

State *of* Pensions 2026

October Update

86.0% Funded

\$1.06T Shortfall

11.4% Average Return

The funded status of public retirement systems in the United States has continued improving as of September 30, 2026. In July, State of Pensions 2026 estimated a national funded ratio of 85.0% for fiscal 2026. With average fiscal year investment returns of 11.4% through the end of September, that figure has risen to an estimated 86.0%, the highest national average since 2007.

Public pension funds today are recovering, but they are not yet secure.

Whether this improvement lasts depends entirely on continued financial market success. Equity gains have been concentrated in a narrow set of companies related to artificial intelligence (AI), and pension portfolios are exposed to them through both public stock holdings and private market investments. If there is a sharp market correction — whether from an AI bubble or other macroeconomic factors — recent gains could reverse quickly, as they did in 2022.

One way public pension funds could respond to this fragile moment is to take advantage of high interest rates. During the third quarter, bond prices dropped as their yields rose. The flip side is that pension funds now have the opportunity to lock in higher bond yields for years to come. The gap between the 10-year Treasury yield and public pension assumed rates of return

is the smallest it has been this century. Higher rates will make borrowing more expensive, putting downward pressure on other parts of pension portfolios, including public and private AI investments. But there are opportunities right now to shift allocations toward more stable returns, even if those returns are relatively lower.

After all, there is still over \$1 trillion in unfunded liabilities across state and local pension plans. State policymakers should not read an 86.0% funded ratio as a signal that the work of restoring full funding is done. Pension funds need additional contributions, and they need to navigate a complex and volatile market. Public pension funds today are recovering, but they are not yet secure.

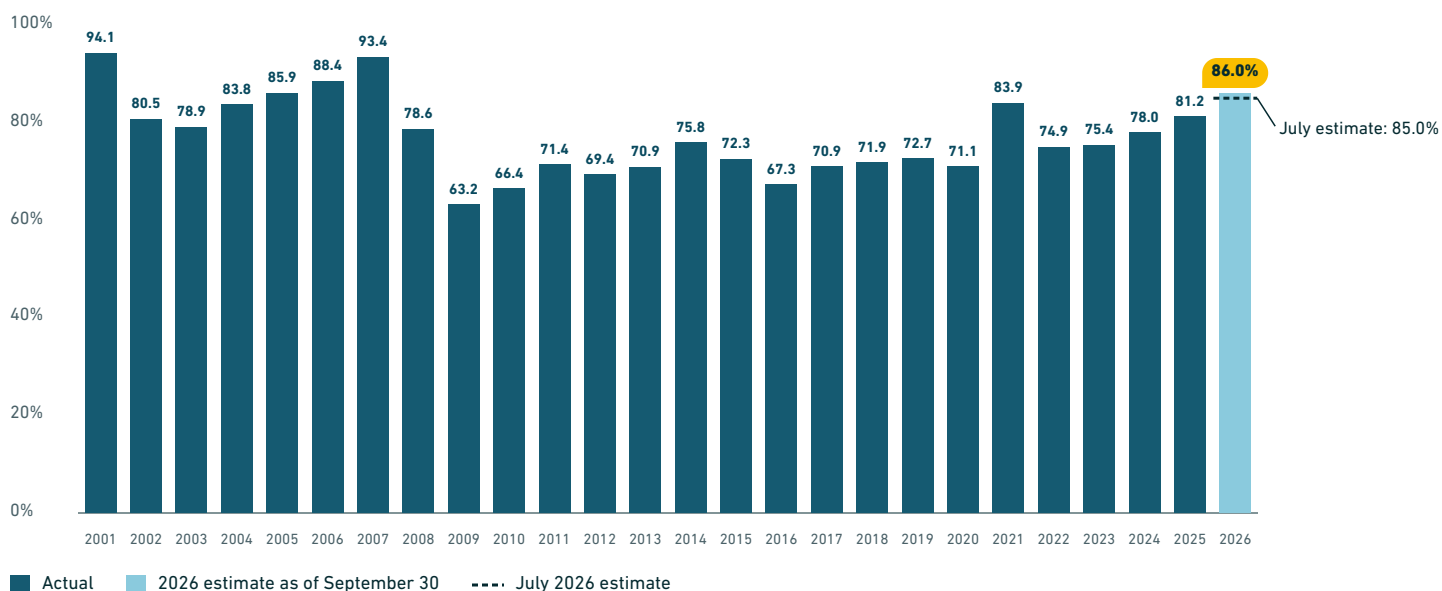
FUNDED STATUS

The national funded ratio average is projected to increase from 81.2% in 2025 to **86.0%** in 2026.

Continued positive global equity returns, despite negative bond market pressure, have led to another year of average returns beating assumed return targets in 2026. Unless there is a sharp market downturn in the fourth quarter of 2026, we expect the national average funded ratio to further improve by December.

Funded Ratio Average for State & Local Pension Plans

Based on market valued assets | 2001–2026



Source: Equable Institute analysis of public plan valuation reports and ACFRs. 2026 values are estimates as of September 30, 2026.

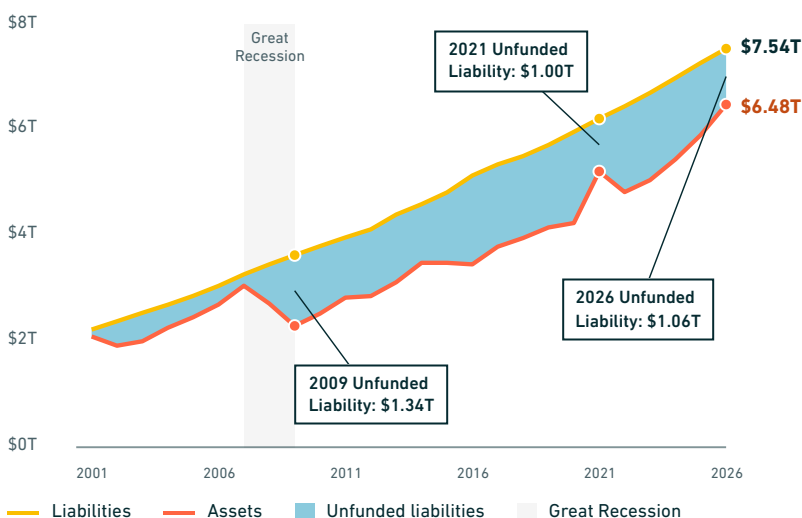
UNFUNDED LIABILITIES

The total pension funding shortfall will decline to **\$1.06 trillion** in 2026, down from \$1.36 trillion in total unfunded liabilities in 2025.

Unfunded liabilities are lower in 2026 relative to the previous year, though they are still above the most recent low point of \$1 trillion at the end of 2021. Unfunded liabilities have declined for a third year in a row, the first time with three straight annual declines since the Global Financial Crisis.

Total Unfunded Liabilities for State & Local Pension Plans

Liabilities vs. market value of assets, \$ trillions | 2001–2026



Source: Equable Institute analysis of public plan valuation reports and ACFRs. 2026 values are estimates as of September 30, 2026.

INVESTMENT RETURNS

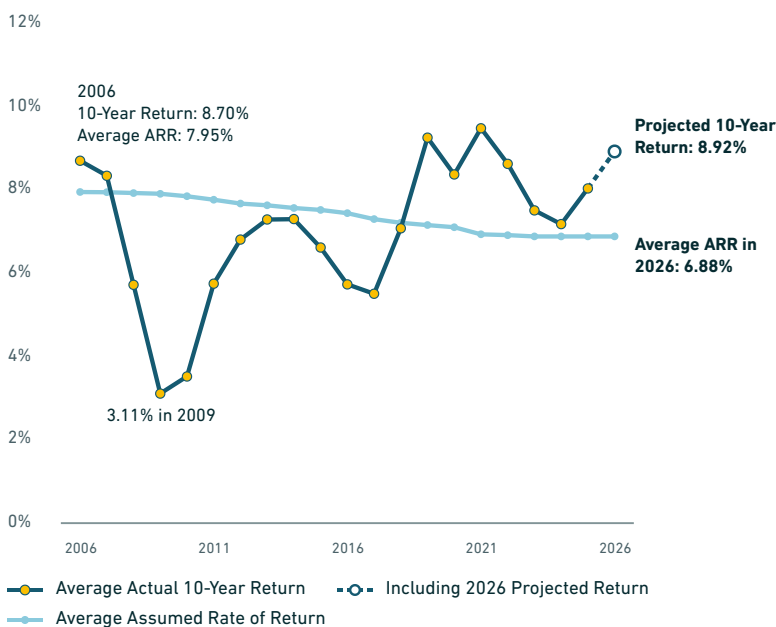
An **11.4%** average investment return for the 2026 fiscal year has helped the funded status of public plans improve.

The 126 plans that published preliminary actuals for the full fiscal year have a 13.78% average return. Including benchmark returns for the 127 other plans either with partial year returns or a fiscal year end date after September 30, the average falls to 11.39%. This suggests the actual average return is likely to be higher when the year ends.

The average return for 2026 exceeds the national average assumed rate of return for a fourth consecutive year. And, as expected, the rolling 10-year average return increased for a second year in a row (see our October updates from 2023-25). It is both a product of strong returns the last five out of six years and some particularly poor investment returns rolling off the 10-year lookback.

Investment Returns for State & Local Pension Plans

Assumed rate of return vs. 10-year rolling average actual returns | 2006–2026



Source: Equable Institute analysis of public plan valuation reports and ACFRs. The 2026 10-year average includes the projected 2026 return, combining preliminary actuals and benchmark estimates.

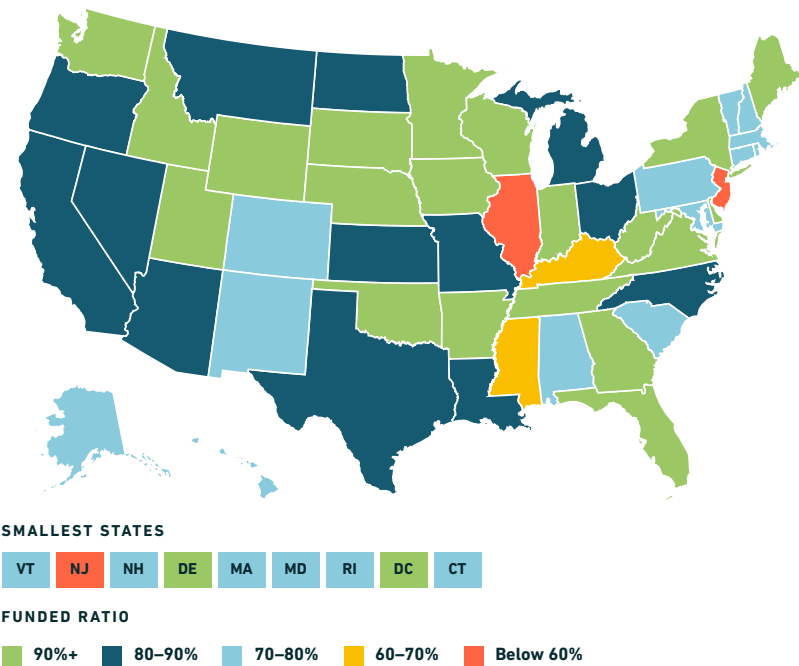
A majority of U.S. state and municipal pension plans are **Distressed or Fragile.**



Within the states, funded ratios and unfunded liability levels continue to vary considerably from state to state. The vast majority of plans have a Fragile (90% to 60%) or Distressed (60% or less) funded status. There are 21 states in which the average funded ratio is Resilient (90% or higher), while 28 states have a Fragile funded status and two states are Distressed.

2026 Estimated Funded Ratios by State

Based on estimated assets for state & local pension plans



Every State, Ranked

2026 estimated funded ratio | Ticks mark the 60% and 90% thresholds

1	DC		112.6%	18	VA		91.4%	35	AL		79.1%
2	NE		109.8%	19	FL		91.3%	36	AK		78.9%
3	TN		106.9%	20	AR		91.2%	37	MD		77.7%
4	WV		106.3%	21	IN		90.0%	38	CO		77.5%
5	WA		105.0%	22	NC		89.5%	39	VT		75.8%
6	SD		103.5%	23	LA		89.1%	40	MA		75.8%
7	WI		102.0%	24	MI		89.1%	41	NH		75.4%
8	IA		100.0%	25	CA		88.9%	42	PA		74.4%
9	OK		99.4%	26	TX		88.0%	43	SC		73.5%
10	UT		99.1%	27	OH		87.7%	44	CT		73.5%
11	NY		98.6%	28	MO		86.7%	45	RI		73.4%
12	DE		97.0%	29	NV		84.4%	46	NM		70.9%
13	MN		95.1%	30	AZ		82.5%	47	HI		70.7%
14	WY		95.0%	31	OR		81.8%	48	KY		64.3%
15	GA		94.7%	32	MT		81.4%	49	MS		64.0%
16	ID		94.3%	33	KS		81.2%	50	NJ		57.4%
17	ME		93.8%	34	ND		80.8%	51	IL		57.1%

Source: Equable Institute forecast based on investment returns as of September 30, 2026, and reported asset allocation levels for each plan. Aggregate of state and local plans in each state.

How this update changes our findings for state and local pension plans

	JULY	OCTOBER	CHANGE	
2026 AVERAGE RETURN	9.37%	11.39%	+2.02 pts	The average 2026 estimated rate of return shifted from 9.37% to 11.39% after factoring in reported preliminary returns, additional third-quarter public equity returns, and updated private equity data for the second quarter of 2026.
2026 FUNDED RATIO	85.0%	86.0%	+1.0 pts	The average 2026 estimated funded ratio shifted from 85.0% to 86.0% based on updated return data.
2026 UNFUNDED LIABILITY	\$1.13T	\$1.06T	-\$0.07T	The total 2026 unfunded liability estimate shifted from \$1.13 trillion to \$1.06 trillion based on updated data.
2025 FUNDED RATIO	81.18%	81.23%	+0.05 pts	The average 2025 actual funded ratio shifted from 81.18% to 81.23% based on additional reported plan data.
2025 UNFUNDED LIABILITY	\$1.37T	\$1.36T	-\$0.01T	The total 2025 actual unfunded liability reported shifted from \$1.37 trillion to \$1.36 trillion based additional reported plan data.

What is included in this update?

Source of 2026 Estimates, by Retirement System

253 retirement systems in the Equable Public Retirement Research Database

132 PLANS WITH 2026 ACTUALS

71	61
Preliminary assets, full year	Preliminary return, full year

121 PLANS WITH PARTIAL OR NO 2026 DATA

54	37	30
Partial-year returns + benchmarks	Partial-year assets + benchmarks	Benchmarks only

When we published State of Pensions in July 2026, there were still 24 state or local retirement systems that had not released data for the fiscal year ending 2025. These plans amounted to 4.7% of anticipated accrued liabilities for 2025. Further, our July report relied in part on estimated investment returns using benchmarks for the various reported asset classes that pension funds were using as of 2025.

Over the last three months, several retirement systems have released new and updated data, including preliminary investment return reports. This October 2026 fact sheet uses those reports to include the following:

- Updated 2025 actual financial data, including the addition of actuarial valuation report data from 19 retirement systems. There are still outstanding 2025 reports from five plans across one state system (Wisconsin RS) and four municipal systems (Chicago Transit, Kansas City Missouri Schools, Wichita Employees RS, and Wichita Police and Fire).
- Updated 2026 estimates use preliminary investment returns from retirement systems, pension fund trusts, and state treasurer or comptroller offices. As of this update, 132 (52.2%) out of the 253

retirement systems included in our data use either reported actual assets or reported actual returns as of the end of fiscal 2026 to produce their 2026 values. Among those 132 plans with 2026 actuals, 71 (28.1% of all plans, 53.8% of those with 2026 actuals) use reported preliminary assets at the close of their fiscal 2026, while 61 (24.1% of all plans, 46.2% of those with 2026 actuals) have reported a preliminary investment return as of the close of fiscal 2026. For the remaining 121 retirement plans in our data, 54 plans (21.3%) have reported partial investment returns during the 2026 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 2026 fiscal year, meaning our estimate combines partial year preliminary assets with benchmark returns. The remaining 30 plans (11.9%) have not reported any investment performance or preliminary asset totals for fiscal 2026, 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.