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Maryland Pension Fund Lags Peer Group Again

Fund misses out on $1 billion in returns in fiscal 2017

ROCKVILLE, MD (August 10, 2017) – A new analysis shows that Maryland's $49 billion pension fund missed out on roughly $1 billion in investment returns last fiscal year, by failing to match its peer group average. The Maryland State Retirement & Pension System serves 400,000 current and former state employees, so that is a $2,500 shortfall for each participant.

The average return for large public funds with over $5 billion in assets in the year ending June 30 was 12.44 %, after deducting disclosed and undisclosed fees, according to a just-released report from investment tracker Wilshire TUCS.

Maryland's pension fund recorded a 10.02% investment return during this same time period, or 2.42 % less than average (12.44% minus 10.02% equals 2.42%). The $1 billion deficiency is calculated by multiplying 2.42% times $45 billion in beginning-year pension assets.

Maryland's 10.02% return is "net" of disclosed and undisclosed Wall Street money manager fees, which approximated $500 million for Maryland in the fiscal year.

"Maryland's underperformance puts it in the bottom 5% for fiscal 2017, and substandard results have been a consistent problem the last decade. If the fund had to respond to market forces like T. Rowe Price, it would have been out-of-business years ago," said Jeff Hooke, senior fellow at the Maryland Public Policy Institute and a Johns Hopkins finance lecturer. "The likely staff response will be, 'Who cares? We beat the 7.45% benchmark;' but a $1 billion deficiency should prompt scrutiny from the State Treasurer or the State Comptroller, who both lead the fund's Board."

"After paying $500 million annually to Wall Street, Marylanders deserve far better investment results," said Christopher B. Summers, president and chief executive officer of the Institute. "With a $20 billion unfunded liability in our state pension system, policymakers must think big to save employee pensions."

Undisclosed fees include performance fees for hedge funds, which are not disclosed by states. Disclosed fees include fixed fees for all money managers.

About the Maryland Public Policy Institute: Founded in 2001, the Maryland Public Policy Institute is a nonpartisan public policy research and education organization that focuses on state policy issues. The Institute's mission is to formulate and promote public policies at all levels of government based on principles of free enterprise, limited government, and civil society. Learn more at mdpolicy.org.

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