JANUARY 2026

RESEARCH BRIEF

The State of Pensions 2025 | January Update

America's Pensions are Surviving, Not Thriving

ANTHONY RANDAZZO & JONATHAN MOODY

EQUABLE

The State of Pensions at the End of 2025 Remains Fragile.

The funded status for state and local pension plans improved in 2025, propelled forward by solid financial market performance and an average investment return of 9.5%. Yet, with a projected 82.5% funded ratio at the end of 2025, public pension plans are still in a fragile financial condition. After three years of growing markets and contributions above required rates, public plans are still Below 2021's funded status high (83.9%). And unfunded liabilities are persistently stuck at $1.27 trillion at the end of 2025 too.

State and local retirement systems are surviving right now, but not thriving. This is particularly worrisome given the multiple headwinds on the horizon for U.S. public pension plans.

First, budget pressures are mounting across the 50 states. Even in a non-recessionary environment, states encountered budget pressures in 2025 that are carrying over into 2026. Most notably, tax revenue growth has slowed as healthcare and education costs grew—and states will face even higher healthcare-related costs in 2026. Among the three dozen states projecting structural budget gaps are California, Washington, Colorado, Iowa, Kentucky, and Maryland—each with their own mix of public pension challenges.

As contribution rates either remain at historic highs, state legislatures are going to be tempted to look closely at their pension costs and consider ways to reduce them. The average public plan contribution rate at 31.65% in 2025 reflects a significant claim on state and local budgets. As fiscal constraints tighten, the political will to maintain or increase these contributions will be tested—particularly in states where pension costs compete directly with priorities like education and healthcare.

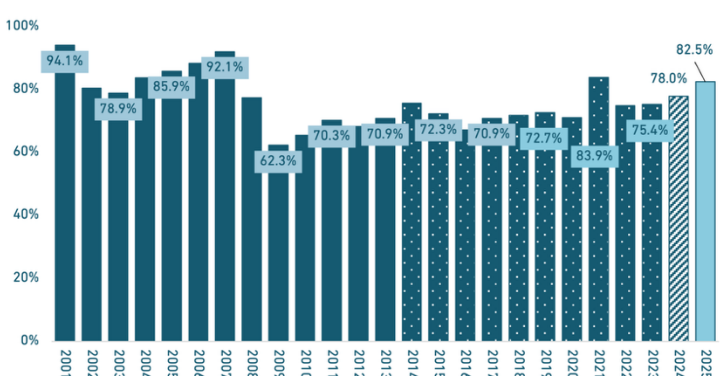
Second, market volatility and recession risks loom over 2026. The funded status gains of 2025 were built on strong equity market returns at a time when global markets reached record highs. However, there are numerous recession indicators flashing warning signs. Concerns about tariff policies are ongoing. There is no shortage of bear market financial forecasts, or concerns about an "A.I. Bubble." Since pension funds remain vulnerable to another year of significant losses that could quickly erase recent progress—just as happened after 2021's strong returns—there is more than enough cause to monitor downside financial risks in 2026.

The sobering reality is that despite three years of solid returns and record-high contribution rates, public plans have barely recovered the ground lost in 2022's market downturn. Public pension funds are surviving, but they are not thriving. The question for legislatures and pension fund trustees remains the same as in recent years: Are governments willing to shift away from using high risk/reward investment strategies, target more realistic long-term investment assumptions, and adopt a serious strategy to pay down unfunded liabilities? And now a new question emerges: Will budget pressures force states to slow or halt the contribution increases that have been essential to recent progress?

The average national funded ratio has improved from 78.0% in 2024 to 82.5% at the end of 2025.

This improvement is primarily due to investment returns and slowing growth in liabilities, with some assistance from contributions starting to exceed interest on the pension debt.

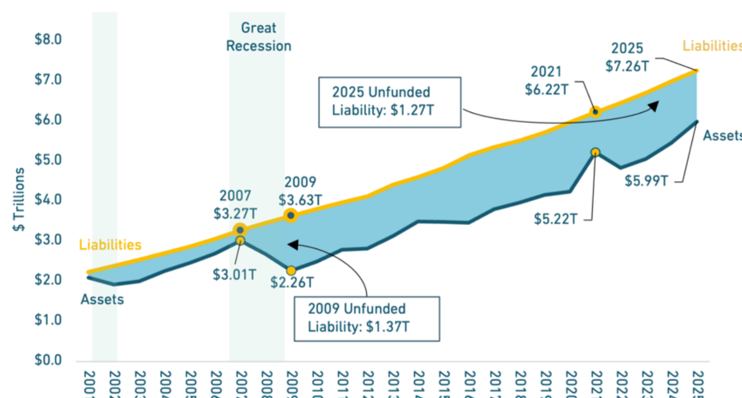
FUNDED RATIO AVERAGE
FOR STATE & LOCAL PENSION PLANS | 2001-2024 + 2025 Estimate



The total pension funding shortfall declined to $1.27 trillion in 2025, down from $1.54 trillion in 2024 unfunded liabilities.

Average investment returns were positive for three straight years, providing stable improvement in unfunded liability levels.

TOTAL UNFUNDED LIABILITIES
FOR STATE & LOCAL PENSION PLANS | 2001-2024 + 2025 Estimate



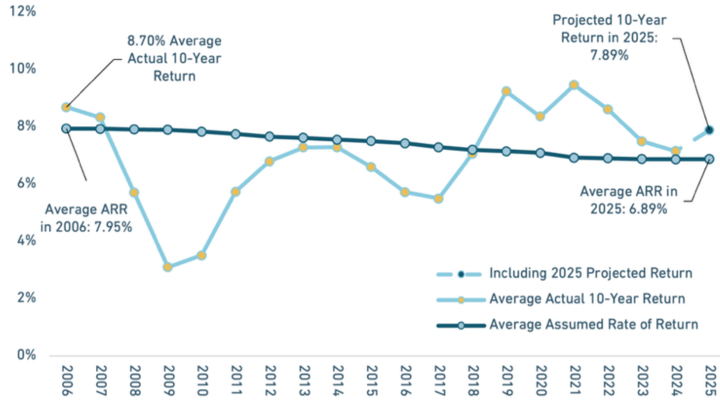
The preliminary 9.53% average investment return for the 2025 fiscal year beat the 6.87% average assumed rate of return for 2025.

Within the plans there is a wide range of 2025 investment returns. Among the 177 plans that have reported actual returns, the lowest is 4.9%, while the highest is 13.5%.

On average, pension funds with a June fiscal close experienced the best returns (9.85%).

Around 87% of plans beat their own assumed return for the 2025 fiscal year.

INVESTMENT RETURN AVERAGES
COMPARED TO ASSUMED RATES OF RETURN | 2006-2025

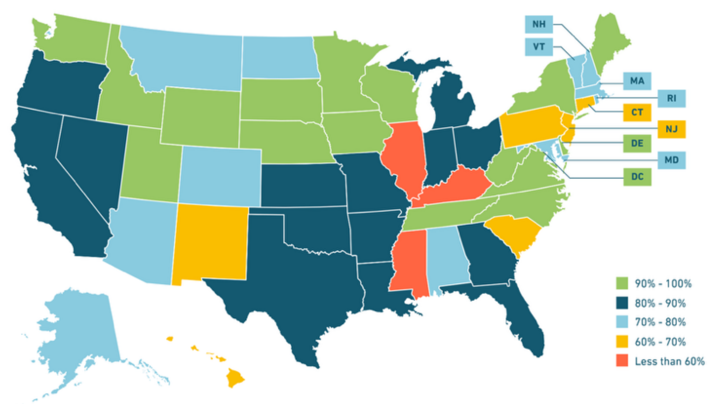


Most state and municipal pension plans in the United States are still distressed or fragile.

Within the states, funded ratios and unfunded liability levels continue to vary considerably from state to state. For example, in California the Public Employees' Retirement System is 78.3% funded while the City of Los Angeles Fire and Police Pension Plan is 105.8% funded.

About 36% of state and municipal pension plans still report a Resilient funded status (90% or better for three years continuously), and a quarter of the states have an average 2024 funded ratio above 90% for their plans collectively. However, the vast majority of U.S. pension plans have a Fragile (90% to 60%) or Distressed (60% or less) funded status.

2025 ESTIMATED FUNDED RATIOS BY STATE BASED ON ESTIMATED ASSETS FOR STATE & LOCAL PENSION PLANS



How This Update Changes Our Findings for State and Local Pension Plans:

- The average 2025 estimated rate of return shifted from 8.58% (as of October 30) to 9.53% (as of December 31) after factoring in reported preliminary returns and final fiscal year market returns.
- The average 2025 estimated funded ratio shifted from 83.1% to 82.5% based on updated data.
- The total 2025 unfunded liability estimate shifted from $1.22 trillion to $1.27 trillion based on updated data.
- The average 2024 actual funded ratio shifted from 78.1% to 78.0% based on additional reported plan data.
- The total 2024 actual unfunded liability reported shifted from $1.53 trillion to $1.54 trillion based on additional reported plan data.

To read more about State of Pensions visit http://equable.org/StateofPensions2025

Funded Ratio Ranking, by State | 2025

Rank	State	Funded Ratio	Unfunded Liability
1	District of Columbia	117.6%	-$2,065,756,416
2	Tennessee	114.6%	-$10,185,163,136
3	Nebraska	107.2%	-$1,445,850,560
4	Wisconsin	106.2%	-$9,329,855,872
5	Washington	103.2%	-$5,248,504,192
6	Utah	100.2%	-$104,910,368
7	South Dakota	100.0%	$0
8	West Virginia	99.8%	$39,605,248
9	Minnesota	95.4%	$5,156,158,848
10	North Carolina	94.1%	$8,679,985,152
11	New York	93.7%	$46,651,720,192
12	Delaware	93.3%	$975,288,224
13	Iowa	92.9%	$3,797,019,136
14	Virginia	92.6%	$10,757,683,200
15	Wyoming	92.0%	$978,689,024
16	Idaho	90.9%	$2,418,161,664
17	Maine	90.6%	$2,211,763,712
18	Oklahoma	89.5%	$5,391,951,488
19	Arkansas	87.1%	$6,184,673,024
20	Nevada	86.4%	$11,739,273,216
21	Oregon	86.2%	$15,371,853,824
22	Florida	86.0%	$36,005,476,992
23	Georgia	84.8%	$25,034,376,384
24	California	84.2%	$256,442,736,532
25	Kansas	83.9%	$6,576,436,624
26	Indiana	83.7%	$8,818,840,576

Rank	State	Funded Ratio	Unfunded Liability
27	Ohio	83.7%	$49,211,323,264
28	Missouri	83.5%	$18,742,475,808
29	Texas	82.5%	$86,682,248,064
30	Louisiana	82.3%	$14,060,932,672
31	Michigan	81.9%	$26,742,709,728
32	Montana	78.5%	$3,701,096,960
33	Alaska	78.4%	$5,487,468,032
34	Arizona	78.3%	$23,964,687,448
35	Colorado	78.1%	$23,387,018,688
36	Alabama	77.9%	$15,874,631,680
37	Massachusetts	75.5%	$33,313,477,376
38	Maryland	74.7%	$26,203,319,552
39	North Dakota	74.2%	$2,927,585,280
40	New Hampshire	74.2%	$4,658,499,584
41	Rhode Island	73.3%	$4,676,186,304
42	Vermont	70.4%	$3,023,429,120
43	Pennsylvania	69.9%	$58,935,411,200
44	New Mexico	68.2%	$17,442,969,600
45	South Carolina	66.7%	$25,159,750,144
46	Connecticut	66.3%	$31,223,813,376
47	Hawaii	62.6%	$14,733,139,968
48	New Jersey	60.2%	$85,736,891,904
49	Mississippi	59.0%	$25,095,725,056
50	Kentucky	58.5%	$35,757,726,144
51	Illinois	54.0%	$205,867,589,984

Data for each state include statewide plans and large municipally managed plans (those with at least $1 billion in liabilities). Negative unfunded liability numbers indicate "overfunded" status for the fiscal year.

Funded ratio rankings for individual pension plans are available at
Equable.org/PensionPlanFundedRatios

WHAT IS INCLUDED IN THIS UPDATE?

When we published State of Pensions in July 2025, there were still 32 state or local retirement systems that had not released data for the fiscal year ending 2024. These plans amounted to 15.5% of anticipated total pension liabilities for 2024. Further, our July report relied almost entirely on estimated investment returns, using benchmarks for the various reported asset classes pension funds were using at the start of their 2025 fiscal year.

Over the last six months many retirement systems have released new and updated data, including preliminary investment return reports and some valuation reports. This January 2026 fact sheet uses those reports to include the following:

- Updated 2024 actual financial data, including the addition of actuarial valuation report data from 26 retirement systems. There are still outstanding 2024 reports from nine plans across three state systems (Michigan Municipal, Pennsylvania Municipal, and Tennessee PERP) and two municipal systems (Chicago Transit, and Dallas PFRS).

- Updated 2025 estimates use preliminary investment returns from retirement systems, pension fund trusts, and state treasurer or comptroller offices. As of this update, 177 (70.0%) out of the 253 retirement systems included in our data use either reported actual assets or reported actual returns to produce their 2025 estimates. Among the 177 plans with 2025 actuals, 57 (22.5% of all plans, 32.2% of those with 2025 actuals) use reported preliminary returns for their full fiscal 2025 to estimate their 2025 assets while 120 (47.4% of all plans, 67.8% of those with 2025 actuals) have reported a preliminary asset total as of the close of fiscal 2025. For the remaining 76 retirement plans in our data, 23 plans (9.1%) have reported partial investment returns during the 2025 fiscal year, meaning our estimate combines partial year preliminary actual returns and benchmarks. Another 37 plans (14.6%) have reported preliminary assets for part of the 2025 fiscal year, meaning our estimate combines partial year preliminary assets with benchmark returns. The remaining 16 plans (6.3%) have not reported any investment performance or preliminary asset totals for fiscal 2025, meaning that their estimates are based entirely on market benchmarks and their respective asset allocations.

The Equable Public Retirement Research Database includes 253 retirement plans; however, data were insufficient to include eight of these plans in State of Pensions analysis because of delayed reporting.

Note: *This report is not estimating mid-2026 fiscal year funded status for any plan. Each pension fund's data for "2025" is based on when they end their fiscal year. We use their valuation reports or preliminary investment return data if published, and then estimate returns and roll forward assets and liabilities for the pension funds that haven't yet released data (such as the pension funds with December 31 fiscal year end dates).*

ABOUT STATE OF PENSIONS

State of Pensions is Equable Institute's annual report on the status of statewide public pension systems, put into a historic context. Governments face a wide range of challenges in general — and some of the largest are growing, often with unpredictable pension costs. State of Pensions analyzes trends in public pension funding, investments, contributions, cash flows, and benefits for 245 of the largest statewide and municipal retirement systems in all 50 states and D.C. to illuminate the scale and effects of these challenges. Click here to access previous editions of State of Pensions as well as additional data and resources.

ABOUT EQUABLE INSTITUTE

Equable Institute is a bipartisan nonprofit that works with public retirement system stakeholders to solve complex pension funding challenges with data-driven solutions.

ABOUT THE AUTHORS

Anthony Randazzo (Executive Director) is a national expert on public sector pension policy and has provided technical assistance to more than a dozen states and cities on ways to improve retirement plan sustainability.

Jonathan Moody, PhD (Vice President for Research) has developed a wide range of academic and policy research on municipal finance subjects, including state budgeting and reserve funds, state credit ratings, state fiscal management, and public retirement benefits.

MEDIA CONTACT: Sam Shaw, Senior Vice President of Communications | sam@equable.org | +1 (646) 991-0447