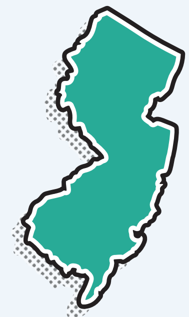
A Decade of Reforms Has Strengthened State Pension Plans

Based on the latest data, are New Jersey's policies sustainable?

New Jersey



Thanks to more than a decade of fiscal discipline, many state public retirement systems are on the cusp of long-term solvency and sustainability. Since the Great Recession, state policymakers have increased employer and employee pension contributions and changed benefit provisions. In some cases, they have also implemented reforms that have strengthened risk management practices, which can help keep costs relatively stable without increasing unfunded liabilities for future generations of taxpayers. However, volatile investment markets and high inflation make it clear that pension plans cannot ignore economic risk and uncertainty—or invest their way out of funding challenges. States that act now to build on contribution gains made over the past 10 years will be better positioned to weather economic downturns and move their retirement systems closer to long-term funding sustainability.

The Pew Charitable Trusts has produced individual fact sheets as part of its fiscal sustainability matrix, which highlights the practices of successful state pension systems and presents critical 50-state data that facilitates comparative analyses and plan assessments. The data points in these fact sheets include historical outcomes from policy choices, measures of cash flow that determine long-term solvency, and indicators of risk and uncertainty.

38% Funded ratio, 2020

-34% Change in funded ratio, 2008-20

-4.4% Operating cash flow, 2020

16.8% of payroll Historical contribution volatility, 2008-20

Does stress testing? **Yes**

Negative net amortization

22% of payroll, Employer contribution rate, 2020

Note: Figures have been rounded. More detail can be found in "The State Pension Funding Gap" and Pew's Fiscal Sustainability Matrix.

To help policymakers navigate the uncertainty inherent in pension management and evaluate their plans' resiliency, Pew has developed a 50-state matrix of fiscal sustainability metrics. The matrix highlights the practices of successful state pension systems, presenting critical data in a single table to facilitate comparative analyses and state plan assessments.

Why do the metrics above matter, and what do they mean?

Specifically, these data points illuminate three things: historical outcomes from policy choices, measures of cash flow that determine long-term solvency, and indicators of risk and uncertainty. Together, these metrics assess the sustainability of a pension system and inform policy and budget change.

- Historical actuarial metrics such as funded ratio—the value of a plan's assets in proportion to the pension liability—and change in funded ratio over time highlight past policies' impact on a plan's current financial position. These metrics are the foundation of any fiscal assessment.
- Current plan financial metrics speak directly to whether existing policy is sufficient to pay down unfunded liabilities and help public employees and taxpayers determine whether a plan is following funding policies that target debt reduction or if it is at risk of fiscal distress. The metrics are operating cash flow ratio—the difference, before investment returns, between payments and contributions, divided by assets—and net amortization, which measures whether total contributions to a public retirement system would have been sufficient to reduce pension debt if all actuarial assumptions (primarily investment expectations) had been met for the year. Based on historical cash flows and funding patterns, these metrics aid in assessing the risk of future underfunding or insolvency.
- State budgetary risk metrics, such as historical contribution volatility—the range between the lowest and highest employer contribution rate over a fixed period—and the regular practice of pension stress testing are designed to assist policymakers as they plan for uncertainty or volatile costs in the future. Because state and local budgets often bear much or all of the risks taken on by public pension plans, these metrics are essential for long-term planning and can prompt reforms where needed.

The Pew Charitable Trusts

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