUT
16 FINANCIAL INCENTIVES IN A FISCAL YEAR IN WHICH STATE EMPLOYEES ARE
17 SUBJECT TO A FURLOUGH.

18 2. THE BOARD OF TRUSTEES SHALL PAY OUT ANY
19 FINANCIAL INCENTIVES NOT PAID TO AN INDIVIDUAL IN ACCORDANCE WITH
20 SUBSUBPARAGRAPH 1 OF THIS SUBPARAGRAPH ONLY:

21 A. AFTER THE FURLOUGH PERIOD HAS ENDED; AND

22 B. IF THE INDIVIDUAL IS CURRENTLY EMPLOYED IN THE
23 INVESTMENT DIVISION.

24 (3) (I) ON OR BEFORE OCTOBER 1 EACH YEAR, THE BOARD OF
25 TRUSTEES SHALL SUBMIT TO THE SENATE BUDGET AND TAXATION COMMITTEE,
26 THE HOUSE APPROPRIATIONS COMMITTEE, AND THE JOINT COMMITTEE ON
27 PENSIONS, IN ACCORDANCE WITH § 2-1246 OF THE STATE GOVERNMENT ARTICLE,
28 A COPY OF THE MOST RECENT CRITERIA ADOPTED UNDER THIS SUBSECTION.

29 (II) IN ADDITION TO THE REPORT REQUIRED UNDER
30 SUBPARAGRAPH (I) OF THIS PARAGRAPH, THE BOARD OF TRUSTEES SHALL SUBMIT,
31 WITHIN 30 DAYS OF ADOPTION BY THE BOARD OF TRUSTEES, A COPY OF ANY
32 CHANGES ADOPTED TO THE CRITERIA ESTABLISHED UNDER THIS SUBSECTION TO
33 THE SENATE BUDGET AND TAXATION COMMITTEE, THE HOUSE APPROPRIATIONS

1 COMMITTEE, AND THE JOINT COMMITTEE ON PENSIONS, IN ACCORDANCE WITH §
2 2-1246 OF THE STATE GOVERNMENT ARTICLE.

3 (4) ON OR BEFORE OCTOBER 1, JANUARY 1, MARCH 1, AND JULY 1
4 EACH YEAR, THE BOARD OF TRUSTEES SHALL SUBMIT TO THE SENATE BUDGET AND
5 TAXATION COMMITTEE, THE HOUSE APPROPRIATIONS COMMITTEE, AND THE
6 JOINT COMMITTEE ON PENSIONS, IN ACCORDANCE WITH § 2-1246 OF THE STATE
7 GOVERNMENT ARTICLE, A REPORT ON SYSTEM INVESTMENT RETURNS FOR THE
8 PRECEDING FISCAL QUARTER, INCLUDING:

9 (I) INVESTMENT PERFORMANCE BY ASSET CLASS, INCLUDING
10 PERFORMANCE RELATIVE TO ASSET CLASS BENCHMARKS; AND

11 (II) INVESTMENT PERFORMANCE OF ASSETS UNDER THE
12 DIRECTION OF EACH INVESTMENT DIVISION EMPLOYEE.

13 21-303.

14 (d) (1) Except as provided in paragraph (2) of this subsection, each year, the
15 Board of Trustees shall transfer from the accumulation fund of each State system to the
16 expense fund of that system the amounts required by § 21-315 of this subtitle.

17 (2) The administrative and operational expenses of the Board of Trustees
18 and the State Retirement Agency, not including amounts as authorized by the Board of
19 Trustees necessary for investment management services **AND PERSONNEL AND**
20 **OPERATIONAL EXPENSES OF THE INVESTMENT DIVISION**, shall be paid by
21 participating employers as provided in § 21-316 of this subtitle and may not be transferred
22 from the accumulation fund of each system.

23 21-315.

24 (a) The Board of Trustees shall credit to the expense fund of each State system
25 its pro rata share of:

26 (1) the amount provided in the annual State budget to pay the
27 administrative and operational expenses of the Board of Trustees and the State Retirement
28 Agency;

29 (2) the amounts authorized by the Board of Trustees under this section for
30 investment management services, **INCLUDING PERSONNEL AND OPERATIONAL**
31 **EXPENSES OF THE INVESTMENT DIVISION**; and

32 (3) the amount authorized by the Board of Trustees to implement a closing
33 agreement with the Internal Revenue Service regarding former members of the Employees'
34 Retirement System or the Teachers' Retirement System who elected to become members of

1 or participate in those State systems under former Article 73B, §§ 2–206 and 3–206 of the
2 Code.

3 (b) (1) The Board of Trustees shall pay from the expense fund of each State
4 system its pro rata share of:

5 [(1)] (I) the administrative and operational expenses of the Board of
6 Trustees and the State Retirement Agency, in accordance with the annual State budget;

7 [(2)] (II) the amounts as authorized by the Board of Trustees necessary
8 for investment management services, **INCLUDING PERSONNEL AND OPERATIONAL**
9 **EXPENSES OF THE INVESTMENT DIVISION;** and

10 [(3)] (III) the amounts as authorized by the Board of Trustees necessary to
11 implement a closing agreement with the Internal Revenue Service regarding former
12 members of the Employees' Retirement System or the Teachers' Retirement System who
13 elected to become members of or participate in those State systems under former Article
14 73B, §§ 2–206 and 3–206 of the Code.

15 (2) **THE AMOUNTS FOR THE PERSONNEL AND OPERATIONAL**
16 **EXPENSES OF THE INVESTMENT DIVISION SHALL BE APPROPRIATED OUT OF THE**
17 **ACCUMULATION FUND OF EACH STATE SYSTEM ON A PRO RATA BASIS AND MAY NOT**
18 **BE PAID BY PARTICIPATING EMPLOYERS AS PROVIDED IN § 21–316 OF THIS**
19 **SUBTITLE.**

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

23 (d) (1) Each quarter of the fiscal year the Board of Trustees shall estimate
24 one-fourth of an amount, not exceeding 0.5% of the market value as of the last day of the
25 preceding quarter of invested assets that are externally managed exclusive of assets
26 invested in real estate or alternative investments, necessary to procure and retain
27 investment management services other than external real estate or alternative investment
28 management services.

29 (2) The Board of Trustees is not limited in the amount of investment
30 manager fees that the Board of Trustees may pay as necessary for external real estate or
31 alternative investment management services.

32 (e) (1) The amounts estimated under subsection (c) of this section shall be paid
33 into the expense funds of the several systems during the ensuing year on a pro rata basis
34 according to the total membership of each system.

1 (2) The amounts estimated under subsection (d) of this section shall be paid
2 into the expense funds of the several systems during the ensuing year on a pro rata basis
3 according to the total assets held by each system.

4 (f) The Board of Trustees may combine the expense funds of the several systems
5 for budgetary and administrative efficiency.

6 (g) **(1)** On or before December 31 of each year, the Board of Trustees shall
7 report to the General Assembly the actual amount spent for investment management
8 services during the preceding fiscal year.

9 **(2) ON OR BEFORE DECEMBER 31 EACH YEAR, THE BOARD OF**
10 **TRUSTEES SHALL REPORT TO THE GENERAL ASSEMBLY THE ACTUAL AMOUNT**
11 **SPENT FOR INVESTMENT DIVISION OPERATIONS DURING THE PRECEDING FISCAL**
12 **YEAR.**

13 21–316.

14 (b) (1) Subject to paragraph (3) of this subsection, for each fiscal year, the
15 State and each local employer shall pay to the Board of Trustees their pro rata shares of
16 the amount necessary for the administrative and operational expenses of the Board of
17 Trustees and the State Retirement Agency.

18 (2) The pro rata share of the State and of each local employer for each fiscal
19 year shall be based on the number of members of the several systems employed by the State
20 or local employer as of June 30 of the second prior fiscal year compared to the total
21 membership of the several systems as of that date.

22 (3) The State shall pay the pro rata share under this section of each library.

23 **(4) THE ADMINISTRATIVE AND OPERATIONAL EXPENSES OF THE**
24 **BOARD OF TRUSTEES AND THE STATE RETIREMENT AGENCY USED TO DETERMINE**
25 **THE PRO RATA SHARES UNDER THIS SUBSECTION MAY NOT INCLUDE COSTS FOR THE**
26 **PERSONNEL AND OPERATIONAL EXPENSES OF THE INVESTMENT DIVISION.**

27 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect July
28 1, 2018.