EQUABLE

STATE OF PENSIONS 2020

> *State of Pensions is an annual report on the status of public pensions put into a historical context. State and local governments face a wide range of challenges – growing, and unpredictable pension costs are some of the largest. The scale and effects of this challenge become evident when the status of public retirement systems today are considered within the view of the multi-decade financial trends that have brought us to this point.*

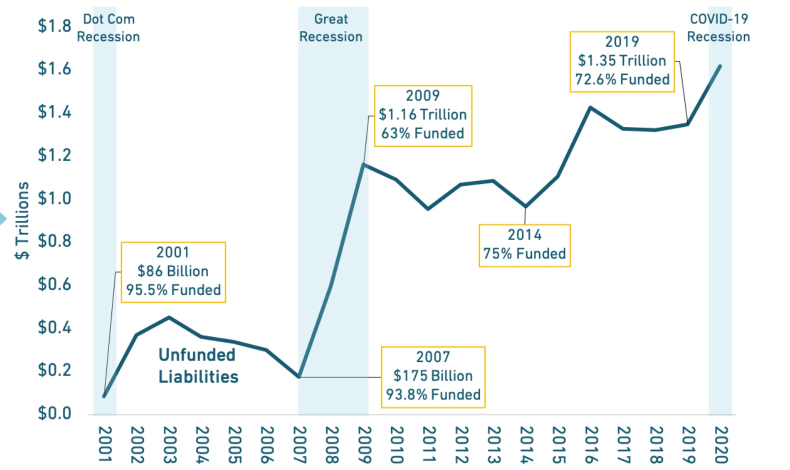
KEY TRENDS FOR 2020:

TREND 1:

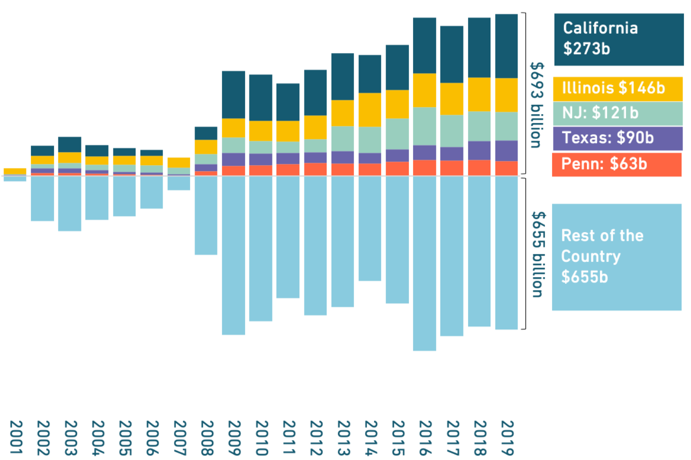
Despite a decade-long bull market, U.S. statewide public pension funds entered the COVID-19 recession in a worse position than the Great Recession of 2008.

Equable Institute estimates unfunded liabilities will grow to $1.62 trillion in 2020 (up from $1.35 trillion in 2019), bringing the total aggregate funded ratio to 67.9% - nearly its lowest point in modern history.

TOTAL UNFUNDED LIABILITIES FOR STATEWIDE PENSION PLANS, 2001-2019



UNFUNDED LIABILITY HISTORY GROUPED BY STATE, 2001 - 2019



TREND 2:

Five states (California, Illinois, New Jersey, Texas, and Pennsylvania) account for more than 50% of the United States' statewide public pension unfunded liabilities.

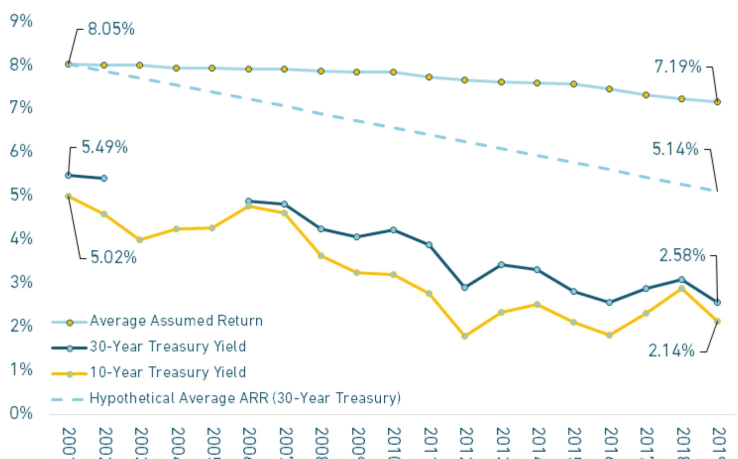
CalPERS unfunded liabilities ($161 billion) are 12% of the nation's total statewide pension plan funding shortfall. Illinois TRS unfunded liabilities ($81 billion) alone are larger than nearly any other single state's funding shortfall.

TREND 3:

While assumed rates of return have been steadily falling and are currently at an all-time low, they are likely still too optimistic given the current low interest rate environment, unless pension funds want to continue adding more investment risk.

If assumed returns had kept pace with declining interest rates since 2001, the average assumption in 2019 would have been around 5.1%. Today, the average assumed rate of return is 7.2%.

ASSUMED RATE OF RETURN v. INTEREST RATES, 2001-2019



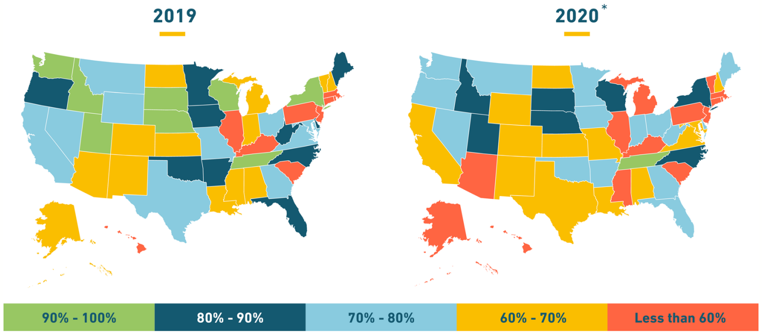
SEE REVERSE FOR MORE TRENDS

STATE OF PENSIONS 2020

DIVING DEEPER:

Understanding the Impact of Pension Funding Shortfalls on States in the COVID-19 Era

FUNDED RATIO BY STATE, 2019 & 2020

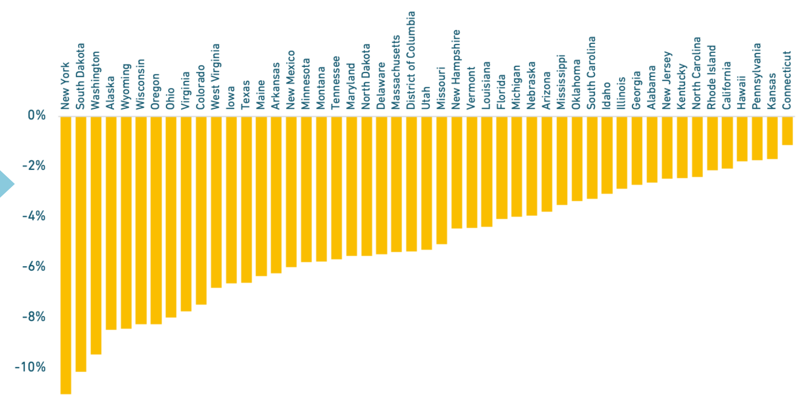


*Estimate, see Methology in the full State of Pensions 2020 report for details.

Half of the plans with a resilient funded status (greater than 90%) at the end of 2019 slipped into a fragile position (60% to 90%). Another 12 plans moved from fragile to distressed funded status (less than 60%).

Equable estimates the average investment return for statewide plans as of June 30, 2020 is -0.44% based on the most recent asset allocation reports from each plan. This is 763 basis points below the average 7.19% assumed return for the fiscal year.

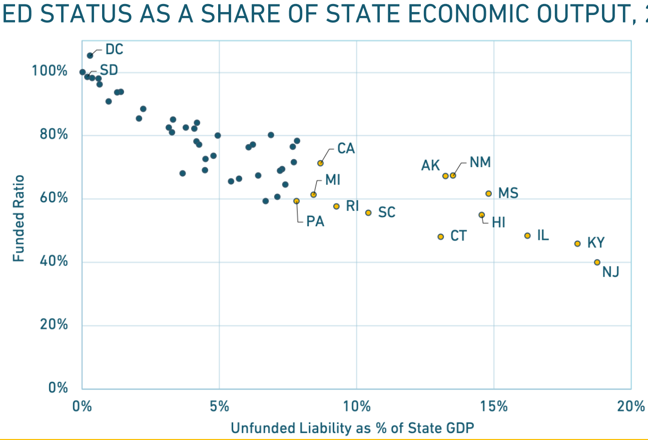
DECLINE IN FUNDED RATIO BY STATE, FROM 2019-2020



States with higher funded ratios were affected by the March 2020 market crash more than poorly funded states because the better-funded plans had more assets to lose.

Many plans bounced back from the asset shock, but they will likely report underperforming against their assumed returns for the fiscal year ending 2020.

FUNDED STATUS AS A SHARE OF STATE ECONOMIC OUTPUT, 2019



At the end of 2019, states with some of the most visible pension funding challenges, including New Jersey, Kentucky, and Illinois, had the largest share of unfunded liabilities relative to their state's GDP, topping 15% respectively.

Funded ratio and unfunded liability levels on their own are not perfect indicators of plan health. Understanding the size of unfunded liabilities relative to the size of a state's economy gives a sense of what scale of resources will be needed from a local tax base to improve funded status.

With decreased revenue as a result of the pandemic market shock, these numbers could grow significantly larger in 2020.

Visit www.Equable.org/StateofPensions
to download the full report and access interactive data visualizations.

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About Equable Institute

Equable is a bipartisan non-profit that works with public retirement system stakeholders to solve complex pension funding challenges with data-driven solutions. We exist to support public sector workers in understanding how their retirement systems can be improved, and to help state and local governments find ways to both fix threats to municipal finance stability and ensure the retirement security of all public servants.