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States Take Steps to Shore Up Pension Funding.

Recent laws to improve pension financing should save states tens of billions of dollars over the long term.

Several state legislatures took steps in 2024 to enhance funding for public pension systems by adopting strategies to increase annual employer contributions to their retirement systems, manage how unfunded liabilities are paid down, and take advantage of surplus revenues to make supplemental payments to improve system funding and further pay down debt. These efforts build on more than a decade of increased contributions to public retirement systems, among other reforms, that have helped many states shore up their pension funding and stabilize their debt.

Well-managed retirement systems have instituted policies to ensure that the annual contributions they receive from state governments are sufficient to achieve full funding and pay down unfunded liabilities while keeping costs stable so that the systems are sustainably funded over the long term. Using these practices as a guide, policymakers can evaluate and enhance their retirement policies.

Well-Designed Contribution Policies Can Help Achieve Funding Goals

Effective funding policies ensure that annual contributions are sufficient to fund new benefits that plan participants earn each year while allowing states to pay down a portion of unfunded pension system liabilities. States that fall short of this goal are typically either failing to follow an actuarial funding policy or are following a fixed contribution rate that's insufficient to meet their systems' funding needs. Several states have moved away from the latter approach by implementing actuarial funding policies that regularly adjust employer contributions based on economic factors such as expected investment returns or projected employee salaries, thus ensuring that annual contributions are sufficient to meet targets for achieving full pension funding while reducing state government costs.

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