

# HOUSE BILL 821

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By: ~~Delegate Barve~~ **Delegates Barve and Grammer**

Introduced and read first time: February 8, 2019

Assigned to: Appropriations

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Committee Report: Favorable with amendments

House action: Adopted

Read second time: March 9, 2019

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## CHAPTER \_\_\_\_\_

1 AN ACT concerning

2 **State Retirement and Pension System – ~~Investment Management Fees Carried~~**  
3 **Interest – Reporting**

4 FOR the purpose of ~~altering a requirement that the Board of Trustees for the State~~  
5 ~~Retirement and Pension System provide a quarterly estimate of certain external~~  
6 ~~investment management services; prohibiting the Board of Trustees from incurring~~  
7 ~~fees for external investment management services that exceed a certain amount in~~  
8 ~~a fiscal year; exempting from the prohibition certain fees incurred under a contract~~  
9 ~~entered into on or before a certain date; prohibiting the Board of Trustees from~~  
10 ~~entering into an agreement on or after a certain date that would pay certain~~  
11 ~~investment management fees; requiring a certain report to include information on~~  
12 ~~the payment of certain investment management fees; requiring a certain report to~~  
13 ~~include information for certain previous fiscal years; stating the intent of the General~~  
14 ~~Assembly regarding fees for investment of State Retirement and Pension System~~  
15 ~~assets; and generally relating to investment management fees of the State~~  
16 ~~Retirement and Pension System~~ requiring a report by the Board of Trustees for the  
17 State Retirement and Pension System to include the amount of carried interest on  
18 certain assets; requiring the report, for a certain year, to include information for  
19 certain previous fiscal years; and generally relating to a certain report by the Board  
20 of Trustees for the State Retirement and Pension System.

21 ~~BY repealing and reenacting, without amendments,~~  
22 ~~Article State Personnel and Pensions~~  
23 ~~Section 21-123(e) and 21-315(a)(2), (b), and (c)(2)~~  
24 ~~Annotated Code of Maryland~~

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EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.

Underlining indicates amendments to bill.

~~Strike out~~ indicates matter stricken from the bill by amendment or deleted from the law by amendment.



~~(2015 Replacement Volume and 2018 Supplement)~~

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

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

### Article – State Personnel and Pensions

~~21-123.~~

~~(e) (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(e) 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.~~

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

5           ~~(d) (1) (I) Each quarter of the fiscal year the Board of Trustees shall~~  
6 ~~estimate one fourth of [an amount, not exceeding 0.5% of the market value as of the last~~  
7 ~~day of the preceding quarter of invested assets that are externally managed exclusive of~~  
8 ~~assets invested in real estate or alternative investments, necessary to procure and retain~~  
9 ~~investment management services other than external real estate or alternative investment~~  
10 ~~management services] THE AMOUNT NECESSARY TO PROCURE AND RETAIN EXTERNAL~~  
11 ~~INVESTMENT MANAGEMENT SERVICES, SUBJECT TO THE LIMITATIONS OF~~  
12 ~~SUBPARAGRAPH (H) OF THIS PARAGRAPH.~~

13           ~~(H) EXCEPT AS PROVIDED IN PARAGRAPH (2) OF THIS~~  
14 ~~SUBSECTION, THE BOARD OF TRUSTEES MAY NOT PAY FEES IN A FISCAL YEAR FOR~~  
15 ~~EXTERNAL INVESTMENT MANAGEMENT OF SYSTEM ASSETS THAT EXCEED 0.45% OF~~  
16 ~~THE MARKET VALUE OF INVESTED ASSETS AS OF THE LAST DAY OF THE PRECEDING~~  
17 ~~FISCAL YEAR.~~

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

21           ~~(2) PARAGRAPH (1) OF THIS SUBSECTION MAY NOT LIMIT THE~~  
22 ~~INVESTMENT MANAGEMENT FEES THE BOARD OF TRUSTEES MAY PAY FOR~~  
23 ~~EXTERNAL INVESTMENT MANAGEMENT OF SYSTEM ASSETS UNDER AN AGREEMENT~~  
24 ~~ENTERED INTO ON OR BEFORE JUNE 30, 2019.~~

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

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

31 21-315.

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

1 (II) THE REPORT REQUIRED UNDER SUBPARAGRAPH (I) OF  
2 THIS PARAGRAPH SHALL INCLUDE THE AMOUNT OF CARRIED INTEREST ~~FEES~~ ON  
3 ANY ASSETS OF THE SYSTEM.

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

7 SECTION 2. AND BE IT FURTHER ENACTED, That the report required under §  
8 21-315(g)(1) of the State Personnel and Pensions Article due on December 31, 2019, shall  
9 include information for fiscal years 2015 through 2019.

10 ~~SECTION 3. AND BE IT FURTHER ENACTED, That it is the intent of the General~~  
11 ~~Assembly that the Board of Trustees for the State Retirement and Pension System utilize~~  
12 ~~low-fee, passive investment strategies in the management of system assets, consistent with~~  
13 ~~its fiduciary responsibilities.~~

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

Approved:

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Governor.

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Speaker of the House of Delegates.

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President of the Senate.