Public Pensions: 50-State Funding Overview and Recent Trends

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Strengthening Public Sector Retirement Systems
The Pew Charitable Trusts

Ø An independent, nonprofit and nonpartisan research and policy organization.

Ø “Driven by the power of knowledge to solve today’s most challenging problems.

Ø Our mission is to:
  o Improve public policy
  o Inform the public
  o Invigorate civic life

Pew’s Public Sector Retirement Systems Program

Ø Research since 2007 includes 50-state trends on public pensions and retiree benefits, funding, investments, governance, plan design, and retirement security.

Ø Technical assistance for states and cities since 2011.
Outline and Toplines

Outline
Ø 50-State Pension Funding Update
Ø Economic Outlook
Ø Plan Adjustments to “New Normal” Economy

Toplines
Ø Well-funded pension plans and those that have not recovered – or did not suffer losses during the 9 year recovery are distinctly different.
Ø A “new normal” of lower economic growth is projected to persist throughout the decade.
Ø Plans have begun to adjust in ways that do not necessarily come with economic impacts for plans or sponsoring governments.
50-State Funding Update

Ø Pew has been tracking the fiscal health of state-sponsored retirement systems since 2007, using states’ own reported data to examine the fiscal pressures from underfunded pension and retiree health care benefits.

Ø The latest study covers data for state-run pension systems for fiscal year 2017, the most recent year for which comprehensive data were available for all states.

Ø The 230 plans included in Pew’s data cover state employees, teachers, law enforcement officers, firefighters, university professors, and other state and local government employees.
Key Findings

Ø In 2000, most state pension programs were fully funded. In the 10 years of economic expansion before the Great Recession, plans continue to struggle to return to their fiscal health post-recession.

Ø State-run pension plans faced a $1.28 trillion funding gap in 2017.
  o The funding gap improved by $79 billion from 2016 due to strong investment performance.

Ø Pension debt as a percentage of GDP remains historically high.
  o Pension costs could take up an increasing share of the budget in many states experiencing downturn, crowding out resources for other government services.

Ø The numbers show a growing disparity between the best-funded state pension programs and the worst-funded.
  o The best-funded plans—those whose funding level approached 100 percent of their actuarial liability—were, on average, 90 percent funded in 2017;
  o In contrast, the worst-funded plans were only about 70 percent funded in 2017; 55 percent funded in 2017.
2017 State Pension Funding Gap
(Aggregate of 50 States)

Funded Ratio = Assets / Liabilities

Sources: Comprehensive annual financial reports, actuarial reports and valuations, other public documents, or as provided by plan officials.
State Pension Debt Remains at Historically High Levels
(Aggregate of 50 States)

State and Local Pension Debt as a Share of Gross Domestic Product

Sources: The Federal Reserve and U.S. Department of Commerce Bureau of Economic Analysis

THE PEW CHARITABLE TRUSTS
States Vary in Funding Levels: 103% to 34%

Just eight states were at least 90 percent funded in 2017. Twenty were below the 90 percent funded level.

Sources: Comprehensive annual financial reports, actuarial reports and valuations, other public documents, or as provided by plan officials.
Increased Costs, Declining Assets In Worst-Funded Plans

**Funded Ratio:**
- Top 3/Bottom 3

**Employer Contributions:**
- Top 3/Bottom 3

*Sources*: Comprehensive annual financial reports, actuarial reports and valuations, other public documents, or as provided by plan officials.
Best-Funded States Recover After a Recession

Funded Ratio Over Time

- Above 90% Funded
- Below 67% Funded
- Everyone else

Sources: Comprehensive annual financial reports, actuarial reports and valuations, other public documents, or as provided by plan officials.

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Real GDP Growth and Inflation Decreasing

Average Growth 1950-1999:
- Real GDP Growth: 3.76%
- Inflation: 3.67%

Average Growth 1980-1999:
- Real GDP Growth: 3.26%
- Inflation: 3.34%

Average Growth 2000-2018:
- Real GDP Growth: 1.95%
- Inflation: 2.04%

Sources: Comprehensive annual financial reports, actuarial reports and valuations, other public documents, or as provided by plan officials.

THE PEW CHARITABLE TRUSTS
State Pension Fund Expected Rates of Return

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<th>Range</th>
<th>Number of Funds</th>
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<tr>
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<td>7-7.49%</td>
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<td>21</td>
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<td>7.51-7.99%</td>
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The Pew Charitable Trusts
State Pension Fund Expected Rates of Return

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Sources: Comprehensive annual financial reports, actuarial reports and valuations, other public documents, or as provided by plan officials.
Conclusion

Ø After ten years of economic recovery, many state pension plans could be ill-prepared for the next financial downturn.

Ø There are distinct differences between well-funded pension plans and those that have not recovered – or have worsened – during the 9 year recovery.

Ø A “new normal” of lower economic growth is projected to persist throughout the entire decade.

Ø Plans have begun to adjust; and have demonstrated that the accounting assumptions and target rates of return do not necessarily come with significant economic risks to sponsoring governments.
Resources

Ø The Pew Charitable Trusts’ Public Sector Retirement Systems Project
  o The State Pension Funding Gap, 2017: Growing disparity among states
  o State Retirement Fiscal Health and Funding Discipline - Data Visualization and Comparison

Ø National Conference of State Legislatures – Overview of State Pension Plans
Don’t miss out!

Visit booth #407 in the exhibit hall to pick up publications, have a coffee, and meet policy experts from The Pew Charitable Trusts.

pewtrusts.org/NCSL
APPENDIX
Learning from Well-Funded States

- Wisconsin, South Dakota, and Tennessee reported the best funded pension plans.

- These three states differ in benefit design, assumptions, and funding policies, but have several attributes.
  1. They have consistently ensured that employer contributions are actuarially sound for the benefits offered to workers and retirees.
  2. They have explicit policies to manage risk and keep costs stable.
  3. They provide a pathway to retirement security across the workforce.

- These states show that there is no one-size-fits-all solution.
  - Policymakers have multiple approaches to sustainably offer retirement benefits to workers and retirees.

1 Other states funded at 90% or better include: NE, UT, NC, ID, NY. Individual plans within a state might be fully funded without the overall plan being fully funded.