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RESEARCH BRIEF

The State of Pensions 2024 | Year End Update

The Hidden Cost of Pension Debt Paralysis

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EQUABLE

The State of Pensions at the End of 2024 Remains Fragile.

The funded status for state and local pension plans improved in 2024, propelled forward by solid financial market performance and an average investment return of 10.3%. Yet, public pension plans are still in a fragile financial condition. Between 2023 and 2024, the average market valued public pension funded ratio increased from 75.5% up to 80.2%. **This marks 17 consecutive years with an average funded ratio below 90%**, the minimum threshold for pension plans to be considered resilient.

This year's 10.3% average investment return is better than the average assumed rate of return that public plans were using last year (6.87%), but it is less than the performance of most major public equity indices like the S&P 500. Generally, this can be attributed to the poor performance of fixed income investments over the last year. For example the return for Barclay's U.S. Aggregate Bond Index was effectively 0% for the 2024 calendar year.

The good news for state legislatures and local government employers is that three straight years of improved funded status for public plans prevented additional unfunded liabilities from piling up. The bad news is that there is still more than a trillion in pension debt that can't be paid down using today's level of contributions. The need for contribution rate increases remains as urgent as ever, irrespective of the budgetary pressures this creates.

Despite soaring financial market returns this year, the question for legislatures and pension fund trustees remains the same as last year: Are governments willing to shift away from using high risk/reward investment strategies and target more realistic long-term investment assumptions and adopt a serious strategy to pay down unfunded liabilities?

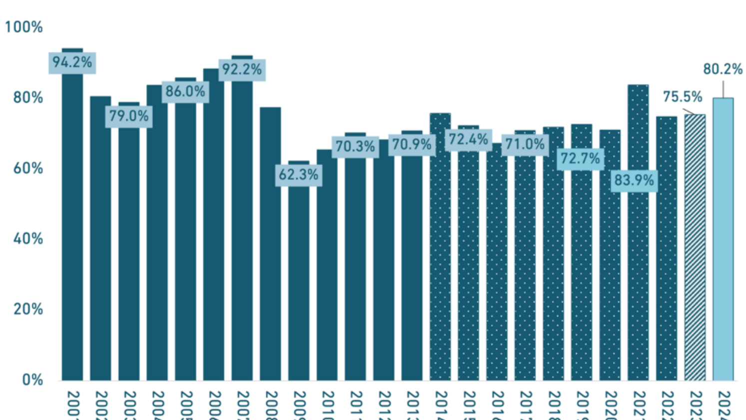
As we look ahead in 2025 for public pension plans in the U.S., here is what is important to know:

- **Public pension valuation risk is at an all-time high**, with 27.7% of pension fund assets invested in private equity, real estate, and other alternatives that rely on accurate non-public valuation methods to record performance data.
- **The average assumed rate of return has remained effectively flat for the fourth straight year**. The trend of adopting more realistic assumed returns over the decade before the Covid Pandemic has stalled. The current 6.87% assumed return rate is higher than what should be considered reasonable today (between 5.5% and 6.5%, depending on the pension fund).
- If tax revenues are stagnant in 2025, **state legislatures are unlikely to seriously improve how they finance pension debt** — e.g., realistic assumptions and payment plans that don't budgetarily burden local employers like school districts.

The average national funded ratio has improved from 75.5% in 2023 to 80.2% at the end of 2024.

This improvement is primarily due to investment returns with some assistance from increased regular and supplemental contributions.

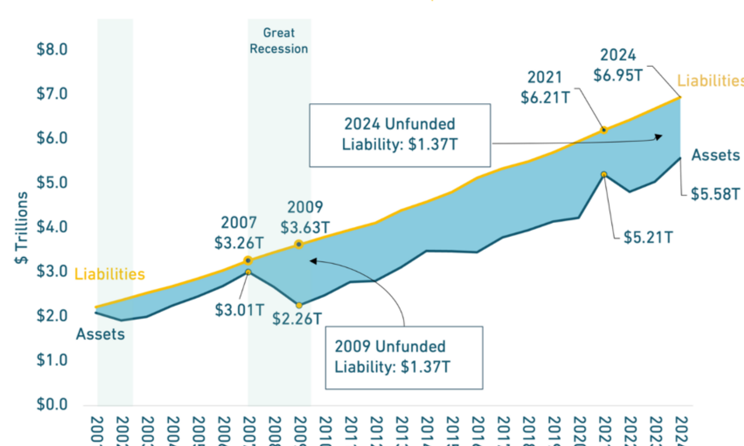
FUNDED RATIO AVERAGE
FOR STATE & LOCAL PENSION PLANS | 2001-2023 + 2024 Estimate



The total pension funding shortfall declined to $1.37 trillion in 2024, down from a high of $1.64 trillion in 2023 unfunded liabilities.

Average investment returns were positive for two straight years, providing stable improvement in the level of unfunded liabilities.

TOTAL UNFUNDED LIABILITIES
FOR STATE & LOCAL PENSION PLANS | 2001-2023 + 2024 Estimate



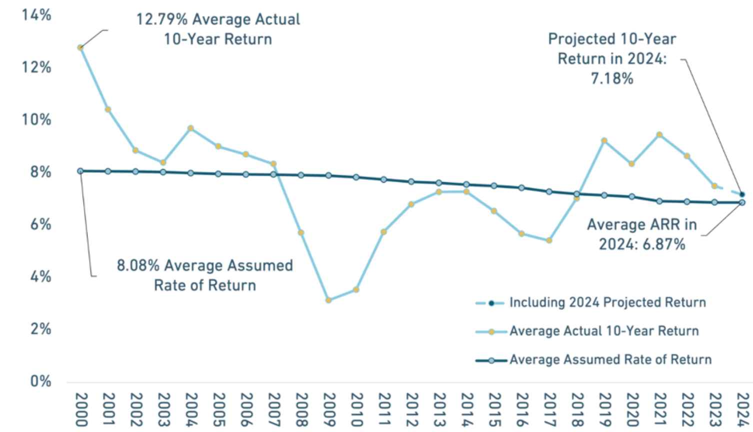
The preliminary 10.33% average investment return for the 2024 fiscal year beat the 6.87% average assumed rate of return for 2024.

Within the plans there is a wide range of 2024 investment returns. Among plans that have reported actual returns, the lowest is 5.1%, while the highest is 21.2%.

On average, pension funds with a September fiscal close experienced the best returns (18.9%).

Around 91% of plans beat their own assumed return for the 2024 fiscal year.

INVESTMENT RETURN AVERAGES
COMPARED TO ASSUMED RATES OF RETURN | 2001-2024

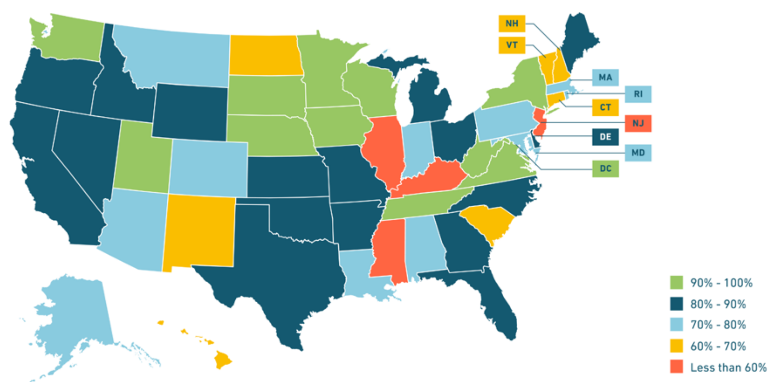


Most state and municipal pension plans in the United States are still distressed or fragile.

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 74.22% funded while the City of Los Angeles Fire and Police Pension Plan is 101.61% funded.

About 21% of state 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.

2024 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 2024 estimated rate of return shifted from 9.52% (as of October 30) to 10.33% (as of December 31) after factoring in reported preliminary returns and final fiscal year market returns.
- The average 2024 estimated funded ratio shifted from 81.4% to 80.2% based on updated data.
- The total 2024 unfunded liability estimate shifted from $1.29 trillion to $1.37 trillion based on updated data.
- The average 2023 actual funded ratio shifted from 75.6% to 75.5% based on additional reported plan data.
- The total 2023 actual unfunded liability reported shifted from $1.63 trillion to $1.64 trillion based on additional reported plan data.

To read more about State of Pensions visit http://equable.org/StateofPensions2024

Funded Ratio Ranking, by State | 2024

Rank	State	Funded Ratio	Unfunded Liability
1	District of Columbia	112.5%	-$1,403,077,888
2	Nebraska	108.5%	-$1,619,958,016
3	Tennessee	107.9%	-$5,273,603,584
4	Utah	104.2%	-$2,085,706,112
5	Washington	102.5%	-$3,891,787,776
6	Wisconsin	102.1%	-$3,008,134,144
7	West Virginia	100.4%	-$81,263,616
8	South Dakota	100.0%	$0
9	Minnesota	93.2%	$7,086,123,008
10	New York	92.8%	$50,920,734,720
11	Iowa	91.6%	$4,298,066,944
12	Virginia	90.8%	$12,549,239,808
13	North Carolina	89.1%	$15,118,643,200
14	Delaware	88.8%	$1,576,523,648
15	Maine	88.3%	$2,641,115,648
16	Wyoming	87.3%	$1,493,575,680
17	Oklahoma	85.7%	$7,139,405,824
18	Nevada	85.2%	$11,845,238,784
19	Missouri	85.1%	$16,306,503,680
20	Arkansas	83.9%	$7,490,496,000
21	Florida	83.8%	$39,824,371,712
22	Idaho	83.3%	$4,378,222,592
23	Texas	82.4%	$82,234,155,008
24	Oregon	81.3%	$19,853,164,544
25	Ohio	81.2%	$55,517,143,040
26	Kansas	81.2%	$7,100,811,776

Rank	State	Funded Ratio	Unfunded Liability
27	Michigan	80.9%	$27,943,137,280
28	Georgia	80.7%	$30,463,084,544
29	California	80.7%	$299,883,823,104
30	Indiana	78.5%	$11,345,504,256
31	Alabama	78.3%	$14,943,799,296
32	Rhode Island	78.2%	$3,238,432,512
33	Alaska	78.2%	$5,334,317,056
34	Louisiana	78.0%	$17,113,518,080
35	Massachusetts	77.2%	$29,887,457,280
36	Arizona	76.3%	$24,872,366,080
37	Colorado	74.5%	$26,057,582,592
38	Montana	74.3%	$4,296,565,248
39	Maryland	72.6%	$27,159,775,232
40	Pennsylvania	70.3%	$57,070,555,136
41	New Hampshire	69.7%	$5,327,329,280
42	South Carolina	69.0%	$21,754,329,088
43	North Dakota	68.9%	$3,408,814,592
44	New Mexico	67.8%	$16,547,076,096
45	Vermont	66.5%	$3,264,627,200
46	Connecticut	63.5%	$33,233,213,440
47	Hawaii	63.2%	$13,875,644,416
48	Mississippi	57.0%	$25,755,031,552
49	New Jersey	56.6%	$91,114,946,560
50	Kentucky	54.1%	$38,533,578,752
51	Illinois	51.6%	$211,680,788,480

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 2024, there were still 42 state or local retirement systems that had not released data for the fiscal year ending 2023. These plans amounted to 12.0% of anticipated total pension liabilities for 2023. 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 2024 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 2025 fact sheet uses those reports to include the following:

- Updated 2023 actual financial data, including the addition of actuarial valuation report data from 39 retirement systems that represent 10.3% of the total pension liabilities in our dataset. There are still outstanding 2023 reports from three retirement systems (Massachusetts State Employees, Massachusetts Teachers, and Pennsylvania Municipal).

- Updated 2024 estimates use preliminary investment returns from retirement systems, pension fund trusts, and state treasurer or comptroller offices. As of this update, 90 (36.7%) of the 245 retirement systems in the available data have reported preliminary returns for their full fiscal 2024 and those are used to estimate their 2024 assets. In addition, another 79 plans (32.2%) have reported a preliminary asset total as of the close of fiscal 2024. For the remaining retirement systems included, 35 plans (14.3%) have reported partial investment returns during the 2024 fiscal year, meaning our estimate combines partial year preliminary actual returns and benchmarks. Another 24 plans (9.8%) have reported preliminary assets through part of the 2024 fiscal year, meaning our estimate combines partial year preliminary assets with benchmark returns. The remaining 17 plans (6.9%) have not reported any investment performance or preliminary asset totals for fiscal 2024, 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-2025 fiscal year funded status for any plan. Each pension fund's data for "2024" 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

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