

SENATE BILL 914

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By: **Senator Guzzone**

Introduced and read first time: February 3, 2017

Assigned to: Budget and Taxation

A BILL ENTITLED

1 AN ACT concerning

2 **State Retirement Agency – Investment Division Personnel**

3 FOR the purpose of authorizing the Board of Trustees for the State Retirement and Pension
4 System to determine the qualifications and compensation of certain positions in the
5 Investment Division in the State Retirement Agency; authorizing the Board of
6 Trustees to create certain positions in the Investment Division; requiring certain
7 positions to be funded from certain existing funds; requiring the Board of Trustees
8 to report certain information to certain General Assembly committees; requiring the
9 Board of Trustees to establish certain criteria for setting the qualifications and
10 compensation of certain positions; requiring the Board of Trustees to submit the
11 criteria to certain General Assembly committees each year by a certain date;
12 requiring certain expenses for certain personnel to be paid from a certain fund;
13 requiring the Board of Trustees to include certain expenses for certain personnel in
14 a certain calculation; making a technical correction; and generally relating to the
15 Investment Division of the State Retirement Agency.

16 BY repealing and reenacting, with amendments,
17 Article – State Personnel and Pensions
18 Section 21–122 and 21–315
19 Annotated Code of Maryland
20 (2015 Replacement Volume and 2016 Supplement)

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

23 **Article – State Personnel and Pensions**

24 21–122.

25 (a) (1) There is an Investment Division in the State Retirement Agency.

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.



1 (2) Subject to paragraph (3) of this subsection, the Board of Trustees shall
2 determine the qualifications and compensation for the following positions within the
3 Investment Division:

4 (i) deputy chief investment officer; **[and]**

5 (ii) managing director;

6 **(III) SENIOR INVESTMENT ANALYST; AND**

7 **(IV) ANY PROFESSIONAL INVESTMENT STAFF POSITIONS**
8 **CREATED BY THE BOARD OF TRUSTEES UNDER PARAGRAPH (3) OF THIS**
9 **SUBSECTION.**

10 (3) The Board of Trustees may **[not:**

11 (i) set or increase the salary for the deputy chief investment officer
12 at an amount greater than the maximum salary under the ES11 scale of the Maryland
13 Executive Pay Plan;

14 (ii) set or increase the salary for a managing director at an amount
15 greater than the maximum salary under the ES9 scale of the Maryland Executive Pay Plan;

16 (iii) provide bonuses for an employee; or

17 (iv) subject to the limitations under items (i) and (ii) of this
18 paragraph, set or increase the salary for a position that provides more than a 10% increase
19 over the lowest salary for the position in the prior fiscal year] **CREATE PROFESSIONAL**
20 **INVESTMENT STAFF POSITIONS IN THE INVESTMENT DIVISION TO THE EXTENT THAT**
21 **THE COST OF THE POSITION, INCLUDING ANY FRINGE BENEFIT COSTS, IS FUNDED**
22 **FROM EXISTING FUNDS SUBJECT TO THE LIMITATIONS OF § 21-315(D)(1) OF THIS**
23 **TITLE.**

24 (4) On or before October 1, 2012, and each October 1 thereafter, the Board
25 of Trustees shall report to the Senate Budget and Taxation Committee, the House
26 Appropriations Committee, and the Joint Committee on Pensions, in accordance with §
27 2-1246 of the State Government Article on:

28 (i) the current salaries of the **[deputy chief investment officer and**
29 **the managing directors of the Investment Division]** **POSITIONS LISTED UNDER**
30 **PARAGRAPH (2) OF THIS SUBSECTION;**

31 (ii) any salary increases **[the deputy chief investment officer or**
32 **managing directors of the Investment Division have received]** **FOR ANY POSITIONS**

1 LISTED UNDER PARAGRAPH (2) OF THIS SUBSECTION THAT HAVE BEEN GRANTED in
2 the fiscal year immediately preceding that October 1; [and]

3 (iii) 1. the number of individuals in the Investment Division of
4 the State Retirement Agency who were employed as professional investment staff and
5 terminated employment with the State Retirement Agency in the fiscal year immediately
6 preceding that October 1;

7 2. the number of years of employment an individual
8 described in item 1 of this item had accrued with the State Retirement Agency at the time
9 the individual terminated employment with the State Retirement Agency; and

10 3. to the extent possible, the new employer, position, and
11 salary the individual described in item 1 of this item accepted upon terminating
12 employment with the State Retirement Agency; AND

13 (IV) THE TOTAL POSITIONS CREATED UNDER PARAGRAPH (3) OF
14 THIS SUBSECTION AND THE COST FOR THOSE POSITIONS.

15 (b) As the Board of Trustees specifies, the Investment Division shall invest the
16 assets of the several systems.

17 (c) (1) Quarterly, the Investment Division shall submit to the Board of
18 Trustees a report about the commissions that the State Retirement Agency pays on
19 investments.

20 (2) The report shall detail:

21 (i) the identity of each recipient of a commission that the State
22 Retirement Agency paid during the previous quarter;

23 (ii) the dollar amount of commission business that each recipient
24 performs;

25 (iii) the average price-per-share each recipient charged or, if the
26 commission was paid on a net basis, the markup or markdown that the recipient uses; and

27 (iv) a reasonable history of the allocation of commissions.

28 (d) On behalf of the several systems, the Chief Investment Officer:

29 (1) may hire external investment managers to invest the assets of the
30 several systems;

1 (2) may select and invest in specific investment vehicles, including limited
2 partnerships, private equity fund investments, and private real estate fund investments;
3 and

4 (3) may terminate the appointment of an external investment manager.

5 (e) Prior to terminating the appointment of an external investment manager
6 under subsection [(d)(2)] **(D)(3)** of this section, the Chief Investment Officer shall provide
7 written documentation to the Board of Trustees and the Investment Committee explaining
8 the basis for the termination.

9 **(F) (1) THE BOARD OF TRUSTEES SHALL ESTABLISH CRITERIA FOR**
10 **SETTING THE QUALIFICATIONS AND COMPENSATION OF PROFESSIONAL**
11 **INVESTMENT STAFF POSITIONS CREATED UNDER SUBSECTION (A)(2) OF THIS**
12 **SECTION.**

13 **(2) THE CRITERIA ESTABLISHED UNDER PARAGRAPH (1) OF THIS**
14 **SUBSECTION SHALL INCLUDE:**

15 **(I) CONSIDERATION OF THE COMPARATIVE QUALIFICATIONS**
16 **AND COMPENSATION OF EMPLOYEES SERVING IN SIMILAR POSITIONS AND**
17 **DISCHARGING SIMILAR DUTIES AT COMPARABLE PUBLIC PENSION FUNDS;**

18 **(II) LIMITATIONS ON THE AMOUNT BY WHICH THE**
19 **COMPENSATION FOR A POSITION MAY BE INCREASED EACH FISCAL YEAR; AND**

20 **(III) OBJECTIVE BENCHMARKS OF INVESTMENT PERFORMANCE**
21 **THAT SHALL BE MET OR EXCEEDED BY AN INDIVIDUAL TO BE ELIGIBLE FOR AN**
22 **INCREASE IN COMPENSATION.**

23 **(3) ON OR BEFORE OCTOBER 1 EACH YEAR, THE BOARD OF**
24 **TRUSTEES SHALL SUBMIT TO THE SENATE BUDGET AND TAXATION COMMITTEE,**
25 **THE HOUSE APPROPRIATIONS COMMITTEE, AND THE JOINT COMMITTEE ON**
26 **PENSIONS, IN ACCORDANCE WITH § 2-1246 OF THE STATE GOVERNMENT ARTICLE,**
27 **A COPY OF THE MOST RECENT CRITERIA ESTABLISHED UNDER THIS SUBSECTION.**

28 21-315.

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

31 (1) the amount provided in the annual State budget to pay the
32 administrative and operational expenses of the Board of Trustees and the State Retirement
33 Agency;

1 (2) the amounts authorized by the Board of Trustees under this section for
2 investment management services; and

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

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

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

12 (2) the amounts as authorized by the Board of Trustees necessary for
13 investment management services, **INCLUDING EXPENSES FOR PERSONNEL EMPLOYED**
14 **IN ACCORDANCE WITH § 21–122(A) OF THIS TITLE**; and

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

20 (c) Each year the Board of Trustees shall estimate the amount, not exceeding
21 0.22% of the payroll of members, necessary for the administrative and operational expenses
22 of the Board of Trustees and the State Retirement Agency.

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

29 **(II) THE BOARD OF TRUSTEES SHALL INCLUDE EXPENSES FOR**
30 **PERSONNEL HIRED IN ACCORDANCE WITH § 21–122(A) OF THIS TITLE IN THE**
31 **CALCULATION UNDER SUBPARAGRAPH (I) OF THIS PARAGRAPH.**

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

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

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

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

9 (g) On or before December 31 of each year, the Board of Trustees shall report to
10 the General Assembly the actual amount spent for investment management services during
11 the preceding fiscal year.

12 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect July
13 1, 2017.