

June 2015

## Boston’s Pension System Struggles with 2014 Investments

*The State-Boston Retirement System earned the fourth lowest return of 105 systems*

In 2014 the State-Boston Retirement System’s (SBRS) earned investment return of 4.9% ranks 102<sup>nd</sup> out of the 105 ranked systems according to the Massachusetts Public Employee Retirement Administration Commission (PERAC) 2014 Investment Report. This report raises concerns as the 4.9% return is well below the SBRS’s assumed rate of return of 7.75%.

Despite this year’s poor performance, overall the SBRS is in a relatively good position when compared with other Massachusetts pension systems. The funded ratio of 70.2% ranks in the top quartile of systems and the SBRS remains on schedule to reach full funding by 2025, 11 years before the state system’s 2036 deadline.

### Investment Return

Earning returns at or above the assumed rate of return is essential to reaching full funding by 2025. Over past years, the system has earned above the assumed rate. Even so, experts have concerns about reliance on high estimates for future years. Also, the SBRS has earned below the Massachusetts Pension Reserves Investment Trust (PRIT) fund and the statewide composite return in each of the time frames below.

SBRS Earned Returns

	SBRS	PRIT	Composite
1-year	4.93%	8.16%	7.82%
5-year	9.39%	10.05%	10.09%
10-year	6.95%	7.01%	6.99%
30-year	9.17%	9.78%	9.43%

### Plan Allocation

The low return rate for 2014 was not the result of managers who underperformed relative to their asset class, but rather a result of the SBRS’s portfolio being heavily allocated in asset classes that generally underperformed in 2014. As seen below, compared to other public systems, the SBRS has a lower allocation in US equity, which had a strong year in 2014. On the other hand, the SBRS has a higher allocation in foreign and emerging markets, which struggled in 2014.

Public Plan Allocations

Asset Class	SBRS Allocation	Average Allocation*
US Equity	26.90%	35.60%
Developed Non-US Equity	15.70%	6.90%
Emerging Markets	9.20%	4.30%
Fixed Income	25.40%	29.10%
Alternative/ Nontraditional	21.70%	9.20%

\*based on InvestorForce Public Database

### Boston Teachers

The SBRS administers pension benefits for retired Boston teachers. However, since 2012 teacher assets have been invested separately from the SBRS through the PRIT fund. In 2014 the teacher assets earned a return of 8.14%, well above the SBRS return. As explained in the Research Bureau’s [Special Report](#), the SBRS has the option of moving more of its non-teacher assets to PRIT, but has not yet pursued this option. The Bureau has recommended that the Board consider moving a portion of assets, particularly private equity, to the PRIT fund.