Maryland’s pension system for state government workers earned a record-setting 26.7% return on investments over the past year.

Buoyed by a resurgent stock market and other investments, the pension system sailed past its targeted rate of return of 7.4%. It’s the best rate of return in at least 35 years, according to Andrew C. Palmer, chief investment officer for the Maryland State Retirement and Pension System.

Palmer said in a statement that the investment markets were affected by the pandemic in ways that weren’t always clear in real-time. He said the retirement system was able to pivot and “fully participate in the very strong returns available in most markets.”

The performance of the pension system is also remarkably better than the year prior, when the rate of return was just 3.57%.

That’s in part because the investment year runs from July through June, and the 2019-2020 year included the first few months of the coronavirus pandemic, when the economy faltered — but before it began to rebound.

The 2020-2021 investment year included a significant rebound in economic markets. Many other government pension funds also benefited from strong financial markets over the past year, including New York, which had a 33.6% rate of return, and California, with a 21% rate of return.

The investment income translates to $13.3 billion more worth of assets in Maryland’s pension system, for a total of $67.9 billion in assets. The pension system’s strongest returns were in private investment funds and stocks.

The money in the system is a combination of employee contributions, investments and taxpayer-funded contributions from participating agencies.

The Maryland State Retirement and Pension System, like most state government pension systems, is not fully funded, meaning it does not have enough money on hand to cover all of the future benefits earned by retirees and active workers.
Last year, the pension system was 72.9% funded, and an updated calculation taking into account the record returns will be made this fall. The pension system has a goal of reaching 100% funding by 2039.

The state pension system covers more than 400,000 current workers and retirees from state agencies, teachers in public schools, judges and state police.

Maryland State Retirement exceeds benchmark with 26.7% return
By Brian Croce
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Maryland State Retirement & Pension System, Baltimore, returned a record net 26.7% for the fiscal year ended June 30, exceeding its benchmark return of 24.4%, its board of trustees announced Tuesday.

The $67.9 billion pension fund returned a net 3.6% for the fiscal year ended June 30, 2020.

For the three, five and 10 years ended June 30, the pension fund returned an annualized 11.8%, 10.7% and 8.2%, respectively, compared with the respective benchmarks of 11.2%, 10.2% and 7.5%.

"The attractive investment opportunities provided by the pandemic and subsequent monetary and fiscal policy responses are apparent in the rearview mirror but were not always clear in real time," said Andrew C. Palmer, the system's chief investment officer, in a news release. "Fortunately, working with the board and the investment staff, the system was able to fully participate in the very strong returns available in most markets. Importantly, the system maintained its moderate risk posture and portfolio implementation, resulting in impressive risk-adjusted returns as well."

By asset class, public equity returned a net 44.5% (above its 40.5% benchmark), followed by credit at 14.4% (above its benchmark of 12.8%). Rate sensitive returned a net -2.5%, (but topped its benchmark of -3.9%) and cash returned a net 0.13% (0.08% benchmark).

The remaining asset classes came in below benchmark: real assets at 14.8% (16.3%); private equity at 51.9% (53.1%); multiasset strategies at 24.1% (24.4%); and absolute return at 15.5% (15.7%).

As of June 30, the actual allocation was 35.6% public equities; 17.1% private equity; 15.9% rate-sensitive assets; 11.2% real assets; 9.2% credit; 8.7% absolute return; 1% multiasset strategies; and the rest in cash.