

A National Perspective of Public Pension Plans

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of State Retirement Administrators**

LAPERS
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Presentation Overview

- Overview of public pensions in the US and Louisiana
- Funding update
- Actuarial issues
 - Investment return assumptions
 - Inflation
 - Payroll growth
- Contribution trends



Public Pensions in the US

- \$5.4 trillion in assets as of FY 2022
- ~14.9 million active (working) participants
 - 10 percent of the nation's workforce
- ~12 million retirees and their survivors received \$326 billion in benefits in FY 22
- Annual contributions = \$283 billion
 - 78% (\$221 billion) from employers
 - 22% (\$62 billion) from employees
- Approximately 5.1 percent of aggregate state and local government spending goes to pensions
- Approximately one-quarter of public employees are outside Social Security
- Of 4,500+ public retirement plans, the largest 75 account for 80+ percent of assets and members

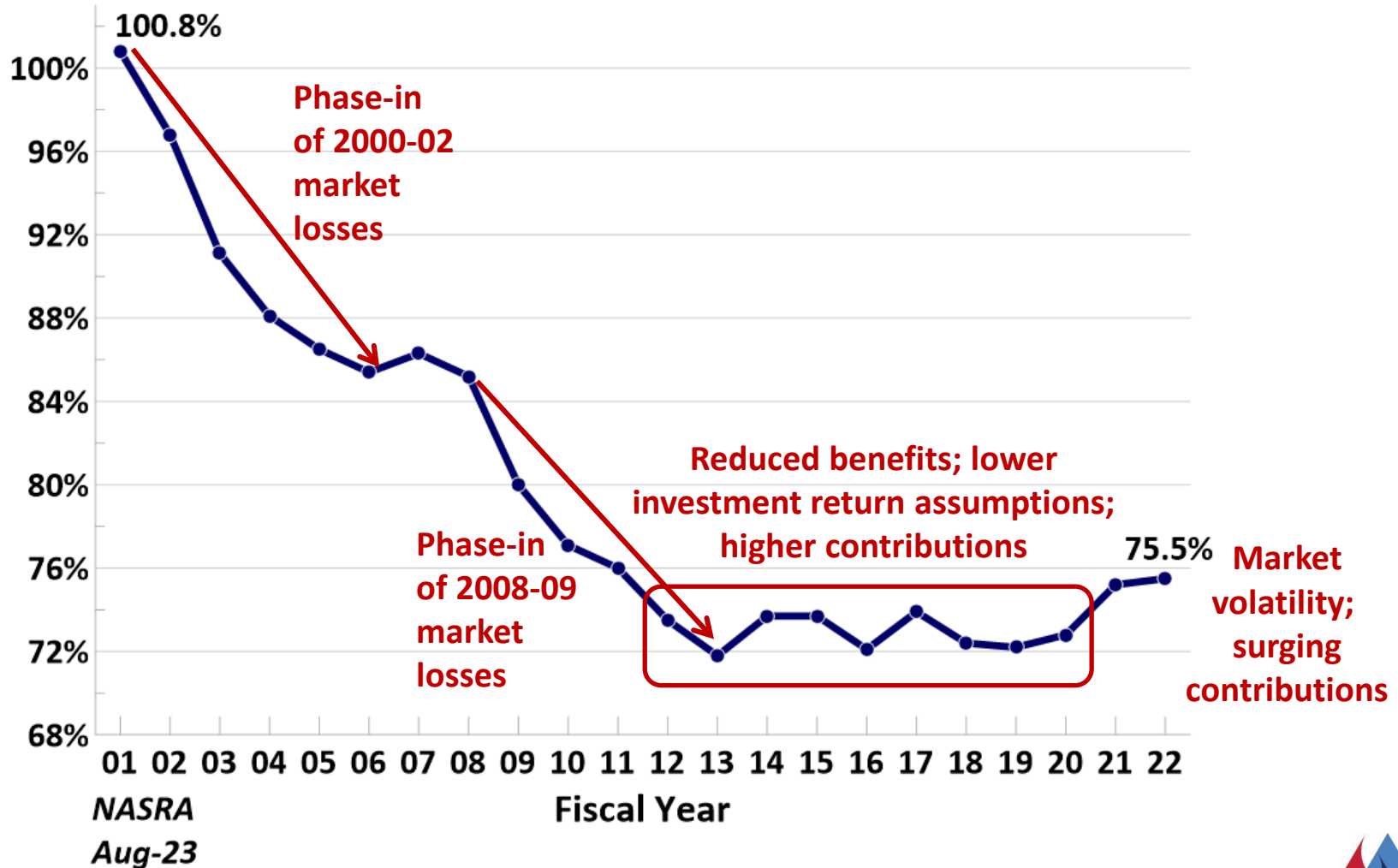


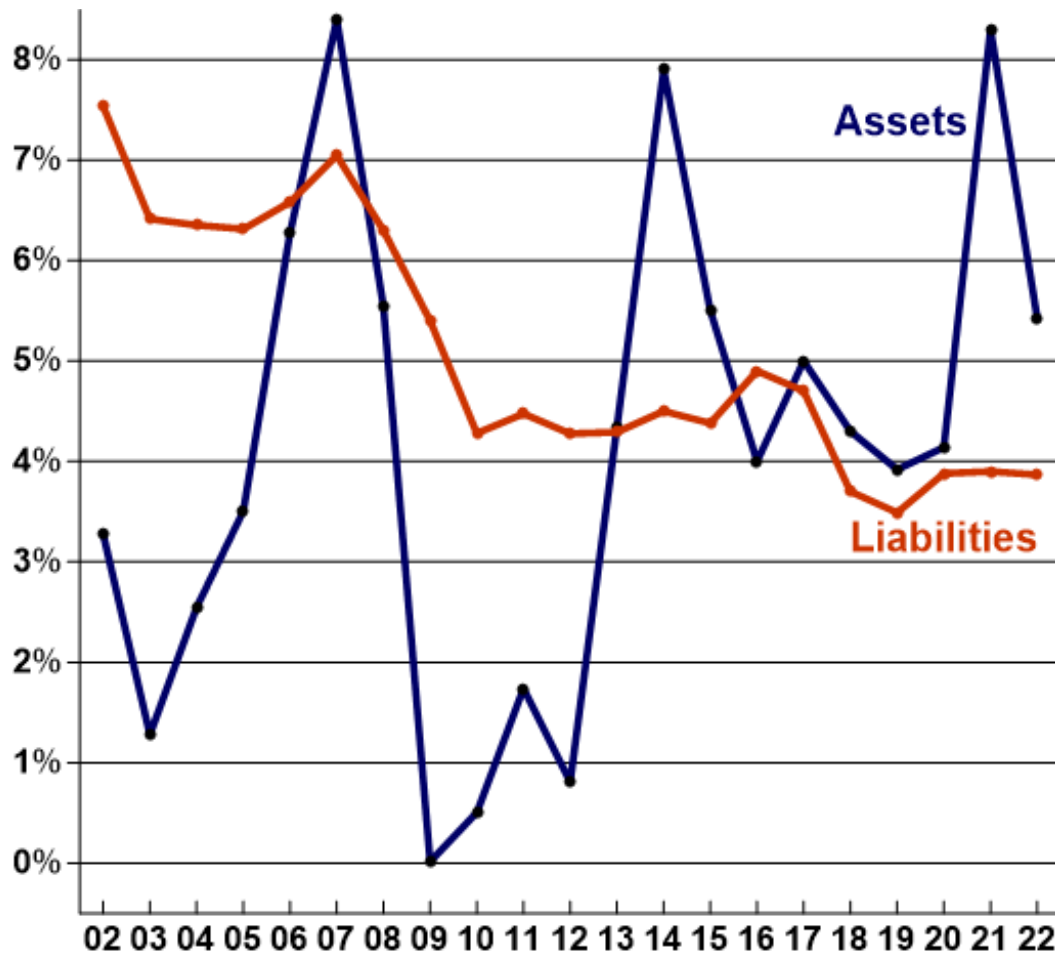
Public Pensions in Louisiana

- ~\$61 billion in assets
- ~196,000 active (working) participants
- ~191,000 retirees and their survivors received \$5.3 billion in benefits in FY 22
- Annual contributions = \$3.9 billion
 - 78% (\$3.1 billion) from employers
 - 22% (\$848 million) from employees
- Approximately 6.1 percent of spending in Louisiana goes to pensions
- 29 pension plans
- Most not covered by Social Security



History of Aggregate Public Pension Funding Level FY 01 to FY 22





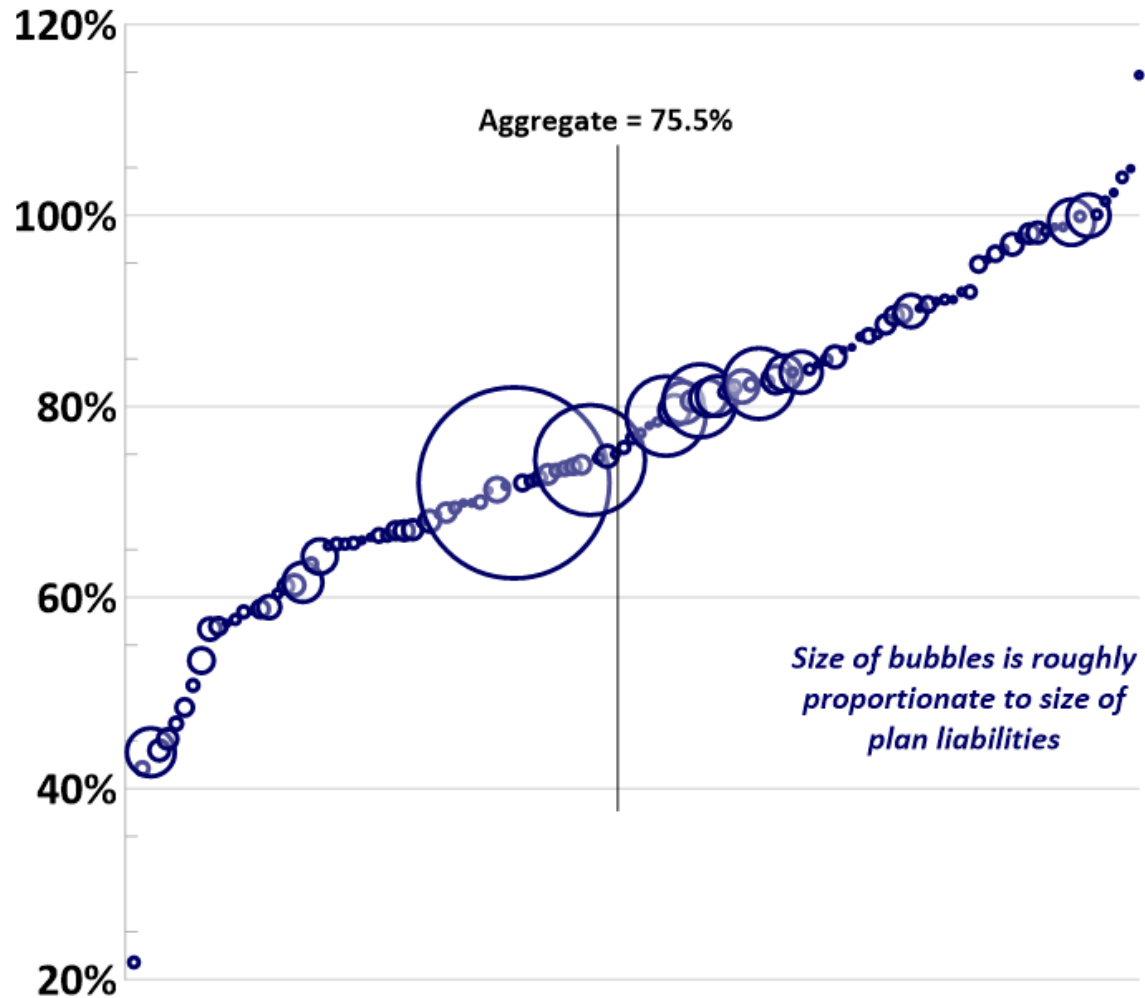
Public Fund Survey
Jul-23

Fiscal Year

Median Change From Prior Year in Actuarial Value of Assets and Liabilities



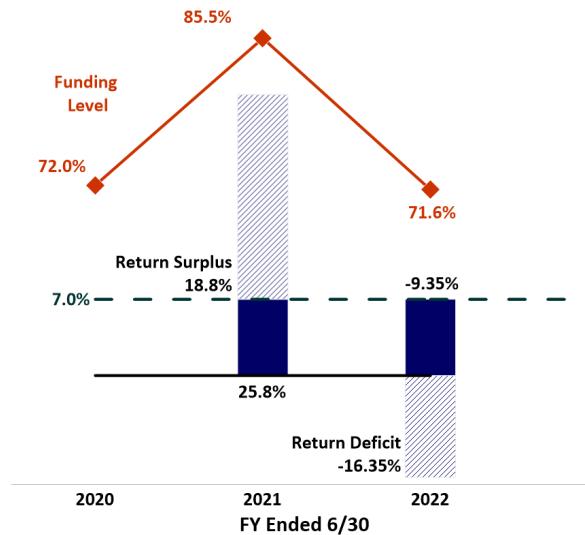
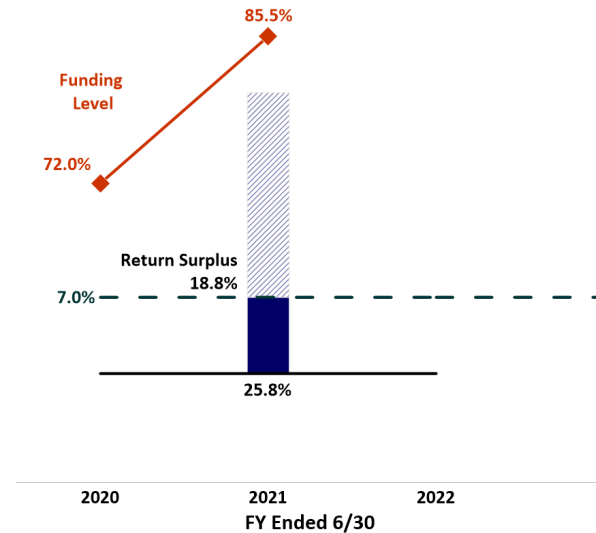
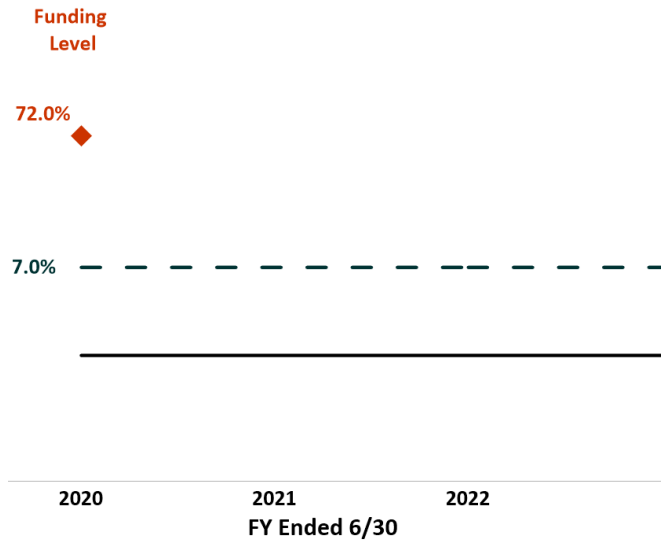
Distribution of Public Pension Funding Levels, FY 22



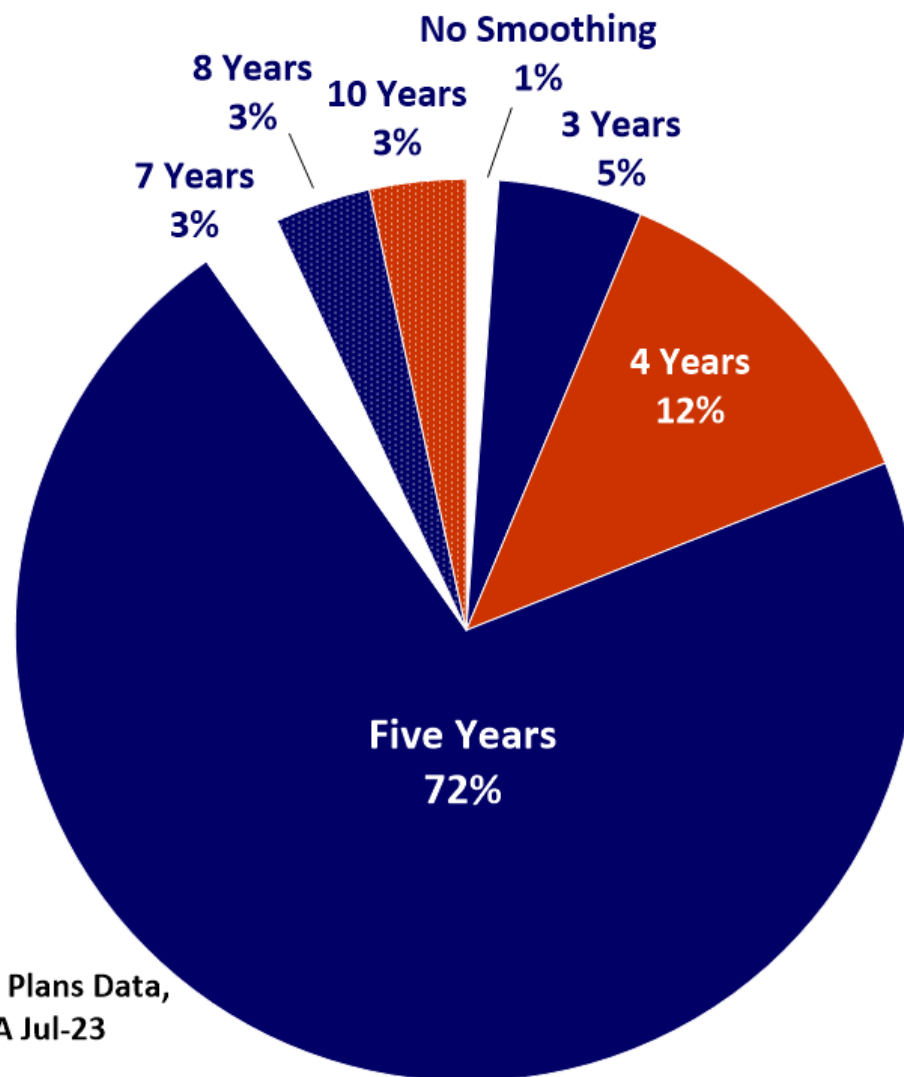
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Effect of Recent Market Volatility on a Theoretical Pension Plan, FYE 6/30



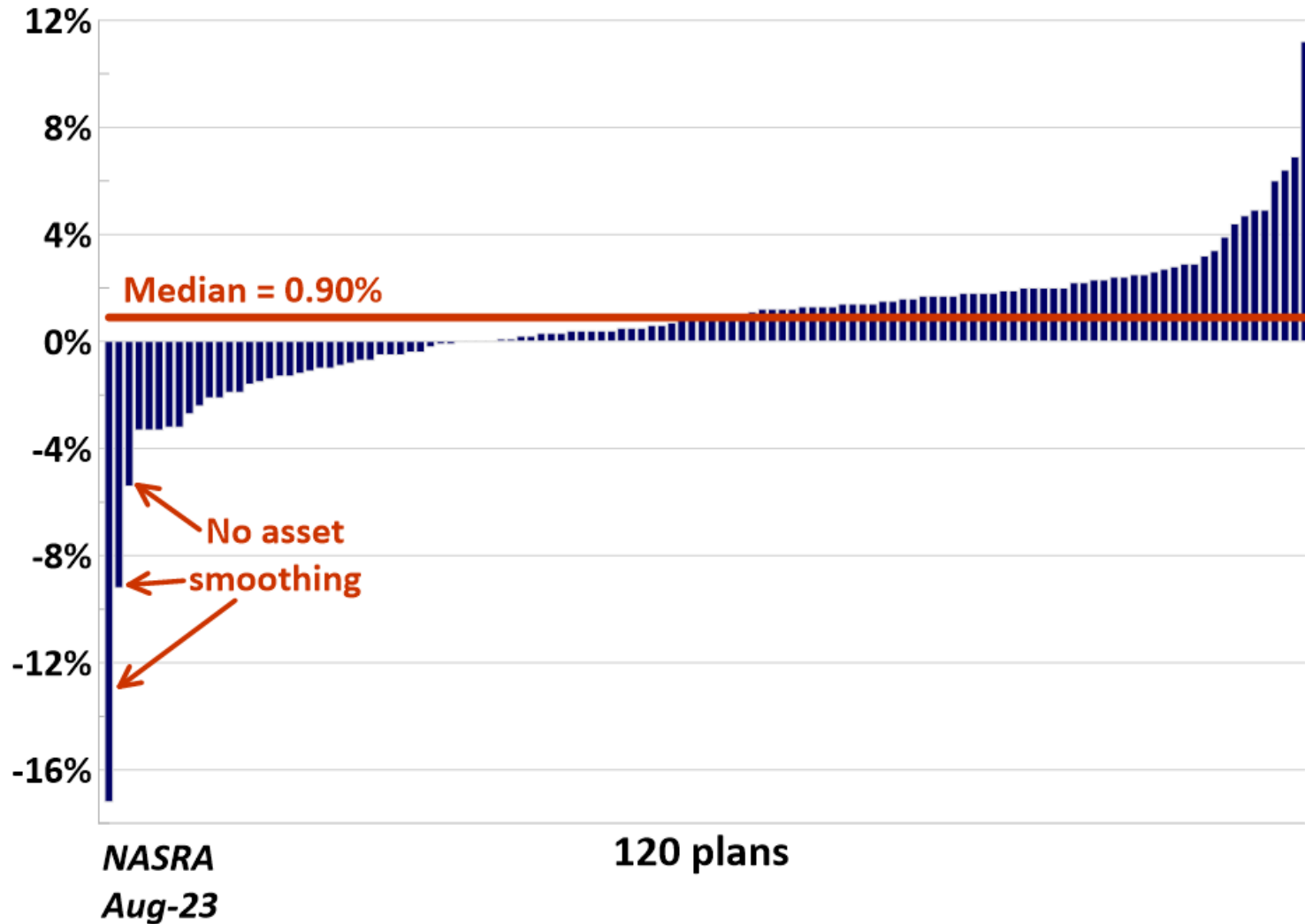
Distribution of Periods Used to Smooth Investment Gains and Losses



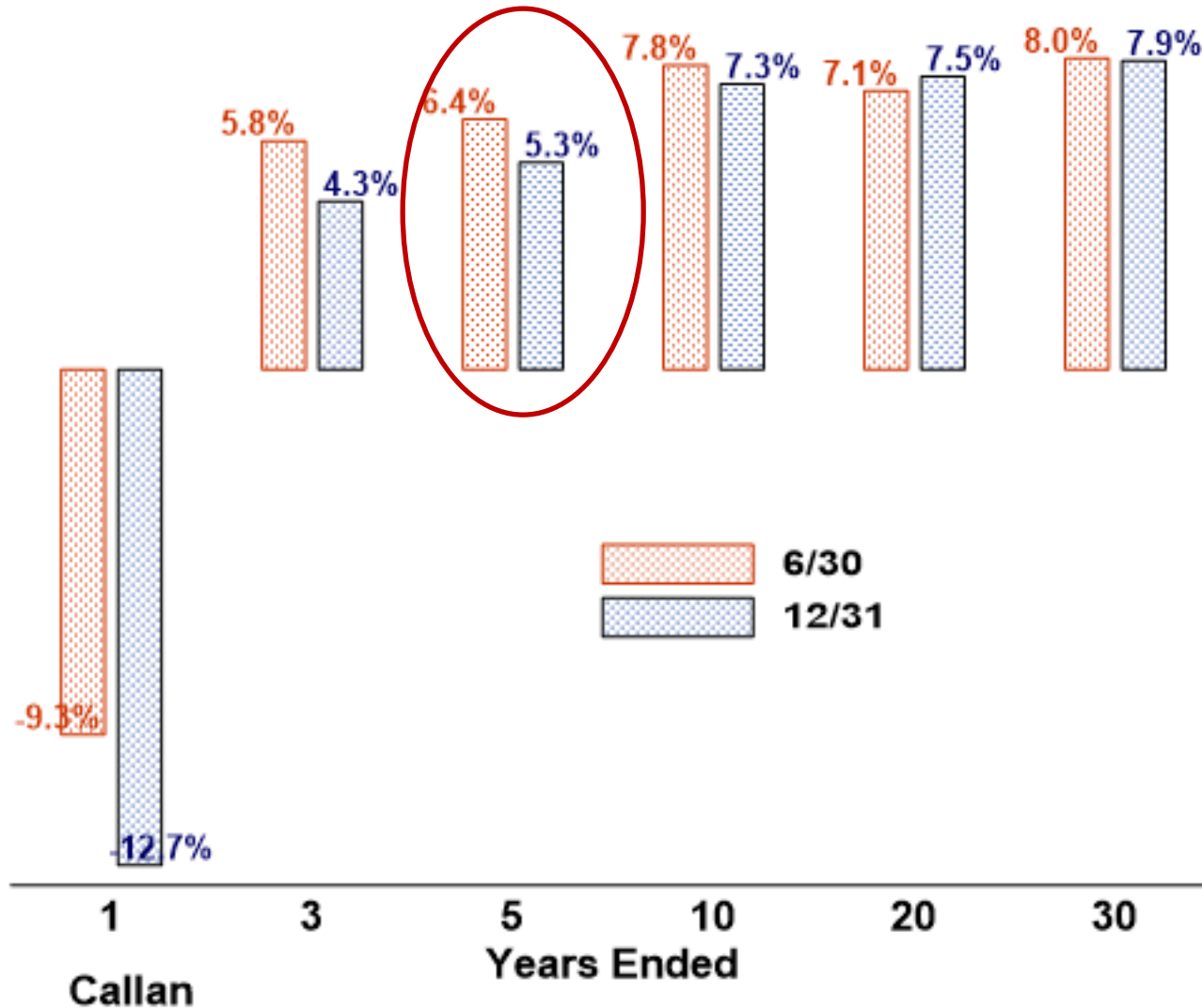
Public Plans Data,
NASRA Jul-23



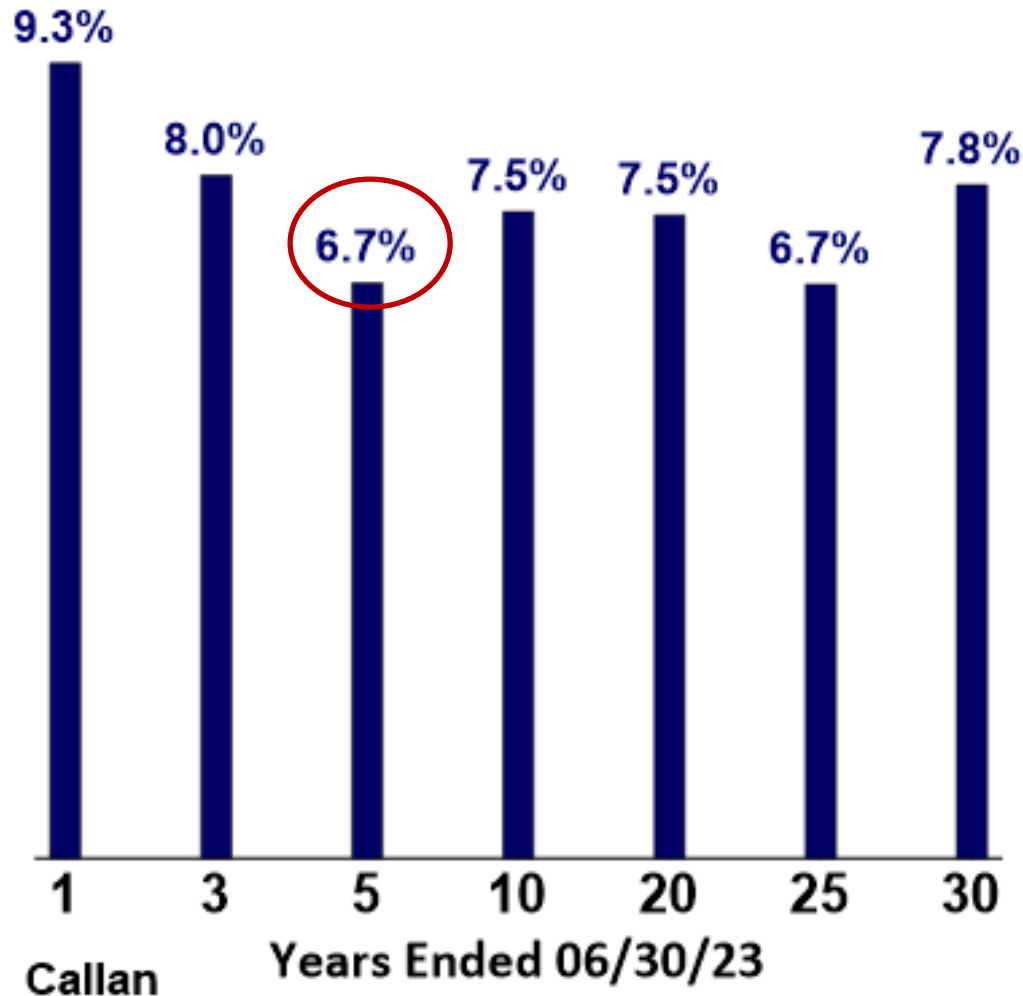
Distribution of nominal change in funding level, FY 21 to FY 22



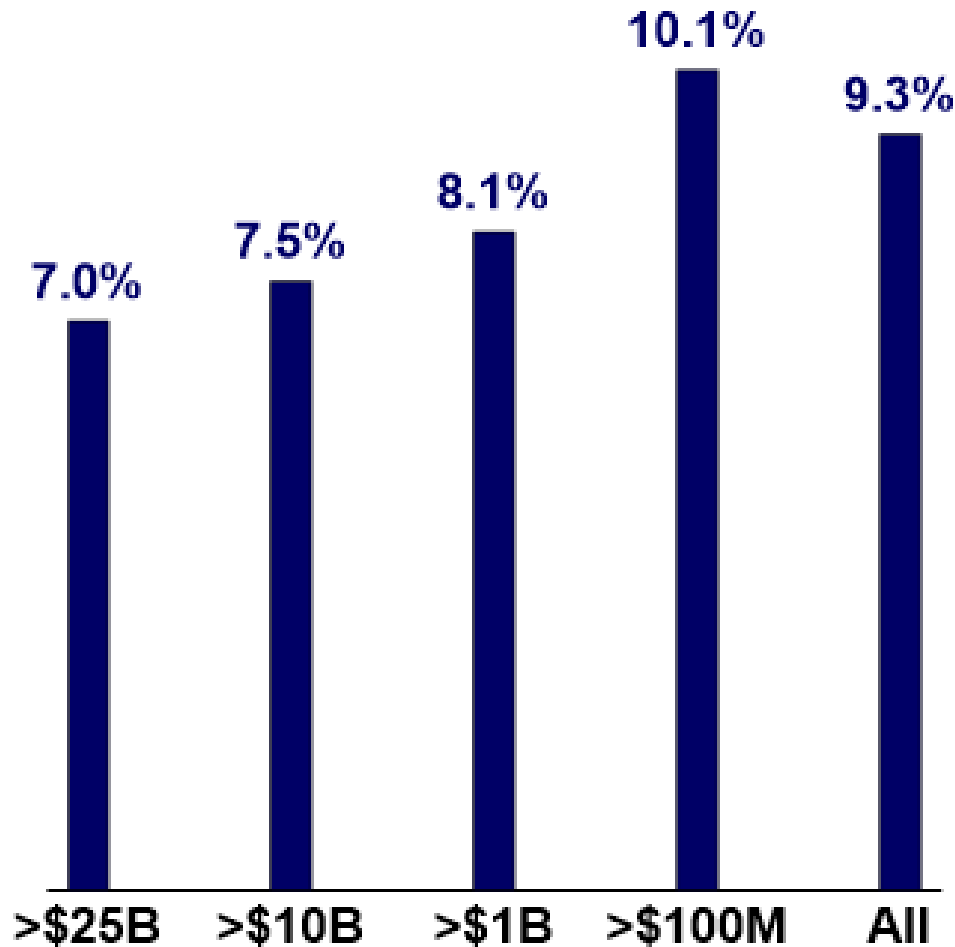
Annualized median public pension fund returns for periods ended in FY 2022



Median Annualized Public Pension Fund Investment Returns for Periods Ended 6/30/23



Median Public Pension Fund Investment Returns for FYE 6/30/23 Varied by Fund Size



Callan

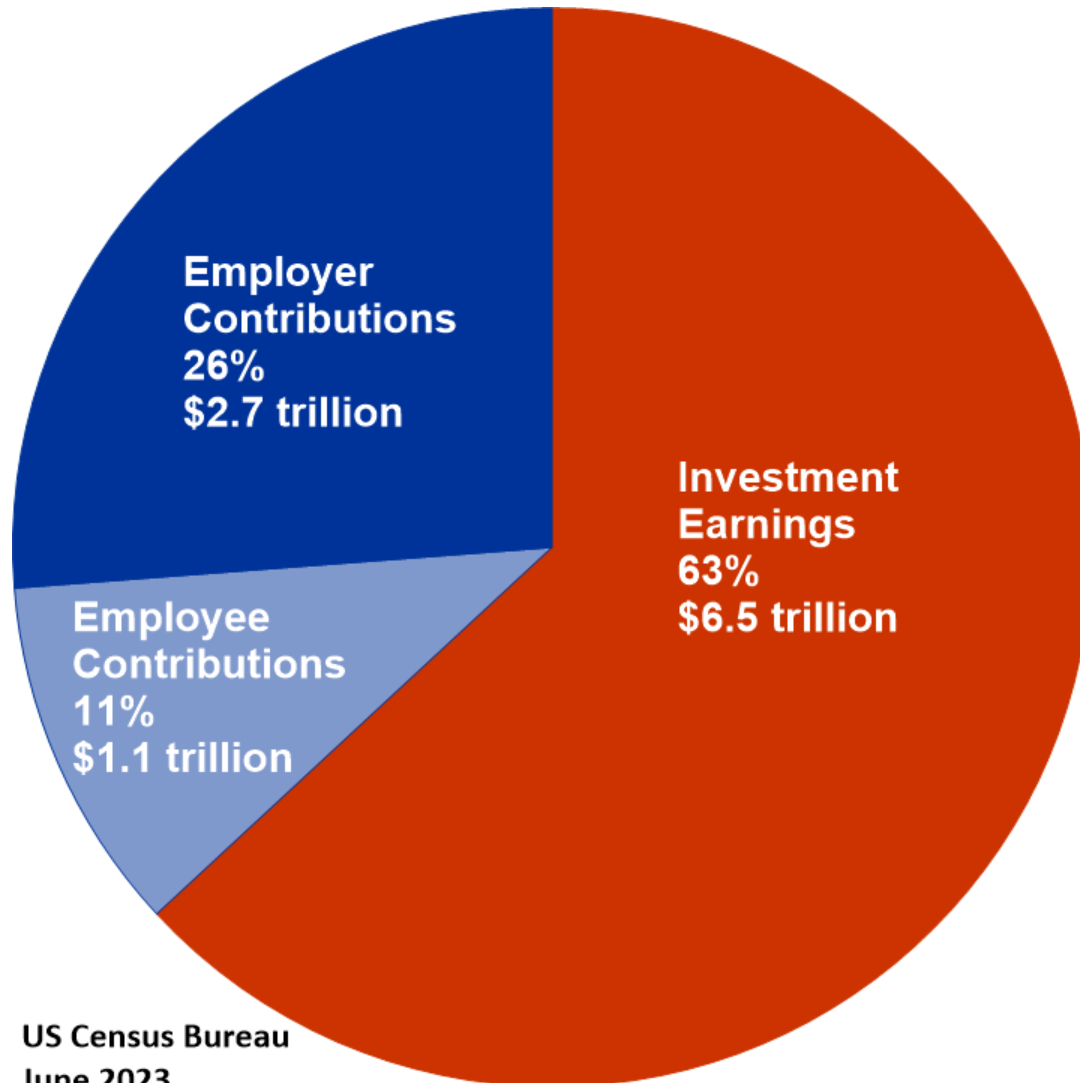


Key Takeaways: Public Pension Funding Conditions

- Funding levels for most public pension plans improved in FY 22, but some signs point to an upcoming decline in aggregate funding levels
- Key public pension funding questions include:
 - Recent investment returns are below expectations
 - Although trending lower, inflation remains higher by recent historical standards, placing increasing pressure on wages and demands for cost-of-living adjustments
 - Despite recent improvement, state and local employment remains below pre-pandemic levels, which puts upward pressure on costs as a percentage of payroll
 - Many plan sponsors face tepid fiscal conditions

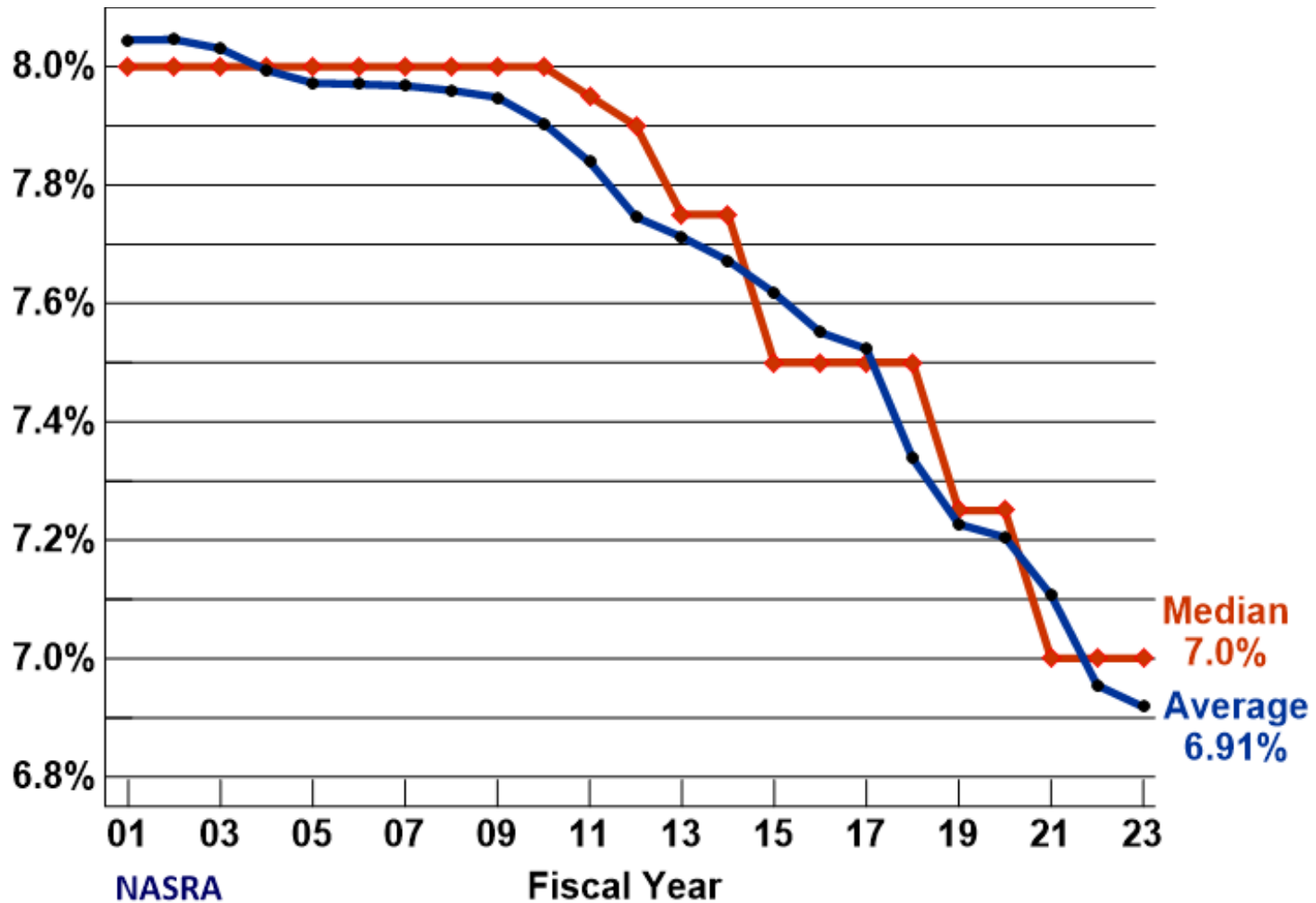


Public Pension Sources of Revenue, 1993 to 2022



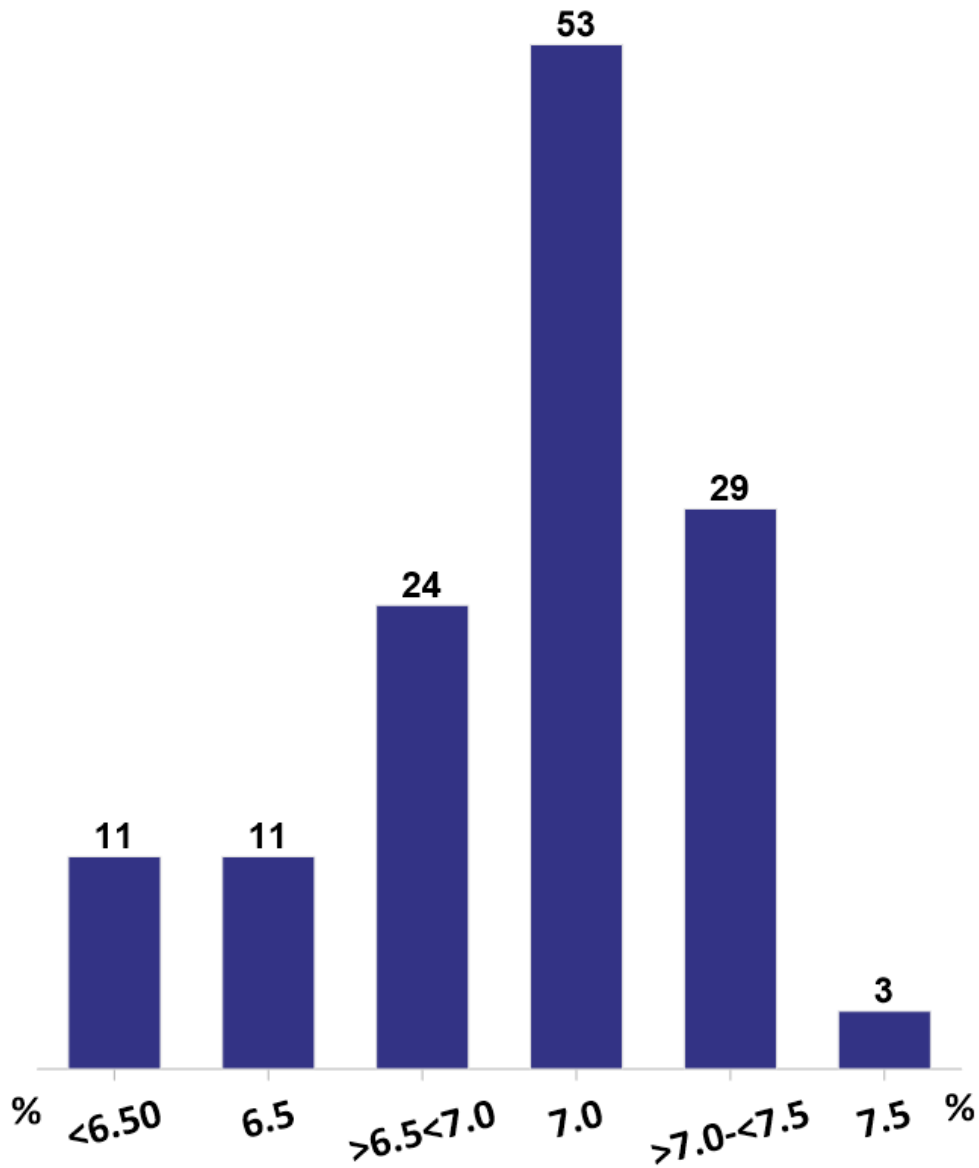
US Census Bureau
June 2023

Change in median and average investment return assumption, FY 01 to present



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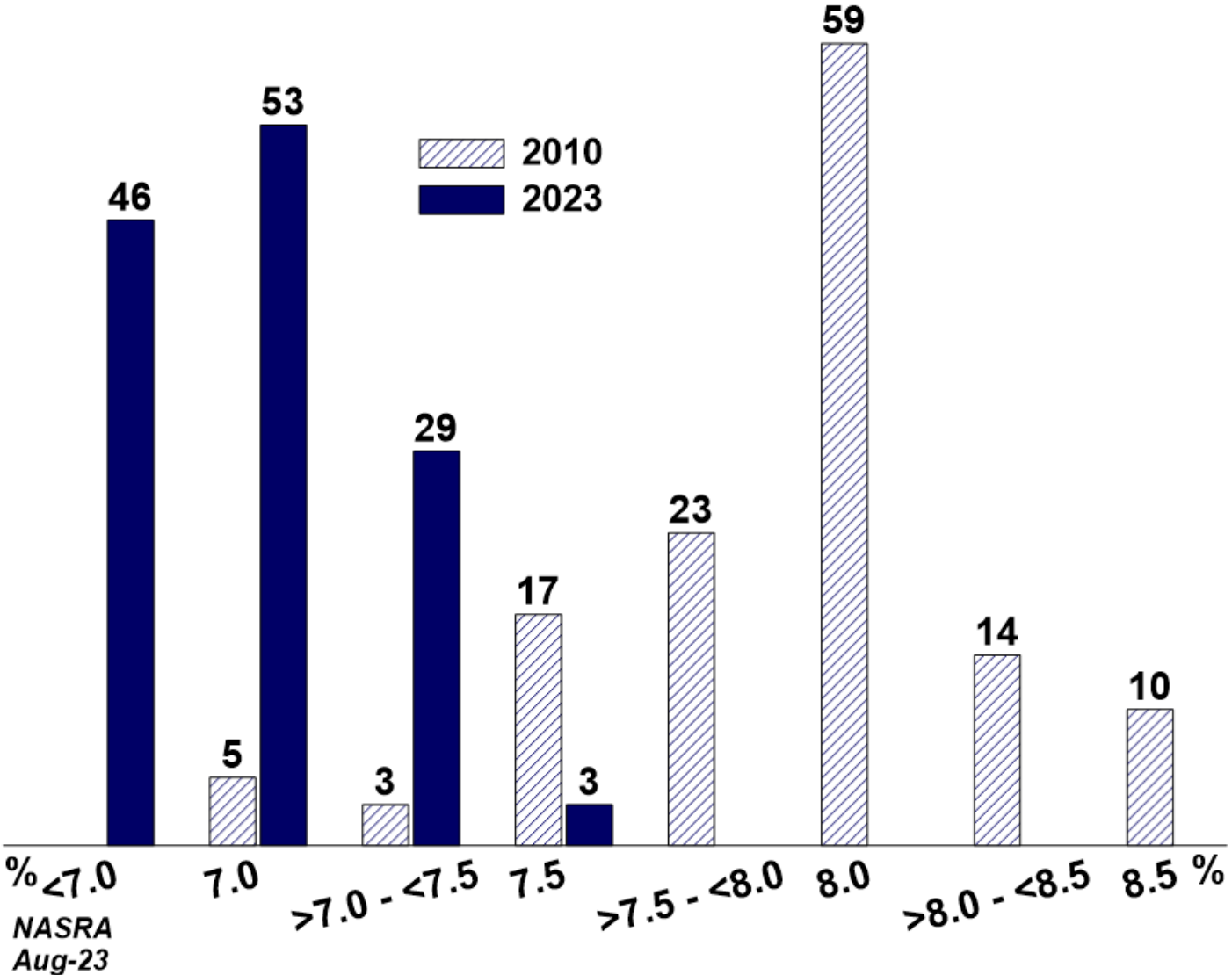


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Distribution of latest investment return assumptions



Distribution of investment return assumptions, 2010 and 2023



What is the effect of inflation on public pensions?

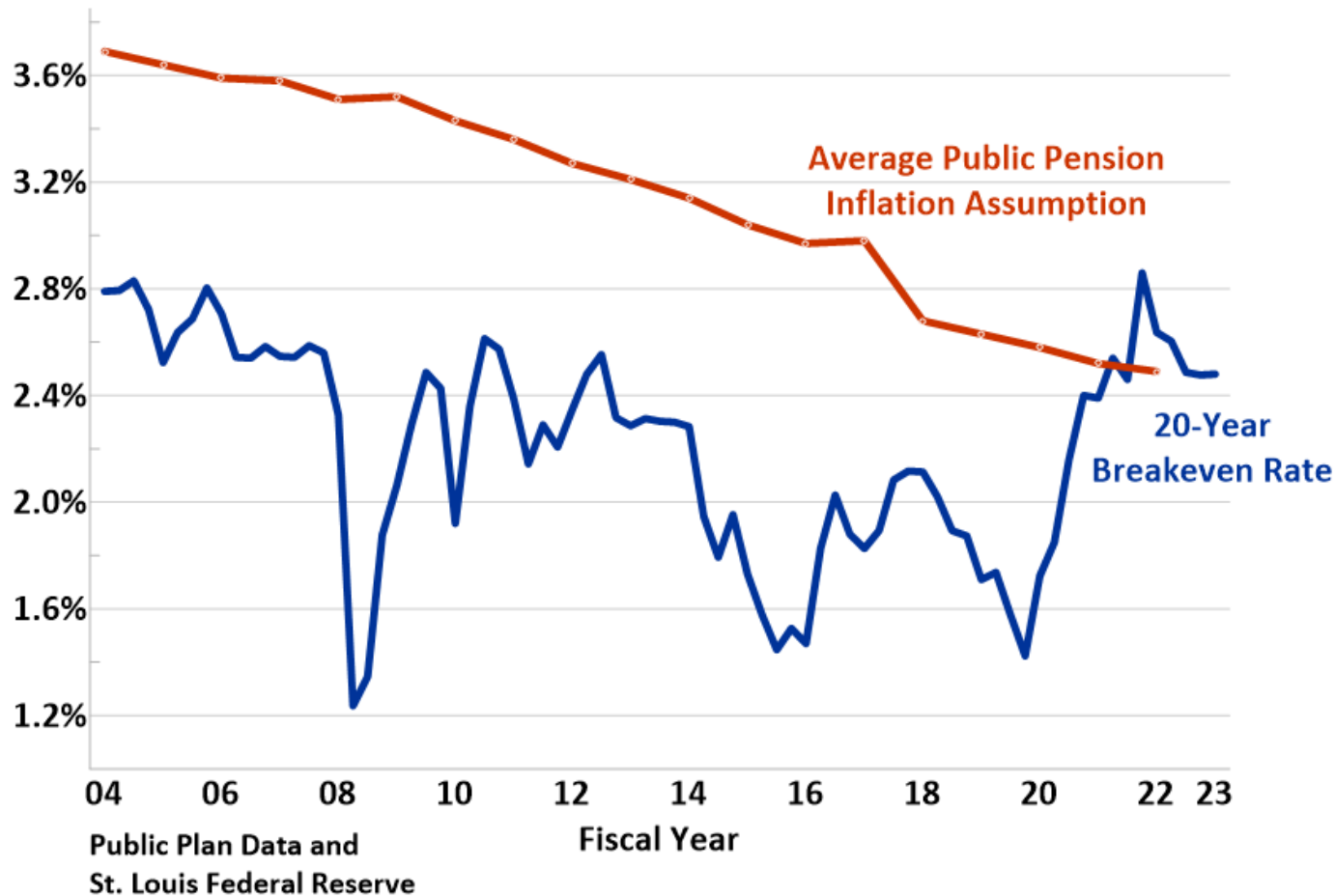
Answer: It depends on individual plan design, demographics, actuarial assumptions, asset allocation and other factors.

Pension plan elements affected by actual or projected rates of inflation

- Participant salaries
- Retirement patterns
- Investment returns
- Cost-of-living adjustments
- Plan sponsor revenue



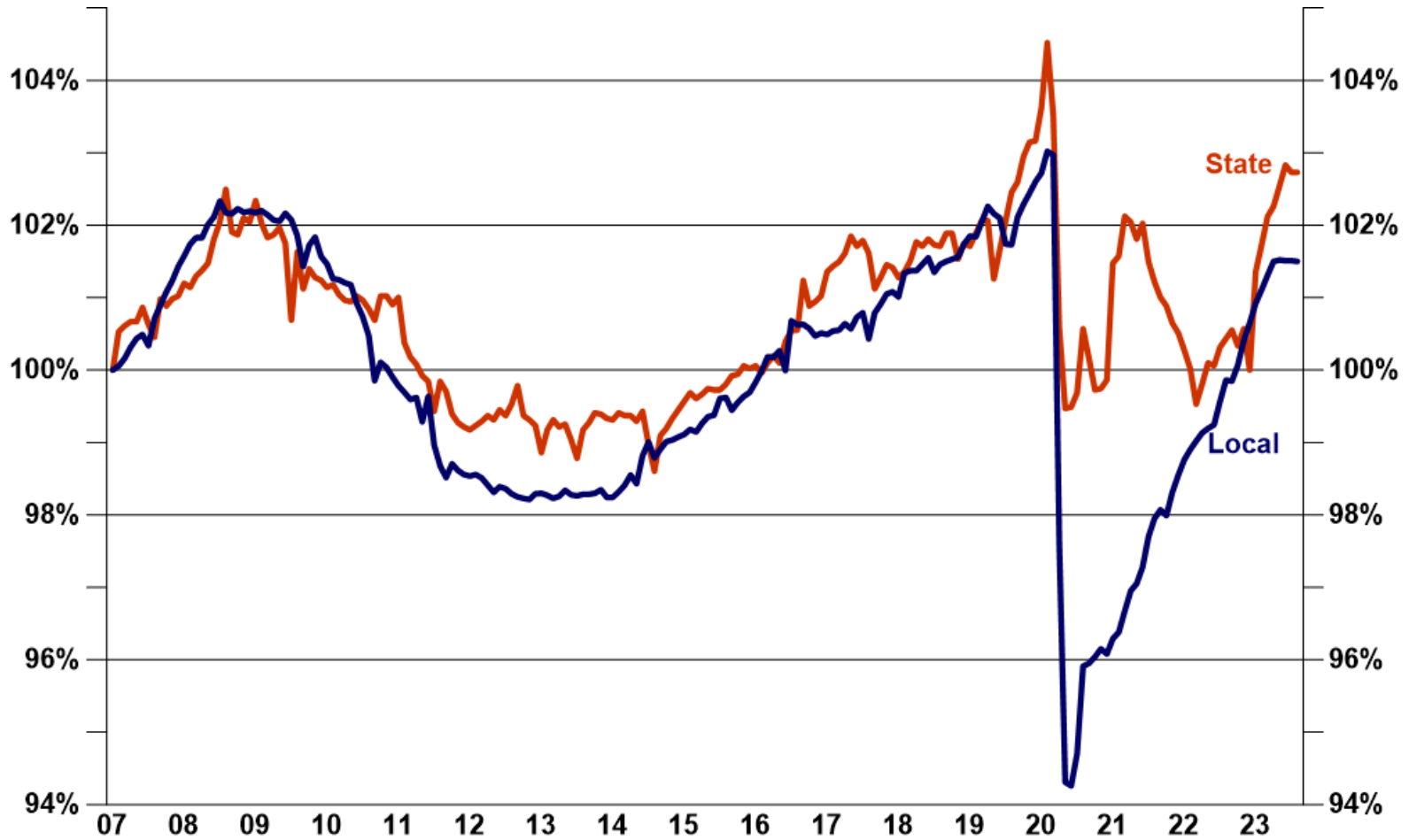
Average Public Pension Plan Inflation Assumption vs. 20-Year Breakeven Rate



The breakeven rate is a measure of expected inflation derived from 20-Year Treasury Constant Maturity Securities and 20-Year Treasury Inflation-Indexed Constant Maturity Securities. The latest value implies what market participants expect inflation to be in the next 20 years, on average.



Relative Change in State and Local Employment since 2007

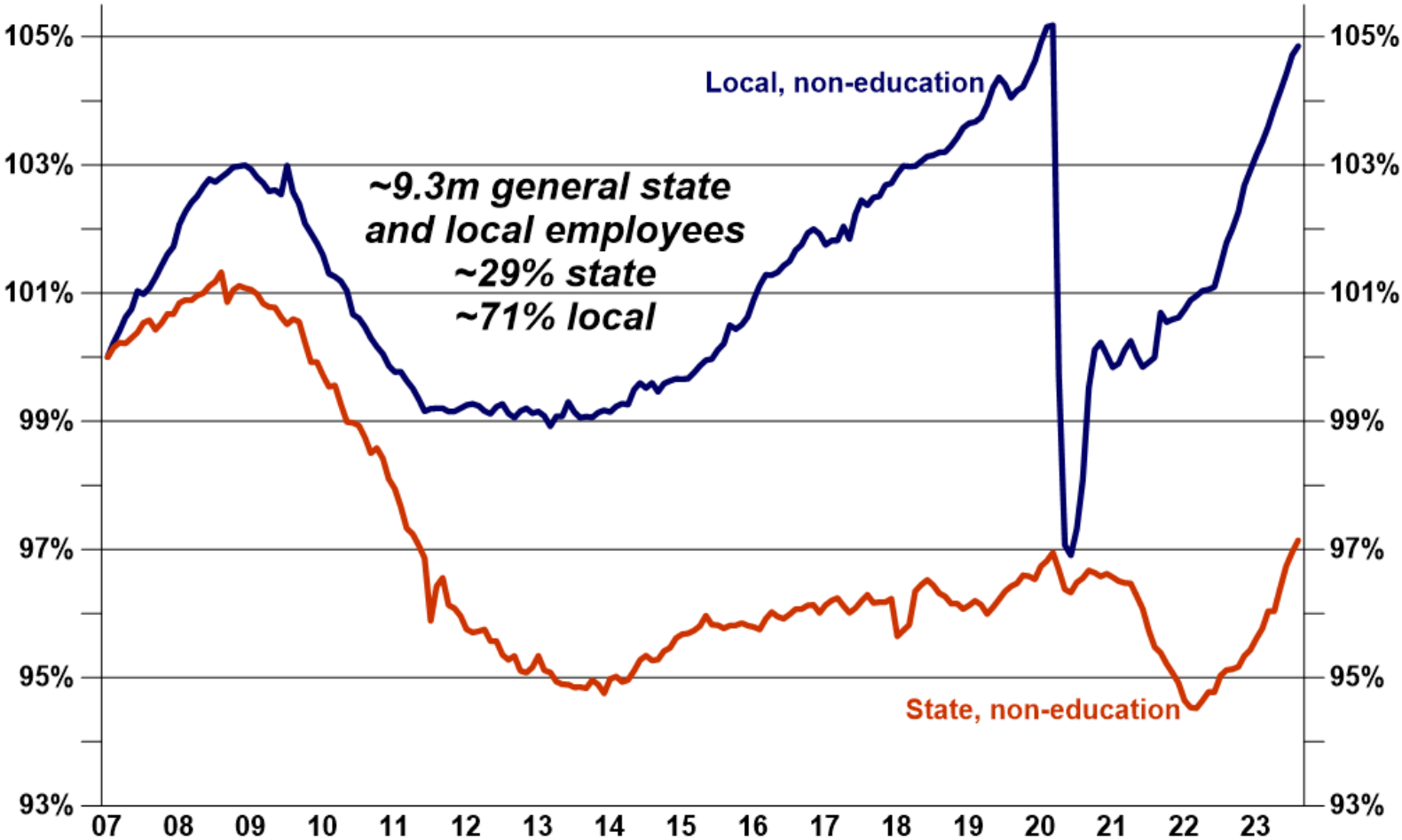


U.S. Bureau of
Labor Statistics,
compiled by NASRA

Data preliminary as of August 2023



Relative Change in General State and Local Employment since 2007

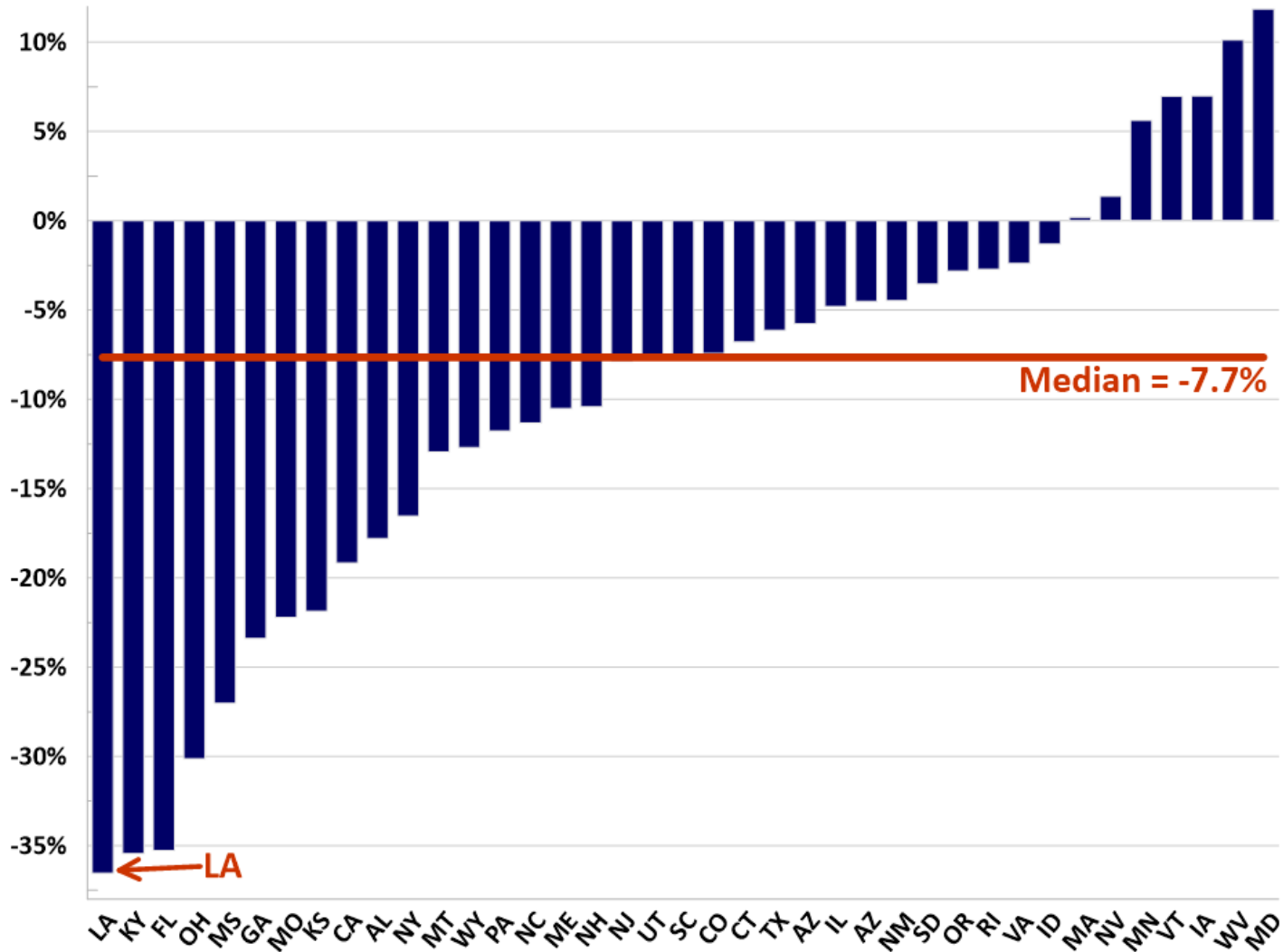


U.S. Bureau of Labor Statistics, compiled by NASRA

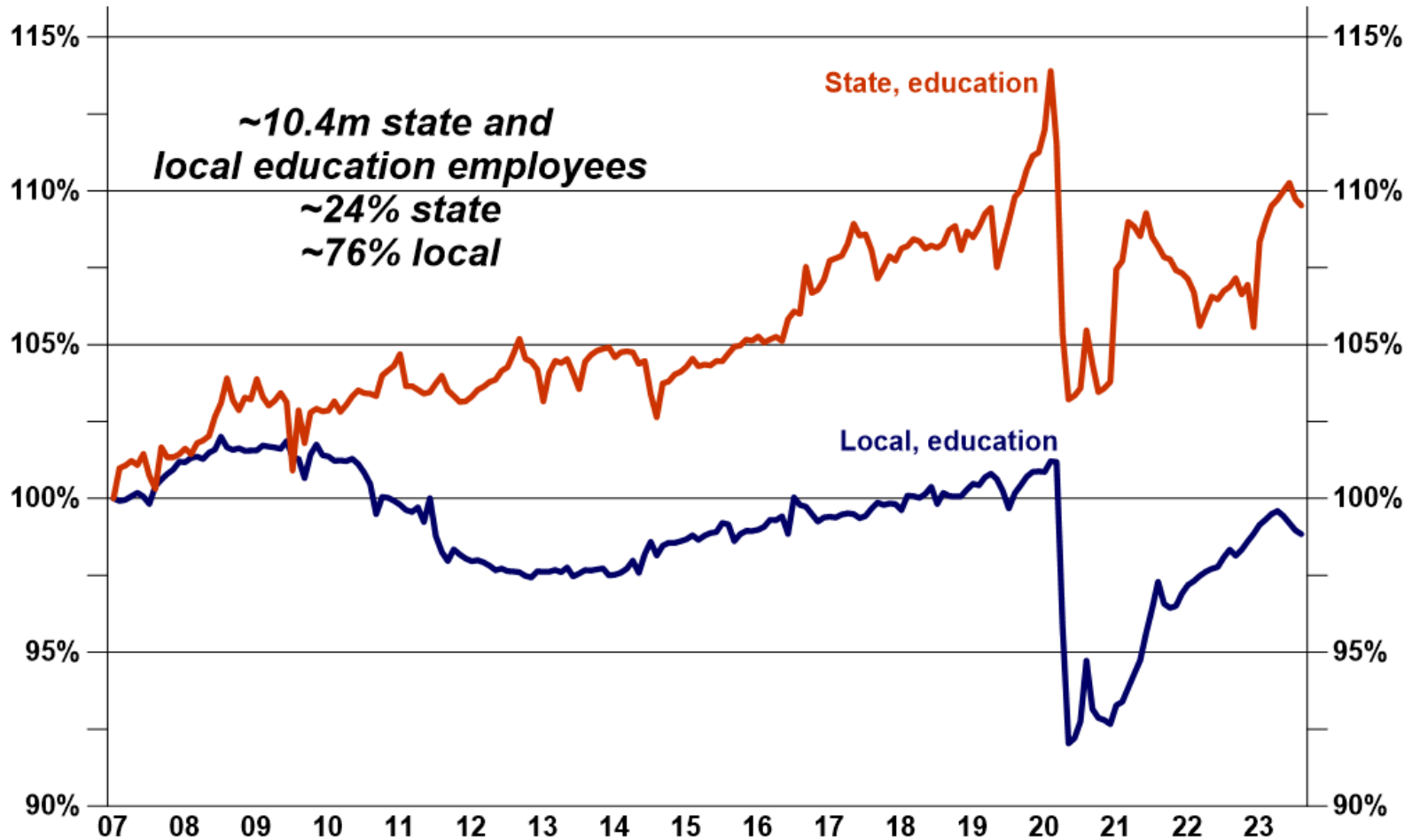
Data preliminary as of August 2023



Distribution of change in state employee membership, 2010 to 2022



Relative Change in State and Local Education Employment since 2007

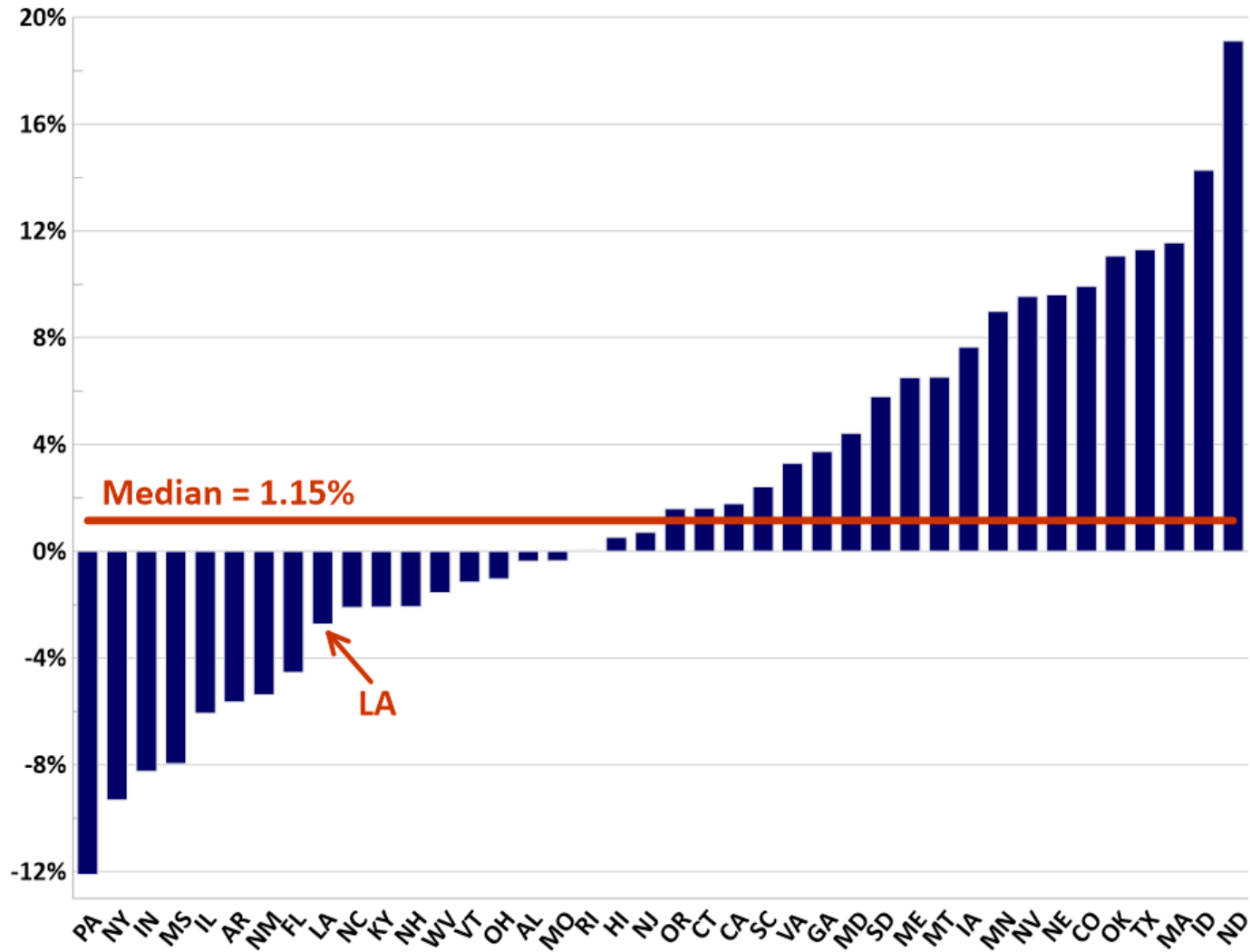


U.S. Bureau of
Labor Statistics,
compiled by NASRA

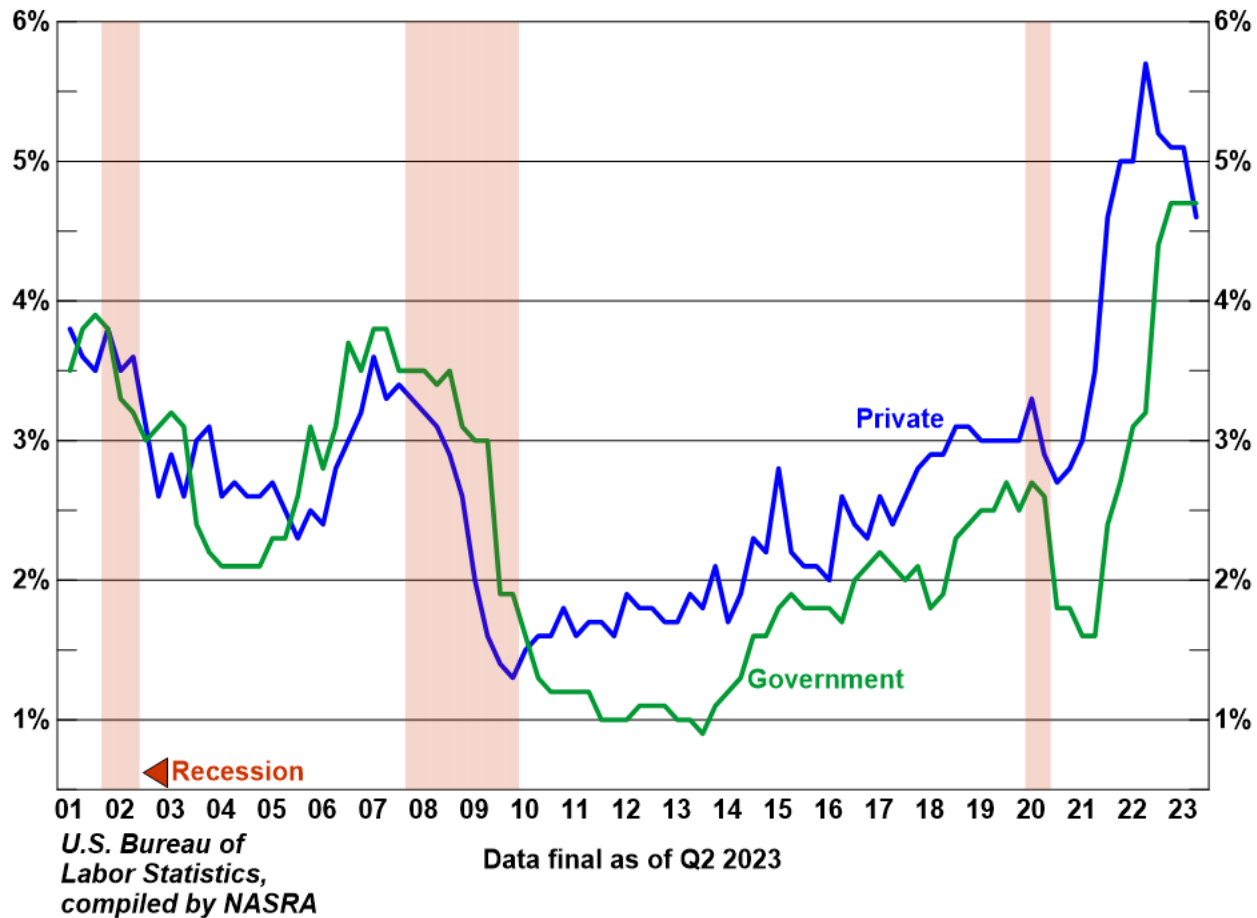
Data preliminary as of August 2023

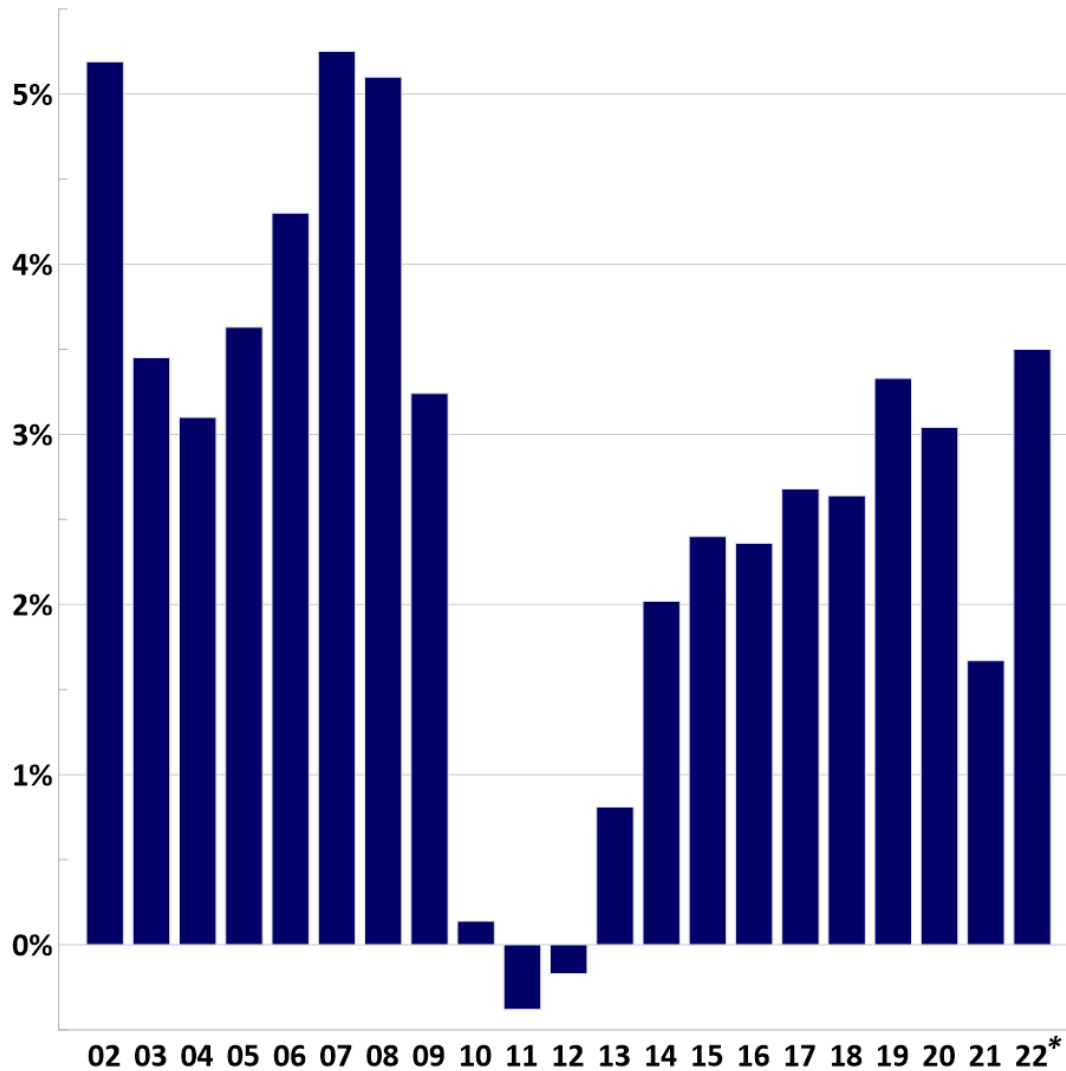


Distribution of change in teacher membership, 2010 to 2022



Annualized Quarterly Change in Wage and Salary Costs for Private and State and Local Workers since 2001



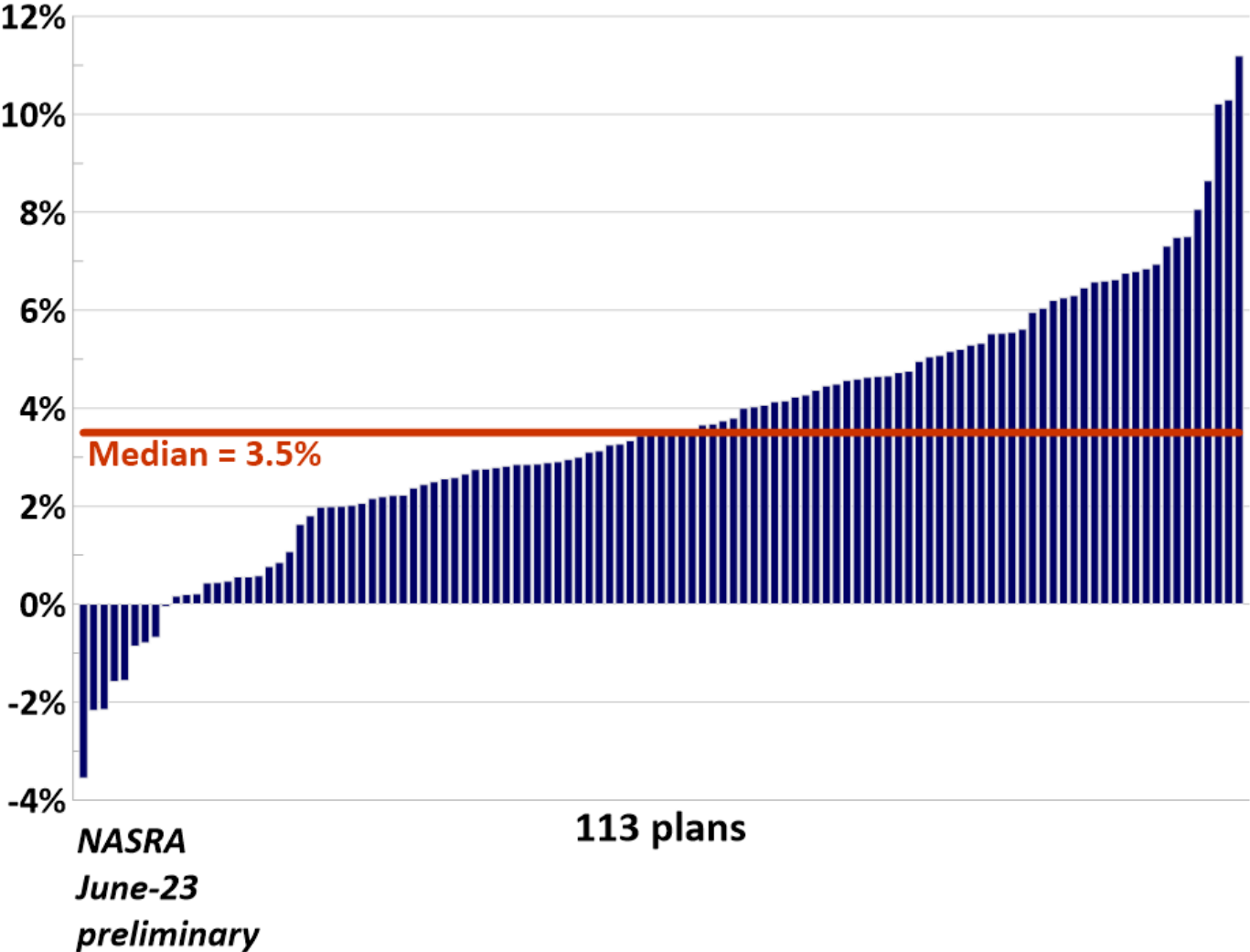


Median Annual Change in Payrolls FY 02 to FY 22

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*preliminary



Distribution of payroll growth, FY 22



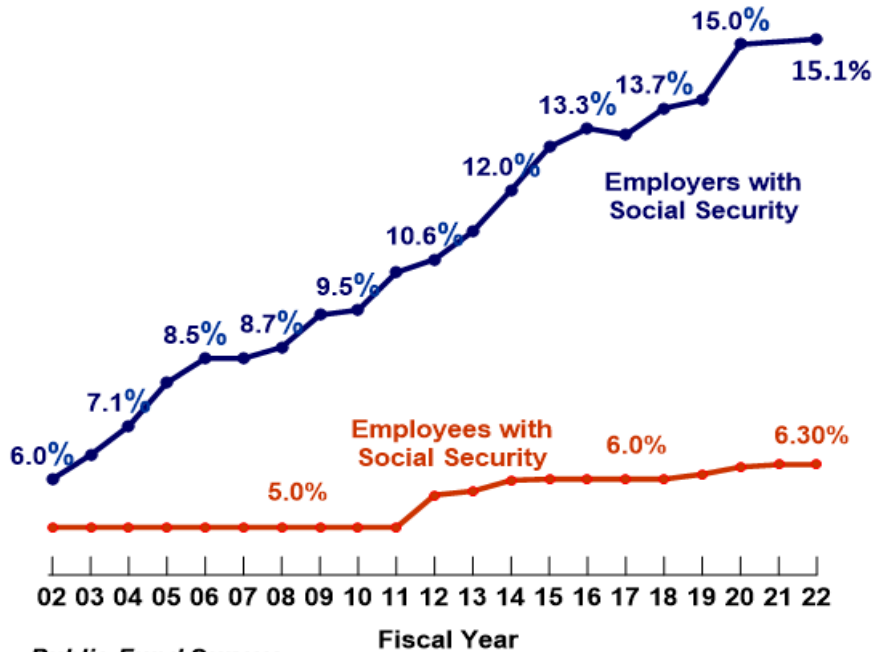
Key Takeaways: Actuarial Issues

- As public pension plan inflation assumptions converge with expectations for actual inflation:
 - Most plans are maintaining their investment return assumption
 - State and local employee wage growth is accelerating
- Accelerating growth in state and local employment and wage growth is driving higher growth in public pension plan payrolls, though payroll growth remains low compared to historical standards
- Despite state and local employment growth, most employment categories remain below their pre-pandemic peak



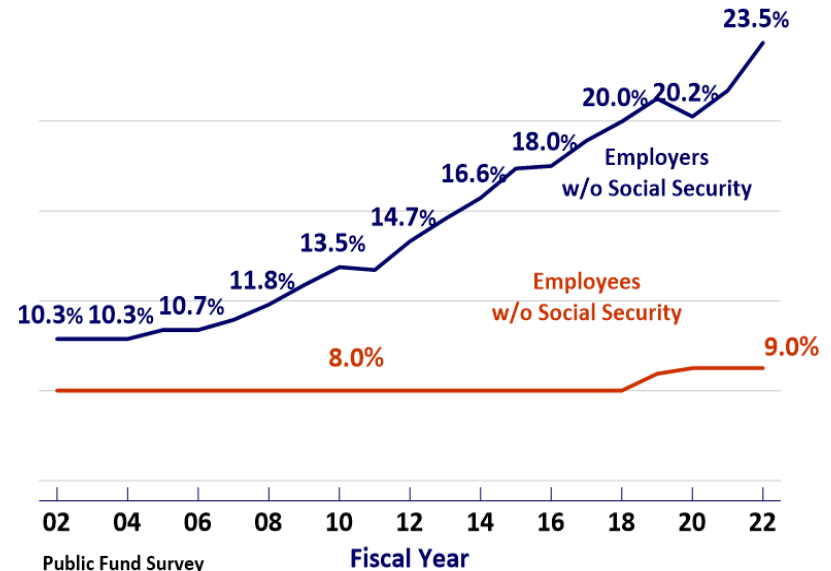
Median Contribution Rates Employee and Employer Social Security-Eligible and -Ineligible

Social Security-Eligible



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Social Security-Ineligible

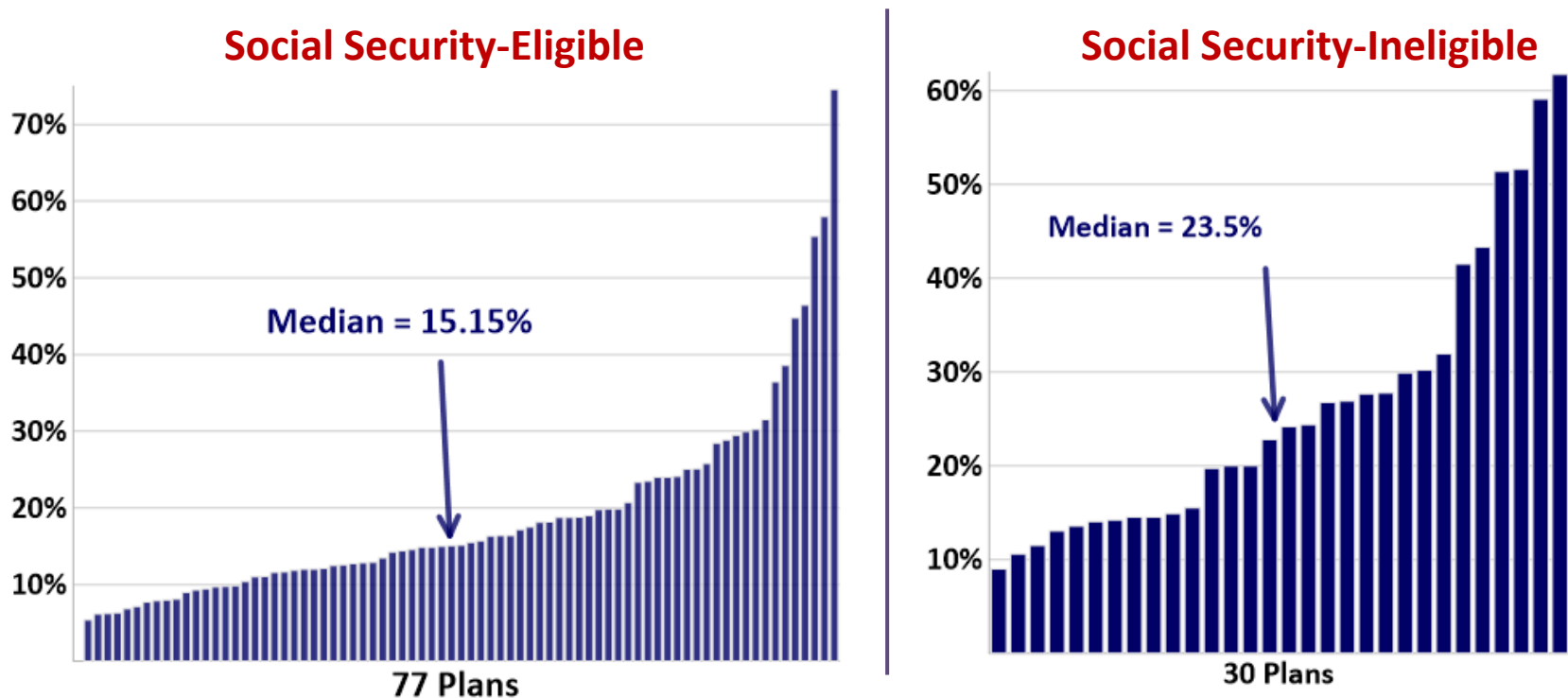


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Contribution rates reflected here are those for general employees and public school teachers and predominantly exclude rates for public safety personnel



Distribution of Employer Contribution Rates Social Security–Eligible and –Ineligible, FY 22

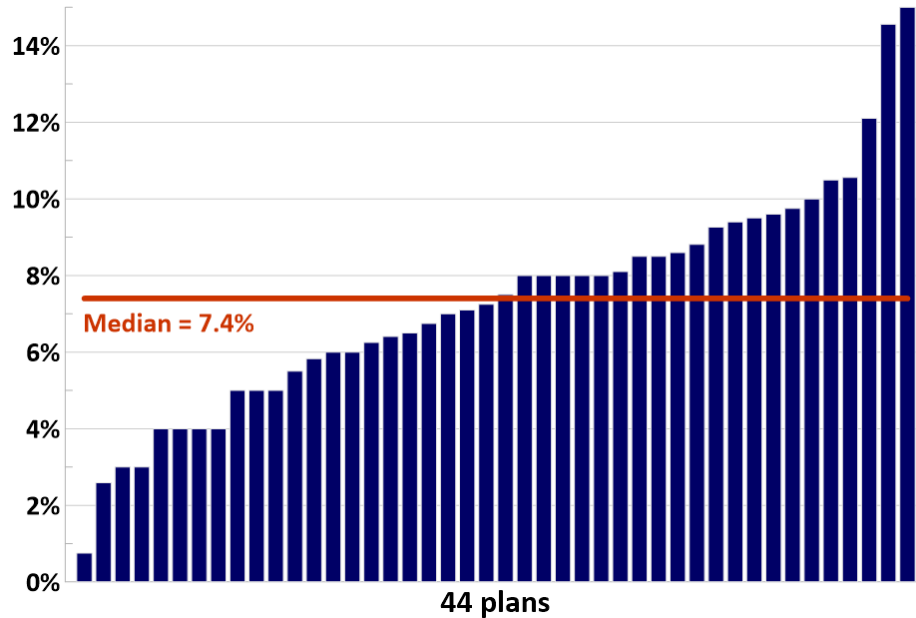


Contribution rates reflected here are those for general employees and public school teachers and predominantly exclude rates for public safety personnel

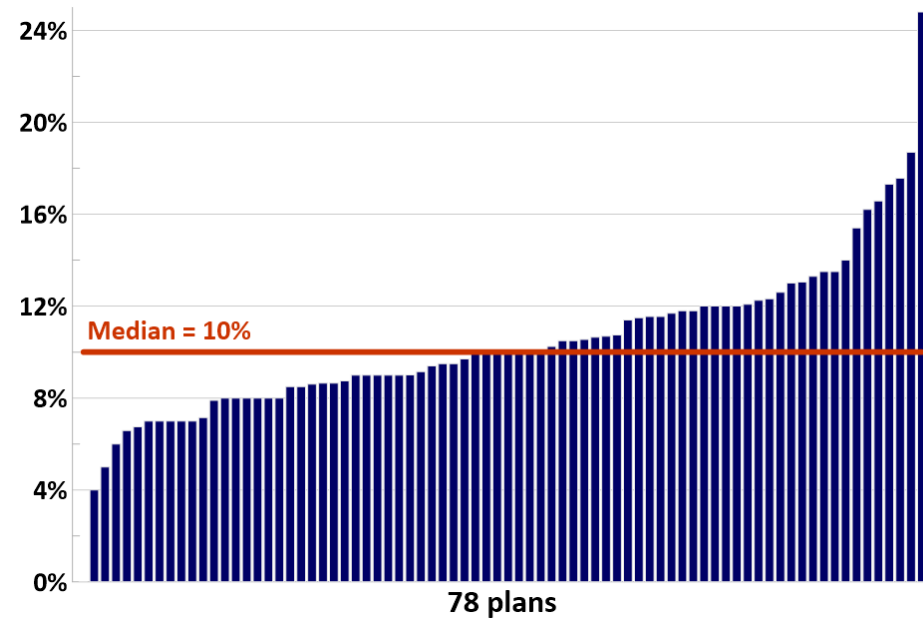


Distribution of *employee* contribution rates: public safety plans, FY 21

Social Security Eligible

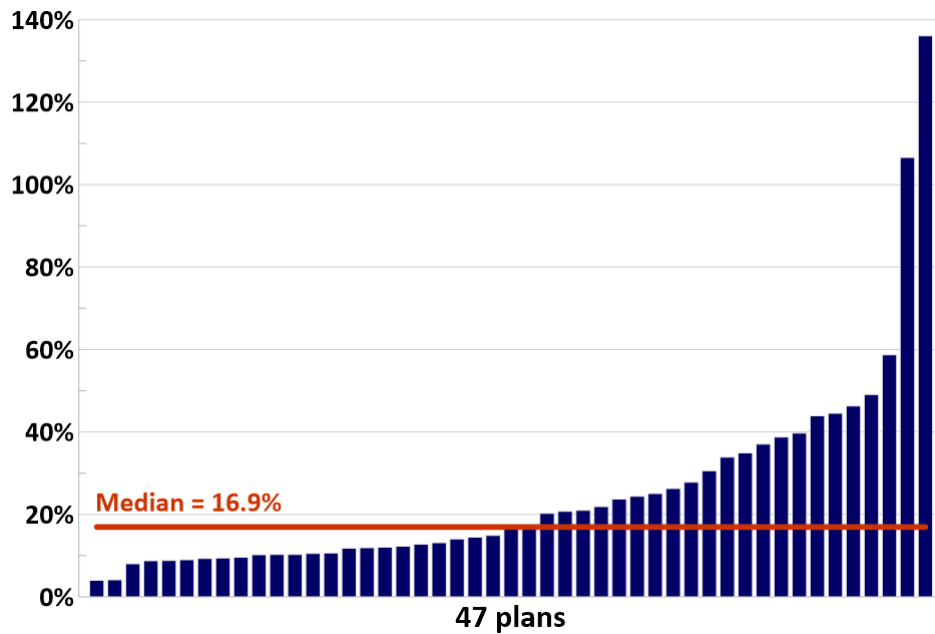


Non-Social Security

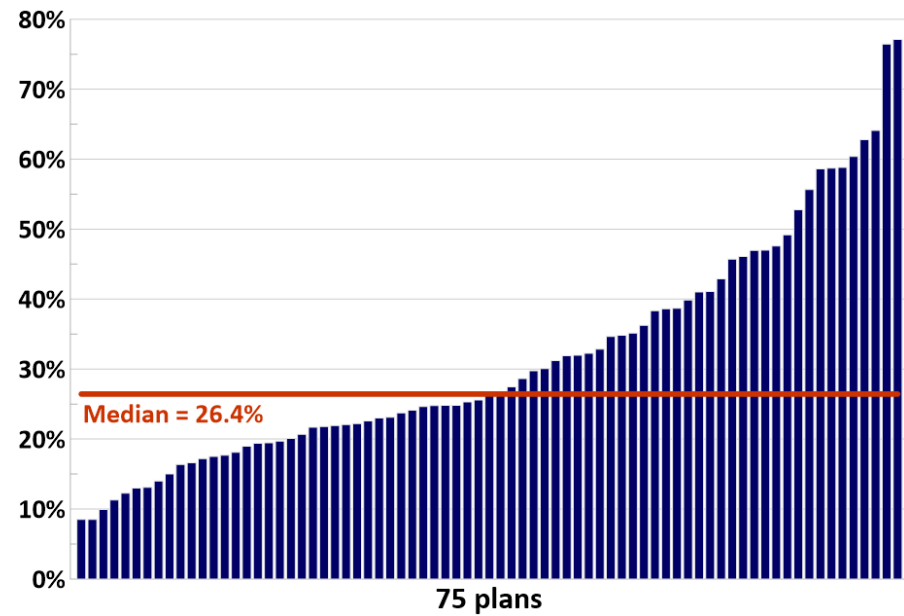


Distribution of *employer* contribution rates: public safety plans, FY 21

Social Security Eligible



Non-Social Security





National Association of State Retirement Administrators

Public Safety Plan Dataset

As of 2021, the U.S. Census Bureau identifies nearly 3.3 million employees in public safety occupations employed by state and local governments nationwide. This figure represents nearly 22 percent of the overall state and local workforce. Over 2.6 million (almost 80 percent) of these workers are employed by local governments, with public safety workers comprising approximately one-fourth of all local government employees. There are around 623,000 workers in state government public safety occupations, a figure equal to over 16 percent of the total number of state workers.¹

Compared to general employees and teachers, certain benefits (and corresponding costs and contribution rates) typically are higher for public safety officers, for several reasons: the hazardous nature of most public safety employment is reflected in plan designs that provide higher benefit levels, including more generous death and disability benefits; and lower benefit eligibility requirements due to the more physical nature of the work requirements. Additionally, public safety officers are more likely than other public employees to participate in a public pension plan in lieu of Social Security. Benefits and costs for these workers typically are higher than those for participants who are also covered by Social Security, to compensate for the lack of Social Security income in retirement.

Focusing on fiscal year 2021, this dataset represents 122 pension plans² (or public safety subgroups within larger plans) with just over \$520 billion in assets and serving over 684,000 active and approximately 632,000 annuitants and DROP participants. This dataset includes plans in every state except Alaska, where newly hired public safety personnel participate in a defined contribution plan. Actuarial funding levels range from 20.9% to 166.5%, with a median funding level of 80.3% and a median investment return assumption of 7.0%.

Social Security coverage among public safety personnel varies widely among states and in many cases, even within the same plan. Nationally, a majority – perhaps as many as two-thirds or greater – of firefighters and police officers do not participate in Social Security. In this sample, just over 40 percent of the active members participate in plans in which most participants are also covered by Social Security, with the remaining 60 percent mostly participating in their pension plan in lieu of Social Security. Although the plans in this dataset are characterized by Social Security status, these designations do not necessarily apply to every participant. Rather, these groupings indicate the Social Security status of a majority of participants, to allow for more appropriate comparisons of costs and benefits.

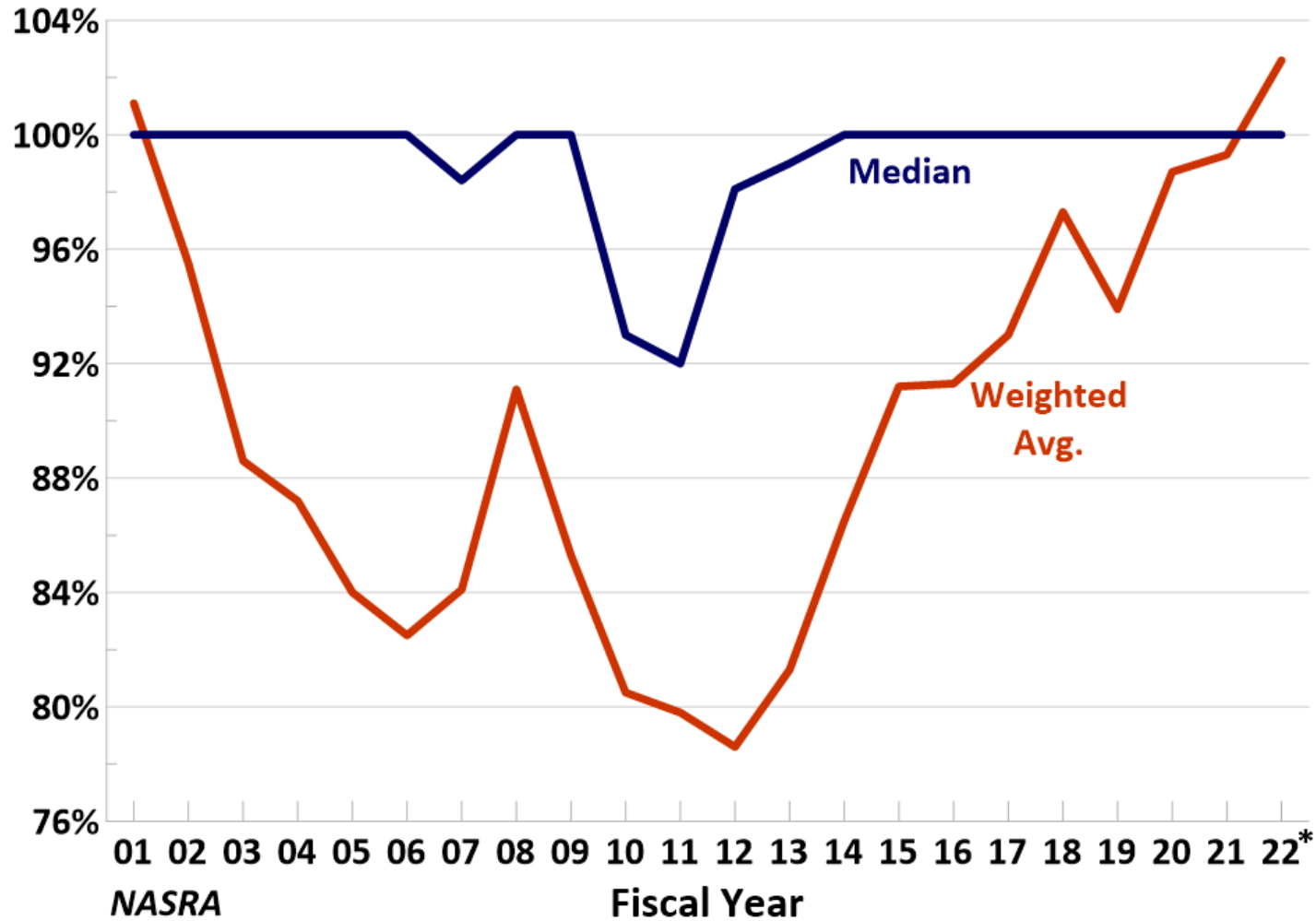
Nearly all employees make contributions as a percentage of payroll toward their eventual pension benefit. Employers make contributions to fund new benefit accruals for plan participants (as represented by the total normal cost), as well as to systematically pay off any existing unfunded liabilities associated with previous benefit accruals. As indicated in the table below, benefits and contribution rates are typically higher for participants who are not covered by Social Security.

¹ <https://www.census.gov/data/datasets/2021/econ/apes/annual-apes.html>

² Two entities are distinguished by Social Security status, bringing the total number of entries to 124

ARC/ADC Experience, FY 01-FY 22

101 Plans



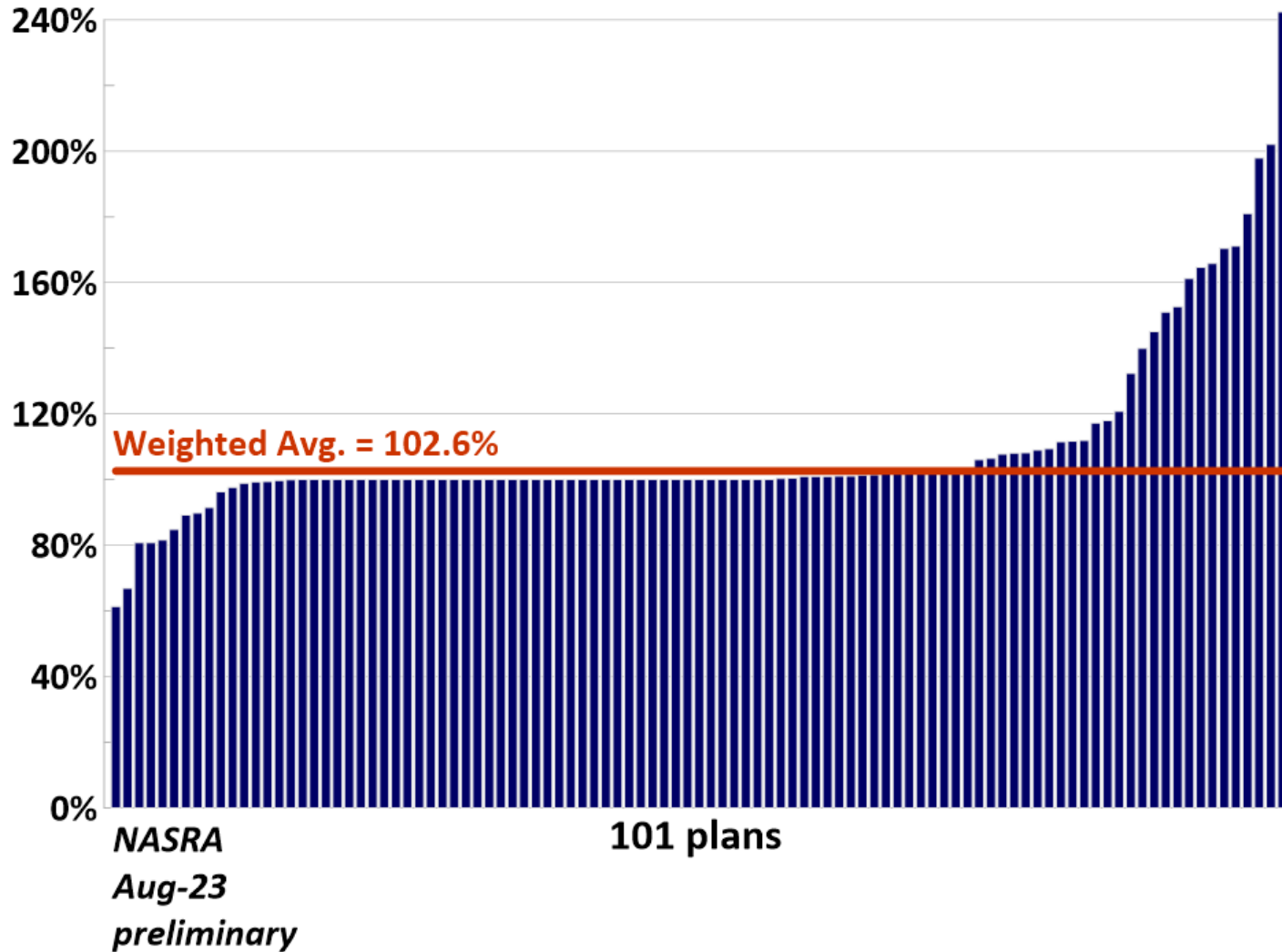
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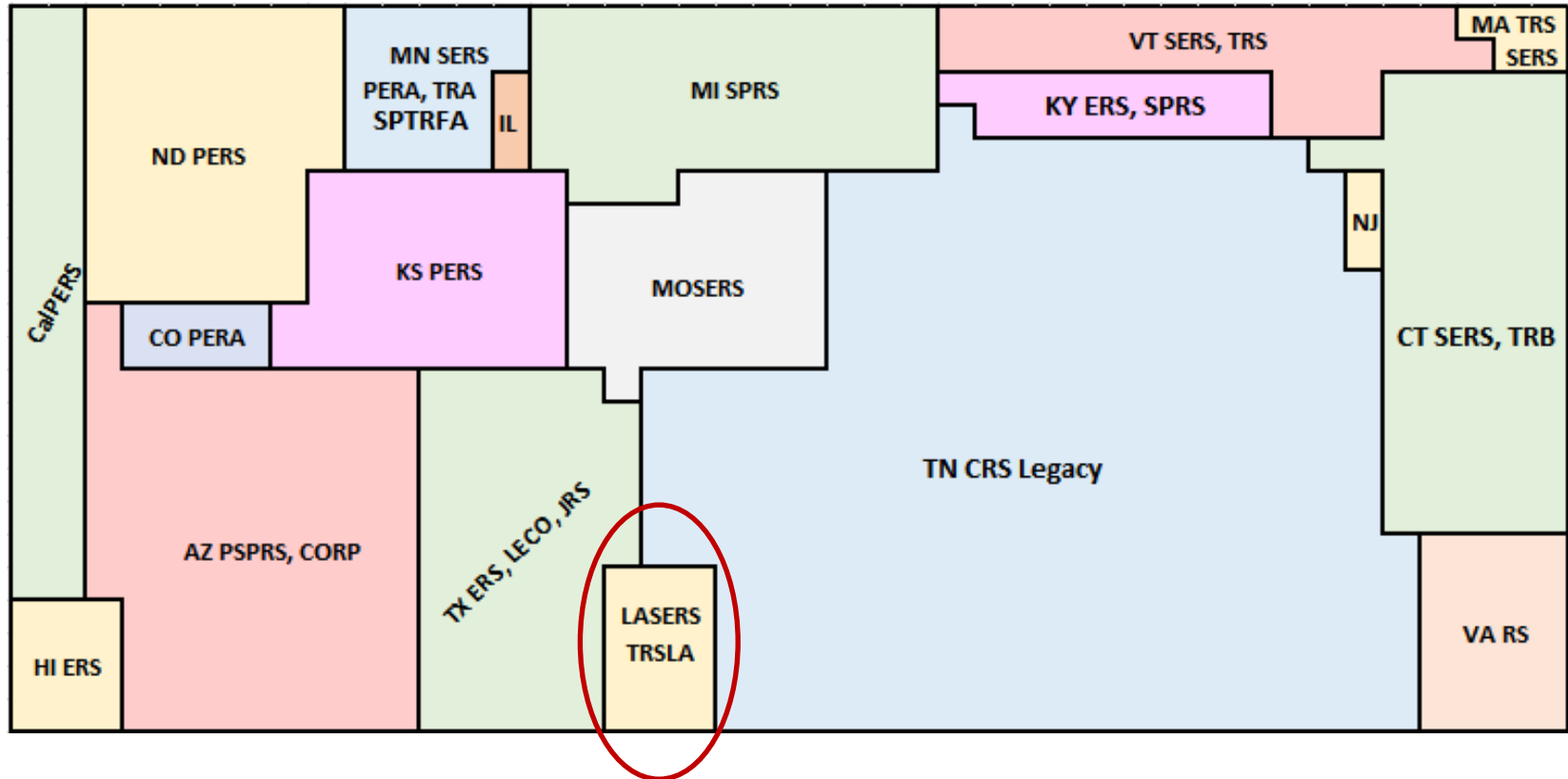
*preliminary



Distribution of ARC/ADC Effort FY 22



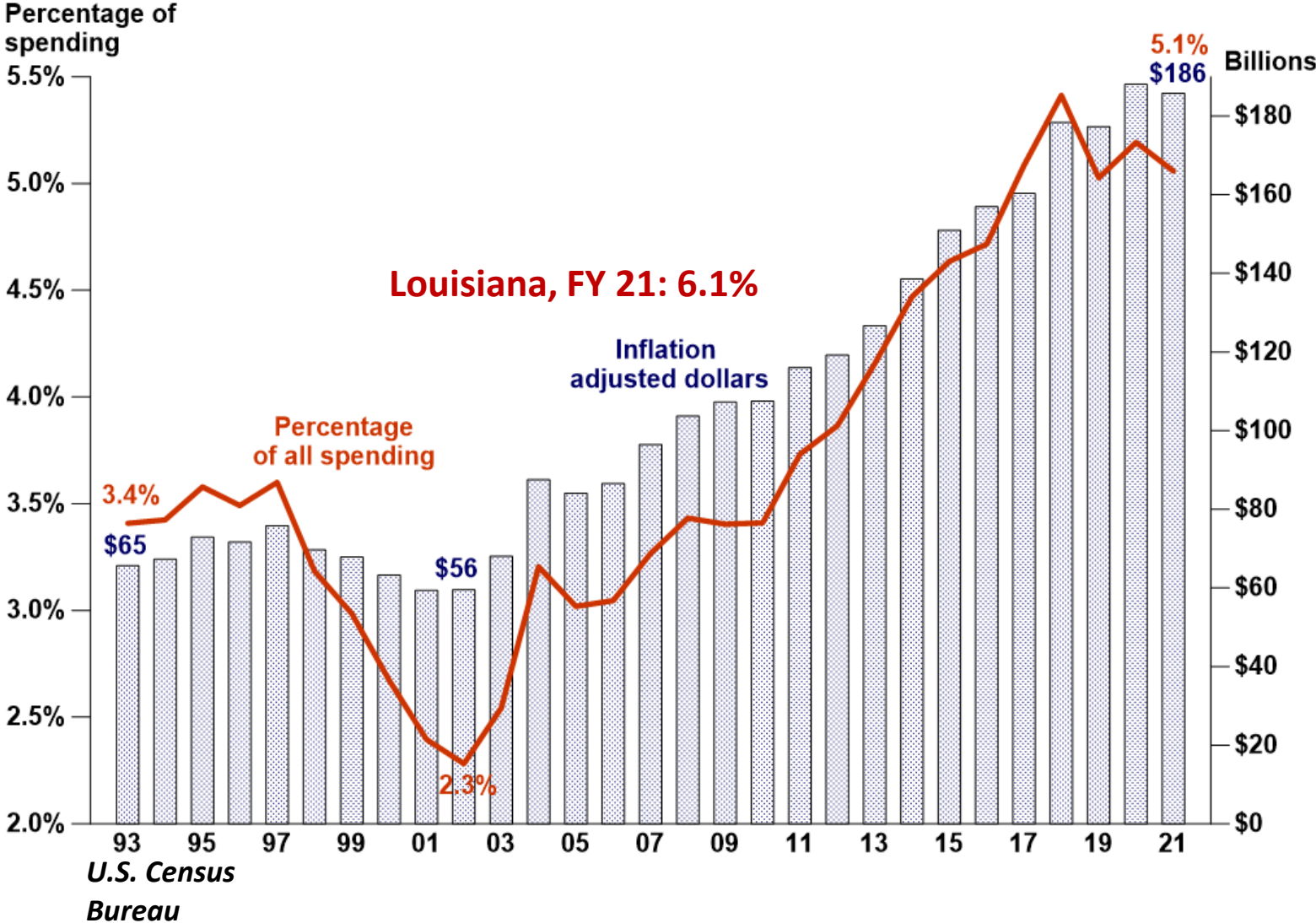
States Appropriating Funds Above the ADC to Public Pension Plans Since FY 2021



Size reflects excess funding as an approximate percentage of FY 21 UAAL



Inflation-adjusted spending on public pensions by states and local governments 1992-2021



Key Takeaways: Contribution Trends

- More employers are contributing their full actuarially determined contributions
- Some employers are contributing above the ADC
- Sufficient and excess contributions provide a strong tailwind for plans seeking to eliminate their unfunded liabilities more rapidly
- Many plan sponsors face tepid fiscal conditions



Thank you

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