OLR Bill Analysis

SB 453

AN ACT CONCERNING INDEPENDENT REVIEW OF THE INVESTMENT PERFORMANCE OF THE STATE'S PENSION FUNDS.

SUMMARY

This bill requires a private advisory firm to conduct an annual independent review of the investment performance of the state's pension funds. It requires the Office of Legislative Management (OLM), by January 1, 2025, to issue a request for proposals (RFP) for services from a private advisory firm with demonstrated expertise in asset management and financial services and contract with a firm by January 1, 2026.

The bill disqualifies any firm with a conflict of interest, as specified in the bill, from submitting a proposal; specifies the process for handling a conflict of interest that arises during the contract's term; and prohibits contracted firms from conducting certain related business for two years after ending the contract with OLM. It also requires OLM to notify specified individuals what firm it chose and, depending on the circumstances, what date it expects to enter into a contract.

Under the bill, the advisory firm must report annually to the Finance, Revenue and Bonding Committee for each year the firm is providing services under an OLM contract. The report must include the following information, at a minimum:

a comparative analysis of the state's investment performance, benchmarked against the performance of at least 50 peer state public pension funds across aggregate performance, individual asset class performance, and short-term and long-term time periods;

a comparison of the state's investment performance for each asset class against commonly accepted financial benchmark indices used by a majority of other states; and

any recommendations for improving state pension fund investment management practices and processes.

EFFECTIVE DATE: Upon passage

CONFLICTS OF INTEREST

The bill prohibits a firm from submitting a proposal if there is a conflict of interest. Under the bill, a conflict of interest exists if the advisory firm:

1. has an existing contract with the state treasurer's office or for investment management of the state's pension funds;
2. has accepted money for work related to the state's pension fund management;
3. employs someone who is affiliated with or connected to the state's pension fund management; or
4. is likely to engage in contract work related to the state's pension fund management within 12 months of the proposal's submission date.

Under the bill, if any of these conditions become applicable to the contracted advisory firm, the contract must be terminated within a timeframe agreed upon in the contract. If a conflict of interest claim is raised against the firm, the Finance, Revenue and Bonding Committee may examine the nature of the condition allegedly constituting a conflict of interest and give OLM its conclusion as to whether a condition exists that would be likely to unduly influence the firm or give the appearance of impropriety or bias.

The bill further prohibits any firm that contracts with OLM from entering into a contract with, receiving payments from, or performing work for the state treasurer's office or the state's pension funds for a two-year period following the end of the contract with OLM. This prohibition extends to employees of the firm in a decision-making capacity related to asset management.

NOTICE REQUIREMENTS

Under the bill, OLM must notify the following of the firm they select to provide services under the bill: (1) the Senate president pro tempore, House speaker, Senate minority leader, and House minority leader; (2) the Finance, Revenue and Bonding Committee chairpersons and ranking members; and (3) the state treasurer's office. If OLM cannot enter into a contract with a firm by January 1, 2026, it must inform the Finance, Revenue and Bonding Committee chairpersons and give them an estimated date by which it expects to enter into the contract.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable
Yea 51 Nay 0 (04/03/2024)