

Department of Legislative Services
2010 Session

FISCAL AND POLICY NOTE

House Bill 1148
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, 2010.

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 2009, MSRP offers 15 mutual fund options, 12 targeted retirement funds administered by T. Rowe Price,

an investment contract pool, and a money market fund. 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. Annually, between 70% and 80% of 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 was reinstated at its statutory maximum of \$600 before being suspended again in fiscal 2010, and in the Governor's proposed fiscal 2011 State budget.

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%. In addition, a supplementary per-account fee of \$0.50 will be instituted in May 2010.

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 400 Social Index, renamed the FTSE KLD 400 Social Index in July 2009. 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 alcohol, tobacco, firearms, 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 February 28, 2010, the index has outperformed the S&P 500 over one-, three-, and five-year periods, and since its inception in May 1990.

In October/November 2009, MSRP posted an online survey to gauge member interest in different investment options not currently available; 825 members responded to the survey. Among the six new options included in the survey was a socially responsible investment option. Almost 33% of respondents had either extreme or high interest in having a socially responsible fund option, and 34% said they would choose to invest in a socially responsible fund. However, of the six options presented, the socially responsible fund option received the lowest level of interest among respondents; a Roth Individual Retirement Account option received the highest level of interest.

MSRP advises that the board has been considering the addition of socially responsible and environmentally conscious investment options for at least two years and has been working with Mercer to develop options. However, the board decided not to make major changes to its investment options during the period of financial market turmoil that began in fall 2008 and only recently has begun to subside.

Additional Information

Prior Introductions: HB 1333 of 2009 received an unfavorable report from the House Appropriations Committee.

Cross File: None.

Information Source(s): Maryland Supplemental Retirement Plans, Department of Legislative Services

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