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S&P Pension Brief: Liquidity Is A Rising Concern For U.S. Public Pensions In Down Markets

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Given the current market downturn, U.S. public pension plans may experience liquidity stress to cover benefit payments. Through periods of continued volatility, assets in plans with weak liquidity are likely to be sold at a loss and may contribute to decreasing funded ratios. In our opinion, poorly funded plans and high discount rates may be indicators of excessive liquidity risk.

In the U.S., plans have an average of 1% of their target portfolios held in cash and short-term investments to pay ongoing expenses, such as benefit payments and administrative costs. A liquidity-to-assets ratio can be useful in determining the liquidity risk, if any, of a pension plan.

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