

Department of Legislative Services
Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 469

(Chair, Appropriations Committee)(By Request -
Departmental - Teachers and State Employees
Supplemental Retirement Plans)

Appropriations

Budget and Taxation

**Supplemental Retirement Plans - Investments - Procurement of Investment
Management Services**

This departmental bill exempts the Maryland Supplemental Retirement Plans (MSRP) from most provisions of State procurement law for (1) selection of investment managers; (2) expenditures to manage, maintain, and enhance the value of deposited assets; and (3) expenditures for the safe custody of deposited assets. The bill also requires the MSRP board to make arrangements for the safe custody of investments with one or more duly qualified custodian banks or trust companies. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: None. The bill does not materially affect State governmental operations or finances.

Local Effect: None.

Small Business Effect: MSRP has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment.

Analysis

Bill Summary: The specified activities are exempt from all provisions of State procurement law except for (1) a requirement to have written procurement policies and

procedures subject to annual review by the Board of Public Works and (2) the State's minority business enterprise preference program.

Services and service providers whose procurement is exempt from State procurement law must be selected in accordance with the statements of investment policy adopted by the board from time to time.

Current Law: Title 35 of the State Personnel and Pensions Article establishes the Teachers' and State Employees' Supplemental Retirement Plans and a board of trustees to administer them. The board of trustees has the responsibility of administering the State's:

- Deferred Compensation Program pursuant to Internal Revenue Code (IRC) Section 457;
- Tax-deferred Annuity Program for Educational Employees under IRC Section 403(b);
- Savings and Investment Program under IRC Section 401(k); and
- Employer Matching Plan under IRC Section 401(a).

MSRP staff provides education programs and support information to State employees and human resources personnel in State agencies. These efforts are designed to create awareness among State employees of the need and mechanisms available to save for their own retirement. Staff also supports the board's work in selecting investment options and overseeing the operation.

MSRP finances operations through a fee imposed on members' accounts based on a percentage of assets in the plans and a flat-rate monthly charge. In fiscal 2019, the board fee is composed of a 0.05% asset fee and a monthly per account charge of \$0.50 on every account with at least \$500 (except for 401(a) match plan accounts). The board currently contracts with Nationwide Retirement Solutions, Inc. (Nationwide) for plan administration. The Nationwide contract, renewed through December 31, 2019, requires a management fee of 0.09% of assets. Therefore, the reported total participant fee is 0.14% of plan assets and a \$0.50 charge on specified accounts on an annual basis.

Background: The MSRP board has made a decision to make available to its members some lower-cost investment options, including collective investment trusts (CITs), consistent with the updated Investment Policy document. According to Investopedia.com, CITs are operated by a bank or trust company and handle a group of pooled trust accounts. The primary objective of a CIT is to lower costs through economies of scale. Pooled funds are grouped into a master trust account controlled by the bank, which enables the bank to minimize operational and administrative expenses.

MSRP advises that State procurement law has inhibited the timely evaluation, selection, and negotiation of contracts for CITs and other investment management services. The State Retirement Agency and the Maryland 529 Plans, among other entities, are exempt from State procurement law for the selection of investment management services.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Retirement Agency; Maryland Supplemental Retirement Plans; Investopedia.com; Department of Legislative Services

Fiscal Note History: First Reader - February 8, 2019
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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Supplemental Retirement Plans – Investments – Procurement of Investment Management Services

BILL NUMBER: HB469

PREPARED BY: Michael T. Halpin, MSRP Executive Director

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR **NO** ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The proposed legislation affects only the process for investment management selection and contracting by the Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans.