

HOUSE BILL 821

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By: **Delegate Barve**

Introduced and read first time: February 8, 2019

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; requiring a certain report to include information on
11 the payment of certain investment management fees; requiring a certain report to
12 include information for certain previous fiscal years; stating the intent of the General
13 Assembly regarding fees for investment of State Retirement and Pension System
14 assets; and generally relating to investment management fees of the State
15 Retirement and Pension System.

16 BY repealing and reenacting, without amendments,
17 Article – State Personnel and Pensions
18 Section 21–123(c) and 21–315(a)(2), (b), and (e)(2)
19 Annotated Code of Maryland
20 (2015 Replacement Volume and 2018 Supplement)

21 BY repealing and reenacting, with amendments,
22 Article – State Personnel and Pensions
23 Section 21–315(d) and (g)
24 Annotated Code of Maryland
25 (2015 Replacement Volume and 2018 Supplement)

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

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.



Article – State Personnel and Pensions

21–123.

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

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

21–315.

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

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

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

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

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

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

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

(d) (1) **(I)** Each quarter of the fiscal year the Board of Trustees shall estimate one-fourth of [an amount, not exceeding 0.5% of the market value as of the last day of the preceding quarter of invested assets that are externally managed exclusive of assets invested in real estate or alternative investments, necessary to procure and retain investment management services other than external real estate or alternative investment management services] **THE AMOUNT NECESSARY TO PROCURE AND RETAIN EXTERNAL**

1 INVESTMENT MANAGEMENT SERVICES, SUBJECT TO THE LIMITATIONS OF
2 SUBPARAGRAPH (II) OF THIS PARAGRAPH.

3 (II) EXCEPT AS PROVIDED IN PARAGRAPH (2) OF THIS
4 SUBSECTION, THE BOARD OF TRUSTEES MAY NOT PAY FEES IN A FISCAL YEAR FOR
5 EXTERNAL INVESTMENT MANAGEMENT OF SYSTEM ASSETS THAT EXCEED 0.45% OF
6 THE MARKET VALUE OF INVESTED ASSETS AS OF THE LAST DAY OF THE PRECEDING
7 FISCAL YEAR.

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

11 (2) PARAGRAPH (1) OF THIS SUBSECTION MAY NOT LIMIT THE
12 INVESTMENT MANAGEMENT FEES THE BOARD OF TRUSTEES MAY PAY FOR
13 EXTERNAL INVESTMENT MANAGEMENT OF SYSTEM ASSETS UNDER AN AGREEMENT
14 ENTERED INTO ON OR BEFORE JUNE 30, 2019.

15 (3) ON OR AFTER JULY 1, 2019, THE BOARD OF TRUSTEES MAY NOT
16 ENTER INTO AN AGREEMENT FOR EXTERNAL INVESTMENT MANAGEMENT SERVICES
17 THAT WOULD PAY FEES FOR UNREALIZED INVESTMENT GAINS.

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

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

24 (II) THE REPORT REQUIRED UNDER SUBPARAGRAPH (I) OF
25 THIS PARAGRAPH SHALL INCLUDE THE AMOUNT OF CARRIED INTEREST FEES ON
26 ANY ASSETS OF THE SYSTEM.

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

30 SECTION 2. AND BE IT FURTHER ENACTED, That the report required under §
31 21-315(g)(1) of the State Personnel and Pensions Article due on December 31, 2019, shall
32 include information for fiscal years 2015 through 2019.

33 SECTION 3. AND BE IT FURTHER ENACTED, That it is the intent of the General
34 Assembly that the Board of Trustees for the State Retirement and Pension System utilize

1 low-fee, passive investment strategies in the management of system assets, consistent with
2 its fiduciary responsibilities.

3 SECTION 4. AND BE IT FURTHER ENACTED, That this Act shall take effect July
4 1, 2019.