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Maryland Pension Fund Had \$720 Million Shortfall vs. Peer Group in 2013

Maryland spends \$274 million on Wall Street fees, but earns subpar returns

ROCKVILLE, MD (January 29, 2014)—Newly released data shows that Maryland's state pension fund once again underperformed its peer group of public pension funds for the year ended June 30, 2013. The Maryland State Retirement & Pension System's investments returned 10.6 percent while the median return for the Wilshire TUCS public fund database was 12.4 percent.

The 1.8 percent difference represents a one-year opportunity cost of \$720 million on the fund's \$40 billion portfolio. Had the fund achieved average performance, the \$720 million would have been available to decrease unfunded liability, or cut the state annual contribution to the fund, thereby freeing up tax revenues for other purposes. Over the last 10 years, the fund's consistent underperformance has cost Maryland taxpayers roughly \$3.5 billion.

Wall Street advisory fees for the Maryland fund totaled \$274 million for the June 30, 2013 fiscal year. So, the fund paid \$274 million to Wall Street for advice on how to make less money than its peers. Over the last ten years, such fees have cost Maryland more than \$1.5 billion.

"Indexing the entire portfolio is something the fund's trustees might consider. Indexing would guarantee average returns, cut fees by \$200 million per year, and thus preserve cash for other worthy causes," indicated Jeff Hooke, an investment banker and co-author of a recent Maryland Public Policy Institute study on state pension fund returns and fees. "In a few states, fees and underperformance have become campaign issues at the Comptroller/Treasurer level," he noted. "With Maryland's election just nine months away, voters would be well served to learn whether candidates for statewide office believe Wall Street fees is a wise use of \$274 million in public funds."

The new data underscores the findings of the Maryland Public Policy Institute, which concluded in a July 2013 study that state pension systems paying the most for Wall Street money management get some of the worst investment returns. That study can be viewed by online at mdpolicy.org.

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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