Gap Grows Between Well-Off and Troubled State Public Pension Plans.

The findings from The Pew Charitable Trusts come as the U.S. enters a record phase of economic expansion.

Poorly funded pension plans for state and local public employees saw their finances erode in recent years despite strong investment returns, as the gulf between states with better and worse-off retirement systems has grown wider.

These findings are presented in a new report from The Pew Charitable Trusts that surveys the health of state-run public pension systems.

The current economic expansion in the U.S., which began in June 2009, is now the longest on record at about 121 months. It has unfolded in the wake of the Great Recession, which took a heavy toll on state and local budgets and the financial health of their pension systems.

Investment losses for the 230 pension plans in Pew's data caused the value of assets held by those plans to drop by 24% during 2008.

In general, public pension plans generate the money they use to pay retiree benefits from employee contributions, taxpayer dollars that flow from state and local agencies in the form of employer contributions, and returns gained from investing this money.

The extended growth cycle has given state and local governments about a decade to rebuild their finances.

But overall in 2017 the pension plans the Pew researchers examined only had about 69% of the assets they needed to fully fund their anticipated pension costs in the coming years.

That level is down from around 86% before the recession.

States in 2017 reported $4.1 trillion in benefits owed to workers and retirees but just $2.9 trillion set aside to cover those costs, leaving a shortfall of $1.28 trillion, the report says.

It adds that the pension funding gap is down from $1.35 trillion in 2016, but this marks only the second time since the recession that the shortfall has decreased.

Illinois, Kentucky and New Jersey, well known for their pension funding woes, reported an average 15 percent decrease in the funded ratios for their retirement systems between 2012 and 2017—even though investment returns were generally strong during that time.

The Pew report emphasizes that these states' pension plans are troubled in part because policy makers did not regularly set aside the amount of money that actuaries estimated would be required to cover the cost of providing promised benefits to retirees.

Shortchanging a pension fund in this way tends to increase costs in the long run.

The report points out that from 2007 to 2017, pension contributions went up 424% in Illinois, 267% in Kentucky, and more than 100% percent in New Jersey.

But the states together still faced an $11.5 billion shortfall to keep their pension debts from growing, the researchers add.

To help put that figure in proportion: total general fund spending in Kentucky during fiscal year 2018 was around $11 billion. And Illinois and New Jersey each reported about $35 billion, according to figures compiled by the National Association of State Budget Officers.

Colorado and Connecticut had less than 50% of the assets in 2017 needed to cover their pension costs, while another 15 states had less than two-thirds of the assets needed to do so.

Other state pension systems are performing quite well. For instance, South Dakota, Tennessee and Wisconsin all have systems that were between 97% to 103% funded in 2017 and that have not fallen below a funded level of 89% in the past two decades.

The Pew researchers note that these states have followed practices like regularly making the full recommended contributions to their funds, automatically lowering benefits or increasing contributions during market downturns and planning based on conservative assumptions.

State and local pension debt as a share of the nation's gross domestic product was roughly in the 1% to 3% range in the years leading up to the recession. But around the time of the downturn it shot upwards, and has been in the ballpark of 8% to 10% in the past few years.

When pension costs rise as a share of state and local government spending, it can reduce the amount of money that lawmakers have available to devote to other priorities.

A full copy of the Pew report can be found here.

Route Fifty

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