Milliman

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Press Release

Milliman study finds no correlation between level of public pension benefits and health of plans' funded status

Latest Milliman Public Pension Funding Study looks at value of benefits as compared to active member contributions, finds three plans where members pay more than value of benefits earned

SEATTLE – January 23, 2019 – Milliman, Inc., a premier global consulting and actuarial firm, today released the results of its 2018 Public Pension Funding Study (PPFS), which analyzes funding levels of the nation's 100 largest public pension plans, including an independent assessment on the expected real return of each plan's investments.

This year, the 2018 Milliman PPFS also examined the value of pension benefits that are being paid for by plan sponsors, termed net employer-paid service cost. The study found that of the 100 plans in the study, the majority (69) provide a pension benefit that costs between 0% and 10% of payroll. For three plans in the study, however, contributions from active members more than cover the annual cost of their own annual pension accruals. On the flip side, 13 plans have a net cost of more than 15% of payroll, indicating relatively costly benefits.

"The results of the service cost analysis were eye-opening," said Becky Sielman, a principal and consulting actuary with Milliman and author of the PPFS. "And in fact, our study found there is very little correlation between the level of the benefits provided by plan sponsors and the funded status of a plan. Plans with a greater level of benefits are neither better funded–nor more poorly funded–than plans with modest benefits."

For Milliman's 2018 PPFS, the estimated aggregate funded ratio of the nation's largest public pension plans is 72.1% as of June 30, 2018, with assets earning slightly more than anticipated by the plans' interest rate assumptions. We estimate that aggregate plan assets rose to $3.67 trillion as of June 30, 2018, and that the plans experienced a median annualized return on assets of 8.29% in the period between their fiscal year-ends and June 30, 2018. Our estimated, recalibrated Total Pension Liability for these plans has since passed the $5 trillion mark as of June 30, 2018. Based on the market's consensus views that long-term investment returns have been declining, the study recalibrated total pension liability for each plan using independently determined interest rate assumptions (the PPFS uses the term "interest rate" to indicate the assumption the plan sponsor has chosen to determine contribution amounts, and the term "discount rate" to indicate the rate used to measure liabilities for financial reporting purposes).

To view the full Milliman 100 Public Pension Funding Study, go to http://www.milliman.com/ppfs/. To receive regular updates of Milliman's pension funding analysis, contact us at pensionfunding@milliman.com.

About Milliman
Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in healthcare, property & casualty insurance, life insurance and financial services, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe. For further information, visit milliman.com.

About the Milliman Public Pension Funding Study
This Milliman Public Pension Funding Study is based on the most recently available Comprehensive Annual Financial Reports, which reflect measurement dates ranging from June 30, 2015, to December 31, 2017; 91 are from June 30, 2017, or later. For the purposes of this study, the reported asset allocation of each of the plans has been analyzed to determine an independent measure of the expected long-term median real rate of return on plan assets. The sponsor-reported Total Pension Liability for each plan has then been recalibrated to reflect this independently determined investment return assumption. This study therefore adjusts for differences between each plan’s reported discount rate and an independently calibrated current market assessment of the expected real return based on actual asset allocations. This study is not intended to price the plans’ liabilities for purposes of determining contribution amounts or near-term plan settlement purposes nor to analyze the funding of individual plans.

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