

Bond Case Briefs

Municipal Finance Law Since 1971

Policymakers Have Multiple Pathways to Stress Test Municipal Pension Plans.

Building on existing financial reporting practices can help manage investment risks

Funding levels for municipal pension plans have improved in recent years, [Pew research shows](#), with the shortfall shrinking between assets on hand and liabilities for promised benefits. The aggregated funded ratio had risen slightly in 2017 to 68% from 66% in 2015. And the historic investment gains of the last year are estimated to bolster that percentage to at least 80% for 2021.

Despite the encouraging trend, public pension funding can be volatile. Even before the pandemic, many economists were forecasting lower long-term investment returns compared with past business cycles and the first months of 2022 have highlighted the potential for dramatic market swings.

Returns that come in significantly lower than predicted could force local governments to raise their pension fund contributions to make up the shortfall. Pension stress tests, which simulate funding levels and required contributions under a range of economic scenarios, can help plan sponsors prepare for these potential cost increases.

[Continue reading.](#)

The Pew Charitable Trusts

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