HOUSE BILL 1254

By: Delegates Barve, Fraser–Hidalgo, Grammer, Pendergrass, Qi, Stein, Valderrama, and Wivell

Introduced and read first time: February 7, 2020
Assigned to: Appropriations

A BILL ENTITLED

1 AN ACT concerning

State Retirement and Pension System – Investment Management Fees

FOR the purpose of altering a requirement that the Board of Trustees for the State Retirement and Pension System provide a quarterly estimate of certain external investment management services; prohibiting the Board of Trustees from incurring fees for external investment management services that exceed a certain amount in a fiscal year; exempting from the prohibition certain fees incurred under a contract entered into on or before a certain date; prohibiting the Board of Trustees from entering into an agreement on or after a certain date that would pay certain investment management fees; stating the intent of the General Assembly regarding fees for investment of State Retirement and Pension System assets; and generally relating to investment management fees of the State Retirement and Pension System.

BY repealing and reenacting, without amendments,
Article – State Personnel and Pensions
Section 21–123(c) and 21–315(a)(2), (b), (e)(2), and (g)
Annotated Code of Maryland
(2015 Replacement Volume and 2019 Supplement)

BY repealing and reenacting, with amendments,
Article – State Personnel and Pensions
Section 21–315(d)
Annotated Code of Maryland
(2015 Replacement Volume and 2019 Supplement)

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

Article – State Personnel and Pensions

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.
[Brackets] indicate matter deleted from existing law.
(c) (1) The Board of Trustees may invest assets of the several systems subject to the conditions that it imposes.

(2) The Board of Trustees shall include the conditions that it adopts under paragraph (1) of this subsection in the investment policy manual required by § 21–116(c) of this subtitle.

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

(2) the amounts authorized by the Board of Trustees under this section for investment management services, including personnel and operational expenses of the Investment Division; and

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

(i) the administrative and operational expenses of the Board of Trustees and the State Retirement Agency, in accordance with the annual State budget;

(ii) the amounts as authorized by the Board of Trustees necessary for investment management services, including personnel and operational expenses of the Investment Division; and

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

(2) The amounts for the personnel and operational expenses of the Investment Division shall be paid out of the accumulation fund of each State system on a pro rata basis and may not be paid by participating employers as provided in § 21–316 of this subtitle.

(d) (1) (I) Each quarter of the fiscal year the Board of Trustees shall estimate one–fourth of [an amount, not exceeding 0.5% of the market value as of the last day of the preceding quarter of invested assets that are externally managed exclusive of assets invested in real estate or alternative investments, necessary to procure and retain investment management services other than external real estate or alternative investment management services] THE AMOUNT NECESSARY TO PROCURE AND RETAIN EXTERNAL INVESTMENT MANAGEMENT SERVICES, SUBJECT TO THE LIMITATIONS OF
SUBPARAGRAPH (II) OF THIS PARAGRAPH.

(II) EXCEPT AS PROVIDED IN PARAGRAPH (2) OF THIS
SUBSECTION, THE BOARD OF TRUSTEES MAY NOT PAY FEES IN A FISCAL YEAR FOR
EXTERNAL INVESTMENT MANAGEMENT OF SYSTEM ASSETS THAT EXCEED 0.2% OF
THE MARKET VALUE OF INVESTED ASSETS AS OF THE LAST DAY OF THE PRECEDING
FISCAL YEAR.

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

(2) PARAGRAPH (1) OF THIS SUBSECTION MAY NOT LIMIT THE
INVESTMENT MANAGEMENT FEES THE BOARD OF TRUSTEES MAY PAY FOR
EXTERNAL INVESTMENT MANAGEMENT OF SYSTEM ASSETS UNDER AN AGREEMENT
ENTERED INTO ON OR BEFORE JUNE 30, 2020.

(3) ON OR AFTER JULY 1, 2020, THE BOARD OF TRUSTEES MAY NOT
ENTER INTO AN AGREEMENT FOR EXTERNAL INVESTMENT MANAGEMENT SERVICES
THAT WOULD PAY FEES FOR UNREALIZED INVESTMENT GAINS.

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

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

(ii) The report required under subparagraph (i) of this paragraph
shall include the amount of carried interest on any assets of the system.

(2) On or before December 31 each year, the Board of Trustees shall report
to the General Assembly the actual amount spent for Investment Division operations
during the preceding fiscal year.

SECTION 2. AND BE IT FURTHER ENACTED, That it is the intent of the General
Assembly that the Board of Trustees for the State Retirement and Pension System utilize
low–fee, passive investment strategies in the management of system assets, consistent with
its fiduciary responsibilities.

SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect July
1, 2020.