

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 1333
Appropriations

(Delegate Walker, *et al.*)

Supplemental Retirement Plans - Investment Options

This bill requires the Maryland Supplemental Retirement Plans (MSRP) to offer eligible participants the option to invest in a green fund or a socially responsible fund. A green fund invests only in companies that are considered to be environmentally responsible. A socially responsible fund avoids investing in companies that produce or sell weapons.

The bill takes effect July 1, 2009.

Fiscal Summary

State Effect: None. MSRP can carry out the bill's requirements with existing resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The Board of Trustees of the Maryland Teachers' and State Employees' Supplemental Retirement Plans is solely responsible for implementing, maintaining, and administering the supplemental retirement plans. This includes the selection of investment options available to eligible members.

Background: The board contracts with a third-party administrator (Nationwide Retirement Systems) to administer the supplemental programs on its behalf. It also contracts with an investment consultant (Mercer), which advises the board on the selection of investment options and fund performance. As of December 2008, MSRP

offers 16 mutual fund options, 12 targeted retirement funds administered by T. Rowe Price, and a contract investment pool. Fund performance varies, but as a group the funds have outperformed their benchmark indices over 1-, 3-, 5- and 10-year spans.

Participation in the MSRP plans is voluntary for eligible employees. As of June 30, 2008, 61,362 out of 84,058 eligible State employees participate in one or more of the supplemental retirement options available from MSRP. State employees who participate in MSRP and who are members of the Employees' Pension System are entitled to an employer matching contribution up to \$600 per year. The match was suspended in fiscal 2004 and 2005 for budgetary reasons and was reinstated at a maximum level of \$400 for fiscal 2006. Beginning in fiscal 2007, the match remained at its statutory maximum of \$600 for three years. However, the Governor's proposed fiscal 2010 budget does not include funding for the match.

MSRP finances its operations through a fee imposed on its members' accounts, based on a percentage of assets in the plans. Since fiscal 2008, the board fee is 0.05% of assets. In addition, Nationwide's administration fee is 0.14%, so the combined asset fee paid by participants is 0.19%.

Many mutual fund companies now offer socially responsible and "green" fund options to investors. A 2007 analysis by Morningstar, a noted mutual fund rating company, found uneven performance among many of those funds, but identified four such funds that make "good core domestic holdings." Several indices track the performance of these funds. One of the oldest and most frequently cited indices is KLD's Domini 400 Social Index. The index contains 400 stocks, of which approximately 250 are in the Standard and Poor's 500 Index (S&P 500) and 150 are not. Firms involved in tobacco, firearms, alcohol, military weaponry, gambling, and nuclear power are excluded from the index. The index also seeks companies that have positive environmental, social, and governance performance. As of December 31, 2008, the index has outperformed the S&P 500 over one year and since its inception in May 1990. However, its 3-, 5-, and 10-year performance lags behind the S&P 500.

Additional Comments: MSRP advises that the board has already begun consideration of socially responsible and environmentally conscious investment options but has not made a final determination.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Supplemental Retirement Plans, Morningstar, KLD Research and Analytics, Department of Legislative Services

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