



2011 NCPERS Public Fund Study

Preliminary Results
April 2011

Study conducted by
National Conference on Public Employee Retirement Systems
and Cobalt Community Research



This study reviews funds' current fiscal condition and steps they are taking to ensure fiscal and operational integrity

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Compiled by Cobalt Community Research

Executive Summary

In March and April 2011, the National Conference on Public Employee Retirement Systems (NCPERS) began a study to collect the most recently available data on member funds' fiscal condition and steps they are taking to ensure fiscal and operational integrity.

NCPERS is the largest trade association for public sector pension funds, representing more than 500 funds throughout the United States and Canada. It is a unique non-profit network of public trustees, administrators, public officials and investment professionals who collectively manage nearly \$3 trillion in pension assets. Founded in 1941, NCPERS has been the principal trade association working to promote and protect pensions by focusing on advocacy, research and education for the benefit of public sector pension stakeholders.

The 2011 NCPERS Public Fund Study includes responses from 216 member funds with a total number active and retired memberships surpassing 7,599,000 and assets exceeding \$900 billion. It is the most comprehensive study addressing retirement issues for this segment of the public sector.

Key Findings

1. Despite weak short-term investment experience in 2008 and 2009, the long-term investment discipline of fund managers has produced an average 1-year return of 13.5 percent based on most recently reported data. Funds participating in the study reported a 20-year average of 8.2 percent. The average return that respondents use to calculate assets is 7.7 percent with an assumed rate of inflation of 3.5 percent.
2. Investment returns are the single most significant source of plan funding, comprising about 66 percent of fund revenue. Members are a significant source of plan funding and contributed 10 percent of plan revenue. Employer contributions comprise only 24 percent of plan revenue.
3. Although media coverage has focused on a handful of troubled funds, most funds are managed responsibly and maintain strong funding levels. On average, funds are 75.7 percent funded and continue to work toward full funding. According to its February 2011 report *Enhancing the Analysis of U.S. State and Local Government Pension Obligations*, Fitch Ratings considers a funded ratio of 70 percent or above to be adequate. As with a home mortgage, funding levels are designed to slowly be funded over many years. The average amortization period for respondents is 25.8 years.

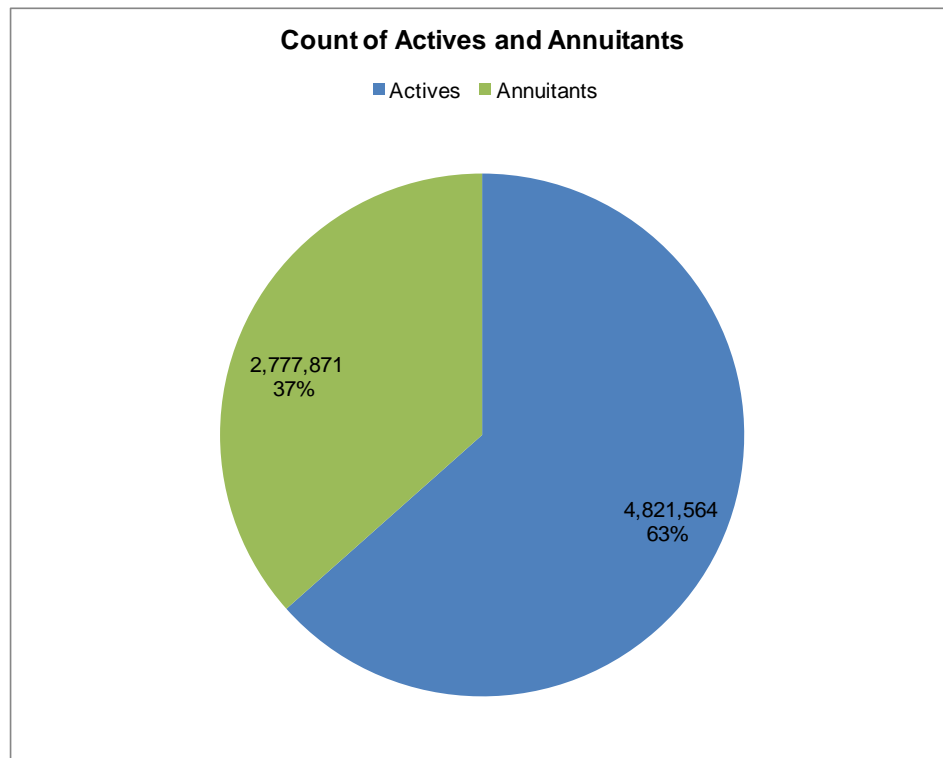
About Cobalt Community Research

Cobalt Community Research is a nonprofit research coalition created to help governments, local schools and other nonprofit organizations measure, benchmark, and manage their efforts through high-quality affordable surveys, focus groups and facilitated meetings. Cobalt is headquartered in Lansing, Michigan.



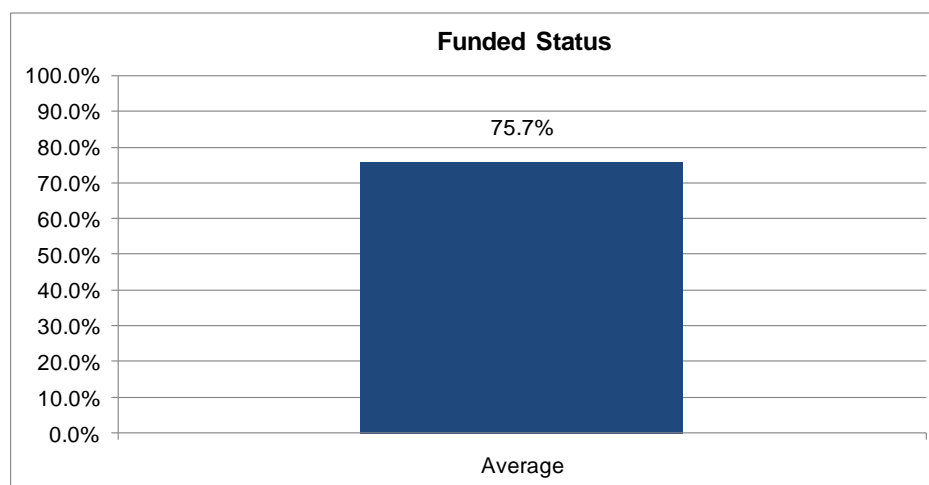
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For the 2011 study, 216 respondents provided feedback to NCPERS using the most recent data they have available. Approximately 83 percent of respondents represented local government pension funds and 17 percent represented statewide retirement systems. The graph below shows the number of active members and retiree/beneficiaries represented by these funds. This totals more than 7,599,000 covered lives.



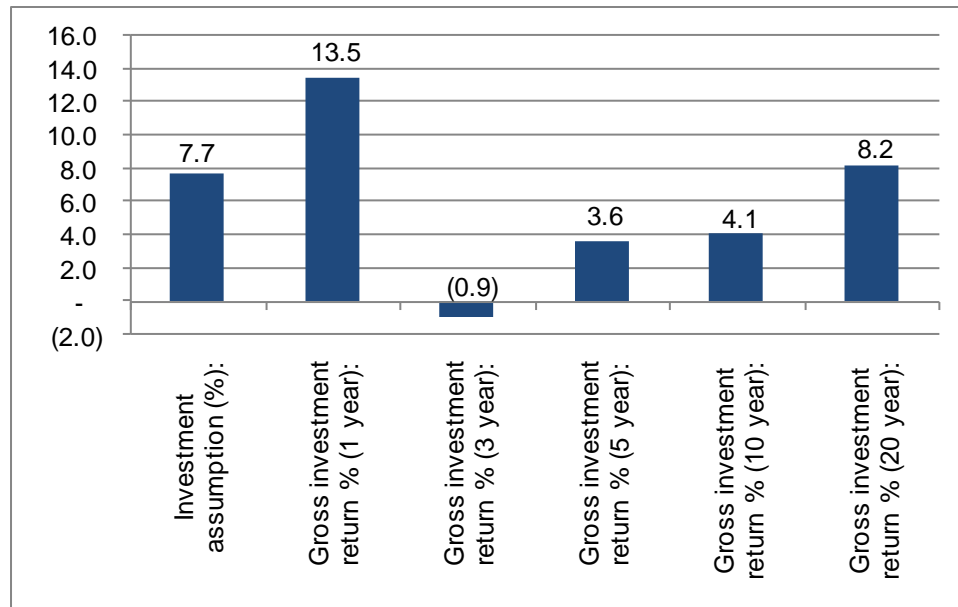
Funding Level and Returns

On average, the funded level of responding funds is a solid 75.7 percent. When comparing the total actuarial assets of all respondents to the total liabilities, there is an overall funded status of 77.4 percent. Pension funds are designed to pay off liabilities over a period of time to ensure long-term stability and to make annual budgeting easier through more predictable contribution levels. For responding funds, that period of time averages to 25.8 years.

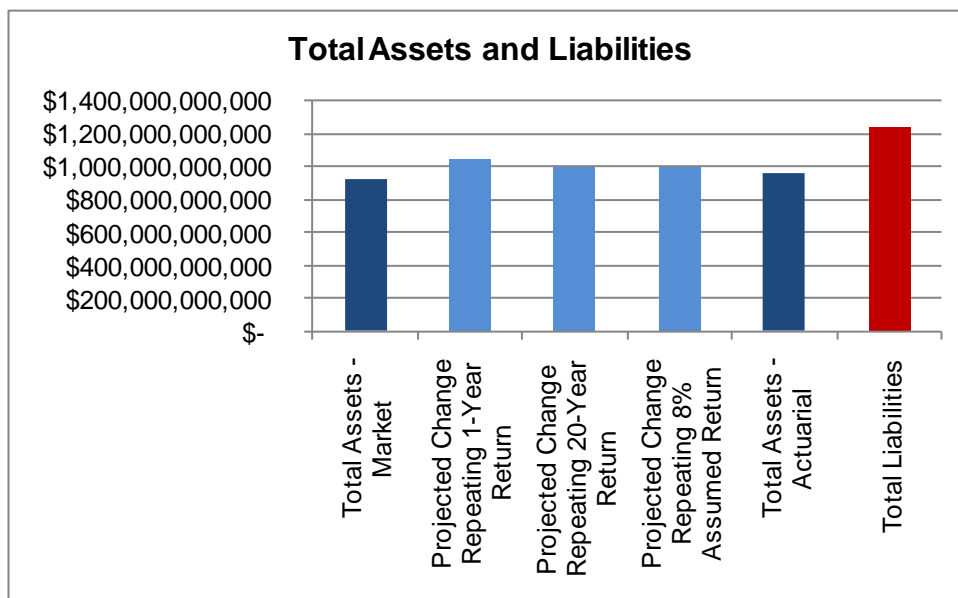




Funding level is affected by the average investment returns a fund experiences over a set number of years. For respondents, the average number of years used in the calculation is 5 years. This is done to keep employer contribution rates more stable, as annual market return fluctuations would create significant volatility in the budgeting process. With the market declines in 2008 and 2009, the market and actuarial value of fund assets has declined; however, both 1-year and 20-year returns reported by participating funds points to continuing long-term improvement in funded status. The graph below shows average returns for responding funds.



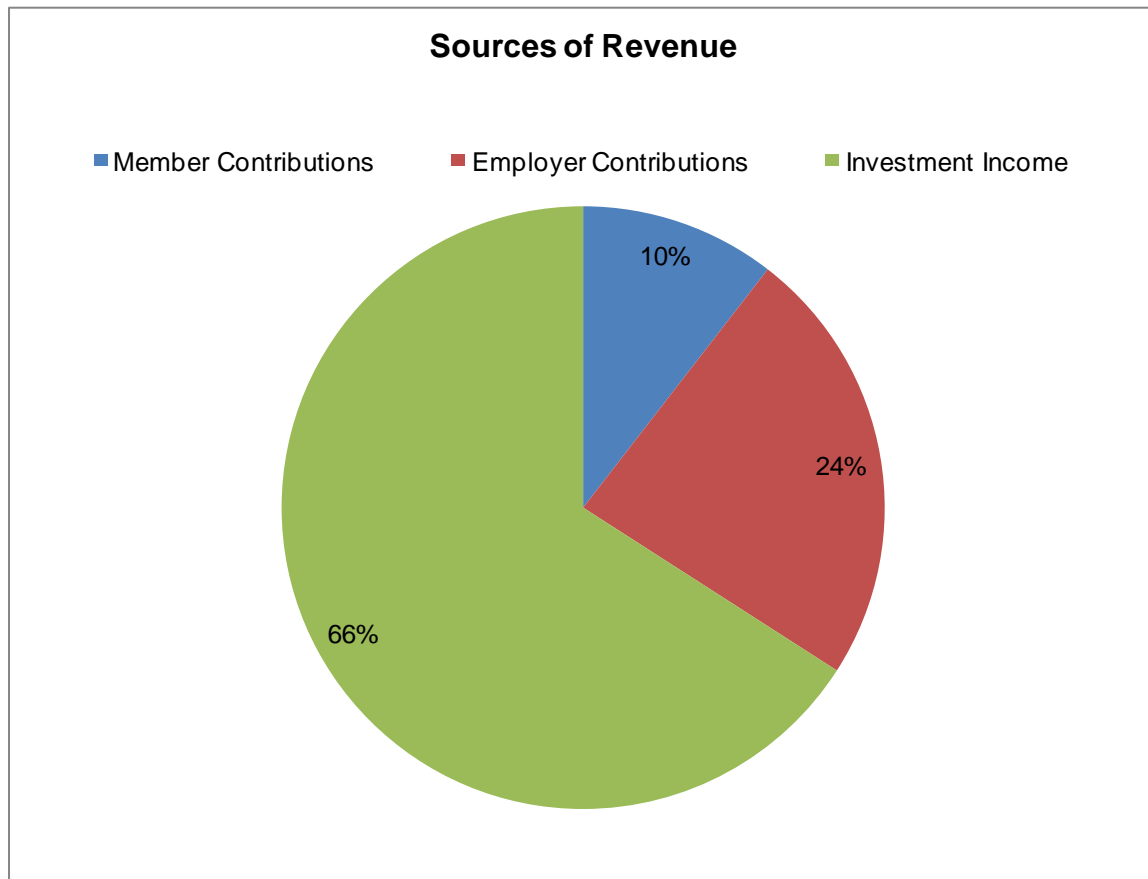
The following graph shows the market value and actuarial value of assets (dark blue columns). The red column shows actuarial liability that pension plans are designed to meet over time. The light blue columns project the improvement in market assets in one year using three scenarios: repeat of the 1-year return (13.5 percent), returns that equal the reported 20-year return (8.2 percent), and returns that equal the average reported actuarially assumed rate of return (7.7 percent). Essentially, this graph shows that despite short-term market declines, funds will continue to make progress toward funding liabilities.





Sources of Funding

Income used to fund pension programs generally comes from three sources: member contributions, employer contributions and investment returns. The chart below shows the proportion of funding provided through each of these sources. By far, investment returns are the most significant source (66 percent). Member contributions make up 10 percent of fund income. Employer contributions equal about 24 percent. These findings are consistent with other credible industry studies. Both this study and other industry studies show that annual fund expenditures and economic impact significantly exceed the annual contributions made by the employers.



Next Steps

This preliminary data represents only a portion of findings in the 2011 study. Other areas to be reviewed include changes funds have made or plan to make in the following areas:

- Benefit changes
- Design changes
- Operational practices
- Communication and member engagement practices
- Oversight practices.

The full report will be completed in late Spring 2011.