Maryland Pension Risk Mitigation Act

This bill requires the Board of Trustees of the State Retirement and Pension System (SRPS), consistent with its fiduciary duties, to adopt policies regarding the management of risk, including climate risks, in the investment of system assets. It also requires the board, consistent with its fiduciary duties and beginning January 31, 2019, to submit an annual report to the General Assembly on the risk assessment of the system’s investments, including climate risk. The bill takes effect July 1, 2018.

Fiscal Summary

State Effect: Special fund expenditures may increase by as much as $400,000 each year beginning in FY 2019 for investment risk analyses, as discussed below. The State Retirement Agency (SRA) can handle the bill’s other requirements with existing budgeted resources. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: Policies adopted by the SRPS board related to risk must be incorporated into its Investment Policy Manual and address:

- investment principles, guidelines, and policies that govern the selection and retention of the system’s investments, including proxy voting and engagement guidelines; and
• a policy that proxy votes and sample due diligence questionnaires for prospective managers be published on SRA’s website.

The annual risk assessment must identify and include specified items, and the board must post a report about the assessment on SRA’s website.

To the extent practicable, SRA must request all information necessary from investment managers, brokers, and other entities to carry out its policies related to the risk assessment required by the bill. The board or any other fiduciary of the system may not be held liable for any actions or decisions taken in good faith to carry out the bill’s requirements.

Nothing in the bill requires the board to take any action unless the board determines, in good faith, that the action is consistent with its fiduciary responsibilities.

**Current Law:** The SRPS Board of Trustees must hold the assets of the several systems for the exclusive purpose of providing benefits to participants and for reasonable expenses of administration. A fiduciary of the system, which includes the board and other specified entities, must discharge its duties solely in the interest of the participants and:

• for the exclusive purpose of providing benefits to participants and for reasonable expenses of administration;
• with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use;
• by diversifying the investments of the several systems to minimize the risk of large losses;
• in accordance with laws governing the system; and
• in accordance with documents and instruments governing the several systems.

**Background:** In April 2016, the Joint Committee on Pensions (JCP) asked the board to report on how the system factors the growing risk of climate change into its investment policies. The request noted that the financial cost of climate change will increase and that JCP wanted to hear how the system’s practices with respect to the growing risk of climate change affect its investments.

In its October 2016 response to JCP, the board noted multiple steps that the system had taken and tools that it was using with respect to climate change risk. In discussing potential next steps, the board noted that one of its first initiatives should be to obtain an estimate of the system’s carbon footprint.
**State Fiscal Effect:** The bill generally requires SRA to report on the risk assessment of its investment program, including climate risk. The agency maintains a robust risk assessment program that relies substantially on outside consultants. To the extent that the bill requires the agency to report on its existing program, SRA can likely complete the annual report with existing resources. However, SRA advises that the bill’s requirement for an assessment of *all* risk to the fund, with inclusion of climate risk as a risk factor to be discussed in the report, likely requires it to expand its existing risk management program, including hiring an additional consultant with expertise in assessing climate risk. The annual cost of any such assessment may be as much as $400,000 but may be significantly less to the extent that the existing risk management program is broad enough to satisfy the requirement for an assessment of all risk, including some assessment of climate risk.

As the bill specifies that any actions taken by the board must be consistent with its fiduciary responsibilities, it is assumed that any adjustments to its investment portfolio as a result of the bill do not diminish system assets.

**Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 898 (Senator Guzzone) - Budget and Taxation.

**Information Source(s):** State Retirement Agency; Department of Legislative Services

**Fiscal Note History:**

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