

Public pension funded ratio soars to 82.6% in Q2 2021; buoyed by strong market returns, deficit falls below \$1 trillion for the first time in the history of the Milliman Public Pension Funding Index

Q2 investment performance of 4.26% generates \$191 billion improvement in funded status

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Propelled by a strong bull market, the second quarter (Q2) of 2021 marked a fifth 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 79.0% at the end of March 2021 to **82.6%** at the end of June 2021, as measured by the Milliman 100 Public Pension Funding Index (PPFI). The deficit between estimated assets and liabilities dropped from \$1.166 trillion at the end of March 2021 to **\$975 billion** at the end of June 2021. The sustained positive investment returns since the initial market sell-off at the onset of the COVID-19 pandemic have pushed the aggregate funded status over 80% for the first time since the PPFI began in September 2016. In the coming months, plan sponsors will start seeing the results of actuarial valuations that will reveal the extent to which the pandemic has impacted plan liabilities, including higher death rates and the impact of furloughs on benefit accruals, pay levels, and contributions from active

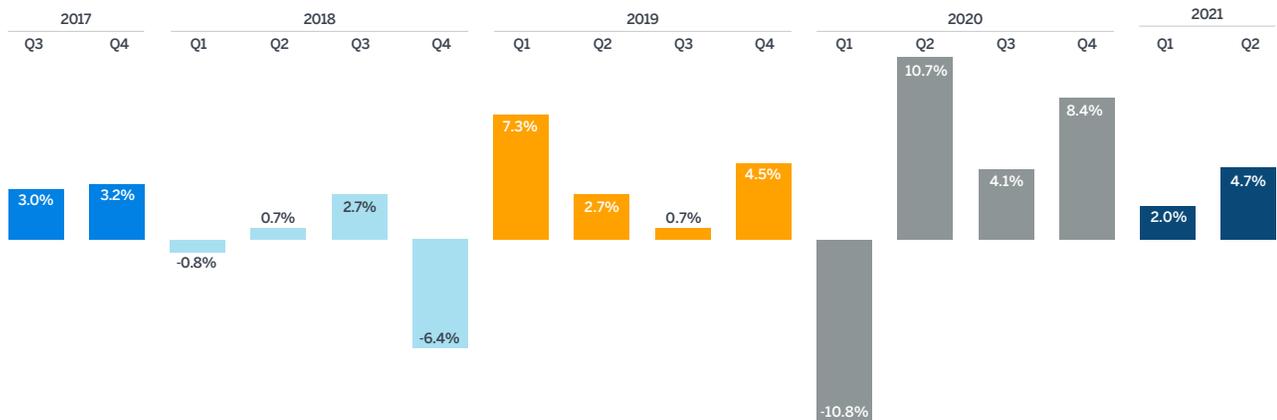
members. Another evolving dynamic is that the strong market runup combined with the current low yields on fixed income is likely to result in lower expectations for future investment returns, which in turn may prompt plan sponsors to continue to lower their interest rate assumptions.

We estimate that Q2 2021 brought the PPFI plans in aggregate an investment return of **4.26%**. The estimated returns of individual plans ranged from 2.54% to 6.75%. The overall annualized return for the 12 months ending June 30, 2021, was a very strong 19.95%, significantly exceeding the expected long-term earnings assumptions for the PPFI plans. The Milliman 100 PPFI asset value increased from \$4.389 trillion at the end of Q1 2021 to a PPFI high **\$4.622 trillion** at the end of Q2 2021. The plans gained market value of approximately \$258 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

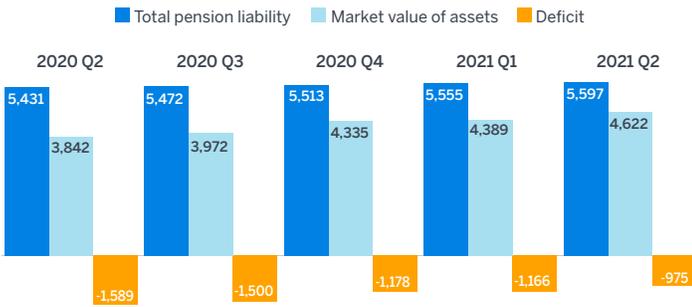


FIGURE 2: QUARTERLY INVESTMENT RETURNS



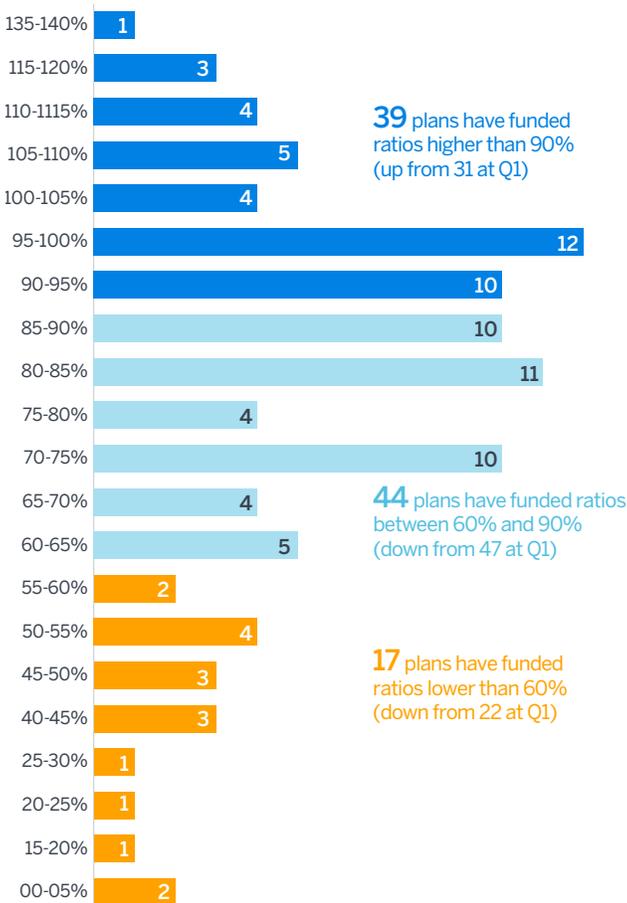
The total pension liability (TPL) continues to grow and stood at an estimated **\$5,597 trillion** at the end of Q2 2021, up from \$5,555 trillion at the end of Q1 2021. Just as pension assets grow over time with investment income and shrink over time as benefits are paid, so too does the TPL grow over 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 eight more plans moving above the 90% mark, bringing the total in this relatively healthy position to 39 plans. Meanwhile, at the lower end of the funded ratio spectrum the number of plans under 60% funded decreased from 22 to 17.

FIGURE 4: FUNDED RATIOS AT JUNE 30, 2021



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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