

Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 721 (Senator Kasemeyer) (Chairman, Joint Committee on Pensions)

Budget and Taxation

Appropriations

State Retirement and Pension System - Board of Trustees

This pension bill makes several changes to the composition and governance of the Board of Trustees of the State Retirement and Pension System of Maryland (SRPS), and requires the Department of Budget and Management to study pension and retiree health benefits.

The bill takes effect July 1, 2003 with certain provisions having different effective dates.

Fiscal Summary

State Effect: To the extent that the bill's provisions improve the board's governance and investment expertise, there could be a corresponding increase in SRPS's investment performance and corresponding decrease in required State pension contributions. However, the amount of such decrease cannot be reliably estimated at this time.

Local Effect: To the extent that the bill's provisions improve the board's governance and investment expertise, there could be a corresponding increase in SRPS's investment performance and corresponding decrease in required pension contributions by local governmental units that participate in SRPS. However, the amount of such decrease cannot be reliably estimated at this time.

Small Business Effect: None.

Analysis

Bill Summary: As adopted, SB 721 makes several changes to the composition and governance of the board. These changes include:

- removing the Secretary of State Police as a trustee starting on July 1, 2003, and the State Superintendent of Schools as a trustee starting on July 1, 2004, and filling these vacancies with two members of the public appointed by the Governor to serve as pension experts;
- removing one of the two State Police trustees and filling this vacancy with a member of the public appointed by the Governor to serve as a pension expert;
- adding experience requirements for the pension expert trustees and for expert members of the board's investment committee;
- requiring appointed or elected trustees to attend at least 80% of the board's monthly meetings, not including excused absences, or face removal from the board;
- providing that the board is not responsible for considering benefit enhancements or reviewing the benefit structures for any of the several systems, except for the purpose of making technical corrections;
- requiring all trustees to receive at least eight hours of investment and fiduciary training each year;
- requiring the Department of Budget and Management to conduct, or hire an outside independent third party to conduct, a peer benefits study every four years;
- requiring that with regard to the two trustees representing the Employees' Retirement System (ERS) and the Employees' Pension System (EPS), one must be an active member of either ERS or EPS, while the second trustee must be a retiree of either ERS or EPS; and
- requiring that with regard to the two trustees representing the Teachers' Retirement System (TRS) and the Teachers' Pension System (TPS), one must be an active member of either TRS or TPS, while the second trustee must be a retiree of either TRS or TPS.

Current Law: Trustees of SRPS are fiduciaries. No formal investment or fiduciary training is currently required. The current composition of the board of trustees is shown in **Appendix 1**.

Background: The Joint Committee on Pensions held a hearing during the 2002 interim during which members of the joint committee asked the board of trustees of SRPS, as well as the investment staff of the State Retirement Agency, about various governance and investment expertise issues in light of SRPS's relationship with one of its external managers, who is under criminal investigation for the manager's handling of SRPS's investments. The joint committee also asked about SRPS's poor investment performance generally.

The current relationship between the number of trustees representing each system, and the number of members and retirees of each system is shown in **Appendix 2**.

State Fiscal Effect: To the extent that the bill's provisions improve the board's governance and investment expertise, there could be a corresponding increase in SRPS's investment performance and corresponding decrease in required State pension contributions. However, the amount of such decrease cannot be reliably estimated at this time.

The agency could incur costs from the additional investment and fiduciary training requirements. Given the agency's procurement of an investment consultant as well as its existing travel budget for trustee educational conferences, however, it is assumed that this training could be absorbed within these existing budgeted resources.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 5, 2003
ncs/jr Revised - Senate Third Reader - March 19, 2003
Revised - Enrolled Bill - April 30, 2003

Analysis by: Matthew D. Riven

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

Appendix 1 - Comparison of Current SRPS Board Membership and Proposed SRPS Board Membership under SB 721					
Current Board	Means to Board	# of Trustees	SB 721 Board	Means to Board	# of Trustees
Comptroller	ex officio	1	<i>Comptroller</i>	<i>ex officio</i>	1
Treasurer	ex officio	1	<i>Treasurer</i>	<i>ex officio</i>	1
Secretary of DBM	ex officio	1	<i>Secretary of DBM</i>	<i>ex officio</i>	1
State Superintendent of Schools*	ex officio	1	<i>individuals who represent the interest of the public with expertise in pensions and investments</i>	<i>appointed by the Governor with advice and consent of the Senate</i>	5*
Secretary of State Police	ex officio	1	<i>individual representing the interests of governmental units</i>	<i>appointed by the Governor with advice and consent of the Senate</i>	1
Individuals who represent the interest of the public with expertise in pensions and investments	appointed by the Governor with advice and consent of the Senate	2	<i>1 member of ERS, EPS, CORS, JRS, LPP, LFP, or LEOPS</i>	<i>elected</i>	1
Individual representing the interests of governmental units	appointed by the Governor with advice and consent of the Senate	1	<i>1 retiree of ERS, EPS, CORS, JRS, LPP, LFP, or LEOPS</i>	<i>elected</i>	1
2 members or 1 member and 1 retiree of ERS, EPS, CORS, JRS, LPP, LFP, or LEOPS	elected	2	<i>1 member of TRS or TPS</i>	<i>elected</i>	1
2 members or 1 member and 1 retiree of TRS or TPS	elected	2	<i>1 retiree of TRS or TPS</i>	<i>elected</i>	1
2 retirees or 1 retiree and 1 member of the State Police Retirement System	elected	2	<i>1 retiree or member of the State Police Retirement System</i>	<i>elected</i>	1
	TOTAL	14		TOTAL	14

*The State Superintendent of Schools is removed as a trustee as of July 1, 2004 and replaced with a pension expert.

Appendix 2
Distribution of SRPS membership and elected board trustees

Teachers	TRS	active	9,270	TPS	active	87,086
		retiree	29,989		retiree	11,931
		former vested	1,643		former vested	16,397
		subtotal	40,902		subtotal	115,414
Total Teachers			156,316			
Number of board members			2			
Per elected board member			78,158			

Employees & Others	ERS (incl LPP & CORS)	active	11,722	EPS	active	78,584
		retiree	24,904		retiree	18,205
		former vested	1,331		former vested	24,845
		subtotal	37,957		subtotal	121,634
	JRS	active	281	LEOPS	active	1,410
		retiree	311		retiree	403
		former vested	10		former vested	66
		subtotal	602		subtotal	1,879
	LFP	active	181			
		retiree	26			
		former vested	36			
		subtotal	243			
Total Group			162,315			
Number of board members			2			
Per elected board member			81,158			

State Police	SPRS	active	1,589			
		retiree	1,598			
		former vested	27			
		total	3,214			
Total State Police			3,214			
Number of board members			2			
Per elected board member			1,607			

Source: State Retirement and Pension System, Department of Legislative Services