Public pension funded ratio rises to 71.0% in Q3

A 3.5% return on assets improves funded status by $48 billion

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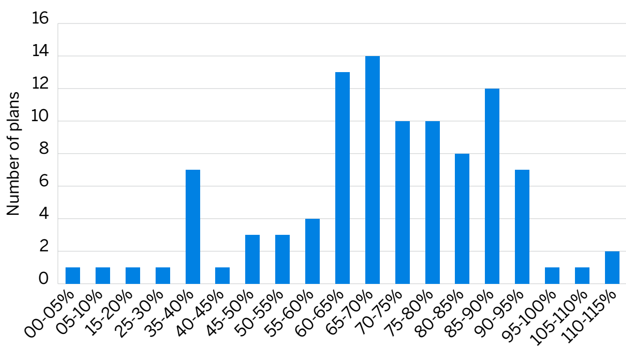
The estimated funded status of the 100 largest U.S. public pension plans improved by $48 billion from the end of June through the end of September as measured by the Milliman 100 Public Pension Funding Index (PPFI).[1] The deficit fell to $1.338 trillion due to asset returns that outpaced their expected targets for the quarter. As of September 30, the funded ratio increased to 71.0%, up from 69.8% at the end of June.

The market value of plan assets increased by an estimated $86 billion as a result of relatively healthy investment returns of 3.49% for the quarter, outpacing the 1.82% returns expected by these funds (7.5% annualized). The Milliman 100 PPFI asset value increased from $3.197 trillion at the end of the second quarter to $3.282 trillion at the end of the third quarter.

The total pension liability (TPL) increased from $4.583 trillion at the end of Q2 to an estimated $4.620 trillion at the end of Q3. 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.

FIGURE 1: RANGE OF FUNDED STATUS AT SEPTEMBER 30, 2016



As shown in Figure 1, two-thirds of the plans in the study have estimated funded ratios that are between 60% and 90%. Twenty-two plans have funded ratios that are below 60%, including four that have funded ratios below 30%, while 11 plans have funded ratios higher than 90%.

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

Third quarter investment return statistics

Estimated returns in the third quarter ranged from a low of 1.33% to a high of 4.37%. The plans with the 10 best returns averaged 4.13%, while the plans with the 10 worst returns averaged 2.27%.

The best performing market sectors in the third quarter were largely related to equities for small to mid-sized companies, while bond funds of all types generally fared poorly after having done well in the second quarter. Returns on commodities also suffered in the third quarter after having a very strong second quarter.

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.

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