



Examining the Experiences of Public Pension Plans Since the Great Recession

Member Webinar

September 28, 2022



NATIONAL INSTITUTE ON
Retirement Security

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AGENDA

01. Introductions
02. Research Review
03. Q&A

EXAMINING THE EXPERIENCES OF PUBLIC PENSION PLANS SINCE THE GREAT RECESSION



Logistics

- Attendees in listen only mode.
- Questions are welcome. Submit using "Question" function on control panel
- Audio/technical issues during webinar: call GoToWebinar at 1-800-263-6316
- Webinar replay and slides will be posted at nirsonline.org/reports/greatrecession



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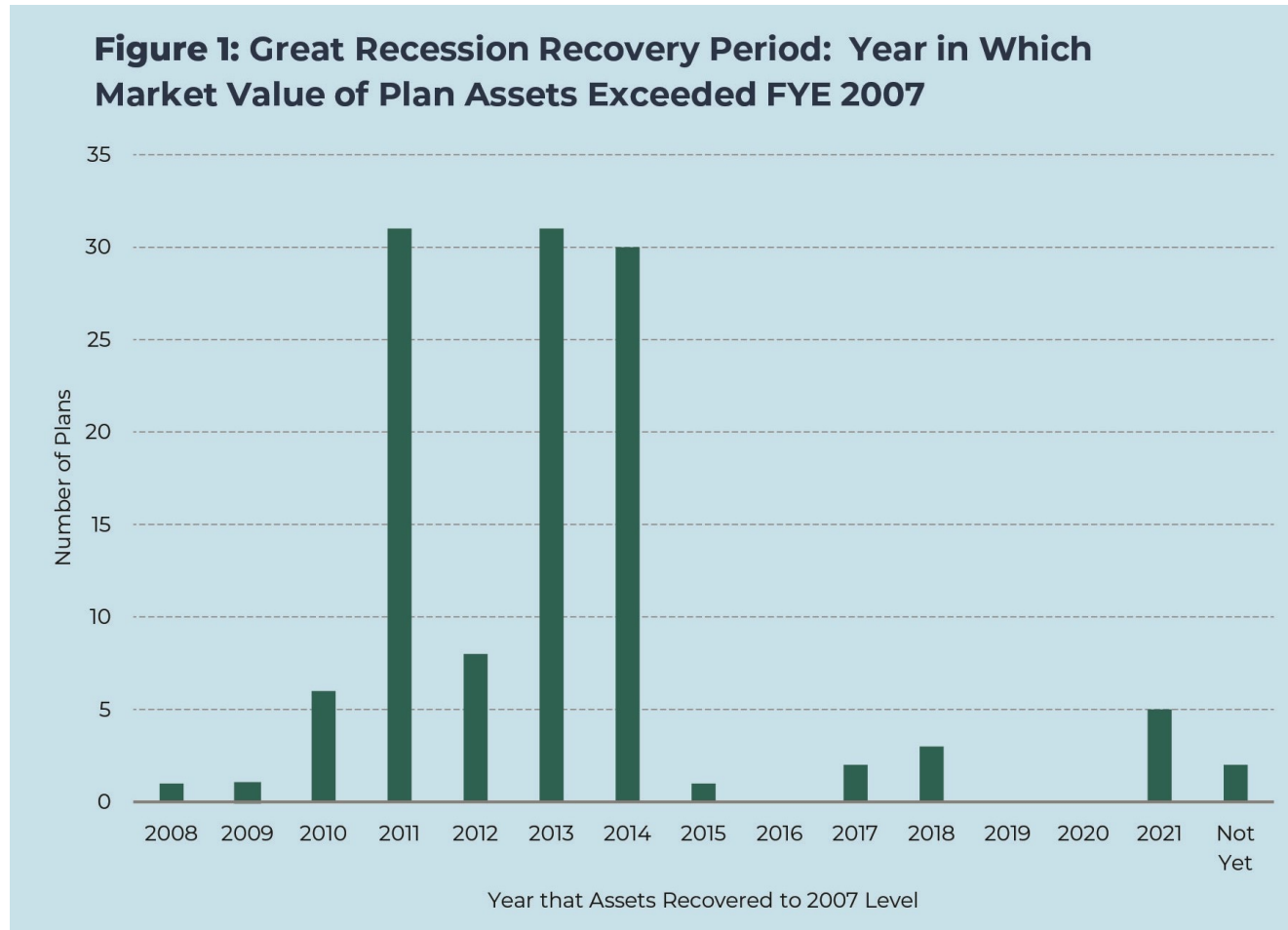
Key Findings

- **The Great Recession, or Global Financial Crisis, which lasted from December 2007 to June 2009,** was the most severe economic downturn since the Great Depression of the 1930s. Nearly all investors, including public pension plans, suffered major losses that took years to recover.
- **Most public plans recovered their pre-recession asset levels within six years,** while continuing to pay over a trillion dollars in benefits.
- **Public plans have made significant changes to their economic and mortality assumptions** since the Great Recession.
- **These assumption changes are a major driver of liabilities and plan costs today,** typically having a much larger impact than investment gains and losses.

Key Findings

- **Other changes, such as adopting stronger mortality assumptions and shorter amortization periods, increased plan costs,** but should strengthen plans in the future.
- **Plan investments have evolved with changing market conditions,** and plans now invest in a more diverse array of asset classes.
- **There is strong evidence that professional asset management served plans well throughout volatile periods,** as public plans rebalanced their investments in beneficial ways throughout this period, often against market cycles.
 - Unfortunately, retail investors sold off equities when markets were down and were slow to re-enter.

The Median Plan Took 6 Years to Recover Its Assets After the Crisis

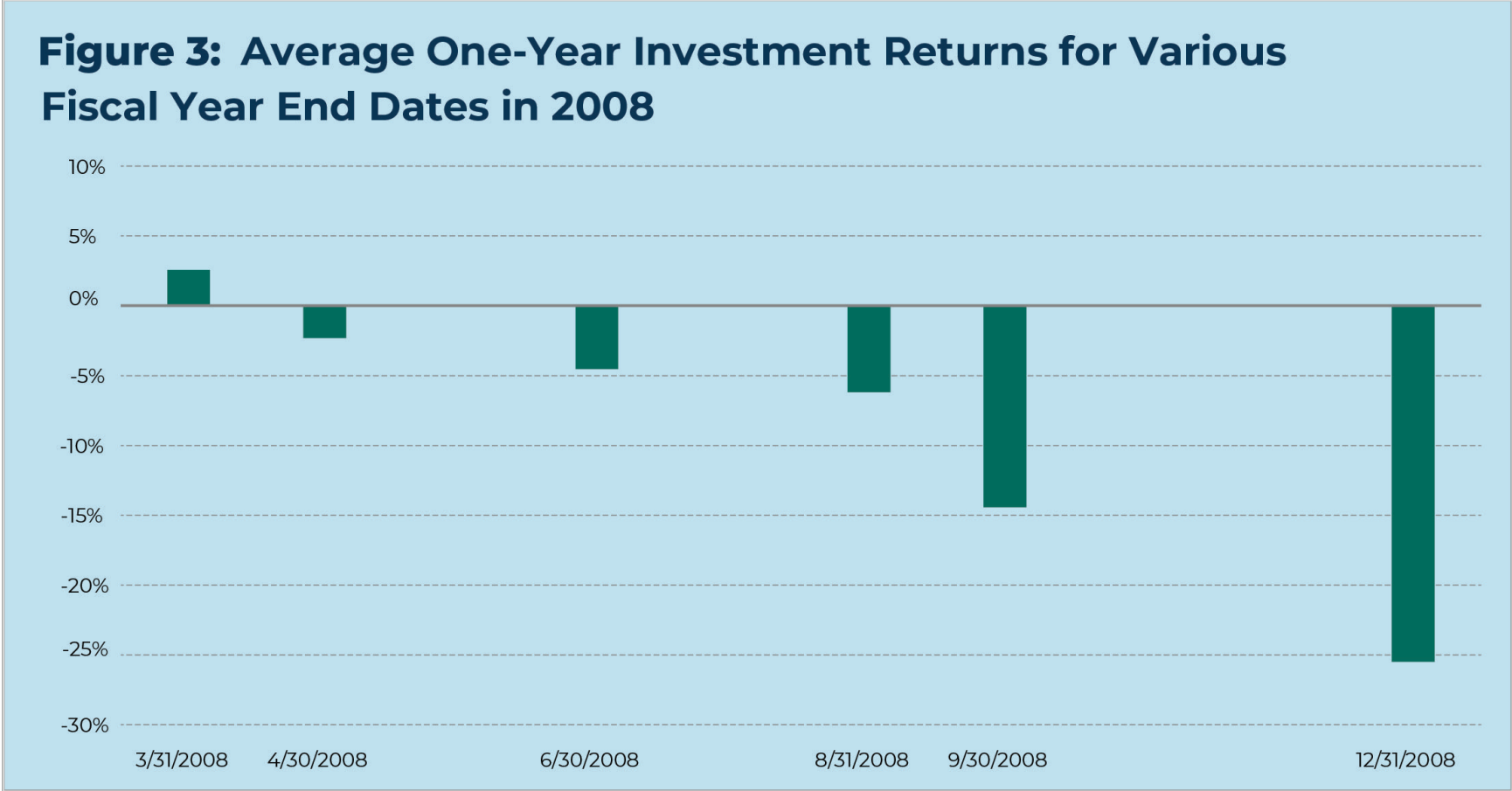


Contributions Dipped in the Years Following the Great Recession

Figure 2: Aggregate Percentage of Required Contribution Paid, 2007-2021

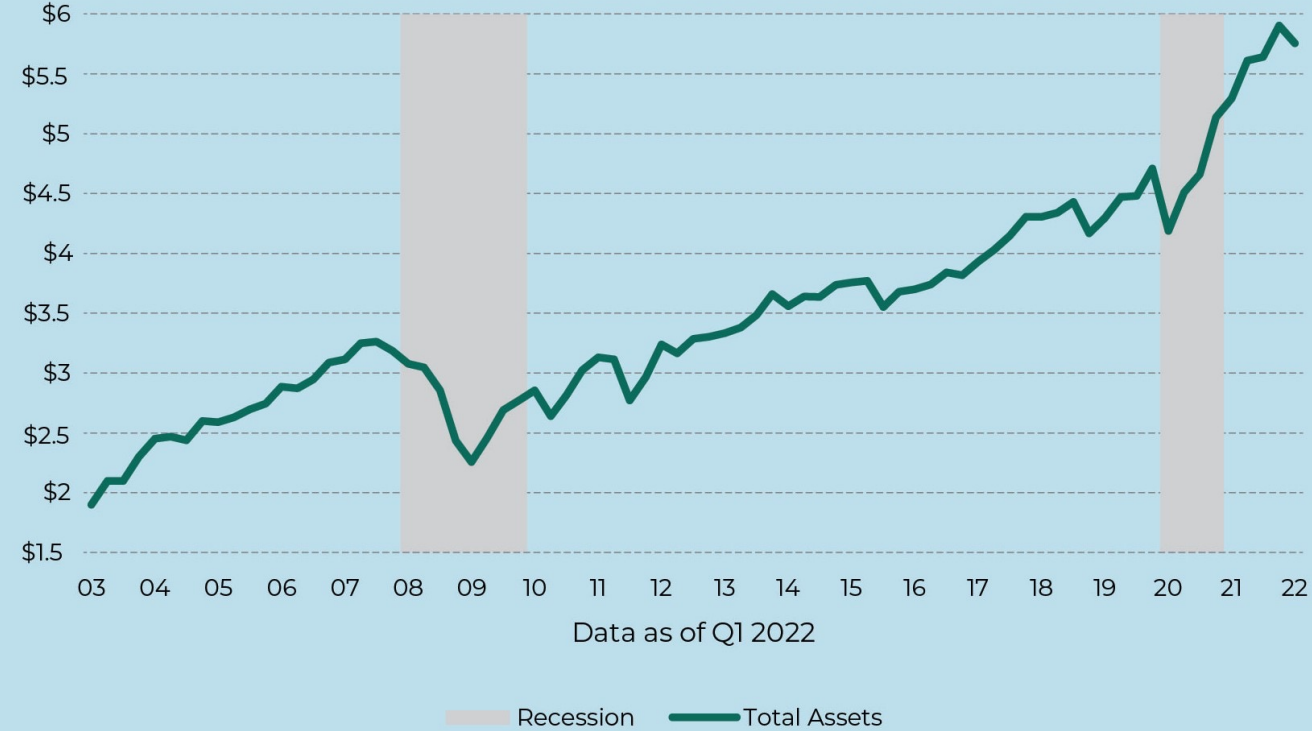


Fiscal Year End Has a Strong Bearing on One-Year Investment Returns

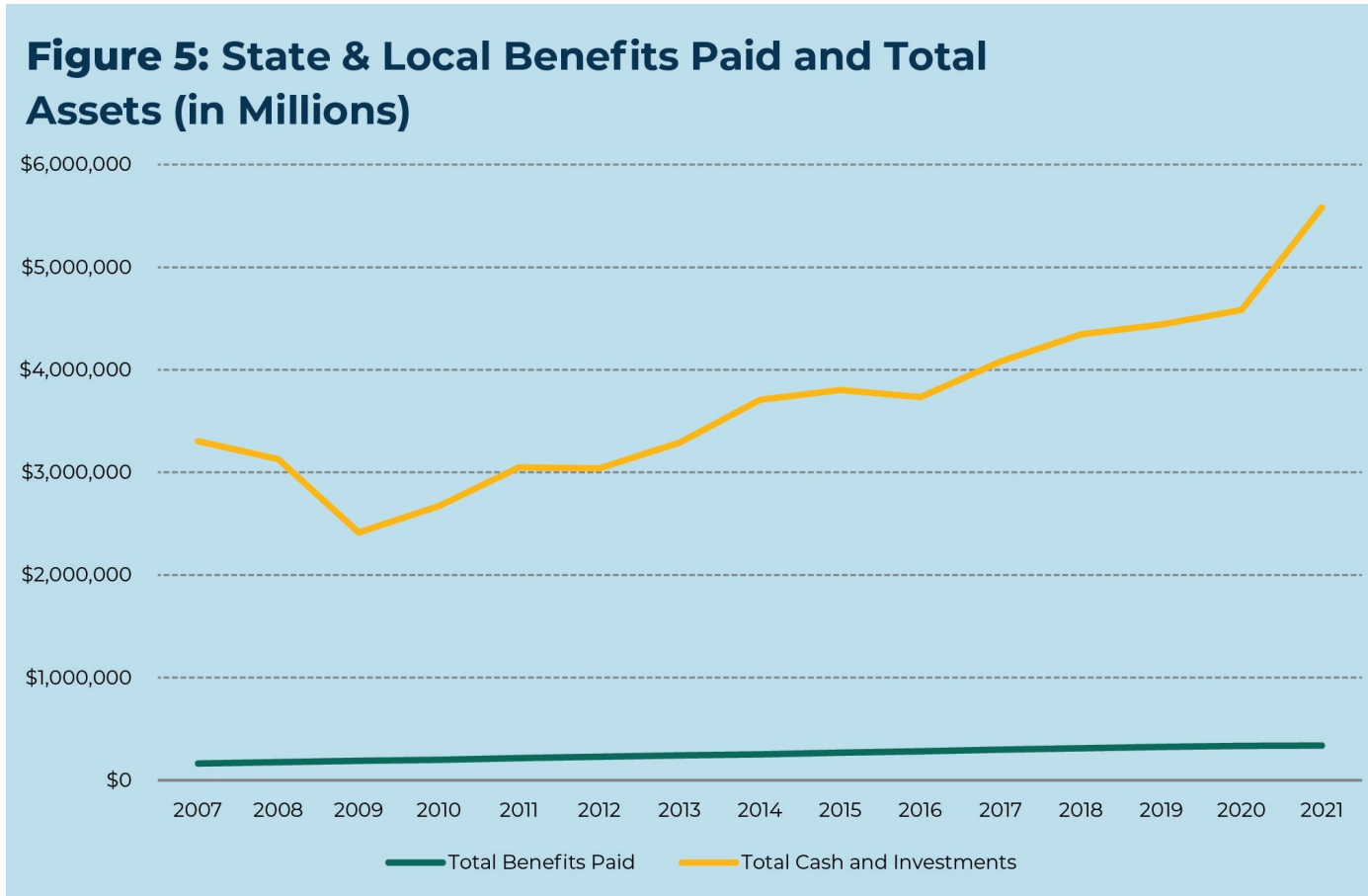


Public Plan Assets Have Reached Record Levels in Recent Years

Figure 4: Quarterly Change in State & Local Defined Benefit Assets, 2003 - 2022 (in Trillions)



Total Public Plan Assets Far Exceed Total Benefits Paid



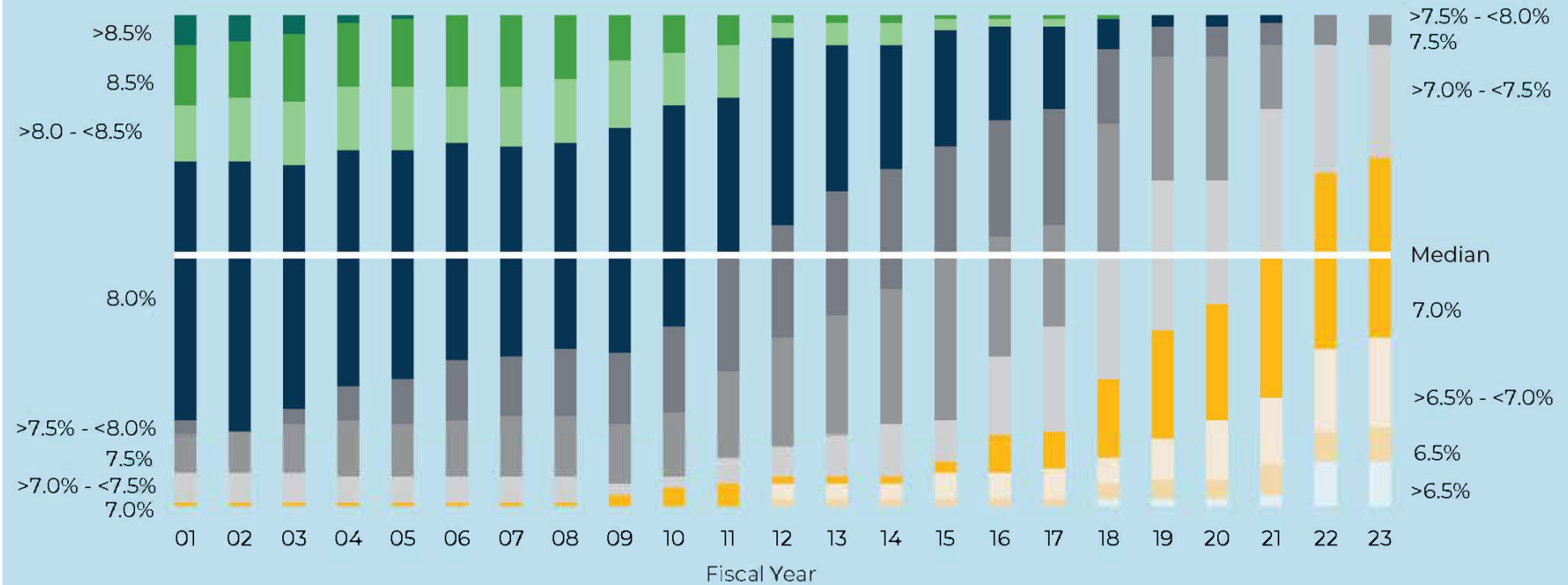
Public Plan Investment Returns Have Generally Exceeded Targets...

Figure 6: Median Annualized Public Pension Investment Returns for Periods Ended 6/30/21 and 12/31/21

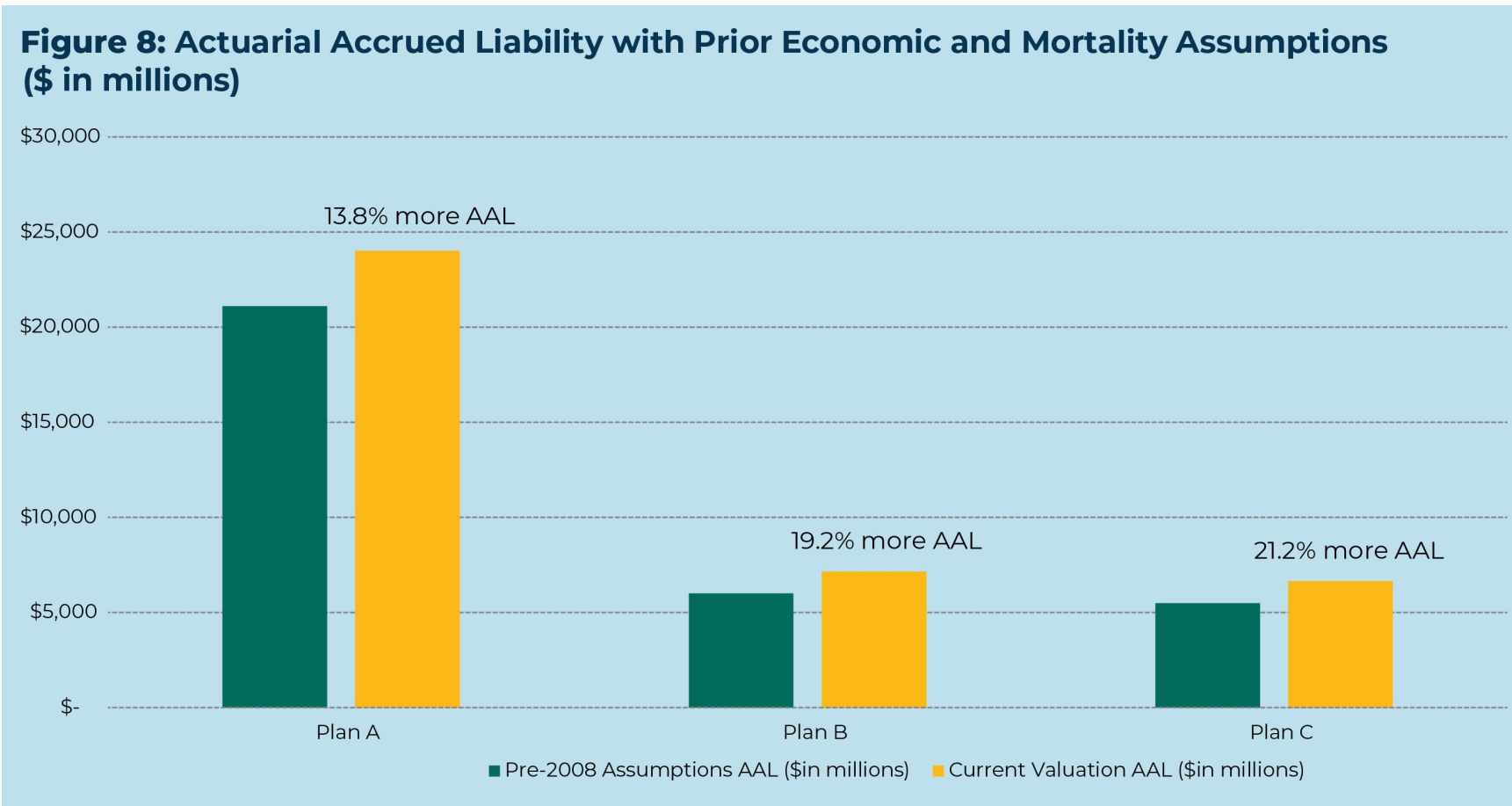


...But Those Targets Have Been Trending Downward This Century

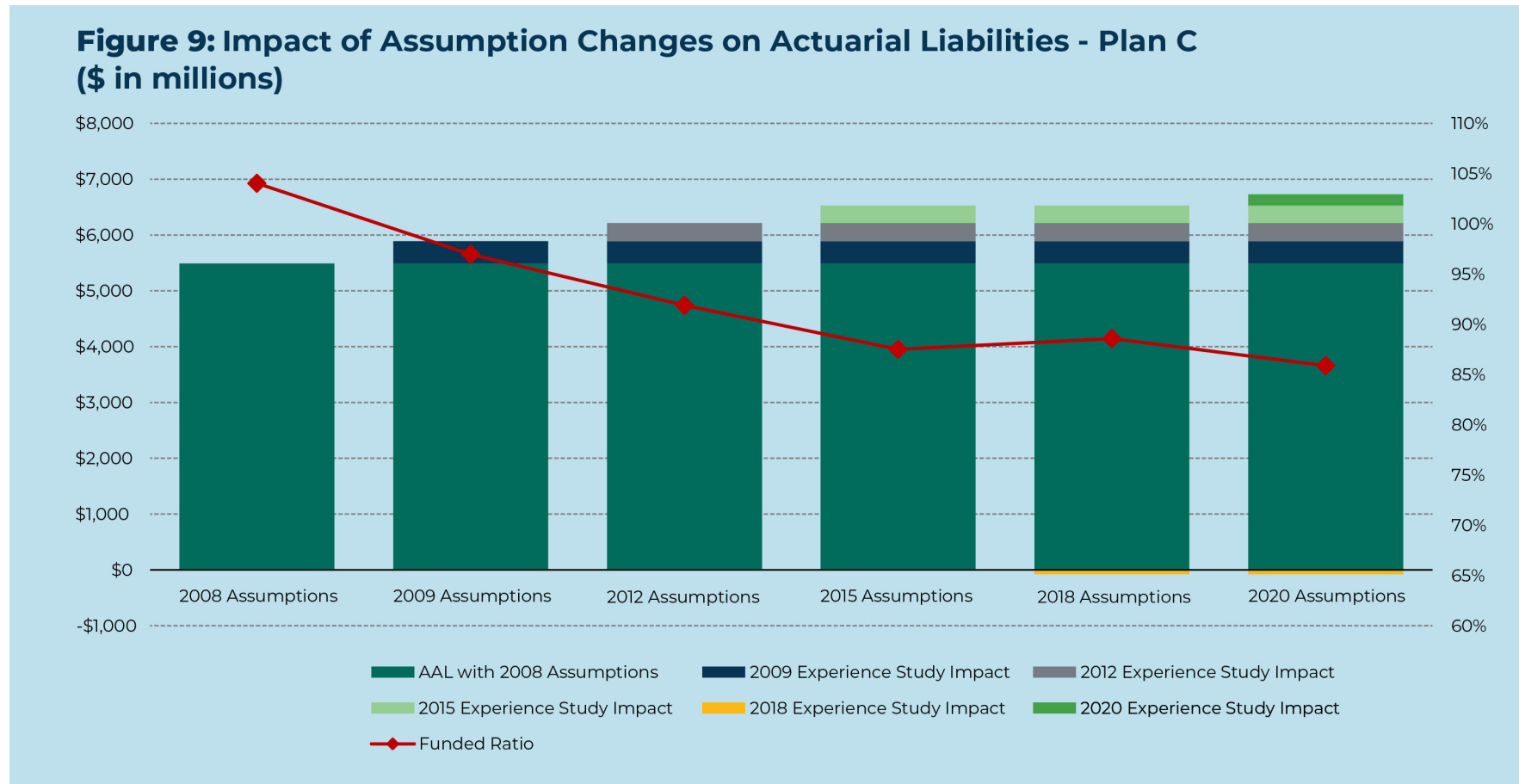
Figure 7: Change in Distribution of Public Pension Investment Return Assumption, FY 01 to FY 22



Actuarial Accrued Liability Has Increased as Assumptions Have Changed

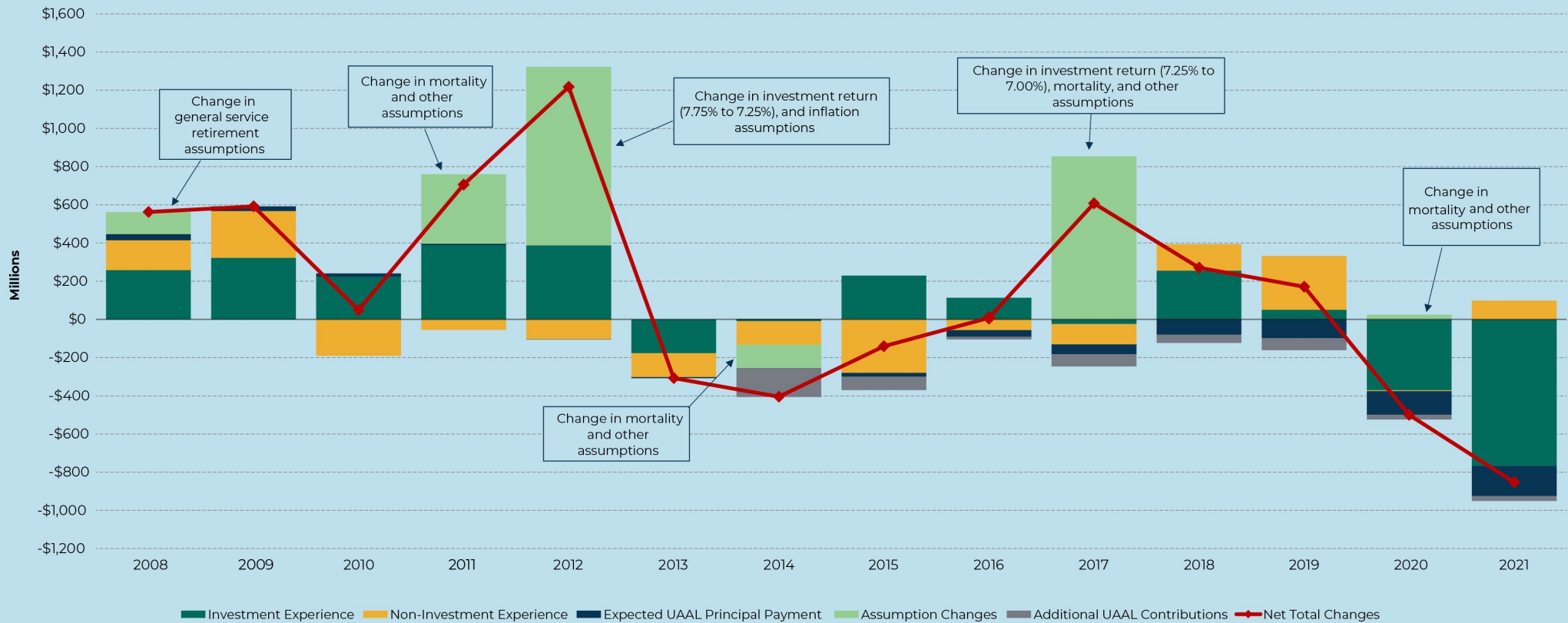


Recent Experience Studies Have Typically Led to Increasing Liabilities



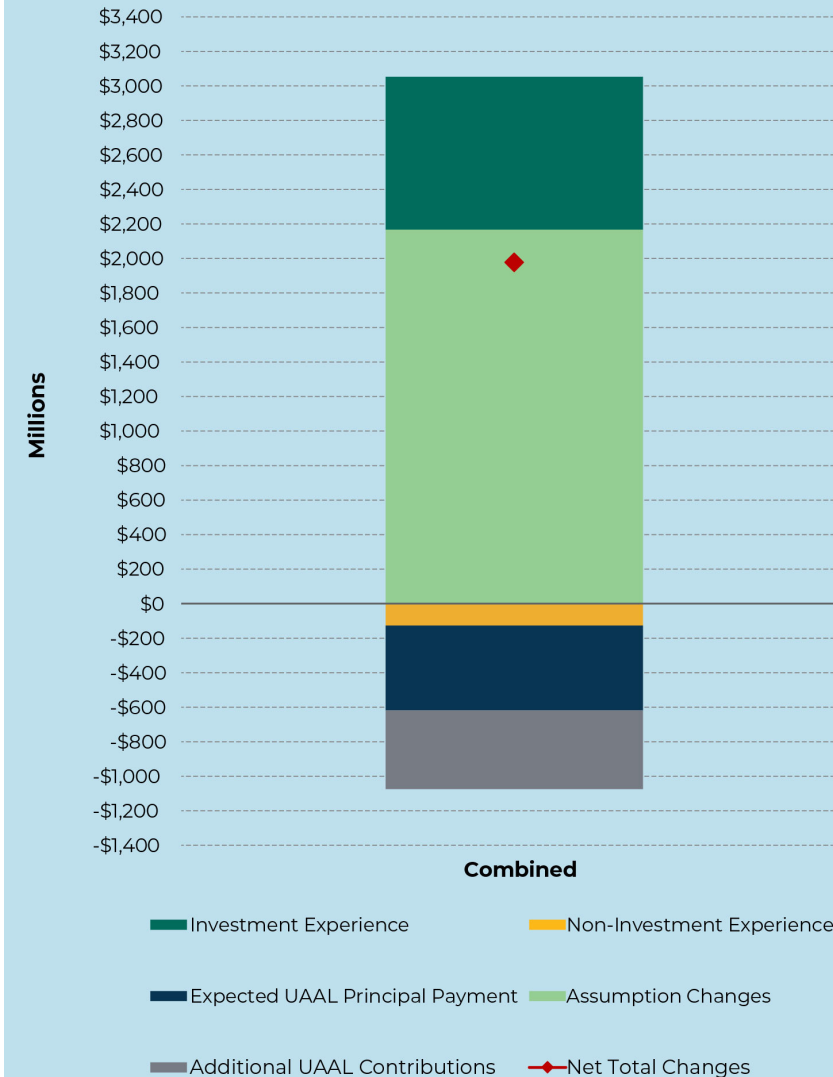
Multiple Factors Impact Liability

Figure 10: Factors that Changed UAAL from 2008 to 2021 Valuations - Plan A (in Millions)



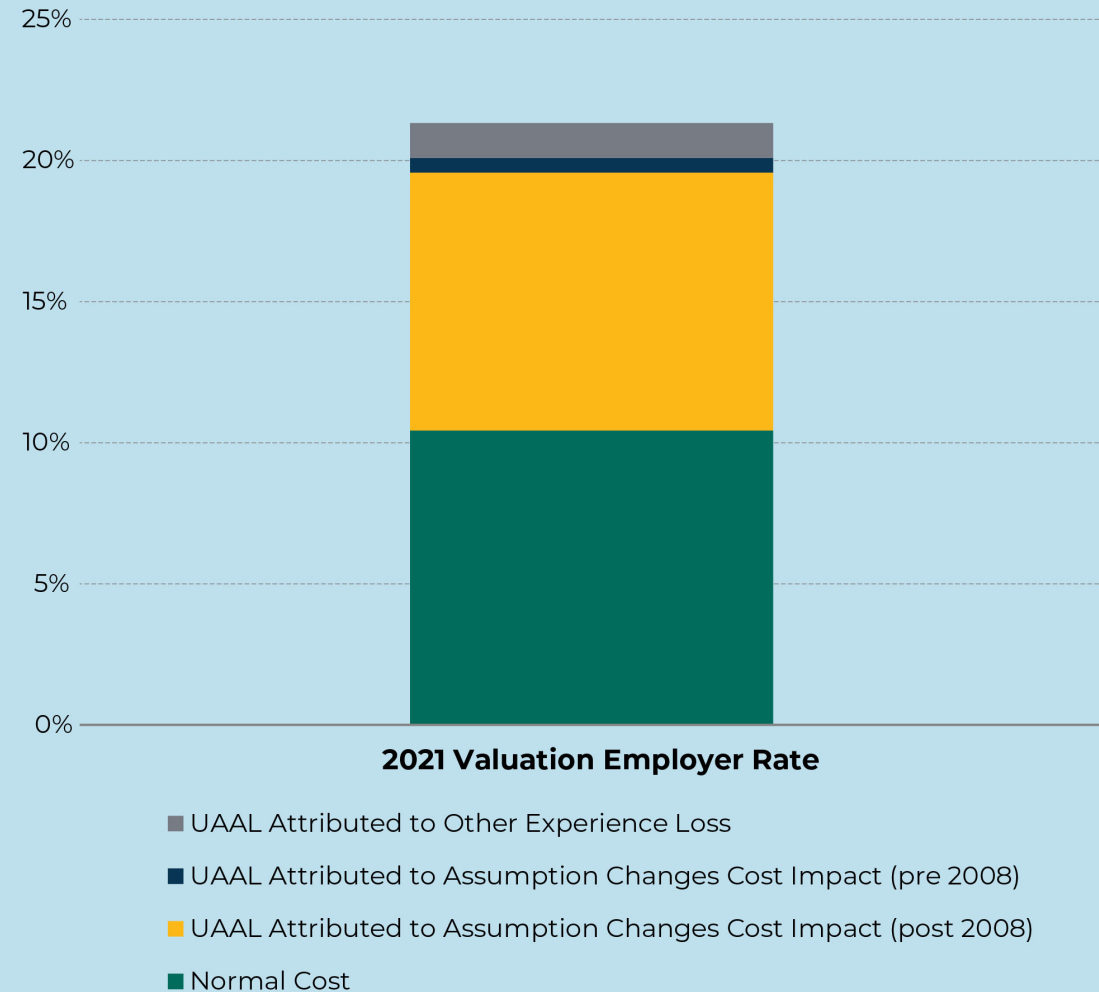
Assumption Changes Fully Account for the Increase in UAAL Since 2008 – Plan A

Figure 11: Factors that Changed UAAL from 2008 to 2021 Valuations, All Sources Combined - Plan A (in Millions)



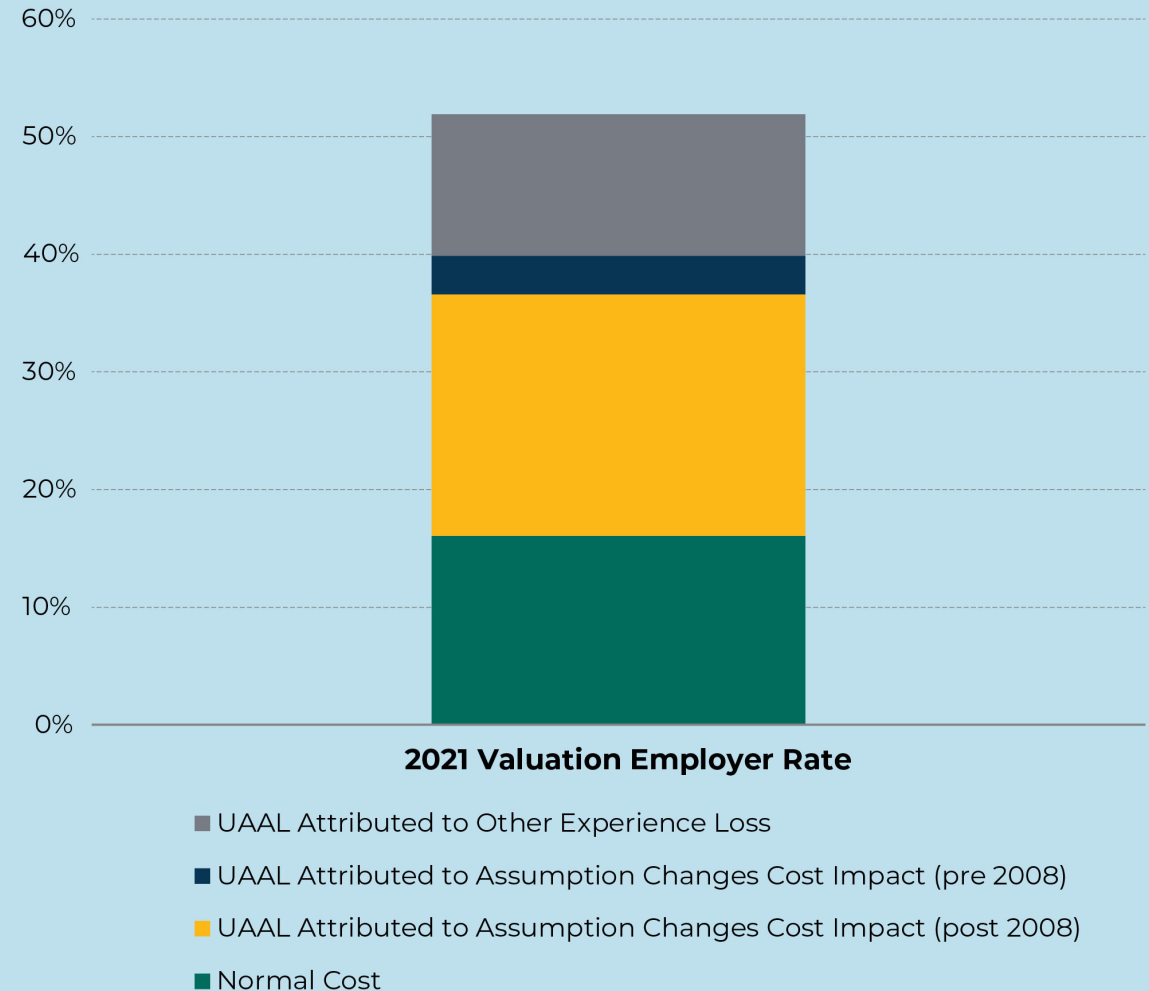
Post-2008 Assumption Changes Account for Significant Portion of Employer Costs – Plan B

Figure 12: 2021 Valuation Employer Rate Breakdown - Plan B



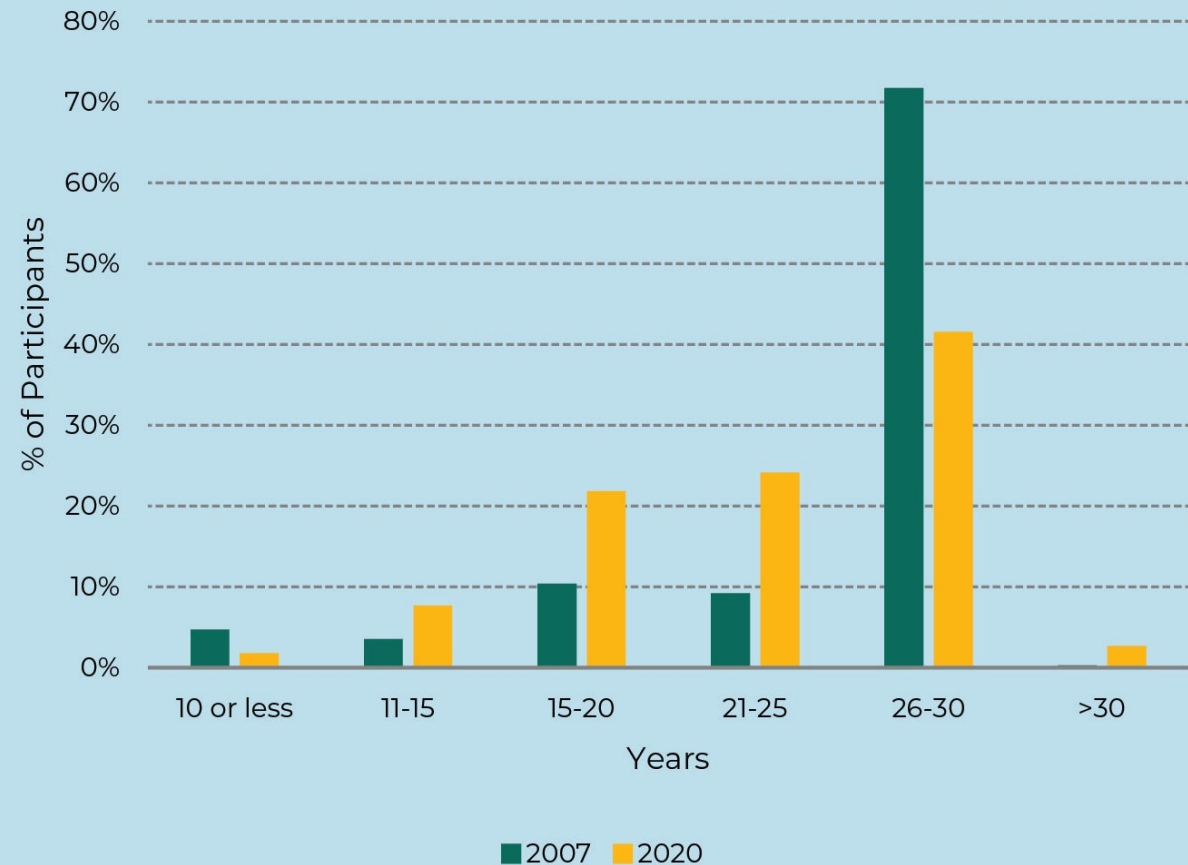
Post-2008 Assumption Changes Exceed Normal Cost for Sample Plan C

Figure 13: 2021 Valuation Employer Rate Breakdown - Plan C



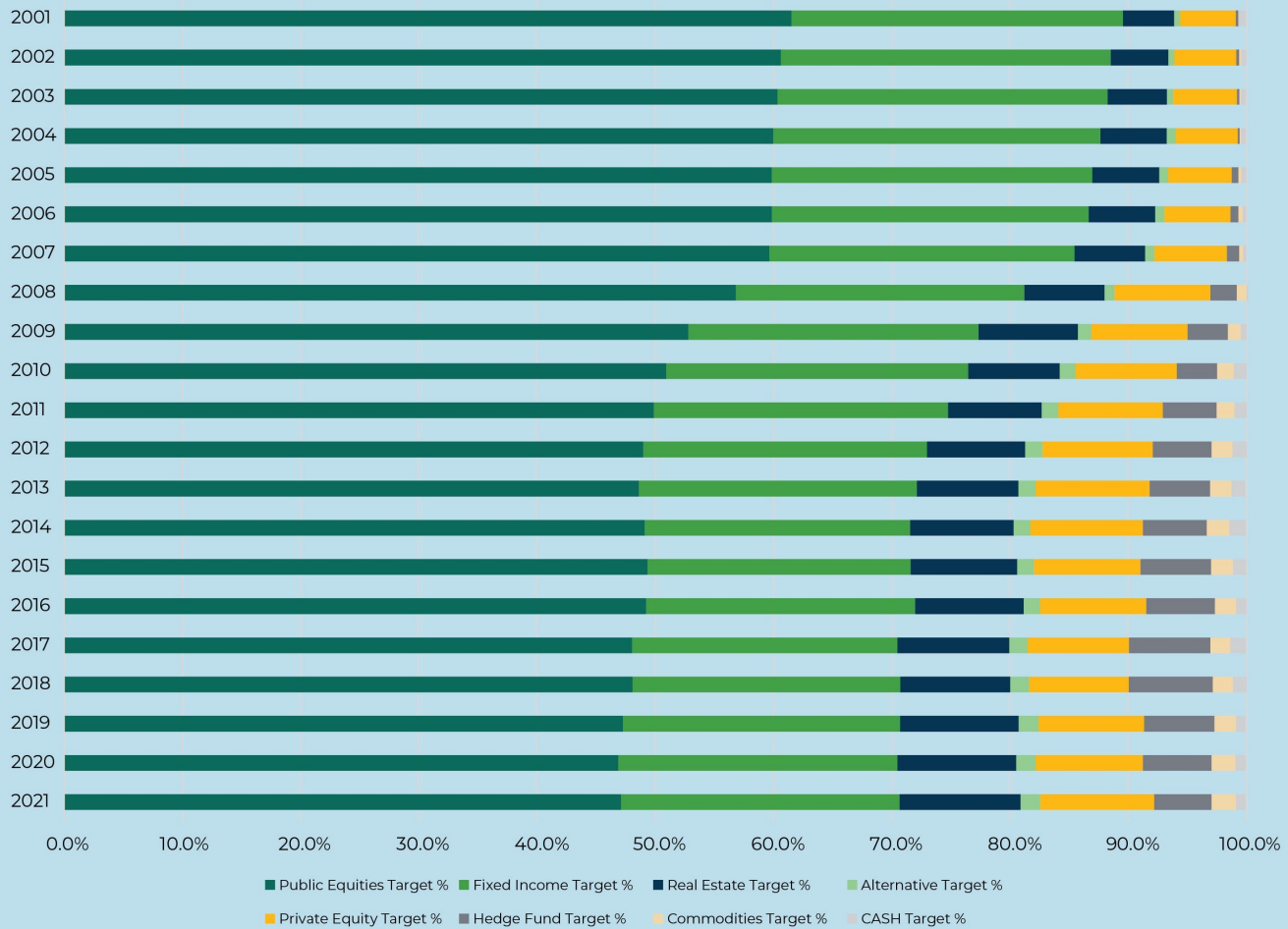
Public Plans Have Tightened Amortization Periods in Recent Years

Figure 14: Remaining Amortization Periods of Public Plans in 2007 and 2020: Share of Participants

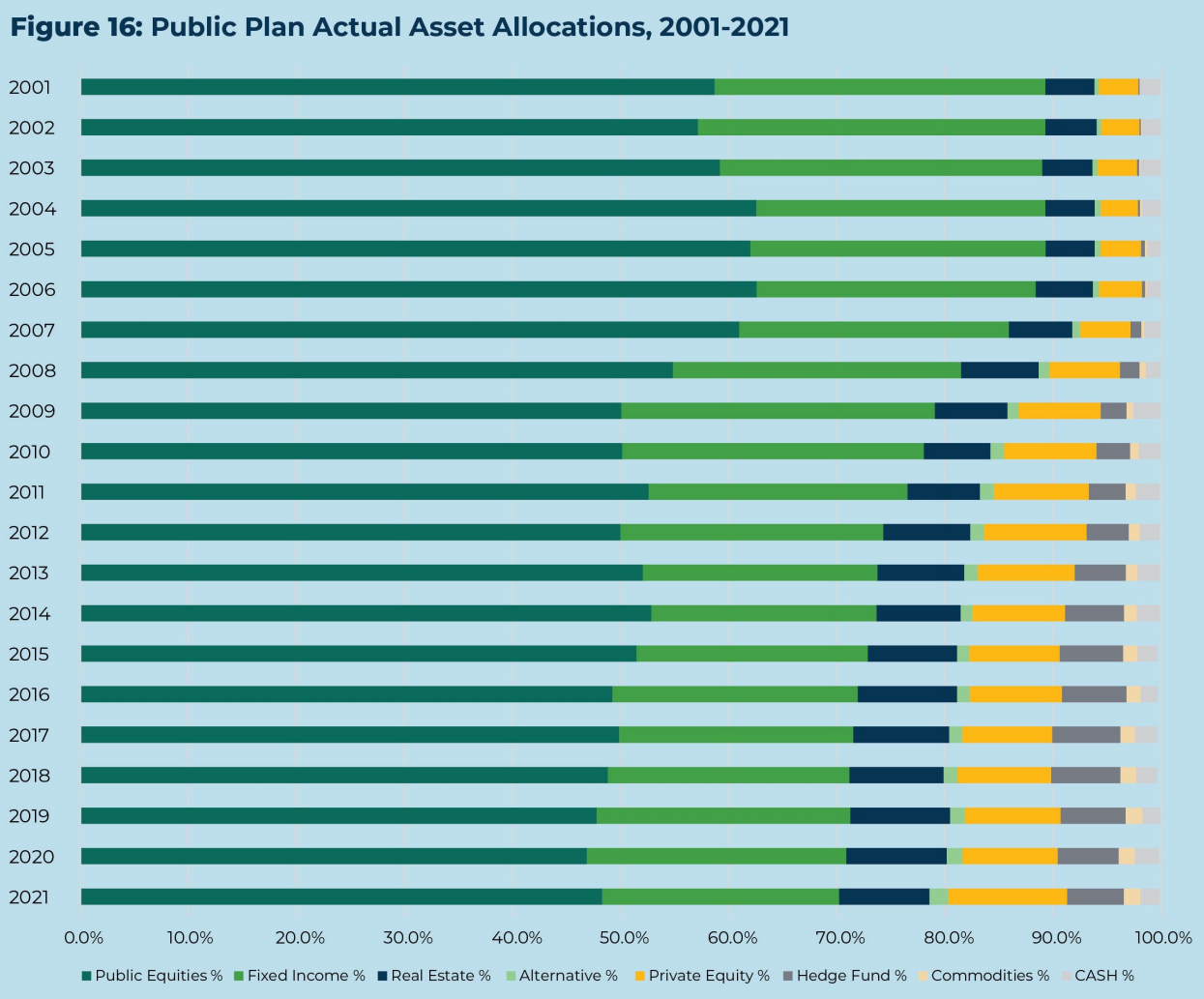


Target Asset Allocation Has Evolved

Figure 15: Public Plan Target Asset Allocations, 2001-2021

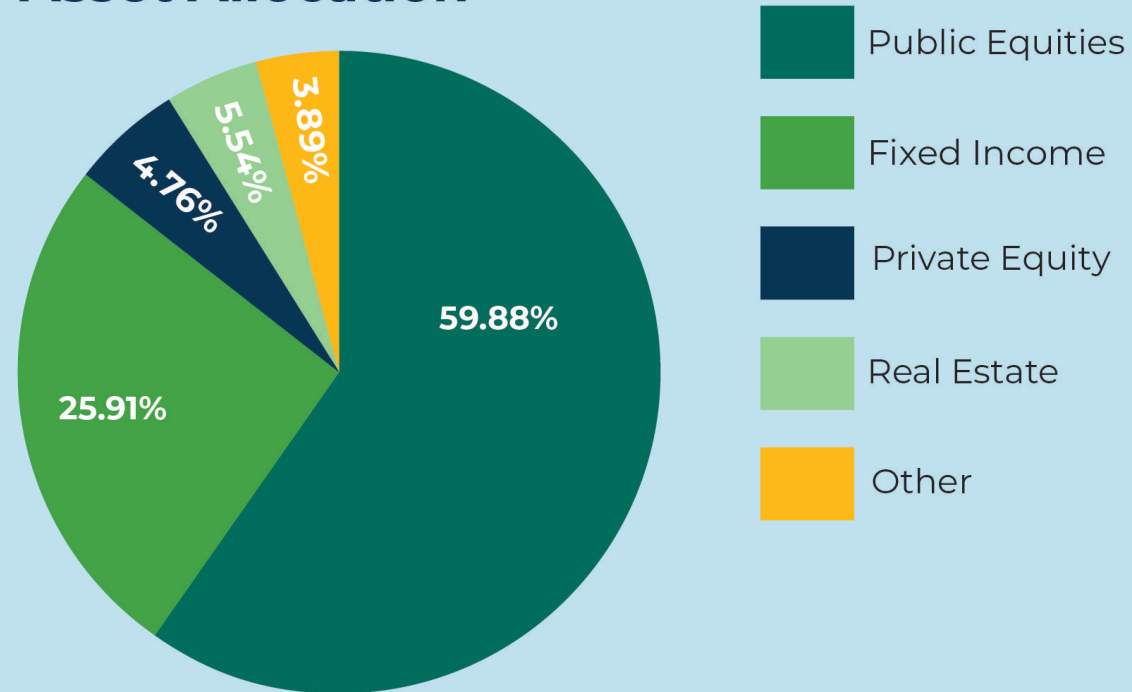


Market Changes Impact Actual Allocations



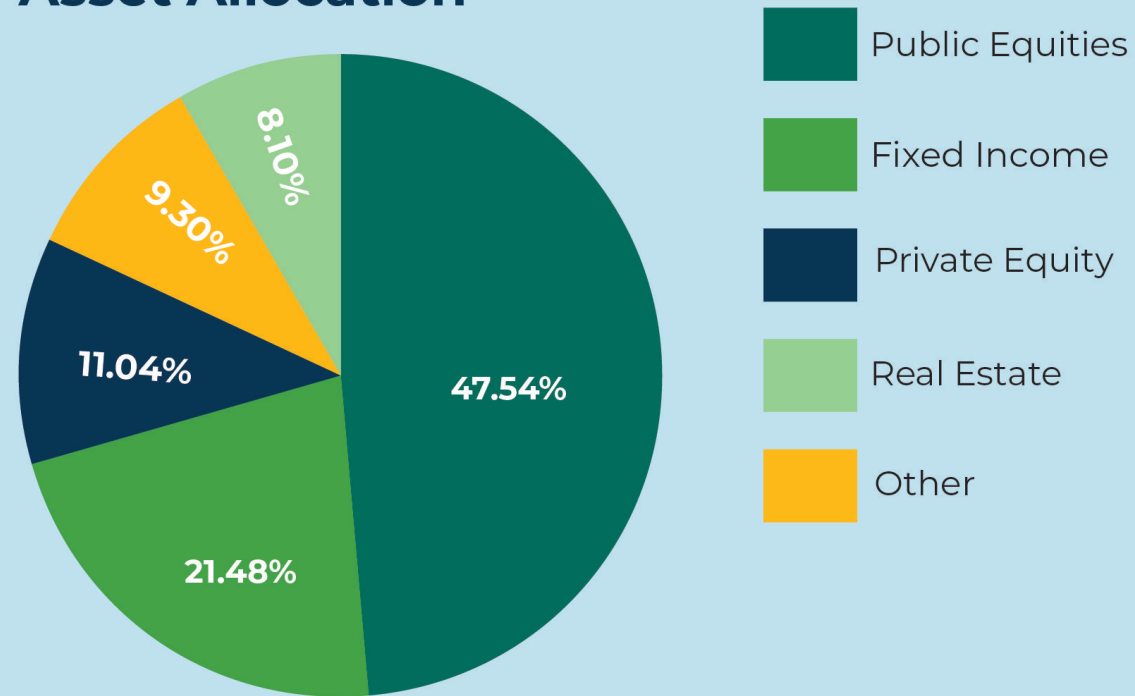
Asset Allocation Before the Crisis Tilted More Toward Public Equities and Fixed Income

Figure 17A: FY 2007 Aggregate Asset Allocation

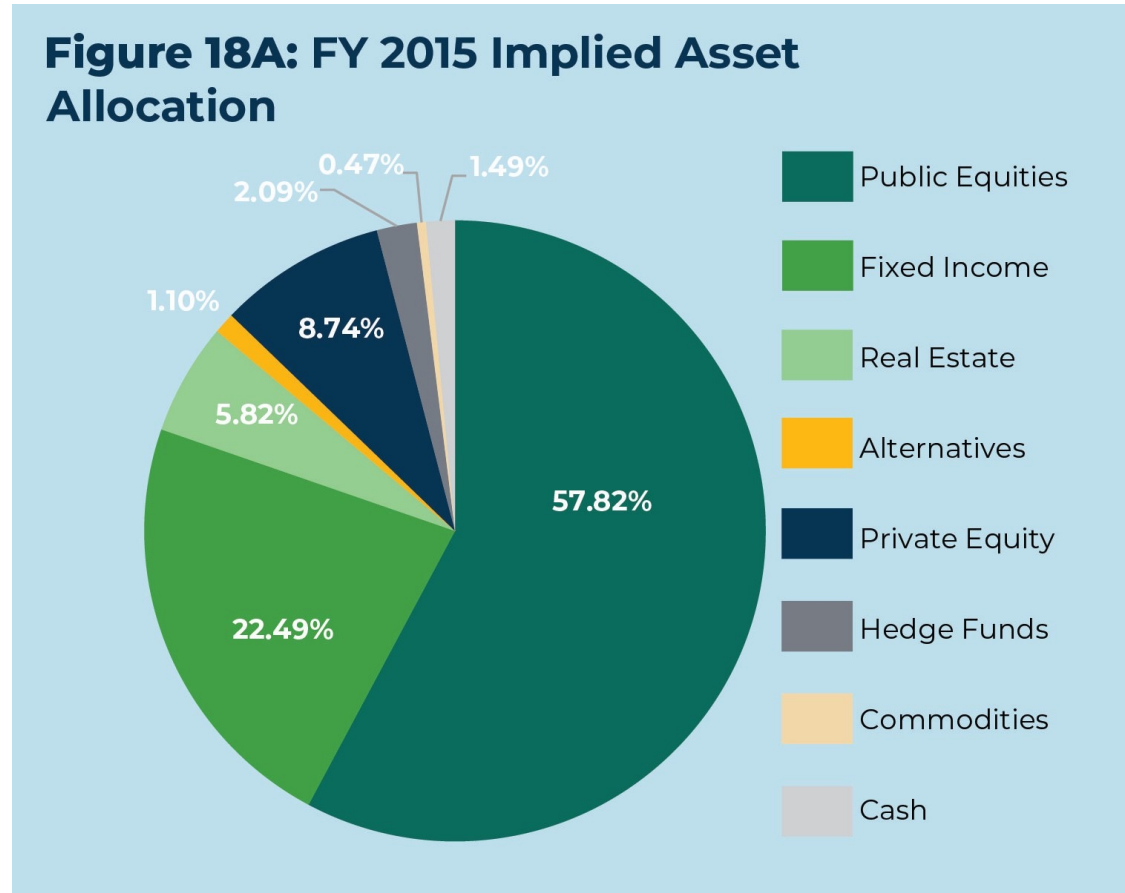


Allocations to Other Asset Classes Have Increased Since the Financial Crisis

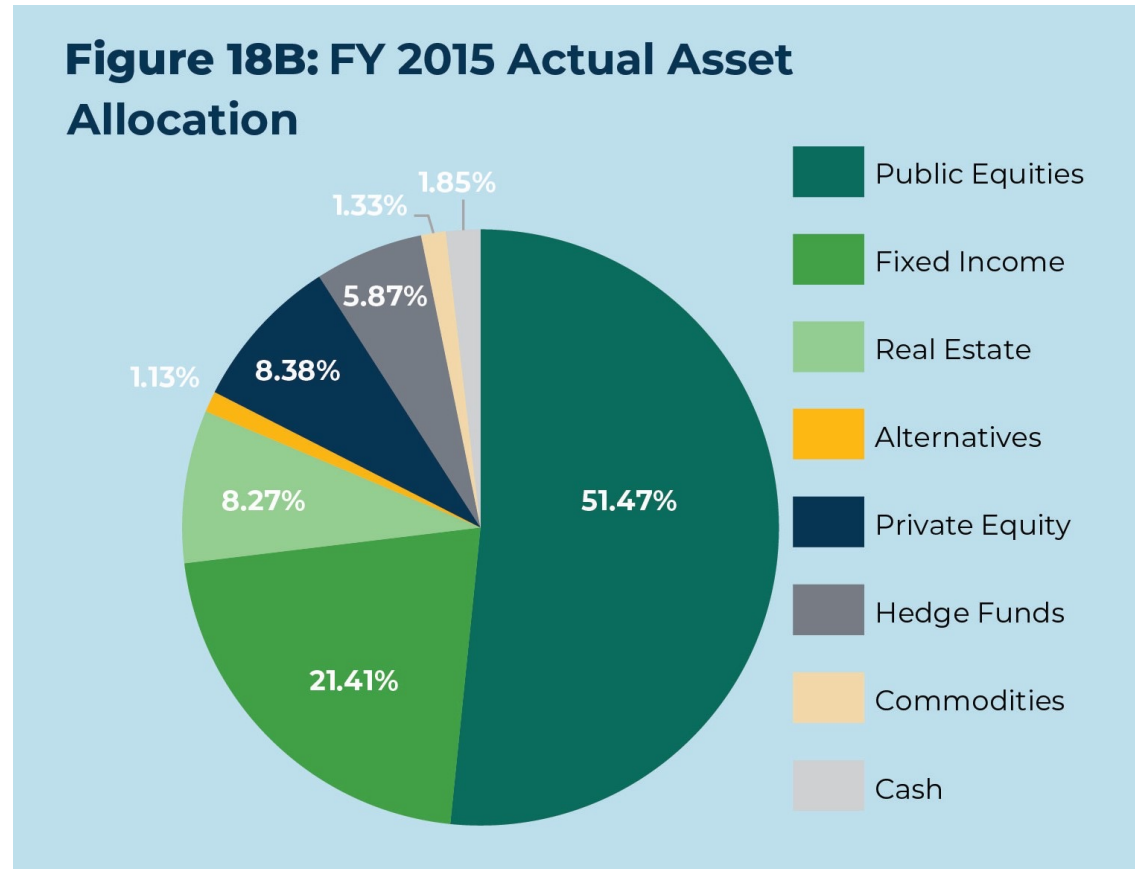
Figure 17B: FY 2021 Aggregate Asset Allocation



Asset Allocation is Not Determined Simply by Market Returns...

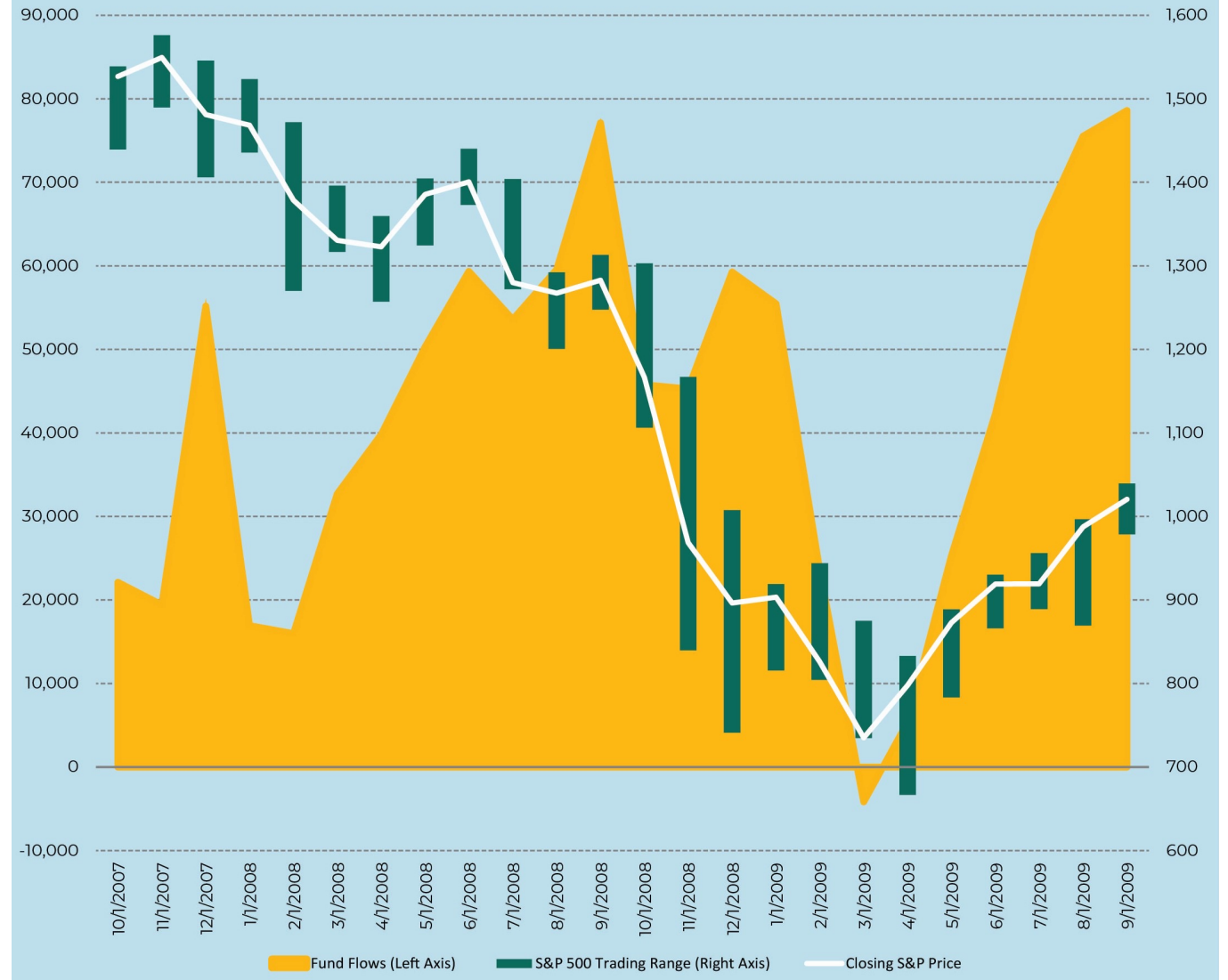


...Investment Professionals at Plans are Actively Rebalancing Portfolios



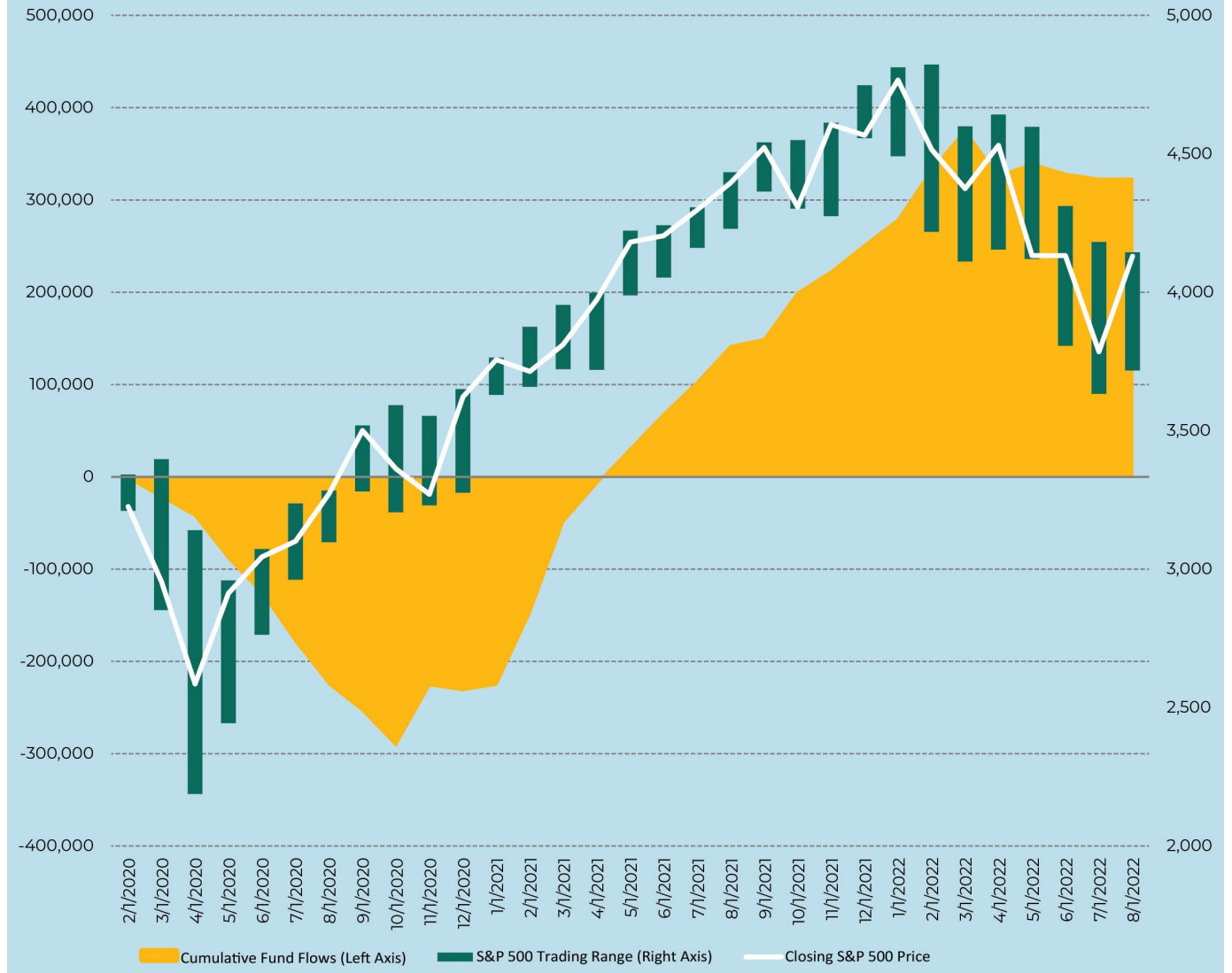
Fund Flows Show Retail Investors Exhibited Poor Market Timing – GFC

Figure 19: Cumulative Retail Fund Flows and S&P 500 Index Trading Range during the Global Financial Crisis



Fund Flows Show Retail Investors Exhibited Poor Market Timing – Covid-19 Pandemic

Figure 20: Cumulative Retail Fund Flows and S&P 500 Index Trading Range during the COVID-19 Pandemic



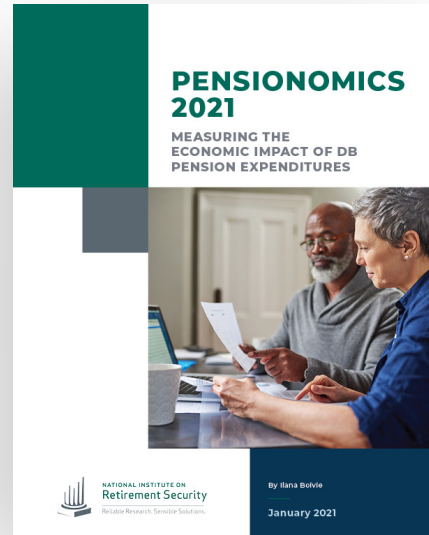
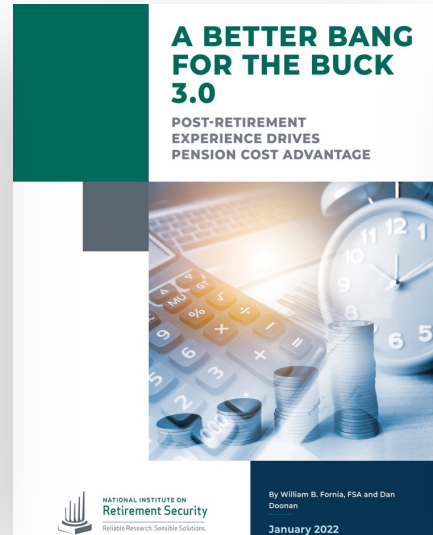
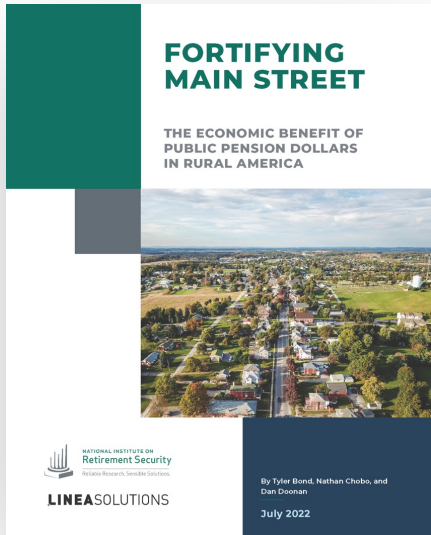
Takeaways

- Throughout the period of the downturn and recovery, roughly 2007-2013, public plans still made \$1.4 trillion in benefit payments.
- Public plans have lowered discount rates, adopted generational mortality, and shortened amortization periods.
 - These actions are key drivers of increased costs and liabilities, impacting plans far more than investment experience. But, these actions should position plans better for the future.
- Plans, with professional management, adopted to changing conditions since 2007, and will likely continue to as the current environment evolves with rising interest rates and inflation.

Questions



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