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S&P Pension Brief: The Future Of U.S. Public Pensions After The Sudden-Stop Recession

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Key Takeaways

- U.S. public pension funds in aggregate lost approximately $850 billion in the first quarter of 2020.
- A Q2 2020 return of nearly 30% is needed for government-sponsored pension systems to maintain the 73% average funded ratio from a year ago.
- Should experience mirror that of the recent Great Recession, adjustments to reduce plan costs and increase contributions are likely.

Escalating pension obligations caused by the sudden-stop recession are likely to be felt for years by U.S. state and local governments. In the public sector, market returns are built into the funding model and thus make up a large part of pension plan inflows. Should market returns remain below past peaks, the effect of poor returns will result in an increase in employer contributions. To understand the future of U.S. public pensions, we consider the recession impact over three periods:

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