

# Introduction to Pension Investing

Maryland State Retirement & Pension System

# Who are we and what do we do?

- The State Retirement and Pension System (SRPS) administers death, disability and retirement **benefits** on behalf of more than 405,000 members. These include active and former state employees, teachers, state police, judges, law enforcement.
- Our Mission: To administer the survivor, disability, and retirement benefits of the System's participants, and to ensure that sufficient **assets** are available to fund the benefits when due.
- Our Vision: A state that provides a **fully-funded** retirement system that is affordable to all participating employers and provides guaranteed adequate disability, survivor, and retirement benefits.
- The System: SRPS is defined by multiple employers, with over 150 local governmental agencies voluntarily participating. Our primary sponsor is the State of Maryland.

# Who are we and what do we do? (continued)

- The State Retirement and Pension System (SRPS) administers death, disability and retirement **benefits** on behalf of more than 405,000 members. These include active and former state employees, teachers, state police, judges, law enforcement.
- Our Mission: To administer the survivor, disability, and retirement benefits of the System's participants, and to ensure that sufficient **assets** are available to fund the benefits when due.
- Our Vision: A state that provides a **fully-funded** retirement system that is affordable to all participating employers and provides guaranteed adequate disability, survivor, and retirement benefits.
- The System: SRPS is defined by multiple employers, with over 150 local governmental agencies voluntarily participating. Our primary sponsor is the State of Maryland.

# What are the objectives of the System's investment portfolio?

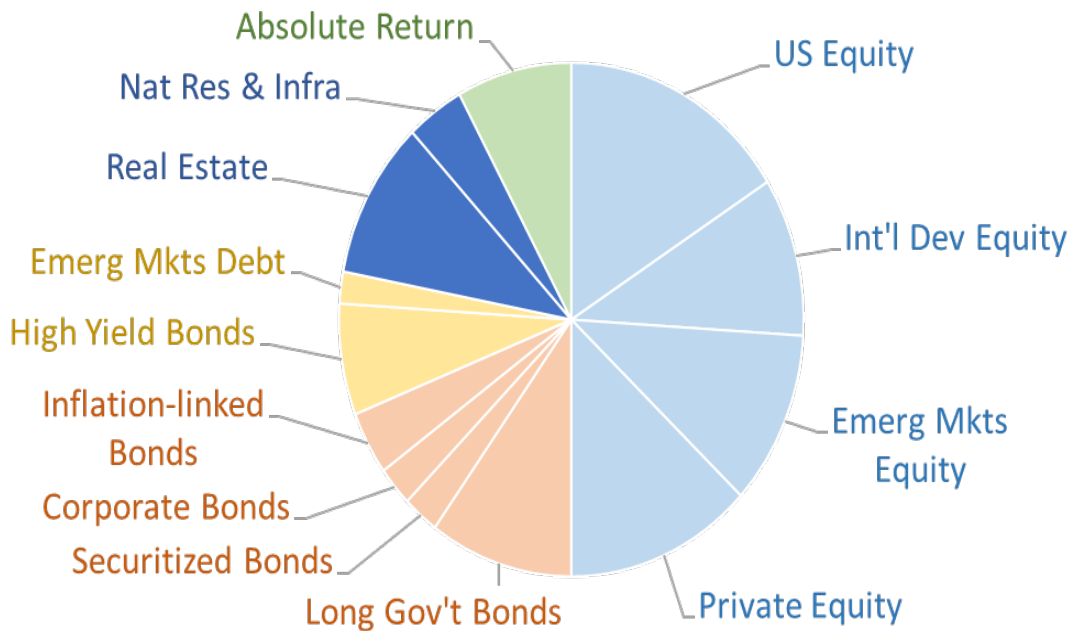
- The Board desires to balance the goal of higher long-term returns with the goal of minimizing contribution volatility.
- Achieve an annualized investment return that:
  - Meets or exceeds the actuarial target – currently 6.80%.
  - After adjusting for inflation, exceeds the U.S. Consumer Price Index by at least 3.0%.
  - Meets or exceeds the System's Investment Policy Benchmark.

# What makes a pension fund the same or different than an individual investor saving for retirement?

	State Pension Fund	25-year old individual investor (retirement)
<i>Objectives</i>		
<b>Return objective</b>	Tied to actuarial target	Tied to desired amount of spending in retirement
<b>Risk tolerance</b>	Moderate, balance of intergenerational equity and fulfilling promises to current retirees	High, typically varies by age
<i>Constraints</i>		
<b>Time horizon</b>	Perpetual, but the path of returns matters	Target retirement (i.e., 40 years until 2061), finite horizon means path of returns doesn't matter
<b>Liquidity</b>	Benefits must be paid each month, contributions come from employees, employers, and the state	None
<b>Legal/regulatory</b>	Typically governed by state/federal law	IRS guidelines
<b>Taxes</b>	Tax-exempt	Investment earnings grow tax-free, but contributions and distributions are subject to tax considerations
<b>Unique circumstances</b>	Support local economy where possible	Personal beliefs

# What is the System's Investment Policy Benchmark?

- The Investment Policy Benchmark is the result of Board's **asset allocation** process and represents a mix of investment types that is expected to meet the System's return and risk objectives over the long-term.



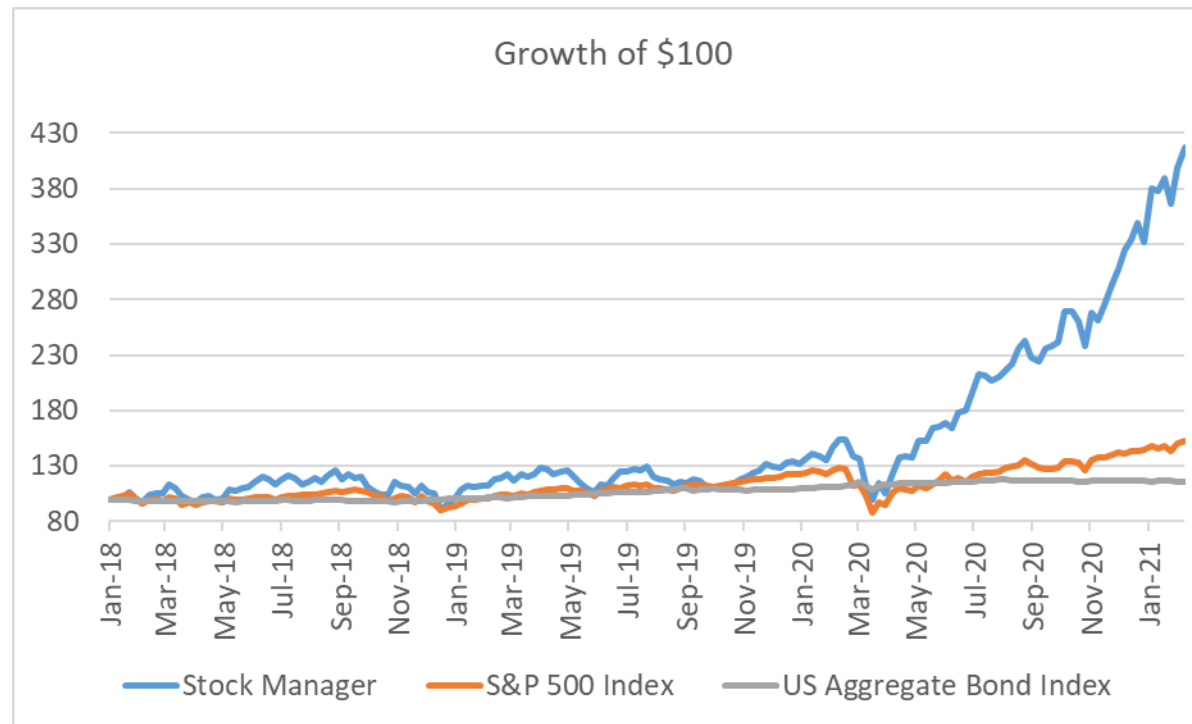
Asset Class	Description	Example
Growth/Equity	Ownership interests in publicly-traded or privately-held companies	Apple (NYSE: AAPL)
Rate Sensitive	Fixed income securities rated investment grade	U.S. Treasury bond
Credit	Fixed income securities rated below investment grade	Bond issued by an energy company
Real Assets	Investments that should protect the portfolio from rising inflation	Office building in New York City
Absolute Return	Diversifying investments that offer a competitive return	Hedge fund

# What is the Investment Division's role?

- The Investment Division is the unit of the State Retirement Agency responsible for management of the investment portfolio. The Division is led by the Chief Investment Officer.
- The Division's goal is to construct a portfolio of investments that meets or exceeds the Investment Policy Benchmark with detailed attention to risk management.
- Organized by asset class, specialized teams build portfolios designed to outperform the respective components of the Investment Policy Benchmark. These teams select securities directly and engage with third-party firms (or “managers”) to add value.
- The Chief Investment Officer may assemble a mix of asset classes slightly different than the Investment Policy Benchmark in an attempt to “outperform.”  
Outperformance could come in the form of higher returns, lower risk, or both.

# What would you do?

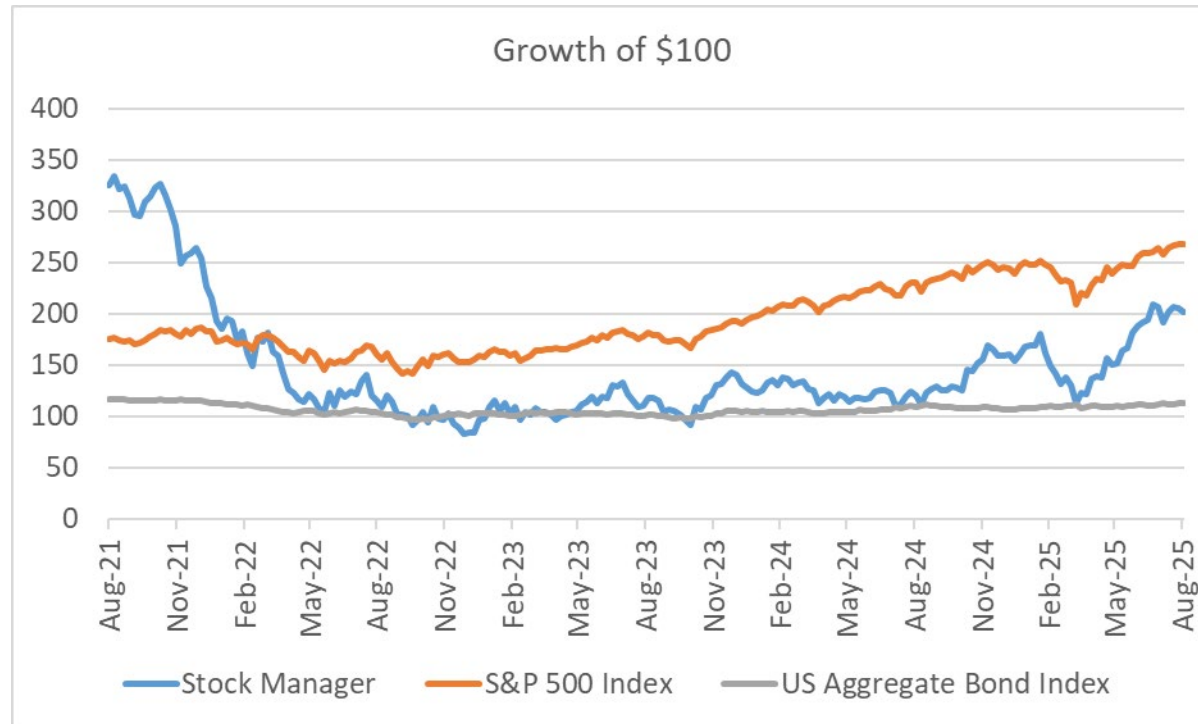
- The manager of a stock portfolio has done much better than their benchmark. Would you add money, take some money away, do nothing or take another action?
- What questions should be asked in determining a course of action?





# What happened next?

- The stock manager hit a rough patch as their investment style fell out of favor due to a market rotation
- What would you do now...?



# Why is the Investment Division an exciting place to work?

- Contribute to the System's mission of supporting Marylanders in retirement
- Results-driven organization – “beat the market”
- Interact with the smartest investors across the globe
- Build things – innovate
- Career growth
- A great team!
- Visit our website for more information: <https://sra.maryland.gov/>

# Glossary

- Benefits – payments promised to members in retirement (“obligations” or “liabilities”)
- Assets – financial resources, primarily the investment portfolio, that produce cash flows to make benefit payments
- Fully-funded – the goal of achieving an assets-to-liabilities ratio (“funded status”) of 100% by 2039
- Actuarial assumptions – projections made by a specialty accountant (“actuary”) to determine return goals, funding needs, and other characteristics of the System
- Contributions – payments made to the System by employers, employees, and the State of Maryland
- Asset allocation – the process of determining the appropriate mix of investment types (“asset classes”) based on return/risk objectives and constraints