

# The Funded Status of Public Plans Keeps Improving – Albeit Modestly

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**MarketWatch Blog** by [Alicia H. Munnell](#)

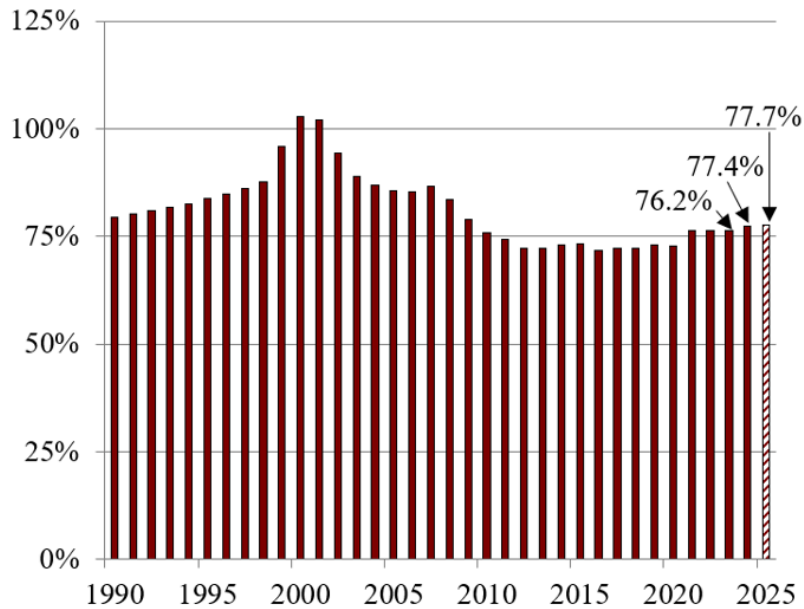


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*In mature plans, the excess of benefits over contributions makes it hard for assets to grow.*

We have recently released [an update](#) on the funded status of state and local pension plans. The analysis shows that the ratio of assets to promised benefits in FY 2025 is 77.7 percent, 1.5 percentage points higher than 2023 – the date of our last funding update (see Figure 1). Of course, the numbers for 2025 are estimates based on plan-by-plan projections, but these projections have an excellent track record.

Figure 1. *Aggregate Funded Ratio for State and Local Pension Plans, FY 1990-2025*

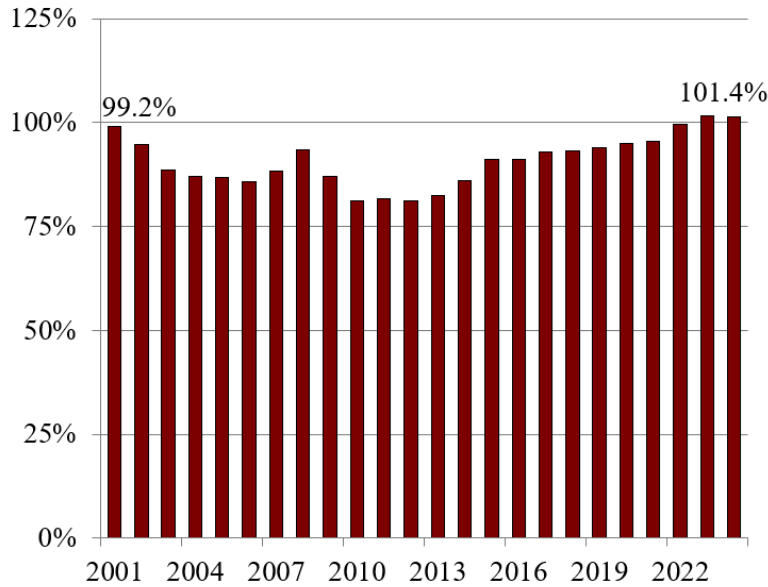


Source: Authors' calculations using the *Public Plans Database (PPD)* (1990-2025).

These gains seem quite modest to me, given that the S&P index increased more than 40 percent between June 2023 and June 2025. At the same time, plans have made great strides in containing the rate of growth in unfunded liabilities.

In terms of unfunded liabilities, plans have become more diligent in their procedures for funding their plans. They have gradually lowered the assumed rate of return from 8.0 percent in 2001 to 6.9 percent in 2024 and have adopted more rapid amortization of the plans' unfunded liabilities. In addition to the required contribution becoming more realistic, the aggregate percentage paid now exceeds 100 percent – above the level before the bursting of the dotcom bubble at the turn of the century (see Figure 2). And, at this point, more than 80 percent of plans are receiving the full actuarially determined contribution.

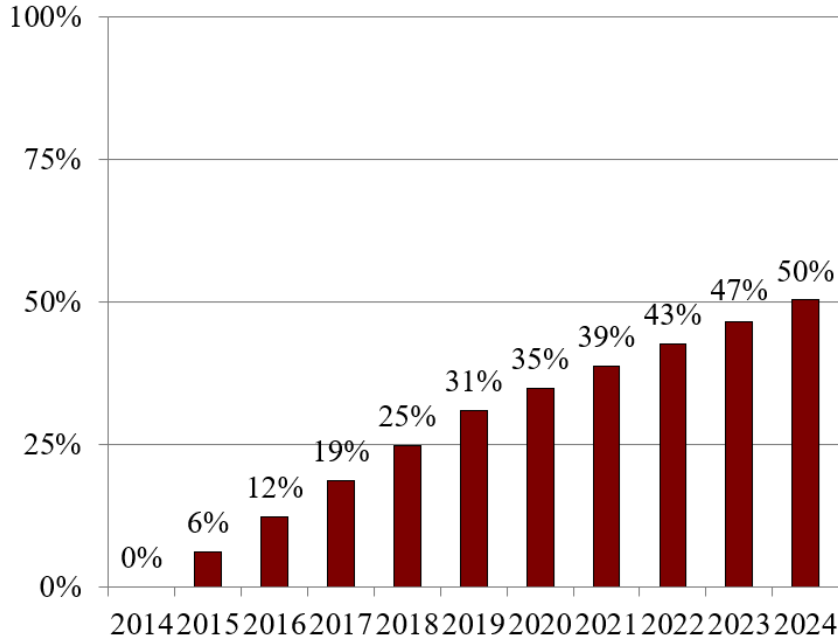
Figure 2. Aggregate Percentage of Actuarially Determined Contribution Paid, FY 2001-2024



Source: Authors' calculations using the PPD (2001-2024).

At the same time, many of the benefit cuts enacted in the wake of the Great Recession have taken hold. Given that many states have legal protections that constrain their ability to alter benefits, the majority of plans reduced benefits only for new employees. Since 2014, new hires – defined as employees hired after 2014 – as a share of the workforce have gone from zero to 50 percent (see Figure 3).

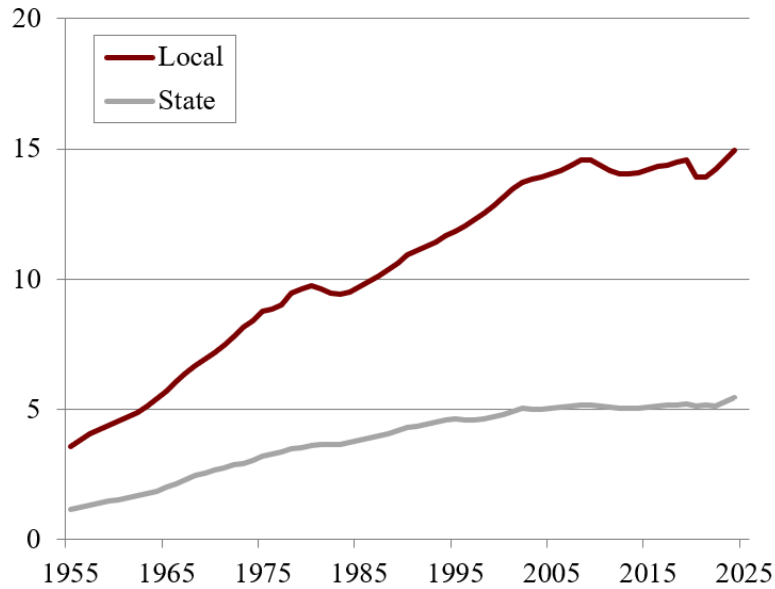
Figure 3. *Percentage of State and Local Government Workforce Hired after FY 2014*



Note: Numbers for 2019 and 2024 are based on actual data, intermediate years are interpolated.  
Source: Authors' estimates based on a sample of the 50 largest PPD plans (2014-2024).

At the same time, employment in the public sector has stabilized (see Figure 4).

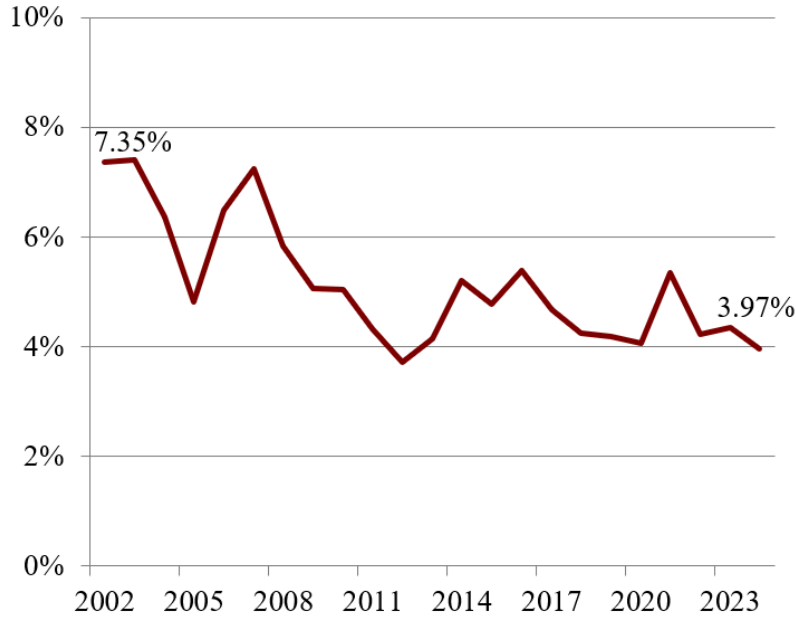
Figure 4. *Number of State and Local Government Employees, 1955-2024, in Millions*



Source: Authors' analysis using U.S. Bureau of Labor Statistics, *Current Employment Statistics* (1955-2024).

The combination of benefit reductions and stabilizing employment has slowed the annual growth of liabilities to about 4 percent each year – roughly half the rate seen at the turn of the century (see Figure 5). As a result, liabilities have increased by about 8 percent over the two-year period.

Figure 5. Aggregate Annual Liability Growth, FY 2002-2024



Source: Authors' calculations using the PPD (2002-2024).

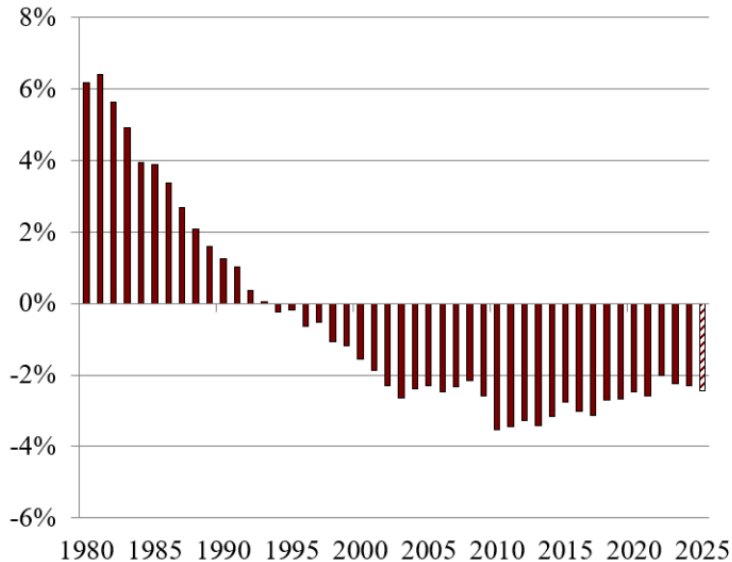
So, the question is why has the funded ratio grown so modestly since FY 2023 when plans have been making their full contributions, liability growth has stabilized at a relatively low clip, and the stock market has risen over 40 percent? The answer rests on the asset side.

The change in assets consists of two components: investment returns and cash flows (contributions minus benefits). Even though the stock market grew by more than 40 percent from 2023 to 2025, stocks were only around 40 percent of plan portfolios; in total, state and local plans earned a 15-percent return on their assets over that period.

But cash flows are also important. Because most public sector retirement systems have been in existence for decades, their benefit payments to retirees generally exceed worker and government contributions. So, despite the fact that pension funds receive the full actuarially required contribution, they still experience negative net cash flows of about 2 percent of assets

each year (see Figure 6). Over the two-year period since FY 2023, these negative cash flows reduce the growth of assets from 15 percent to 11 percent.

Figure 6. *Cash Flows as a Percentage of Market Assets for State and Local Plans, FY 1980-2025*



Note: 2025 is authors' estimate.

Sources: Authors' calculations using the U.S. Census Bureau, *Annual Survey of Public Pensions* (1980-2024) and PPD (2001-2025).

In the end, the roughly 11-percent growth in assets since 2023 was higher than the roughly 8-percent growth in liabilities over that same period. The net impact was sufficient to increase the funded ratio by 1.5 percentage points – from 76.2 to 77.7 percent. The bottom line is that observers should not expect much further improvement in the funded status of state and local plans with current levels of contributions.