FACT SHEET

NATIONAL INSTITUTE ON
Retirement Security
Reliable Research. Sensible Solutions.

Lessons from Well-Funded Public Pensions: An Analysis of Six Plans that Weathered the Financial Storm

Overview

The National Institute on Retirement Security has released a research report entitled *Lessons from Well-Funded Public Pensions: An Analysis of Six Plans that Weathered the Financial Storm*. The report examines selected statewide defined benefit public pension plans to identify common elements of plans that remained well funded despite two severe economic downturns.

The study was conducted via a comprehensive analysis of the funding policy, benefit design and economic assumptions for the following six public pension plans:

- Delaware State Employees Pension Plan
- Idaho Public Employee Retirement Fund
- Illinois Municipal Retirement Fund
- New York State Teachers' Retirement System
- North Carolina Teachers & State Employees Retirement System
- Teacher Retirement System of Texas

Key Findings

The study identifies six features that enabled plans examined to remain sustainable and affordable:

- Employer pension contributions that pay the full amount of the annual required contribution, and that maintain stability in the contribution rate over time;
- Employee contributions to help share in the cost of the plan;
- Benefit improvements, such as multiplier increases, that are actuarially valued before adoption and properly funded upon adoption;
- Cost of living adjustments (COLAs) that are granted responsibly, for example through an ad hoc COLA that is amortized quickly, or an automatic COLA that is capped at a modest level;
- “Anti-spiking” measures that ensure actuarial integrity and transparency in pension benefit determination; and
- Economic actuarial assumptions, including both the discount rate and inflation rate, that can reasonably be expected to be achieved over the long term.

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Why This Study

The financial crisis presented challenges to public pensions and funding levels. All investors saw a decline in assets and funded status – it wasn't exclusive to pensions. Today, plans are recovering as the market rebounds and are continuing to keep their retirement promises. Simultaneously, states and localities around the country are examining and enacting reform measures to ensure the continued sustainability of their pension plans.

Against this backdrop, there is much attention on the funded status of public pensions. Yet, much of the attention fails to focus on plans that actually weathered the financial storm. Instead, the spotlight shines on the minority of plans that weren't well funded going into crisis, and now have deeper financial issues in the wake of the Great Recession.

This report fills a research gap by focusing on public pension plans that remained well funded since 2000 despite two severe economic downturns. By examining key elements of funding policy, benefit design, and economic assumptions, the study provides "lessons learned" as policymakers implement changes moving forward to ensure the continued sustainability of public pension plans.

Authors

Dr. Jun Peng is an Associate Professor in public administration at the University of Arizona School of Government and Public Policy. His research focuses primarily focuses on U.S. state and local government financial management, and also involved in research on budgetary transparency in China. His is the author the book, "State and Local Pension Fund Management" that was published in 2008. Dr. Peng earned his Ph.D from the State University of New York at Albany.

Ilana Boivie is an economist and NIRS Director of Programs. She is involved with directing virtually all NIRS research and programming. She was the lead author on NIRS groundbreaking *Pensionomics* report, which was the first comprehensive analysis of the national economic footprint of public pension plans. She earned her M.A. in Economics at New Mexico State University, where she studied applied econometrics and experimental statistics.