

NCSL Midwest States Fiscal Leaders' Forum

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Public Pensions: 50-State Overview

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The Pew Charitable Trusts

- More than 40 active, evidence-based research projects
- Projects include public safety, immigration, elections, transportation, pensions, and state tax incentives
- All follow a common approach: data-driven, inclusive, and transparent

Pew's Public Sector Retirement Systems Project

- Research since 2007 includes 50-state trends on public pensions and retiree benefits relating to funding, investments, governance, and employee preferences
- Technical assistance for states and cities since 2011

Principles for Fiscal Sustainability

- Commit to fully funding and paying for pension promises
- Manage investment risk and cost uncertainty
- Follow sound investment governance and reporting practices

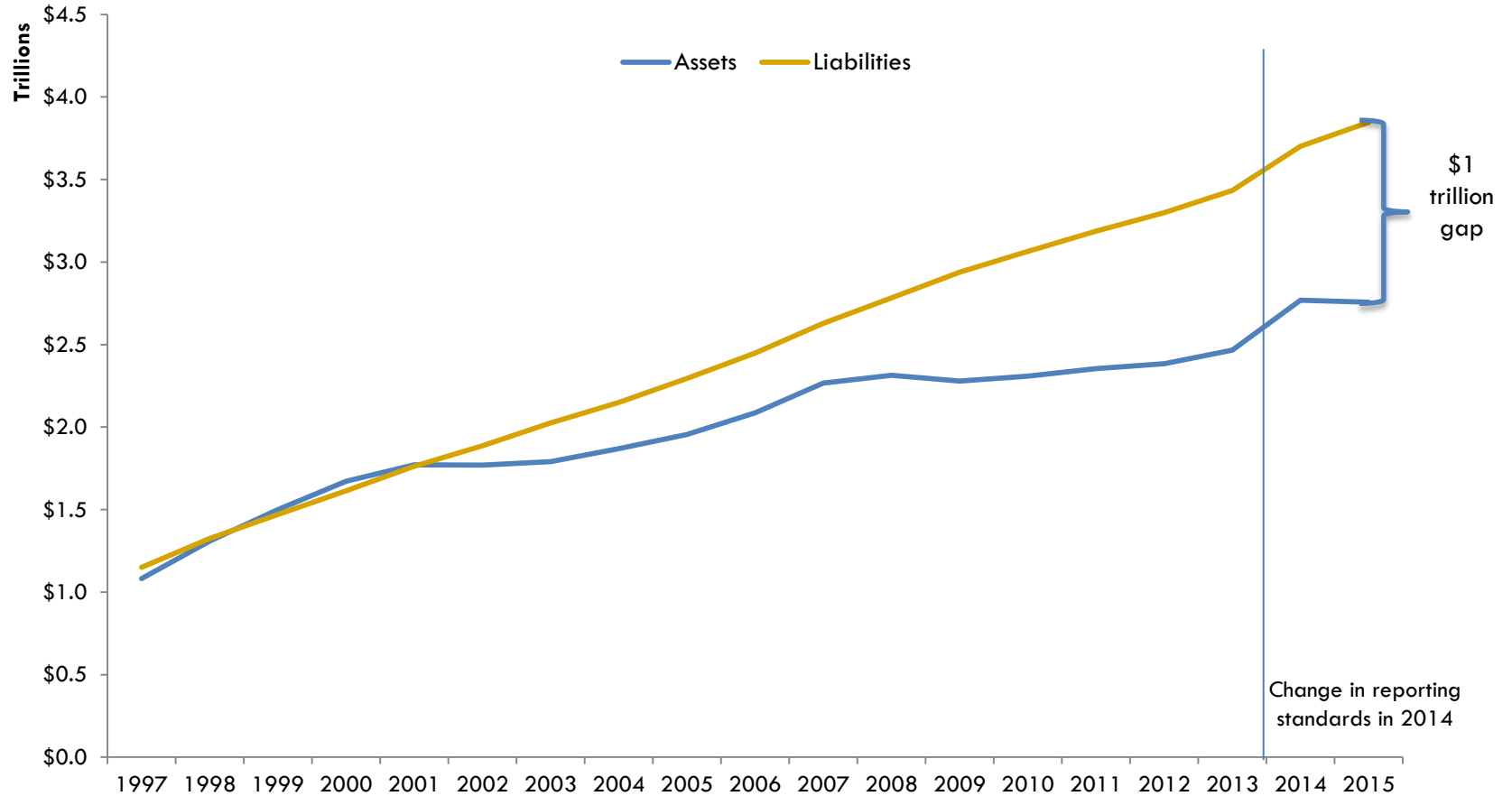
Principles for Retirement Security

- Target sufficient contributions and savings to help put employees on a path to a secure retirement
- Invest assets in professionally managed, pooled investments with low fees and appropriate asset allocations
- Provide access to lifetime income in retirement

Pension Funding & Fiscal Health

50 State Summary

50 State Pension Funding Gap - 2015

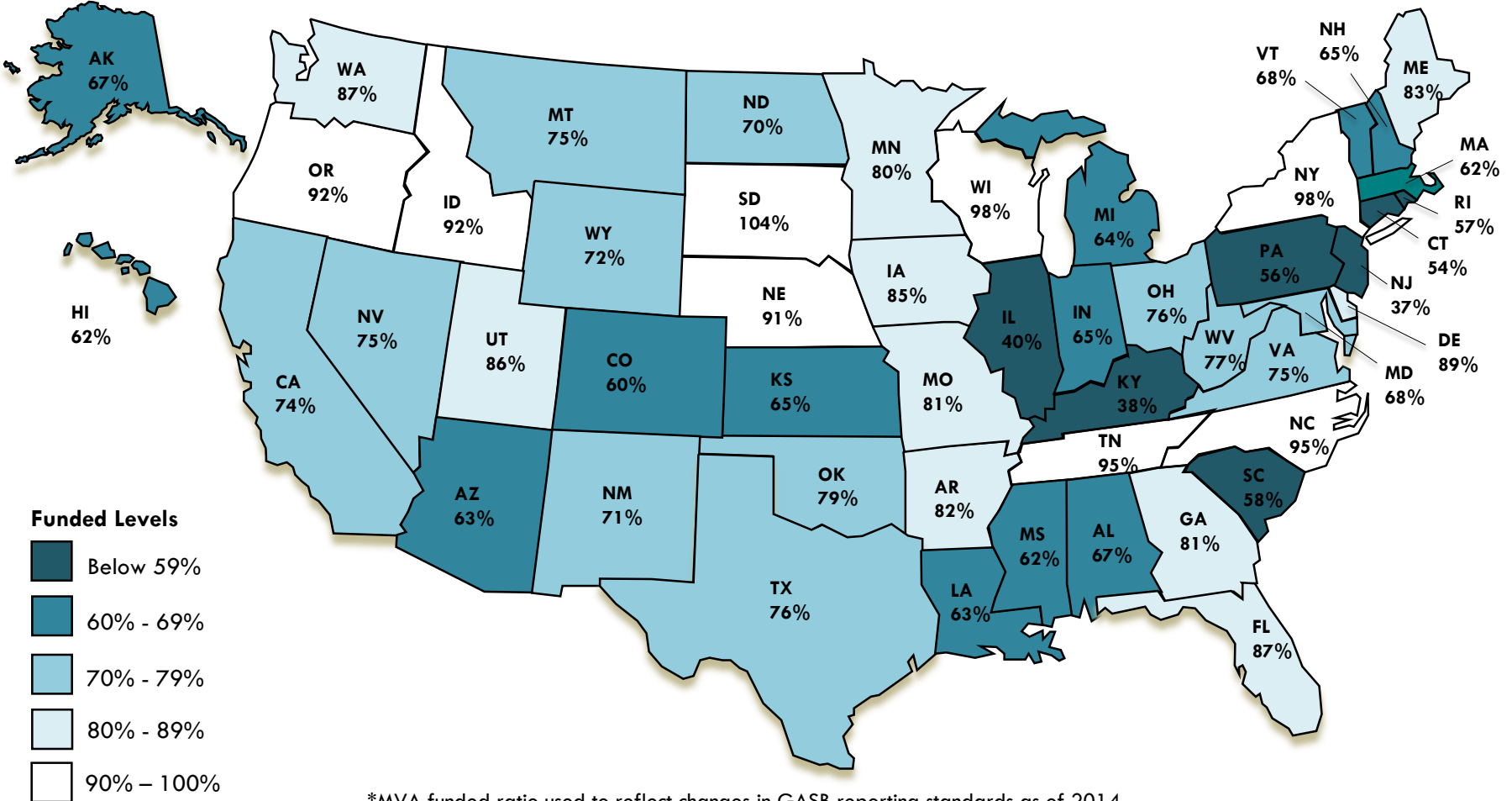


Note: GASB reporting standards changed in 2014.

Source: Data for this graph were collected from Comprehensive Annual Financial Reports (CAFRs), actuarial reports and valuations, or other public documents.

2015 Funded Ratios Across the 50 States

Overall, state pensions are **72%** funded.*

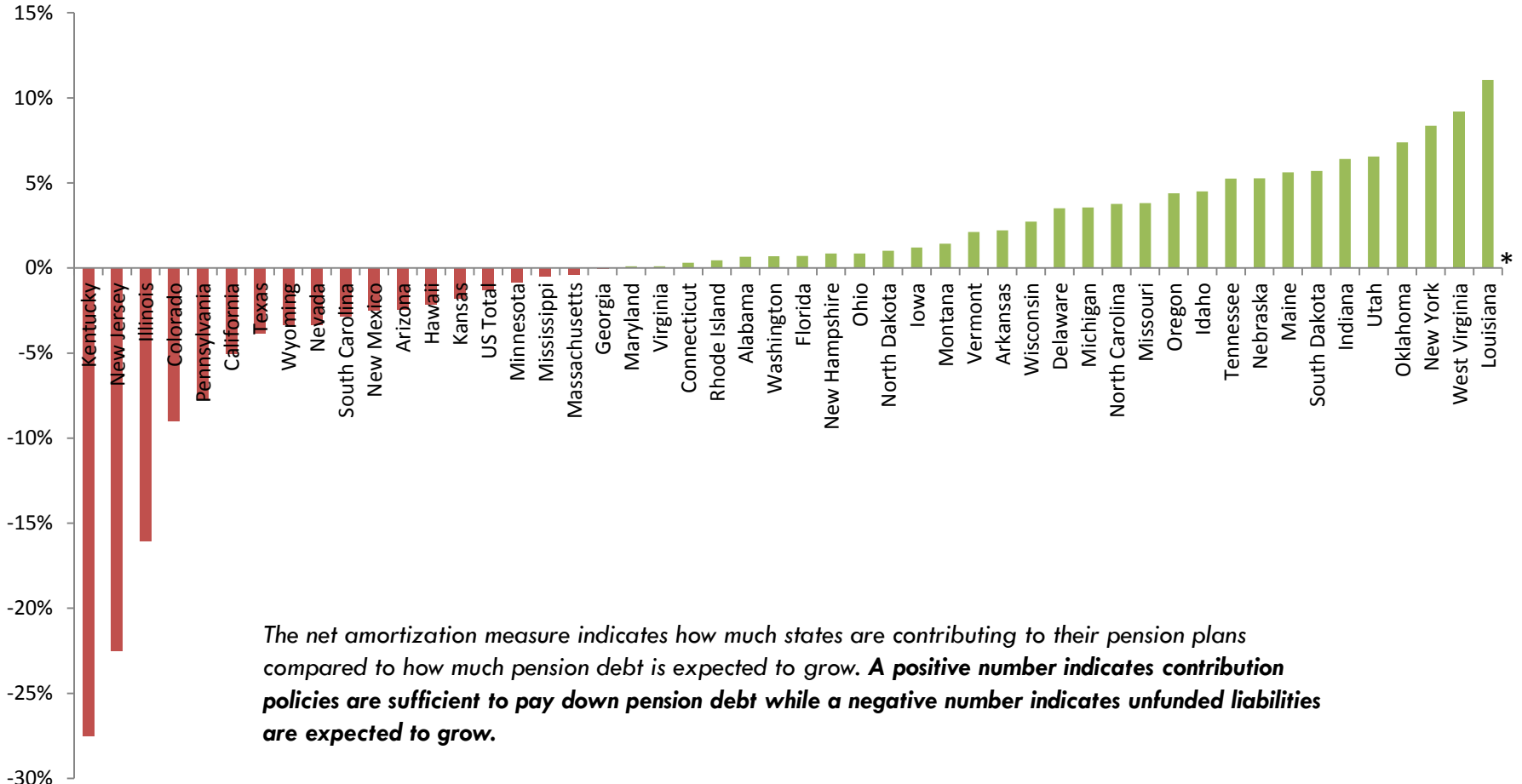


*MVA funded ratio used to reflect changes in GASB reporting standards as of 2014.

Source: Comprehensive Annual Financial Reports (CAFRs), actuarial reports and valuations.

Net Amortization as a Share of Covered Payroll – FY 2015

31 states achieved positive amortization in FY 2015.



The net amortization measure indicates how much states are contributing to their pension plans compared to how much pension debt is expected to grow. A **positive number indicates contribution policies are sufficient to pay down pension debt while a negative number indicates unfunded liabilities are expected to grow.**

Note: *Alaska, which is ranked #1, is excluded from the graph for scale.

Source: Data for this graph was collected from Comprehensive Annual Financial Reports (CAFRs), actuarial reports and valuations, or other public documents, or as provided by plan officials. This data does not include plans where no covered payroll data was reported except for plans that are closed to new members.

Pension Investments

Recent Trends and Emerging Issues

Pension Investments: Key Trends Across States

- US public pension funds have shifted away from bonds towards stocks and alternatives in recent decades. Measures of market risk are at all time highs.
- State funds are now invested 25% in higher fee alternative investments. There is increased attention around fee disclosure and the performance and cost of hedge funds in particular.
- Policymakers need to balance returns, risks, and costs.
- Pew recommends the use of stress testing to better evaluate funding policy requirements and to provide policymakers with information to better measure and manage cost uncertainty.

Investments – Key Trends: More in Stocks and Less in Bonds

Public Pension Investments, 1954-2014

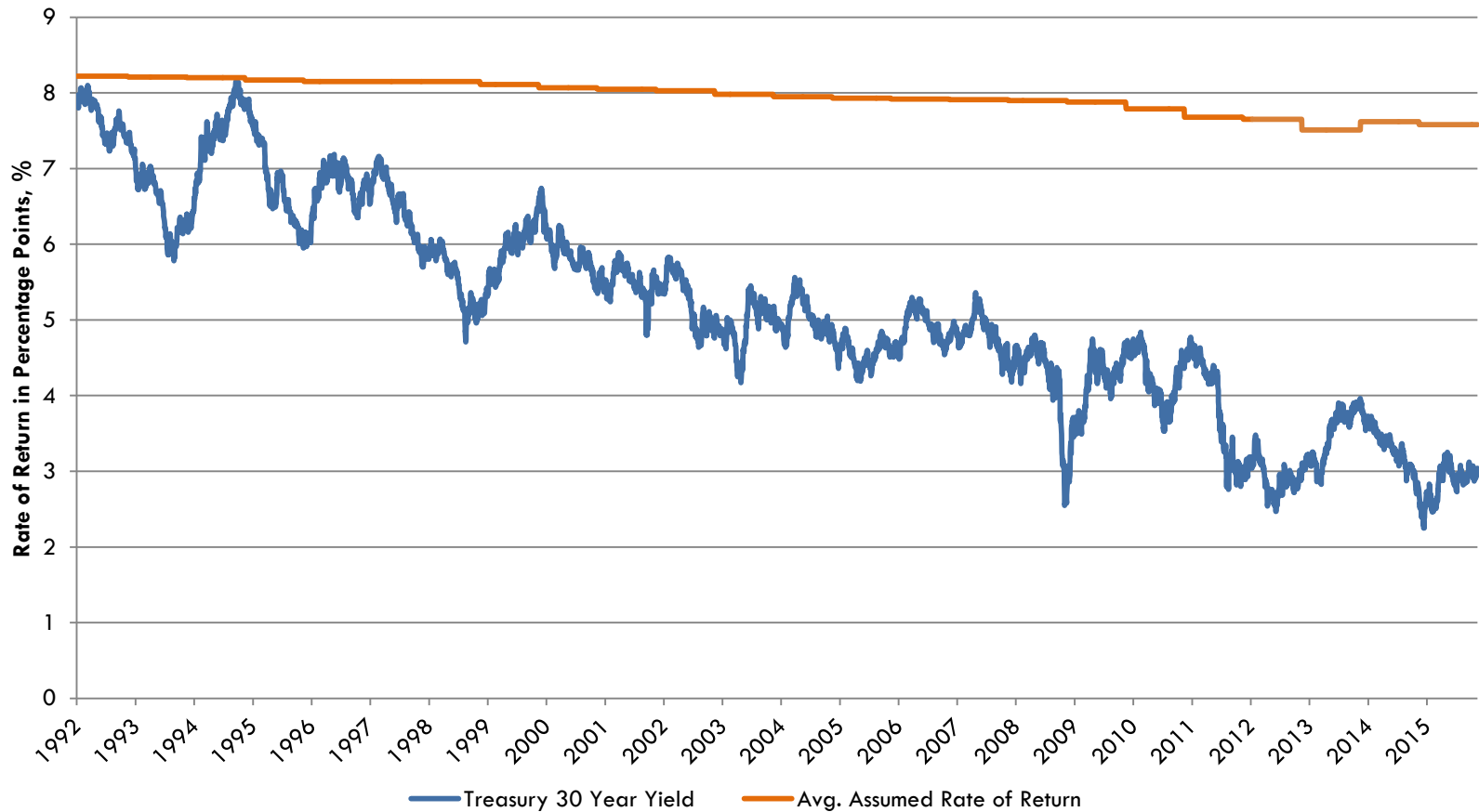
Allocations to equities and alternative investments have increased, while those to fixed-income investments have declined



Source: U.S. Board Of Governors of the Federal Reserve System, *Financial Accounts of the United States*, 1954 to 2014; Pew Analysis of State Financial Reports

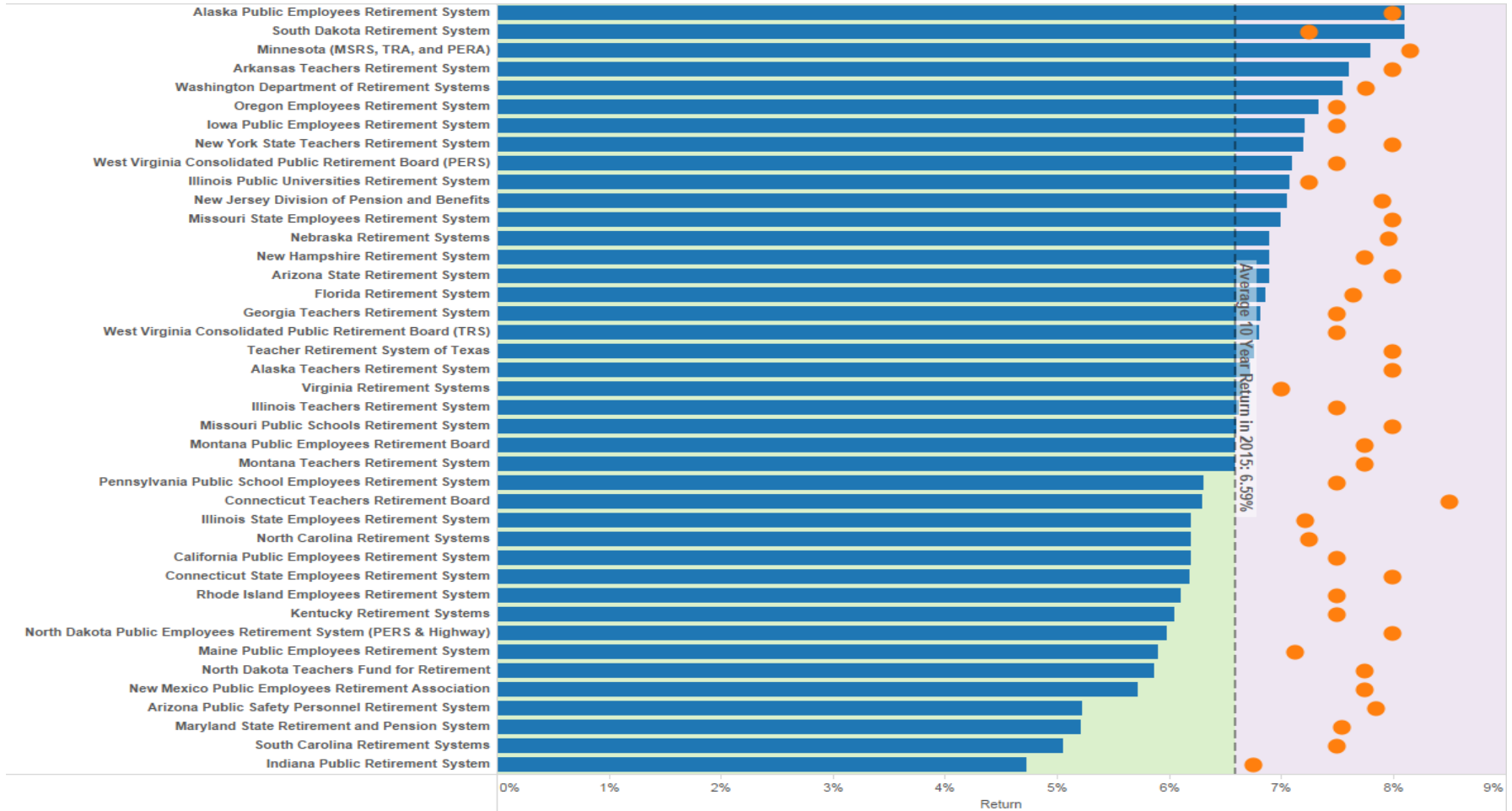
Pension Fund Risk Premium at Historic High

US Public Fund Average Increasing Risk Premium – Plan's Assumed Rate of Return Remains Relatively Stable, While Bond Yields Have Declined



10-Year Investment Returns

State Funds That Report Net of Fees Net Reporters



Measure Names

- 2015 10-Yr Inv Return
- 2015 Target Rate of Return

Sources: Comprehensive Annual Financial Reports, 2014 & 2015; quarterly investment reports; and plan responses to data inquiries

Benefit Design

Benefit Design: No One-size-fits-all

There is no one-size-fits-all solution to pension funding challenges.

Principles of Retirement Security

- Target sufficient contributions and savings to help put employees on a path to a secure retirement
- Invest assets in professionally managed, pooled investments with low fees and appropriate asset allocations
- Provide access to lifetime income in retirement

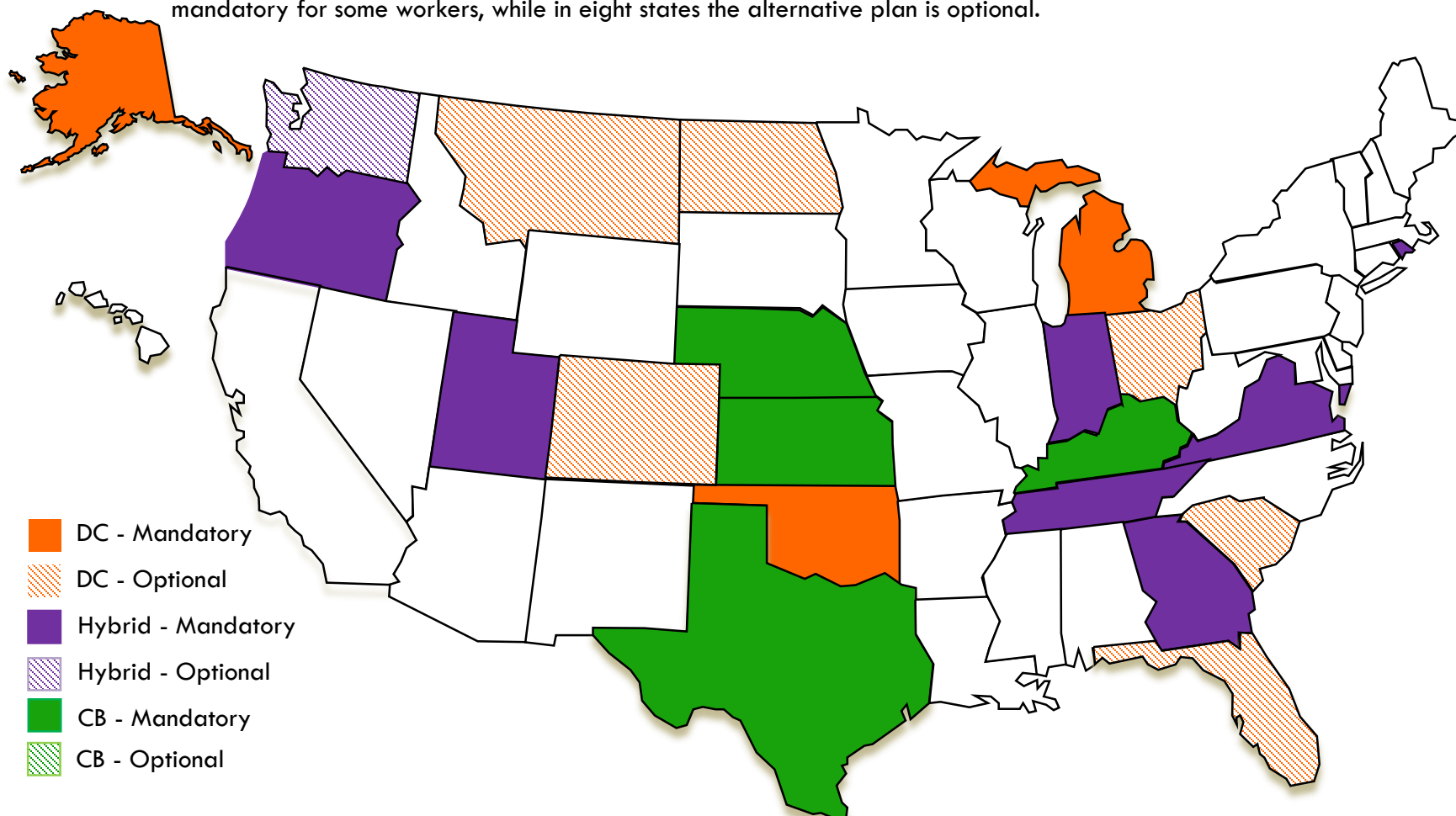
50 State Reform Summary

- 49 states have implemented some kind of reform between 2009 and 2015.
- Many reforms changed plan provisions for new workers, but kept the basic structure of the plan.
- A number of states passed reforms that affected current workers or retirees between 2009 and 2015:
 - 30 states reduced COLAs for active and/or retired members
 - 37 states increased employee contributions for either current or new members
- Between 2009 and 2015, 9 states passed reforms that changed the mandatory benefit design for new employees. Overall, 21 states have a mandatory or optional alternative benefit design.

Source: National Council of State Legislatures, NASRA, The Pew Charitable Trusts

States With Alternative Public Sector Retirement Plans

Twenty-one states have implemented an alternative plan for some workers. In fourteen states, the alternative plans are mandatory for some workers, while in eight states the alternative plan is optional.



In cases where a state has more than one alternative plan, the plan type with the greater number of participants is marked on the map. Texas's cash balance plan is only available to local workers and California provides an optional cash balance plan for part-time workers and adjunct educational employees.

Source: NASRA, NCSL

Conclusion

- States have accrued \$1 trillion in unfunded liabilities.
- Fiscal discipline and sound contribution policy needed to close funding gap.
- States have moved to riskier and more complex investments.
- Improved transparency and use of stress testing can help states manage risk and complexity.
- Most states have made some change to reduce or share pension costs.
- No one-size-fits-all plan design. Policymakers will need to balance objective of retirement security with need for affordability and predictability.