NCPERS 2013 Survey: Public Pension Plans Report
Increasing Confidence, Lower Costs, Growing Returns

For First Time, Annual Survey Includes Non-NCPERS Plans

Washington, DC – Public pension plan administrators are increasingly confident about the sustainability of their funds and their readiness to address future retirement issues, according to a new survey by the National Conference on Public Employee Retirement Systems (NCPERS).

The 2013 NCPERS Public Retirement System Study also shows continuing financial strength for public funds, with continuing improvement in long-term investment returns.

“Once again, our annual survey provides convincing evidence that the vast majority of public pension plans are financially sound, well-funded and sustainable for the long term,” said NCPERS Executive Director and Counsel Hank Kim, Esq. “It also demonstrates that defined benefit public pension plans are the least costly way to ensure retirement security for American workers.”

Partnering with Cobalt Community Research, NCPERS collected and analyzed the most current data available on funds’ fiscal conditions and steps they are taking to ensure fiscal and operational integrity. NCPERS surveyed 241 state and local government pension funds with more than 12.4 million active and retired members and with assets exceeding $1.4 trillion. The majority – 82 percent – were local pension funds, while 18 percent were state pension funds.

For the first time, NCPERS’ annual survey included public pension funds that are not members of NCPERS. More than one-third of the responding plans – 39 percent – do not belong to NCPERS.

The major findings of the 2013 NCPERS Public Retirement System Study include:

• Despite a still-sluggish economy and volatile markets, confidence continues to grow among public pension plan administrators about their ability to address future retirement trends and issues. Respondents provided an overall confidence rating of 7.8 on a 10-point scale, up slightly from 7.7 in 2012.
• Despite market declines in recent years, plans’ returns on long-term investments continue to rise. Returns on three-year investments were 10 percent, up from four percent in 2012; returns on 10-year investments were seven percent, up from five percent in 2012, and returns on 20-year investments remained essentially steady, at 8 percent this year compared to 9 percent in 2012.

• The overall average expense to administer public pension plans and to pay investment manager fees decreased significantly – from the 2012 level of 73.1 basis points to 57.3 basis points (100 basis points equals one percentage point).

  “According to the Investment Company Institute, the expenses for most equity and hybrid mutual funds average 77 basis points,” Kim said. “Funds with lower expenses provide a higher level of benefits to members and, as a consequence, produce a higher economic impact for the communities they live in than most mutual funds.”

• Public pension plans continued to adopt systemic and operational reforms to ensure plan sustainability – including lowering the actuarial assumed rate of return, raising benefit age and service requirements, tightening retiree return to work rules, shortening amortization periods and lowering the number of employees receiving health care benefits.

• Overall, funds reported domestic equity exposure at 35 percent, down slightly from 36 percent in 2012. International equity exposure remained steady at 17 percent. Over the next two years, funds plan to reduce domestic equity slightly and increase allocations to international equity, domestic fixed income, private equity and hedge fund investments.

• The average funded level of all responding public pension plans was 70.5 percent. Among NCPERS member plans, the average funded level was 71.5 percent, which is lower than the 74.9 percent figure in 2012. The average funded level for non-NCPERS plans was 69 percent. The two most significant reasons for the decline were lowering the actuarial assumed rate of return and market volatility.

  “This modest decline in funding comes as no surprise, as funds continue to smooth in the 2008-2009 down market,” said Cobalt’s William SaintAmour. “And many funds have also reduced their long-term investment assumptions, which will cause a modest drop in average funding figures.”

  “The data we collected – the most current data available – shows public pension funds are continuing their strong recovery from the historic market downturn of 2008-2009,” said Hank Kim, Esq., NCPERS’ Executive Director and Counsel. “The survey shows public pensions are managing their assets efficiently and effectively, making plan design changes to ensure sustainability, continuing to implement sound operational controls and are expressing strong and growing confidence about their readiness to address the challenges ahead.”

  “Ours is the most comprehensive survey of public pension plans, using the most current data,” Kim said. “What it tells us is that despite the hyperbole of some high-profile politicians, public pension plans are not in crisis. To the contrary – they are alive and thriving, more than adequately funded, inexpensive to operate and sustainable for the long-term. Policymakers, taxpayers and public employees can have confidence that public pension plans will be providing
retirement security for covered workers – and thus making positive economic contributions to
the communities they live in – for many years to come.”

About NCPERS

The National Conference on Public Employee Retirement Systems (NCPERS) is the
largest trade association for public sector pension funds, representing more than 550 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 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, MI.

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