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Pension Planning in a Post-Pandemic World

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Strengthening Public Sector Retirement Systems

Overview

- **Introduction**
  - Fiscal sustainability of public pensions after a decade of contribution increases and once-in-a-generation returns in 2021
  - Using the windfall to strengthen pension funding and reduce risk
  - Defining and measuring success for public sector retirement systems
- **Lessons in Action:** perspectives from the states

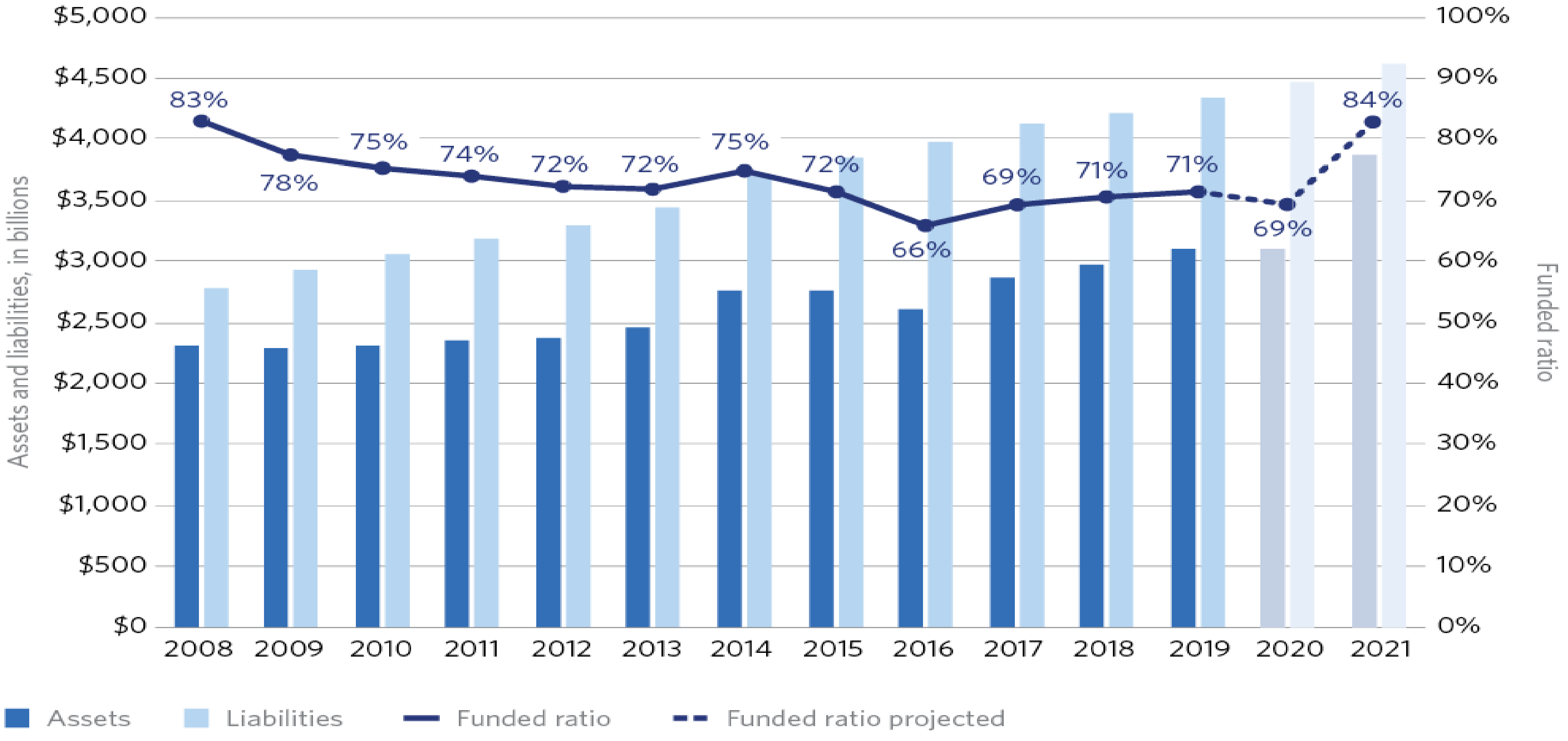
Historic Market Volatility Post-COVID

During the pandemic, the stock market experienced an initial 34% drop, followed by a once-in-a-generation rally.

Source: Pew analysis of S&P Dow Jones Indices LLC

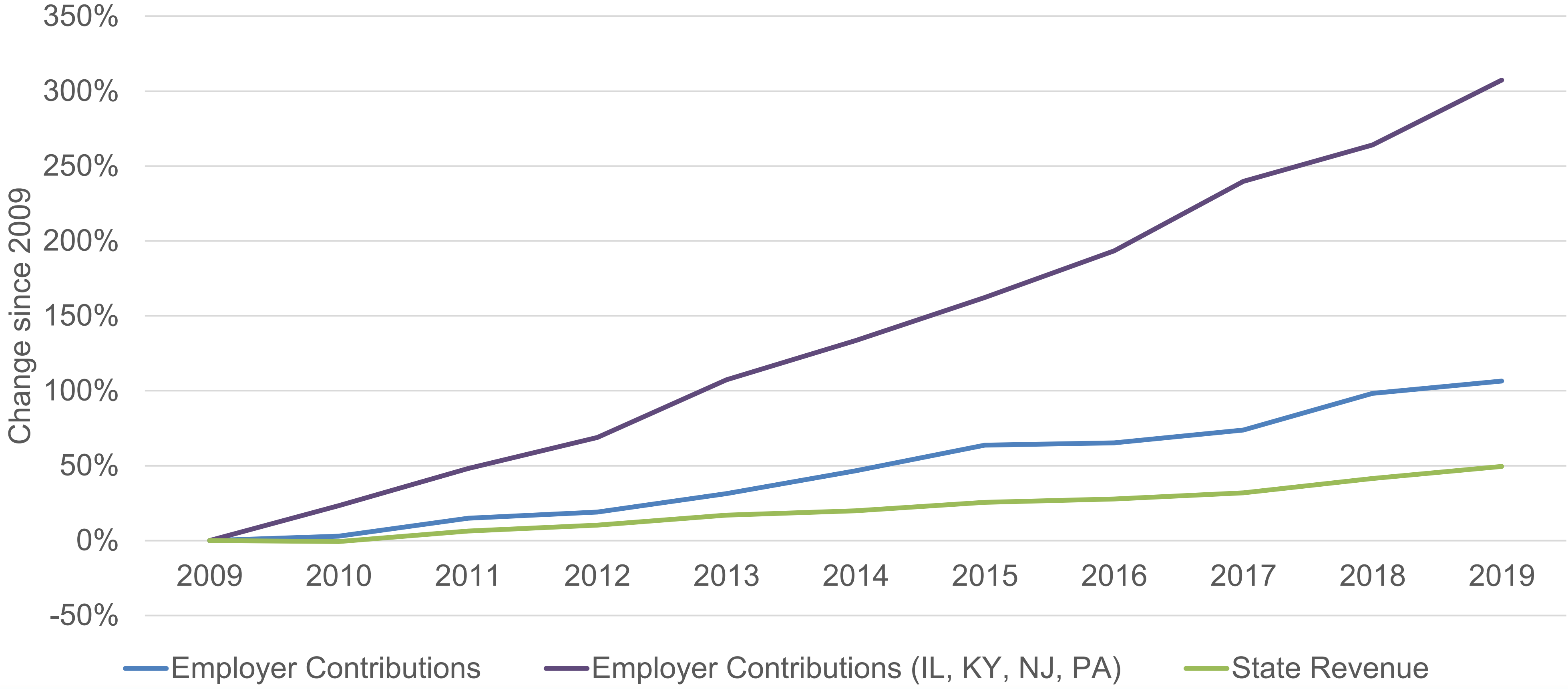
State Pension Funding Gap Stabilized

Once-in-a-generation returns have brought the funded ratio back to 2008 levels.



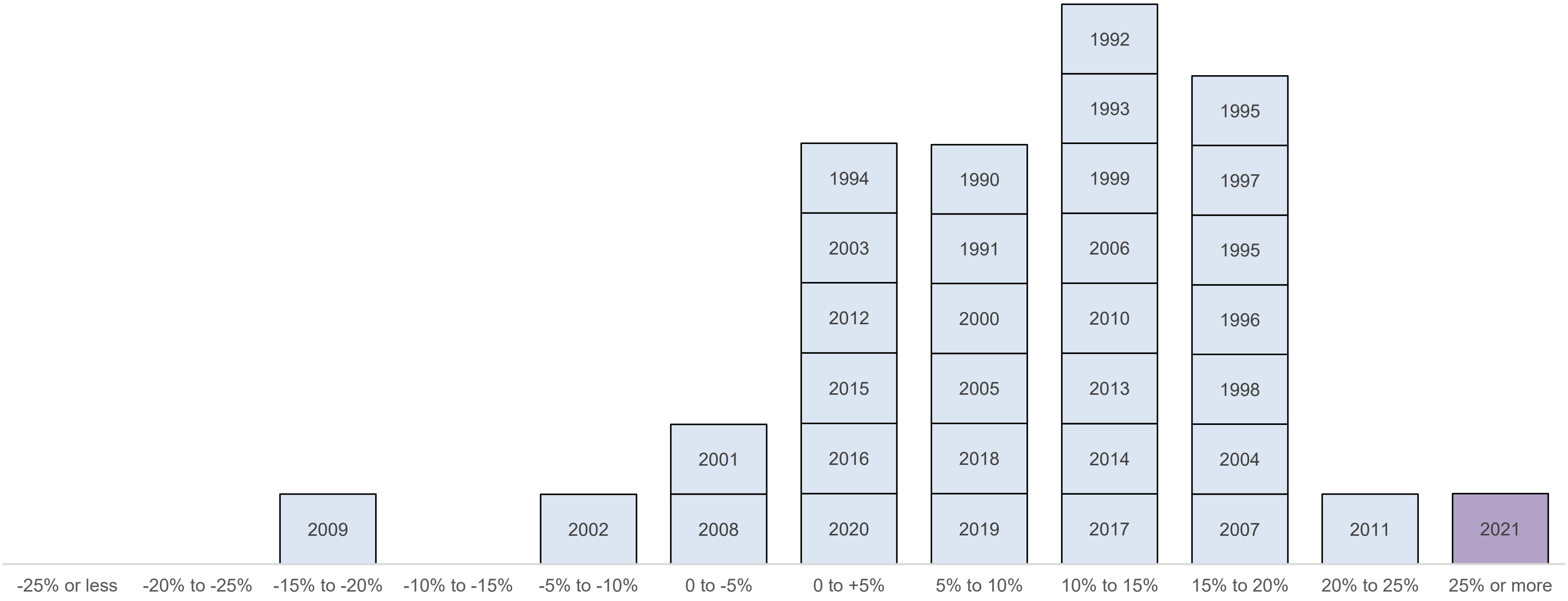
States Strengthening Funding Policy

Contributions grew twice as fast as revenue since 2009; biggest increases in states that needed it most.



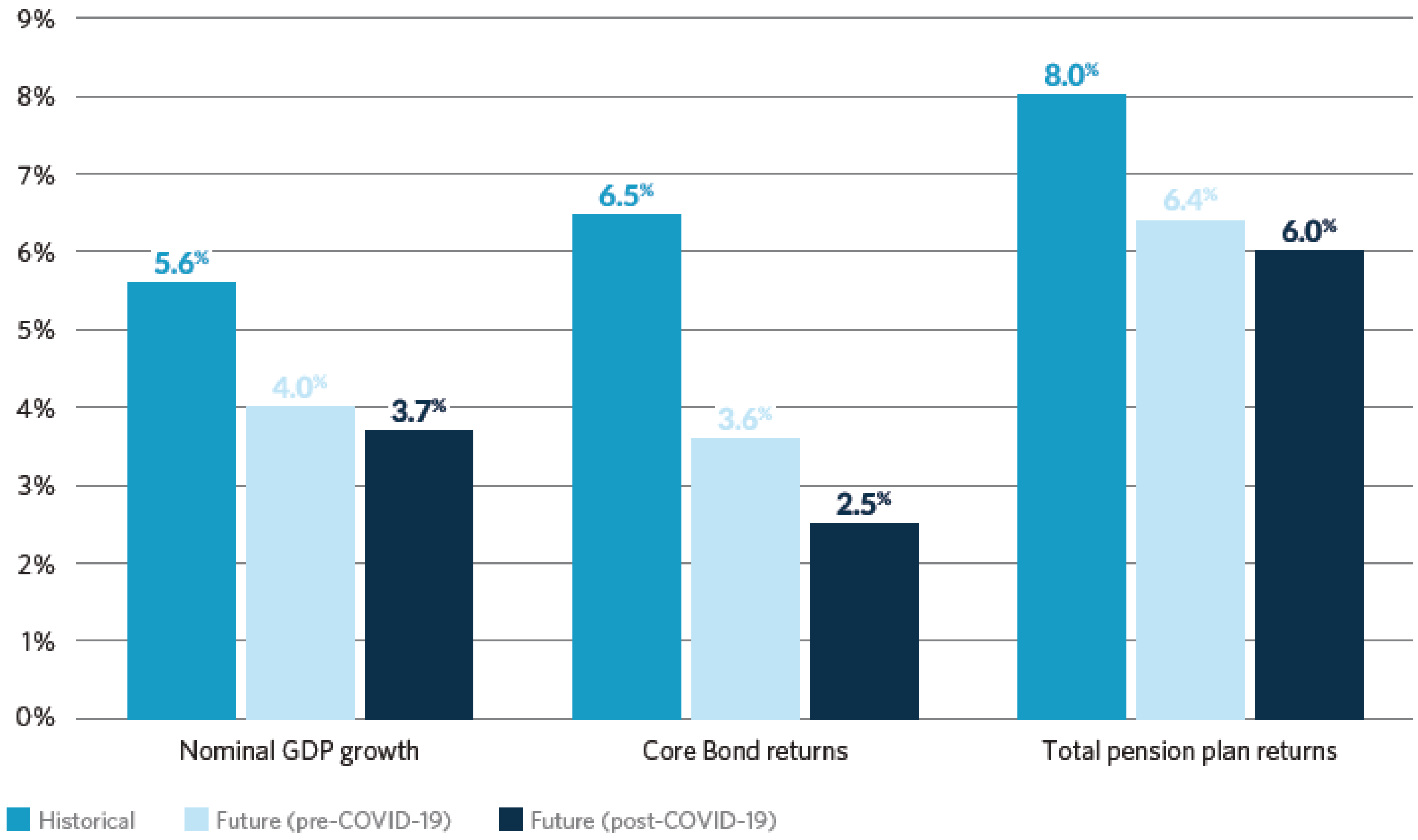
Once-in-a-Generation Returns

While strong returns in 2021 will help public pension balance sheets, states cannot count on future investments to fill the remaining hole.



Long-Run Expected Annual Return

Expected returns continue to decline despite recent market rally



Policy Developments in States

- Since 2015, over 40 states have lowered return assumptions.

- More states adopting pensions stress testing requirements, including AZ and NC. In total, 13 states have a standard practice in place.

- Benefit and funding changes in TX.

- Using windfalls to reduce risk and shore up systems: CA, CT, IN, NJ.

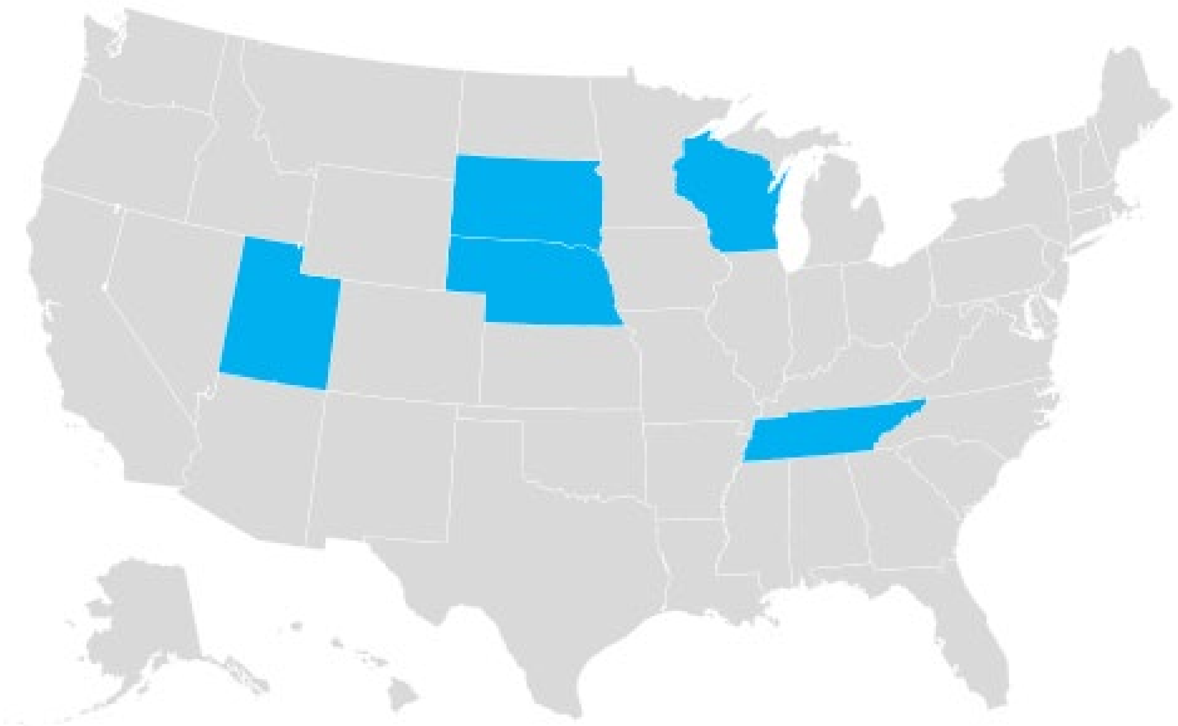
Opportunities to use Windfall Returns

With the typical state pension plan generating returns over 25% in 2021, we expect over 10 states to be at or near full funding. How can policymakers apply windfall gains to strengthen plan funding and manage risk?

- Strengthen funding levels
- Lower return assumptions
- Stabilize contribution rates
- Reinstate COLAs with risk-sharing

Spotlight on Five State Pension Plans: No-One-Size-Fits-All

Well funded (>90%) with strong risk management policies, outcomes for retirement security



Plans Identified by Pew:

- Nebraska – State and County Employees Pension Plans
- South Dakota Retirement System (SDRS)
- Tennessee – Public Employees Retirement Plan
- Utah Retirement System (URS)
- Wisconsin Retirement System (WRS)

How Do We Define and Measure Success?

- **Retirement Security –** Benefits provide a path to retirement security across the workforce.
- **Fiscal Sustainability –** Pension obligations are funded in a way that's predictable for government budgets.
- **Intergenerational Equity –** The full cost of pension benefits is covered in each year, rather than pushing costs to future generations of participants and taxpayers.
- **Plan for Uncertainty –** Plan has adopted and follows risk assessment and management policies that provide a plan for economic and demographic uncertainty.
- **Accountable Investment Decisions –** Pension fund investments are expertly managed and supported by policies and practices that are fully transparent to workers, retirees, and taxpayers.

Key Takeaways

- Strengthened employer funding of pensions over the past decade and once-in-a-generation investment performance have helped stabilize many public pension plans.
- Policymakers can look to use windfall returns to stabilize plan funding, reduce risk, and make costs more predictable in the future.
- High-performing states have demonstrated that public employees can be provided a secure retirement in an affordable and sustainable manner.

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