NCPERS 2015 Survey: Public Pension Administrators Confident of Future as Plans’ Financial Strength Grows

Plans Adopting Changes to Ensure Long-Term Sustainability

Washington, D.C. – Public pension plan administrators are increasingly cognizant of and confident in their ability to sustain their funds and address future retirement issues, according to a new survey by the National Conference on Public Employee Retirement Systems (NCPERS).

The 2015 NCPERS Public Retirement Systems Study also shows continuing financial strength for public funds, with healthy long-term investment returns and increased average funded ratios. At the same time, funds tightened their belts, with a significant numbers lowering their assumed rates of return and requiring employees to foot more of the bill.

“Our annual survey changes shows that public pension plans are committed to ensuring long-term sustainability for their stakeholders, and are making tough decisions when necessary,” said NCPERS Executive Director and Counsel Hank H. Kim, Esq. “The survey also underscores that defined benefit public pension plans are an economical path to retirement security for millions of Americans.”

Partnering with Cobalt Community Research, NCPERS surveyed 179 state, local and provincial government pension funds with more than 13.5 million active and retired members and with assets exceeding $2.0 trillion. The majority – 68 percent – were local pension funds, while 32 percent were state pension funds. The data, collected in July, August, and September 2015, represents the most up-to-date information available.

The major findings of the 2015 NCPERS Public Retirement System Study include:

• Confidence continues to grow about readiness to address future retirement trends and issues. Respondents’ overall confidence rating measured 8.0 on a 10-point scale, up from 7.9 in 2014 and 7.4 in 2011.

• Funds experienced an increase in average funded level – 74.1 percent, up from 71.5 percent in 2014. This is solidly above the 70 percent funded level that Fitch Ratings considers to be adequate. Three factors contributed to the change: average one-year investment returns of 11 percent, lower amortization periods, and distance from the 2008 market crash, which eroded actuarial assets of funds using a five-year investment smoothing period.
• Funds continue to produce healthy investment returns: 11.2 percent for one-year investments (compared to 14.5 percent in 2014); 10.7 percent for three-year investments (up from 10.3 percent last year); 11.2 percent for five-year investments (up from 9.8 percent last year); 7.0 percent for 10-year investments (versus 7.6 percent), and 8.5 percent for 20-year investments (up from 8.1 percent last year.) Funds continue to offset sharp losses from the Great Recession in 2008 and 2009 by strengthening investment discipline. Signs point to long-term improvement in public retirement systems’ funded status.

• Public funds continue to be the most cost effective mechanism for retirement saving. The total average cost of administering funds and paying investment managers declined to 60 basis points, versus 61 a year earlier. According to the Investment Company Institute’s 2015 Investment Company Fact Book, the expenses of most equity funds average 70 basis points and hybrid funds average 78 basis points.

  “Lower expenses mean that public retirement funds can provide a higher level of benefit to members than most mutual funds,” Kim said. “They also produce greater economic impact for the communities those members live in.”

• Funds continue to tighten governance and oversight practices. For example, they were more ready to communicate GASB 68 changes with their governing board and community (21 percent increase), more likely to receive a Government Finance Officers Association Award of Excellence (14 percent increase), and more likely to receive an independent annual investment performance evaluation.

• Income used to fund public pension programs came from member contributions (7 percent); employer (government) contributions (19 percent) and investment returns (75 percent). The totals exceed 100 percent due to rounding.

  “The survey demonstrates that the majority of public pension plans are soundly and efficiently operated in the best interests of current and future retirees, and continue to rebound from the historic market downturn of 2008 to 2009,” Kim said. “Most are adequately funded, and their ratios are marching in the right direction. Public pension plans have worked hard to keep their costs low, and they are adapting to new political, social, and market realities to ensure that they are sustainable for the long run.”

  “Policymakers, taxpayers and public employees should take heart in the knowledge that public pension plans are soundly positioned to sustain retirees and the communities they live in for years to come,” Kim added.

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About NCPERS

The National Conference on Public Employee Retirement Systems (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 $3.7 trillion in pension assets. Founded in 1941, NCPERS is 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.
About Cobalt Community Research

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