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States Turn to New Tool to Sustain Pension System Funding.

Stress tests help policymakers plan for the next recession.

Eager to strengthen the long-term financial health of their public-sector pension systems, officials in several states have embraced a nonpartisan, data-driven approach to more precisely assess their ability to fulfill the benefit promises made to public employees.

Called stress test reporting, this new practice can show policymakers how adverse economic scenarios could affect retirement system investments and state budgets. Because earnings on investments typically make up the largest share of pension fund revenue, lower returns or losses need to be offset by higher contributions from the state government and workers. The stress testing model created by The Pew Charitable Trusts also allows states to account for the condition of their economy and tax collections, offering a broad look at the impact of pensions on their overall fiscal health.

A forthcoming report by the John F. Kennedy School of Government at Harvard University looks at initial results using the Pew approach in 10 states.

Continue reading.

Route Fifty

By The Pew Charitable Trusts

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