

HOUSE BILL 421

P6
HB 479/21 – APP

3lr1614

By: **Delegate Grammer**

Introduced and read first time: January 30, 2023

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; and generally relating to investment management
11 fees of the State Retirement and Pension System.

12 BY repealing and reenacting, without amendments,
13 Article – State Personnel and Pensions
14 Section 21–123(c) and 21–315(a)(2), (b), (e)(2), and (g)
15 Annotated Code of Maryland
16 (2015 Replacement Volume and 2022 Supplement)

17 BY repealing and reenacting, with amendments,
18 Article – State Personnel and Pensions
19 Section 21–315(d)
20 Annotated Code of Maryland
21 (2015 Replacement Volume and 2022 Supplement)

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

24 **Article – State Personnel and Pensions**

25 21–123.

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.



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

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

6 21–315.

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

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

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

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

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

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

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

28 (d) (1) **(I)** Each quarter of the fiscal year the Board of Trustees shall
29 estimate one-fourth of [an amount, not exceeding 0.5% of the market value as of the last
30 day of the preceding quarter of invested assets that are externally managed exclusive of
31 assets invested in real estate or alternative investments, necessary to procure and retain
32 investment management services other than external real estate or alternative investment
33 management services] **THE AMOUNT NECESSARY TO PROCURE AND RETAIN EXTERNAL**
34 **INVESTMENT MANAGEMENT SERVICES, SUBJECT TO THE LIMITATIONS OF**
35 **SUBPARAGRAPH (II) OF THIS PARAGRAPH.**

1 **(II) EXCEPT AS PROVIDED IN PARAGRAPH (2) OF THIS**
2 **SUBSECTION, THE BOARD OF TRUSTEES MAY NOT PAY FEES IN A FISCAL YEAR FOR**
3 **EXTERNAL INVESTMENT MANAGEMENT OF SYSTEM ASSETS THAT EXCEED 0.2% OF**
4 **THE MARKET VALUE OF INVESTED ASSETS AS OF THE LAST DAY OF THE PRECEDING**
5 **FISCAL YEAR.**

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

9 **(2) PARAGRAPH (1) OF THIS SUBSECTION MAY NOT LIMIT THE**
10 **INVESTMENT MANAGEMENT FEES THE BOARD OF TRUSTEES MAY PAY FOR**
11 **EXTERNAL INVESTMENT MANAGEMENT OF SYSTEM ASSETS UNDER AN AGREEMENT**
12 **ENTERED INTO ON OR BEFORE JUNE 30, 2023.**

13 **(3) ON OR AFTER JULY 1, 2023, THE BOARD OF TRUSTEES MAY NOT**
14 **ENTER INTO AN AGREEMENT FOR EXTERNAL INVESTMENT MANAGEMENT SERVICES**
15 **THAT WOULD PAY FEES FOR UNREALIZED INVESTMENT GAINS.**

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

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

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

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

27 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect July
28 1, 2023.