Southern Legislative Conference

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Overview

- Public Pension Environment in 2021
- Key Trends
- Spotlight on Southern States
- Policy Options
Overview

• Public Pension Environment in 2021
• Spotlight on Southern States
• Key Trends
• Policy Options
  – Reduce pension debt over time
  – Adopt and follow policies to plan for economic uncertainty
  – Examine the “Habits of Highly Successful Retirement Systems”
Public Pension Environment in 2021

• State pensions are over 80% funded for the first time since before the Great Recession.
• This is the result of a decade of improvement in fiscal discipline, coupled with a once in a generation year in the stock market.
• At the same time, **there is remaining uncertainty around economic recovery**, and long-term growth is expected to be lower.
Public Pension Environment in 2021

Funding Projected to Reach Highest Level in Over a Decade as of 6/30/21

[Graph showing assets, liabilities, and funded ratio over years 2008-2021, with projected data for 2021]
Stock Market Volatility During the Pandemic

Federal Stimulus fuels market recovery and rally

- Up 4% in FY 2020
- Down 34% peak-to-trough (Feb-Mar 2020)
- More than 90% increase from March bottom
Once in a Generation Market Rally

Returns of 25%+ in fiscal year 2021 boost state pensions by more than half a trillion dollars

US Public Pension Fund Returns by Fiscal Year
Outlook for Lower Growth and Investment Returns

Historical and Projected Economic & Investment Growth

- **Nominal GDP growth**
  - Historical: 5.6%
  - Future (pre-COVID-19): 4.0%
  - Future (post-COVID-19): 3.7%

- **Core bond returns**
  - Historical: 6.5%
  - Future (pre-COVID-19): 3.6%
  - Future (post-COVID-19): 2.5%

- **Total pension plan returns**
  - Historical: 8.0%
  - Future (pre-COVID-19): 6.4%
  - Future (post-COVID-19): 6.0%
**Improved Fiscal Discipline**

State Contributions to Pensions Have Increased at an 8% annualized rate since 2009

State & SLG Pension/OPEB Contribution Rates (% of OSR)
Growing Budget Pressure
State contributions to pensions have grown twice as fast as revenue

State & SLG Pension/OPEB Contribution Rates (% of OSR)

State
State & Local
Spotlight on Southern Status – 2019 Funded Status

Funded Ratios 2019

[Map showing funded ratios for different states in the Southern region of the United States, with varying shades indicating the percentage of funded status.]

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Pension Trends

Recently:
• Ongoing reforms (e.g. Texas, Kentucky)
• Consideration of COLA benefits (Alabama, Arkansas, Georgia, North Carolina)
• Increased attention to ESG issues (West Virginia)

Over 5-10 Years:
• Growing use of variable benefit and hybrid models
• Risk assessment and stress test reporting requirements (North Carolina)
• Proven success of model retirement systems (Tennessee)
Planning for Uncertainty
Growing Use of Variable Benefit and Hybrid Plans

Note: All data is preliminary; a final version of this graphic will be published in a forthcoming Pew report. DB cost sharing includes cash balance plans.

Source: NASRA, “Significant Reforms to State Retirement Systems”, December 2018; Pew analysis of state employee and teacher plan documents
Planning for Uncertainty – Pension Stress Testing

Thirteen States have adopted reporting requirements targeted to government plan sponsors

Notes: *Budget officials and decision makers may include executive branch appointees, state treasurers, appropriations legislators and staff, and state comptrollers
What are the Habits of Highly Successful Retirement Systems?

1. They **provide a path to retirement security** across the workforce.

2. They fund pension in a way that’s **predictable and affordable**.

3. They **preserve equity from one generation to the next** by covering the full cost of pension benefits in each year they’re earned.

4. They adopt and follow risk assessment and management policies that provide a **plan for economic and demographic uncertainty**.

5. They ensure that **pension fund investments are expertly managed** and supported by policies and **practices that are fully transparent**.
Proven Models - Spotlight on Five States

Over 90% funded, predictable cost, and path to retirement security for workers

Plans Identified by Pew:

- South Dakota Retirement System
- Wisconsin Retirement System
- Tennessee – Public Employees Retirement Plan
- Nebraska – State and County Employees Pension Plans
- Utah Retirement System
Conclusion

• State pensions are over 80% funded for the first time since before the Great Recession
• Maintaining funding discipline and planning for uncertainty are key issues facing policymakers
• The proven practices of model retirement systems can help provide a blueprint for reform