Examining the Experiences of Public Pension Plans Since the Great Recession

Webinar

October 13, 2022

LAZARD ASSET MANAGEMENT

Segal

NATIONAL INSTITUTE ON Retirement Security

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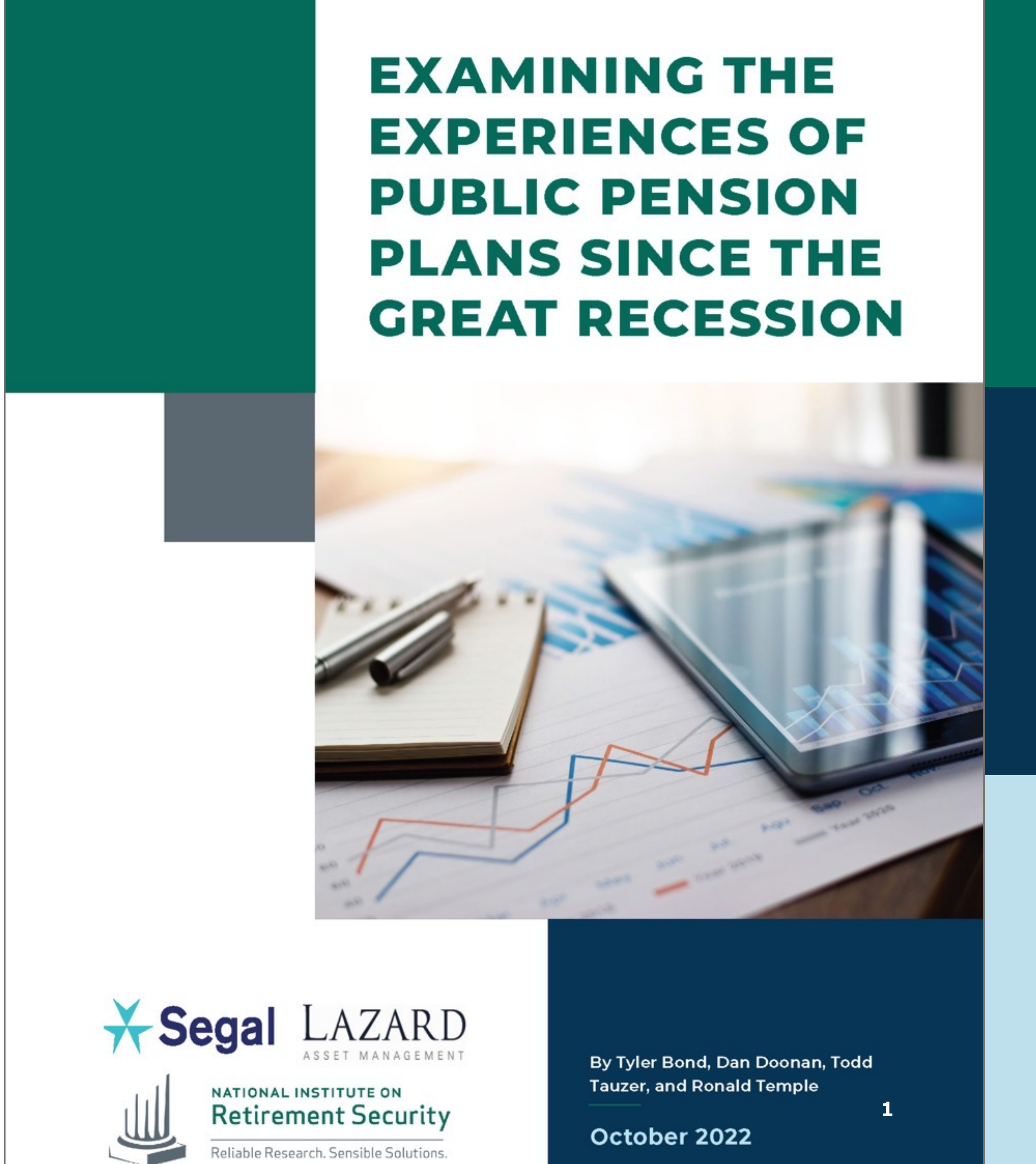
AGENDA

01. Introductions

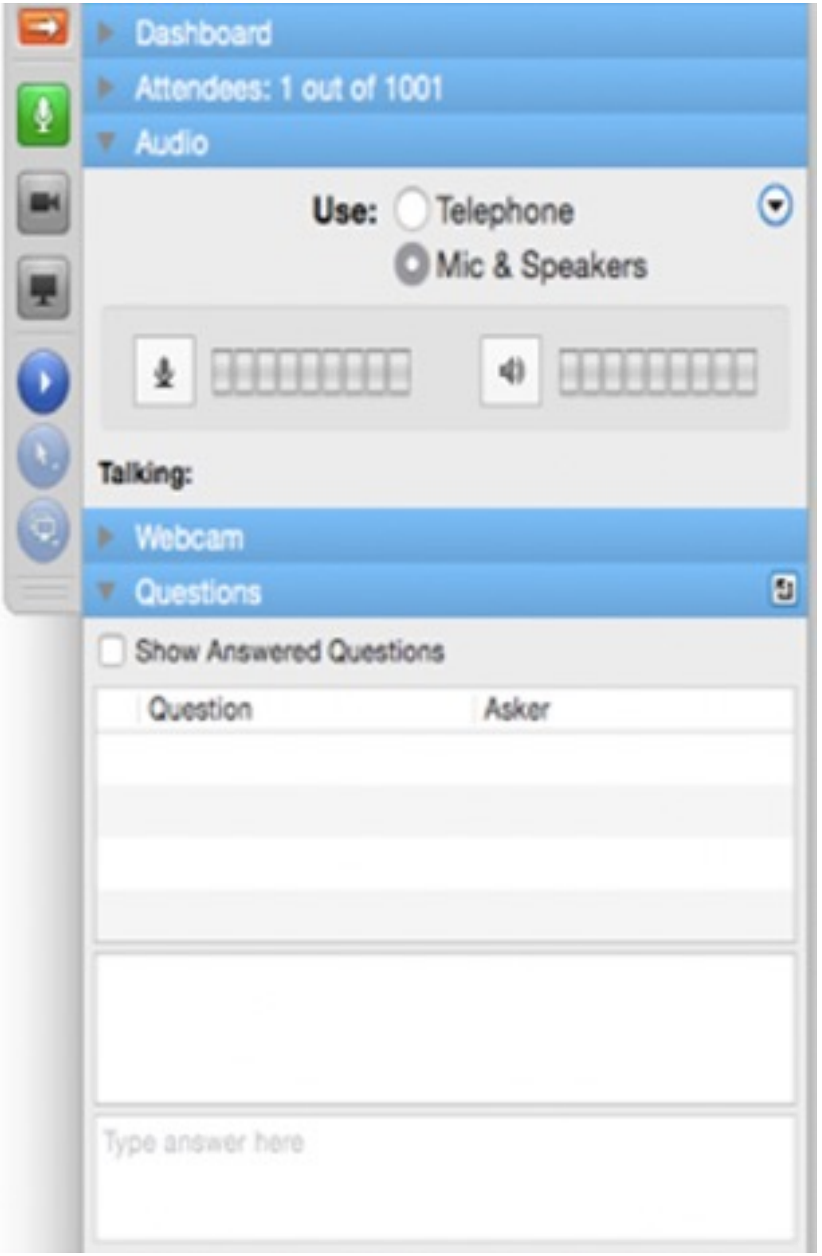
02. Research Review

03. Q&A



Logistics

- Attendees in listen only mode.
- Question 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



SPEAKERS

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Lazard Managing Director

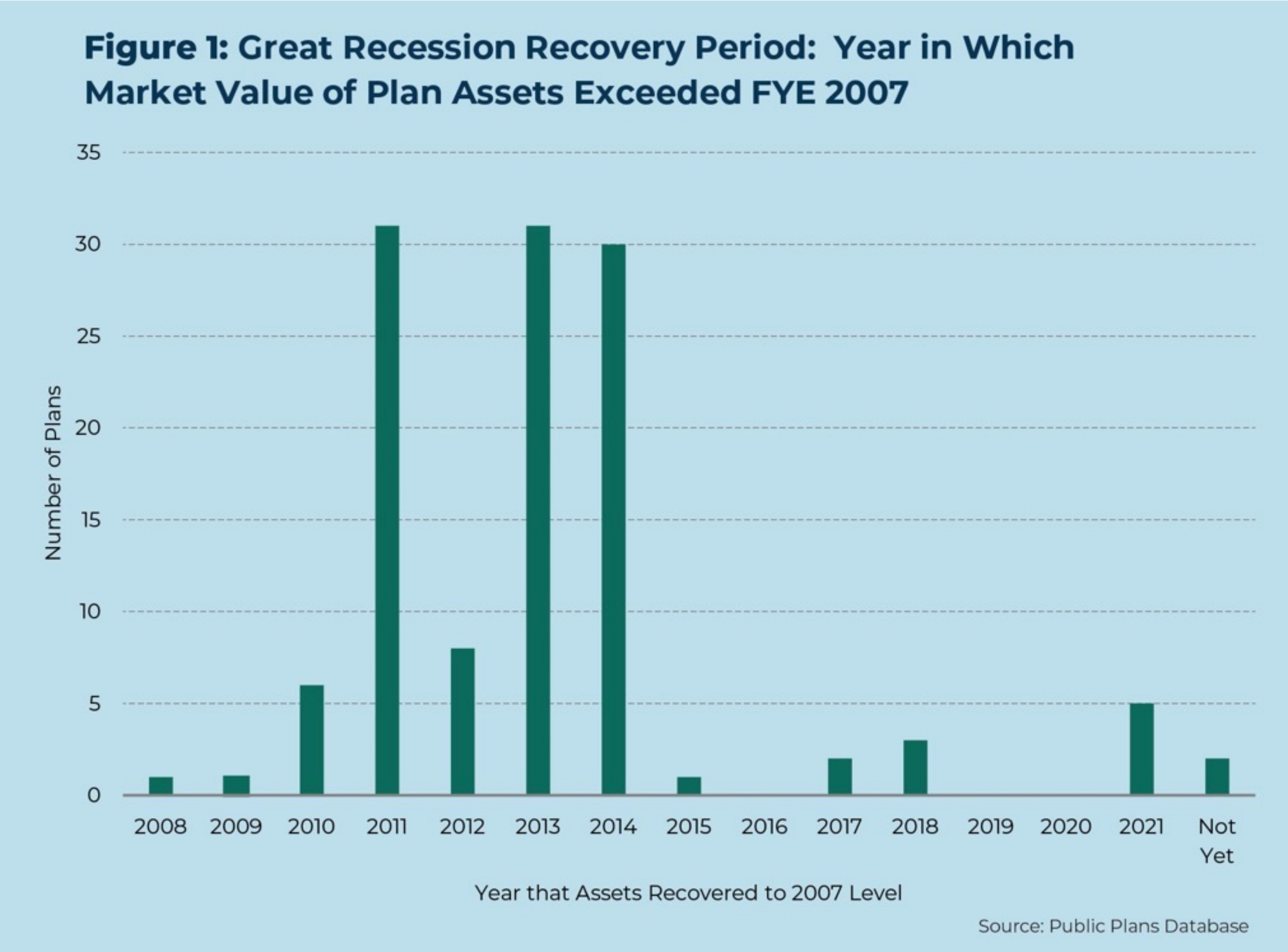
Key Findings

- **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. Some factors impact all plan types.

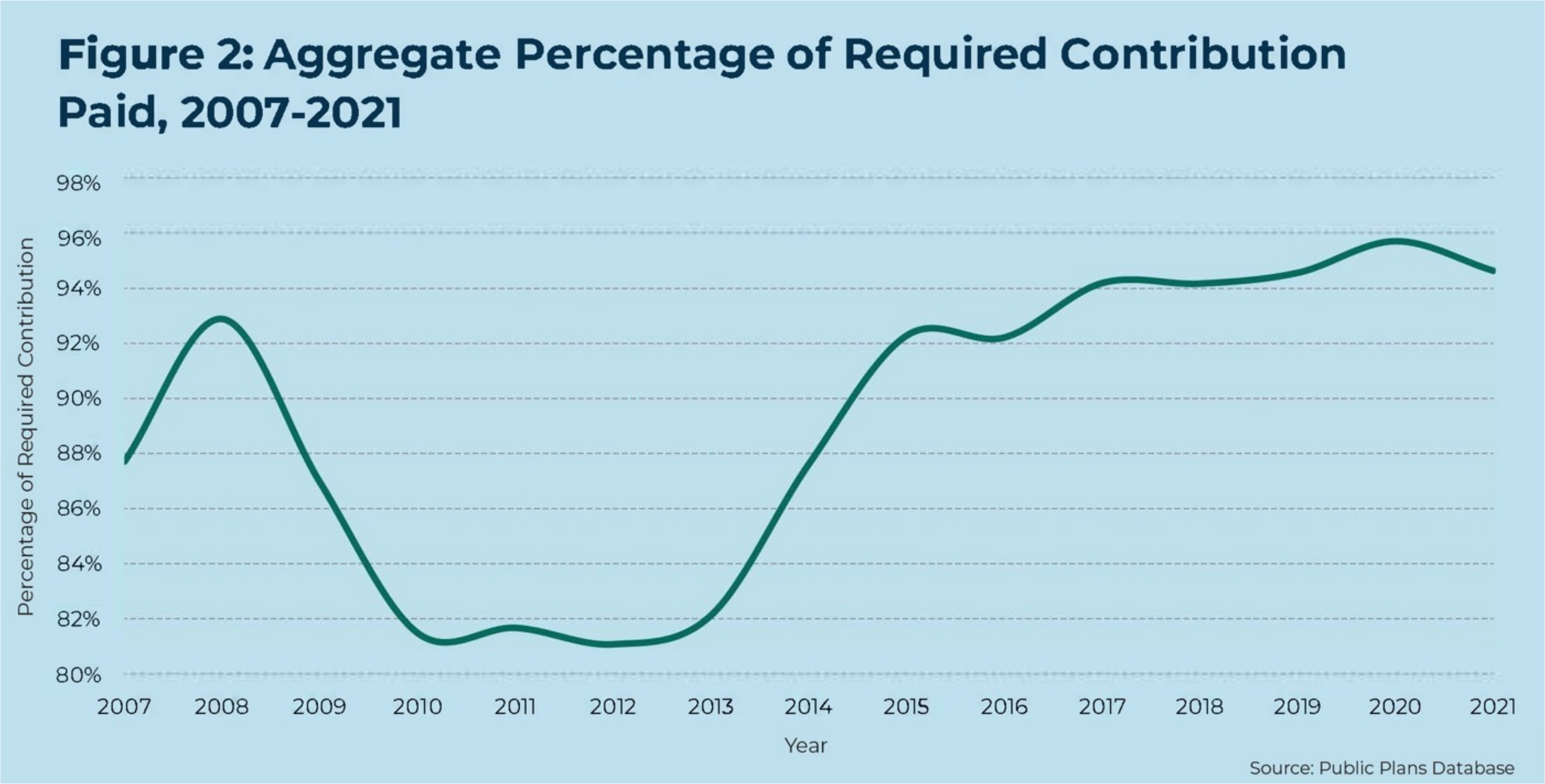
Key Findings

- **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.

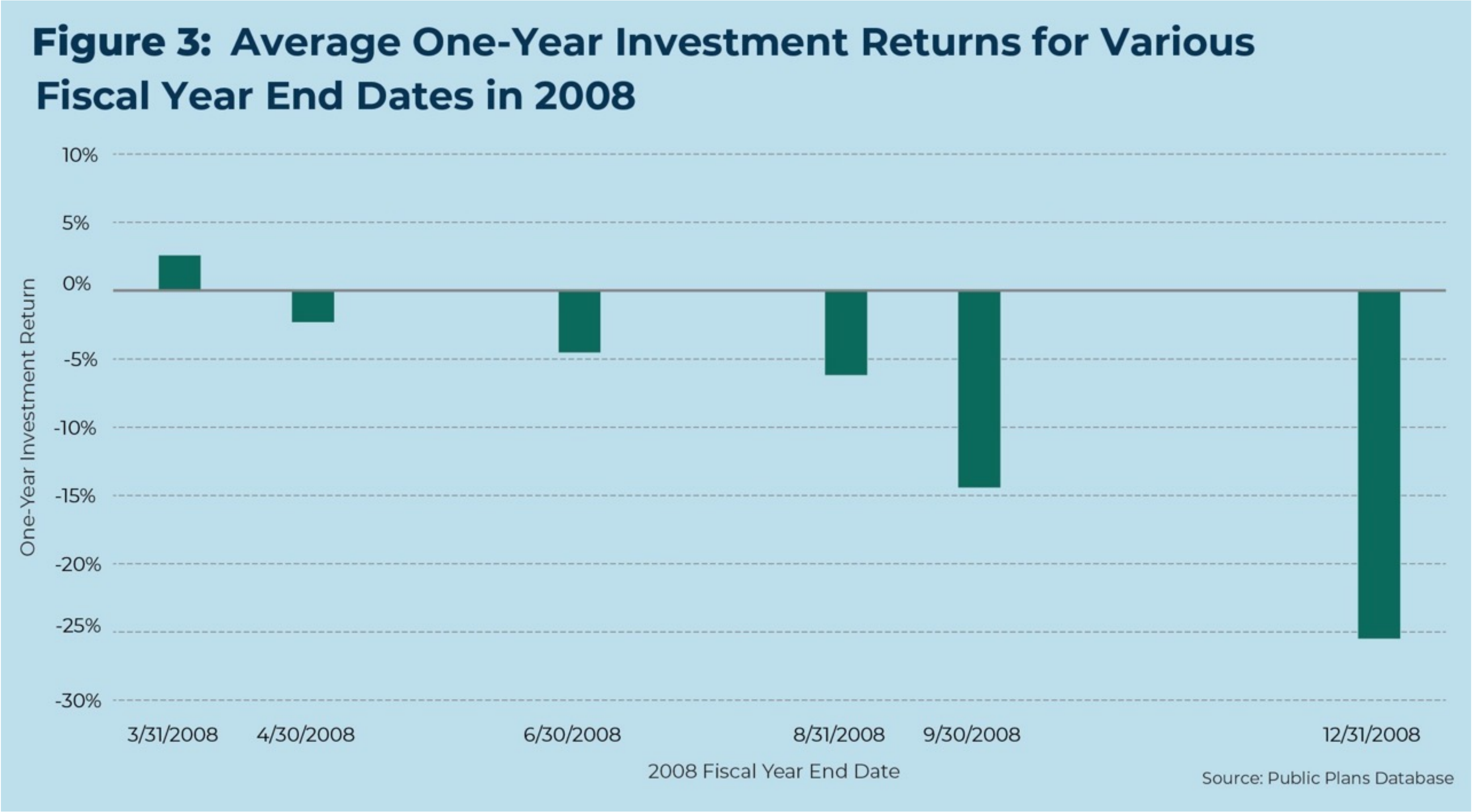
The Median Plan Took 6 Years to Recover Its Assets After the Crisis



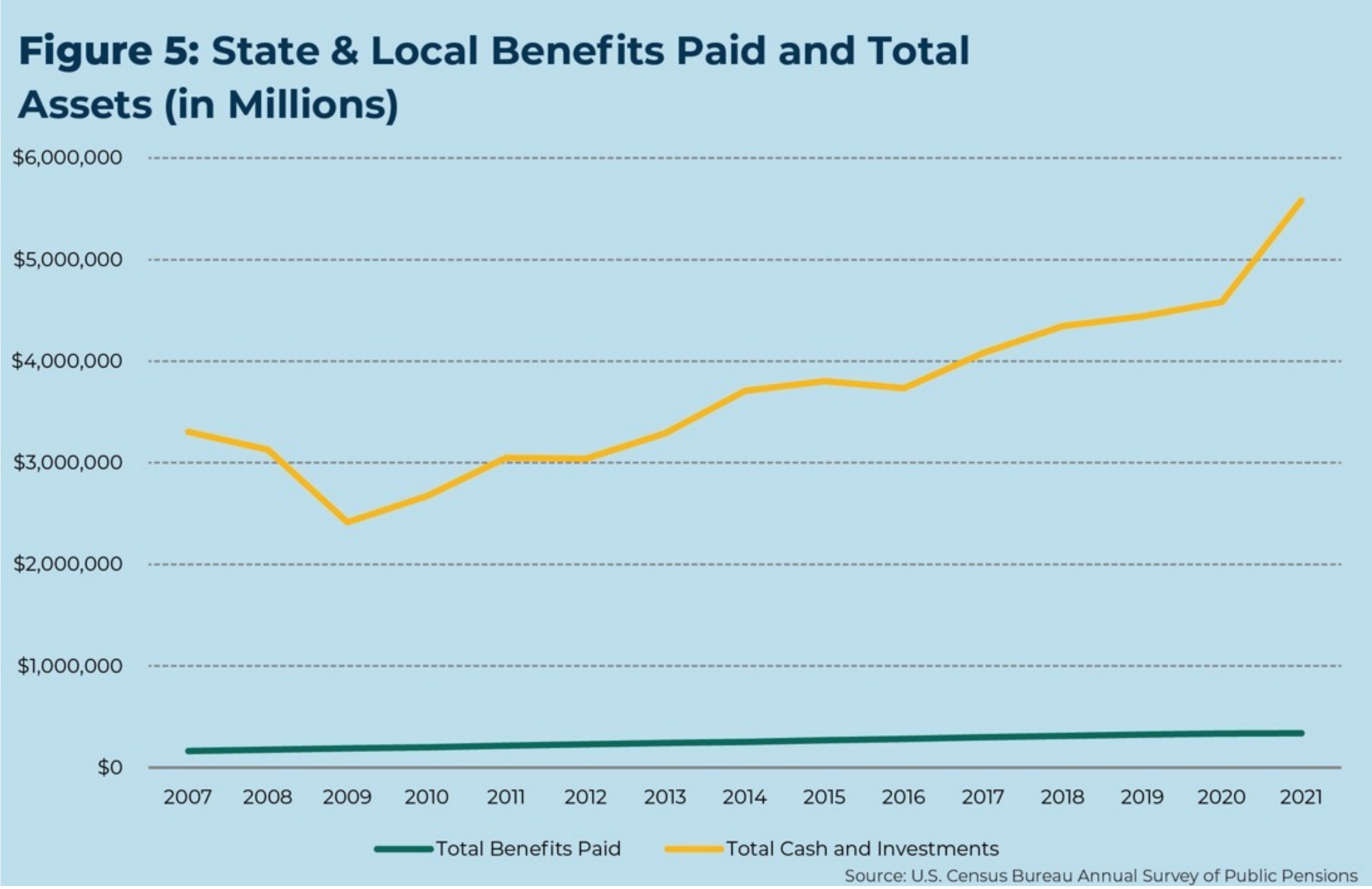
Contributions Dipped in the Years Following the Great Recession



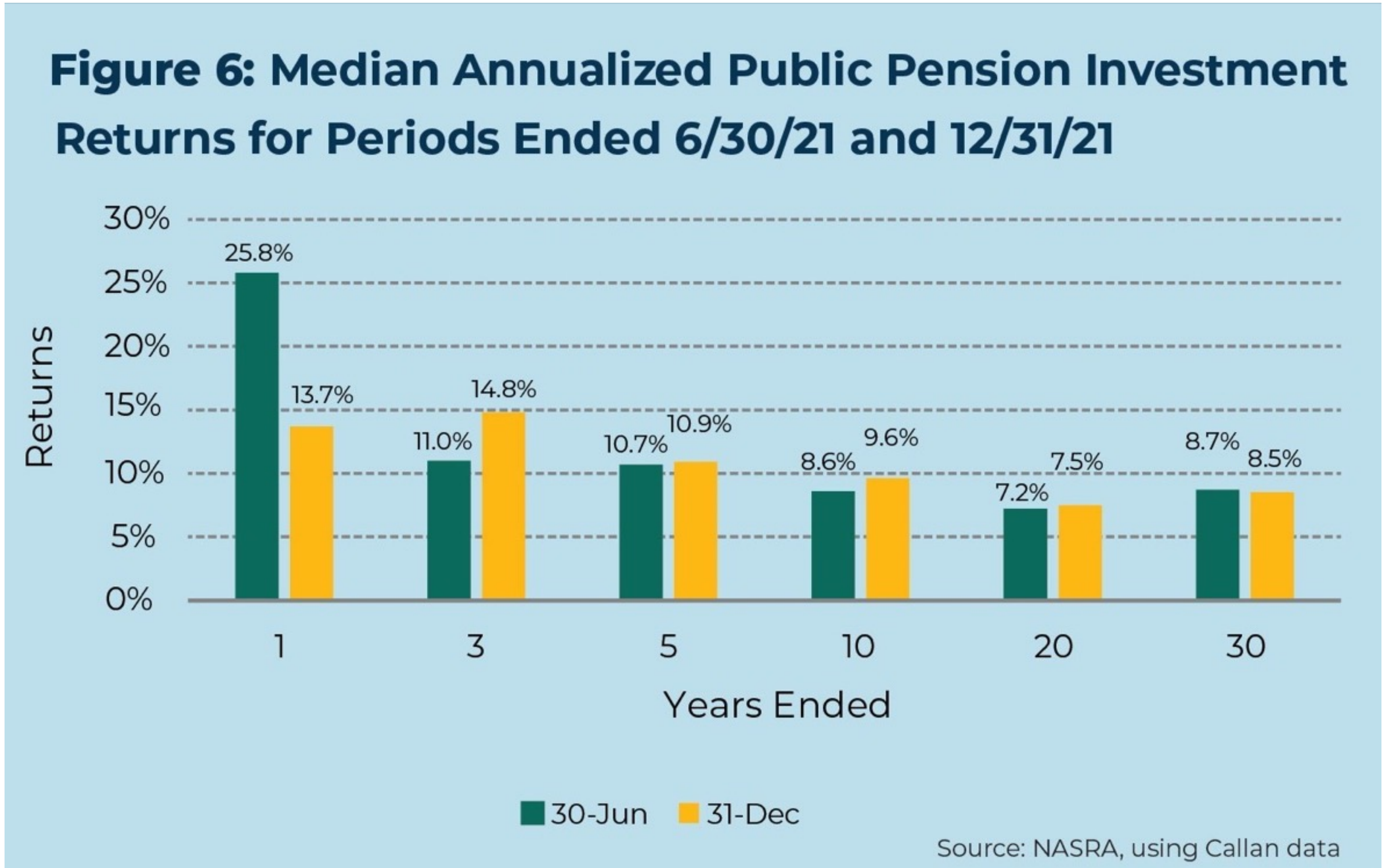
Fiscal Year End Has a Strong Bearing on One-Year Investment Returns



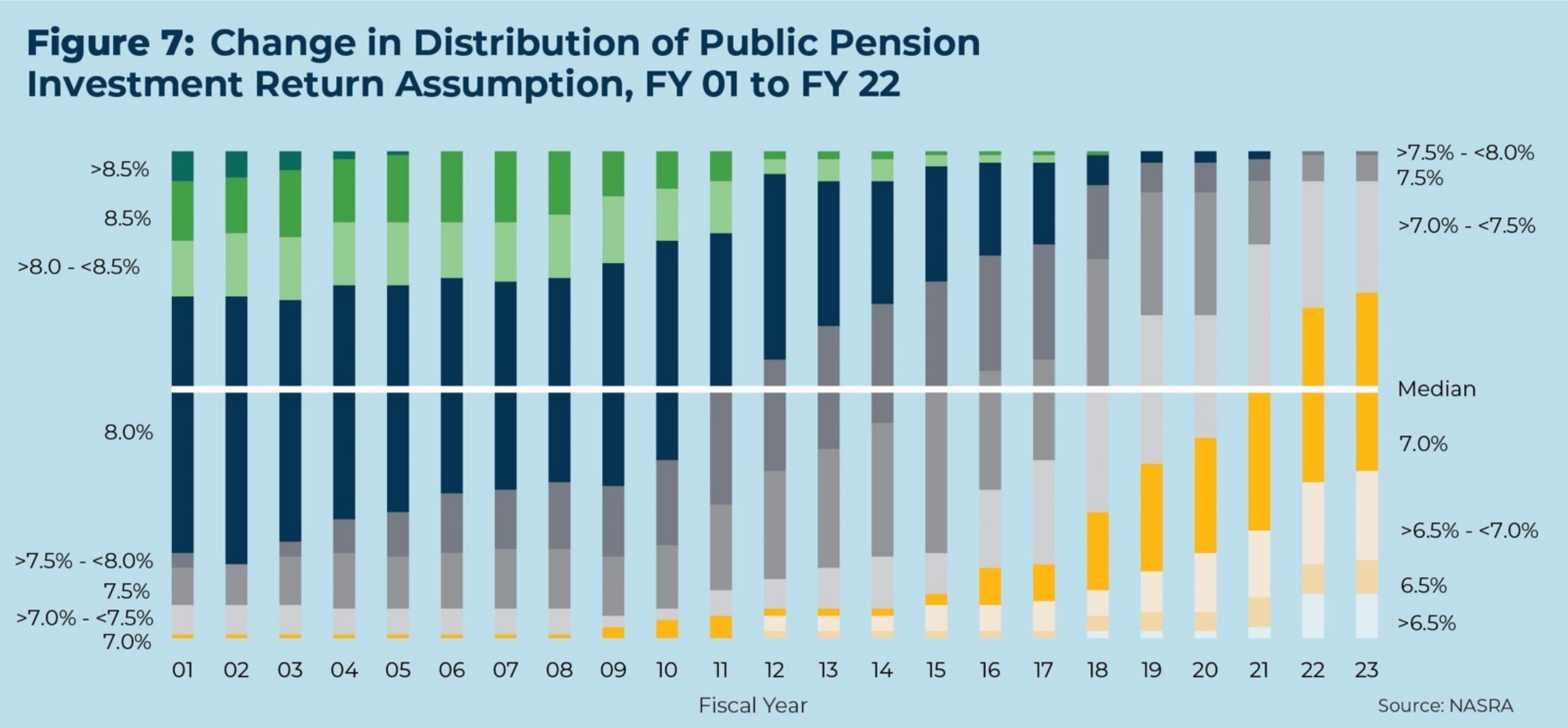
Total Public Plan Assets Far Exceed Total Benefits Paid



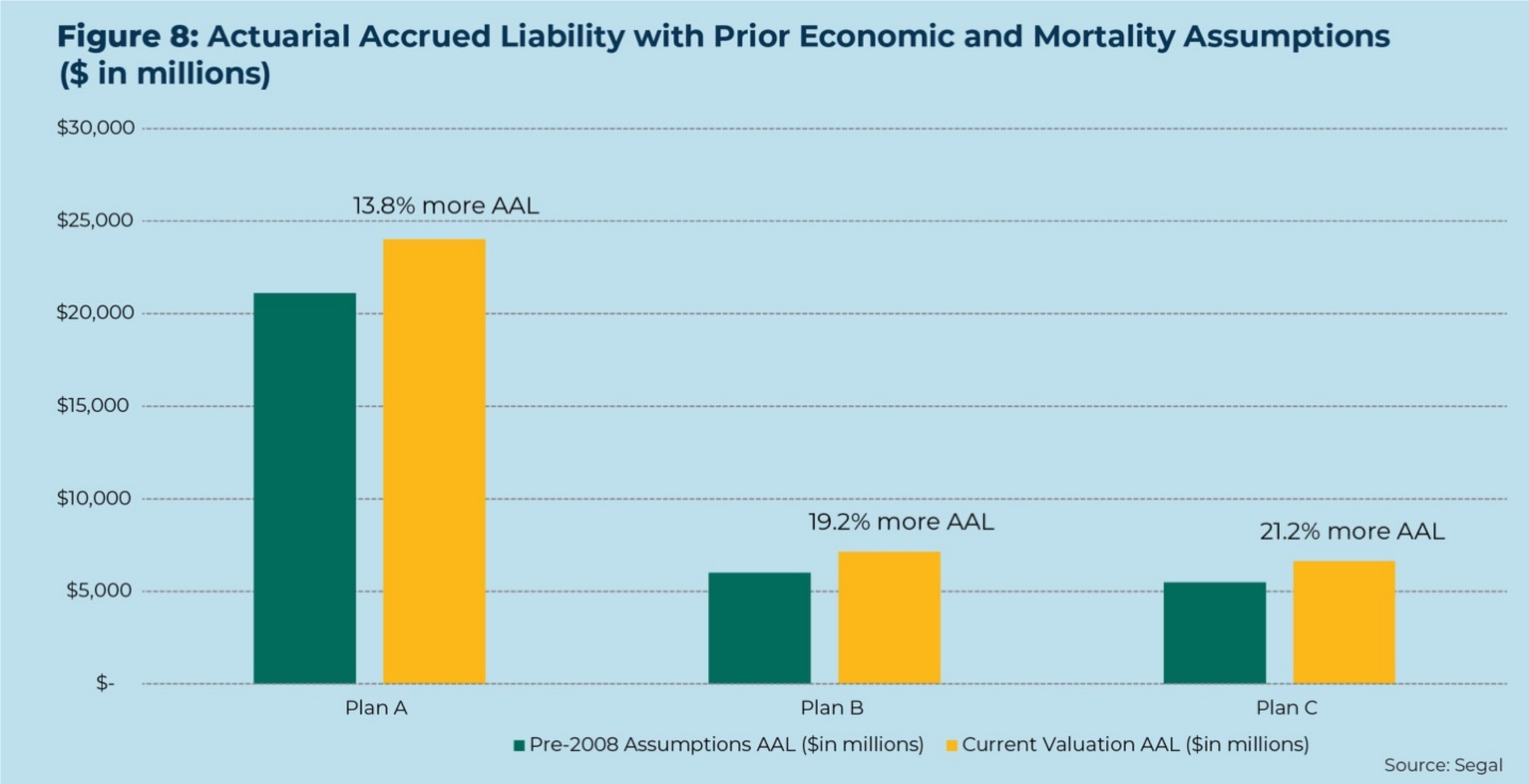
Public Plan Investment Returns Have Generally Exceeded Targets…



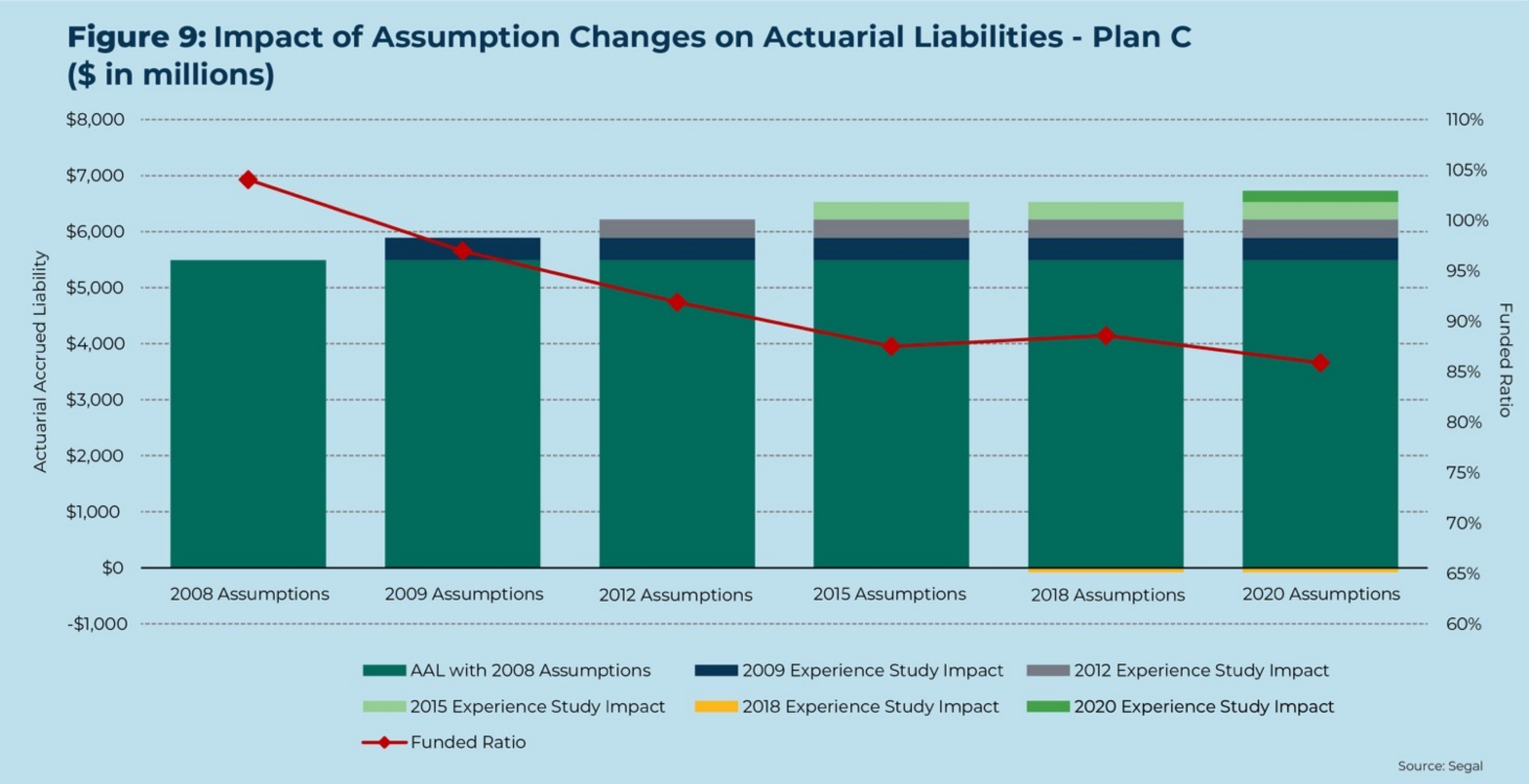
…But Those Targets Have Been Trending Downward This Century



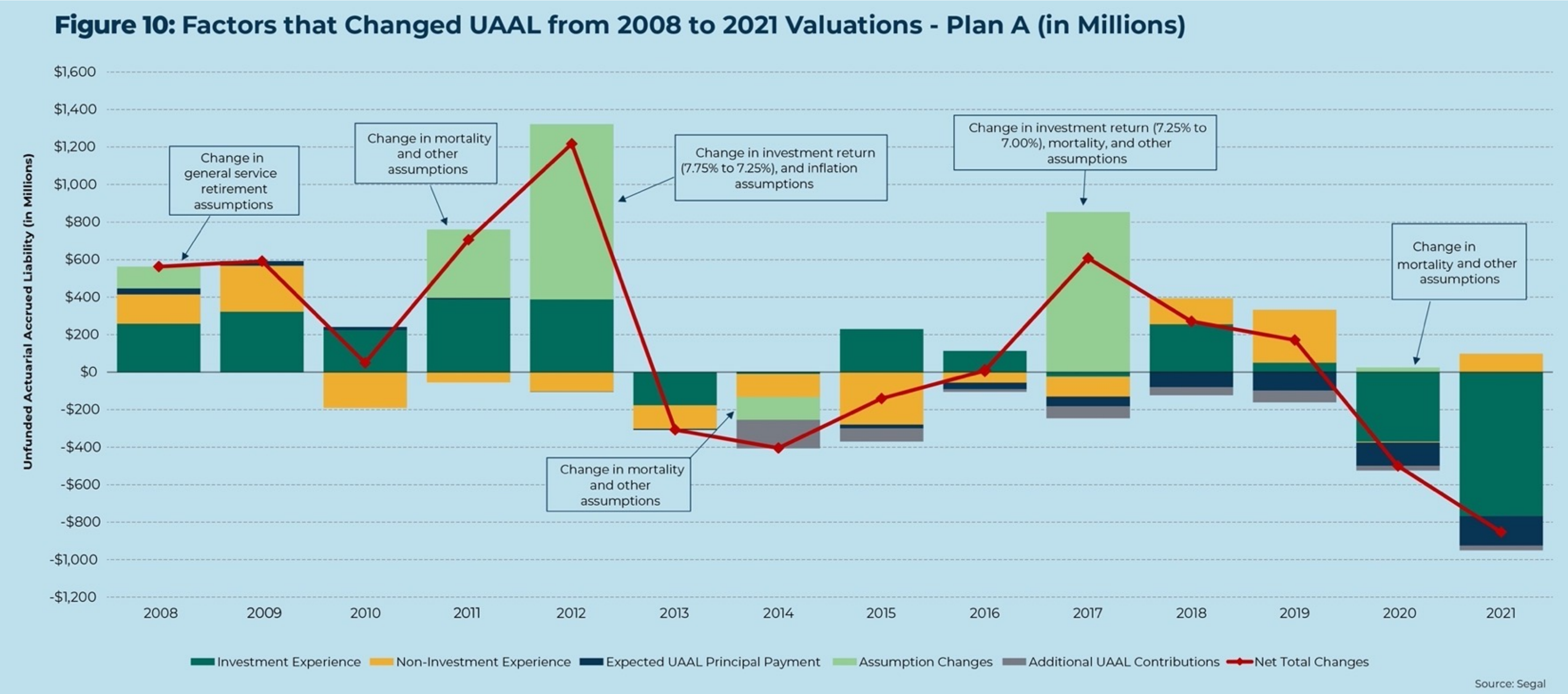
Actuarial Accrued Liability Has Increased as Assumptions Have Changed



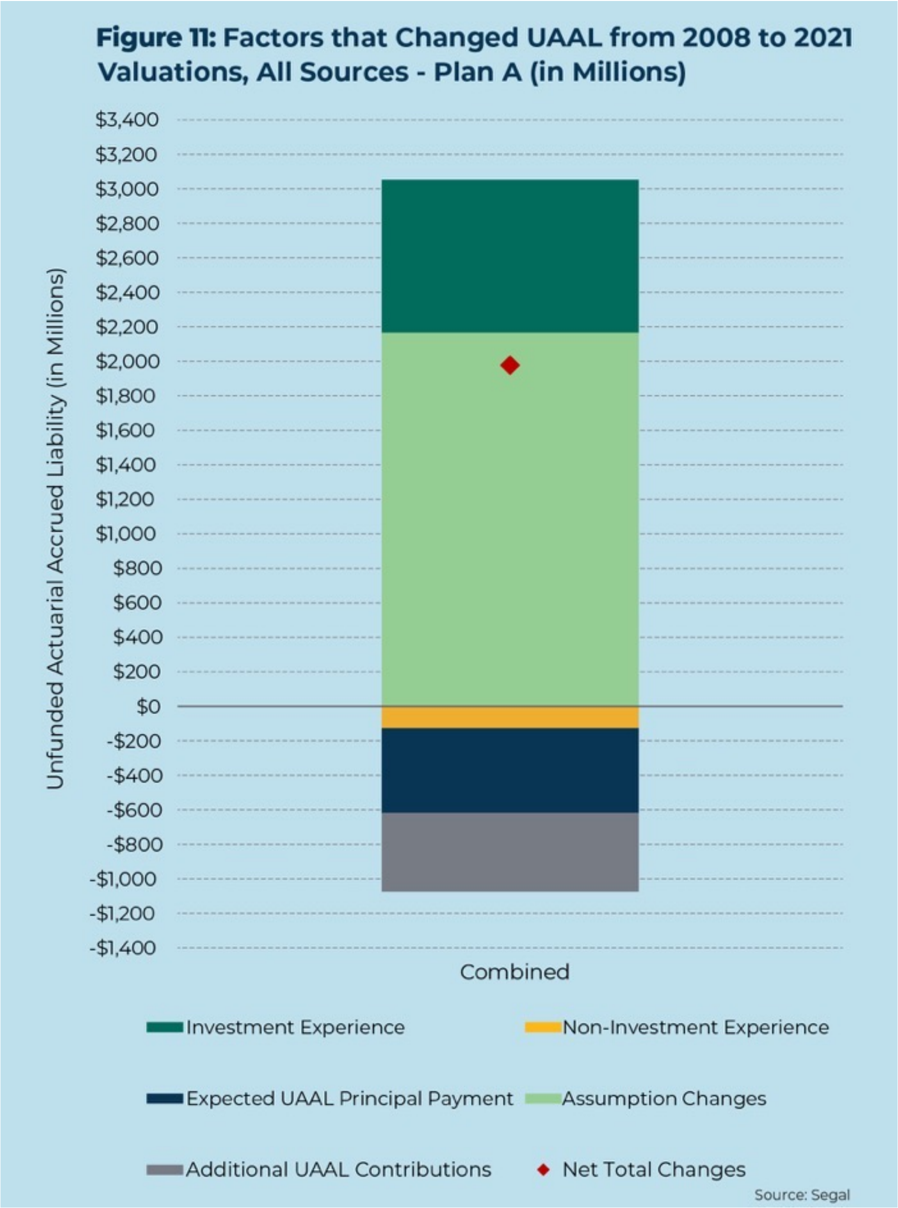
Recent Experience Studies Have Typically Led to Increasing Liabilities



Multiple Factors Impact Liability

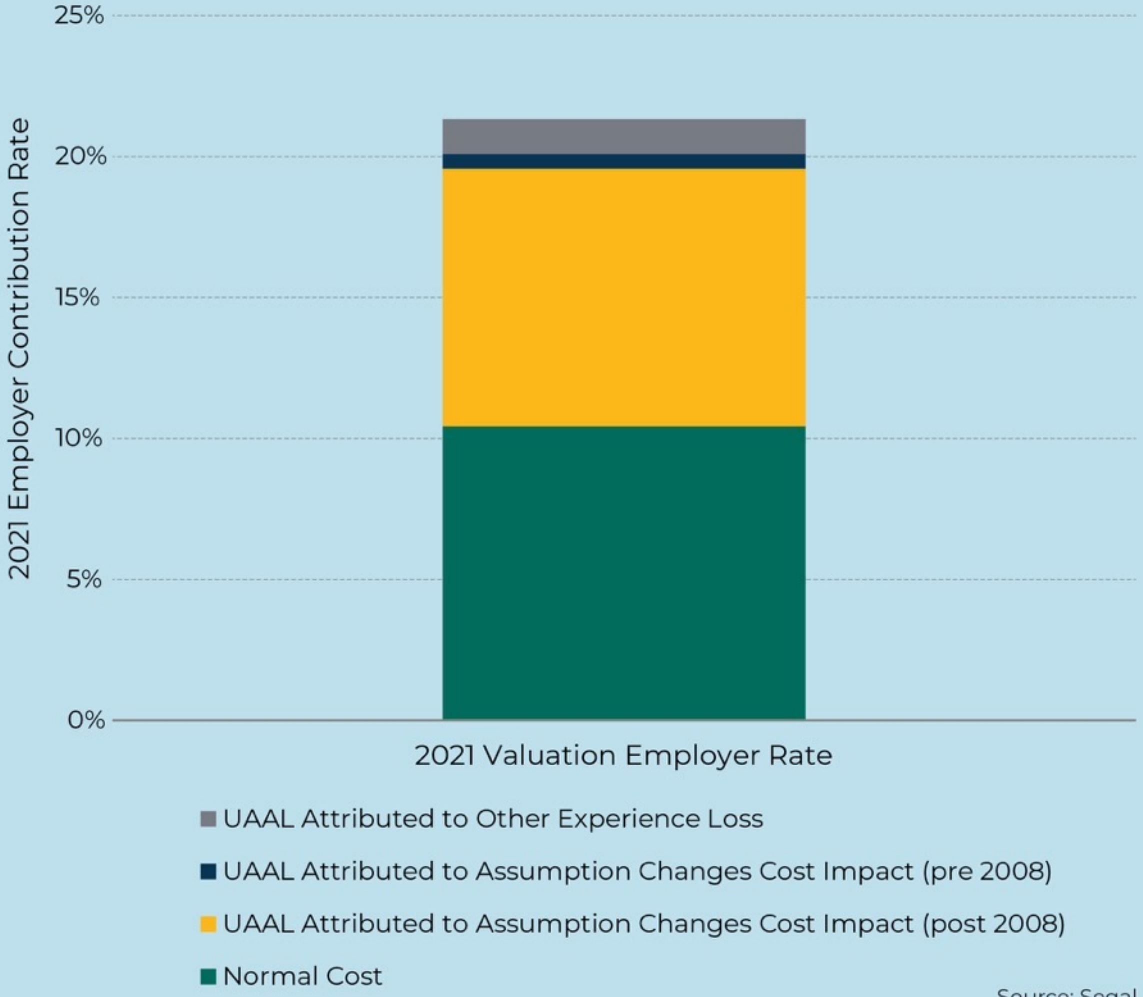


Assumption Changes Fully Account for the Increase in UAAL Since 2008 – Plan A



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

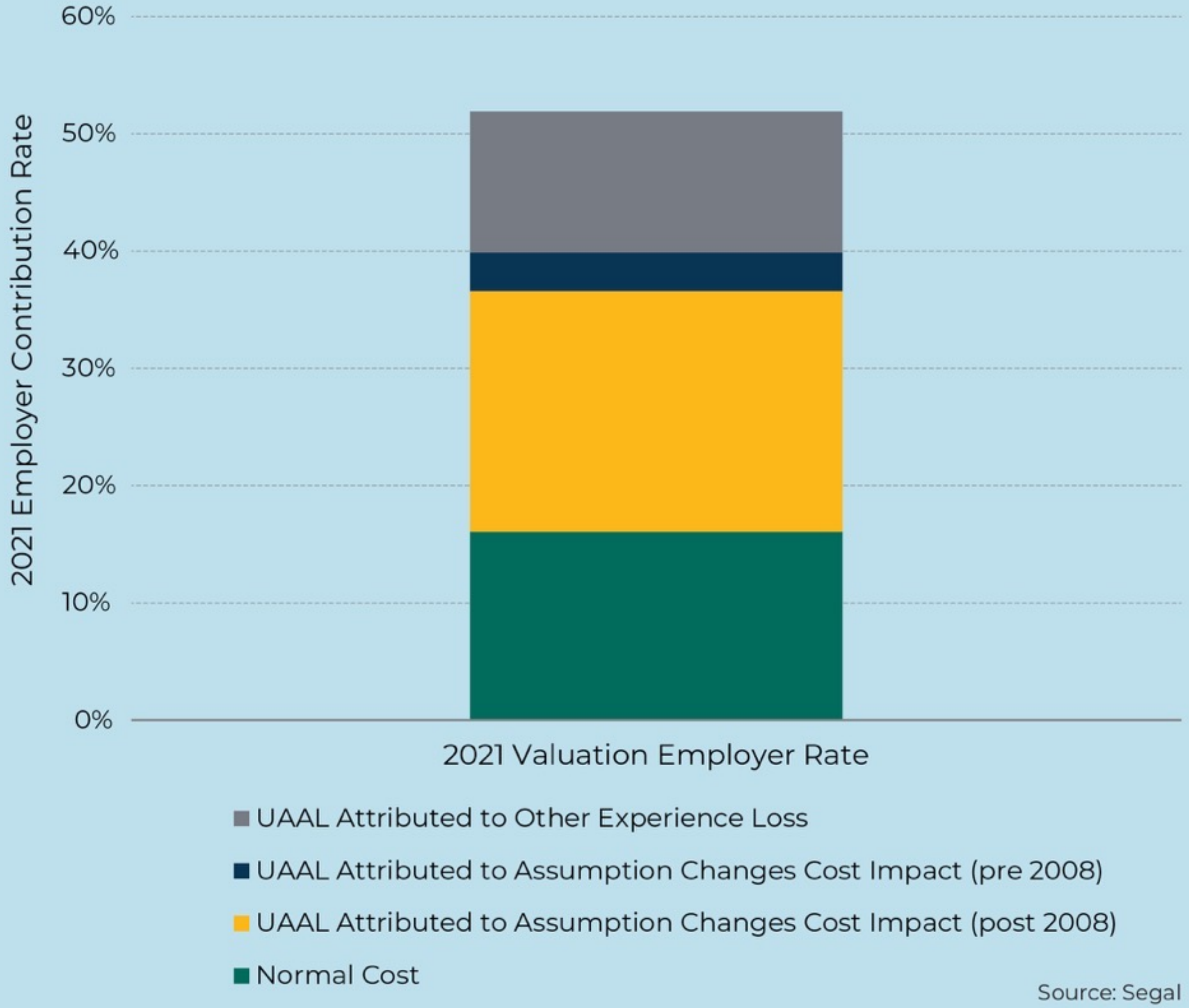
Figure 12: 2021 Valuation Employer Rate Breakdown - Plan B



Source: Segal

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

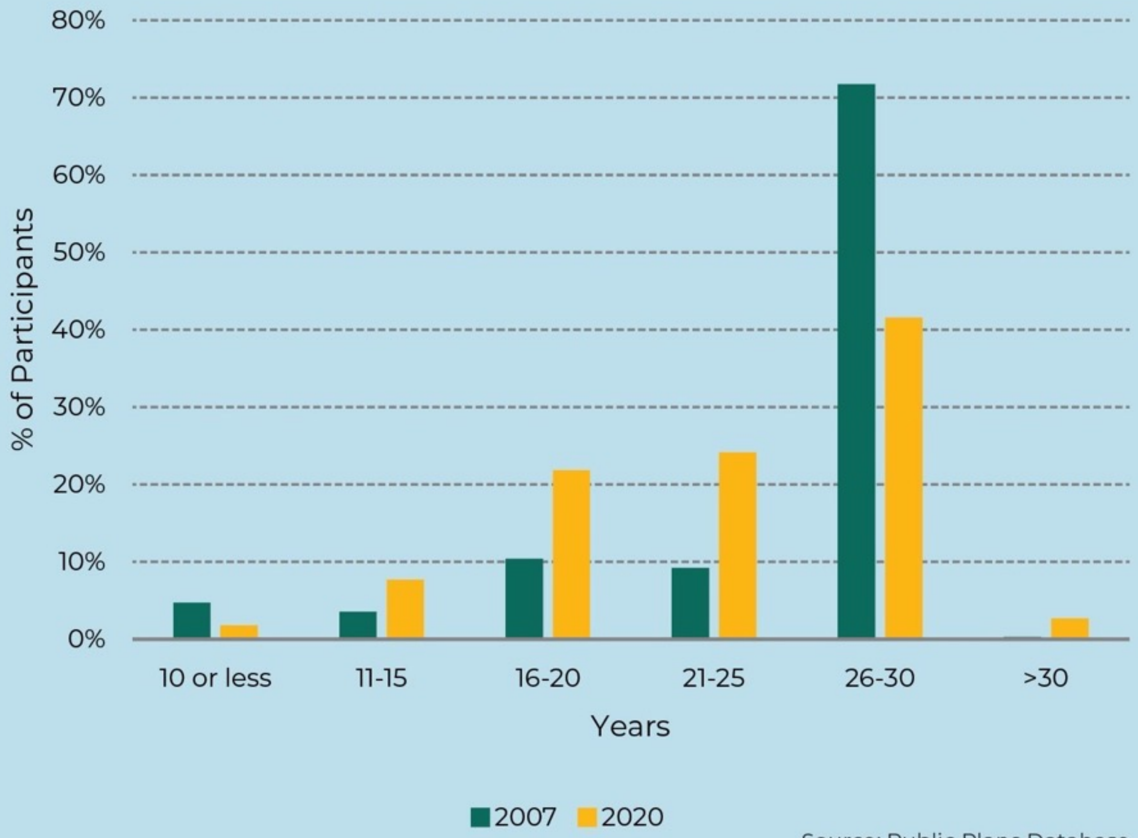
Figure 13: 2021 Valuation Employer Rate Breakdown - Plan C



Source: Segal

Public Plans Have Tightened Amortization Periods in Recent Years

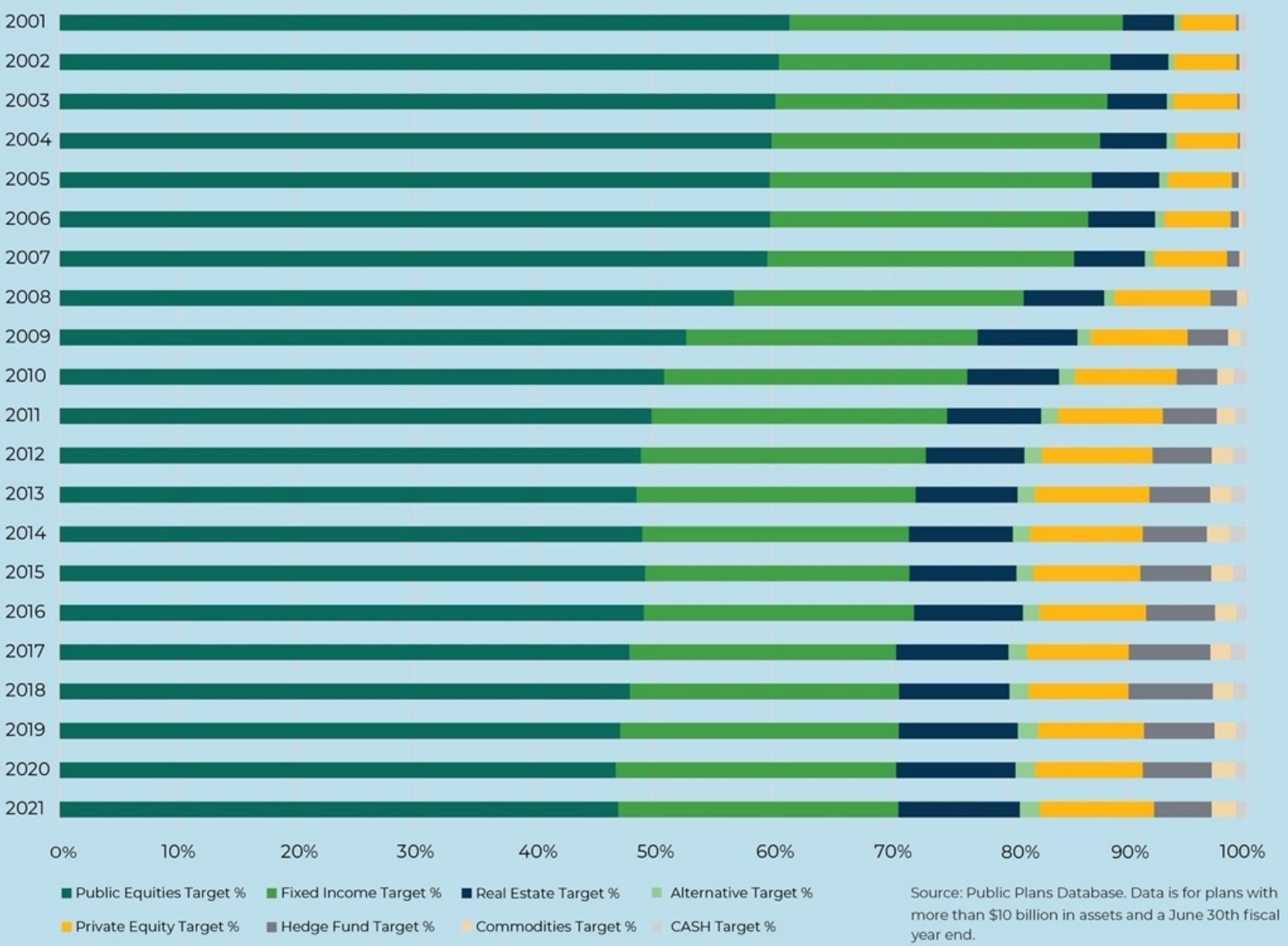
Figure 14: Remaining Amortization Periods of Public Plans in 2007 and 2020: Share of Participants



Source: Public Plans Database

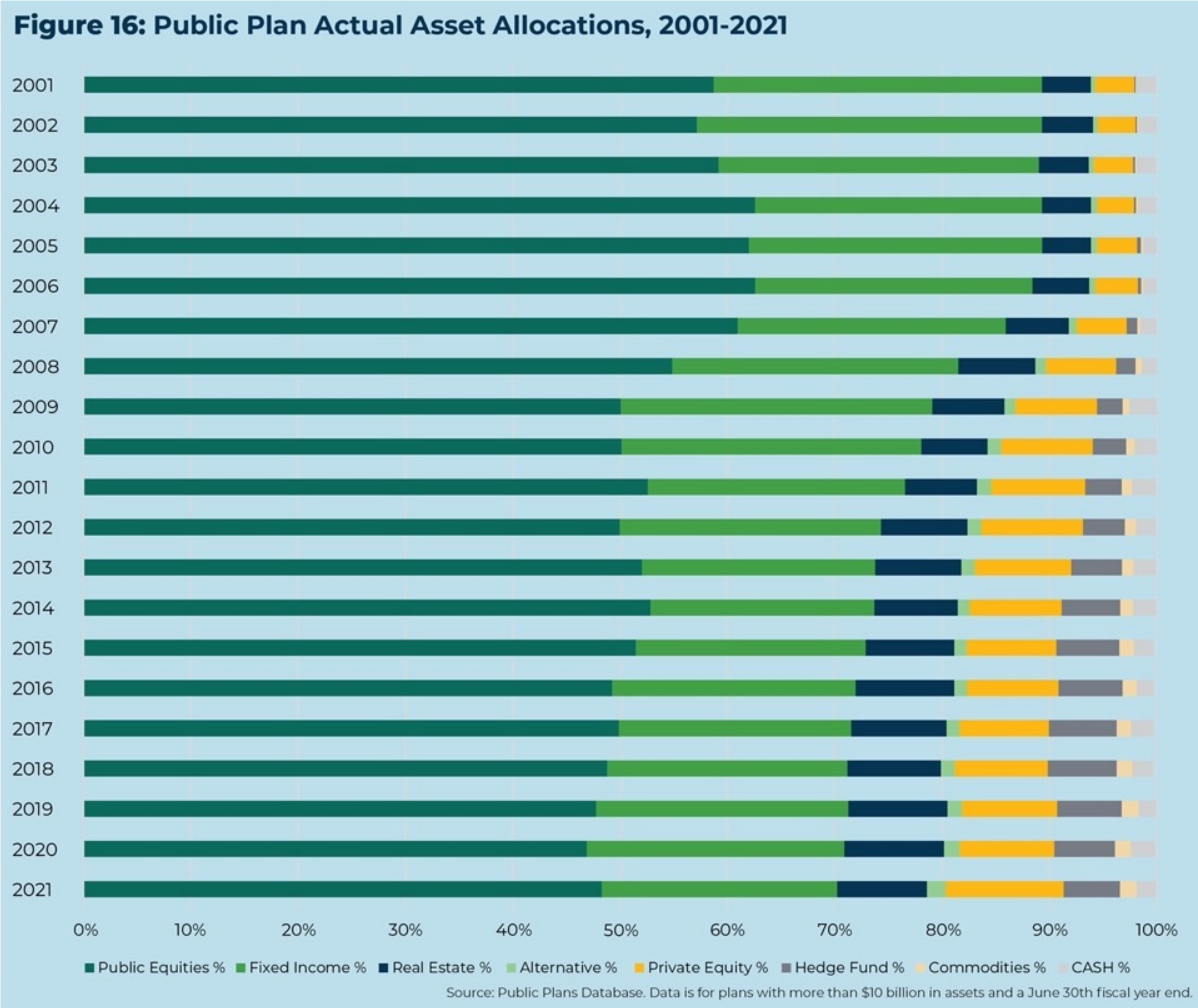
Target Asset Allocation Has Evolved

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

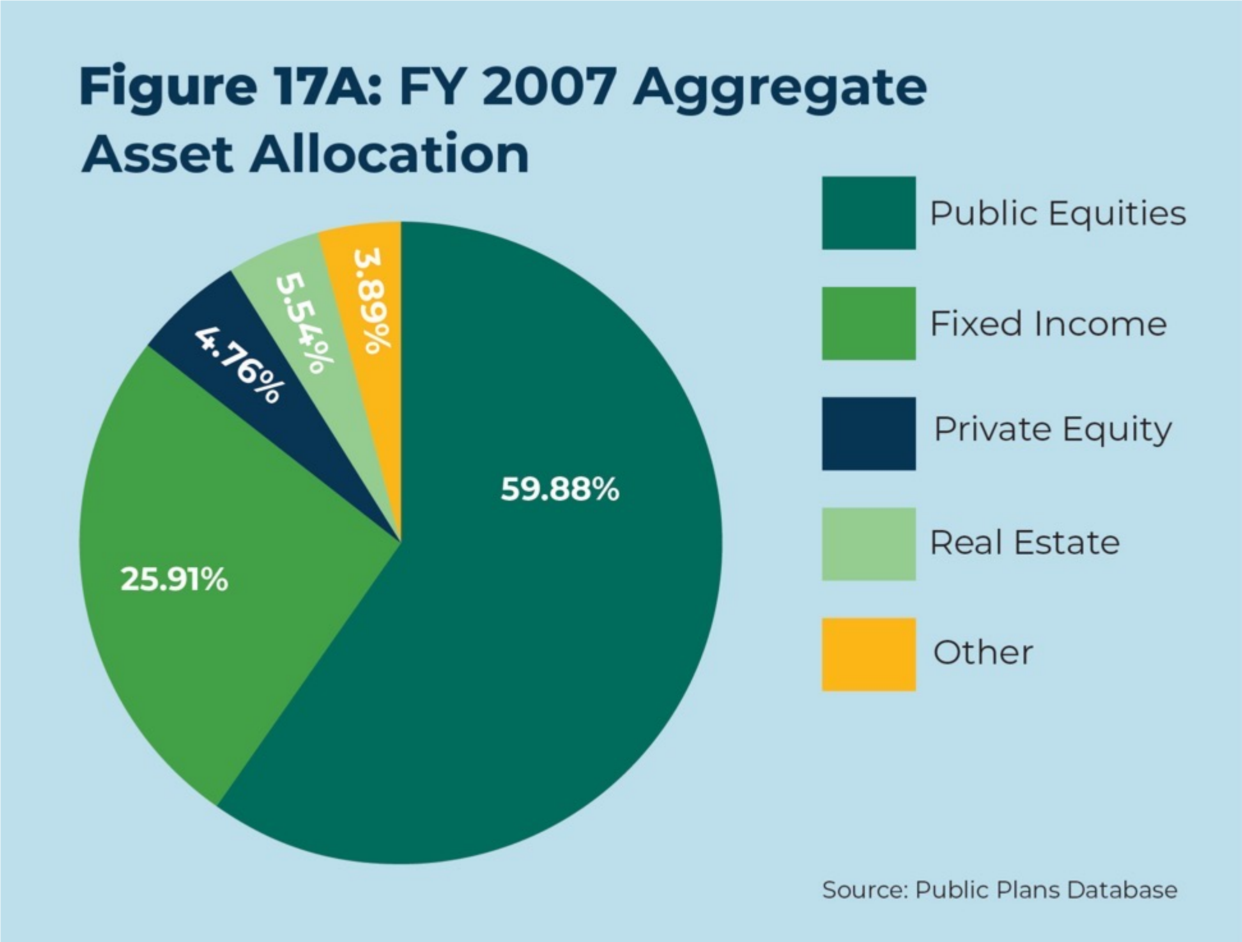


Source: Public Plans Database. Data is for plans with more than $10 billion in assets and a June 30th fiscal year end.

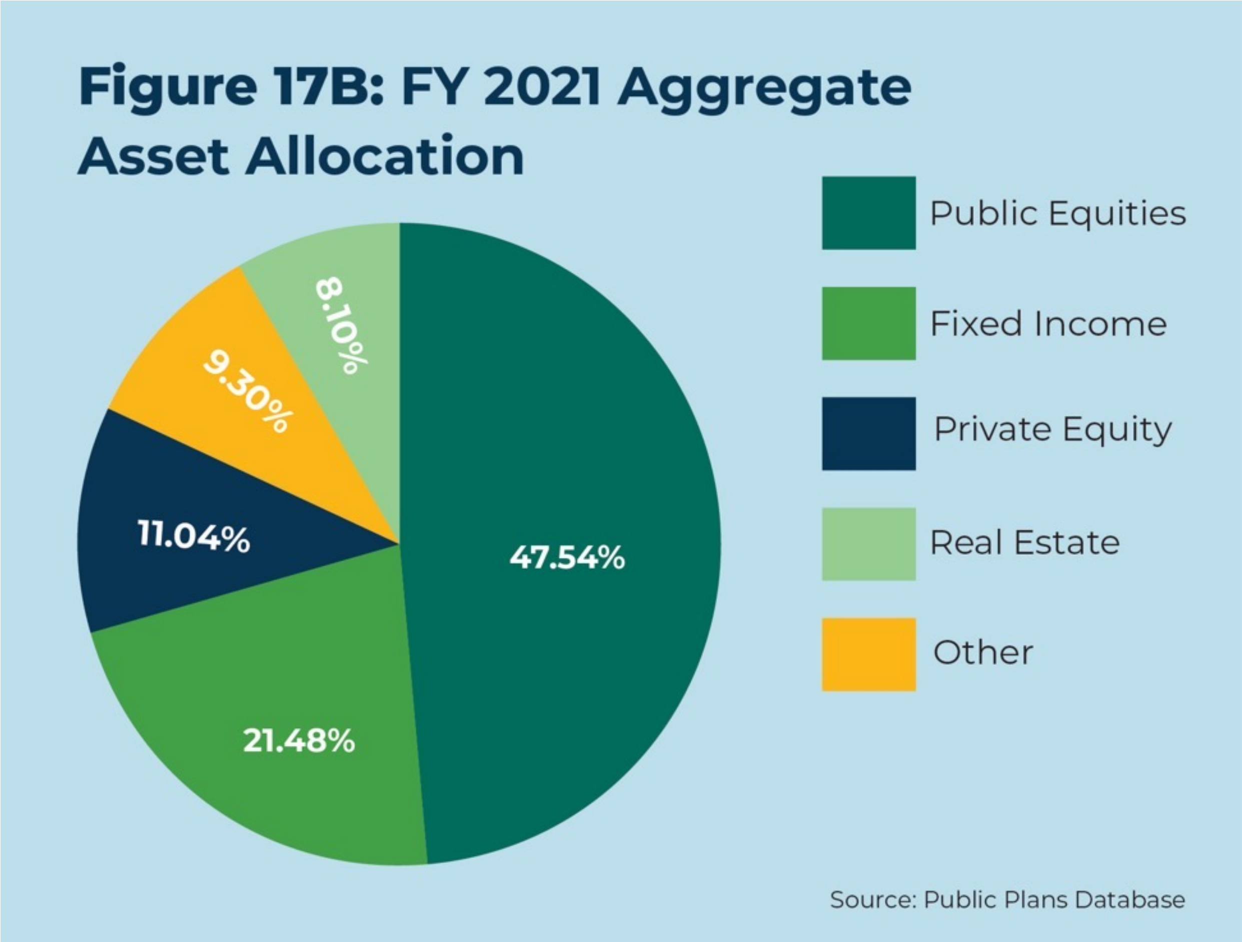
Market Changes Impact Actual Allocations



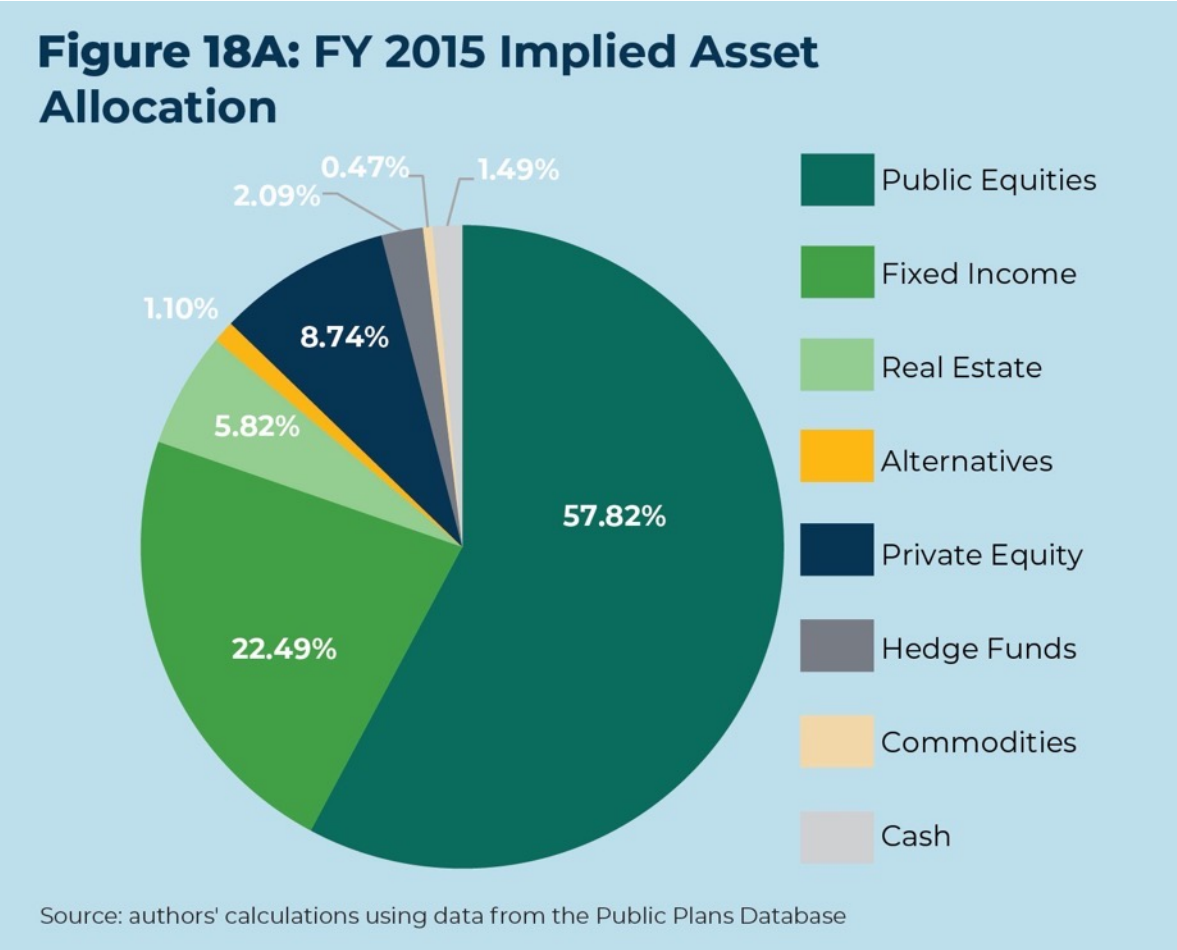
Asset Allocation Before the Crisis Tilted More Toward Public Equities and Fixed Income



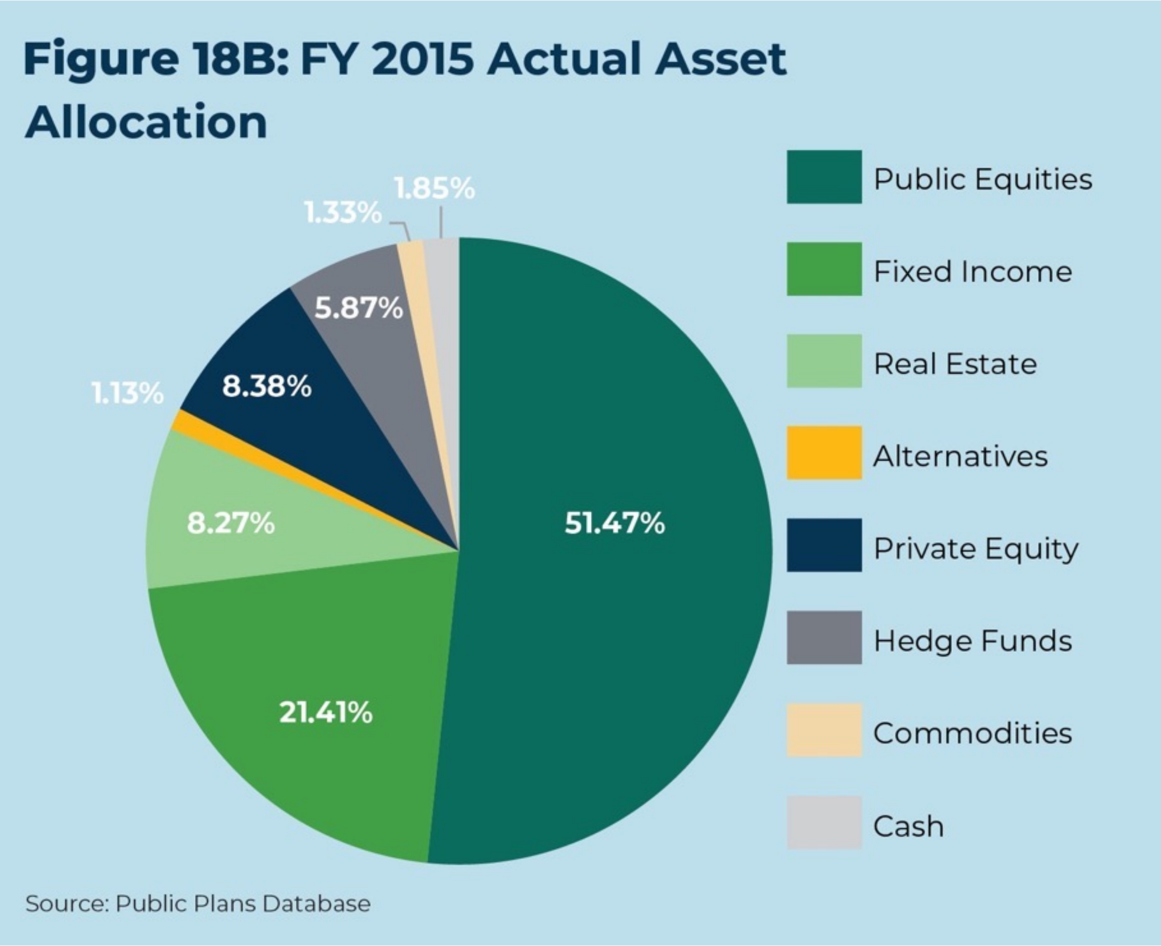
Allocations to Other Asset Classes Have Increased Since the Financial Crisis



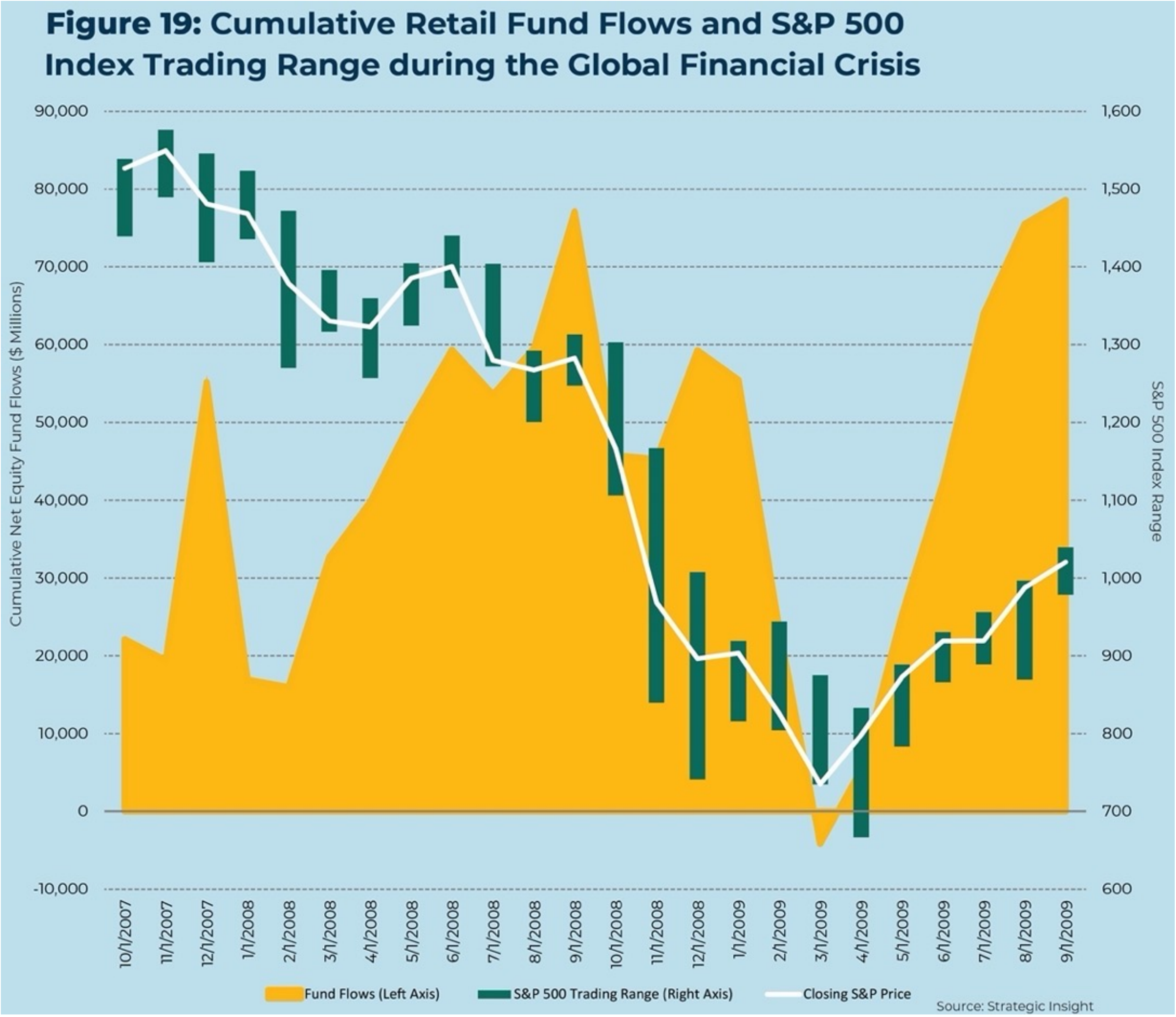
Asset Allocation is Not Determined Simply by Market Returns…



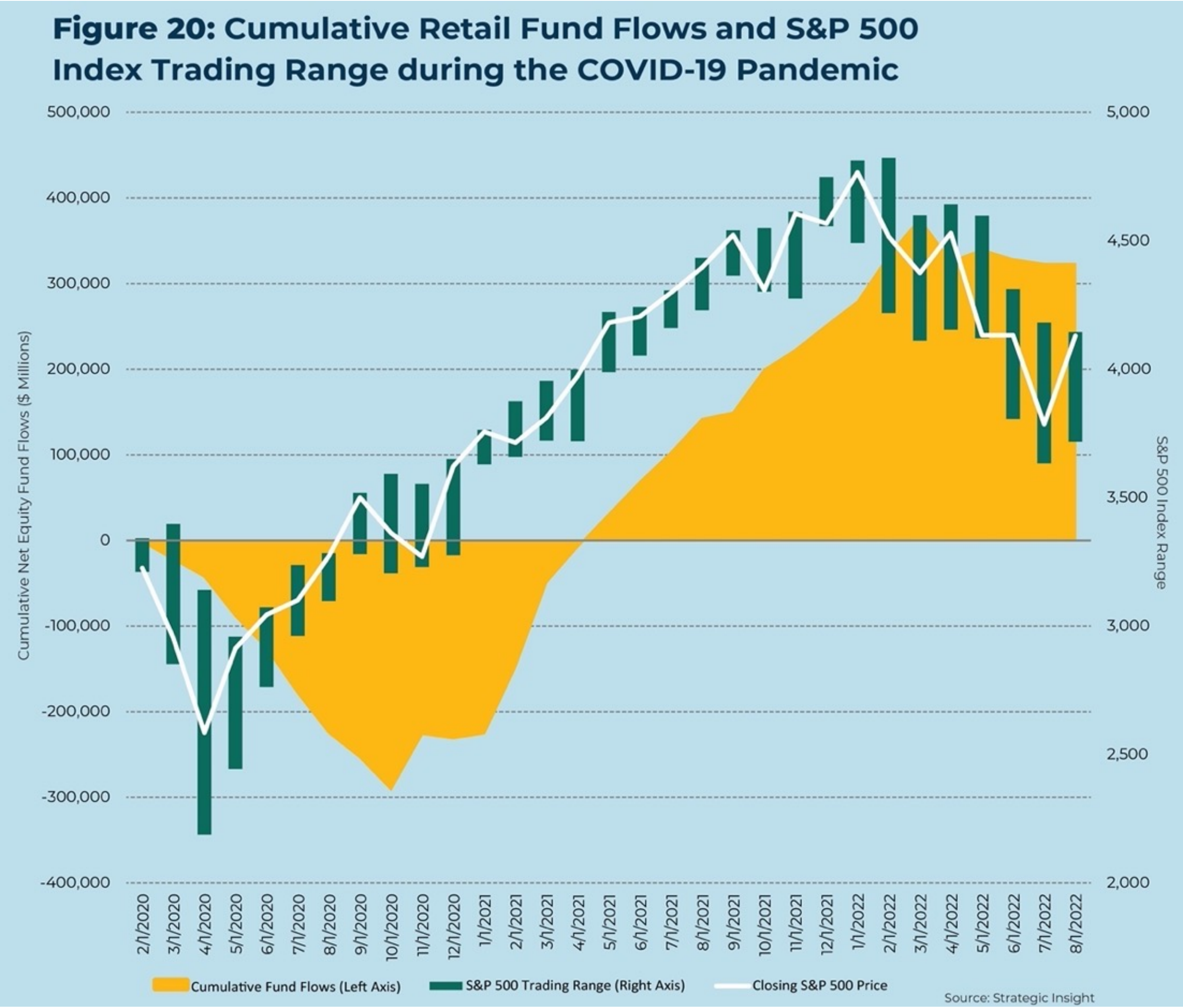
…Investment Professionals at Plans are Actively Rebalancing Portfolios



Fund Flows Show Retail Investors Exhibited Poor Market Timing – GFC



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



Takeaways

- Throughout 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 today**, impacting plans more than investment experience. But, these decisions should position plans better for the future.
- DB Plans, with professional management, adopted to changing conditions since 2007 and stuck closely to target allocations. In contrast, many retail investors were reactive.

Questions

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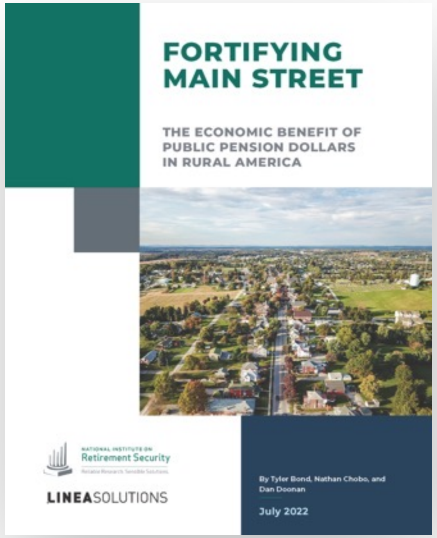

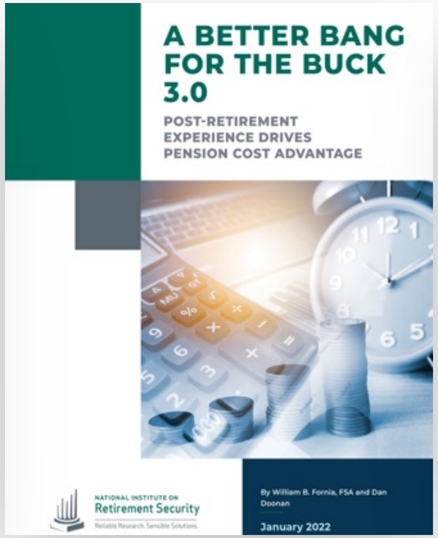

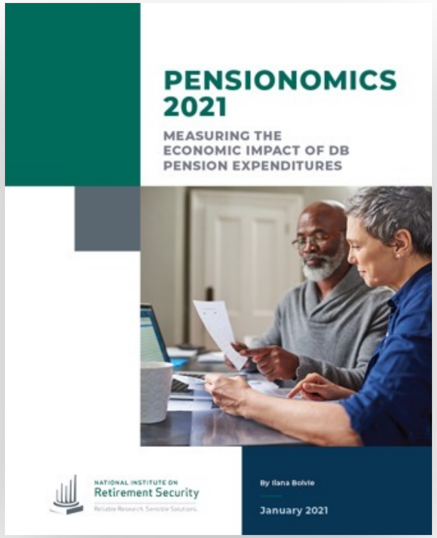

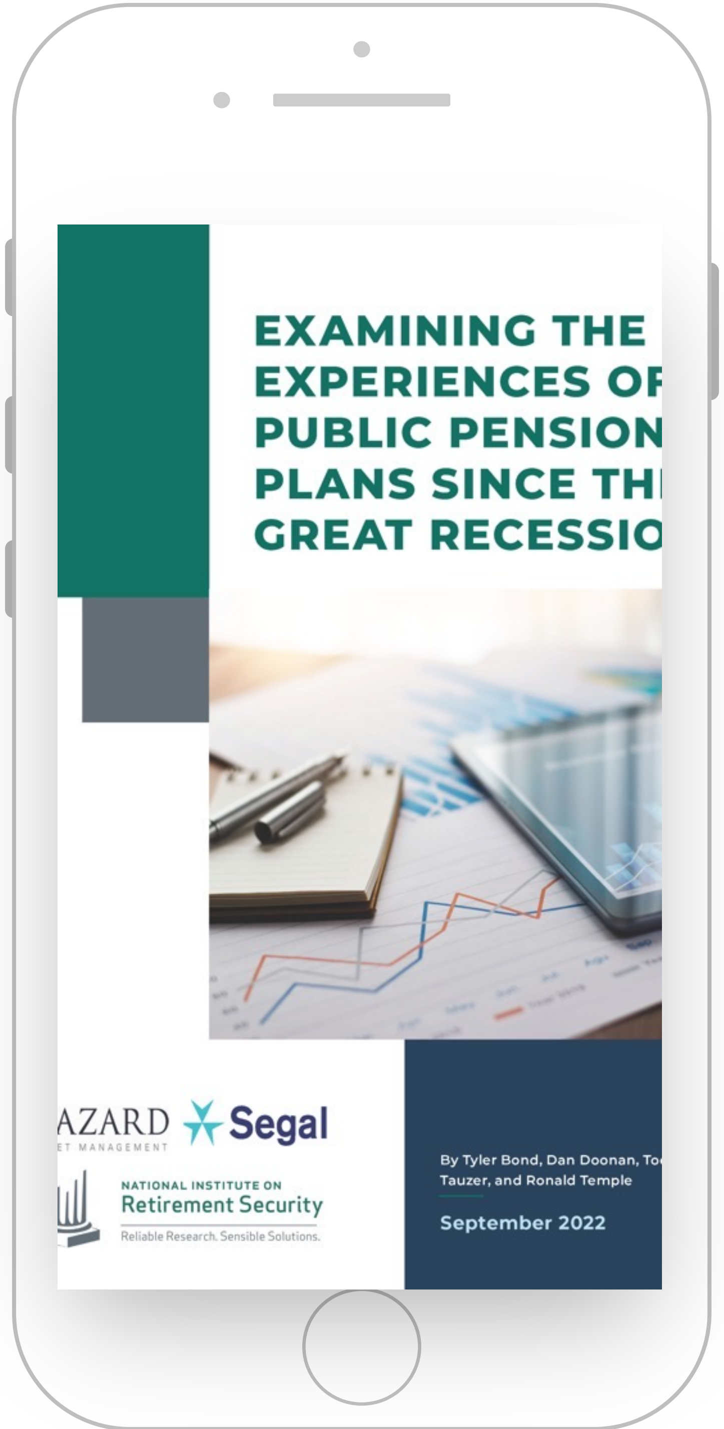

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