

# State and local pension pressure compounded by coronavirus shock

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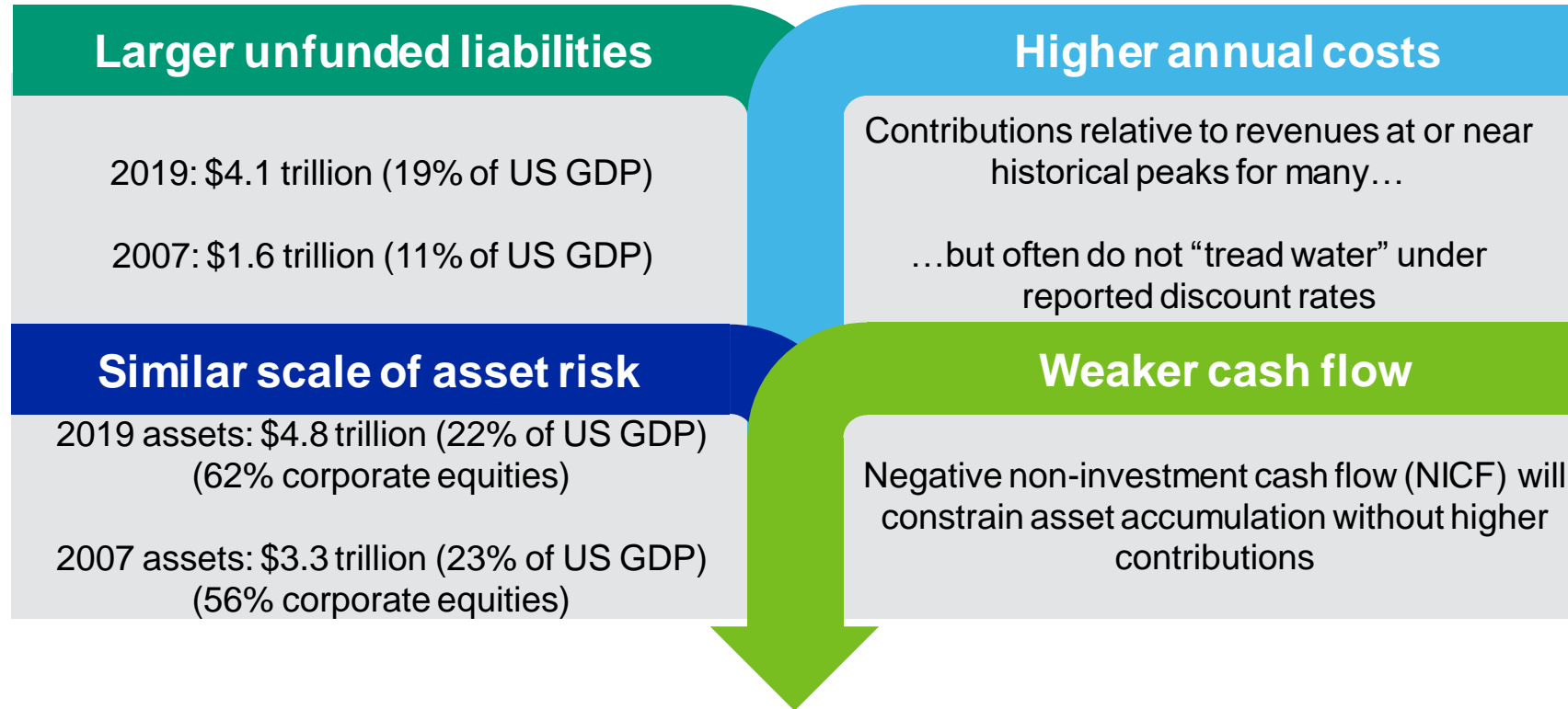
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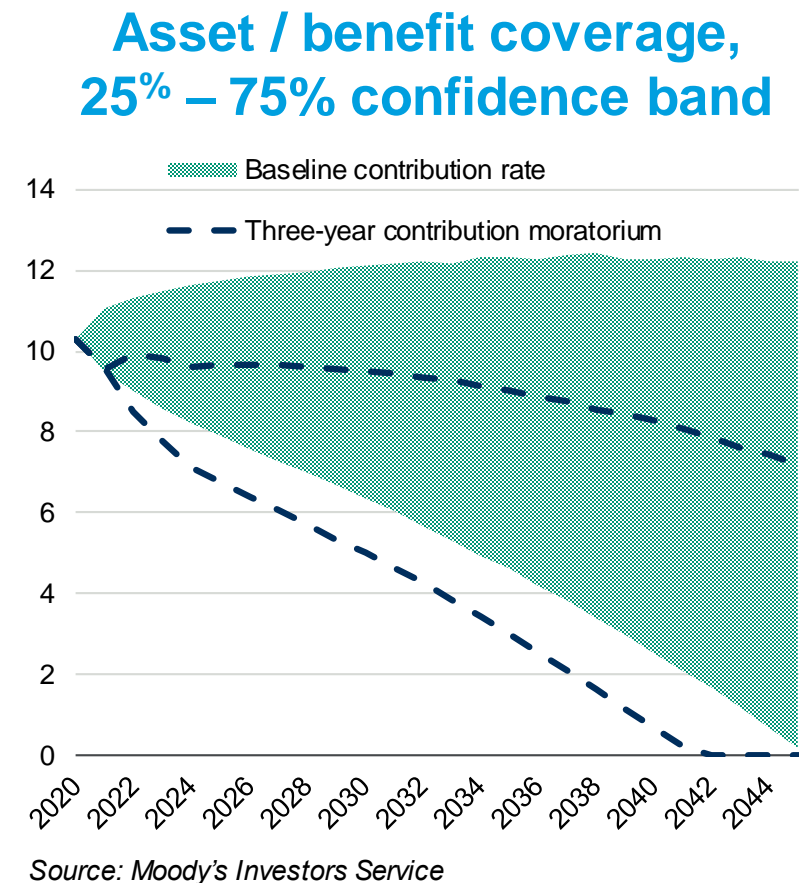
# Pre-coronavirus pension risks higher than years preceding the Great Recession



# Government contribution decisions in coming years will be a differentiating factor impacting pension risk

Pension systems with significantly negative NICF are most susceptible

- » Example large US public retirement system, with
  - ~ -4% NICF, 11 year asset/benefit coverage in 2019
  - 24% probability of depletion by 2045, based on current (baseline) statutory contribution rate
  - 39% probability of depletion by 2045, if three-year contribution moratorium, followed by return to baseline
- » Asset depletion presents additional risks
  - “PAYGO jump” cost increase
  - No ability to spare gov’t budget without benefit impairment
  - May also lose active employee contributions to an insolvent retirement system



# Lower for longer interest rates mean higher risk to providers of guaranteed annuities

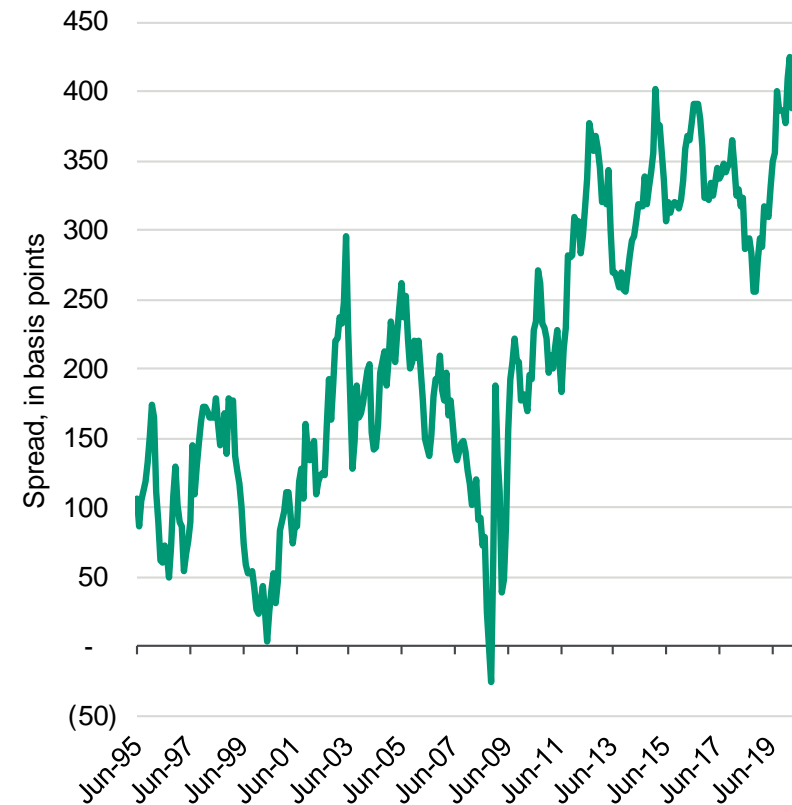
## » Boyd, et al:

- benefit contingencies provide governments some downside protection...
- ...but materiality of risk-reduction is limited
- COLA changes provide liability savings potential, often a focal point of litigation

## » Costrell & McGee

- Lower near-term contributions & volatile investments → higher risk of unexpectedly high future contributions
- “Expected contribution” weighted composite acknowledges solvency risk not always visible in governmental pension accounting

CalPERS return target, less  
FTSE PLI



Sources: CalPERS, Society of Actuaries



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