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# Public Pensions: 50-State Overview and Recent Trends

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# Overview

- **Introduction**
  - The Pew Charitable Trusts
  - Public Sector Retirement Systems Project

- **Pension Funding and Fiscal Health**
  - 50-State Pension Funding Update
  - Learning from Well-Funded States
  - Forward-looking metrics to measures and plan for the future.

# Pew's Public Sector Retirement Systems Project

- Research 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.

- Policy Development
  - Effective practices of model retirement systems.
  - Risk reporting for public pensions.

# 50-State Funding Update

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

- 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 50 states.

- The 230 plans included in Pew's data cover state employees, teachers, police officers, firefighters, university professors, and other state and local public employees.

# Key Findings

- In 2000, most state pension programs were fully funded. In the 10 years of economic recovery since the Great Recession, plans continue to struggle to return to their fiscal health prior to 2009.

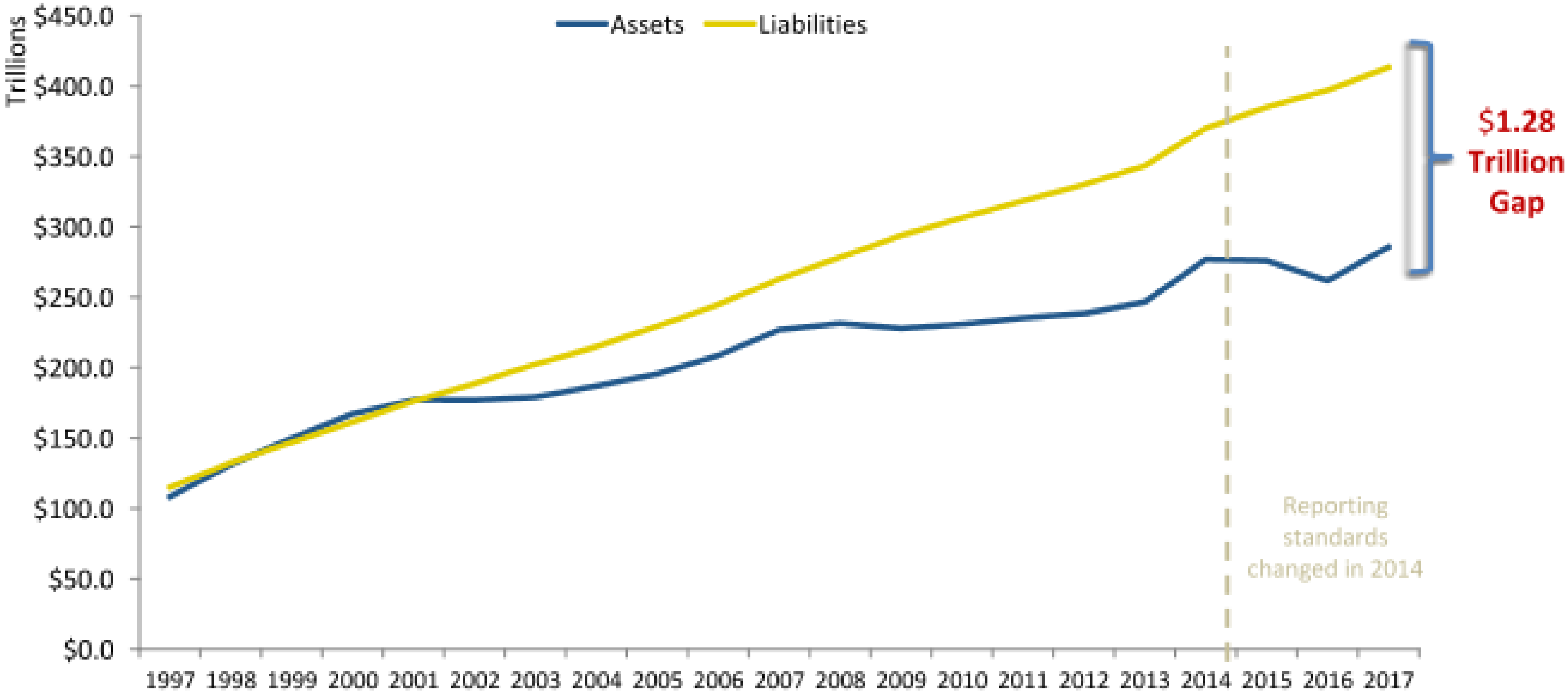
- State-run pension plans faced a $1.28 trillion funding gap in 2017.
    - The funding gap improved by $79 billion from 2016 due to strong investment performance.

- The numbers show a growing disparity between the best-funded state pension plans and the worst.
    - The best-funded plans—those whose funding level approached 100 percent in 2008—were, on average, 90 percent funded in 2017;
    - In contrast, the worst-funded plans were only about 70 percent funded in 2008 and fell to about 55 percent funded in 2017.

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

# 2017 State Pension Funding Gap

(Aggregate of 50 States)

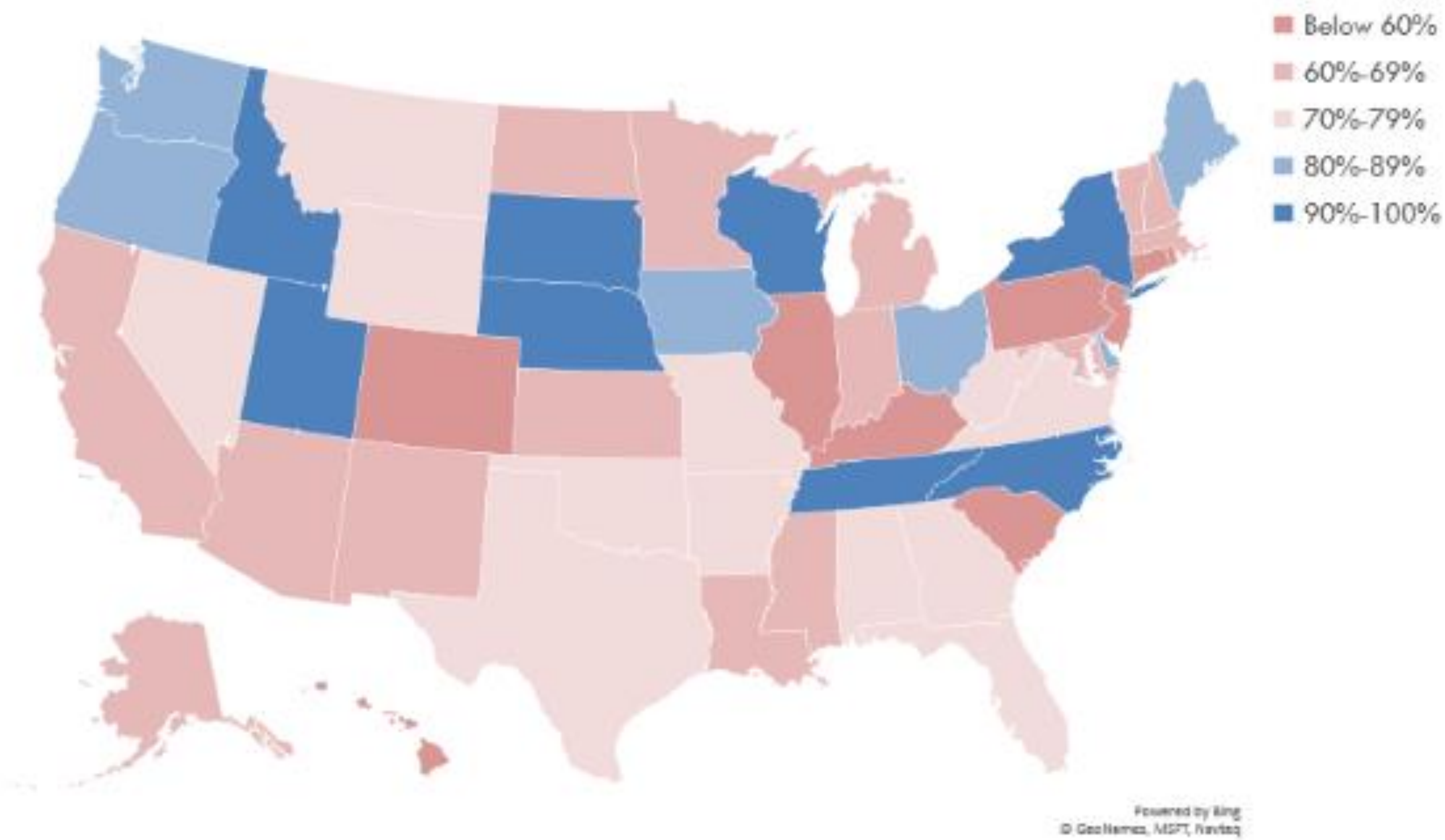



**Funded Ratio** = Assets / Liabilities

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

# States Vary in Funding Levels

Just eight states were at least 90 percent funded in 2017. Twenty were below two-thirds funded.

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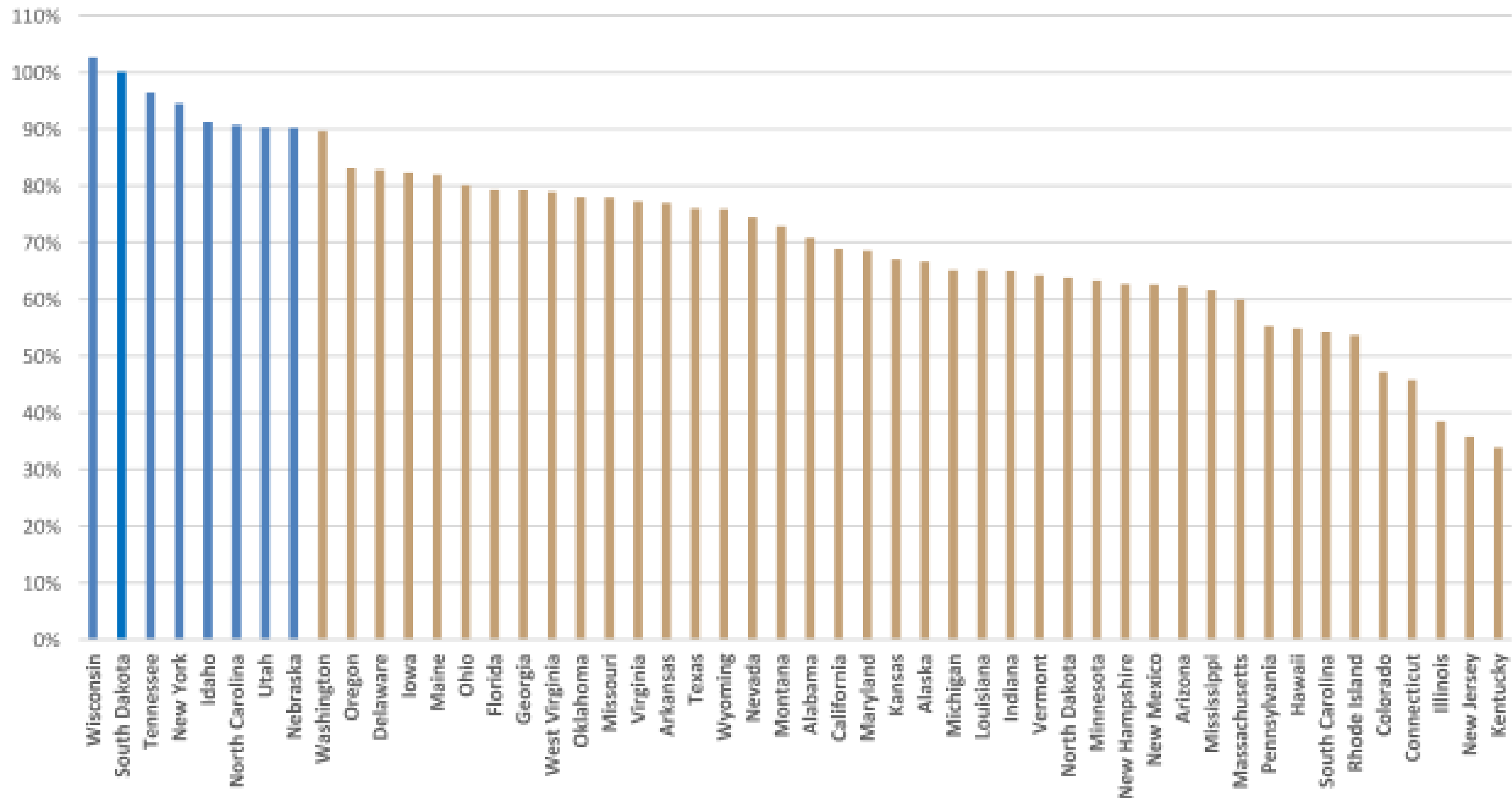
# States Vary in Funding Levels

## Just eight states were at least 90 percent funded, and 20 were below two-thirds funded.

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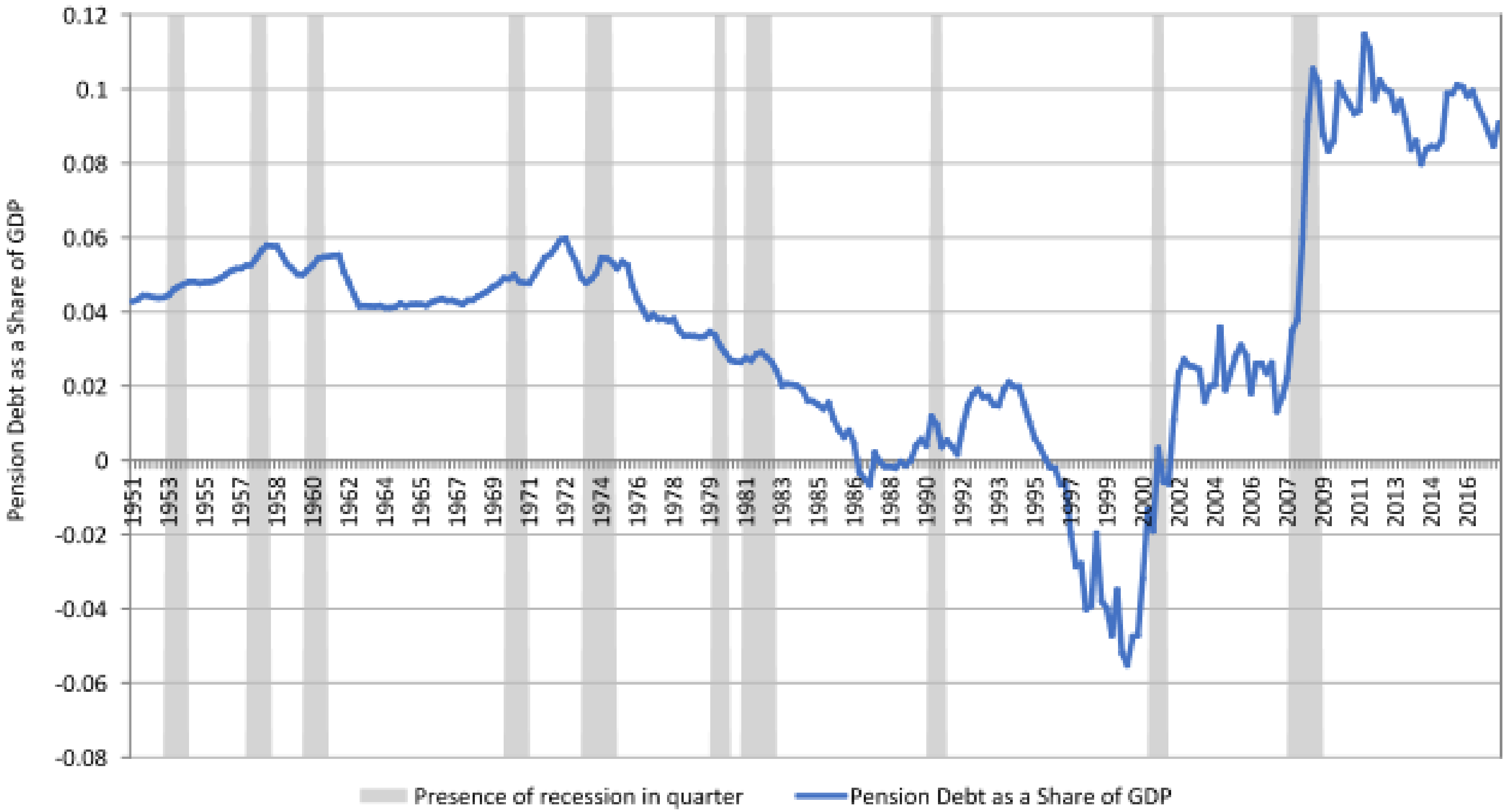
# State Pension Debt Remains at Historically High Levels

(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

# Learning from Well-Funded States

- **Wisconsin**, **South Dakota**, and **Tennessee** reported the best funded pension plans as of 2017.[1]

- These three states differ in benefit design, assumptions, and funding policies, but share some common attributes.
  1. They have consistently ensured that employer contributions are actuarially sufficient to pay for 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 state being fully funded.

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# Forward-Looking Metrics Help Policymakers Assess Where Their State is Headed

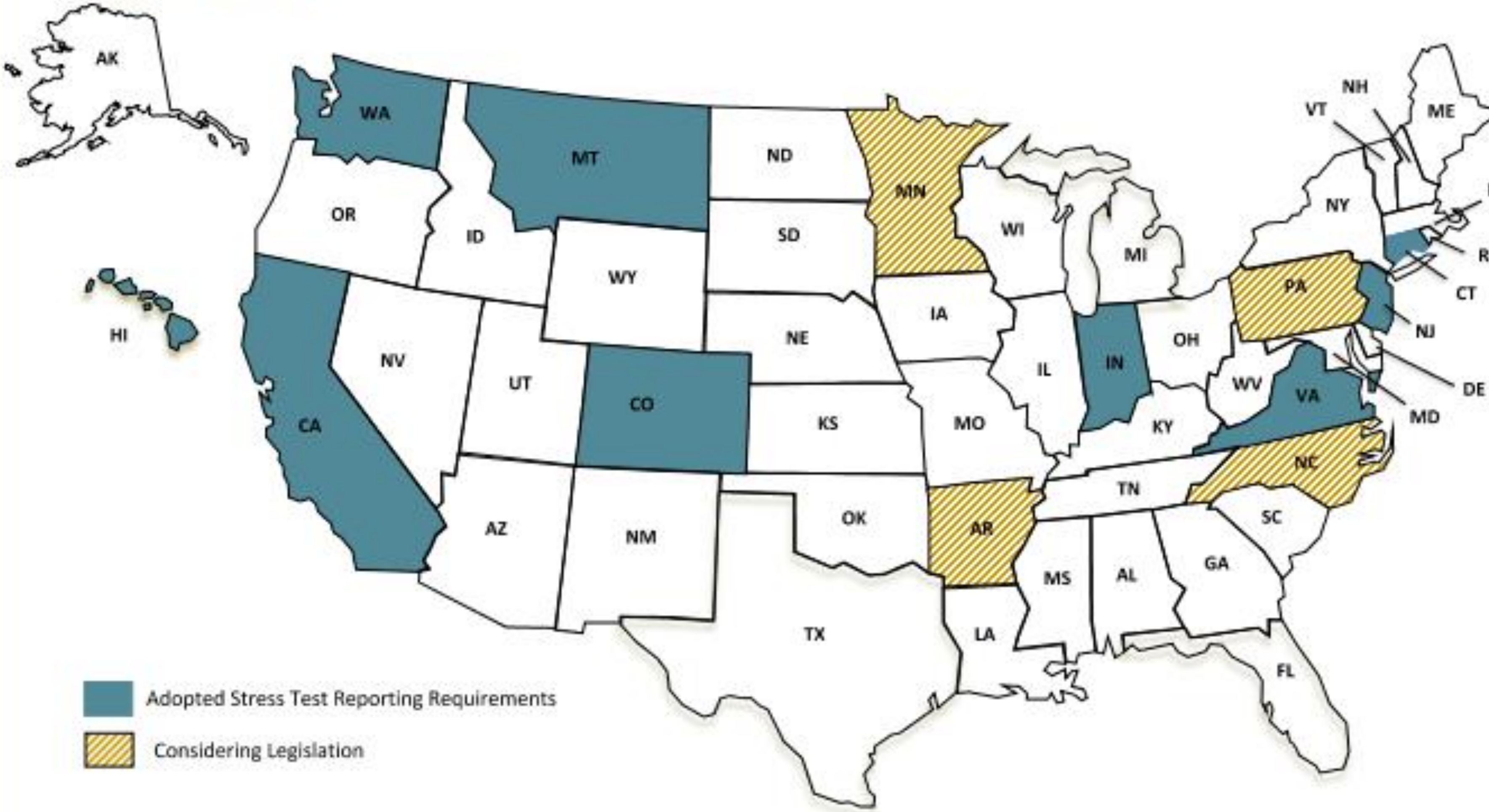
Stress testing as a risk management and transparency tool

- Policymakers and budget officials benefit by knowing their state's current trajectory, as well as under downside economic scenarios.

- Increasingly, states are adopting robust risk reporting tools and measures like **stress testing** to project potential retirement expenses under a range of investment and economic conditions.
    - Stress testing is a simulation technique used to assess the impact of different economic conditions on pension balance sheets and governmental finances.
    - Acts as a budget tool to help policymakers plan for the next downturn and better manage economic uncertainty.

# Emerging Trend: State Pension Stress Testing

Since 2017 alone, eight states in total have enacted some measure of requirements for reporting



# Conclusion

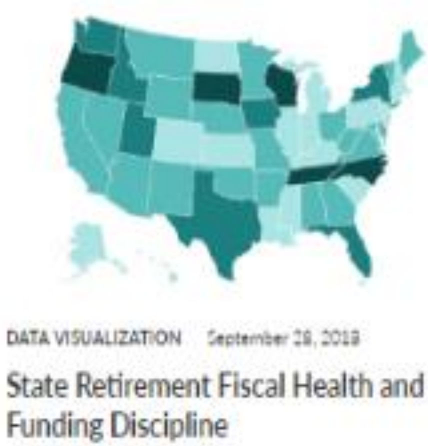
- After ten years of economic recovery, many state pension plans could be in trouble in the next financial downturn.

- Forward-looking measures can help policymakers and stakeholders understand the outlook for their state.

- States like Wisconsin, South Dakota, and Tennessee have maintained well-funded retirement systems with a demonstrated ability to weather financial downturns while providing a secure retirement for public workers. These states can serve as examples to other jurisdictions.

# Resources

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





- National Conference of State Legislatures – Overview of State Pension Plans

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# Appendix

# Key Pension Terms

- **Actuarial Required Contribution (ARC)** – This is the sum of the actuarial cost of benefits earned in the current year (called service cost or normal cost) and an additional payment on the unfunded actuarial accrued liability (UAAL) called the amortization payment.

- **Assumed Rate of Return** – Estimated return on investments used by actuaries to project the rate of return on plan assets and calculate the value of plan liabilities.

- **Funded Ratio** – Assets divided by the actuarial accrued liabilities. A measure of fiscal health.

- **Net Amortization** – A measure of whether state pension funding policies are sufficient to reduce, or amortize, pension debt in the near term.

- **Pension Debt** – The difference between the actuarial accrued liability and the value of plan assets on hand. Also referred to as the Unfunded Actuarial Accrued Liability (UAAL).

# Plan Type Definitions

- **Defined Benefit Plan (DB)**: traditional pension plan with a fixed monthly retirement income benefit based on age, years of service, and worker's salary.

- **Defined Contribution Plan (DC)**: 401(k)-style plan with the retirement benefit based on accumulated employer and employee contributions, and returns on those investments.

- **Hybrid Plan:** plan that combines elements of DB and DC plans; "Side-by-Side" is the most common type of hybrid plan, where employees get a reduced DB benefit plus a DC account.

- **Cash Balance Plan (CB):** plan where benefit is based on employee and employer contributions that are pooled and professionally managed with a guaranteed minimum rate of return and annuitization option at retirement.