# Retirement News Highlights

Thursday, September 21, 2023

# Maryland State Retirement slates $1.5 billion for alts

By Brian Croce
***Pensions & Investments***
September 21, 2023

Maryland State Retirement & Pension System, Baltimore, disclosed $1.5 billion in alternatives commitments and extended State Street Bank and Trust Co.'s term as its global custodian at its Sept. 19 meeting.

The $65.2 billion pension fund disclosed commitments made from May through September.

In real return, the pension fund committed $200 million to infrastructure fund Global Infrastructure Partners Fund V, and $150 million to Stonepeak Opportunities Fund, a North American middle-market infrastructure fund.

In credit/debt, the system committed $150 million to Gramercy Capital Solutions Fund III, an emerging market private credit fund managed by Gramercy Funds Management; $150 million to specialty finance fund Castlelake Aviation V Stable Yield; $100 million to Highbridge Strategic Credit Fund II, a multistrategy convertible debt managed by Highbridge Capital Management; $100 million to Waterfall Silver Spring Fund, a private asset-backed credit fund managed by Waterfall Asset Management; and $75 million to a co-investment fund associated with healthcare credit fund Hayfin Healthcare Opportunities Fund managed by Hayfin Capital Management. In March, Maryland committed $125 million to the Hayfin fund.

And in private equity, the pension fund committed $136 million to CVC Capital Partners IX, a global buyout fund managed by CVC Capital Partners; $100 million to large-cap buyout fund Hellman & Friedman Capital Partners XI; $100 million to New Mountain Partners VII, a buyout fund managed by New Mountain Capital; $85 million to LLR Equity Partners VII, a buyout fund managed by LLR Partners; and $103 million to various co-investments. Golden declined to provide specifics about the co-investments.
As of June 30, the system's actual allocation was 30.2% public equities (28.1% target), 21.9% private equity (21.9% target), 17.1% rate-sensitive assets (19.5% target), 10.5% real estate (10.5% target), 8.7% credit (9% target), 5.9% absolute return (6% target), 5% natural resources and infrastructure (5% target), and the rest in cash.
Separately, the fund's Board of Trustees approved a one-year extension for State Street, effective March 1, 2024, through Feb. 28, 2025, spokesman Michael D. Golden said. Maryland initially hired State Street to a five-year term in 2018 and approved an initial one-year extension last year, board documents show. The system pays State Street a flat fee of $2.7 million each year, according to board documents.
Managing pension risk is difficult, and because the liabilities are so far into the future, there are always incentives to underfund. And when the pension funds got it wrong, retirees did not get the money they were counting on. It was a terrible outcome for all involved.
In response, the government stepped up its scrutiny. Yet this increased oversight had a perverse effect. Once federal laws forced plan providers to both properly fund defined-benefit pensions and use good accounting standards to measure their liabilities, it became clear how much pensions cost — and employers dropped them. Defined-benefit plans now exist mostly for public-sector workers, because those funds don’t face such stringent standards.
But even many of the few remaining corporate pensions still get it wrong. Today when a company goes bankrupt and has an underfunded pension, the pension goes to the Pension Benefit Guaranty Corporation, where beneficiaries get a big haircut. This is a risk retirees cannot control or manage. Even when your employer takes on a risk, it does not go away.
In addition to the risk that a pension will go bust, defined-benefit plans have another drawback: They incentivize workers to stay with a single firm, dampening the dynamism of the US economy.
Defined-benefit pensions are most valuable for workers who stay with one employer most of their career: They vest after several years of employment and become more valuable the longer an employee stays. In the 1960s, this was not a big issue. GM made cars GM’s way, and if you started work there at age 20, odds were good you’d be there when you were 50.
Nowadays work has become more mechanized, and more standardized across firms, making workers more mobile. This is an underappreciated benefit. Workers can change jobs when they get a better offer, and the industry overall becomes more competitive.
Pensions are even less appealing to younger workers (the ones who’d be included if Fain’s proposal gets in the contract). The fact that pensions become so much more valuable and expensive later in a career means younger workers get less generous retirement benefits. They are also the ones who are more likely to change jobs, and so would be better off with higher pay and a more portable plan, such as a 401(k). This is

one reason that young public school teachers (who still have pensions) have such meager salaries.

Defined-benefit plans are good for unions — they help keep workers loyal to the cause and disproportionally reward older employees, who are more active members. But they should not be held up as some kind of symbol of a golden age of retirement — because that golden age never existed. In fact, if there ever was a golden age, it might be now: More people have retirement benefits, and higher income in retirement, than ever before.

I strongly suspect that Shawn Fain knows that a return to the era of defined-benefit pensions is unlikely, and is using the demand — along with his call for a 32-hour work week and a 46% raise over four years — as a bargaining chip. But even if Fain is serious about it, his members should know that the old union model is not the best fit for the modern economy.

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