NCPERS

Serving Public Pensions Since 1941

Public Retirement Systems Study

Trends in Fiscal, Operational, and Business Practices

2026 Edition

@NCPERS

NCPERS

Serving Public Pensions Since 1941

About NCPERS

Since 1941, NCPERS has been a trusted partner to pension leaders across local, county, and state retirement systems. Through practical education, timely insights, and a welcoming peer community, we help members strengthen their funds and secure the futures of more than 20 million teachers, police officers, firefighters, municipal workers, and other public servants.

Headquartered in Washington, D.C., NCPERS is a 501(c)(3) nonprofit organization proudly representing a diverse membership that includes more than 650 public sector retirement systems, plan sponsors, unions, and service providers who collectively manage approximately $6 trillion in retirement assets.

NCPERS is more than an association. We are the industry's hub for connection, a catalyst for progress, and the leading partner working to strengthen retirement systems for generations to come.

Our team works relentlessly to create valuable resources and meet the ever-changing needs of public pension leaders. Here's a brief overview of how we do it:

- **Research & Insights:** We produce leading research and surveys that provide key insights into issues impacting public pensions, including policy-related challenges, compensation trends, and funds' operational and fiscal performance.
- **Education & Fiduciary Training:** NCPERS hosts 11 annual in-person events and regular educational webinars tailored to the diverse needs of trustees, plan staff, and stakeholders at all experience levels, establishing us as the top provider of education and fiduciary training in the industry.
- **Advocacy:** With a proven record of success, NCPERS advocates for public pensions at both state and federal levels, representing the interests of our members and ensuring their voices are heard.
- **Networking & Collaboration:** NCPERS facilitates virtual roundtables and in-person networking at our Summits for plan professionals, fostering the exchange of best practices and innovative solutions between pension funds.
- **Operational Support:** We continually expand our suite of tools that help drive operational efficiency of pension plans.
- **Expertise:** As trusted experts in public pensions and retirement security for all working Americans, NCPERS staff frequently present at industry events and serve as key resources for the media, the public, and our members.

Learn more about what NCPERS can do for your organization or contact us directly with any questions.

Message from NCPERS' CEO

Over the past 40 years, the broader shift away from pensions and toward individual accounts like 401(k)s has left Americans facing an increasingly dire retirement crisis. If current trends continue, inadequate savings could cost states $334.3 billion by 2040 and $1.3 trillion in combined state and federal expenditures.

But there is a highly cost-effective solution for employees and employers: Pensions deliver the same or better retirement income at nearly half the cost of 401(k)-style individual accounts. Because pensions pool resources and invest them over long-time horizons, they typically have higher investment returns and lower fees.

Approximately 60% of pensions' overall revenue comes from investment earnings. Coupled with employee contributions, this means that for every dollar paid in benefits, roughly 70 cents is subsidized by investment returns and employee contributions, with only 30 cents coming from employers.

Not only are pensions cost-effective, but they also play a key role in our economy. NCPERS' landmark research found that public pensions generated a staggering $2.9 trillion in economic output and $661.9 billion in state and local tax revenues in 2023 alone — yet another incentive to protect the benefits millions rely on.

Through strong governance practices and fiscal discipline, public pensions serve as models for providing a secure retirement for Americans. That's why since 2011, NCPERS has conducted our annual Public Retirement Systems Study to gather the latest data on funds' fiscal, operational, and business practices. This serves as a key industry resource that helps public pensions evaluate their performance and provides valuable insights into public sector retirement trends.

The 2026 edition builds upon the methodology improvements introduced last year. This report breaks down financial and investment data by fiscal year-end dates — incorporating data collected from fall 2021 through fall 2025 to more clearly reflect performance trends over time.

While the report looks at industry trends and fiscal performance, it's important to remember that each retirement system is unique. With varying state and local regulations and differences in populations served, funding policies, plan sponsor's fiscal health, and even fiscal year end dates, benchmarking performance often feels like comparing apples to oranges.

> **Through strong governance practices and fiscal discipline, public pensions serve as models for providing a secure retirement for Americans.**

But we believe it is to the benefit of all systems — and their beneficiaries and retirees — to provide an annually-updated, data-driven representation of the state of public retirement systems, across various measures.

In addition to this report, NCPERS members have exclusive access to an interactive dashboard where they can filter data by plan size, employee type, and other variables to compare their own performance and practices against similar retirement systems.

We sincerely hope that you find this report and the accompanying dashboard to be valuable tools in understanding the current public pension landscape. Please don't hesitate to contact research@ncpers.org with any questions.

Sincerely,

Hank Kim, Esq.

Chief Executive Officer
NCPERS

Table of Contents

Methodology

Survey Design and Administration

The 2026 Public Retirement Systems Study was conducted in fall 2025, building upon NCPERS' annual survey program that began in 2011. The survey was distributed electronically to NCPERS members and other public pension systems across the United States, covering all aspects of plan operations, financial performance, and governance practices.

Response Rate and Sample Characteristics

A total of 149 valid responses were received for the 2025 survey period, representing public retirement systems of all sizes serving local, county, and state employees nationwide. Responding systems collectively serve approximately 18.1 million members and manage assets ranging from less than $100 million to more than $500 billion. The responding systems represent a diverse cross-section of public pension plans, including general employee plans, public safety plans, and educational employee retirement systems.

Fiscal Period Grouping

To account for the diverse fiscal year schedules used by public pension systems, responses are grouped by the calendar semester in which fiscal years end. First half periods (designated as "X.1") include systems with fiscal years ending February through July, while second half periods ("X.2") include fiscal years ending August through January. For assignment purposes, January fiscal year-ends are grouped with the previous calendar year's second half (e.g., a fiscal year ending January 2025 is classified as 2024.2). This grouping methodology, introduced in the 2025 edition of this study, allows for meaningful year-over-year comparisons while accommodating the varying fiscal calendars mandated by state laws and local ordinances.

The current report includes fiscal performance data from periods 2021.1 through 2025.1, collected through annual surveys administered from fall 2021 through fall 2025. Survey questions about current practices, priorities, and governance (e.g., priorities for 2026, AI adoption) reflect the most recent survey cycle (fall 2025) and are not broken down by fiscal period.

Data Quality and Validation

All survey responses underwent review for completeness and internal consistency. Where possible, reported figures were cross-validated against publicly available Comprehensive Annual Financial Reports (CAFRs) and actuarial valuations. Financial data is presented primarily from systems with fiscal year-ends in the first half of 2025 (period 2025.1), which represents the most recent complete data available at the time of publication.

Key Takeaways

- The **average funded ratio was 79.2%** for the 47 responding systems with fiscal year-end dates in the first half of 2025, compared to 81.4% for the same period in 2024. This decline reflects both market conditions during a period of volatility and fluctuations in the composition of the sample.
- Among plans that submitted data for both the first half of 2024 and 2025, **funding ratios improved by 2.9 percentage points**. This same-sample improvement aligns with findings from other recent national surveys and research, which have similarly noted a broad upward trajectory in public pension funded ratios driven by strong prior-year investment returns and increased employer contributions.
- Receiving the full actuarially determined contribution remains critical to funding outcomes. Systems that received their full contribution **reported funded ratios averaging 6.6 (median: 13.2) percentage points higher** than those that did not — consistent with previous years' findings.
- **Net investment returns** for systems with fiscal year-end dates in the first half of 2025 **averaged 10.2% for the 1-year period** (median: 10.5%), with 5-year returns at 9.7%, 10-year returns at 7.5%, and 20-year returns at 7.2%.
- Combined average investment manager and administrative expenses for systems with fiscal year ends in the first half of 2025 were approximately 70 basis points (or 0.70%). For comparison, the average actively managed mutual fund charges approximately 0.89% in expenses[1] — meaning public pensions operate well below the cost of typical retail investment vehicles while managing large and complex portfolios.
- **Discount rates** continued their gradual decline, **averaging 6.67%** for the first half of 2025, down from 6.77% for the same period in 2024.
- Cost of living adjustments (COLAs) for retirees were provided by 70.8% of systems in their most recent fiscal years, with a **median COLA of approximately 2.9%**.
- Amortization periods held relatively steady, averaging 18.6 years for systems with fiscal year-end dates in the first half of 2025. Notably, a **growing number of systems (24.4%) are utilizing layered amortization**.
- While pensions are taking a cautious approach to AI adoption, the pace has picked up significantly in the past year, with **35.6% of respondents having implemented AI solutions** for at least one purpose.
- Top priorities for 2026 include sustaining funding levels (70.4% of respondents), improving pension administration systems (55.7%) and cybersecurity and fraud prevention (54.8%).

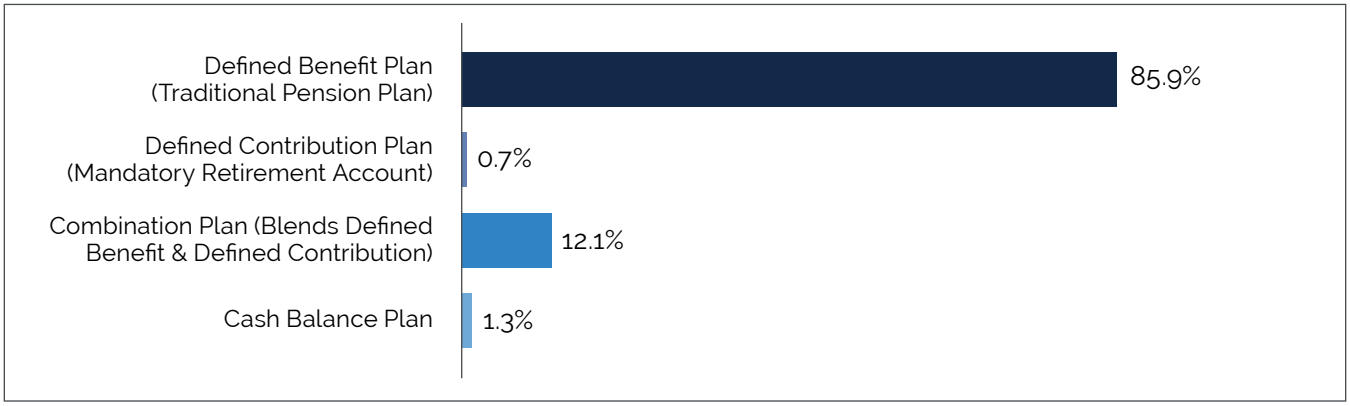
[1] Li, Lei, and Irina Atamanchuk. "Trends in the Expenses and Fees of Funds, 2024." ICI Research Perspective 31, no. 1 (March 2025). https://www.ici.org/files/2025/per31-01.pdf.

Who Responded

This section provides information on the administration of public pension plans, who is covered by them, and whether members are eligible for federal benefits. All results are based on answers to the recently conducted survey, which received 149 valid responses.

Of those systems, 85.9% reported a defined benefit plan that they administer, while 12.8% included a hybrid or defined contribution plan in their response.

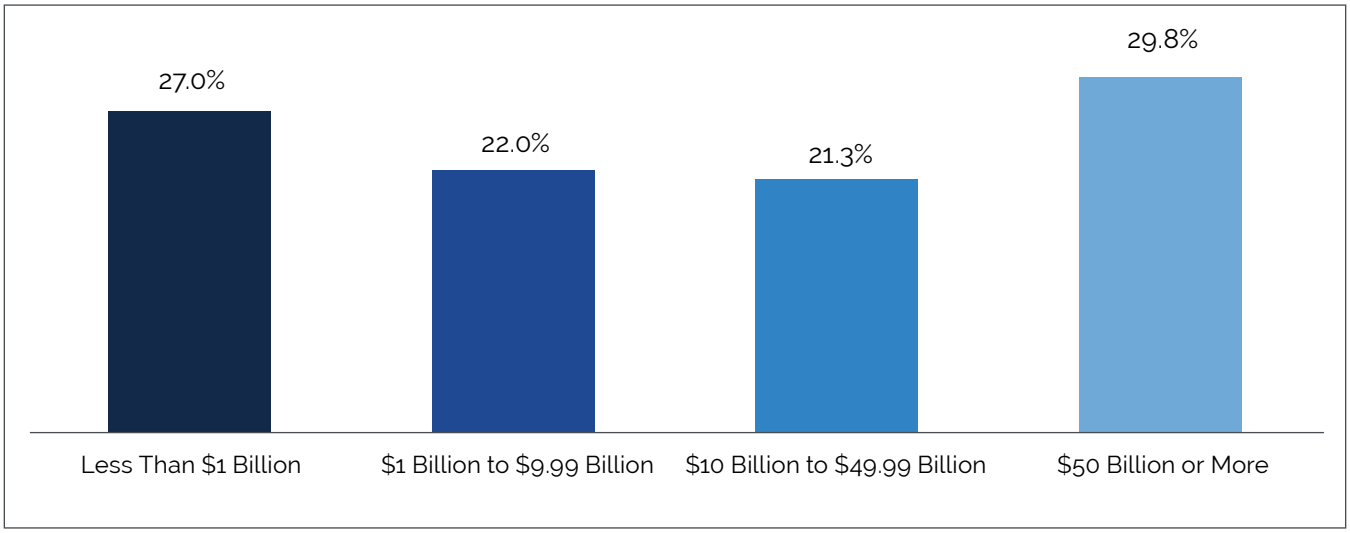
Figure 1: Plan Type Reported



Plan types administered by responding systems (n = 149).

Defined benefit plan assets reported range from under $1 billion (27.0%) to $50 billion or more (29.8%).

Figure 2: Defined Benefit Plan Assets



Distribution of responding DB plans by asset size (n = 141). Rounding may lead to total > 100%.

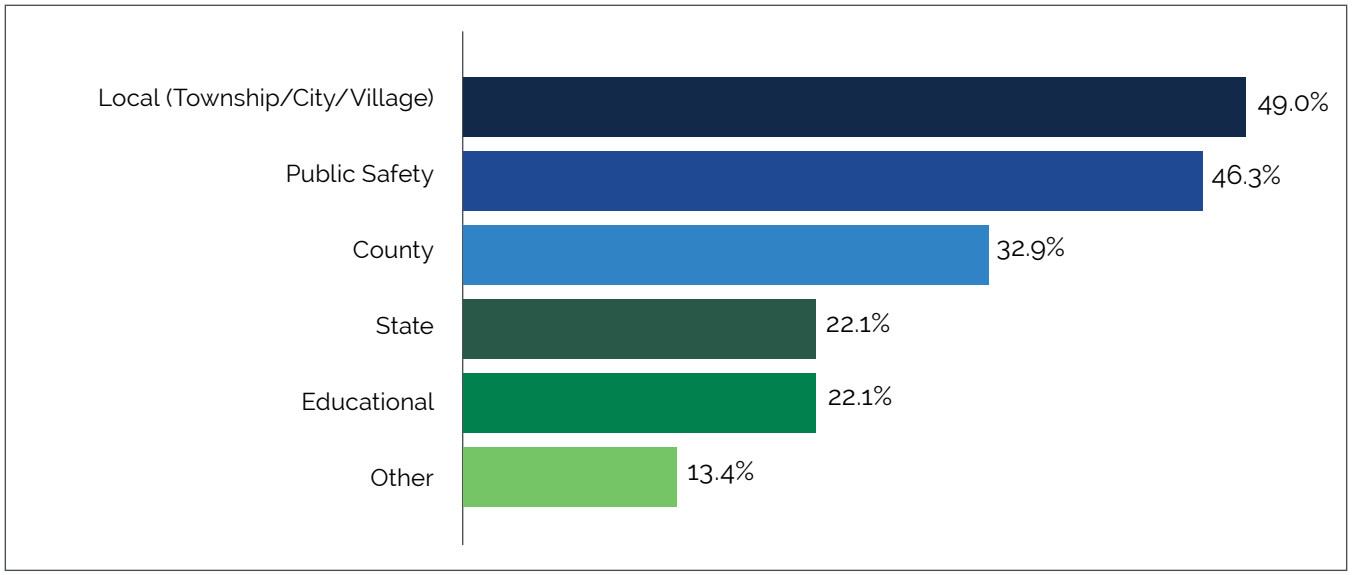
Staffing and Members

Responding plans include a wide range of participants who dedicate their careers to serving their communities — firefighters and police officers who protect public safety, teachers who educate future generations, municipal employees who maintain essential infrastructure, and state workers who deliver critical services.

Many systems cover multiple types of employees/beneficiaries, resulting in totals that add to more than 100%.

The majority (71.1%) of responding systems cover general employees (local, county, and/or state), while approximately one-fifth (22.1%) cover educational employees.

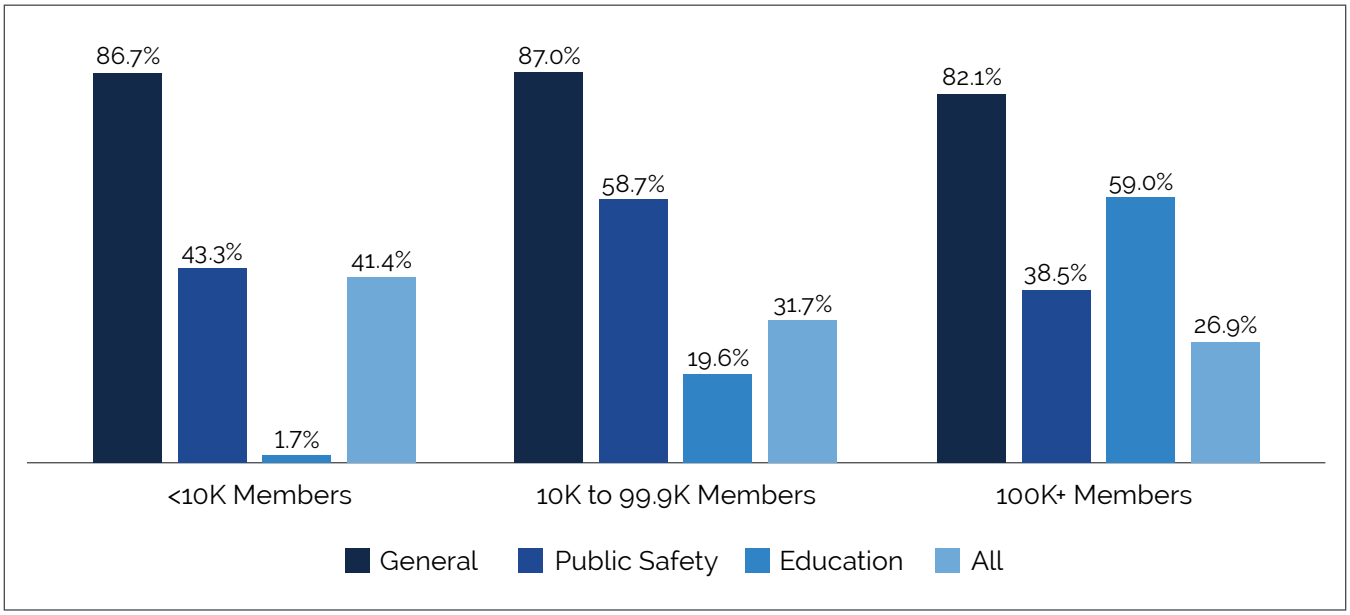
Figure 3: Types of Employees/Beneficiaries Served



Employee/beneficiary types served by responding systems (n = 149). Totals exceed 100% because many systems serve multiple employee types.

The number of members served by systems varies greatly, ranging from a few hundred to more than 2.4 million. Systems serving education employees tend to have substantially larger membership bases than those serving other employee types, with 59.0% serving 100,000+ members. Overall, 41.4% of systems serve fewer than 10,000.

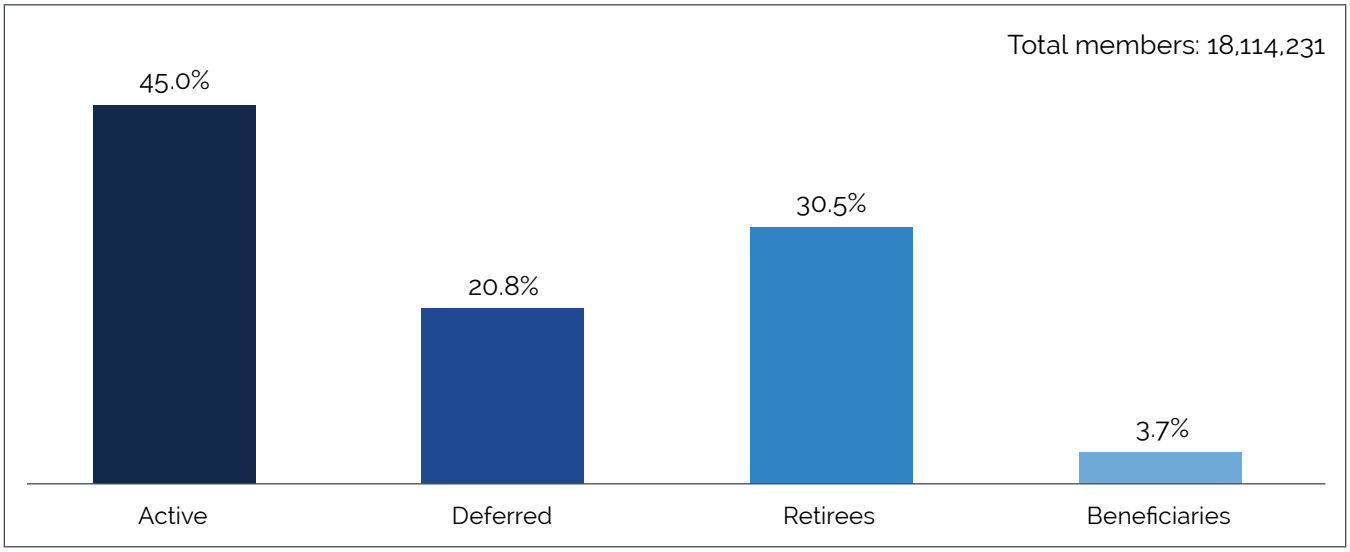
Figure 4: Total Number of Members



Membership size distribution by employee type among 2025 respondents (n=145). Systems with fewer than 10,000 members comprise the largest share (41.4%), followed by systems with 10,000–99,999 members (31.7%) and those with 100,000 or more members (26.9%). Larger systems are more likely to serve education beneficiaries, while most systems across all size categories serve general employees.

Of the 18.1 million total members served by non-DC plans, active members make up 45.0%, followed by retirees which represent 30.5% of members. Deferred members comprise 20.8% and beneficiaries 3.7%.

Figure 5: Members by Status

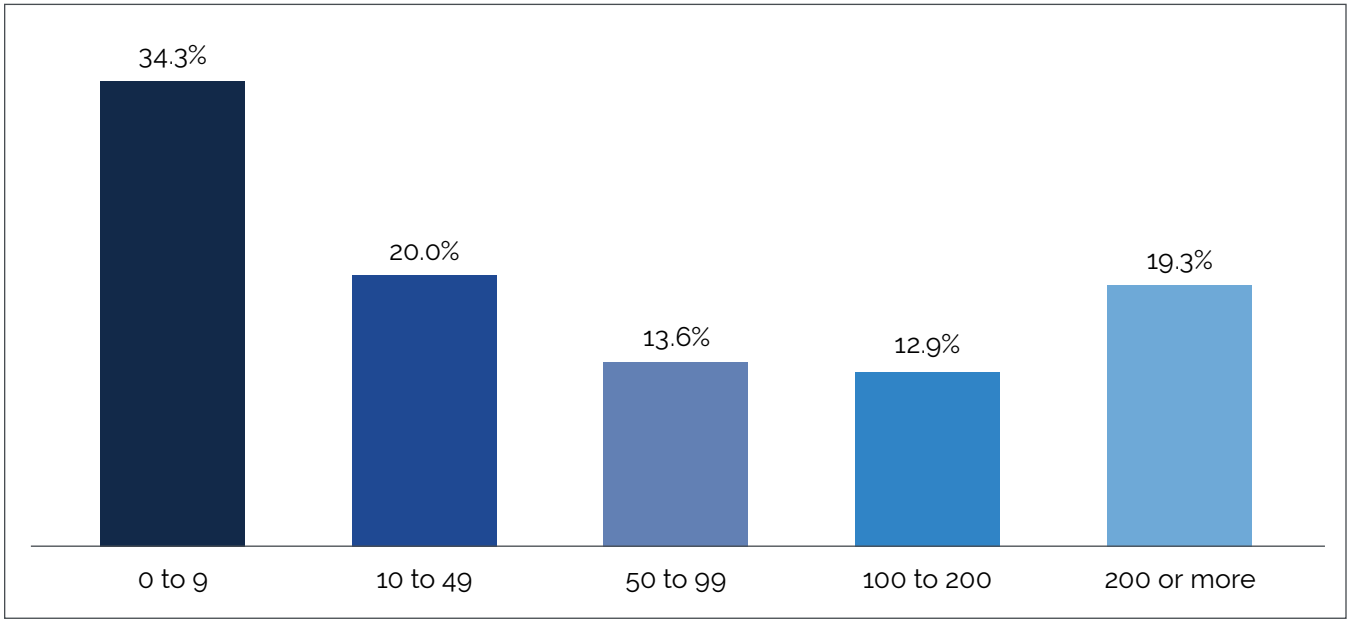


Membership composition across 148 non-DC plans (18.1 million total members). Active members: 45.0%; retirees: 30.5%; deferred: 20.8%; beneficiaries: 3.7%. (Note: Percentages shown in charts may be rounded to whole numbers for visual clarity; precise figures are provided in the text.)

There is a wide range of staffing levels administering public pension funds. While the median number is 35 employees, staffing needs correlate strongly with both membership size and whether systems manage assets in-house.

Systems serving larger numbers of members and those with higher levels of plan assets have considerably more staff administering their plans. Additionally, plans that manage some or all assets internally require investment professionals on staff, significantly increasing headcount. For example, plans serving 20,000 or more members have a median of 125 administrative staff, compared to medians of 2 and 8 staff for plans with fewer than 2,000 members and 2,000 to 19,999 members, respectively.

Figure 6: Staffing Levels

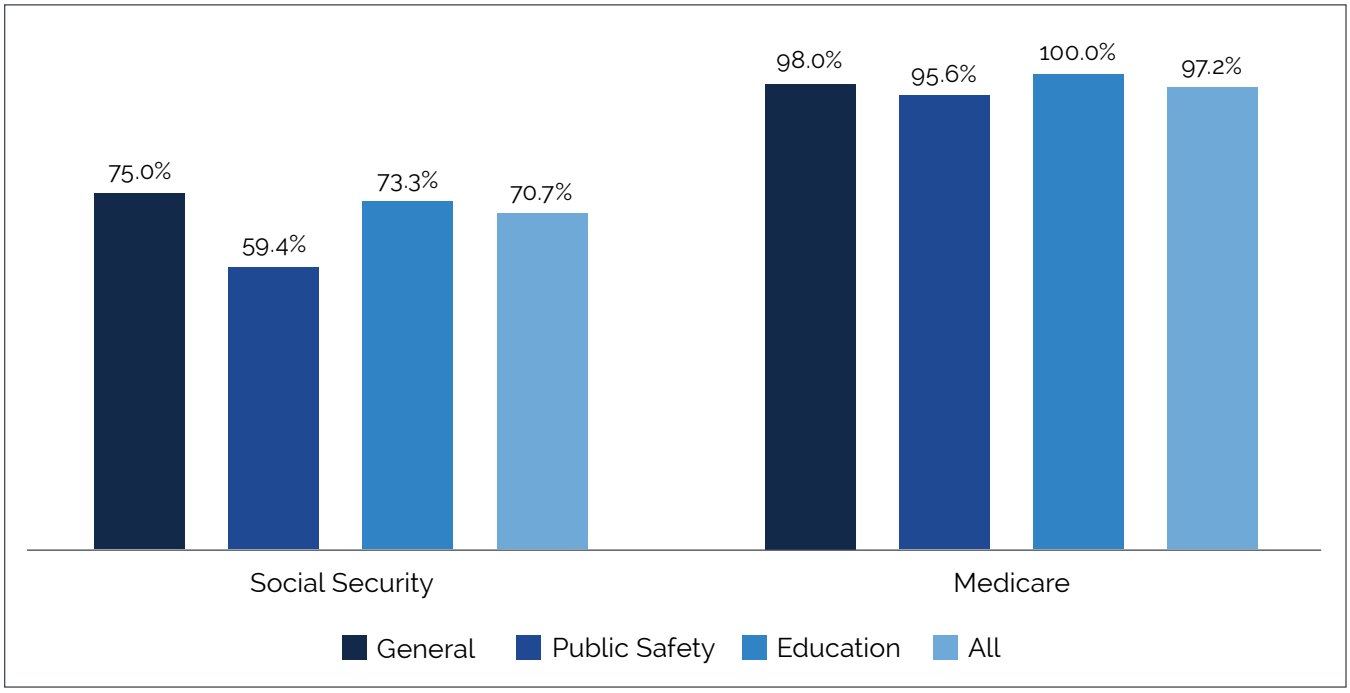


Distribution of full-time staff counts across responding systems (n = 140). Median: 35 employees.

Eligibility for Federal Benefits

On average, 70.7% of systems say their members are eligible for Social Security and 97.2% say members are eligible for Medicare. This means, in effect, that for one in three public sector workers, the retirement system investing their pension contributions is likely providing said members with their main or chief source of income in retirement, since they are not eligible for Social Security.

Figure 7: Eligibility for Social Security and Medicare

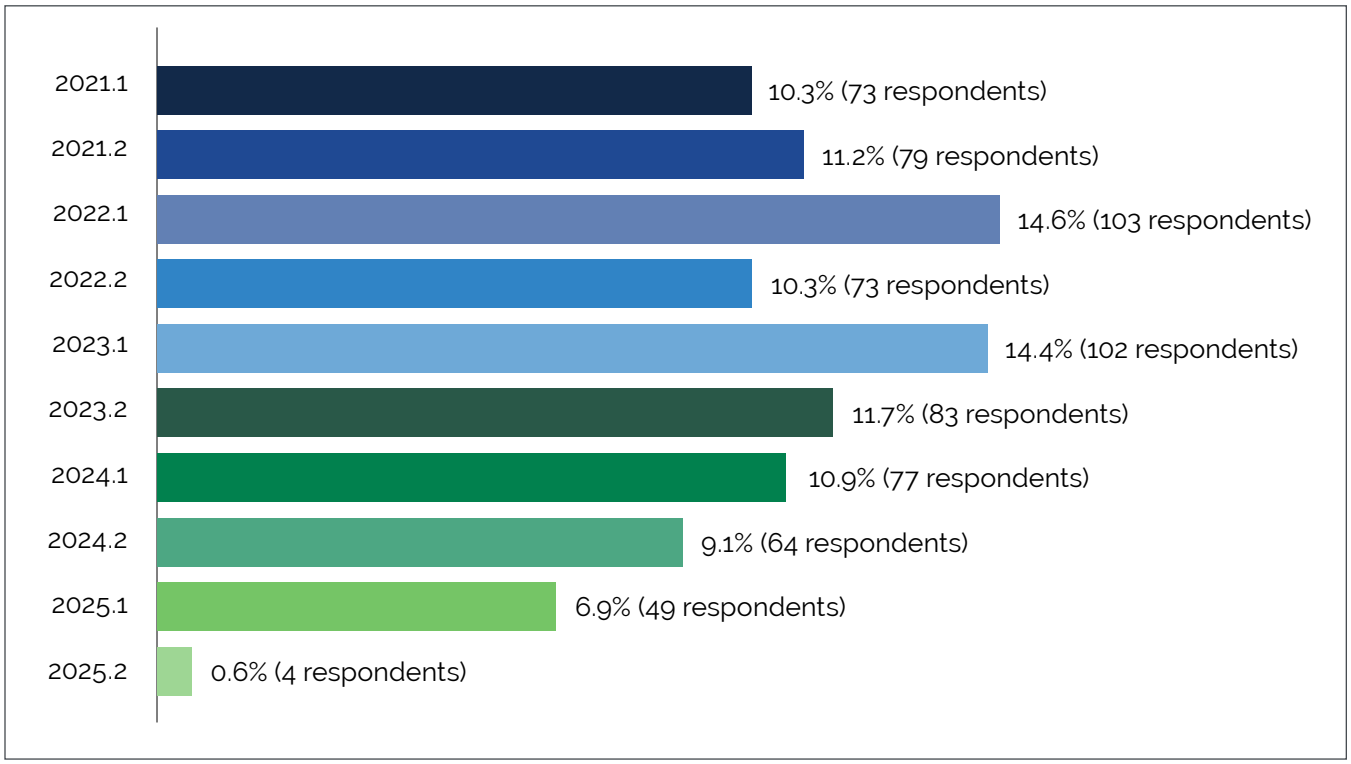


Social Security and Medicare eligibility by employee type (n = 149). Overall, 70.7% of systems' members are eligible for Social Security; 97.2% are eligible for Medicare.

Recent Trends in Investment and Plan Performance

This section covers the financial aspects of public pensions, including how funds are invested, investment returns, plan contributions, and expenses for managing the plan, culminating in a summary of funded ratios. The results are organized by fiscal half-year period (see Methodology on page 5 for the grouping approach). Figure 8 shows how responding systems are distributed across these periods.

Figure 8: Distribution of Systems by Fiscal Year-End Period

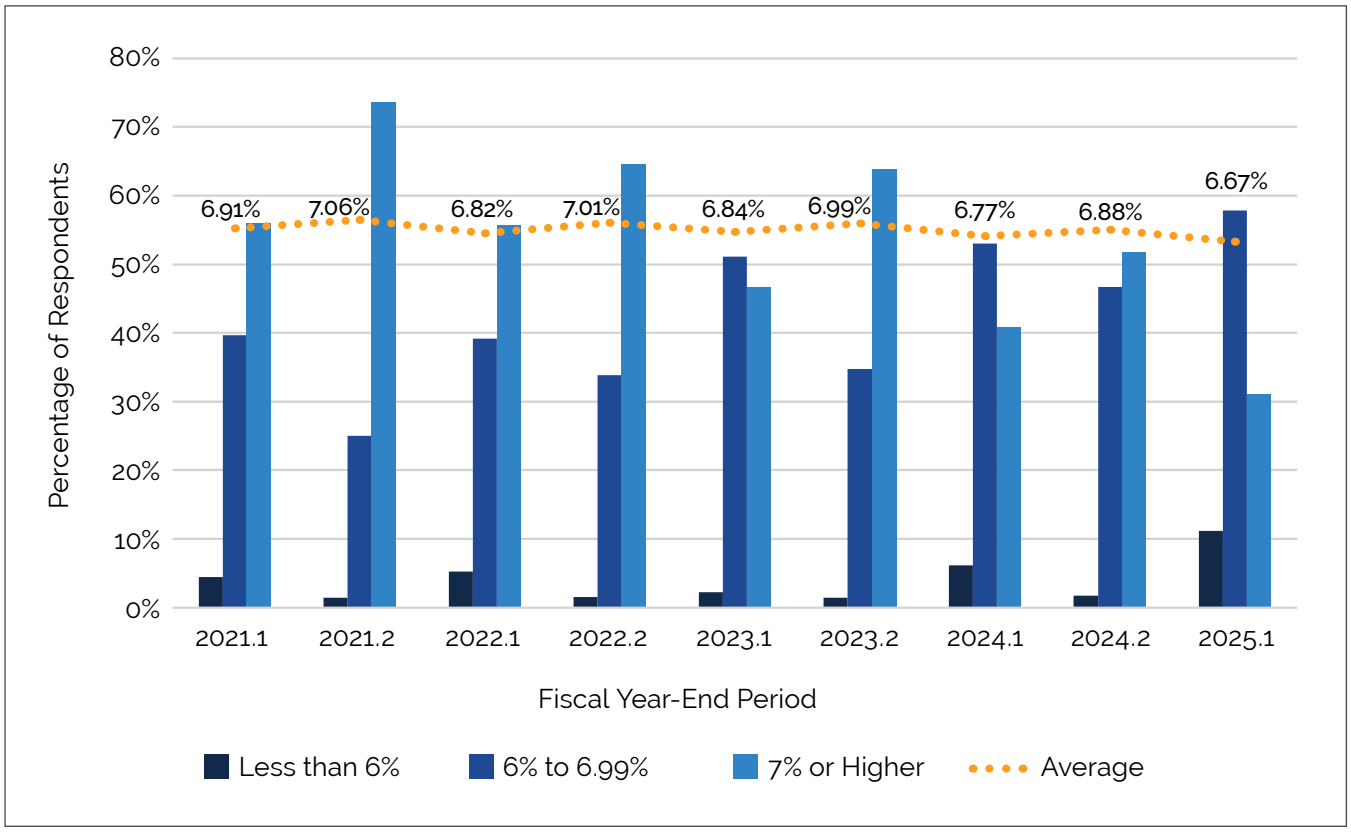


TOTAL: 707 system-period observations. Number of system-period observations by fiscal half-year, 2021.1–2025.2 (N = 707 total). The largest cohort is 2022.1 (103 systems); the most recent complete period, 2025.1, includes 49.

Investment Assumptions

The median discount rate has remained stable at 7.0% across all defined benefit and hybrid plans from the first half of 2021 through the same period in 2025. The average has declined to 6.92% for all non-DC plans across this period, with systems ending their fiscal year in the first half of 2025 averaging 6.67%, down from 6.77% in the first half of 2024.

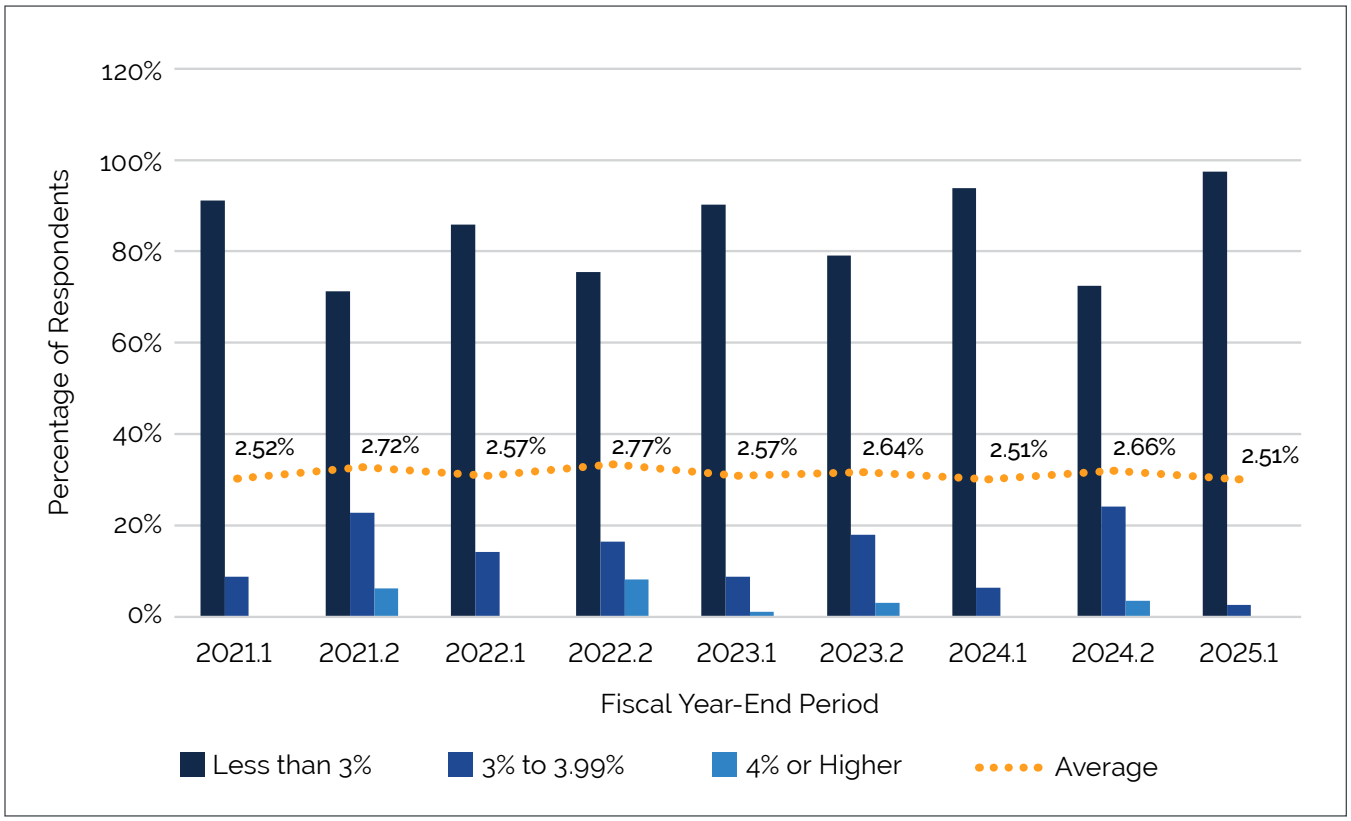
Figure 9: Discount Rate Trends



Distribution of discount rates by fiscal period, 2021.1–2025.1. Average for 2025.1: 6.67% (n=49), down from 6.77% in 2024.1.

The respondents' assumptions for inflation have remained stable, with the median at 2.5% and the mean at 2.6% across all systems since 2021. These long-term inflation assumptions are based on economic projections from sources including the Federal Reserve, the Congressional Budget Office, and investment consulting firms, rather than reacting to short-term Consumer Price Index (CPI) volatility. Pension systems, like other institutional investors, use long-term economic projections (typically 20–30 year horizons) that smooth out temporary inflation spikes and recessions.

Figure 10: Inflation Assumption Trends

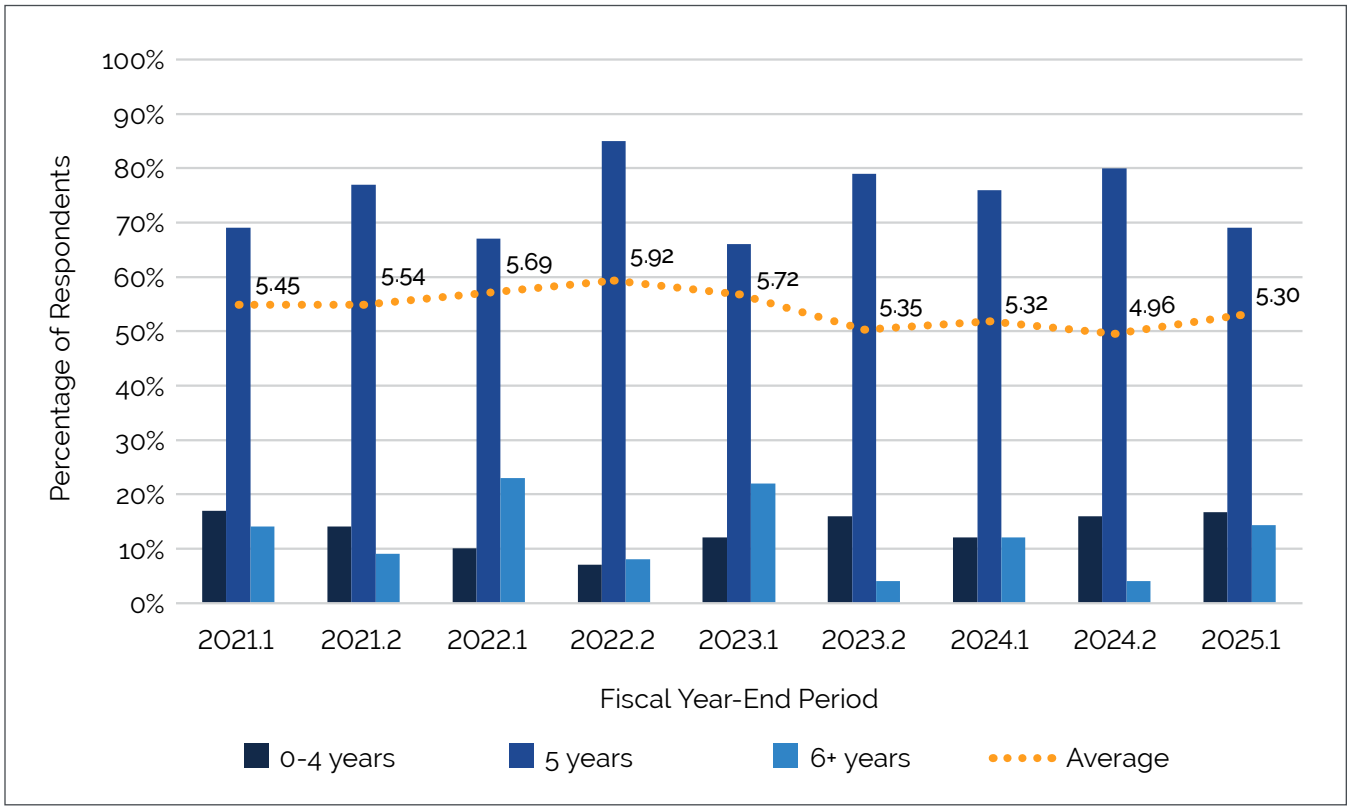


Distribution of long-term inflation assumptions by fiscal period, 2021.1–2025.1. Median: 2.5%; mean: 2.6%.

Investment Smoothing

Most systems incorporate an investment smoothing period to recognize gains and losses gradually rather than immediately. More than two-thirds (71.9%) of systems that use smoothing employ a 5-year period, consistent with the Governmental Accounting Standards Board (GASB) ceiling and Government Finance Officers Association (GFOA) recommendations.

Figure 11: Investment Smoothing Periods

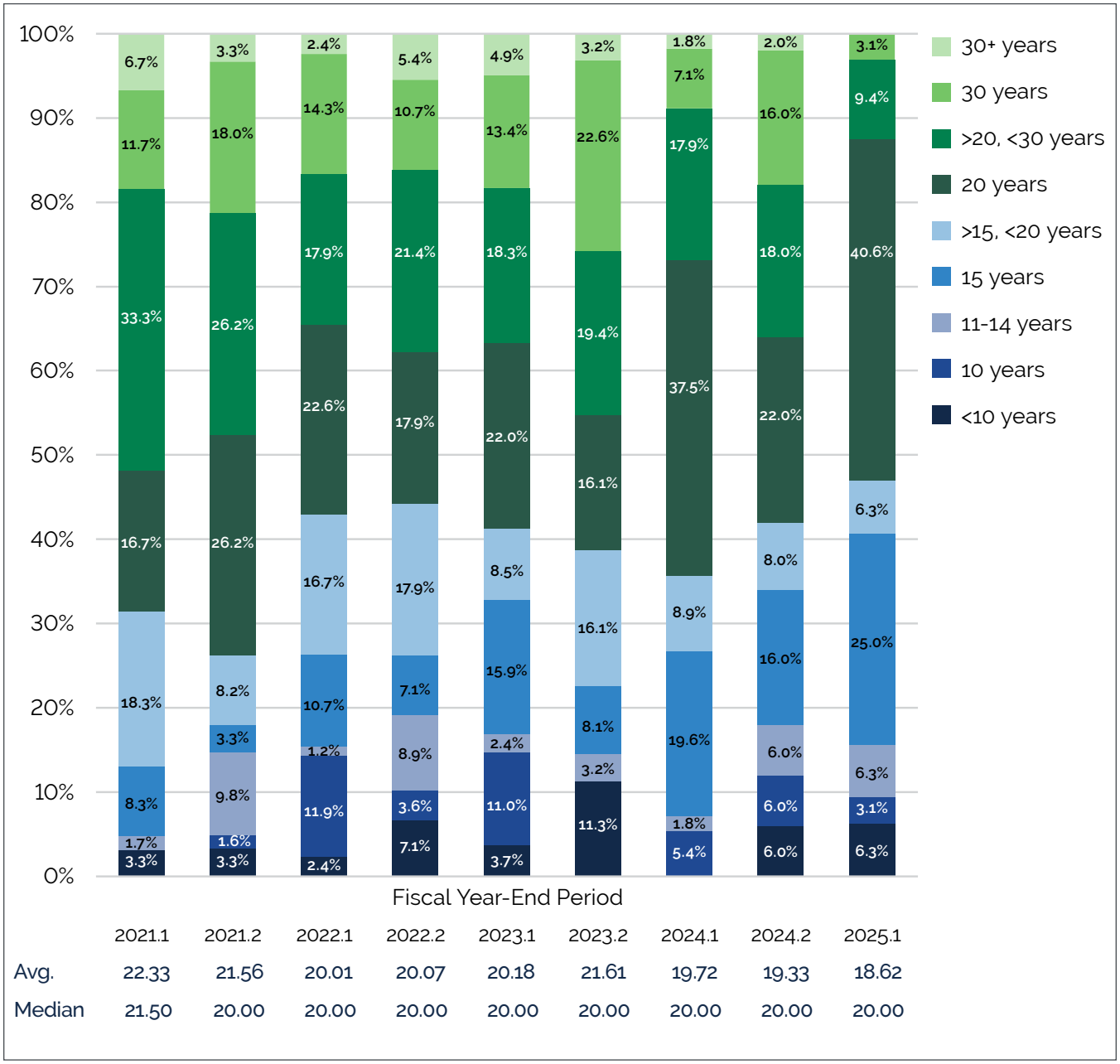


Smoothing period distribution by fiscal period, 2021.1–2025.1. Five-year periods are used by 69% of systems in 2025.1.

Amortization

One common method to fund the unfunded pension liability is to amortize it over a number of years, a practice consistent with Generally Accepted Accounting Principles (GAAP), Governmental Accounting Standards Board (GASB) standards, and state pension funding laws. The number of amortization years in the study data ranges from fewer than 10 to more than 30. The most frequently used time period is a 20-year amortization schedule, which is also where the median lies (median: 20 years, mean: 18.6 years for the first half of 2025).

Figure 12: Amortization Periods



Amortization period distribution by fiscal period, 2021.1–2025.1. Mean amortization period for 2025.1: 18.6 years; Median: 20 years.

When systems amortize their unfunded pension liability over a number of years, they employ three primary methods, all of which are recognized as sound actuarial practices under appropriate circumstances and are governed by state pension laws and actuarial standards.

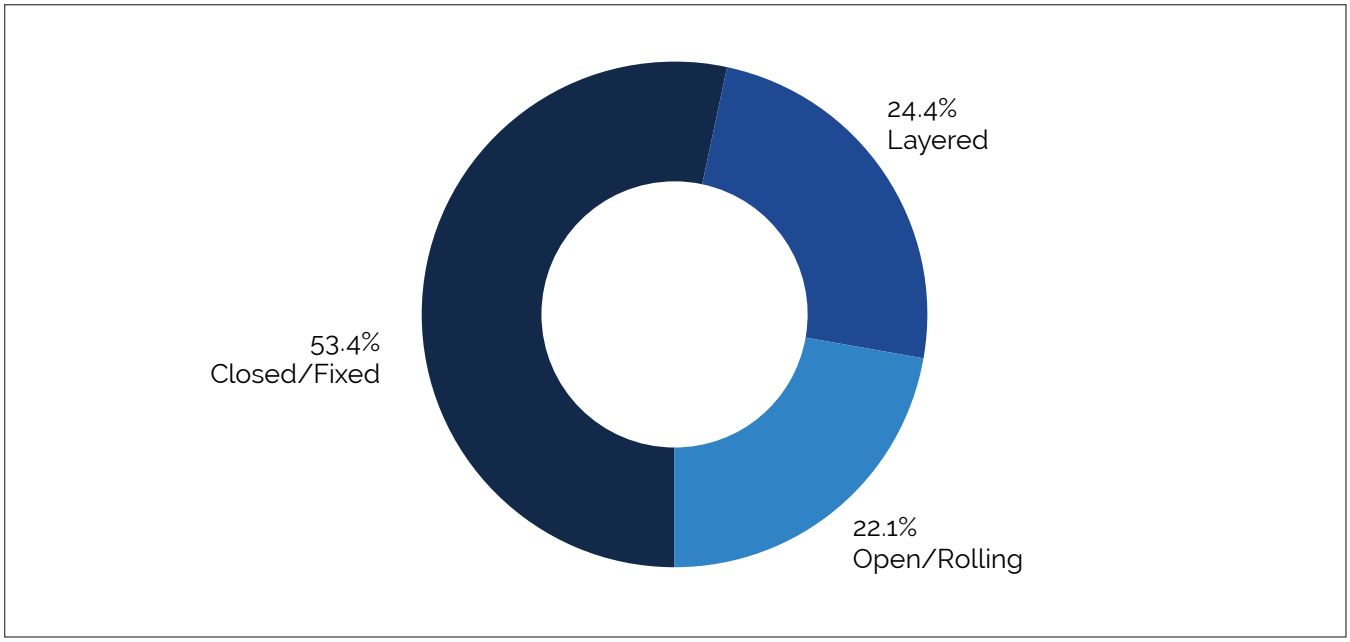
Closed (Fixed) Amortization: Under the closed, or fixed, method, systems amortize the remaining unfunded liability over a fixed period so that at the end of the period — assuming actuarial assumptions are met — there is no remaining unfunded liability. This method, strongly recommended by most pension oversight bodies and credit rating agencies, ensures that unfunded liabilities are fully eliminated within a defined timeframe, typically 20–30 years.

Open (Rolling) Amortization: Under an open, or rolling, method, the amortization period is reset annually, so each year the system recalculates its unfunded liability and amortizes it over a fresh period. This method provides more flexibility in contribution amounts during economic downturns but has fallen out of favor in recent years because it may not fully eliminate unfunded liabilities over time.

Layered (Segmented) Amortization: A growing number of systems use a layered approach, sometimes called segmented amortization, which is a variation of the closed method. Under layered amortization, rather than amortizing the entire unfunded liability as a single amount, each year's actuarial gains or losses, assumption changes, and plan amendments are established as separate amortization "bases" or "layers," each with its own closed amortization period. This method combines the fiscal discipline of closed amortization — since each layer has a fixed payoff date — with more granular tracking of the sources of unfunded liabilities.

NCPERS updated the study questions in the fall of 2025 to capture more granular data on amortization. Respondents were given the option for the first time to select layered, closed/fixed, or open/rolling periods. Of the systems that participated in the most recent study, 24% of responding systems utilize layered amortization, 22% utilize open/rolling, and 53% utilize closed/fixed amortization periods.

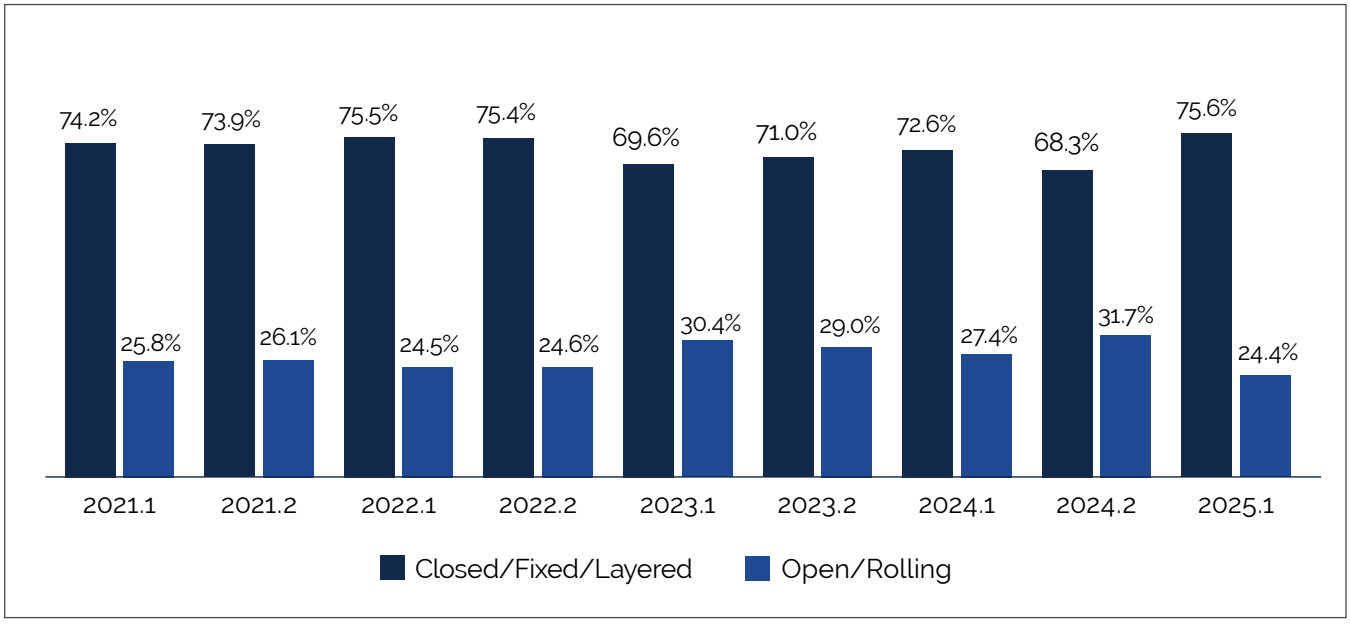
Figure 13: Type of Amortization Period



Among 2025 respondents with a defined amortization type, more than half (53%) use a closed or fixed period, while 24% use a layered approach and 22% use an open or rolling period.

To allow for year-over-year trends, in the chart below layered amortization responses are grouped with closed amortization.

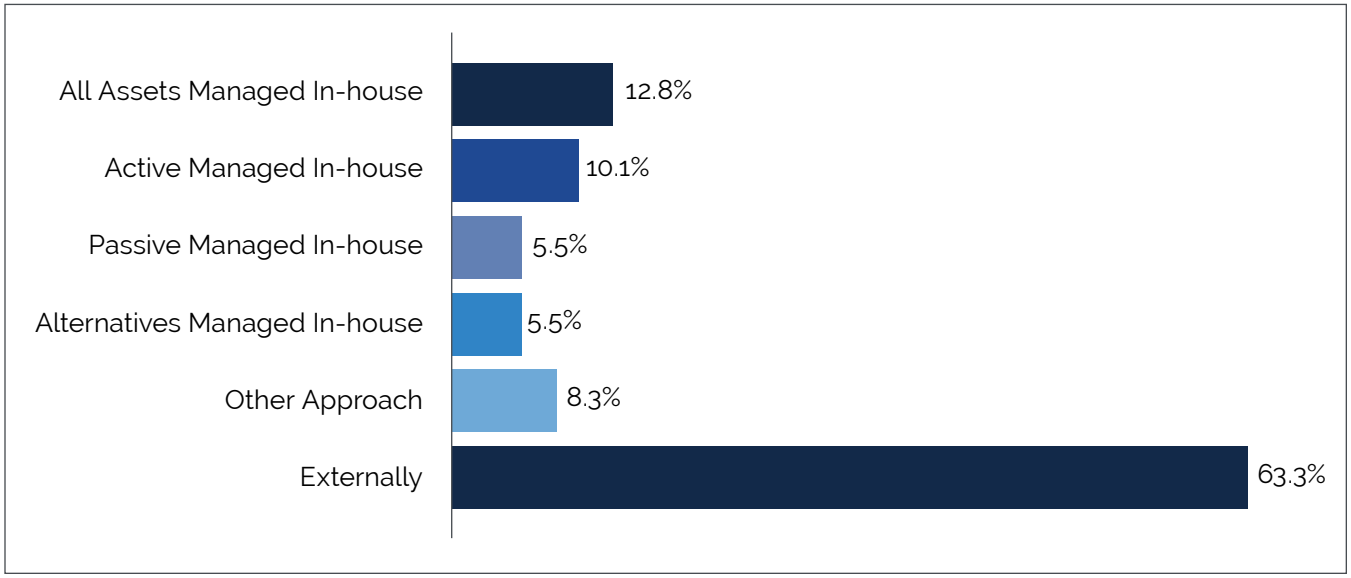
Figure 14: Amortization Methods



Closed/fixed/layered vs. open/rolling amortization by fiscal period, 2021.1–2025.1. In 2025.1, 75.6% of non-DC systems used a closed/fixed/layered approach, while 24.4% used open/rolling amortization.

Nearly all systems lean on external partners to help manage assets, with just 12.8% managing them completely in-house. Approximately 15.7% of respondents partially manage system financial assets, typically overseeing an asset class such as alternatives (private equity, real estate, infrastructure, hedge funds, commodities), or an investment style (passive or active). Systems serving education workers, and those with more assets, are more likely to take on partial management of assets, while those with fewer than 20,000 members or less than $10 billion in assets are more likely to leave investment management to an external partner.

Figure 15: Asset Management

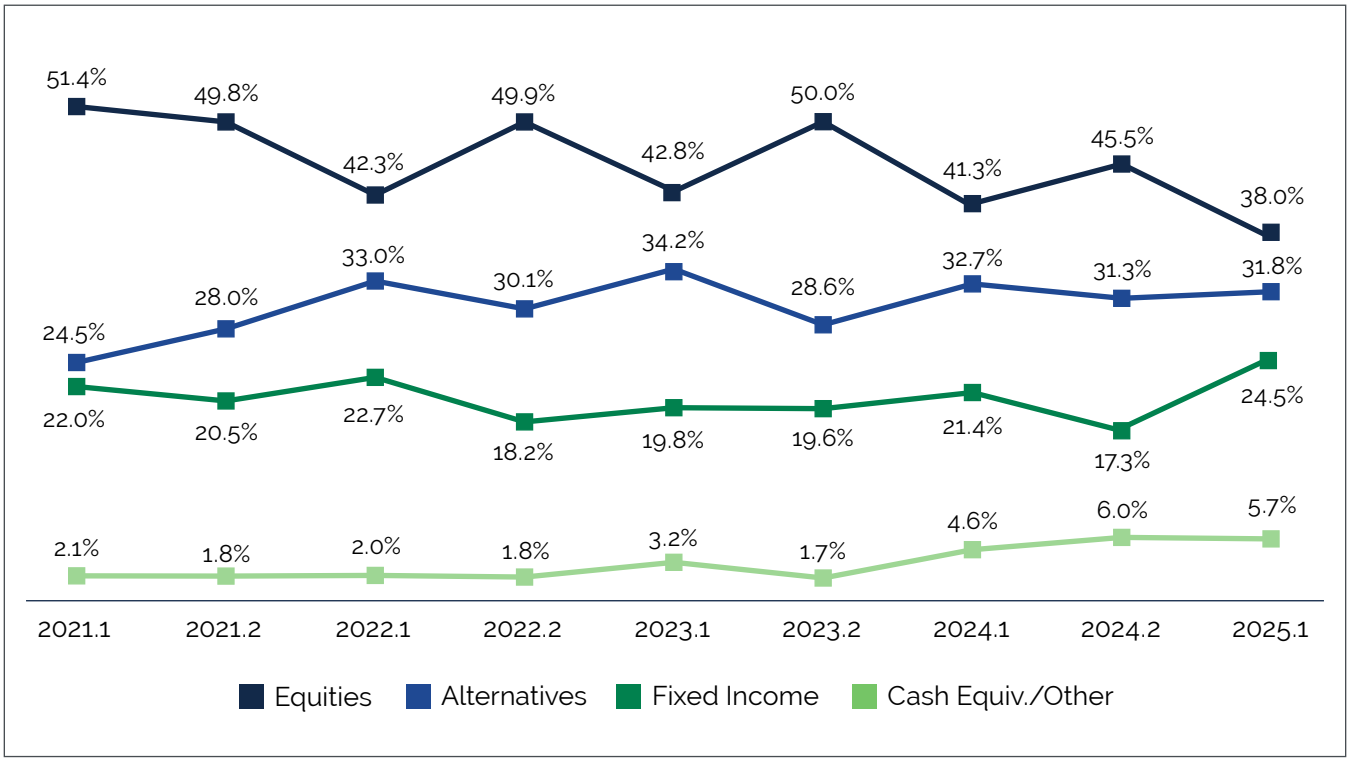


How responding systems manage investment assets (n = 149). Most rely on external managers; 12.8% manage all assets in-house. Multiple responses allowed; column percentages sum to >100%.

Asset Allocation and Investment Performance

Equities remain the largest component of pension portfolios at 45.2% among 2025 survey respondents. This represents a slight decline from 45.5% in 2024, following fluctuations from 52.5% in 2021. On average, systems are staying close to their targeted allocations for each asset class.

Figure 16: Asset Allocation Trends



Asset allocation by major category, 2021.1–2025.1. Equities averaged 38.0% among 2025.1 respondents.

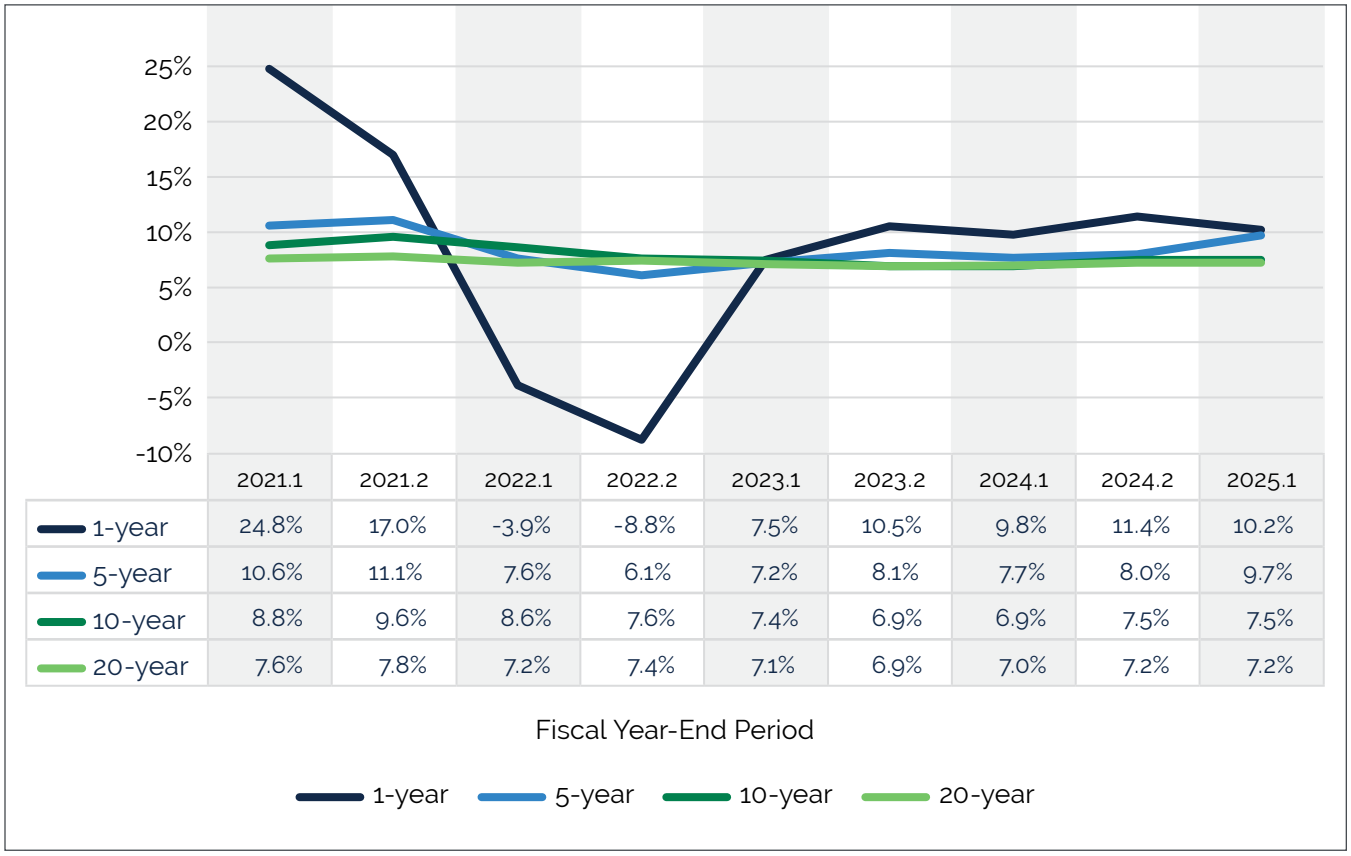
Table 1 – Actual Asset Allocation by Specific Asset Class

	Fiscal Year-End Period								
Asset Class	**2021.1**	**2021.2**	**2022.1**	**2022.2**	**2023.1**	**2023.2**	**2024.1**	**2024.2**	**2025.1**
Global Equity	13.0%	9.8%	10.5%	7.6%	12.8%	9.3%	16.9%	8.6%	13.8%
Domestic Equity	24.8%	27.7%	21.6%	29.7%	19.4%	28.5%	15.2%	25.4%	15.1%
International Equity	13.7%	12.3%	10.2%	12.6%	10.5%	12.2%	9.2%	11.5%	9.1%
Total Equities	**51.4%**	**49.8%**	**42.3%**	**49.9%**	**42.8%**	**50.0%**	**41.3%**	**45.5%**	**38.0%**
Global Fixed Income	4.5%	4.7%	4.2%	2.7%	5.0%	3.2%	6.1%	2.2%	5.3%
Domestic Fixed Income	15.5%	14.2%	15.8%	14.5%	12.9%	14.5%	13.2%	13.7%	13.2%
International Fixed Income	0.9%	0.6%	1.1%	0.5%	0.8%	0.4%	0.6%	0.6%	1.4%
High Yield Bond	1.2%	1.0%	1.5%	0.5%	1.1%	1.5%	1.5%	0.8%	4.5%
Total Fixed Income	**22.0%**	**20.5%**	**22.7%**	**18.2%**	**19.8%**	**19.6%**	**21.4%**	**17.3%**	**24.5%**
Real Estate	7.9%	10.0%	11.2%	11.6%	10.8%	10.2%	9.6%	7.7%	8.0%
Private Equity	9.9%	9.6%	12.6%	10.1%	11.9%	9.3%	11.1%	11.2%	11.2%
Hedge Fund	1.9%	2.9%	2.3%	3.2%	1.3%	3.3%	1.6%	3.4%	1.0%
Private Debt	1.6%	0.7%	2.4%	1.1%	4.1%	1.5%	4.3%	2.9%	3.4%
Commodities	2.8%	4.3%	4.2%	3.7%	5.5%	3.9%	4.8%	5.6%	7.5%
Other Alternatives	0.4%	0.5%	0.3%	0.5%	0.7%	0.4%	1.3%	0.4%	0.8%
Total Alternatives	**24.5%**	**28.0%**	**33.0%**	**30.1%**	**34.2%**	**28.6%**	**32.7%**	**31.3%**	**31.8%**
Cash Equivalents	2.1%	1.8%	2.0%	1.8%	3.2%	1.7%	4.6%	6.0%	5.7%

(Note: 'Global' includes both U.S. and international investments; 'International' excludes U.S. investments; 'Domestic' includes only U.S. investments.)

Systems report their overall 1-year, 5-year, 10-year, and 20-year investment returns in this annual study. Roughly three-quarters of systems report these returns net of fees, and the remaining report gross returns. The chart below shows the trend in returns net of investment management fees. The returns for plans with fiscal year-ending periods in the first half of 2025 had average 1-year returns of 10.2% (median: 10.5%), 5-year returns of 9.7%, 10-year returns of 7.5%, and 20-year returns of 7.2%.

Figure 17: Average Investment Returns (Net of Fees) by Time Period

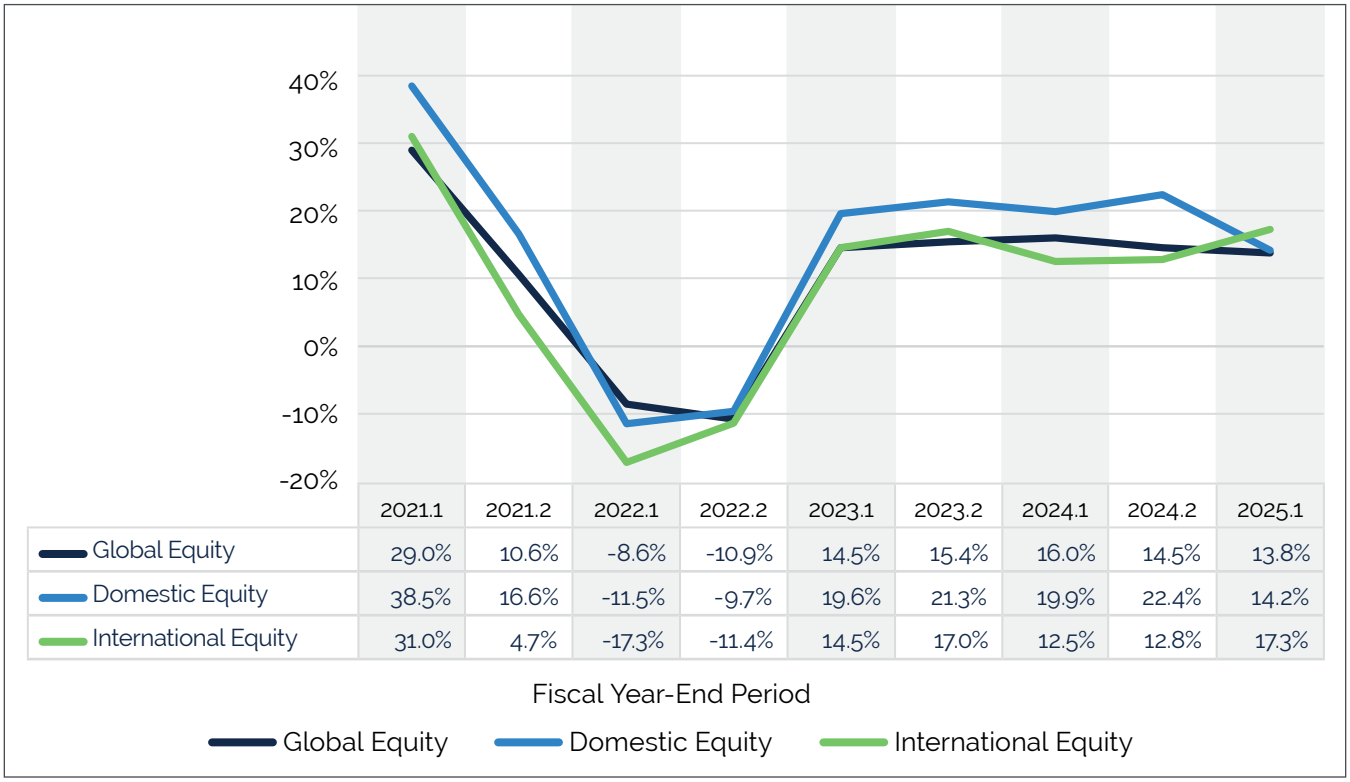


	2021.1	2021.2	2022.1	2022.2	2023.1	2023.2	2024.1	2024.2	2025.1
1-year	24.8%	17.0%	-3.9%	-8.8%	7.5%	10.5%	9.8%	11.4%	10.2%
5-year	10.6%	11.1%	7.6%	6.1%	7.2%	8.1%	7.7%	8.0%	9.7%
10-year	8.8%	9.6%	8.6%	7.6%	7.4%	6.9%	6.9%	7.5%	7.5%
20-year	7.6%	7.8%	7.2%	7.4%	7.1%	6.9%	7.0%	7.2%	7.2%

Average net-of-fee investment returns by horizon, 2021.1–2025.1. For 2025.1: 1-year average 10.2% (median: 10.5%), 5-year 9.7%, 10-year 7.5%, 20-year 7.2%.

The following three figures show the one-year returns by asset class for each fiscal year period.

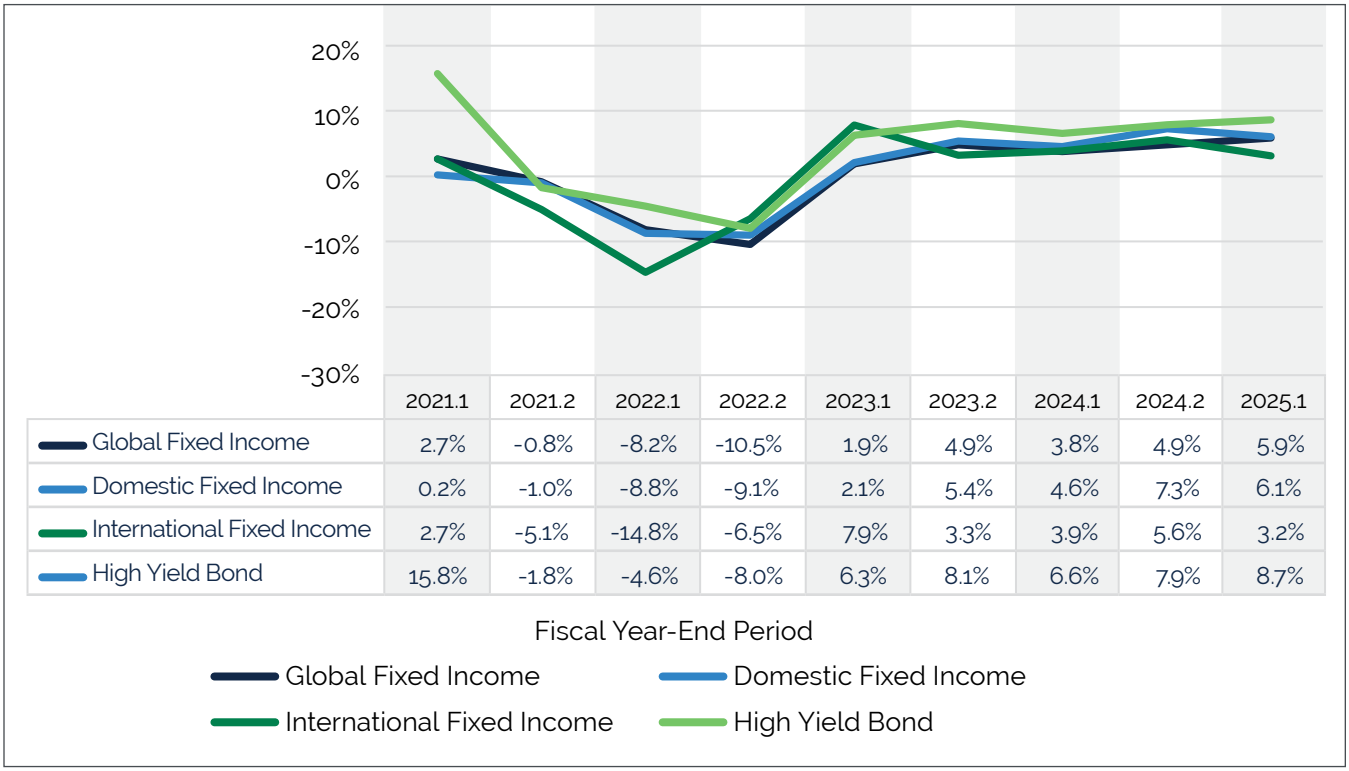
Figure 18: One-Year Equity Returns



	2021.1	2021.2	2022.1	2022.2	2023.1	2023.2	2024.1	2024.2	2025.1
Global Equity	29.0%	10.6%	-8.6%	-10.9%	14.5%	15.4%	16.0%	14.5%	13.8%
Domestic Equity	38.5%	16.6%	-11.5%	-9.7%	19.6%	21.3%	19.9%	22.4%	14.2%
International Equity	31.0%	4.7%	-17.3%	-11.4%	14.5%	17.0%	12.5%	12.8%	17.3%

One-year equity returns by type, 2021.1–2025.1.

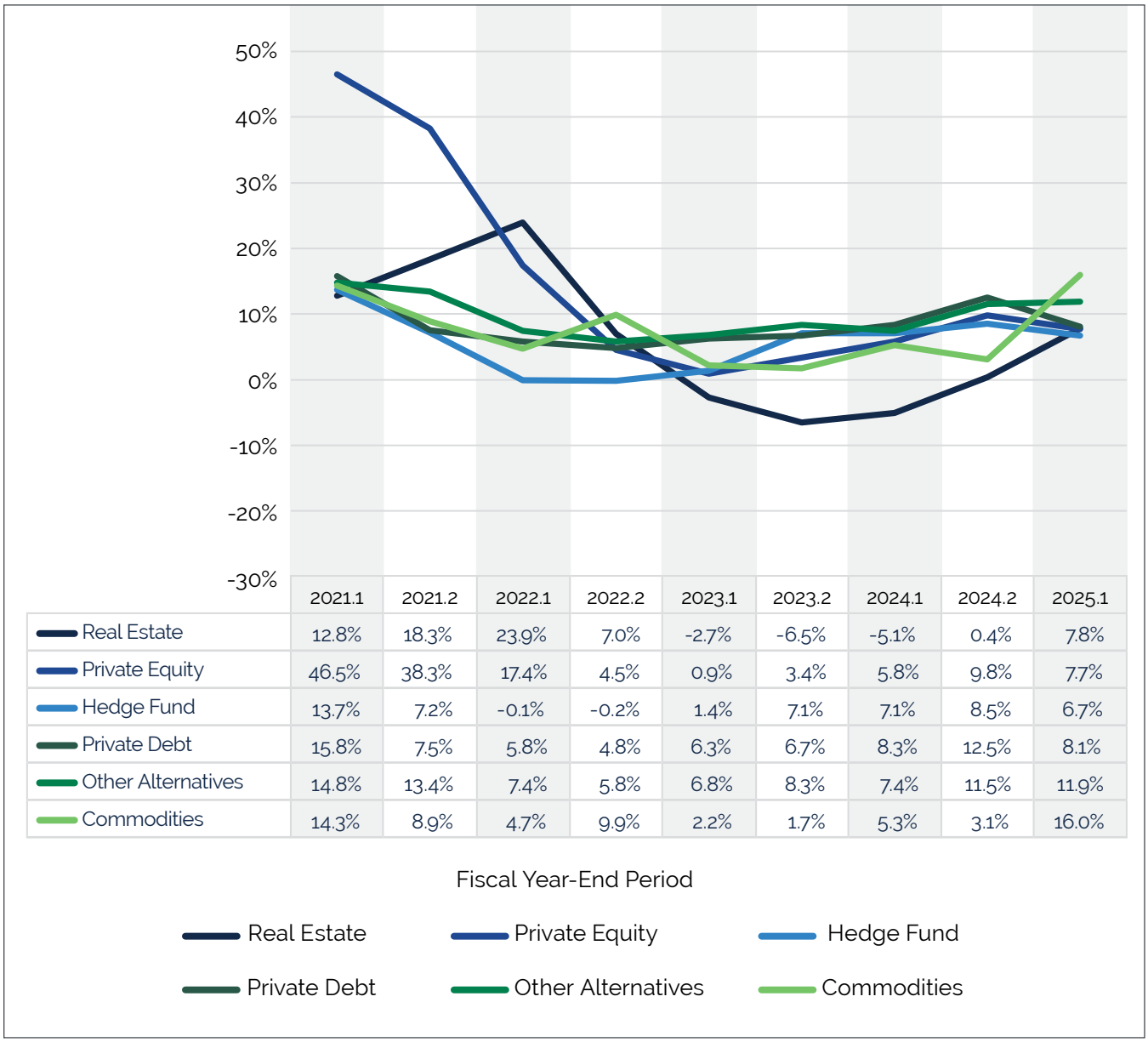
Figure 19: One-Year Fixed Income Returns



	2021.1	2021.2	2022.1	2022.2	2023.1	2023.2	2024.1	2024.2	2025.1
Global Fixed Income	2.7%	-0.8%	-8.2%	-10.5%	1.9%	4.9%	3.8%	4.9%	5.9%
Domestic Fixed Income	0.2%	-1.0%	-8.8%	-9.1%	2.1%	5.4%	4.6%	7.3%	6.1%
International Fixed Income	2.7%	-5.1%	-14.8%	-6.5%	7.9%	3.3%	3.9%	5.6%	3.2%
High Yield Bond	15.8%	-1.8%	-4.6%	-8.0%	6.3%	8.1%	6.6%	7.9%	8.7%

One-year fixed income returns by type, 2021.1–2025.1.

Figure 20: One-Year Alternative Investment Returns



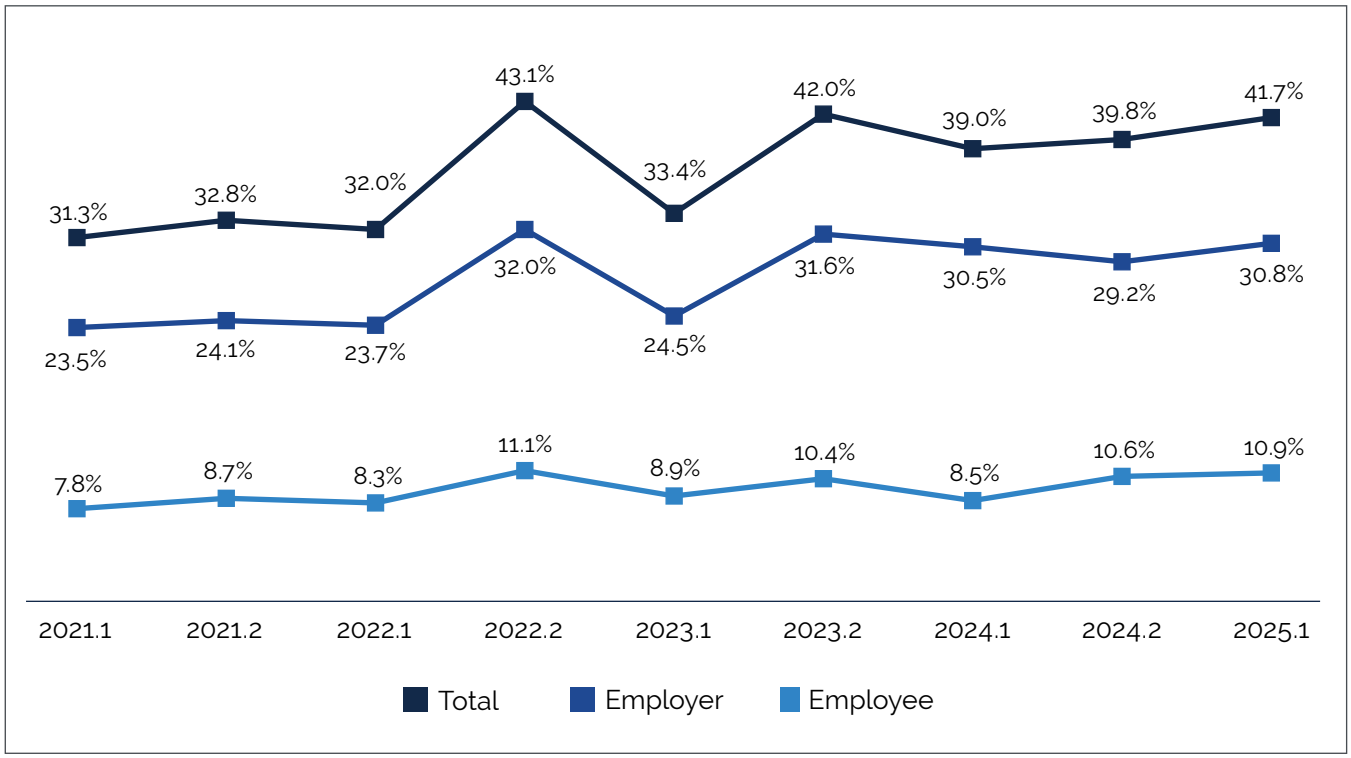
	2021.1	2021.2	2022.1	2022.2	2023.1	2023.2	2024.1	2024.2	2025.1
Real Estate	12.8%	18.3%	23.9%	7.0%	-2.7%	-6.5%	-5.1%	0.4%	7.8%
Private Equity	46.5%	38.3%	17.4%	4.5%	0.9%	3.4%	5.8%	9.8%	7.7%
Hedge Fund	13.7%	7.2%	-0.1%	-0.2%	1.4%	7.1%	7.1%	8.5%	6.7%
Private Debt	15.8%	7.5%	5.8%	4.8%	6.3%	6.7%	8.3%	12.5%	8.1%
Other Alternatives	14.8%	13.4%	7.4%	5.8%	6.8%	8.3%	7.4%	11.5%	11.9%
Commodities	14.3%	8.9%	4.7%	9.9%	2.2%	1.7%	5.3%	3.1%	16.0%

One-year alternative investment returns by type, 2021.1–2025.1.

Contributions

Contributions by active members and employers as a percent of payroll have increased gradually in recent years. Based on the most recent survey data, systems with less than $1 billion in assets or fewer than 2,000 members have the highest contributions as a percentage of payroll.

Figure 21: Contribution Rates



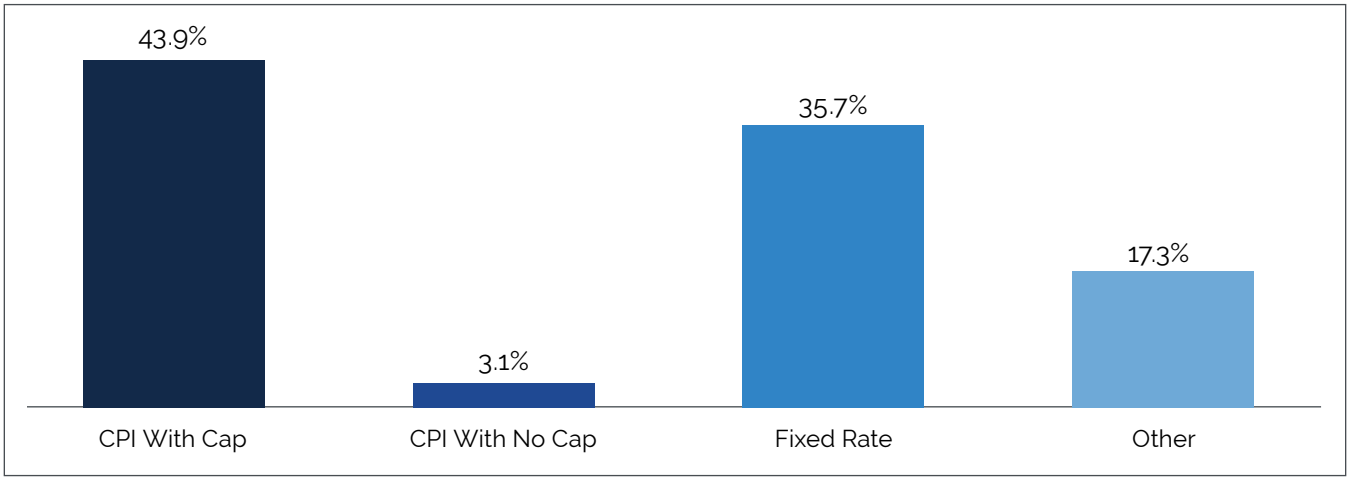
Employee and employer contributions as a percentage of payroll, 2021.1–2025.1. Total for 2025.1: 41.7% of payroll.

Cost of Living Adjustments

Approximately two-thirds (71.0%) of systems include cost of living adjustments (COLAs) for retirees in their most recent annual benefit calculations. The prevalence of COLAs increases with plan assets. COLAs are typically based on the Consumer Price Index (CPI) or a fixed percentage, mirroring how systems use CPI and other economic indicators in their inflation assumptions for funding calculations. However, there are many systems that use a combination of these, have different tiers of COLAs, use a factor of the CPI, or some other means to calculate COLAs.

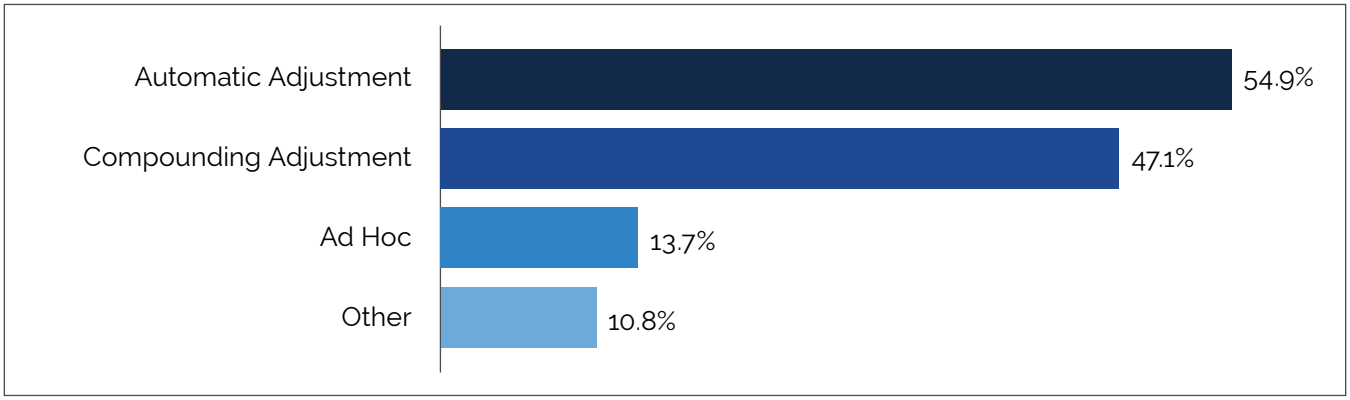
Systems whose members are not eligible for Social Security (29.3%) are more likely to offer a COLA (75.6%) than those whose members are eligible for Social Security (66.7%). When they do, non-Social Security eligible systems' COLAs average 2.6%. (This analysis provides important context for Figure 24; see also Figure 7 for overall Social Security eligibility patterns.)

Figure 22: COLA Types



COLA methodology among plans offering COLAs (71.0% of all systems). CPI with cap is the most common type (43.9%).

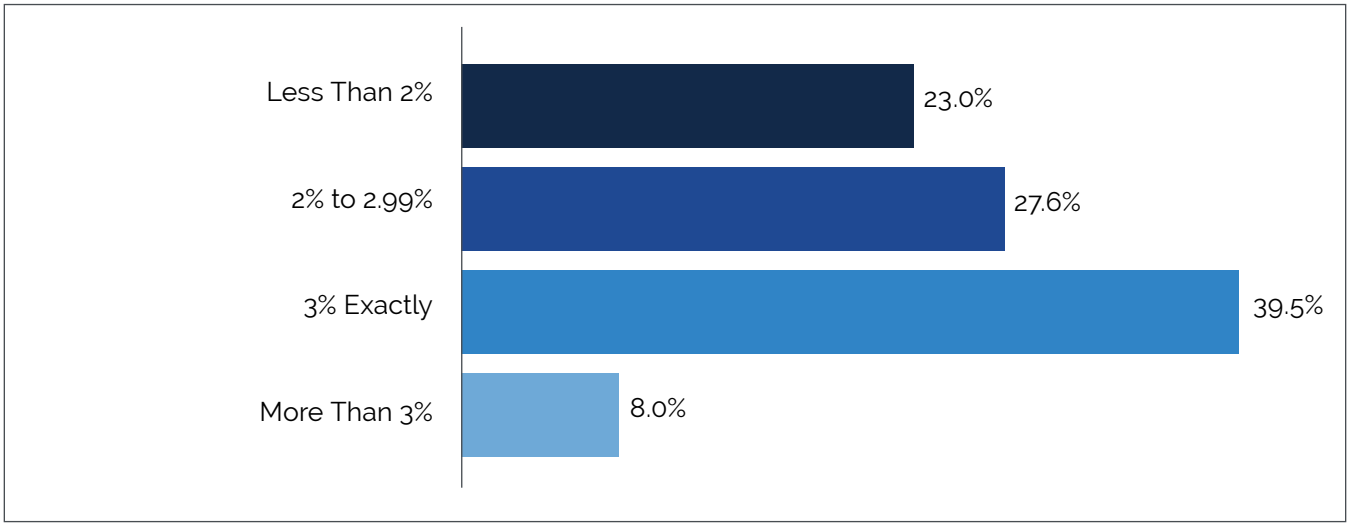
Figure 23: COLA Methods



How COLAs are applied. Over half (54.9%) use automatic adjustments; 47.1% use compounding. Respondents could select more than one method.

The median COLA paid in the most recent fiscal year was 2.9%. Among systems offering COLAs, 39.5% paid exactly 3.0%, while payments ranged from 0% to more than 3.0%.

Figure 24: COLA Percentage Paid

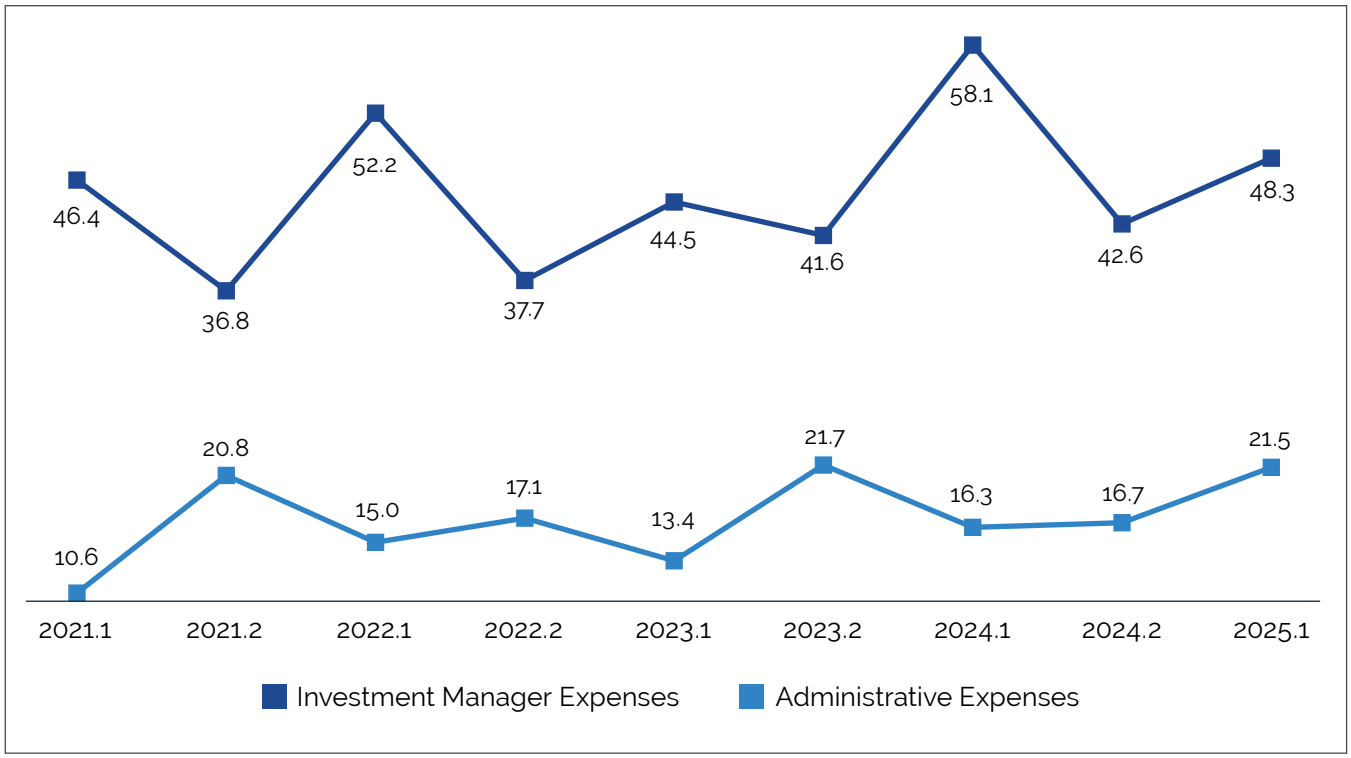


Distribution of COLAs paid in the most recent fiscal year. Median: 2.9%; 39.5% of systems paid exactly 3.0%.

Plan Expenses

There are two primary sources of expense for a pension plan: 1) fees paid to external investment managers, and 2) costs to administer the plan. Respondents reported these expenses in terms of basis points. (Note: 100 basis points, or "bps", equal 1 percent). Combined expenses of approximately 70 basis points compare favorably to the average actively managed mutual fund expense ratio of 89 bps,[2] and unlike mutual funds, this figure already encompasses plan administration costs alongside investment management fees.

Figure 25: Investment and Administrative Expenses (in Basis Points)

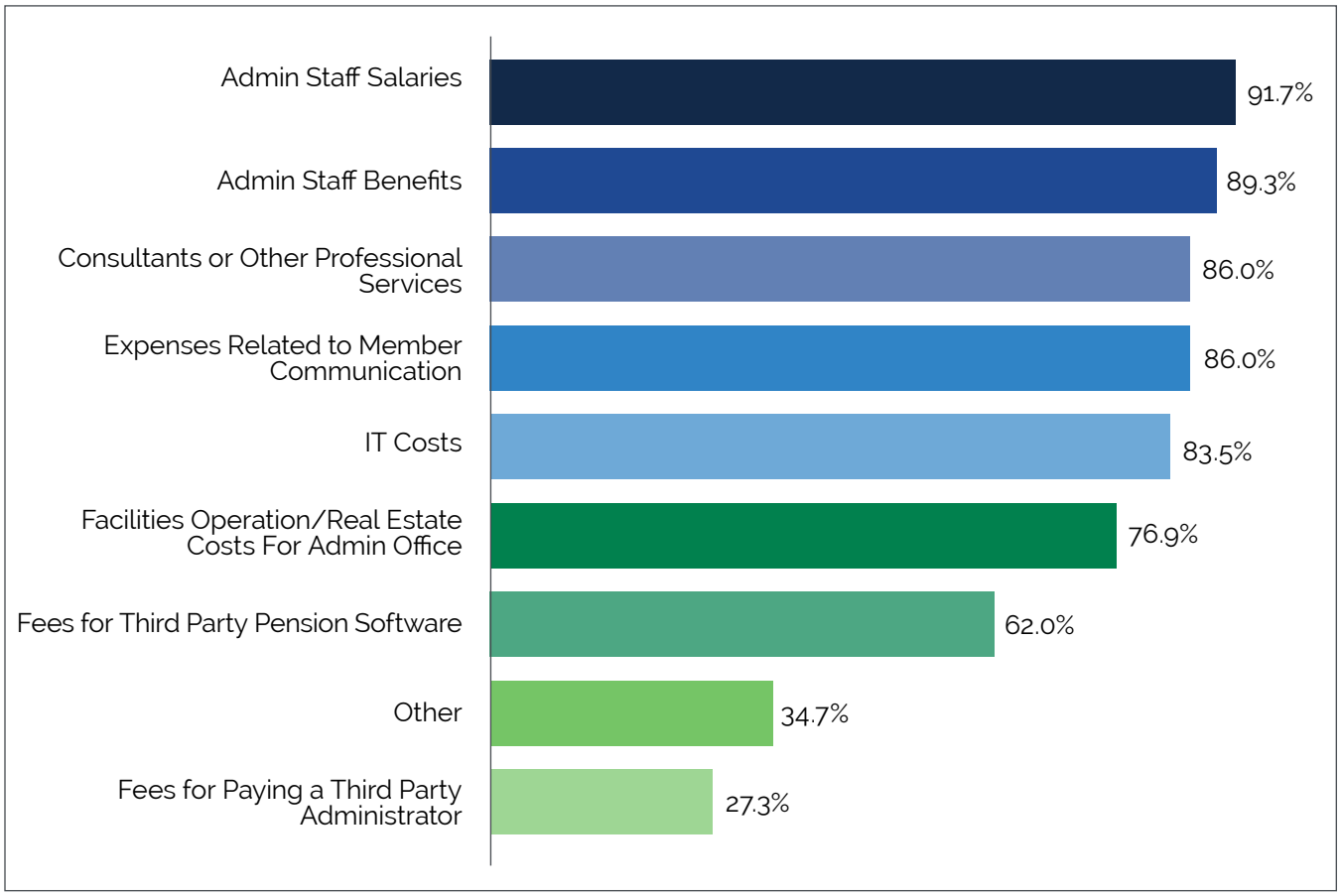


Investment manager and administrative expenses in basis points, 2021.1–2025.1. Combined average for 2025.1: approximately 70 basis points (0.70%).

[2] Li, Lei, and Irina Atamanchuk. "Trends in the Expenses and Fees of Funds, 2024." ICI Research Perspective 31, no. 1 (March 2025). https://www.ici.org/files/2025/per31-01.pdf.

Despite a relatively long list of expense categories making up administrative expenses, systems consistently keep costs below what they pay investment managers. Leading categories of expenses include staff salaries/benefits, consulting fees, and member communications. Systems with higher numbers of members or higher asset levels are more likely to have expenses in all administrative expense categories listed in the figure below.

Figure 26: Administrative Expenses



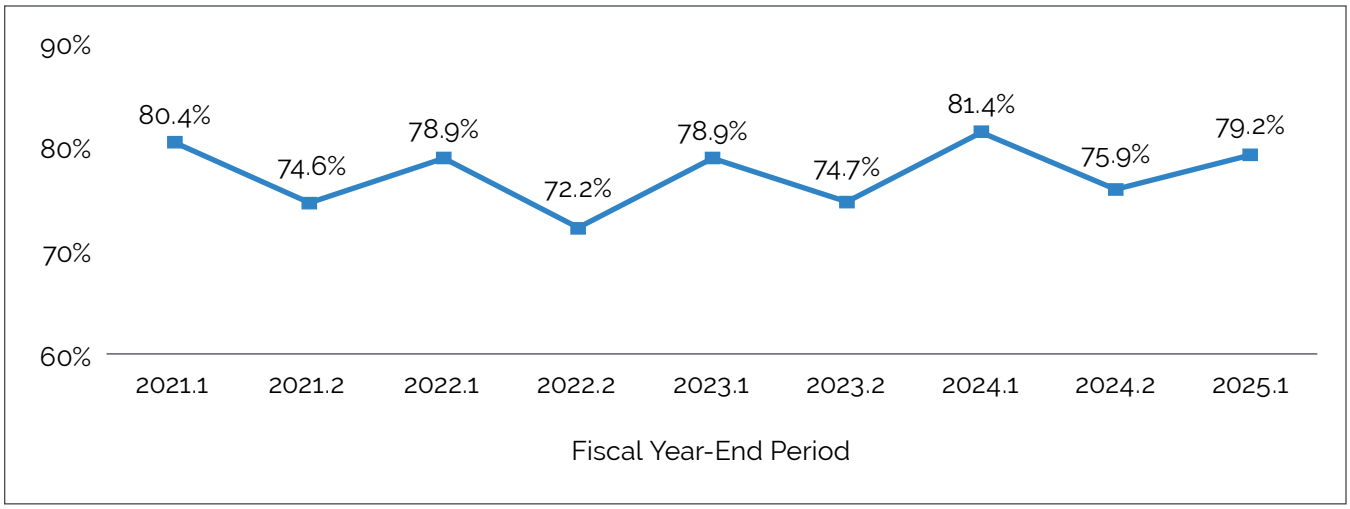
Categories of administrative expenses reported by responding systems. Staff salaries (91.7%) and benefits (89.3%) are the most common.

Funded Ratio

System funded ratios fluctuate based on market conditions and the timing of fiscal year-ends. The 47 responding systems with fiscal year-end periods in the first half of 2025 reached an average funded ratio of 79.2% for non-DC plans (median: 76.6%). Among plans that submitted data for both the first half of 2024 and 2025, funding ratios improved by 2.9 percentage points, from 82.6% to 85.5%. These consistent responses from plans are crucial for tracking such progress over time, and NCPERS appreciates this commitment to providing the most complete possible information to the public pension community.

For comparison, the Milliman Public Pension Funding Index, which tracks the 100 largest U.S. public pension plans, estimated funded ratios of 82.0% as of June 30, 2025 and 84.7% as of November 30, 2025.

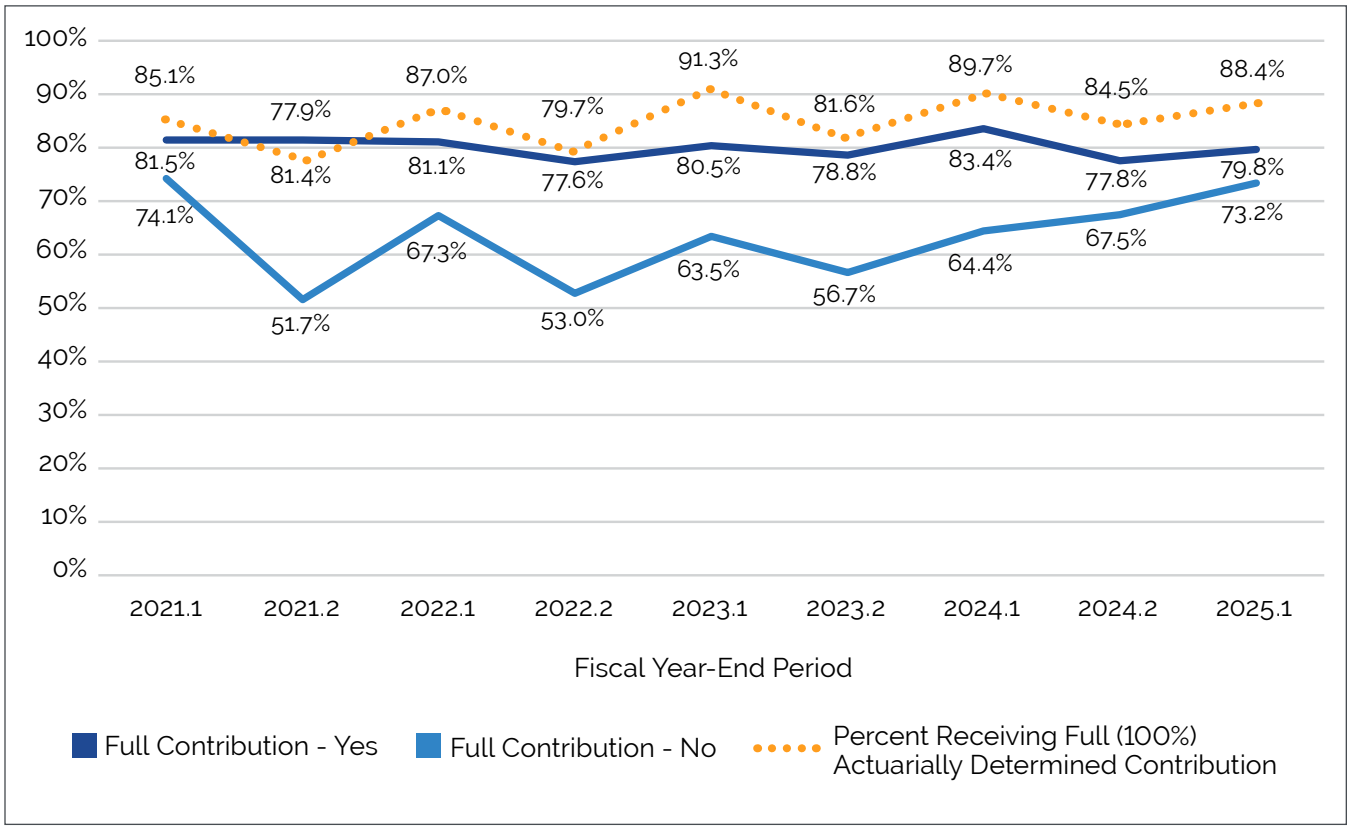
Figure 27: Average Funded Ratio



Average funded ratio by fiscal period, 2021.1–2025.1. Sample sizes by period: 2021.1 (n=68), 2021.2 (n=72), 2022.1 (n=98), 2022.2 (n=69), 2023.1 (n=93), 2023.2 (n=76), 2024.1 (n=70), 2024.2 (n=59), 2025.1 (n=47). For 2025.1: mean 79.2%, median 76.6%.

Systems that received the full (100%) actuarially determined contribution in fiscal year 2025 continue to have significantly higher funded ratios than those that did not. Systems receiving the full contribution experienced funded ratios averaging 79.8% compared to 73.2% for those not receiving the full contribution — a difference of 6.6 percentage points. When looking at the median, this jumps to 13.2 percentage points (63.3% for those that did not receive the full contribution vs. 76.5% for those that did).

Figure 28: Funded Ratio by Whether System Received Full Actuarially Determined Contribution



Average funded ratio by whether systems received their full actuarially determined contribution, 2021.1–2025.1. For 2025.1, systems receiving their full ADC reported a mean funded ratio of 79.8% (median: 76.5%), compared with 73.2% (median: 63.3%) among systems that did not receive their full ADC— a gap of 6.6 percentage points in means and 13.2 percentage points in medians.

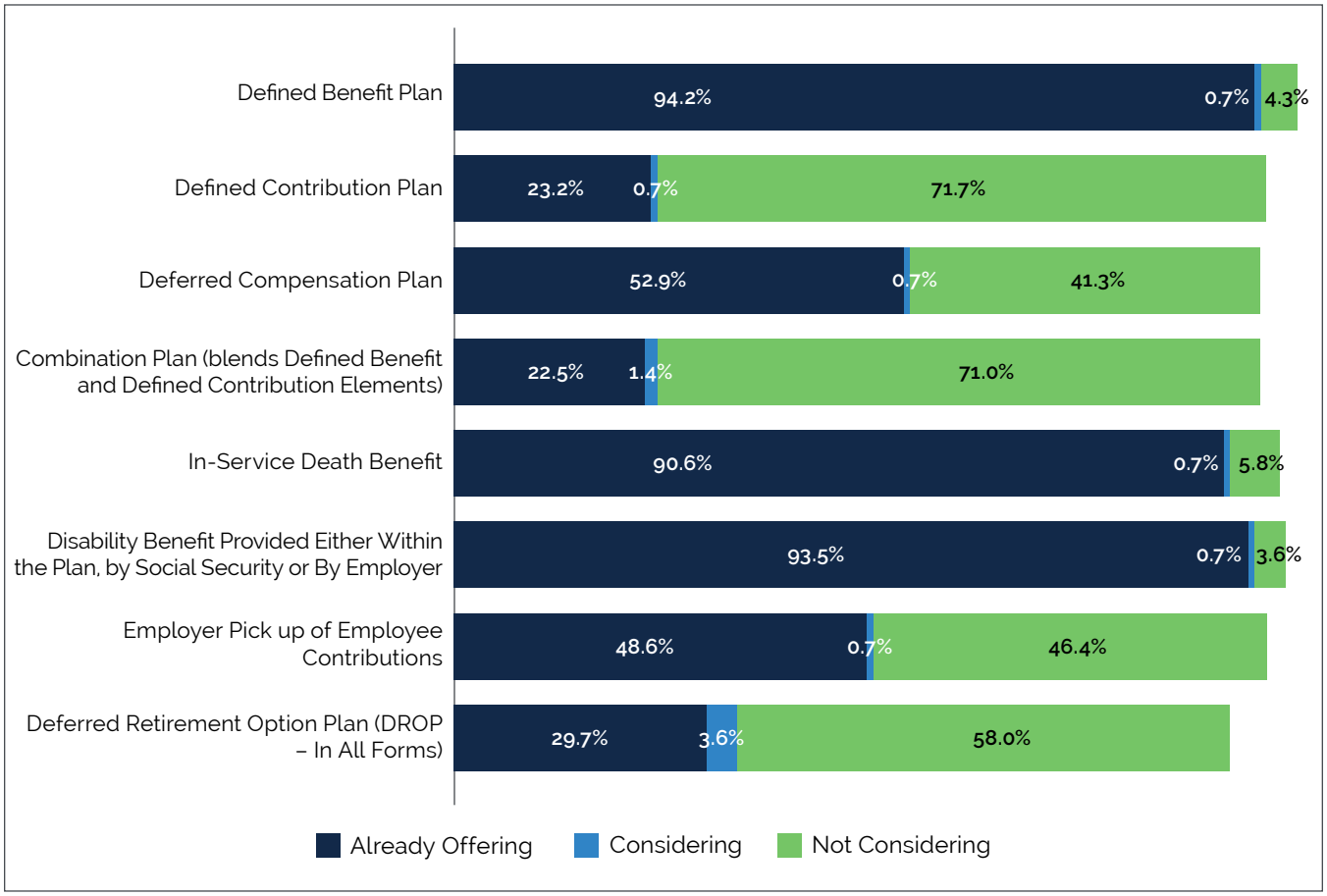
Current Business, Operational, and Oversight Practices

This section covers topics such as plan and practice changes, and insurance. All results are based on answers to the recently conducted survey.

Plan and Practice Changes

The vast majority of responding retirement systems offer a defined benefit plan, either on its own or as part of a hybrid approach. Very few respondents are considering any changes to retirement benefits offered in the future.

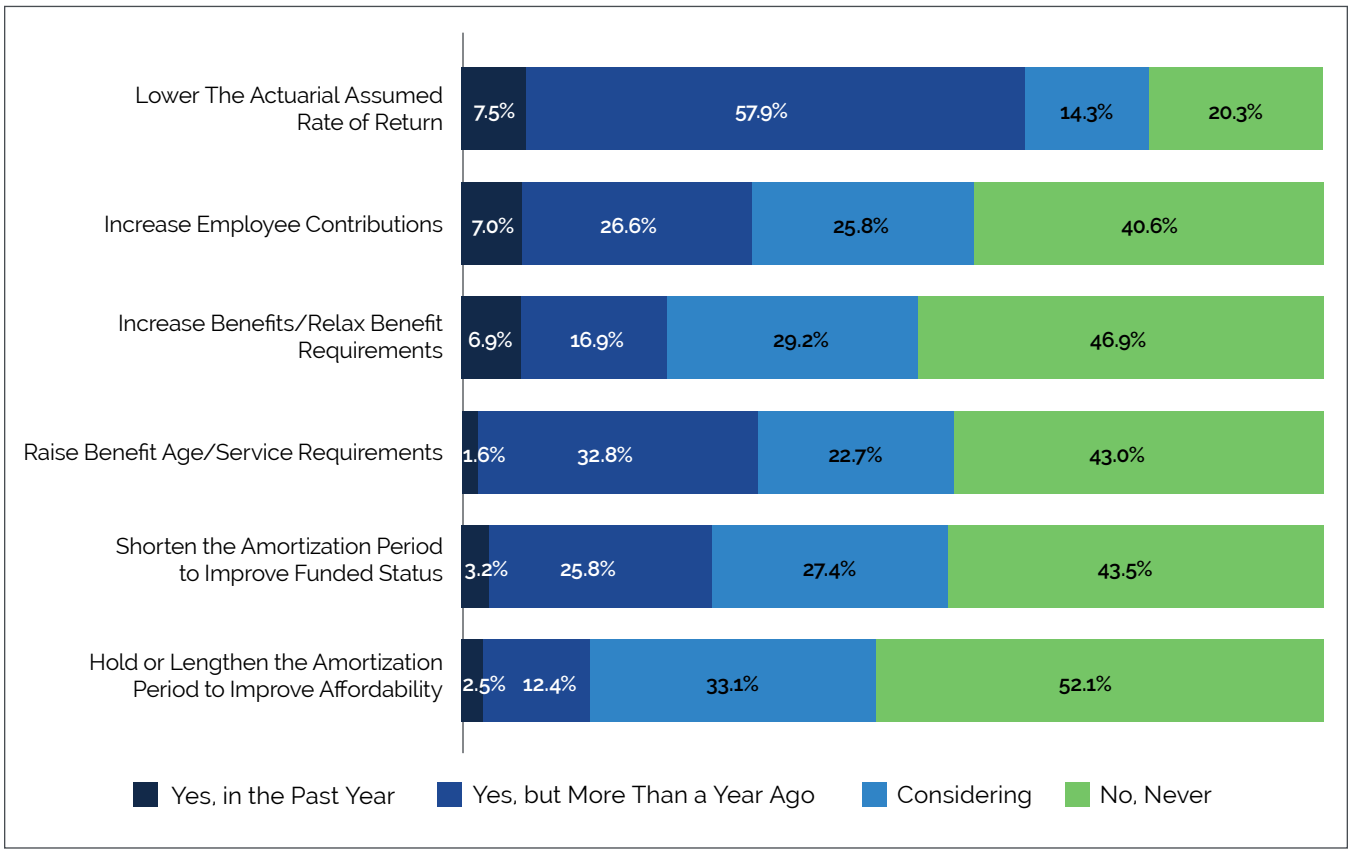
Figure 29: Benefits Offered or Considered



Benefits currently offered, under consideration, or not considered among systems responding to the 2025 benefits question(s). Most systems offer a defined benefit plan (94%), and relatively few are considering new benefit structures.

Consistent with the study's findings on the importance of disciplined funding practices — including the strong association between receiving the full actuarially determined contribution and higher funded ratios — many systems have implemented funding-focused adjustments in recent years. These have most commonly included lowering assumed rates of return, increasing employee contributions, or adjusting benefit eligibility requirements. Larger systems were more likely to implement these changes earlier, and the same policy levers remain the most frequently considered options moving forward, reinforcing the continued emphasis on long-term funding sustainability.

Figure 30: Plan Changes Implemented or Considered

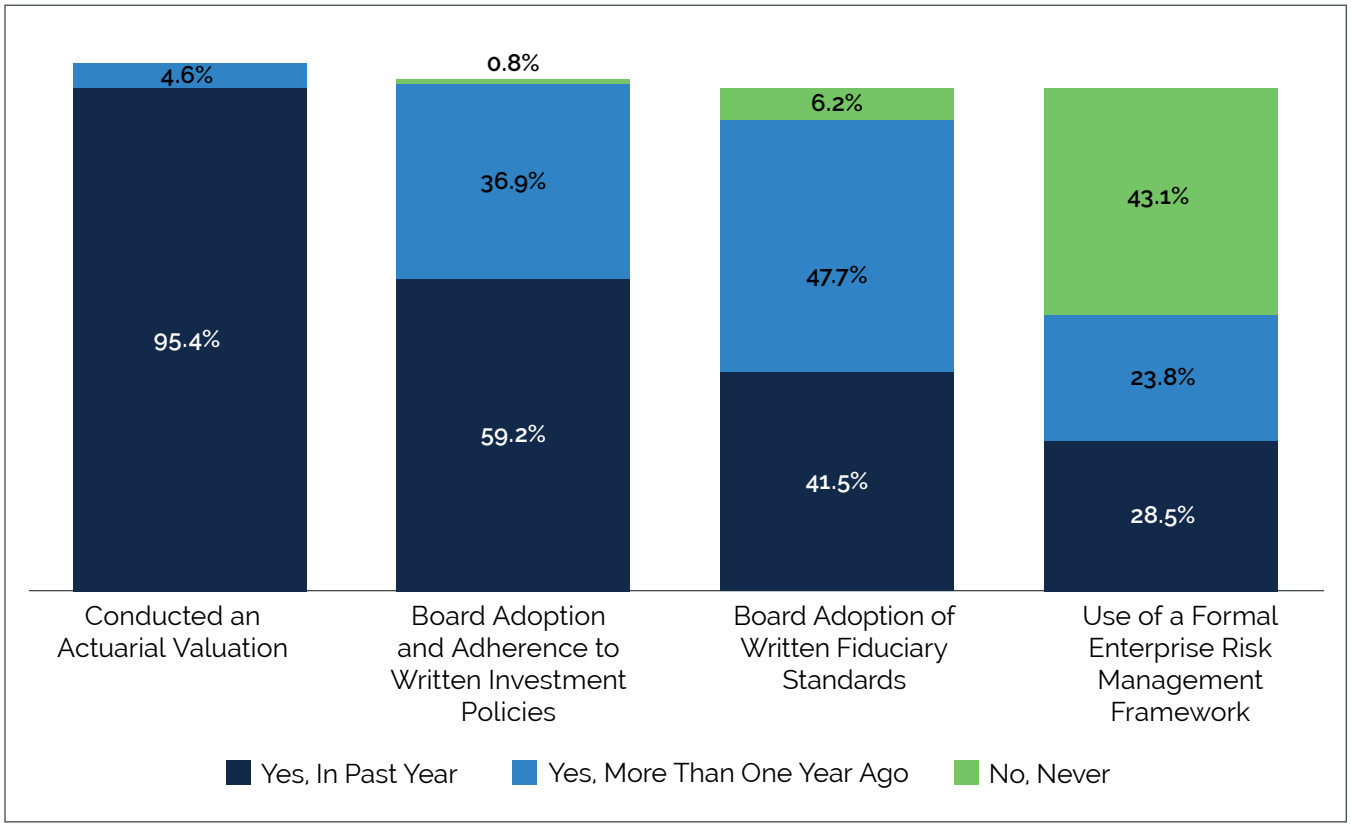


Changes made or under consideration among systems responding to the 2025 plan changes battery (n=132). Most systems (65%) have lowered their assumed rate of return at some point, and about one-third (34%) have increased employee contributions at some point.

Respondents were asked about the business practices their plans have implemented or are considering implementing, such as enhancing member financial wellness/retirement readiness resources, reviewing asset allocation, updating administrative software, and conducting a variety of audits.

Nearly all systems have conducted actuarial valuations and have boards that have adopted written investment policies and fiduciary standards. Nearly all that conducted an actuarial valuation did so in the past year, suggesting this is an annual practice for many. Just over half (52.3%) use a formal enterprise risk management (ERM) framework.

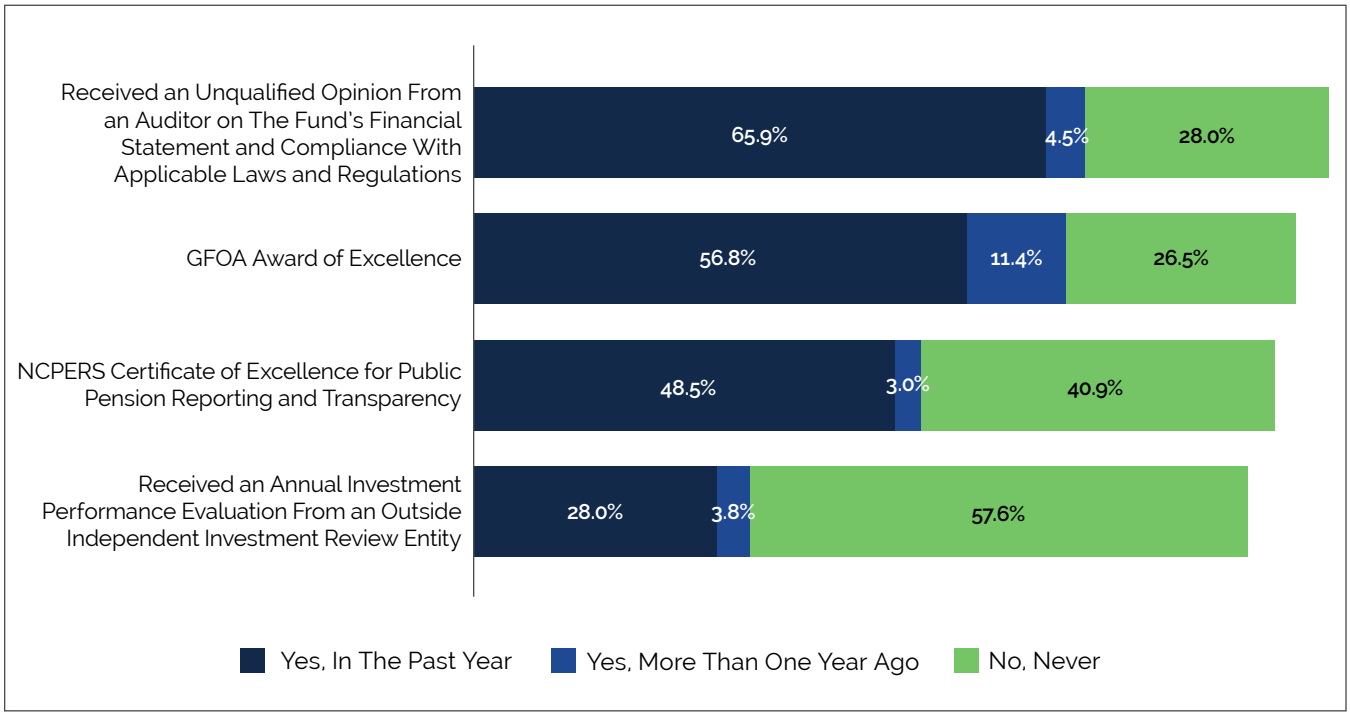
Figure 31: Business Practices



Business practices implemented by responding systems (n=130). Nearly all (95.4%) have conducted an actuarial valuation in the past year; 52.3% use a formal enterprise risk management (ERM) framework.

Among the 132 systems responding to this question, all have received an unqualified opinion from an auditor on the fund's financial statements and compliance with applicable laws and regulations. More than two thirds have received an independent annual investment performance evaluation. Systems have also received various awards and certificates from the Government Finance Officers Association (GFOA), NCPERS, and the Public Pension Coordinating Council (PPCC). Systems with at least 20,000 members are more likely to have received each of these items than smaller systems.

Figure 32: Awards and Certifications

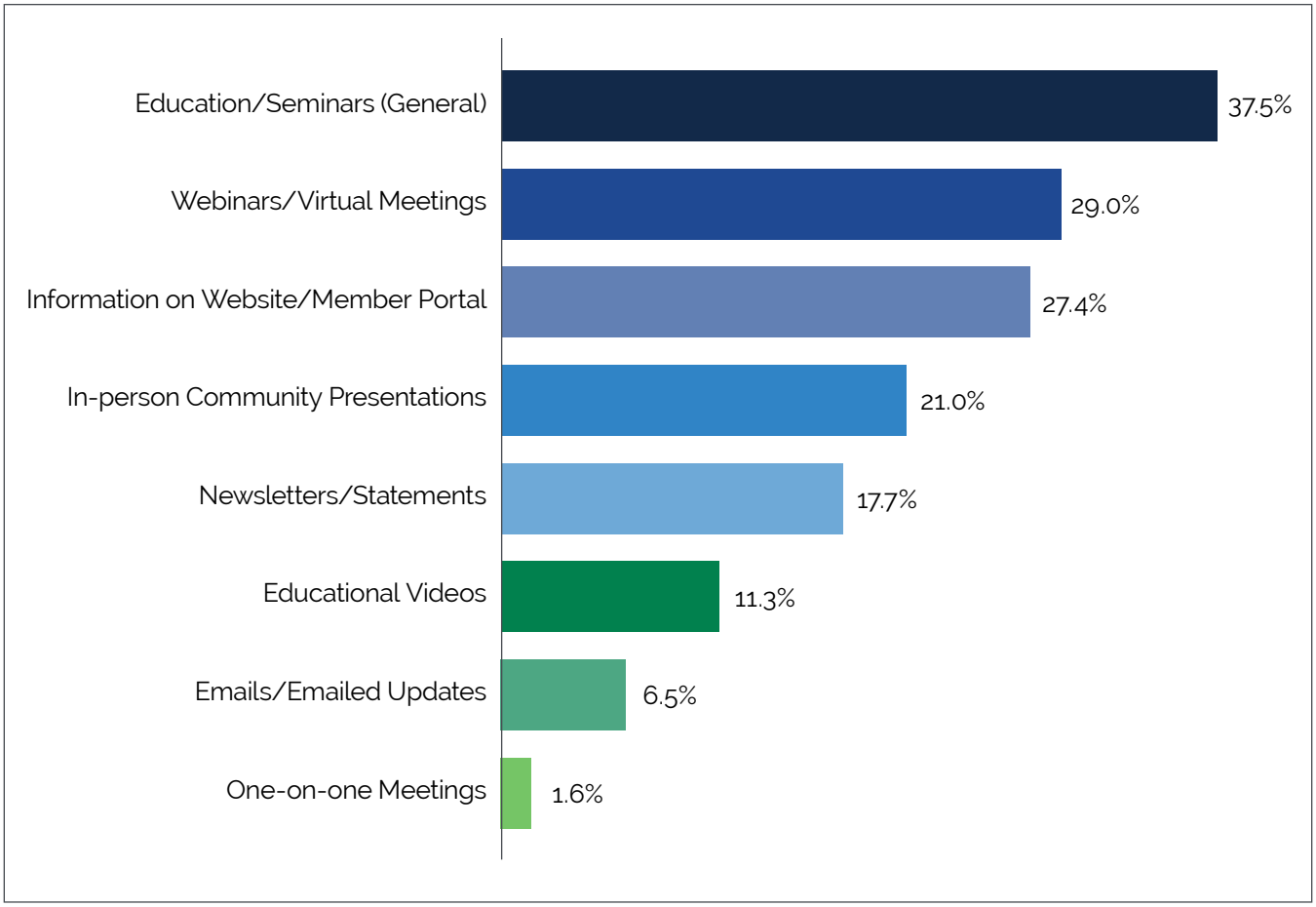


Awards and certifications received among systems responding to the 2025 awards and certifications battery (n=132). Among responding systems, 70.5% have received an unqualified auditor opinion at some point, 68.2% have received the GFOA Award of Excellence, and 31.8% have received an independent investment performance evaluation.

Educating Members and the Board

Education seminars, webinars, and websites or member portals top the list of actions that respondents feel are most effective in educating members. The shift toward digital communication methods accelerated during the COVID-19 pandemic, with many systems now maintaining hybrid approaches that combine the convenience of online portals and webinars with traditional in-person seminars and one-on-one counseling sessions. Among 2025 respondents, 81.6% report having a digital platform such as a mobile app or website portal that enables participants to access their individual plan accounts.

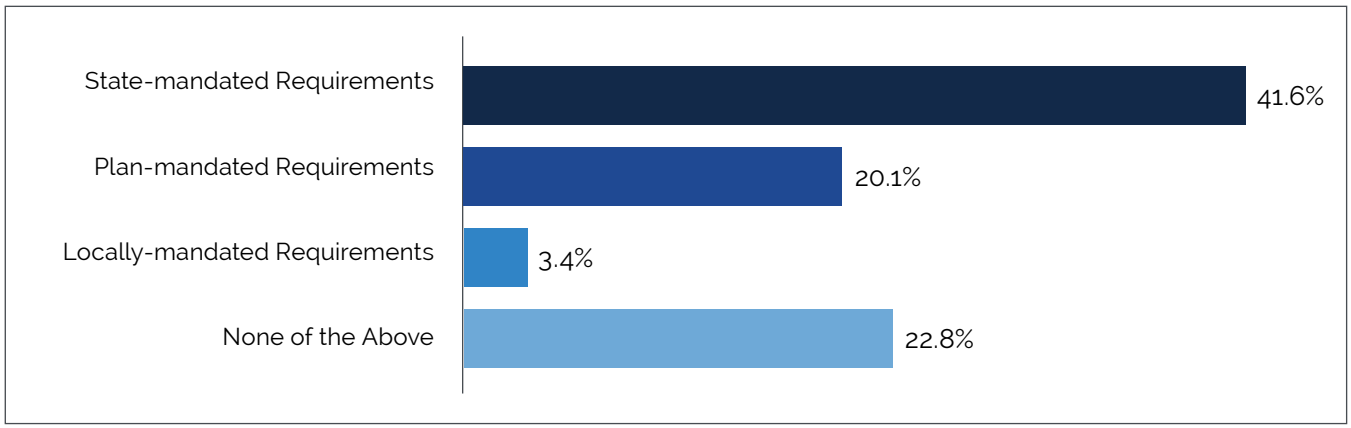
Figure 33: Most Effective Member Education Methods



Most effective member education methods as reported by systems.

More than half (57.7%) of systems have education requirements for board members that are mandated by state/local government and/or by the plan.

Figure 34: Board Education Requirements

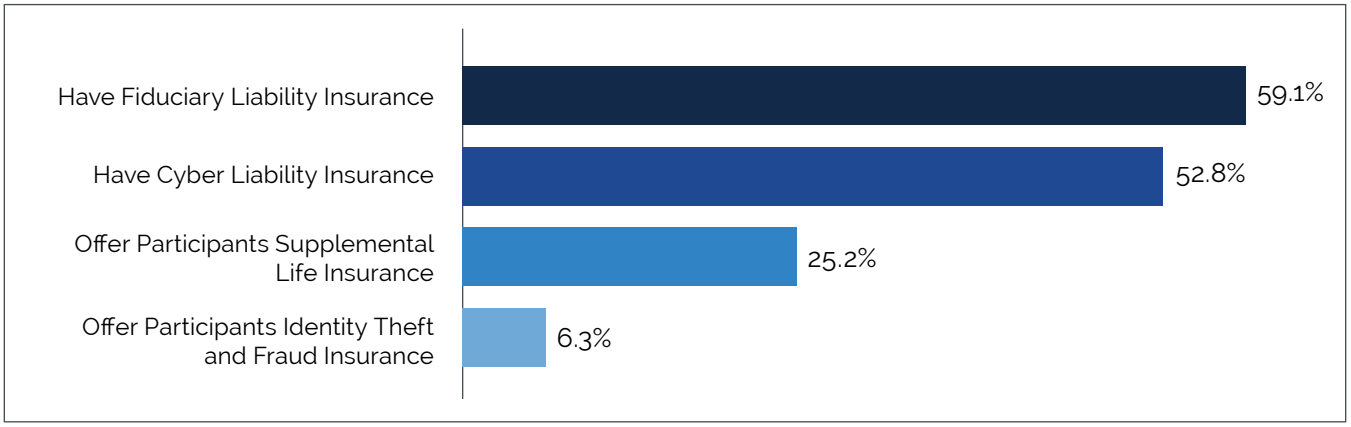


Board education requirements among 2025 respondents (n=149). Overall, 57.7% report requirements mandated by state, local government, and/or the plan.

Insurance

When it comes to purchasing insurance, a majority of pensions report purchasing fiduciary and cyber liability insurance. Public retirement systems are much more likely to have fiduciary liability or cyber liability insurance than to offer participants supplemental life or identity theft/fraud insurance.

Figure 35: Insurance Coverage



Insurance types among systems responding to the 2025 insurance question (n=127). Fiduciary liability insurance (59.1%) and cyber liability insurance (52.8%) are the most common.

Leadership Priorities

This section explores the future priorities of responding pension systems and how they are beginning to leverage artificial intelligence. All results are based on answers to the recently conducted survey.

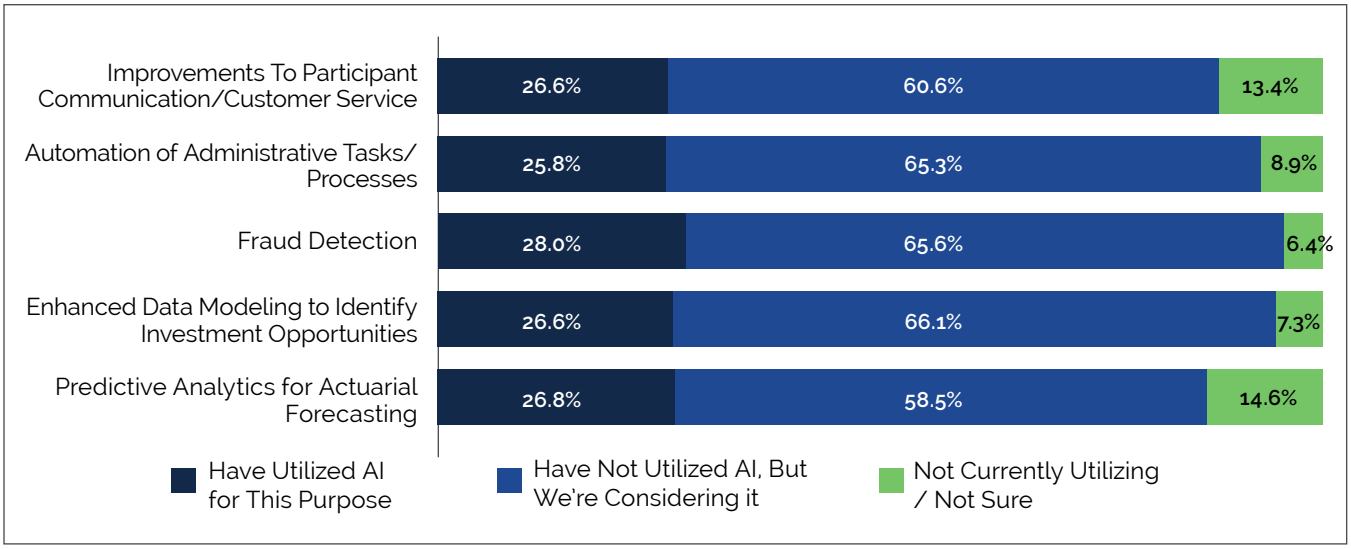
Use of Artificial Intelligence

While pensions are taking a cautious approach to AI adoption, the pace has picked up significantly in the past year. Among 2025 respondents, 35.6% report having implemented AI for at least one purpose. Across specific operational areas, roughly one-quarter of systems report current AI utilization, while a majority indicate they are actively considering AI applications in several key functions.

AI use is most frequently reported in fraud detection/prevention (28.0%), predictive analytics for actuarial forecasting (26.8%), participant communication/customer service (26.0%), enhanced data modeling for investment opportunities (26.6%), and automation of administrative tasks (25.8%). In each of these areas, between 58% and 66% of respondents report that they are considering AI applications.

For comparison, the year before only 3% of respondents indicated having used AI for fraud detection/prevention, 2% for predictive analytics for actuarial forecasting, 12% for participant communication/customer service, 3% for enhanced data modeling for investment opportunities, and 11% for automation of administrative tasks.

Figure 36: AI Use Cases

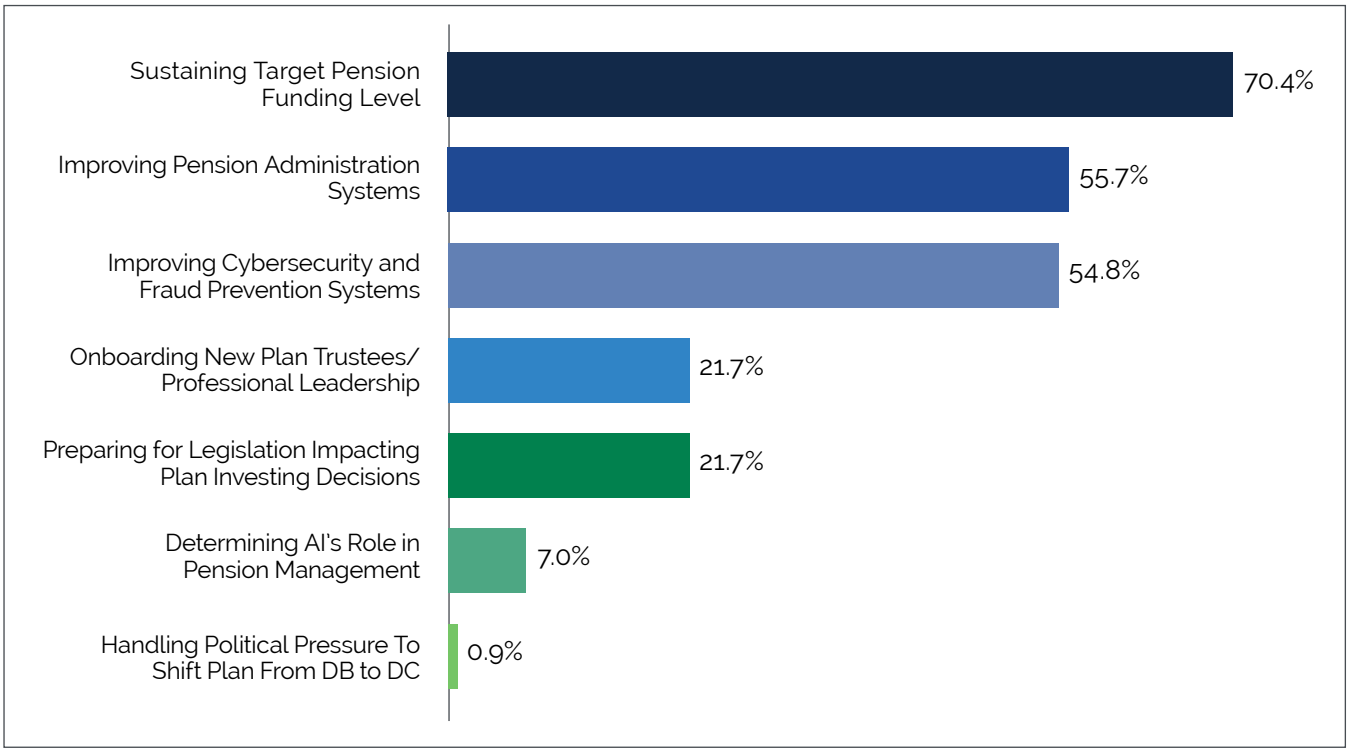


AI adoption across use cases among 2025 respondents (n=149; item-level denominators vary). Overall, 35.6% of systems report implementing AI for at least one purpose, and a majority are considering AI applications across several operational areas.

Priorities for 2026

Asked to indicate which topics responding systems see as their top three priorities for the year ahead, sustaining funding levels emerged as the leading concern, cited by 70.4% of respondents, followed by improving pension administration systems (55.7%) and cybersecurity and fraud prevention (54.8%). Additional priorities include onboarding new board members and staff (21.7%), responding to legislation (21.7%), determining AI's role (7.0%), and managing political pressure (0.9%).

Figure 37: Priorities for 2026



Top priorities identified by 2025 respondents (n=115; respondents selected up to three). Sustaining funding levels leads (70.4%), followed by improving administration systems (55.7%) and cybersecurity (54.8%).

Appendix: Number of Observations (n) per Figure per Fiscal Period

The table below provides the number of responding plans or systems for each table and figure displaying results by fiscal year-end period.

Figure	Description	2021.1	2021.2	2022.1	2022.2	2023.1	2023.2	2024.1	2024.2	2025.1	Total N
Fig 8	Distribution of Systems by Fiscal Year-End Period	73	79	103	73	102	83	77	64	49	707
Fig 9	Discount Rate Trends	72	77	103	71	102	83	77	63	49	697
Fig 10	Inflation Assumption Trends	72	77	103	71	102	83	77	63	49	697
Fig 11	Investment Smoothing Periods	62	66	93	60	91	67	63	51	45	598
Fig 12	Amortization Periods	62	66	88	59	89	66	57	50	34	571
Fig 14	Amortization Methods	66	69	94	60	93	73	63	55	45	618
Fig 16	Asset Allocation Trends	40	56	63	51	69	57	49	54	46	485
Table 1	Actual Asset Allocation by Specific Asset Class	40	56	63	51	69	57	49	54	46	485
Fig 17	Average Investment Returns (Net of Fees) by Time Period	72	77	103	71	102	83	77	63	49	697
Fig 18	One-Year Equity Returns	50	59	81	51	75	52	56	46	42	512
Fig 19	One-Year Fixed Income Returns	50	58	75	48	68	51	54	45	40	489
Fig 20	One-Year Alternative Investment Returns	55	57	78	51	79	51	56	46	42	515
Fig 21	Contribution Rates	65	68	96	65	93	76	65	58	45	631
Fig 25	Investment and Administrative Expenses (in Basis Points)	59	53	78	56	82	61	58	49	38	534
Fig 27	Average Funded Ratio	68	72	98	69	93	76	70	59	47	652
Fig 28	Funded Ratio by Whether System Received Full Actuarially Determined Contribution	67	66	92	67	92	76	69	57	46	632

Glossary of Key Terms

This glossary provides definitions for key terms used throughout this report to help readers understand pension-related concepts.

Financial Terms

Actuarially Determined Contribution (ADC): The annual contribution amount calculated by actuaries as necessary to fund promised pension benefits over time.

Amortization: The gradual payment of unfunded pension liability over a predetermined number of years, similar to paying off a mortgage. Both open (rolling) and closed (fixed) amortization methods are recognized actuarial practices governed by state laws and professional standards.

Basis Points (bps): A unit of measurement for fees and returns; 100 basis points equals 1% (e.g., 65 bps = 0.65%).

Discount Rate: The assumed long-term rate of investment return used to calculate the present value of future pension obligations.

Funded Ratio: The percentage of pension liabilities covered by current assets, calculated as (assets ÷ liabilities × 100).

Plan Types

Defined Benefit (DB) Plan: A retirement plan where benefits are predetermined based on factors like salary and years of service; the employer bears investment risk.

Defined Contribution (DC) Plan: A retirement plan where contribution amounts are fixed but benefits vary based on investment performance; the employee bears investment risk.

Hybrid/Combination Plan: A plan that includes both defined benefit and defined contribution elements.

Investment Terms

Alternatives: Non-traditional investments including private equity, hedge funds, real estate, infrastructure, and commodities.

Domestic Investments: Investments in U.S.-based securities only.

Global Investments: Investments in securities worldwide, including both U.S. and international markets.

International Investments: Investments in securities outside the United States only (excludes U.S.).

Investment Smoothing: A standard actuarial technique that recognizes investment gains and losses gradually over 3–5 years rather than immediately, producing stable contribution requirements for employers while maintaining long-term funding discipline. Recommended by the Government Finance Officers Association (GFOA) and used by pension systems worldwide.

Statistical Terms

Average (Mean): The sum of all values divided by the number of values.

Median: The middle value when all values are arranged in order; often more representative than the mean for skewed distributions.
Other Terms

Fiscal Year: A 12-month accounting period that may differ from the calendar year (e.g., July 1–June 30).

Fiscal Period: For this study, fiscal periods are grouped by semester: "X.1" = fiscal years ending February through July; "X.2" = fiscal years ending August through January (with January assigned to the previous year).

COLA (Cost of Living Adjustment): An annual increase in pension benefits to help retirees maintain purchasing power against inflation.

Serving Public Pensions Since 1941

1201 New York Ave., NW, Suite 850
Washington, DC 20005
202-601-2445
info@ncpers.org
www.NCPERS.org