Over One Year or Ten Years, Maryland's Pension Fund Still Underperforms

By: Carol Park

In response to the Maryland Public Policy Institute's recent blog post, "The MSRPS Misses its Benchmark and Lowers Discount Rate", the Maryland State Retirement & Pension System (MSRPS) argued that the Institute neglected the longer-term (10-year) performance in our analysis of the system's investment returns.

The MSRPS' argument is ironic, considering their longer-term 10-year performance is no better. Over the years, the Maryland Public Policy Institute's pension studies have always focused on the analysis of MSRPS' 10-years performance.

Indeed, MSRPS reports 10-year compound investment returns of 8.6 percent for the year ending June 30, 2019. According to Wilshire TUCS, this puts Maryland in the bottom quartile of its peer groups. CalPERS, for instance, reported 9.1 percent investment return for the 10-years period, net of fees. CalSTRS reported 10.1 percent investment return for the same period. All three funds are net of fees, so it is 'apples to apples.'

MSRPS once again significantly underperformed the passive index of 60 percent stocks and 40 percent bonds for the 10 years ending in June 30, 2019. For the same period, the 60-40 index returned 10.5 percent on an annual basis, net of fees, almost 2 percent above MSRPS' 10-year return of 8.6 percent. Note, many large institutional investors use the 60-40 index as one reference point for objective performance measurement.

Little has changed since the Institute conducted a study of the MSRPS' investment performance for fiscal year 2017. For the 10 years ending in June 30, 2017, the MSRPS reported a return of 4.2 percent, while the 60-40 index returned 6.4 percent. The study concluded that Maryland's pension fund underperformance has resulted in a loss of approximately $5 billion over a decade.

A longer-term look at the MSRPS reveals a dismal picture. Over the years, its funding status has dropped from fully-funded to just over 2/3 funded. This deficit results from the combination of (i) insufficient annual contributions by the Maryland government; and (ii) the MSRPS' suboptimal investment policies.

The Institute stands by the conclusion from the 2018 report, which concludes that Maryland's investment strategy, with its heavy focus on private equity, hedge fund, and real assets, has not paid off. Instead, Maryland could have saved hundreds of millions annually in management fees and improved investment performance, by indexing the vast bulk of its portfolio with a blend of public stocks and bonds.

The fact that Maryland's executive branch, legislature and state-employee-union leadership continue to ignore this problem and continue to throw money at below average results is regrettable.

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