

# **Bond Case Briefs**

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## **Stress Testing of Public Pensions Can Help States Navigate the COVID-19 Economy.**

**Pew's updated analysis framework accounts for reduced revenue, long-term investment outlooks**

### **Overview**

The COVID-19 pandemic has upended life in the U.S. and disrupted the economy. Real gross domestic product (GDP) fell sharply in the second quarter of 2020 while job losses soared and state and local government finances weakened. Public pension systems, funded by those same governments, only narrowly averted large losses in the spring after a historic stock market rally boosted investment earnings.

Economic data released in January and February 2021 by the federal government, including the Congressional

Budget Office (CBO), showed signs of improvement. According to advance estimates from the Bureau of Economic Analysis (BEA),<sup>1</sup> the economy held ground in the fourth quarter of 2020 following a sharp rebound in the summer. And with vaccine distribution now underway, the outlook for recovery has improved. By 2025, CBO expects real GDP and labor force participation rates to recover close to their pre-pandemic trajectories— significant upgrades over its July 2020 forecast.<sup>2</sup>

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### **The Pew Charitable Trusts**

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