



ISSUE BRIEF:

State and Local Government Spending on Public Employee Retirement Systems

Percentage of spending declined in FY 23

Updated March 2026

OVERVIEW

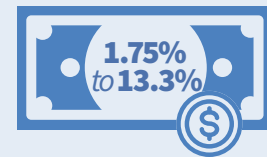
State and local government pension benefits are paid not from general operating revenues but from trust funds to which state and local government retirees and their employers contribute during employees' working years. These trusts pay over \$400 billion annually to retirees and their beneficiaries, benefits that reach virtually every city and town in the nation.ⁱ On a nationwide basis, contributions made in FY 23 by state and local governments to pension trust funds accounted for 5.16 percent of direct general spending (see Figure 1).ⁱⁱ Pension spending levels, however, vary widely among states, depending on various factors, and are actuarially sufficient for some pension plans and insufficient for others.

In the wake of the 2008-09 market decline, nearly every state and many cities and counties took steps to maintain or improve the financial condition of their retirement plans and to reduce costs. States and local governments changed their pension plans by adjusting employee and employer contribution levels, reducing benefits, or both.ⁱⁱⁱ Recent data shows that while total pension contributions made by employers have grown – rising 3.4 percent from FY 2022 to FY 2023 – the percentage of spending on pensions remains broadly stable. This update provides figures for public pension contributions as a percentage of all state and local government direct general spending for FY 2023 and projects the aggregate rate of pension spending for FY 2024.

Key Findings



Nationally, the percentage of spending on pensions declined from 5.34 to 5.16 percent.



State pension spending levels vary widely, from under two percent to more than 13 percent.



Several states have implemented notable initiatives to boost pension funding.

ⁱ U.S. Census Bureau, Annual Survey of Public Pensions, <https://www.census.gov/programs-surveys/aspp.html>, 2024; see also “Economic Effects of Public Pensions,” <http://www.nasra.org/economiceffects>

ⁱⁱ The U.S. Census Bureau defines direct general expenditures as all payments to employees, suppliers, contractors, beneficiaries, and other final recipients of governmental payments. Excluded from this category are expenditures for utilities, publicly owned liquor stores, employee retirement benefits paid from trust funds, and intergovernmental payments. Some state and local government spending is non-discretionary, and therefore not in competition for funds with other programs and services. Including non-discretionary spending would make the effect of pension spending appear smaller. In addition, some states and cities do not contribute the amount determined actuarially to adequately fund the plan.

ⁱⁱⁱ NASRA, Significant Reforms to State Retirement Systems, <https://www.nasra.org/reforms> & Selected Approved Changes to State Public Pensions, <https://www.nasra.org/files/Compiled%20Resources/nasrapensionchanges.pdf>

Nationwide Spending on Public Pensions

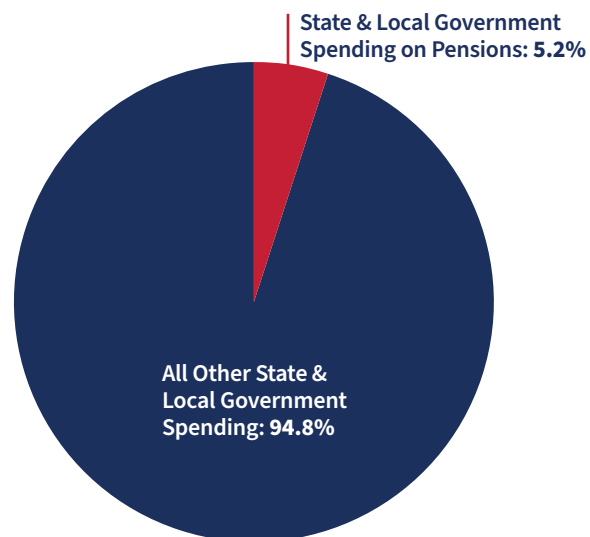
Based on the most recent information provided by the U.S. Census Bureau, in FY 23, an estimated 5.16 percent of all state and local government spending (excluding federal funds) is used to fund pension benefits for employees of state and local government. This represents a decline from 5.34 percent in FY 22. The FY 22 experience was driven by an extraordinary increase of 21 percent in employer pension contributions. From FY 22 to FY 23, the increase in employer pension contributions was muted, rising by 3.4 percent, from over \$218 billion to over \$226 billion. This relatively modest increase in spending was offset by a seven percent increase in aggregate state and local government spending.

Figure 2 plots the change in spending on pensions by states and local governments beginning in FY 95 through FY 23 and projected in FY 24. As the chart shows, pension costs rose sharply following FY 02 after experiencing a sharp decline in the preceding years: spending on pensions declined from 3.4 percent in FY 94, to a low point of 2.3 percent in FY 02, and has remained above 5.0 percent since FY 17.

State and local governments contributed, in aggregate, approximately \$226 billion to pension funds in FY 23. Employer pension contributions since FY 21 include additional funding, above actuarial requirements, contributed by several state and local governments (see [NASRA Issue Brief: State and Local Government Contributions to Statewide Pension Plans, FY 23](#)), and is expected to result in a relatively stable percentage of spending on pensions, assuming increases in aggregate state and local spending that is consistent with recent years (see Figure 2).^{iv} As previously mentioned, the aggregate pension contributions include instances of extraordinary contributions above actuarial requirements. Examples of additional pension contributions in FY 22 include:

- The State of Arizona made supplemental appropriations of over \$1 billion to the Public Safety Personnel and Correctional Officers' Retirement Systems. Additional local employer contributions to these systems in the same year, many of which were funded with proceeds from pension obligation bonds, totaled approximately \$1.72 billion.
- The State of California's FY 22 budget included a \$1.9 billion payment to pay down the state's unfunded liability in CalPERS, in accordance with a constitutional requirement

FIGURE 1. State and local spending on public pensions as a percentage of total government direct general spending, FY 23



Compiled by NASRA based on U.S. Census Bureau data

to contribute certain excess revenues to pay down specific state liabilities, including unfunded pension liabilities.

- Connecticut state law stipulates that if the state's budget reserve reaches 15 percent of general appropriations in the same fiscal year, the excess must be contributed to the state's two retirement systems. In FY 22 this resulted in \$1.6 billion excess contributions to the State Employees' and Teachers' Retirement systems.
- The Commonwealth of Virginia's FY 22 budget included a supplemental payment of \$750 million to the Virginia Retirement System.

[See more detail on these and other extraordinary contributions received by public pension funds in recent years.](#)

Although pensions in most states do not comprise a significant portion of aggregate state and local spending, (as shown in Table 1 on page 5), spending on pensions by states and political subdivisions varies widely among states, from under 2.0 percent to more than 13.0 percent. Many local governments report higher pension costs as a percentage of their budget.

^{iv} Projected spending for FY 2024 derived from actual state expenditures as reported by the National Association of State Budget Officers in the 2023-2025 State Expenditure Report (<https://www.nasbo.org/reports-data/state-expenditure-report> p. 17) and projected increase in local government direct general spending, as provided by the U.S. Census Bureau <https://www.census.gov/programs-surveys/gov-finances.html>

Differences in Pension Cost Levels

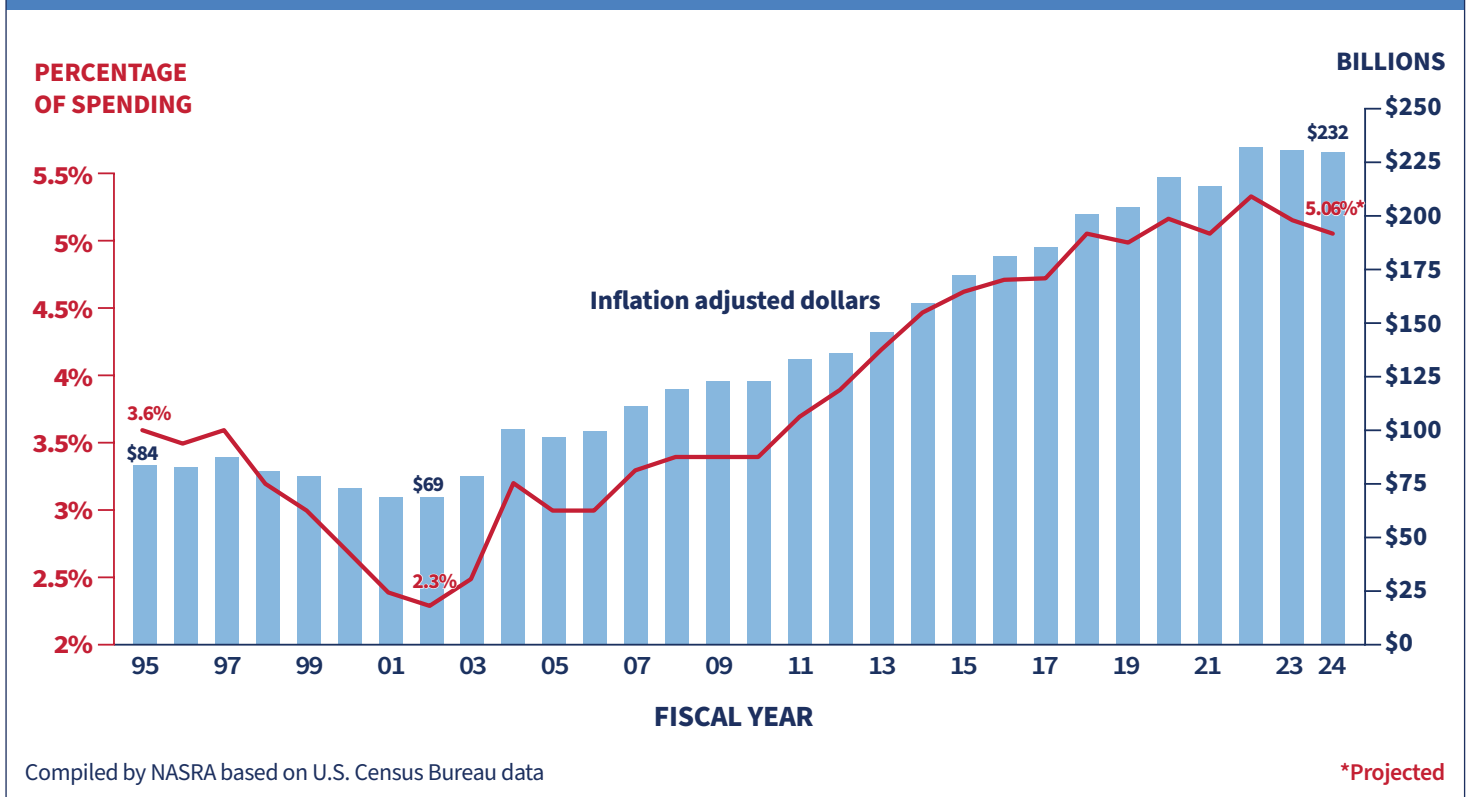
The variation in pension spending levels among states is attributable to such factors as differences in pension benefit levels; variation in the size of unfunded pension liabilities; the level of commitment by the state and its local government plan sponsors to make required pension contributions; the portion of the state’s population that lives in an urban area; and the fiscal condition of government plan sponsors. Most employees of state and local government participate in statewide retirement systems. In FY 24, state and local government employer contributions to statewide retirement systems accounted for 81 percent of total employer pension contributions, with the remaining 19 percent going to locally administered systems. As a percentage of total spending, cities spent approximately 31 percent more than states on pensions over the 30-year period spanning 1988-2017. This higher level of spending is largely attributable to the types of services delivered at

the local level (i.e., more labor-intensive, such as public safety personnel) and the resulting larger portion of local government spending that goes toward salaries and related benefits, compared to spending by states.

Differences in Benefit Levels

Pension benefit levels, and therefore required costs, vary among public pension plans. As described below, this difference is particularly pronounced for the 25 percent to 30 percent of state and local government employees who do not participate in Social Security, as their pension benefit levels—and costs—generally are higher to compensate for all or part of the absence of Social Security benefits. In addition to pension benefit accrual rates, variations in benefit levels may manifest themselves also via differences in required employee contribution rates and other features of the plan design, such as vesting periods, age of retirement benefit eligibility, etc.

FIGURE 2. State and local pension contributions, in 2024 dollars, and as a percentage of state and local direct general spending, 1994-2024*



Size of Unfunded Liabilities

An unfunded pension liability is the difference between the accrued projected level of pension benefits and the assets accumulated to pay for them. For some public pension plans, the annual cost of paying down a relatively large unfunded liability exceeds the cost of benefits accrued each year. By contrast, the cost for a plan with no unfunded liability is simply the cost of benefits accrued each year, i.e., the normal cost. Assuming the employer is making a good faith effort to pay its required contributions, states with pension plans that have a relatively large unfunded liability will have higher pension plan spending levels.

Social Security Coverage

As mentioned above, 25 to 30 percent of state and local governments and their employees make contributions to their retirement plan instead of to Social Security. This is the case for most to substantially all of the state and local government workforce in seven states, 40 percent of the nation's public school teachers, and a majority of firefighters and police officers. Pension benefits—and costs—for those who do not participate in Social Security are usually higher than for those who do participate; this is to compensate for the absence of Social Security benefits. This higher cost should be considered in the context of the 12.4 percent of payroll, or an estimated \$38 billion annually, these employers and employees would otherwise be paying into Social Security.^v

Level of Commitment to Pay Required Contributions

State and local government efforts to pay required contributions vary widely: some employers consistently pay the full Actuarially Determined Contribution, others pay less, and some pay more.^{vi} Whatever the cost of the pension plan, actual spending on pensions as a percentage of all spending is affected by employers' effort to fund the plan.

Urbanization

Another factor that appears to contribute to differences among states in pension costs is the extent to which the state's population resides in urban areas. Tighter labor markets and a higher cost of living – factors that may characterize densely populated cities – may lead employers to offer higher retirement benefits in order to meet their workforce management objectives. Pension

benefits are just one component of total compensation. Other factors, such as salaries and health benefits for active and/or retired workers, may also correlate with a state's degree of urbanization, and may also affect the difference in pension costs. Further research into the relationship of these factors may clarify these differences.

Fiscal Resources of the Plan Sponsor

The fiscal status of governments that sponsor public pension plans is another important factor to consider when measuring the percentage of state spending dedicated to pensions in each state. The national aggregate rate of increase in state and local direct general expenditures from FY 22 to FY 23 was just over 7.0 percent, which represents the ninth consecutive year of state and local spending growth at or above 3.5 percent, following five straight years of growth below 3.0 percent. The individual state experience, however, is mixed: compared to FY 22, in FY 23, state and local spending growth ranged from less than one percent to more than 15 percent. States with a higher rate of spending growth may be better able or willing to absorb higher pension contributions than states with weaker or negative spending growth.

In addition to these causes of variation in pension costs among states, consistent comparisons of pension spending by local governments can be difficult to make because the fiscal relationship between each state and its political subdivisions is unique with respect to revenue, spending structure and taxing authority. These relationships also vary widely among states. For example, responsibility for funding K-12 education budgets ranges from entirely a state duty to one that is entirely a local responsibility, and many states have a mix of funding sources. Likewise, revenue-sharing arrangements and the authority of local governments to tax and raise revenue also run a wide range. As with states, pension costs for municipalities also can vary widely.

^v Author's calculation based on 27.5 percent of state and local government employees not participating in Social Security, using US Census, 2023 Annual Survey of Public Employment & Payroll, https://www2.census.gov/programs-surveys/apes/datasets/2023/2023_state_and_local.xlsx

^{vi} NASRA, The Annual Required Contribution Experience of State Retirement Plans, FY 01 to FY 13, <https://www.nasra.org/arcspotlight> and State and Local Government Contributions to Statewide Pension Plans: FY 24, <http://www.nasra.org/adcbrief>

Cost and Financing Factors

Public pensions are financed through a combination of contributions from public employers (state and local agencies) and public employees and the investment earnings on those contributions. Since 1995, investment earnings have accounted for 59 percent of all public pension revenue; employer contributions, 30 percent; and employee contributions, 12 percent.^{vii} Because nearly all public employees are required both to participate in their employer-sponsored retirement plan and to contribute toward the cost of their pension benefit—typically four to eight percent of pay—most state and local government retirement plans are, in fact, mandatory savings programs. In recent years, many states have increased rates of required employee contributions.

A variety of state and local laws and policies guide governmental pension funding practices. Most of these laws and policies require employers to contribute what is known as the Actuarially Determined Employer Contribution (ADEC), which is the amount needed to finance benefits accrued each year, plus the annual cost to amortize unfunded liabilities from past years, less required employee contributions. On a weighted basis, the average ADEC paid has been over 90 percent for eight consecutive years. Beneath this average contribution experience lies diversity: approximately 75 percent of plans in the Public Fund Survey consistently receive 90 percent or more of their ADEC. This means that although a majority of plans have been receiving their actuarial required funding, some plans have not been adequately funded, which will result in higher future costs.

Leading national public sector associations established a Pension Funding Task Force, which in 2013 released its report *[Pension Funding: A Guide for Elected Officials](#)* urging policymakers to follow recommended guidelines for an actuarially determined contribution to government retirement systems.

Investments and Other Parts of the Financing Equation

As mentioned previously, the largest portion of public pension funding – nearly 60 percent for the 30-year period 1995-2024 – comes from investment earnings, which illustrates the major role this revenue source plays in determining pension costs (see *[NASRA Issue Brief: Public Pension Plan Investment Return Assumptions](#)*, June 2025).

In addition to the performance of pension fund investments, actuarial expectations regarding macro-economic and demographic events also affect the cost of the plan. These events include the rate of inflation, retirement rates, attrition and rates of hiring, and wage growth, which can be affected by salary cuts and layoffs. Additionally, over the last 15 years, legislatures in nearly every state made changes to pension benefits and/or financing structures, in some cases reducing plan costs and long-term obligations.

^{vii} U.S. Census Bureau, Annual Survey of Public Pensions, <https://www.census.gov/programs-surveys/aspp.html>, 1995-2024

Conclusion

Pension costs paid by state and local government employers vary widely and are determined by multiple factors, including differing levels of public services, benefits, pension funding levels, employer efforts to pay required contributions, and the fiscal condition of states and their political

subdivisions, among others. Employers in FY 23 contributed over \$226 billion to pension benefits for employees, an amount that, in total, is a relatively small—and recently stable—part of state and local government spending.

TABLE 1: State and local government contributions to pensions as a percentage of all state and local government direct general spending, by state, FY 14 to FY 23

| | FY 14 % | Spread: highest to lowest percentage FY 14 to FY 23 | FY 23 % |
|-----------------------------|---------|---|-------------------|
| Alabama | 3.30 | 0.64 | 3.52 |
| <i>Alaska</i> | 4.46 | 16.53 ¹ | 4.03 |
| Arizona | 4.02 | 3.20 | 4.53 |
| Arkansas | 3.85 | 1.66 | 5.11 |
| <i>California</i> | 5.71 | 2.74 | 7.20 ² |
| <i>Colorado</i> | 3.08 | 1.03 | 3.87 |
| Connecticut | 7.34 | 7.36 | 12.03 |
| Delaware | 2.99 | 0.48 | 2.93 |
| <i>District of Columbia</i> | 1.74 | 0.87 | 2.06 |
| Florida | 2.87 | 0.27 | 2.73 |
| Georgia | 3.45 | 1.86 | 4.44 |
| Hawaii | 4.39 | 2.45 | 6.06 |
| Idaho | 3.01 | 0.40 | 2.83 |
| <i>Illinois</i> | 9.42 | 4.60 | 13.31 |
| Indiana | 3.75 | 4.28 | 7.56 ³ |
| Iowa | 2.56 | 0.36 | 2.47 |
| Kansas | 3.28 | 4.02 | 3.79 |
| Kentucky | 4.15 | 3.11 | 6.08 |
| <i>Louisiana</i> | 8.30 | 2.74 | 6.30 |
| <i>Maine</i> | 2.94 | 0.97 | 3.63 |
| Maryland | 4.24 | 0.69 | 4.17 |
| <i>Massachusetts</i> | 4.54 | 1.47 | 5.56 |
| Michigan | 4.67 | 1.46 | 6.13 |
| Minnesota | 2.25 | 0.18 | 2.37 |
| Mississippi | 4.15 | 0.33 | 4.13 |
| Missouri | 4.54 | 0.94 | 4.88 |

| | FY 14 % | Spread: highest to lowest percentage FY 14 to FY 23 | FY 23 % |
|----------------------------|-------------|---|-------------|
| Montana | 2.83 | 0.92 | 3.42 |
| Nebraska | 2.72 | 0.57 | 2.35 |
| <i>Nevada</i> ⁴ | 7.81 | 4.52 | 7.94 |
| New Hampshire | 3.40 | 1.15 | 4.74 |
| New Jersey | 2.84 | 5.00 | 7.52 |
| New Mexico | 3.58 | 0.82 | 3.29 |
| New York | 7.37 | 2.72 | 4.65 |
| North Carolina | 2.30 | 1.23 | 3.50 |
| North Dakota | 2.48 | 0.75 | 1.95 |
| <i>Ohio</i> | 3.94 | 0.44 | 4.00 |
| Oklahoma | 4.25 | 0.85 | 4.06 |
| Oregon | 3.11 | 4.01 | 4.60 |
| Pennsylvania | 3.85 | 2.86 | 5.57 |
| Rhode Island | 5.44 | 1.11 | 5.78 |
| South Carolina | 3.06 | 1.30 | 4.36 |
| South Dakota | 2.01 | 0.31 | 1.75 |
| Tennessee | 2.97 | 1.22 | 3.01 |
| <i>Texas</i> | 3.22 | 1.21 | 3.41 |
| Utah | 4.37 | 1.49 | 3.49 |
| Vermont | 1.95 | 4.03 | 3.40 |
| Virginia | 3.47 | 1.00 | 3.63 |
| Washington | 2.74 | 1.36 | 3.28 |
| West Virginia | 5.47 | 3.43 | 2.97 |
| Wisconsin | 2.28 | 0.36 | 1.92 |
| Wyoming | 2.06 | 0.95 | 2.83 |
| Weighted US Average | 4.48 | 0.87 | 5.16 |

Compiled by NASRA based on U.S. Census Bureau data. See table notes below.

Table Notes

States where more than one-half of public employee payrolls are estimated to be outside of Social Security are italicized.

Percent-of-spending is as of publication date; figures are subject to periodic revisions by the U.S. Census Bureau.

¹ Includes additional \$3 billion payment from the state's oil reserves for purposes of reducing the state's unfunded pension liabilities.

² Figure reflects additional contributions above the actuarially determined contribution from the State of California and local governments, made to reduce their unfunded pension liabilities.

³ Figure includes a supplemental appropriation of \$3.2 billion to pay down the unfunded liability of the closed Teachers' Retirement System.

⁴ In addition to being a non-Social Security state, one-half of Nevada PERS employers' contribution is attributable to a non-refundable pre-tax salary reduction to fund the employees' portion of the contribution

See Also

National Governors Association, National Conference of State Legislatures, The Council of State Governments, National Association of Counties, National League of Cities, The U.S. Conference of Mayors, International City/County Management Association, National Council on Teacher Retirement, National Association of State Auditors, Comptrollers and Treasurers, Government Finance Officers Association, and National Association of State Retirement Administrators, “Pension Funding: A Guide for Elected Officials,” 2013, [https://www.nasra.org//Files/JointPublications/PensionFundingGuide\(1\).pdf](https://www.nasra.org//Files/JointPublications/PensionFundingGuide(1).pdf)

National Association of State Retirement Administrators, Issue Brief: Public Pension Plan Investment Return Assumptions, Updated June 2025, <http://www.nasra.org/returnassumptionsbrief>

National Association of State Retirement Administrators, Issue Brief: Employee Contributions to Public Pension Funds, November 2025, <https://www.nasra.org/contributionsbrief>

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