

Department of Legislative Services
 Maryland General Assembly
 2020 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1101 (Delegate Grammer)
 Appropriations

State Retirement and Pension System - Financial Reporting

This bill requires the Board of Trustees of the State Retirement and Pension System (SRPS) to publish a comprehensive annual financial report (CAFR) with specified information regarding the system’s investment performance. It also requires the SRPS board to submit quarterly reports to the General Assembly comparing its investment performance to the system’s investment benchmarks. The board must hire a consultant, which may be faculty members of the University System of Maryland, to assess the capital market predictions made by Investment Division staff or a system investment consultant. **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: Nonbudgeted expenditures by the State Retirement Agency (SRA) increase by \$100,000 annually beginning in FY 2021 to hire the consultant required by the bill. SRA can otherwise carry out the bill’s requirements with existing resources. No material effect on State pension liabilities or contribution rates. No effect on revenues.

(in dollars)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenues	\$0	\$0	\$0	\$0	\$0
NonBud Exp.	100,000	100,000	100,000	100,000	100,000
Net Effect	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)

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

Local Effect: No material effect on local pension liabilities or contribution rates. No effect on revenues.

Small Business Effect: None.

Analysis

Bill Summary: By December 15 of each year, the SRPS board must publish a CAFR that includes:

- a comparison, in plain language and with tables, of the system's one-, three-, five- and 10-year compound annualized returns against specified benchmarks;
- an analysis of the effect that the system's investment performance has had on its revenues; and
- a description of the how the board determined its benchmarks and its performance against those benchmarks.

Current Law: The SRPS Board of Trustees is vested with the responsibility for the management, general administration, and proper operation of the several systems. The board has full power to invest the assets of the several systems. Statute establishes an Investment Committee to advise the board and make recommendations on the investment programs, compliance of the investment programs with board policies, and bonding for employees of SRA. The board must publish a consolidated annual report that includes (1) the fiscal transactions of the several systems for the preceding year; (2) the amount of the accumulated cash, securities, and other assets of each State system; and (3) the last balance sheet that shows the financial condition of each State system.

As fiduciaries of the system, members of the board and investment staff are statutorily subject to the "prudent person" standard. They must discharge their duties with the care, skill, prudence, and diligence that a prudent person, under similar circumstances and acting in a similar capacity, would use. They must also diversify the system's investments to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

Background: Most of the information that the bill requires to be reported is already publicly available. The SRPS board publishes a CAFR for the preceding fiscal year that is typically available on the system's website and in hard copy by January of each year. It includes an extensive section on the system's investment program that provides, for each asset class and for the fund overall, the system's allocation to the class, the benchmark performance, and the system's performance for the fiscal year. The CAFR also provides, for each asset class, comparisons of annualized returns to their respective benchmarks over three- and five-year periods. The board also provides quarterly investment performance reports on its website.

In addition, the Department of Legislative Services (DLS) provides an overview of the system's investment performance to the Joint Committee on Pensions each year that

includes much of the same information in the CAFR as well as comparisons of the system's investment performance to other comparable state pension plans. Both the CAFR and the DLS overview make extensive use of tables. The overview is presented in open session and streamed to the public, and a hard copy is available for download on the DLS website.

The board retains four different investment consultants: (1) a general investment consultant to provide advice and recommendations on asset allocation and investment policy; (2) a real estate consultant; (3) a private equity consultant; and (4) a hedge fund consultant. The system's consulting actuary also provides the board with information on capital market assumptions made by other investment consulting firms, but the consulting actuary does not itself provide investment consulting services.

State Expenditures: The bill requires SRPS to hire a consultant to assess the capital market assumptions used by the system in developing its asset allocation each year. It is assumed that this requirement is ongoing, so the system must pay for the consultant each year during its asset allocation process. Under Chapter 728 of 2018, revenues and expenditures for the Investment Division, including expenditures for investment consultants, are nonbudgeted.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): University System of Maryland; State Retirement Agency; Department of Legislative Services

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