



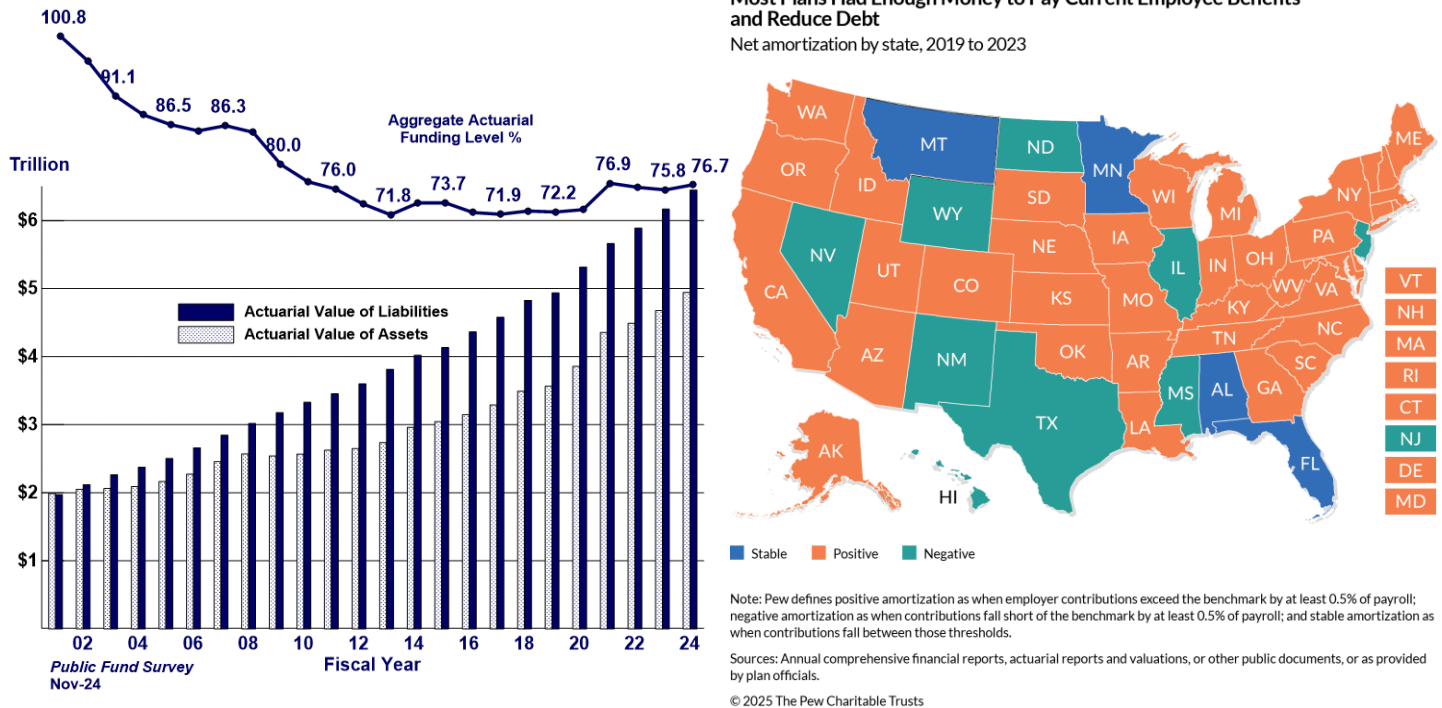
The Future of Pension Sustainability: Moving from Funding Headlines to Governance Discipline

Public pension sustainability is too often reduced to a single question: “What is the funded ratio?” The number matters, but it’s not the whole story. A plan can be 80% funded and improving, yet still face serious contribution, liquidity, demographic, governance, or political risk. Another plan can report a weaker funded ratio but have disciplined contributions, credible assumptions, liability-aware investment policy, and strong stakeholder trust. At Opal’s Public Funds East conference, our panel — “The Future of Pension Sustainability: Risks, Reforms, and Real-World Solutions” — examined sustainability through the lens trustees, treasurers, actuaries, investment managers, and consultants must use: not as a static metric, but as a dynamic governance system.

The public-pension landscape is improving in some respects. NASRA’s Public Fund Survey reported that the aggregate actuarial funding level for surveyed plans rose to 76.7% in FY 2024, up from 75.8% in FY 2023. Pew similarly reported that state pension funding levels remained stable at roughly 74% in 2023 despite market volatility. Equable Institute estimates further improvement in 2025, with funded ratios rising as markets recovered.ⁱ But improvement is not the same as resilience. The central question is whether public plans are building systems that can withstand adverse sequences: lower returns, contribution stress, inflation pressure, demographic shifts, market drawdowns, liquidity demands, and political constraints — sometimes at the same time.

Figure 1
Most Plans Had Enough Money to Pay Current Employee Benefits and Reduce Debt

Net amortization by state, 2019 to 2023



Source: <https://www.nasra.org/publicfundsurvey> <https://www.pew.org/en/research-and-analysis/articles/2025/10/29/state-pension-funding-levels-stayed-stable-despite-volatility>

Sustainability Starts with Honest Assumptions

Actuarial assumptions are not administrative details. They shape the perceived cost of benefits, the pace of amortization, and the credibility of the funding plan. The assumed return on assets is especially consequential because investment earnings account for a majority of public pension revenues. NASRA's investment return assumption brief underscores the outsized role investment earnings play in plan funding and costs.ⁱⁱ

For trustees, the governance challenge is not to become actuaries. It is to understand the sensitivity of the plan to key assumptions: discount rate, wage growth, payroll growth, mortality, retirement behavior, inflation, and contribution timing. A return assumption that looks reasonable over 30 years may still create significant near-term contribution volatility if markets underperform early. A mortality assumption that lags experience can slowly understate liability growth. A payroll assumption that proves optimistic can weaken contribution adequacy. Sustainability therefore requires routine assumption stress testing, plain-English sensitivity analysis, and board-level discussion of what happens if experience deviates from the base case.

Contributions Are Policy, Not Math Alone

Even the best actuarial assumptions cannot compensate for inadequate contributions. Pew reported that in fiscal 2022, contributions to state pension plans nationally exceeded its net amortization benchmark by approximately \$61 billion — a positive sign that many sponsors were contributing enough to avoid pension debt growth under plan assumptions.ⁱⁱⁱ Yet contribution discipline remains uneven. For some plans, statutory caps, political pressure, payroll constraints, or budget competition can prevent contributions from responding

quickly enough to shocks. That is why contribution policy should be evaluated not only for actuarial adequacy, but also for political durability.

Good funding policy should answer: Are contributions sufficient to pay for current benefit accruals? Are unfunded liabilities being amortized on a reasonable schedule? What happens if returns fall short for three consecutive years? Can the employer afford required contributions during recessionary revenue stress? Are costs being shifted to future taxpayers or employees? Sustainability is achieved when the contribution policy is both actuarially credible and politically executable.

ALM Must Move to the Center

Public plans are long-term investors, but they are not exempt from short-term cash needs. Benefit payments, capital calls, rebalancing requirements, collateral demands, and contribution delays can collide during periods of stress. That is why asset-liability management must move from periodic study to continuous governance discipline. For many plans, the most important improvement is a consolidated sources-and-uses liquidity ladder. This should integrate benefit payments, expected employer and employee contributions, private-market capital calls, distributions, rebalancing needs, and potential collateral or margin calls. It should be visible to the board and stress-tested under plausible adverse scenarios.

Liquidity is not merely a cash-management issue. It is a sustainability issue. Forced selling during a market drawdown can impair funded status for years. A plan that cannot meet benefit payments, capital calls, or rebalancing needs without destabilizing the portfolio does not have a sustainable investment policy, no matter what the expected return says.^{iv}

Investment Strategy Must Be Return-Seeking and Risk-Aware

Investment portfolios remain essential to pension sustainability. But the question is not simply whether the portfolio can achieve the assumed rate of return. The better question is: What risks are we underwriting to pursue that return, and can the plan survive those risks if they materialize in the wrong order?

Private markets, private credit, real estate, infrastructure, and hedge funds may improve diversification and long-term returns. They also introduce valuation opacity, liquidity mismatch, leverage, fee complexity, and governance demands. Trustees should ask not only whether an allocation improves expected return, but whether it creates hidden fragility. Key questions include: How are private-market marks validated when transaction volume is low? What are our unfunded commitments relative to available liquidity? Where is leverage embedded — at the fund level, asset level, GP facility level, or through overlays? Are stress tests linked to actual action triggers, or are they simply reports?^v

Reform Must Be Realistic and Durable

Public pension reform is difficult because it involves promises, expectations, legal constraints, budget realities, and intergenerational equity. Durable reform often combines several tools rather than relying on one dramatic change. NASRA's pension reform materials and employee contribution research highlight a range of

mechanisms: new benefit tiers, hybrid plans, contribution sharing, COLA adjustments, anti-spiking rules, and risk-sharing features.^{vi}

The best reforms are transparent, rules-based, and tied to sustainability triggers. Automatic stabilizers can reduce political delay, but they must be designed carefully to avoid undermining retirement security or stakeholder trust. COLA reform can improve affordability, but it must be evaluated against inflation risk for retirees. Hybrid designs can share risk, but they must be communicated clearly to employees. There is no universal solution. Plan design must reflect workforce needs, legal environment, contribution capacity, risk tolerance, and public mission.

Governance Is the Final Safeguard

Ultimately, pension sustainability is a governance discipline. Trustees do not need to forecast the future perfectly. They need to ensure that the plan has credible assumptions, adequate contributions, liability-aware investment policy, liquidity resilience, transparent reporting, and pre-agreed responses when conditions deteriorate.

Every public pension board should regularly ask:

- Do we understand what could cause our funded status to deteriorate?
- Are our contributions adequate under downside scenarios?
- Do we have a total-plan liquidity ladder?
- Are private-market commitments sized to our real cash-flow capacity?
- Are stress tests linked to action triggers?
- Can we explain our sustainability plan clearly to beneficiaries, employers, taxpayers, and policymakers?

The future of pension sustainability will not be won by chasing returns alone or by relying on actuarial smoothing to absorb every shock. It will be won by boards that integrate actuarial realism, investment discipline, contribution policy, and stakeholder trust into one coherent system. The objective is not to avoid every risk. It is to ensure that risks are understood, funded, governed, and communicated before they become crises.

LinkedIn Hook:

Public pension sustainability is not just a funded-ratio question. It's a governance discipline that integrates actuarial realism, contribution adequacy, ALM, liquidity resilience, investment risk, plan design, and stakeholder trust.

With gratitude to the superb panelists - - and Opal Group's leaders, @Daniela and @Ingrid – for their collaboration in serving the participants of Public Funds East. It was an honor to moderate a discussion on how trustees, treasurers, actuaries, and investment professionals can move from funding headlines to real-world solutions.

#PublicPensions #PensionSustainability #PublicFunds #Trustees #StateTreasurers #ActuarialScience
#AssetLiabilityManagement #InstitutionalInvesting #Governance #RiskManagement #RetirementSecurity

ⁱ <https://www.nasra.org/publicfundsurvey>, <https://www.pew.org/en/research-and-analysis/articles/2025/10/29/state-pension-funding-levels-stayed-stable-despite-volatility> and <https://equable.org/report/state-of-pensions-2025/>

ⁱⁱ <https://www.nasra.org/returnassumptionsbrief>

ⁱⁱⁱ <https://www.pew.org/en/research-and-analysis/articles/2025/07/30/an-increase-in-pension-obligations-adds-to-states-unfunded-liabilities>

^{iv} <https://icpmnetwork.com>, <https://www.nasra.org> and <https://www.oecd.org/finance>

^v <https://equable.org/report/state-of-pensions-2025/>

^{vi} <https://www.nasra.org/pensionreform>, <https://www.nasra.org/files/Issue%20Briefs/NASRAContribBrief.pdf> and <https://www.nasra.org/colabrief>