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Public Retirement Systems Need Sustainable Policies to Navigate Volatile Financial Markets.

State pension funding gap, 2021

Overview

Over the past decade, policy reforms and increased financial contributions have dramatically improved the cash flow situation of some of the nation's most troubled state pension plans. Thanks to these changes, which include reforms to benefit designs, a commitment to fiscal discipline, and greater monitoring of the financial health of public retirement systems, no state is at risk of pension plan insolvency. Nevertheless, many states still have more to do to ensure the long-term sustainability of pension promises.

As recently as 2016, seven states still had gaps between outgoing benefit payments and incoming contributions that were large enough to cause insolvency if investments fell short of expectations and policymakers failed to react quickly. But by 2018, the number of plans at serious risk of insolvency had dropped to two. And in 2021, no state was below that dangerous threshold, a sign of the significant turnarounds achieved by states such as Colorado, Kentucky, and New Jersey.

However, sustainable pension policy requires more than just paying the bills due today. If a pension plan is meeting current needs but pension debt is steadily growing, future generations of policymakers might have to make unaffordable contribution increases or reduce benefits. From 2002 to 2018, states fell short of minimum funding thresholds by a combined $220 billion, which caused the funding gap to grow in good economic times as well as bad. But after more than a decade of increasing pension contributions—which have risen by 7% annually since 2008—by 2021, states collectively were contributing enough to keep pension debt stable (though not enough to make progress in paying down pension debt). Most states met or exceeded Pew's contribution benchmarks in 2021, but 21 still had negative amortization, meaning that contributions were insufficient to keep the funding gap from growing.

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The Pew Charitable Trusts Issue Brief

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