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Boston Retirement System's Investment Returns

Annualized returns fall below state performance

The investment performance of the State-Boston Retirement System (SBRS) in 2007 exceeded its target but was not as strong as achieved by the Commonwealth's Pension Reserves Investment Trust (PRIT) or the State Employees' and State Teachers' Retirement Systems. The 2007 Annual Report of the state's Public Employee Retirement Administration Commission (PERAC) showed that the SBRS ended the year with an investment return of 10.39% which topped its target of 8.73%. However, as shown below, the investment returns in 2007 of the two state funds exceeded the SBRS' return by as much as 1.66%.

With the SBRS' assets of \$4.1B as of January 1, 2007, this investment differential can make a significant difference (\$68.7M) in the investment income generated and what the City must appropriate from its own sources to fund its annual pension requirement. Boston's pension appropriation in FY09 is \$213.2M, an increase of 10.3M from last year.

periods shows higher returns for the state systems. The market value of assets in 2007 under control of PRIM is \$53.7B compared with the SBRS' assets of \$4.5B. The SBRS does have the ability to transfer all or a portion of its assets to be managed by PRIT (Ch. 32, s. 22) but has not done so.

Last year, legislation was enacted that authorized PERAC to identify underperforming retirement systems through an established standard and require them to transfer their assets to the PRIT fund (Ch.68, Acts of 2007). A system is underperforming if (1) it is less than 65% funded and (2) its investment performance on an annualized basis has been less than the PRIT fund by 2% over the previous ten years. The SBRS' funded ratio as of January 1, 2007 is 66.5%. The Commonwealth's blended rate for state employees and teachers is 75.2%

Teachers - Boston is the only municipality that funds its teachers' retirement expenses from its operating budget and the next year is reimbursed slightly less than 100% by the state through its Cherry Sheet aid. For several years, discussions have been held among city, state and pension agency officials about how to address this matter. One viable option would be to bring the Boston teachers under the State Teachers' Retirement System and split the investment assets appropriately. Such a move would provide management and investment benefits and would clarify Boston's true state aid position.

Retirement System Financial Comparison			
Category	SBRS	State	PRIM
Market Value	\$4.5B	\$22.5B	\$53.7B
2007 Return	10.39%	12.05%	11.90%
5-Year Annualized	13.71%	16.41%	16.31%
10-Year Annualized	8.08%	9.91%	9.88%
23-Year Annualized	10.43%	11.37%	11.52%

A further comparison of annualized investment returns over 5, 10 and 23-year