

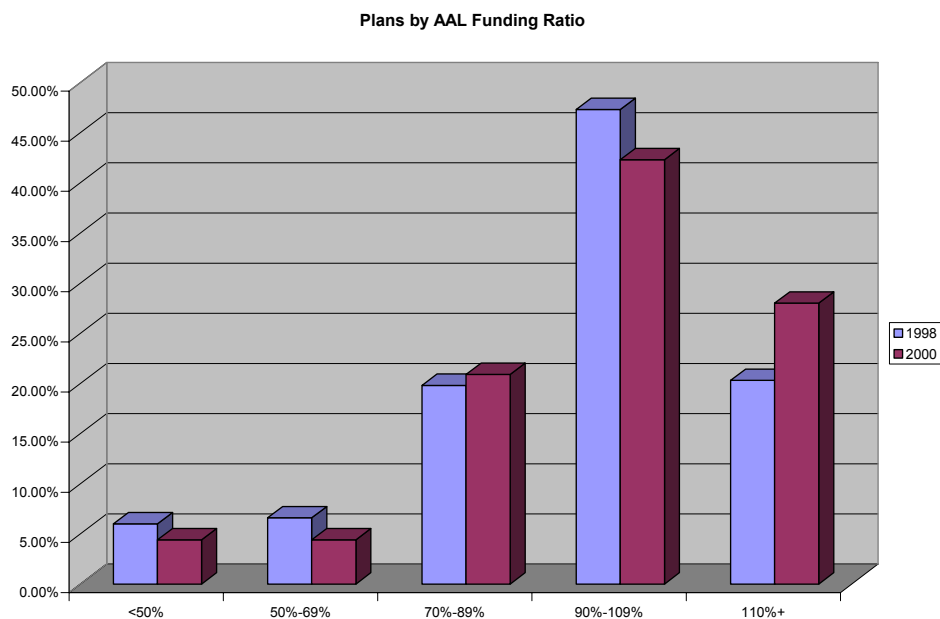
Survey Shows Public Plans are Well-Funded

By Jennifer D. Harris

Executive Director of the Public Retirement Institute

Overall, the funding ratio of public plans increased to over 103 percent as of the end of 2000, according to the latest survey from the Public Pension Coordinating Council. This represents a continued increase in funding ratios since the survey was started over 10 years ago and the first time that the average ratio has topped 100 percent. The average funding ratio of 103 percent shows that public plans are generally well-funded and in strong financial health. Figure 1 shows that the percent of respondents with AAL funding over 110 percent grew from 20.3 percent to 28.0 percent.

Figure 1



The Public Pension Coordinating Council is a confederation of three national associations serving state and local government retirement plans: the National Association of State Retirement Administrators, the National Conference on Public Employee Retirement Systems, and the National Council on Teacher Retirement. The Council's central goals are to coordinate the legislative efforts of the organizations, to promote and recognize excellence in plan design and administration, and to conduct periodic surveys of state and local retirement systems. In addition, the Government Finance Officers Association also contributed to the survey.

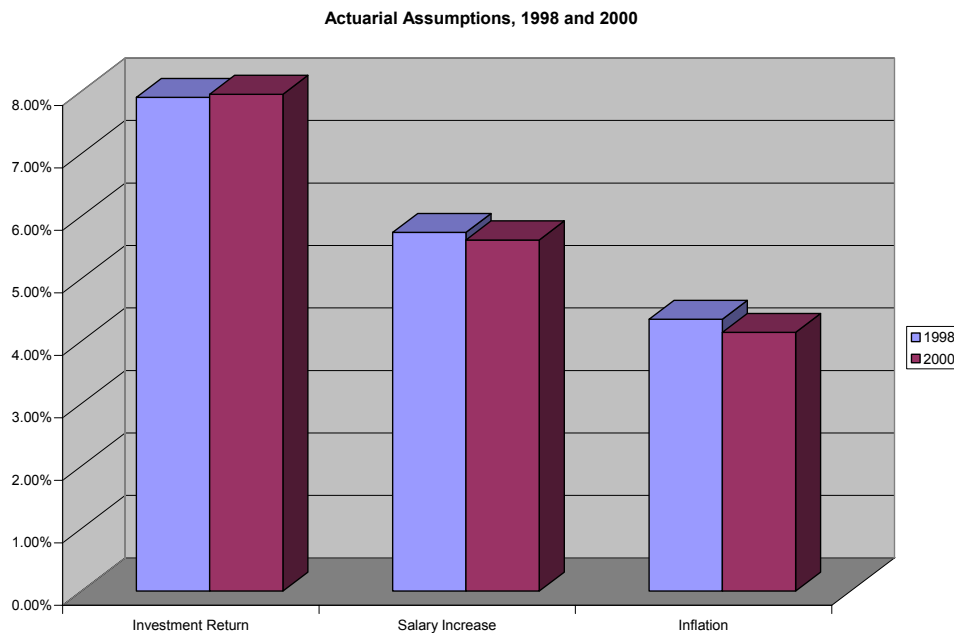
In 2001, 152 public employee retirement systems responded to the PPCC's survey, representing 263 retirement plans. These plans covered 67 percent of the 13.9 million active plan members reported by the U.S. Bureau of the Census and held 68 percent of the \$2.3 trillion in state and local retirement system assets reported by the Federal Reserve.

The average annual benefit multiplier earned for each year of service changed very little between 1998 and 2000. The average multiplier grew from 2.06 percent of final average

salary in 1998 to 2.11 percent in 2000. For members not covered under Social Security, the average benefit multiplier grew marginally from 2.39 percent to 2.43 percent during the two years.

Figure 2 shows that actuarial assumptions for investment return increased slightly from 7.90 percent to 7.95 percent between the two years. Assumptions regarding total salary increases fell slightly during the period. The average assumed rate of total salary increase (including inflation and step/merit increases) fell from 5.74 percent in 1998 to 5.62 percent in 2000. Assumptions regarding inflation also fell during the period, from 4.35 percent to 4.14 percent.

Figure 2



As a percent of payroll, employer contributions declined from an average of 11.4 percent in 1998 to 10.6 percent in 2000 for the systems responding to the survey in both years. Average employee contributions remained essentially level at 5.4 percent of pay. The decline in employer contributions is likely the result of the increase in plans that are fully funded, thus reducing the contributions necessary to amortize the unfunded liability.

The annual rate of investment return decreased during the period. The average annual rate of return fell from 15.04 percent in 1998 to 6.52 percent in 2000. This reflects the performance of the stock market during the period. As a result of the increased return during these years, the systems' three-year average annual rates of return decreased from 15.25 percent to 11.46 percent.

The Public Pension Coordinating Council's Survey Report is available on-line from the Council's web site (<http://ppcc.grsnet.com>). In addition, the site allows viewers to access individual system/plan responses, to query selected data, and to download the survey database for further analysis.