Public pension funded ratio falls back during Q4, landing at 70.1%

Fourth quarter 2016 funded status declines by $54 billion as overall asset returns fall short of their quarterly benchmark

Rebecca A. Sielman, FSA

While the post-election period saw robust market performance, the down markets in October through early November led to overall modest investment returns for the fourth quarter. The estimated funded status of the 100 largest U.S. public pension plans fell by $54 billion from the end of September through the end of December, as measured by the Milliman 100 Public Pension Funding Index (PPFI).[1] During the fourth quarter the deficit increased from $1.338 trillion to $1.392 trillion. As of December 31, the funded ratio stood at 70.1%, down from 71.1% at the end of September.

In aggregate, the PPFI plans experienced investment returns of 0.45% for the quarter. The plans generated investment income of approximately $11 billion, but this income was more than offset by approximately $26 billion of negative net cash flow, as benefits paid out of these plans exceeded the contributions flowing in. The Milliman 100 PPFI asset value decreased from $3.282 trillion at the end of Q3 to $3.267 trillion at the end of Q4.

The total pension liability (TPL) increased from $4.620 trillion at the end of Q3 to an estimated $4.659 trillion at the end of Q4. The TPL is expected to grow modestly over time as interest on the TPL and the accrual of new benefits outpaces the benefits paid to retirees. Unlike the case with corporate pension plans, the liability for public pension plans is not directly pegged to current economic conditions; the interest rate assumptions used to determine public pension plan liabilities are reviewed on an ad hoc basis and tend to change only on an annual or multiple-year basis.

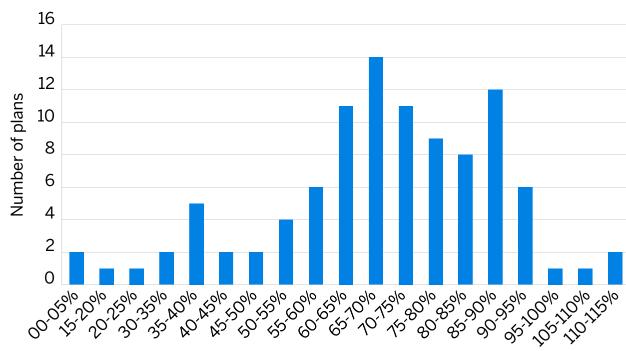
Fourth quarter investment return statistics

Estimated returns in the fourth quarter ranged from a low of -3.92%% to a high of 1.79%. The plans with the 10 best returns averaged 1.43%, while the plans with the 10 worst returns averaged -1.37%.

As shown in Figure 1, 65 of the plans in the study have estimated funded ratios that are between 60% and 90%. Twenty-five plans have funded ratios that are below 60%, including four that have funded ratios below 30%, while just 10 plans have funded ratios higher than 90%.

1 To view the full Milliman Public Pension Funding Study, go to **milliman.com/ppfs**.

FIGURE 1: RANGE OF FUNDED STATUS AT DECEMBER 31, 2016



About the Milliman 100 Public Pension Funding Index

For the past five years, Milliman has conducted an annual study of the 100 largest defined benefit plans sponsored by U.S. governments. The Milliman 100 Public Pension Funding Index projects the funded status for pension plans included in our study, reflecting the impact of actual market returns, utilizing the actual reported asset values, liabilities, and asset allocations of the pension plans.

The results of the Milliman 100 Public Pension Funding Index are based on the pension plan financial reporting information disclosed in the plan sponsors' Comprehensive Annual Financial Reports, which reflect measurement dates ranging from June 30, 2014 to December 31, 2015. This information was summarized as part of the Milliman 2016 Public Pension Funding Study, which was published on September 5, 2016.

CONTACT

Becky Sielman
becky.sielman@milliman.com