

THE PEW CHARITABLE TRUSTS

Southern Legislative Conference

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The Pew Charitable Trusts**

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Overview

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

Overview

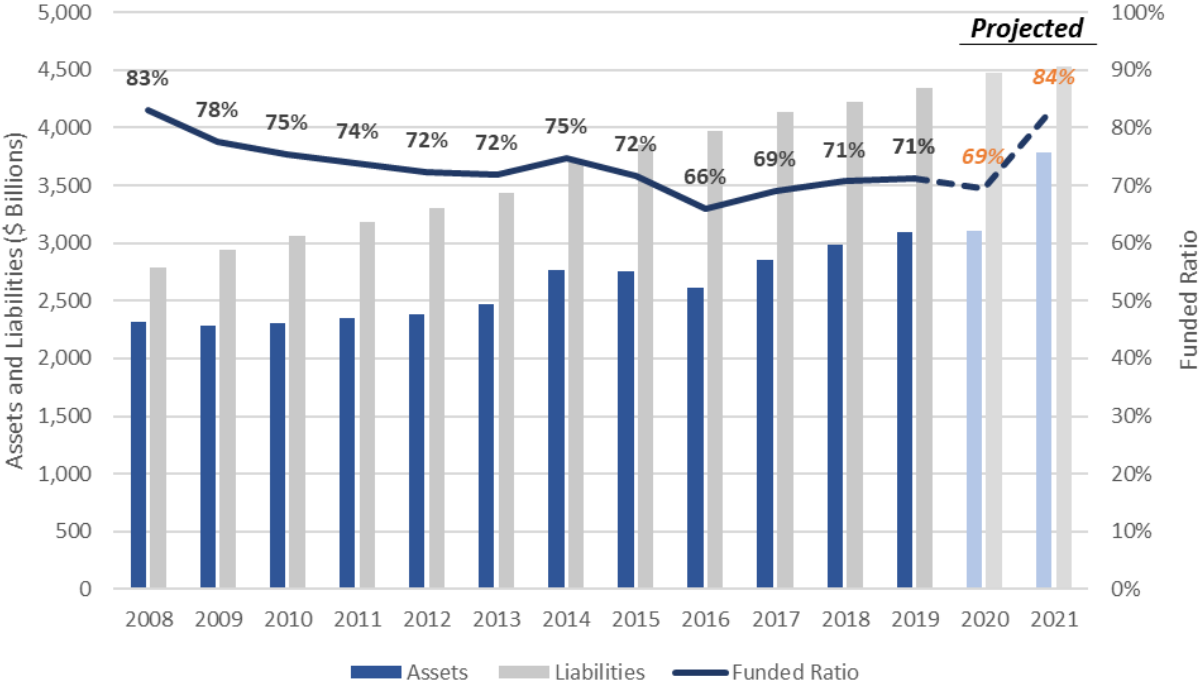
- Public Pension Environment in 2021
- Spotlight on Southern States
- Key Trends
- Policy Options
 - **Reduce pension debt over time**
 - **Adopt and follow policies to plan for economic uncertainty**
 - **Examine the “Habits of Highly Successful Retirement Systems”**

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

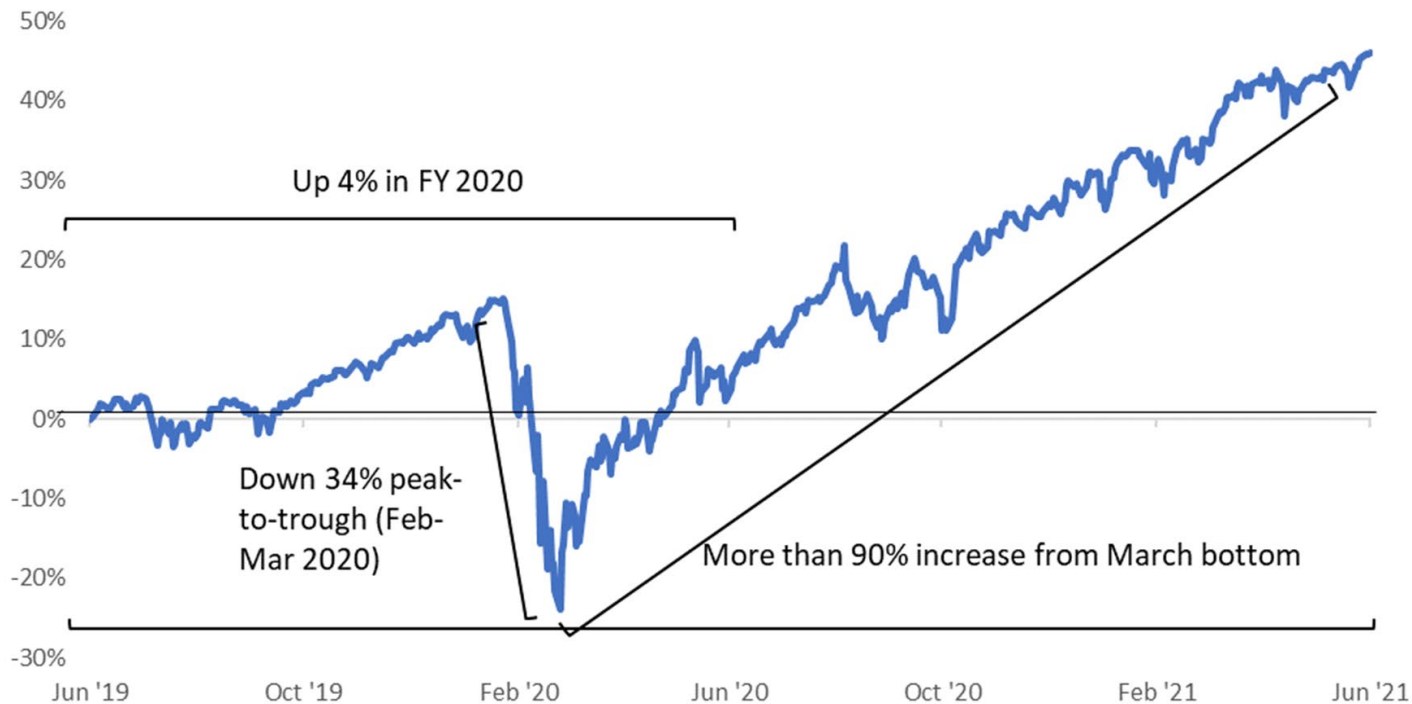
Public Pension Environment in 2021

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



Stock Market Volatility During the Pandemic

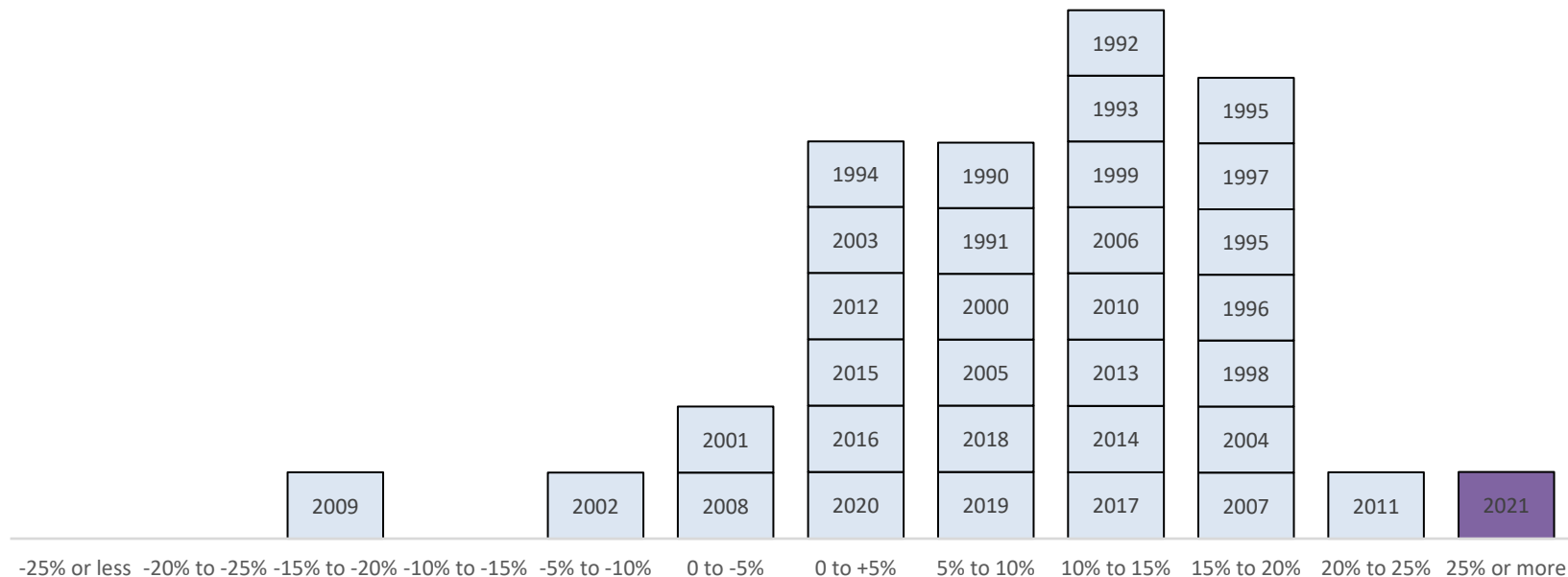
Federal Stimulus fuels market recovery and rally



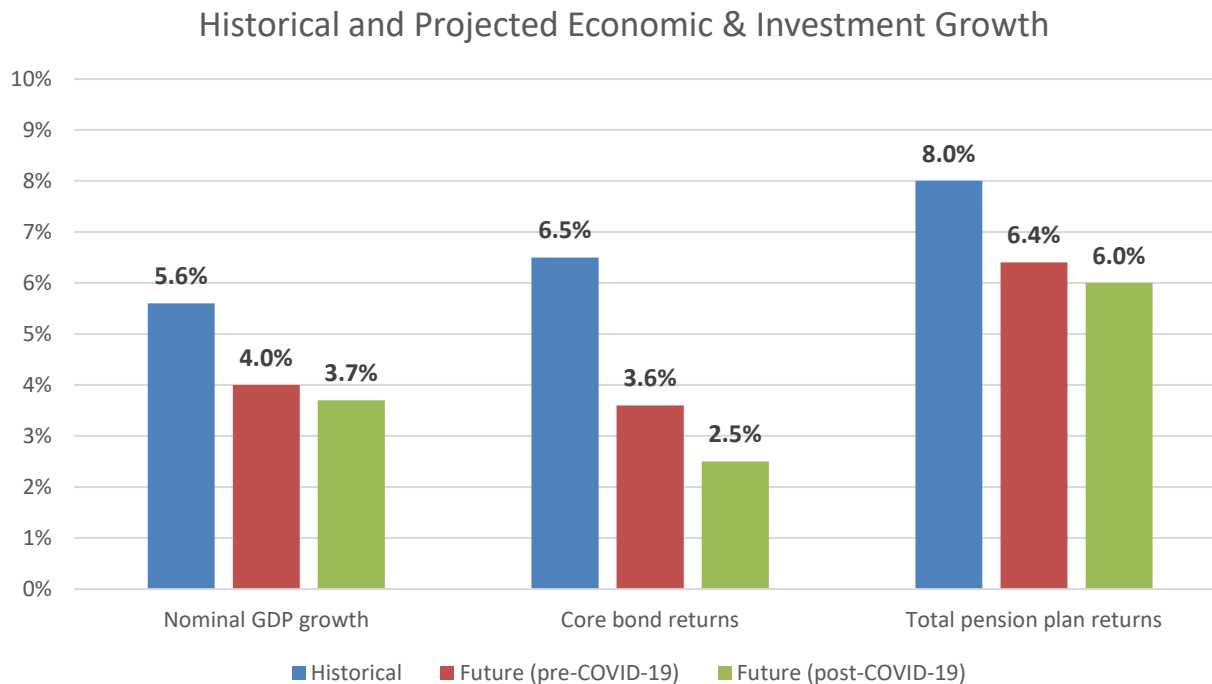
Once in a Generation Market Rally

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

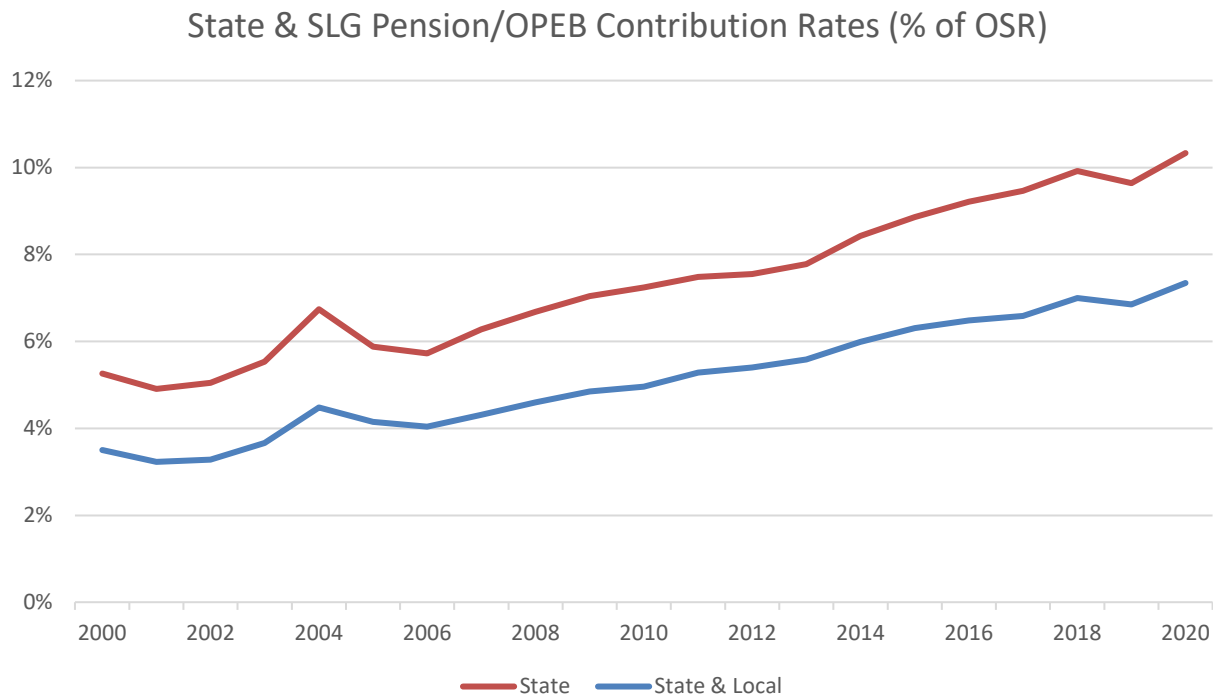


Outlook for Lower Growth and Investment Returns



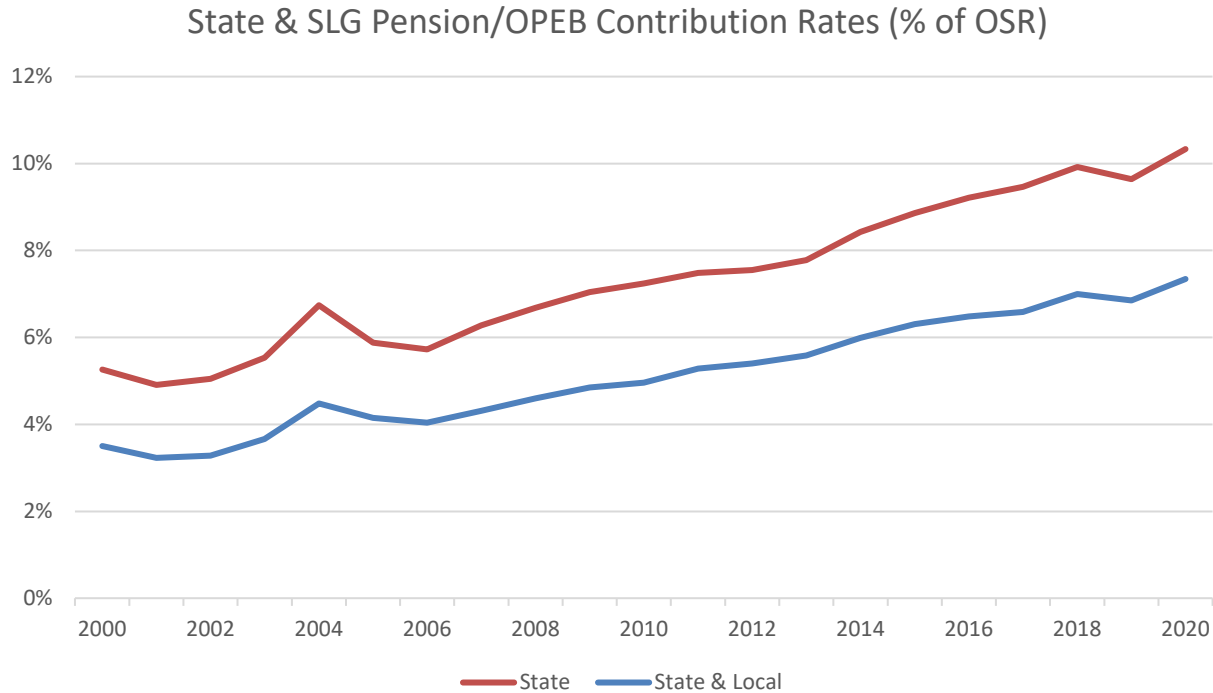
Improved Fiscal Discipline

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



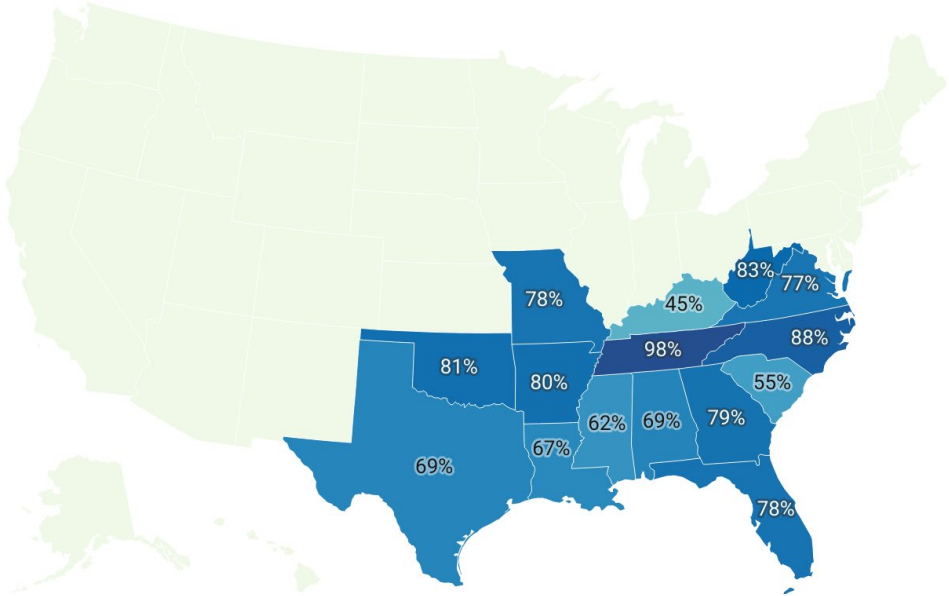
Growing Budget Pressure

State contributions to pensions have grown twice as fast as revenue



Spotlight on Southern Status – 2019 Funded Status

Funded Ratios 2019



Pension Trends

Recently:

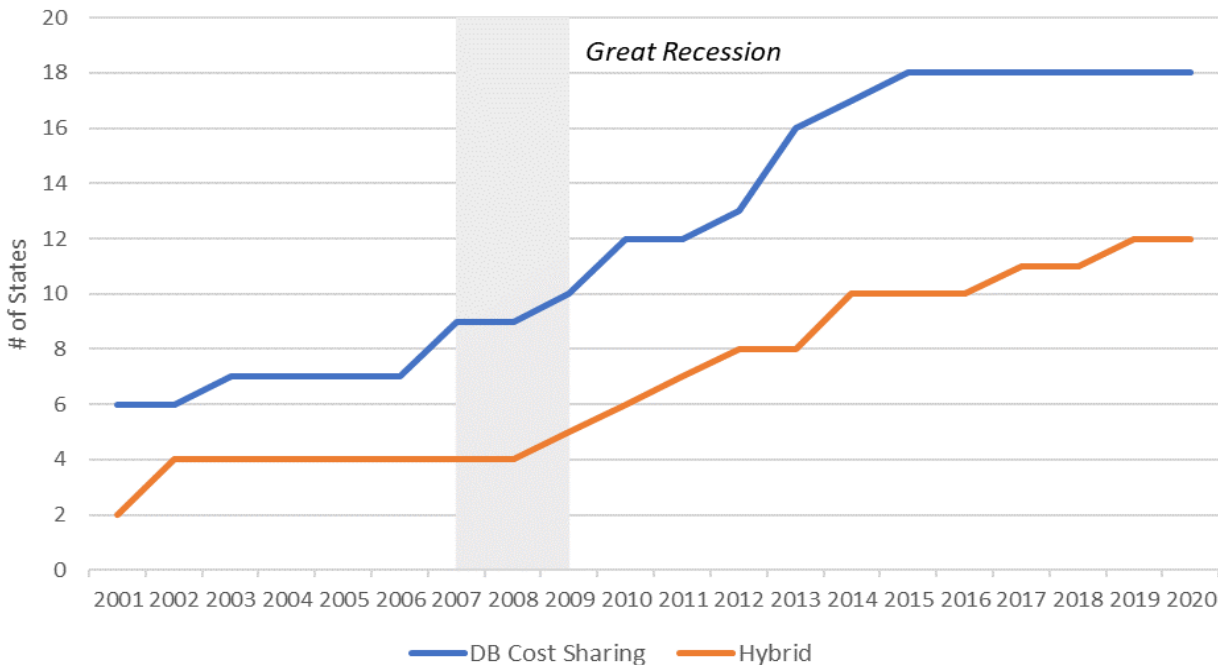
- Ongoing reforms (e.g. Texas, Kentucky)
- Consideration of COLA benefits (Alabama, Arkansas, Georgia, North Carolina)
- Increased attention to ESG issues (West Virginia)

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

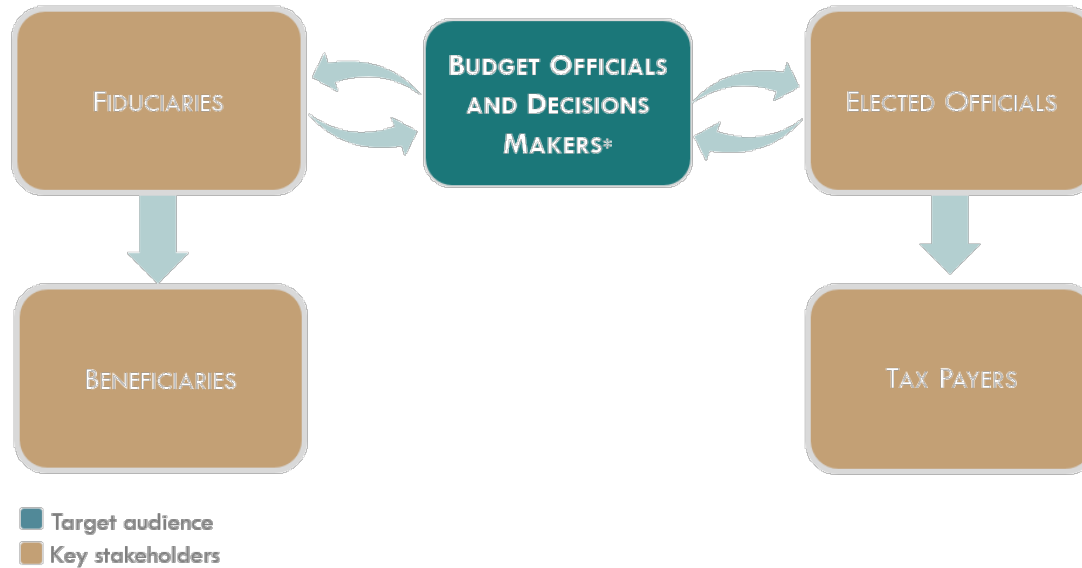


Note: All data is preliminary; a final version of this graphic will be published in a forthcoming Pew report. DB cost sharing includes cash balance plans.

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



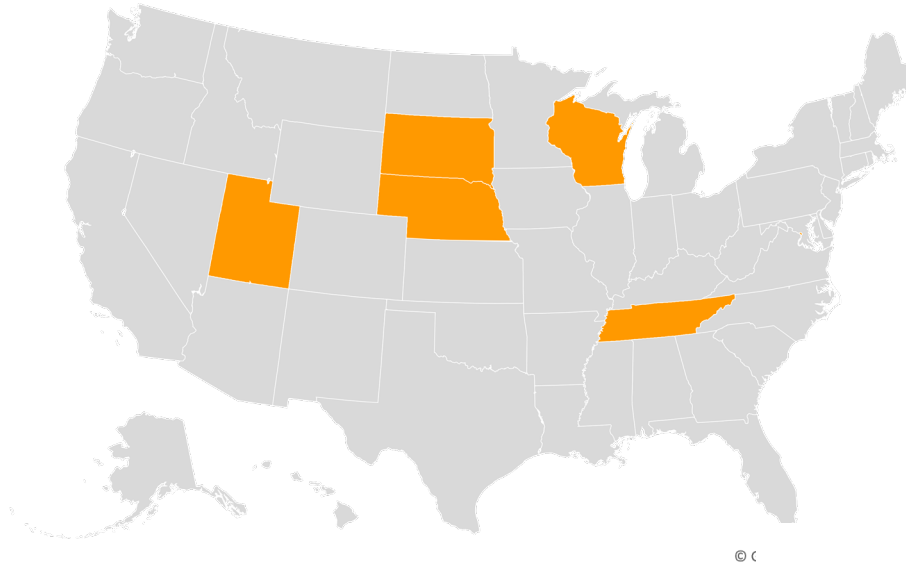
Notes: *Budget officials and decision makers may include executive branch appointees, state treasurers, appropriations legislators and staff, and state comptrollers

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