PRESS RELEASE MAY 1, 2018
FOR IMMEDIATE RELEASE

NEWS MEDIA CONTACT
HENRY FAWELL
240-686-3510, henry@campfirecomm.com

New Report: Md. Pension Fund Lost Out on $8.8 Billion in Retiree Income

ROCKVILLE, MD (May 1, 2018) — Maryland state pension managers lost out on nearly $9 billion in income over the past decade by paying higher-than-average investment fees to Wall Street managers in exchange for lower-than-average investment returns, according to a new report from the Maryland Public Policy Institute. The findings call into question the portfolio strategy of the Maryland State Retirement & Pension System (MSRPS), which provides retirement benefits for 400,000 current and former state employees, as well as the value of Wall Street investment advice.

The in-depth analysis also compared pension investment performance across 33 states with fiscal years that ended on June 30, 2017. The remaining 17 states had different year-ends or provided inadequate information. The full report with calculations and methodologies can be found at mdpolicy.org.

"A promise made to state employees should be a promise kept," said Christopher B. Summers, president and chief executive officer of the Institute. "Enhancing the pension fund's investment performance is of vital importance to state retirees and taxpayers who could ultimately be asked to cover the fund's losses. I am perplexed that state employee union leaders have been silent for so long, because, ultimately, it hurts retirees' pocketbooks."

Major findings from the report include:

Billions in Lost Income for Maryland:

The Institute calculated that MSRPS lost out on an estimated $8.8 billion in income through from July 1, 2007 to June 30, 2017 relative to a passive index fund with 60 percent public stocks and 40 percent public bonds.

Compared to its peer group states, Maryland lost out on an estimated $5 billion in income, an amount sufficient to replace every public school in Baltimore City with a brand-new facility.

Maryland Paid Much Higher Than Average Fees:

Investment fees paid by Maryland were 84 percent higher than the median paid by the 32 other states. Maryland's estimated fees paid to investment managers totaled $506 million in fiscal year 2017, including 'hidden' carry fees paid to hedge fund and private equity fund managers, which MSRPS chooses not to account for. Over the past 10 years, MSPRS fees exceeded $3 billion.

Noting the high fees, Jeff Hooke, co-author of the study, said, "The State Treasurer and the State Comptroller got the Robin Hood myth mixed up; you're supposed to take from the rich and give to the poor, not the other way around."

Maryland's Less Than Full Fee Disclosure:

MSRPS, like other state pension funds, is not obligated to disclose all carried interest fees. Only six of 33 states provided full disclosure about such fees. Maryland's 2017 estimated carried interest fee of $192 million was $172.4 million greater than Maryland's officially disclosed carried interest fee of $19.6 million.

continued

Passive Indexing Beats Active Management:

Over the 10 years ended June 30, 2017, a 60 percent stocks/40 percent bonds index returned 6.40 percent on an annualized basis, while the MSRPS returned only 4.2 percent. Risk, or volatility of returns, was similar to MSRPS, even though MSRPS claims a more conservative positioning. Nationally, 33 state pension funds returned 5.46 percent.

State Pension Fund Should Increase Share of Passive Investing:

To reduce fees and to improve performance, the Institute recommends that MSRPS index the vast bulk of its portfolio with a blend of public stocks and bonds, as Nevada does, rather than actively manage its assets. Doing so would reduce MSRPS's fee obligations by 95 percent, to approximately $25 million annually, and would improve performance if historical norms hold.

"The $480 million annual savings is enough to give every MD public school teacher an $8,000 yearly raise," indicated Carol Park, co-author.

High Investment Fees Resulted in Low Investment Returns:

Nationally, the five state pension funds with the highest investment fees produced lower investment returns over the last 10 years when compared to states with the lowest investment fees. The top five fee states produced a return of 4.34 percent, while the bottom 5 states returned 5.50 percent.

Total estimated 2017 fees for the 33 states were $10 billion, despite the typical state underperforming a 60/40 index. The study compared the pension investment performance across 33 states with fiscal years that ended on June 30, 2017. The remaining 17 states (17+33=50 states) had different year-ends, or they provided inadequate information.

###