

SENATE BILL 862

P6

5lr2373
CF HB 1072

By: **Senator M. Jackson (Chair, Joint Committee on Pensions)**

Introduced and read first time: January 28, 2025

Assigned to: Budget and Taxation

Committee Report: Favorable with amendments

Senate action: Adopted

Read second time: February 21, 2025

CHAPTER _____

1 AN ACT concerning

2 **State Retirement and Pension System – Administrative Fees – Repeal**

3 FOR the purpose of requiring the Board of Trustees for the State Retirement and Pension
4 System to certify certain employer contribution rates each fiscal year; requiring the
5 employer contribution rates to include recognition of certain administrative and
6 operational expenses; repealing a requirement that certain administrative and
7 operational expenses of the State Retirement and Pension System and the State
8 Retirement Agency be funded by charging each participating employer an
9 administrative fee for each system participant; clarifying that certain payments
10 certified by the Board of Trustees to be paid by local employers in a certain fiscal
11 year shall be paid; requiring the Board of Trustees to fund certain operating
12 expenses of the State Retirement Agency through the accumulation fund; and
13 generally relating to the funding of the administrative and operating expenses of the
14 State Retirement and Pension System and the State Retirement Agency.

15 BY repealing and reenacting, with amendments,
16 Article – State Personnel and Pensions
17 Section 21–125, 21–302, 21–303, and 21–315
18 Annotated Code of Maryland
19 (2024 Replacement Volume and 2024 Supplement)

20 BY repealing and reenacting, without amendments,
21 Article – State Personnel and Pensions
22 Section 21–301
23 Annotated Code of Maryland

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.



(2024 Replacement Volume and 2024 Supplement)

BY repealing

Article – State Personnel and Pensions

Section 21–316

Annotated Code of Maryland

(2024 Replacement Volume and 2024 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

21–125.

(a) The Board of Trustees shall designate an actuary who shall:

(1) give technical advice to the Board of Trustees on the operation of the funds of the several systems; and

(2) perform other related duties that the Board of Trustees requires.

(b) (1) On the basis of actuarial assumptions that the Board of Trustees adopts, each year the actuary shall make a valuation of the assets and liabilities of the funds of the several systems **AND SHALL RECOMMEND THE RATES OF EMPLOYER CONTRIBUTIONS TO BE CERTIFIED BY THE BOARD OF TRUSTEES.**

(2) **(I) 1.** Each year, **ON THE RECOMMENDATION OF THE ACTUARY**, the Board of Trustees shall certify to the Secretary of Budget and Management and to the Governor the rates of employer contributions.

2. EACH YEAR, ON THE RECOMMENDATION OF THE ACTUARY, THE BOARD OF TRUSTEES SHALL CERTIFY TO ALL OTHER PARTICIPATING EMPLOYERS THE RATES OF EMPLOYER CONTRIBUTIONS.

(II) THE NORMAL CONTRIBUTION RATE RECOMMENDED BY THE ACTUARY AND CERTIFIED BY THE BOARD OF TRUSTEES FOR ALL EMPLOYERS UNDER SUBPARAGRAPH (I) OF THIS PARAGRAPH FOR EACH FISCAL YEAR SHALL INCLUDE AN AMOUNT NECESSARY FOR THE ADMINISTRATIVE AND OPERATIONAL EXPENSES OF THE BOARD OF TRUSTEES AND THE STATE RETIREMENT AGENCY, EXCLUDING THE ADMINISTRATIVE AND OPERATIONAL EXPENSES OF THE INVESTMENT DIVISION.

(3) For purposes of actuarial valuation, the Board of Trustees may adopt a generally accepted ACTUARIAL method for determining the value of the assets held by the several systems.

1 (4) For general ledger accounting and financial reporting, the Board of
2 Trustees shall use generally accepted accounting principles.

3 (c) (1) At least once in each 5-year period, the actuary shall make:

4 (i) actuarial investigations into the compensation, mortality, and
5 service experience of the participants of each of the several systems; and

6 (ii) a valuation of the assets and liabilities of the funds of each of the
7 several systems.

8 (2) The Board of Trustees shall:

9 (i) review the results of the investigations and valuations of the
10 actuary; and

11 (ii) adopt the actuarial assumptions for each of the several systems
12 as the Board of Trustees considers necessary.

13 21-301.

14 (a) In each State system, there is:

15 (1) an accumulation fund;

16 (2) an annuity savings fund; and

17 (3) an expense fund.

18 (b) The Board of Trustees shall credit the assets of each State system to the
19 appropriate fund of the State system according to the purpose for which the assets are held.

20 21-302.

21 (a) The following are obligations of the State:

22 (1) the payment of all allowances and other benefits payable under this
23 Division II;

24 (2) the creation and maintenance of reserves in the accumulation funds of
25 the several systems; **AND**

26 (3) the crediting of regular interest to the annuity savings funds of the
27 several systems[; and

1 (4) except as provided in § 21–316 of this subtitle, the payment of the
2 expenses for administration and operation of the several systems].

3 (b) The assets of the several systems shall be used to pay the obligations of the
4 State specified in this section.

5 (c) Each fiscal year the State shall pay to the accumulation fund of each State
6 system at least an amount that when combined with the amount in the accumulation fund
7 of the system is sufficient to provide the allowances and other benefits payable out of the
8 fund during that fiscal year.

9 21–303.

10 (a) The Board of Trustees shall credit to the accumulation fund of each State
11 system:

12 (1) all employer contributions to the State system;

13 (2) all interest, dividends, and other income derived from the assets of the
14 State system; and

15 (3) amounts transferred under § 21–311(c) or (d) of this subtitle.

16 (b) The Board of Trustees shall pay from the accumulation fund of a State system
17 all benefits payable under that State system except for benefits payable from the annuity
18 savings fund of that State system.

19 (c) (1) Each year the Board of Trustees shall transfer from the accumulation
20 fund of each State system to each member's account in the annuity savings fund of that
21 State system regular interest on the account as provided in this Division II.

22 (2) If a retiree who has retired because of disability is restored to
23 membership, the Board of Trustees shall transfer from the accumulation fund of the
24 appropriate State system to the annuity savings fund of that State system an amount equal
25 to the remaining portion of the retiree's annuity reserve.

26 (d) [(1)] Each year, the Board of Trustees shall transfer from the accumulation
27 fund of each State system to the expense fund of that system the amounts required by §
28 21–315 of this subtitle.

29 [(2)] On or before June 30 each year, the administrative fees that are paid
30 by participating employers as provided in § 21–316 of this subtitle for that year shall be
31 reimbursed to the accumulation fund of each State system for the amount transferred to
32 the expense fund of that system under paragraph (1) of this subsection.]

33 21–315.

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

3 (1) the amount [provided in the annual State budget to pay the
4 administrative and operational expenses of the Board of Trustees and the State Retirement
5 Agency] **ATTRIBUTABLE TO THE ADMINISTRATIVE AND OPERATIONAL EXPENSES OF**
6 **THE BOARD OF TRUSTEES AND THE STATE RETIREMENT AGENCY AS CERTIFIED BY**
7 **THE BOARD OF TRUSTEES UNDER § 21-125 OF THIS TITLE;**

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

11 (3) the amount authorized by the Board of Trustees to implement a closing
12 agreement with the Internal Revenue Service regarding former members of the Employees'
13 Retirement System or the Teachers' Retirement System who elected to become members of
14 or participate in those State systems under former Article 73B, §§ 2-206 and 3-206 of the
15 Code.

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

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

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

23 (iii) the amounts as authorized by the Board of Trustees necessary to
24 implement a closing agreement with the Internal Revenue Service regarding former
25 members of the Employees' Retirement System or the Teachers' Retirement System who
26 elected to become members of or participate in those State systems under former Article
27 73B, §§ 2-206 and 3-206 of the Code.

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

32 (c) Each year the Board of Trustees shall estimate the amount, not exceeding
33 0.22% of active member payroll, retiree benefits, and former member compensation,
34 necessary for the administrative and operational expenses of the Board of Trustees and the
35 State Retirement Agency.

1 (d) (1) Each quarter of the fiscal year the Board of Trustees shall estimate
2 one-fourth of an amount, not exceeding 0.5% of the market value as of the last day of the
3 preceding quarter of invested assets that are externally managed exclusive of assets
4 invested in real estate or alternative investments, necessary to procure and retain
5 investment management services other than external real estate or alternative investment
6 management services.

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

10 (e) (1) The amounts estimated under subsection (c) of this section shall be paid
11 into the expense funds of the several systems during the ensuing year on a pro rata basis
12 according to the total membership of each system.

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

16 (f) The Board of Trustees may combine the expense funds of the several systems
17 for budgetary and administrative efficiency.

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

21 (ii) The report required under subparagraph (i) of this paragraph
22 shall include the amount of carried interest on any assets of the system.

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

26 [21-316.

27 (a) (1) In this section the following words have the meanings indicated.

28 (2) "Administrative fees" means the actual administrative and operational
29 expenses incurred by the Board of Trustees and the State Retirement Agency as of June 30
30 of the second prior fiscal year.

31 (3) "Library" means a library that is established or operates under the
32 Education Article.

33 (4) "Local employer" means a participating employer other than the State.

1 (b) (1) Subject to paragraph (3) of this subsection, for each fiscal year, the
2 State and each local employer shall pay to the Board of Trustees their pro rata shares of
3 the administrative fees.

4 (2) The pro rata share of the administrative fees of the State and of each
5 local employer for each fiscal year shall be based on the number of members of the several
6 systems employed by the State or local employer as of June 30 of the second prior fiscal
7 year compared to the total membership of the several systems as of that date.

8 (3) The State shall pay the pro rata share under this section of each library.

9 (4) The administrative fees used to determine the pro rata shares under
10 this subsection may not include costs for the personnel and operational expenses of the
11 Investment Division.

12 (c) As part of its annual budget submission for a fiscal year, the Board of Trustees
13 shall certify to the Secretary of Budget and Management the percentage of the total
14 membership of the several systems that is employed by the State, the libraries, and each
15 local employer as of June 30 of the second prior fiscal year.

16 (d) (1) The Governor shall include in the budget bill an appropriation to the
17 accumulation funds of the State Retirement and Pension System that equals the authorized
18 administrative fees for the fiscal year.

19 (2) The amounts payable by the State under this section with respect to
20 members employed by each State unit shall be charged against the budget of that unit.

21 (3) The State shall pay its pro rata share of the amount of administrative
22 fees authorized in the State budget to the Board of Trustees on July 1 of the applicable
23 fiscal year.

24 (e) (1) On or before October 1 each year, the Board of Trustees shall:

25 (i) certify to each local employer other than a library the amount
26 payable by the local employer for the next fiscal year that is equal to the percentage
27 certified under subsection (c) of this section multiplied by the amount of administrative
28 fees; and

29 (ii) notify the Secretary of Budget and Management and the
30 Department of Legislative Services of the certifications sent under item (i) of this
31 paragraph.

32 (2) On or before October 1, January 1, April 16, and June 1 of the fiscal
33 year immediately following the certification required in paragraph (1) of this subsection,
34 each local employer shall pay to the Board of Trustees 25% of the amount certified to the
35 local employer by the Board of Trustees under paragraph (1) of this subsection.

1 (3) If a local employer does not pay the amounts required under this section
 2 within the time required, the local employer is liable for interest on delinquent amounts at
 3 a rate of 4% a year until payment.

4 (4) The Secretary of the Board of Trustees may allow a grace period not to
 5 exceed 10 calendar days for payment of the amounts certified under this section.

6 (5) On notification by the Secretary of the Board of Trustees that a
 7 delinquency exists, the State Comptroller immediately shall exercise the right of setoff
 8 against any money due or coming due to that local employer from the State.

9 (f) On receipt of payments under this section, the Board of Trustees shall credit
 10 these amounts to the accumulation fund of the appropriate State system.]

11 SECTION 2. AND BE IT FURTHER ENACTED, That, notwithstanding Section 1 of
 12 this Act, on or before June 1, 2025, each local employer shall pay to the Board of Trustees
 13 for the State Retirement and Pension System the amounts certified to be paid by each local
 14 employer for fiscal year 2025 to the Board of Trustees in accordance with § 21–316 of the
 15 State Personnel and Pensions Article in effect at the time of certification.

16 ~~SECTION 3.~~ SECTION 3. AND BE IT FURTHER ENACTED, That, for fiscal year 2026, the
 17 amounts for the administrative and operational expenses of the Board of Trustees for the
 18 State Retirement and Pension System and the State Retirement Agency shall be paid out
 19 of the accumulation fund of each State system on a pro rata basis.

20 ~~SECTION 4.~~ SECTION 4. AND BE IT FURTHER ENACTED, That, for fiscal year 2027 and
 21 each fiscal year thereafter, the administrative and operational expenses of the Board of
 22 Trustees for the State Retirement and Pension System and the State Retirement Agency
 23 shall be included in the employer contribution rates certified by the Board of Trustees for
 24 the State Retirement and Pension System as provided in Section 1 of this Act.

25 ~~SECTION 5.~~ SECTION 5. AND BE IT FURTHER ENACTED, That this Act shall take effect
 26 June 1, 2025.

Approved:

Governor.

President of the Senate.

Speaker of the House of Delegates.