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Contacts: Debra Cope
dcope@commcoreconsulting.com
(202) 468-3814

Nick Peters
npeters@commcoreconsulting.com
(202) 659-4177 (office)
(323) 646-2651 (mobile)

Public Pensions Put the Squeeze on Fees in 2016, Besting Mutual Funds

Annual NCPERS Study Also Shows Steady Improvement in Funding Levels

WASHINGTON, D.C. -- Public retirement systems are improving cost-efficiency, increasing funding ratios, and fine-tuning benefits to strengthen their capacity to serve retired public servants for years to come, according to a sweeping annual study by the National Conference on Public Employee Retirement Systems.

The study underscores the many ways in which pension trustees, managers, and administrators are working to ensure funds' fiscal and operational integrity, according to Hank H. Kim, executive director and chief counsel of NCPERS.

"Public pension funds have proved themselves to be durable, reliable investments for more than a century, but they are not resting on their laurels," Kim said. "Their commitment to constant improvement is securing an even brighter future for the millions of public servants who participate in pension plans."

The *2016 NCPERS Public Retirement Systems Study* draws on responses from 159 state, local and provincial government pension funds with more than 10 million active and retired memberships and assets exceeding $1.5 trillion. The majority – 77 percent – were local pension funds, while 23 percent were state pension funds. NCPERS conducted the sixth annual study in September, October, and November 2016 in partnership with Cobalt Community Research.

Among the key findings:

- During 2016, pension funds squeezed down the cost of administering funds and paying investment managers to 56 basis points, or 56 cents per $100 invested, versus 60 basis points in 2015. This is well below the average fee of 68 basis points for stock mutual funds and 77 basis points average for hybrid mutual funds, which include stocks and bonds. "By controlling fees, pension funds continue to demonstrate that they can provide a higher level of benefits to members than most mutual funds do," Kim said.
- Average funding levels – the value of the assets in the pension plan divided by an actuarial measure of the pension obligation --climbed for the third year in a row. Funding

levels reached 76.2 percent in 2016, up from 74.1 percent in 2015 and 71.5 percent in 2014.

- Even as interest rates began to climb, funds continued to tighten assumptions. Almost 40 percent of responding funds said they have reduced their actuarial assumed rate of return, and nearly 30 percent more said they are considering doing so in the future.
- Funds also continued to put pressure on benefits. More than 30 percent of respondents said they have increased employee contributions and raised benefit age or service requirements.
- Funds experienced healthy three-year, five-year and 20-year returns during 2016, close to or exceeding 8 percent. Aggregated 10-year returns came in at 6.2 percent, while one-year returns averaged 1.7 percent. (The one-year figure ticked up to 2.4 percent for plans with fiscal years ending in December.) “All signs point toward continued improvement in increasing public retirement systems’ funded status,” Kim said.

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 more than $3.5 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.

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