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NEWS MEDIA CONTACT
SUSAN FIREY, Director of Media Relations
Phone: 240.686.3510, Email: sfirey@mdpolicy.org

Wall Street 'Weak': Substandard Investment Performance Plagues Retirement Fund

Indexing state pension funds would save Maryland millions in fees, wouldn't harm investment performance

ROCKVILLE, MD—The Maryland State Retirement and Pension System administers retirement, death, and disability benefits to over 350,000 state employees; in June 2011, the System reported net assets of over $37 billion. Records show that $221 million of that fund was spent on Wall Street money management fees, despite significant evidence that Wall Street managers are unable to beat passive equity index funds that are far more cost-effective.

Those are the findings of a newly released study by Maryland Tax Education Foundation chairman Jeff Hooke and Maryland Public Policy Institute visiting fellow Michael Tasselmyer, in which Hooke and Tasselmyer contend that Maryland's public pension funds should be indexed to relevant markets, rather than actively managed. For the report, the authors reviewed financial reports of major statewide retirement systems of all 50 states. The findings for Maryland were sobering; investment results have failed to hit target returns of 7 to 8 percent annually. As a result, the System has been forced to make commitments to "alternative investments," which tend to be less liquid, less transparent, and more volatile than conventional stocks and bonds.

Maryland spends more on Wall Street fees, relative to its net assets, than *45 other state systems*. But, the authors note, those extravagant fees have netted less-than-spectacular results. Indeed, Maryland's System underperforms others by about 1 percent each year.

"The administrators of Maryland's pension systems would be wise to index the systems' portfolios to ensure average investment returns," write Hooke and Tasselmyer. "This would be a safer, more responsible use of system resources than paying Wall Street management firms millions of dollars each year to deliver sub-par results on public stocks and bonds and risky private alternative investments."

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