

Public pensions funded ratio continues strong recovery; hits new high-water mark of 79.0% in Q1 2021

Q1 investment performance of 1.95% generates \$12 billion improvement in funded status

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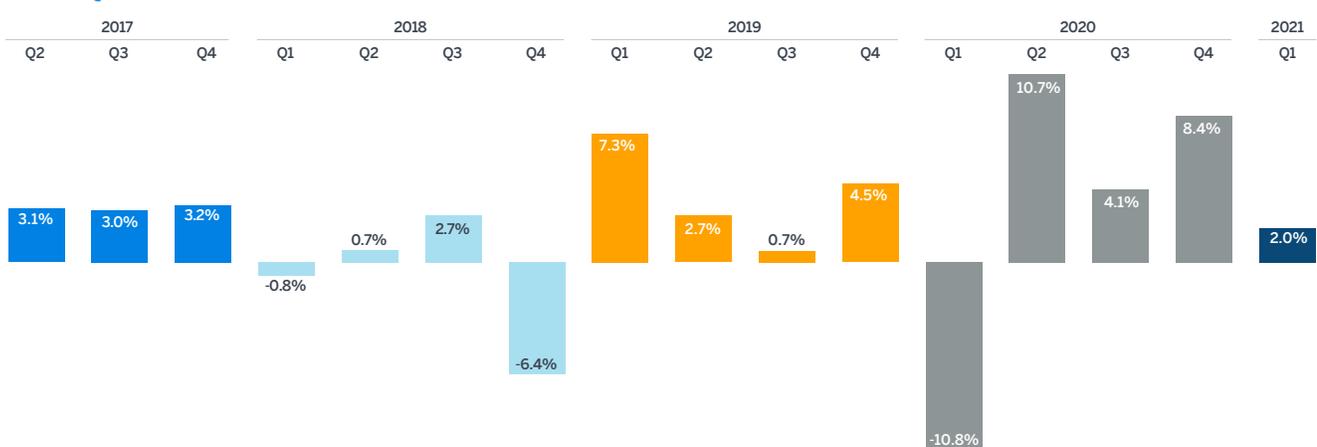
The first quarter (Q1) of 2021 marked a fourth consecutive quarter of high-water marks for both assets and liabilities for public pensions, with the estimated funded status of the 100 largest U.S. public pension plans growing from 78.6% at the end of December 2020 to 79.0% at the end of March 2021, as measured by the Milliman 100 Public Pension Funding Index (PPFI). The deficit between estimated assets and liabilities closed slightly from \$1.178 trillion at the end of December 2020 to \$1.166 trillion at the end of March 2021. Fueled by the strong and persistent market rebound since March 2020, plans have continued the trend toward improved funded status. While this is positive news, there is still uncertainty with respect to lingering impacts of the pandemic on plan sponsors' ability to fund public pensions.

While not as heady as the quarterly returns in the back half of 2020, we estimate that Q1 2021 brought the PPFI plans in aggregate an investment return of 1.95%. Individual plans' estimated returns ranged from -0.95% to 4.79%. The overall annualized return for the 12 months ending March 31, 2021 was a very strong 27.37%, but recall that a considerable amount of the returns early in this 12-month period were recoveries from the steep declines suffered in Q1 2020 at the onset of the pandemic and resulting lockdowns. The Milliman 100 PPFI asset value increased from \$4.335 trillion at the end of Q4 2020 to a PPFI high of \$4.389 trillion at the end of Q1 2021. The plans gained market value of approximately \$79 billion, which was offset by approximately \$25 billion flowing out, as benefits paid out exceeded contributions coming in from employers and plan members.

FIGURE 1: FUNDED RATIO

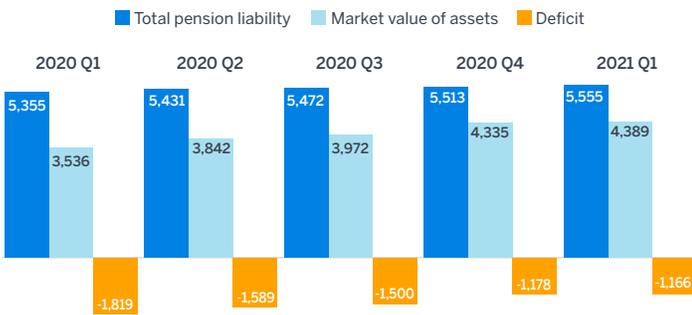


FIGURE 2: QUARTERLY INVESTMENT RETURNS



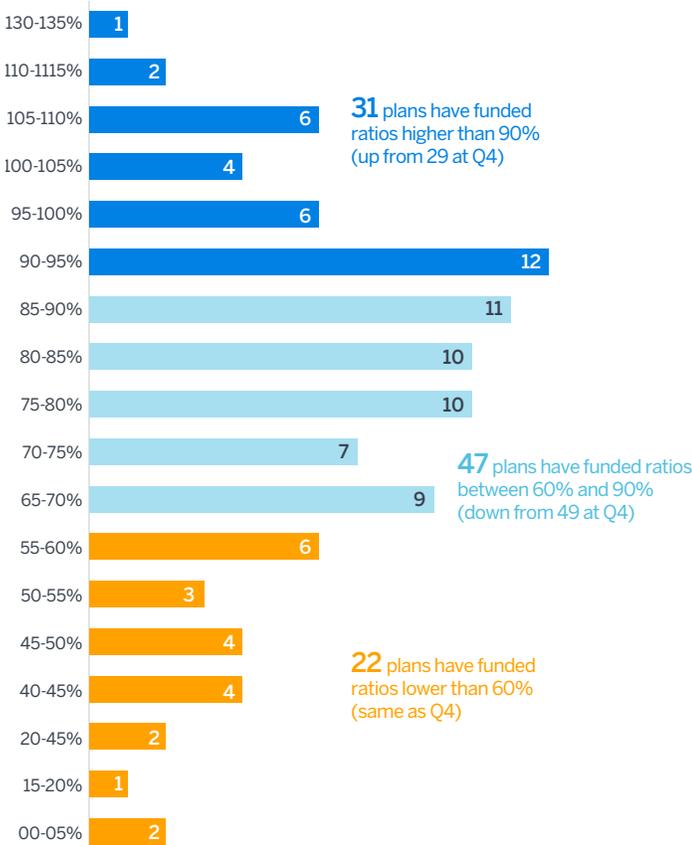
The total pension liability (TPL) continues to grow and stood at an estimated **\$5,555 trillion** at the end of Q1 2021, up from \$5,513 trillion at the end of Q4 2020. Just as pension assets grow over time with investment income and shrink over time as benefits are paid, so too does the TPL grow over time with interest and shrink as benefits are paid. The TPL also grows as active members accrue pension benefits.

FIGURE 3: QUARTERLY FUNDED STATUS



Funded ratios improved this quarter, with two more plans moving above the 90% mark, bringing the total in this relatively healthy position to 31 plans. Meanwhile, at the lower end of the funded ratio spectrum, the number of plans under 60% funded remained at 22.

FIGURE 4: FUNDED RATIOS AT MARCH 31, 2020



ABOUT THE MILLIMAN 100 PUBLIC PENSION FUNDING INDEX

Since 2012, 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, 2017 to December 31, 2019. This information was summarized as part of the Milliman 2020 Public Pension Funding Study, which was published on December 3, 2020.

This quarterly update reflects adjustments made as of the end of June 2020 as part of Milliman's annual Public Pension Funding Study, found here milliman.com/ppfs. The adjustments reflect updated publicly available asset and liability information gathered for the annual study.

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