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Study: Maryland Pension System Pays $229 Million To Wall Street

Wall Street Fees Now Exceed the State's Investment in Children's Health Insurance

ROCKVILLE, MD (January 18, 2013) — Despite massive unfunded liabilities, the Maryland State Retirement & Pension Fund paid $229 million in fees to Wall Street money managers for the fiscal year that ended in June 2012, according to research by the Maryland Tax Education Foundation and the Maryland Public Policy Institute. By comparison, the State of Maryland spends $197 million on children's health insurance.

The fees exceeded the Fund's investment income by more than $100 million. For the fiscal 2012 year, the $37 billion fund's investment return was 0.36%, substantially lower than the 50-state median of 1.15% reported by consulting firm Wilshire Associates. Net investment income includes dividends, interest and capital appreciation.

"Maryland's pension fund continues to underperform its peers at the expense of taxpayers and the system's 350,000 members," said Jeff Hooke, MTEF Chairman and longtime investment banker. "Despite the trustees' best efforts, the Fund's sizable commitment to hedge funds and private equity hasn't worked out. As we have noted in previous studies, Maryland's pension system could save enormous amounts of money on fees without harming investment returns by simply embracing low-cost, passively-managed index fund investments."

Had the Fund's performance matched its peer group average, it would have gained approximately $3 billion in additional returns over the last 12 years. Instead, the Fund paid approximately $1.5 billion in money management fees over that time period.

"The investment earnings lost to overpaid money managers could have helped solidify the pension fund's financial condition," said Christopher Summers, President of the Maryland Public Policy Institute. "Instead, the State is subsidizing Park Avenue penthouses and Palm Beach getaways. Maryland's retired state employees and taxpayers deserve a simpler, more effective investment strategy for their retirement savings."

A recent study by the Pew Center on the States estimates that Maryland's unfunded pension liabilities have grown to $19 billion. The Fund's assets will only cover 65% of its obligations to retired state employees.

In July, the Maryland Public Policy Institute and Maryland Tax Education Foundation examined the pension system's investment performance and management fees and outlined the benefits of switching to index investing. The report can be viewed online at: http://www.mdpolicy.org/research/detail/wall-street-fees-and-the-maryland-pension-fund

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