State Pension Funds' Combined Underfunding Rises to $4.7 Trillion — Report.

State employee retirement systems are underfunded by a total of $4.7 trillion for a funding ratio of 36%, said a report from State Budget Solutions, a non-profit organization advocating state budget reform.

The report, "Promises Made, Promises Broken 2014" uses data from fiscal year 2013 comprehensive annual financial reports and actuarial valuations from individual plans. In its 2013 report, the group estimated underfunding at $4.1 trillion, or a 39% funding ratio.

The report measured state public pension liabilities by market valuation instead of discount rates based on investment return assumptions because "the discount rates that plans use are just far too high," said Joe Luppino-Esposito, State Budget Solutions general counsel and the report's author, in an interview. A risk-free rate based on a 15-year Treasury bond rate works better when states fail to make annual contributions and address unfunded liabilities, Mr. Luppino-Esposito said. "Even if you are on target, it doesn't work. The bottom line is that on paper nothing beats a government pension. But in reality, the money isn't there," Mr. Luppino-Esposito said.

The overall actuarial assets of state pension funds in the 50 states, according to the report, total $2.68 trillion, while liabilities total $7.42 trillion.

Using the states' own assumptions, unfunded liabilities are just over $1 trillion, the report said.

The state with the lowest funding ratio is Illinois at 22%, the report said. The state's public employee pension funds have $95 billion in assets and $426.6 billion in liabilities, according to the report.

PENSIONS & INVESTMENTS

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