Investment Earnings Drive 71% of Public Pension Revenue

Annual Survey Underscores Traditional Pensions' Safety and Reliability

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The share of revenues that comes from investment earnings edged up from 69 percent a year earlier, while the employer contribution dipped from 22 percent. The employee contribution share was unchanged, according to the 2020 NCPERS Public Retirement Systems Study.

The annual study, based on responses from 138 state and local pension systems, illustrates in granular detail the fiscal and operational integrity of public pensions, according to Hank H. Kim, executive director and chief counsel of NCPERS.

"The data show that a long investing horizon uniquely positions pensions to provide safe, reliable retirement income for millions of public servants," Kim said. "Employers and employees play critical roles by paying into pension funds, but patient, long-term investing is what truly differentiates public pensions from other retirement vehicles."

Survey participants had 12.8 million active and retired members and assets exceeding $1.5 trillion in actuarial and market value. They were roughly evenly split between statewide pension systems—51 percent—and local pension systems—49 percent. NCPERS conducted the tenth annual survey from September through December 2020 in partnership with Cobalt Community Research. It covered the most recently concluded fiscal year, which for most pension systems was calendar year 2019.

Kim noted that pension trustees, managers, and administrators use the survey's benchmarks to evaluate their operations and performance. NCPERS provides an interactive version of the study to its members at no cost. This login-protected "dashboard" enables public pension funds to build their own comparisons and peer groups in order to analyze their performance, assumptions, and expenses.

Among the key findings:

- Even before the disruption caused by the Covid-19 pandemic, a trend toward adopting enhanced communications capabilities was accelerating. Fifty-eight percent of pension systems said their board members could participate and vote by phone or videoconference, up from 19 percent. About 54 percent of funds offered live web conferences to members, and 19 percent were considering it. The share of pension systems that had implemented enhanced online portals to allow members to access account information rose to 52 percent, from 47 percent a year earlier.
- The average funded level of public pensions reached 75.1 percent, up from 72.4 percent in 2019. While funded levels are not as important to pensions' sustainability as steady contributions are, the trend is positive.

- The average investment assumed rate of return for responding funds was 7.26 percent, compared with 7.24 percent the previous year. The inflation assumption was 2.7 percent, versus 2.6 percent in the 2019 survey. The assumption is also 0.4 percentage point higher than the actual 2.3 percent rate of inflation in 2019, as reported by the Bureau of Labor Statistics.
- The overall average expense for all respondents to administer the funds and to pay investment management fees was 60 basis points (0.6 percent). This was an increase from 55 basis points (0.55 percent) in the 2019 survey and on par with the level in the 2018 survey. According to the *2020 Investment Company Fact Book*, the average expense of most hybrid funds, which are analogous to public pensions, is 62 basis points (0.62 percent.) One hundred basis points equal one percentage point.
- Among pension systems that offered a cost-of-living adjustment (COLA) to members, the average in the most recent fiscal year was 1.7 percent, slightly higher than a year earlier. Many responding funds did not offer a COLA in the most recent fiscal year.
- Funds reported one-year returns averaging 8.1 percent, five-year returns of 6.8 percent annually, 10-year returns of 8.7 percent annually and 20-year returns of 6.3 percent annually. The 20-year returns fell below the assumed rate of return as the strong performance of the late 1990s began to roll off the average. Results of funds with a December end-date were substantially higher than those with non-calendar fiscal years—16.8 percent for the one-year return, for example.
- In all, 52 percent of responding funds said they lowered their assumed rate of return, and 17 percent are considering this measure.
- Some 31 percent set higher benefit age and service requirements, and 4 percent are considering doing so.
- Thirty-four percent increased employee contributions, and 12 percent are considering this option.
- Just more than half of respondents—51 percent—excluded overtime pay from the benefit calculation in their most recent fiscal year, versus 55 percent a year earlier.

About NCPERS
The National Conference on Public Employee Retirement Systems (NCPERS) is the largest trade association for public sector pension funds, representing more than 500 funds throughout the United States and Canada. It is a unique non-profit network of public trustees, administrators, public officials and investment professionals who collectively manage more than $4 trillion in pension assets. Founded in 1941, NCPERS is the principal trade association working to promote and protect pensions by focusing on advocacy, research and education including e-learning for the benefit of public sector pension stakeholders.

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