Who We Are
Pensions provide the most secure retirement for our teachers, nurses, firefighters and other public employees.
What are the main causes of underfunding in state & local plans?

- Inadequate Contributions
- Poor Investment Returns
- Changing Actuarial Assumptions
- Lingering Effects from the Recession
Inadequate Contributions: Not Paying the ARC

- State plans reported receiving 92% of ARC in 2015
- Local plans reported receiving 94% of ARC in 2015
Poor Investment Returns

But stronger investment returns recently...

• Oklahoma Teachers Retirement System: 21%
• Texas Teachers Retirement System: 12.9%
• North Carolina Retirement Systems: 13.5%
• Oregon Public Employee Retirement System: 15.3%
Changing actuarial assumptions:
lower investment returns,
longer mortality
Lingering Effects from the Recession
2018 Legislative Updates

• New Hampshire
• Oklahoma
• Colorado
• Minnesota
• Texas
• Kentucky
• New Jersey
Who to Watch For

- Pew Research Center
- Moody’s
- The Reason Foundation
- Retirement Security Initiative
NPPC Resources

/ProtectPensions

ProtectPensions.org
Defined Benefit Blog

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Public Pension Landscape and Trends

Alex Brown
Research Manager
National Association of State Retirement Administrators

NCPERS Public Pension Funding Forum
September 2018
Public Pensions in the US

• ~14.5 million active (working) participants
  – 10 percent of the nation’s workforce
• ~11 million retirees and their survivors receive $295 billion in benefits annually
• $4.2 trillion in assets as of Q1 2018
• Annual contributions = $200 billion
  – Three-quarters ($145 billion) from employers
  – One-quarter ($55 billion) from employees
• Of 5,000+ public retirement plans, the largest 75 account for 80+ percent of assets and members
• Aggregate funding level = ~72%

U.S. Census Bureau, Public Fund Survey
Change in Aggregate Public Pension Funding Level, FY 01 to FY 17
Median Change From Prior Year in Actuarial Value of Assets and Liabilities
Distribution of Public Pension Funding Levels, FY 17

Median = 73.4%

Size of bubbles is roughly proportionate to size of plan liabilities

Public Fund Survey Jul-18
Headwinds Facing Public Pension Plans

• Declining investment return assumptions
• Slow payroll growth:
  – Sluggish hiring
  – Tepid salary growth
• Higher required costs
• Updated mortality assumptions to reflect longer life expectations
• Plan maturity
Relative Change in Private and State and Local Employment, 07-18

Data final as of July 2018

U.S. Bureau of Labor Statistics
Annualized Quarterly Change in Wage and Salary Costs for Private and State and Local Workers, 01-18
Median Employee and Employer Contribution Rates for General Employees and Teachers, FY 02 to FY 17
Median Cash Flow, FY 01 to FY 17

Public Fund Survey
Jul 2018
Tailwinds Supporting Public Pension Plans

• Stabilizing investment returns
• Stronger employer efforts to pay contributions
• More aggressive liability amortization strategies
  – More closed periods
  – Shorter periods
• More conservative benefit levels = lower long term costs
• Slow improvement in hiring and salary growth
The typical public pension funding model is highly reliant on investment earnings.
Investment Returns for Periods Ended 6/30/17 and 12/31/17

Callan Associates
Median and Avg. ARC/ADC Experience for 112 Plans, FY 01-FY 16

“State and Local Government Contributions to Statewide Pension Plans: FY 16,” NASRA 2018
More Aggressive Amortization of Unfunded Liabilities

![Graph showing the comparison of closed and open plans.](image)

*Public Plans Data, Public Fund Survey*
Change in Actives and Annuitants
FY 01 to FY 17
Median Annual Change in Payrolls FY 02 to FY 17
Where Will Public Pension Funding Conditions Go From Here?

• Many plans will continue to struggle with key actuarial challenges
  – Lower investment return assumptions still to be incorporated
  – Sub-par investment returns, particularly in 2015 and 2016, yet to be fully incorporated
  – Rates of public sector hiring and salary growth are not likely to return to historic norms soon
  – Some employers still not contributing the full ADC

• The size of the challenge varies widely
  – Some plans have relatively small UALs and affordable costs
  – Other plans have UALs that are quite large and burdensome
• alex@nasra.org
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[Graph showing the annualized quarterly change in wage and salary costs for private and government workers from 2001 to 2018, with data as of Q2 2018.]
Median Employee and Employer Contribution Rates for General Employees and Teachers, FY 02 to FY 17

Public Fund Survey Jul-18
Median Cash Flow, FY 01 to FY 17

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