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How Public Pensions Fared During a Year Marked by the Pandemic.

The share of large state and local government pension plans around the U.S. that maintained funding levels at or above a national average slid somewhat last year, according to a new report.

Last year, the average "funded ratio" for 169 plans was around 72%. This is a measure of how the plans' assets stack up against benefits they will owe to retirees in the years ahead—the lower the percentage, the bigger the gap and the weaker a plan's financial health.

Average funding levels for the plans have been in the low 70% range since 2012, compared with upwards of 100% in the early 2000s.

The new analysis found that, last year, the share meeting the 70% funded ratio threshold fell to about 56% from around 60% in 2019.

Overall, the data in the report, released by MissionSquare Research Institute, do not indicate that the Covid-19 pandemic delivered a severe blow last year to pension plans. The stock market generally performed well in 2020 despite the turmoil brought on by the virus.

Looking at 154 plans, the authors of the report found that, in about eight out of 10 cases, government employers made at least 90% of the contributions recommended—or "actuarially determined"—to keep the plans adequately funded. That's roughly in line with 2019.

Pension plans depend on putting employer and employee contributions into the stock market and other investments and then using the investment returns to help cover benefit costs.

Recent years have seen a rise in the share of funding that plan managers are plowing into so-called alternative investments, a category that includes hedge funds, real estate, private equity and commodities. This trend kept up in 2020, with about 28% of investments for plans the researchers examined parked in alternatives, compared with 26% in 2015.

Meanwhile, the amount of money in equities was down slightly at 47%, compared to 50% in 2015. The share of fixed income investments grew by a percentage point over that time to 23%. In 2005, just 9% of investments were in alternatives and 61% in equities.

"Diversification can help protect against being over-invested in any given area, but some alternative investments may carry higher risks, and therefore may reflect a choice by fund managers to compensate for smaller contributions with a higher risk/higher reward investment policy," the report authors note.

The paper relies on data from the Public Plans Database, a collaborative project involving MissionSquare, the National Association of State Retirement Administrators and the Center for Retirement Research at Boston College.

Route Fifty

By Bill Lucia

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