A November 21, 2017 article by Rebecca Moore of PlanSponser.com titled “Public Pensions Have Been Able to Pay Promised Benefits” reports:

Some policymakers want to close participation in a public pension plan to all new hires, cut benefits and increase employee contributions, or convert defined benefit (DB) plans pensions into defined contribution (DC) plans. They usually cite the underfunding of public pension plans as the reason for these ideas.

New research shows that funding status has little correlation with a pension fund's ability to pay its promised benefits. Michael Kahn, director of research for the National Conference on Public Employee Retirement Systems (NCPERS) used data from the annual survey of public pensions by the U.S. Census Bureau for 1993 to 2016 and other data and found that during the last quarter century or so, state and local pension plans have always been able to meet their benefit and other payment obligations.

In four years (2002, 2008, 2009 and 2012), income from contributions and investment earnings was less than benefit obligations, but in the remaining 20 years, when income from contributions and investment earnings was more than benefit obligations, pension funds were building up a cushion that enabled them to weather the 2001 recession, the Great Recession of 2008, and other economic downturns. Today, state and local pension funds have about $3.9 trillion that will provide a cushion during future economic recessions, the NCPERS analysis says.

While assets have grown, so have pension obligations. During 2012 to 2016, state pension obligations grew from $3.52 trillion to $4.19 trillion. Other sources of data show that pension obligations have steadily grown since 2000, when plans were almost 100% funded. NCPERS analysis shows that despite rising liabilities during the last quarter century, pension plans have been able to meet their annual benefit payments from contributions and investment income due to the cushion they built up in good years.

The analysis shows four states-Illinois, Kentucky, New Jersey, and Connecticut-had pension funds whose liabilities were more than twice their assets (that is, they were less than 50% funded) in 2016. On the other end of the funding spectrum are New York, Tennessee, South Dakota, and Wisconsin, which were all more than 94% funded. The majority of states' pension plans were more than 70% funded. Twenty-eight out of 50 states (56%) had pension funding levels that were 70% or above. Overall, the 299 state plans had total assets of $3.05 trillion and pension obligations of $4.2 trillion-which translates into a funding level of 72.6%. However, using quarterly earnings data for 2016, the assets for the 299 state plans were $3.26 trillion, which results in a funding level of 77.6%.

According to the analysis, states in both top- and bottom-funded groups on average experienced situations in which contributions and investment income was not enough to meet annual benefit obligations about six out of 24 years during 1993 to 2016. The cash flow shortfalls were caused by the 2001 and 2008 recessions as well as other economic downturns. But both types of funds-partially and almost fully funded public pension plans-had adequate cushions to cover the cash flow shortfall.

The experience of the last quarter century suggests that state and local pension funds will face economic recessions in the next quarter century and beyond. To strengthen the ability of these pension funds to weather future recessions, NCPERS suggests state and local policymakers may consider the following policy options:

- Stop dismantling public pensions because they aren't 100% funded;

- Strengthen funding mechanisms by adhering to principles that help determine the appropriate levels of required employer contributions;
- Establish a pension stabilization fund that can set aside money from a certain revenue stream to be used in special circumstances such as a recession; and
- Implement a mechanism to ensure that full employer contributions are made on a timely basis, perhaps by making employer contributions a nondiscretionary part of the budget.

"Our analysis demonstrates that pension plans can tolerate ups and downs in the markets and still meet their current obligations," says Hank H. Kim, NCPERS' executive director and counsel. "While funding ratios are an important actuarial tool, they are not a proxy for a plan's ability to pay benefits here and now."

Critics of public pensions often cite funding ratios of less than 100% as evidence of pressing financial problems, but this is faulty logic, Kim says. Contributions and earnings continue to flow into plans even as benefits are being paid out, he notes. "Shutting down a pension plan because it is not fully funded is an incredibly short-sighted action that destabilizes workers and their communities, and we want it to stop," Kim says.

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