

HOUSE BILL 479

K4
HB 1254/20 – APP

1lr1723

By: **Delegate Barve**

Introduced and read first time: January 15, 2021

Assigned to: Appropriations

A BILL ENTITLED

1 AN ACT concerning

2 **State Retirement and Pension System – Investment Management Fees**

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

14 BY repealing and reenacting, without amendments,
15 Article – State Personnel and Pensions
16 Section 21–123(c) and 21–315(a)(2), (b), (e)(2), and (g)
17 Annotated Code of Maryland
18 (2015 Replacement Volume and 2020 Supplement)

19 BY repealing and reenacting, with amendments,
20 Article – State Personnel and Pensions
21 Section 21–315(d)
22 Annotated Code of Maryland
23 (2015 Replacement Volume and 2020 Supplement)

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

26 **Article – State Personnel and Pensions**

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.



1 21–123.

2 (c) (1) The Board of Trustees may invest assets of the several systems subject
3 to the conditions that it imposes.

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

7 21–315.

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

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

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

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

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

20 (iii) the amounts as authorized by the Board of Trustees necessary to
21 implement a closing agreement with the Internal Revenue Service regarding former
22 members of the Employees' Retirement System or the Teachers' Retirement System who
23 elected to become members of or participate in those State systems under former Article
24 73B, §§ 2–206 and 3–206 of the Code.

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

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

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

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

9 **(2) PARAGRAPH (1) OF THIS SUBSECTION MAY NOT LIMIT THE**
10 **INVESTMENT MANAGEMENT FEES THE BOARD OF TRUSTEES MAY PAY FOR**
11 **EXTERNAL INVESTMENT MANAGEMENT OF SYSTEM ASSETS UNDER AN AGREEMENT**
12 **ENTERED INTO ON OR BEFORE JUNE 30, 2021.**

13 **(3) ON OR AFTER JULY 1, 2021, THE BOARD OF TRUSTEES MAY NOT**
14 **ENTER INTO AN AGREEMENT FOR EXTERNAL INVESTMENT MANAGEMENT SERVICES**
15 **THAT WOULD PAY FEES FOR UNREALIZED INVESTMENT GAINS.**

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

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

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

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

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

31 SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect July
32 1, 2021.