



IAFF - Strive

Sound Funding Policies for Pension Plans

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Todd Tauzer, Segal - National Public Sector Retirement Practice Leader

The Funded Position

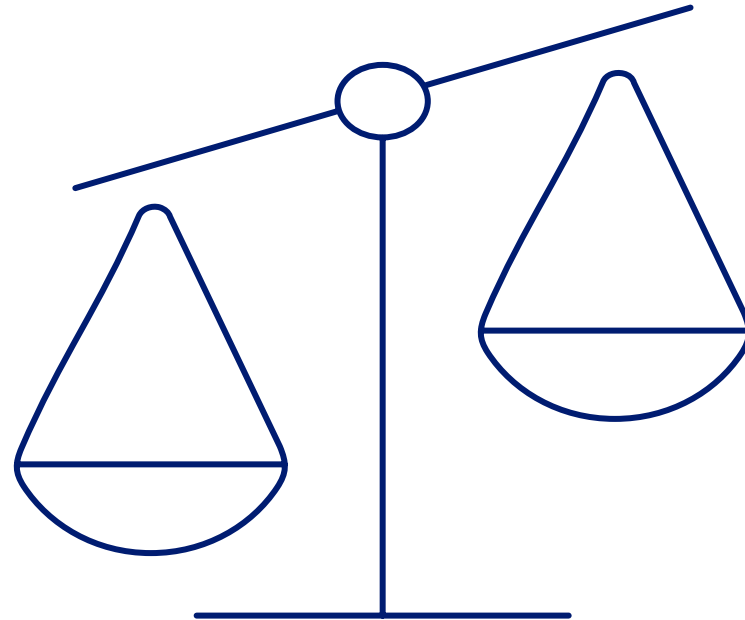
Basics

Funded Ratio

- Assets / Liabilities

Funded Status


- Assets - Liabilities



Funded Ratio


The 80% Myth

Why the focus on funded ratio?

- Desire for comparability
- **Quest for unattainable simplicity** 

Why a common focus on 80%?

- Corporate and multiemployer (union) pension funding trigger
- Benchmark in credit rating agency pension analysis
- Relatively attainable



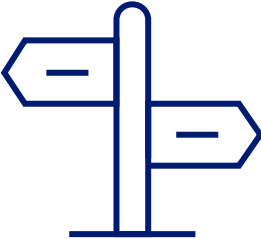
A funded ratio of 80% or more is within the range that many public sector experts, union officials, and advocates view as a healthy pension system.

U.S. Government Accountability Office, 2007

Significance of Funded Ratio

Which plan?

	Funded Ratio	
Valuation Date	Plan A	Plan B
2026	73%	82%



Significance of Funded Ratio

Which plan?

	Funded Ratio	
Valuation Date	Plan A	Plan B
2026	73%	82%
2025	61%	89%
2024	57%	93%
2023	46%	102%
2022	38%	118%
2021	24%	132%

Funded Ratio

Caution warranted

The funded ratio is:

- Helpful in indicating plan trajectory over long periods of time
- A single point in time measurement
- Subject to the ups and downs of economic cycles
- **Heavily based on actuarial assumptions and even cost methods**
- Easily used, and easily misused



“The 80% Pension Funding Myth”



The 80% Pension Funding Myth

What to target?

What does 100% funded mean?

- Indicates being “on track”
- Eliminates unfunded liability payments
- Ongoing costs continue to be covered through the normal cost

Why target at least 100% funded?

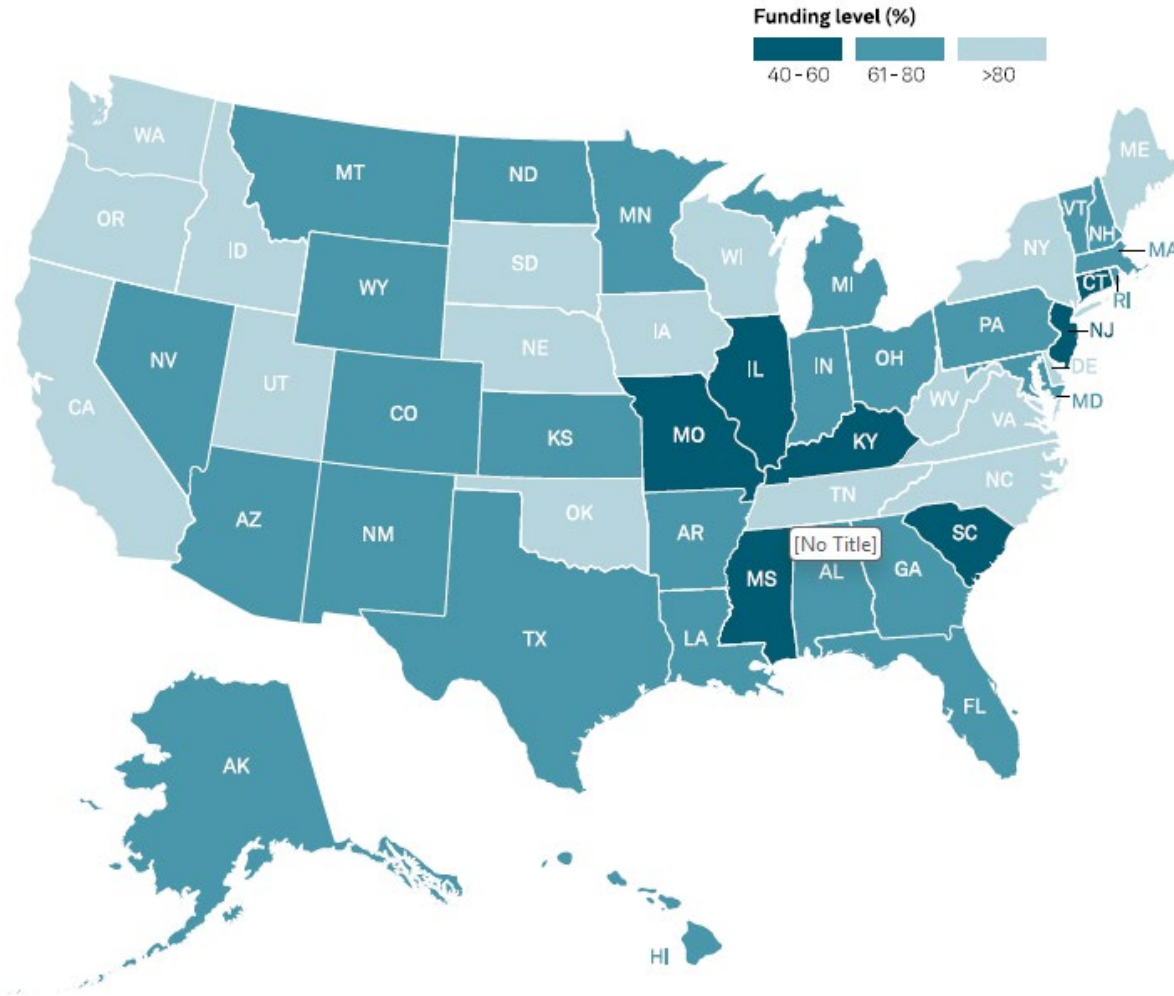
- Holding unfunded liability is extremely expensive
- Past decisions to defer costs have led to the most expensive plans
- To be prepared for future economic cycles and risks

“Objectives and Principles for Funding Public Sector Pension Plans”



U.S. States by Pension Funded Ratio

Aggregate U.S. state pension funded ratios 2023



State pension plans have different governance structure, benefits and benefit protections, reforms, funding policies, contribution enforcement, funding history, demographics, and more.



In our view, plans that demonstrate strong funding discipline by targeting 100% funding on a prudent and consistent actuarial basis with conservative assumptions and methods are much more likely to manage pension liabilities...

S&P Global Ratings, 2019

Understanding the Past

National Institute on Retirement Security Research

Objectives

- Understanding plan funding trajectories since 2008
- Answering “the why” on limited funding improvement
- Quantifying primary headwinds

Key Findings

- Assumption changes are by far the primary headwind
 - Both economic and demographic
- Not all funded ratios are created equal!
 - Especially across time

**EXAMINING THE
EXPERIENCES OF
PUBLIC PENSION
PLANS SINCE THE
GREAT RECESSION**



Principles For Sound Funding

Healthy Governance

- Structure and culture that sets politics aside for the ultimate goal
- Supports intergenerational equity as much as possible

Realistic Assessment of Liability

- Transparent, unbiased, prudent assumptions

Effective Required Contributions

- Consistently met in full
- Amortization that identifies, tracks, and eliminates unfunded liability

Funding Discipline is Essential for Healthy Pensions

For The Five Highest-Funded U.S. State Pension Plans, Being Proactive Keeps Liabilities Manageable

Primary Credit Analyst:

Oladunni M Ososami, Dallas 972-367-3338; oladunni.ososami@spglobal.com

Secondary Contact:

Todd N Tauzer, FSA, CERA, MAAA, San Francisco (1) 415-371-5033; todd.tauzer@spglobal.com

Best Funded Plans

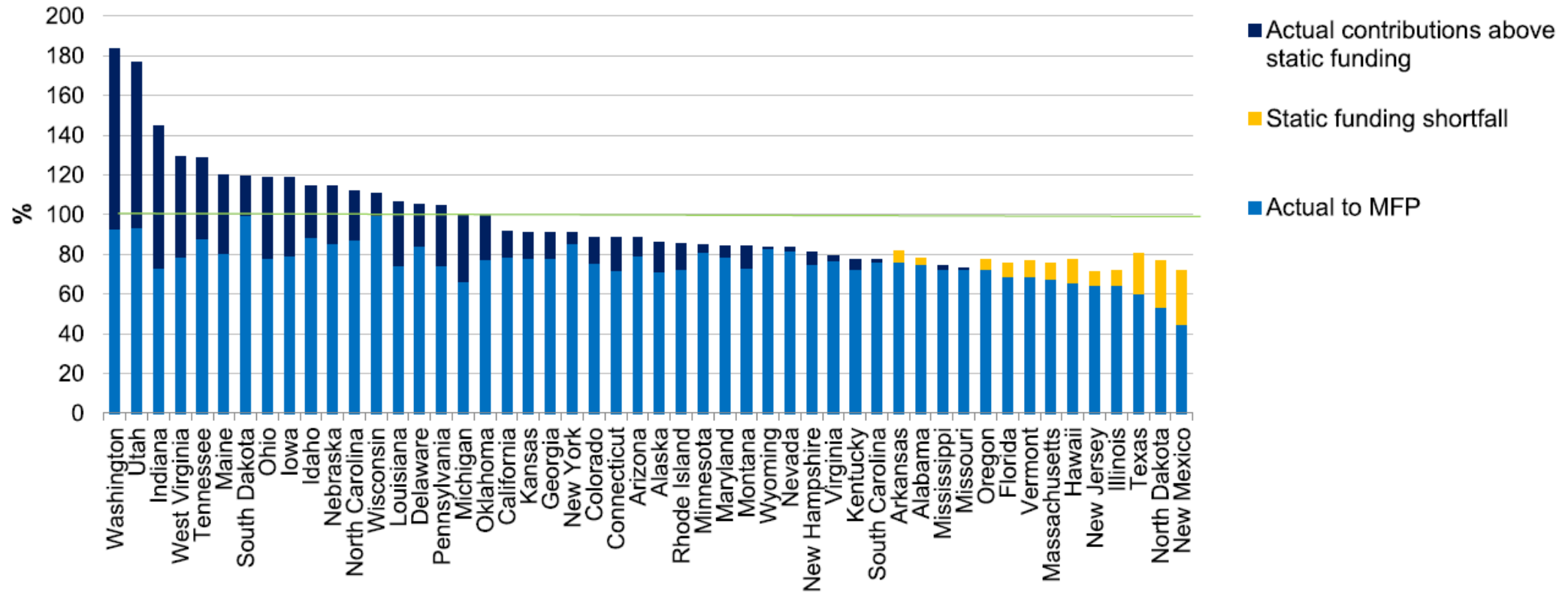
- Early movers to lower discount rate
- Early movers to adopt generational mortality
- Commitment to strong funding policies
- Consistent contributions in full

Worst Funded Plans

- Political resistance to update assumptions
- Invented ways to defer funding commitment
- Ineffective funding policies
- Inconsistent contributions

State Contribution Effectiveness

State Pension Plan Aggregate Actual Contribution Funding Progress



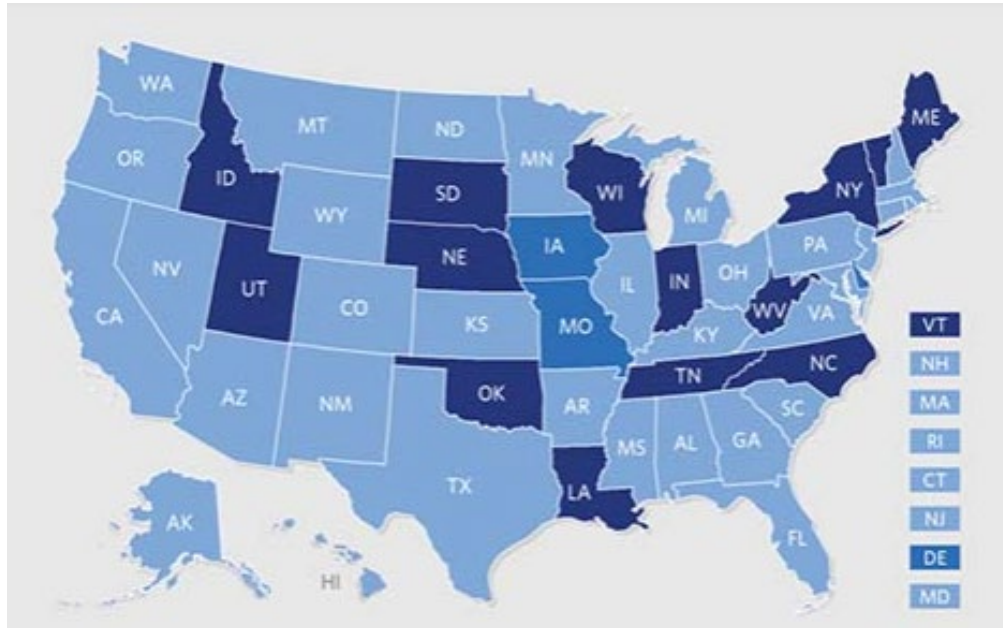
MFP--Minimum funding progress.

Minimum Funding Progress threshold =
 Normal Cost + Interest on the Unfunded Liability + 1/30th of the actual Unfunded Liability

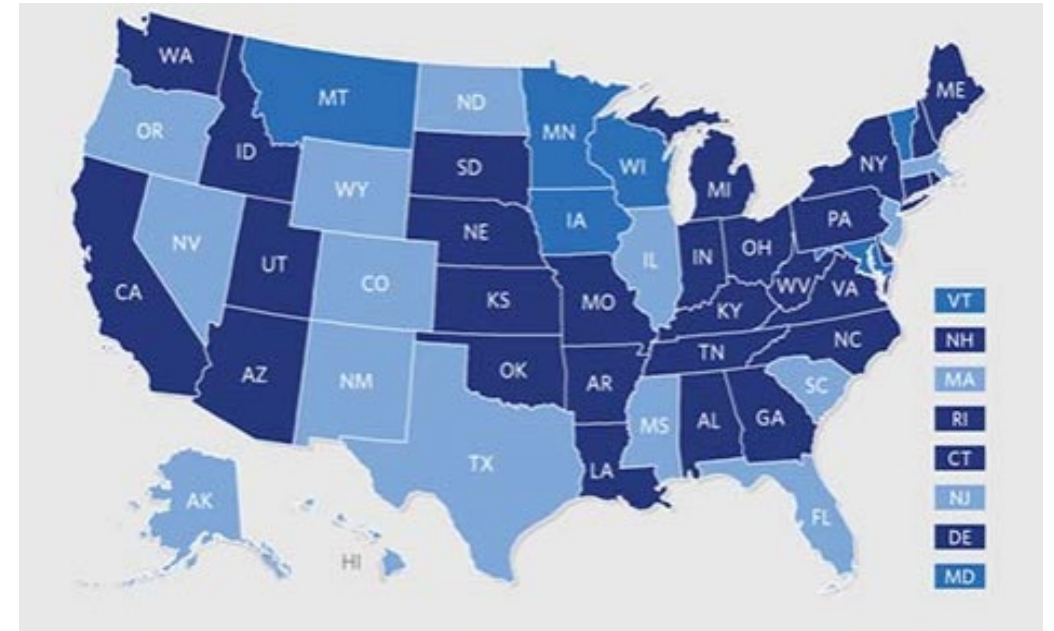
Source – S&P Global Ratings “Market Swings Could Signal Contribution Volatility For U.S. State Pensions And OPEBs”

State Contribution Effectiveness Progression

Weaker Levels in 2014



Significantly Improved in 2019

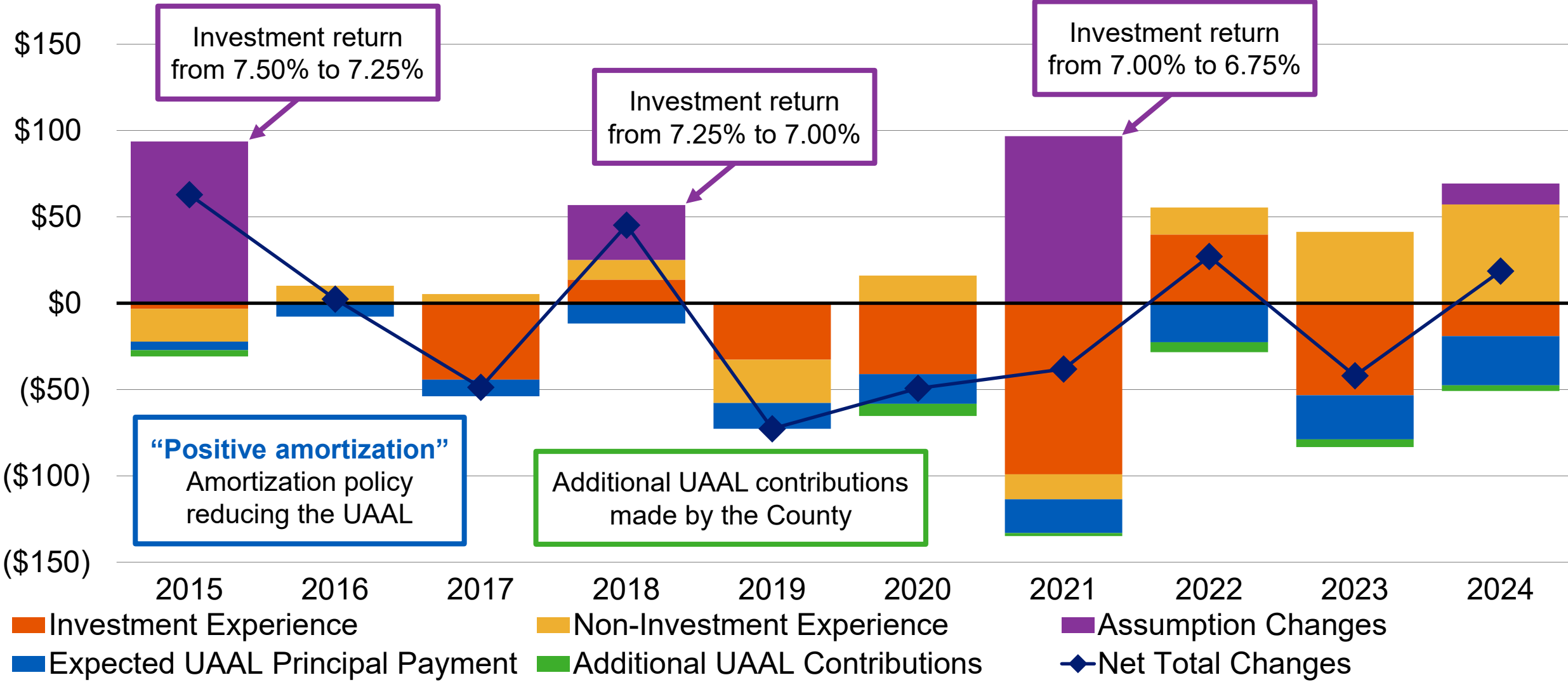


■ Positive amortization ■ Stable amortization ■ Negative amortization

US State pension plans have seen significant progress in positive amortization over this five year period – but there is still room for improvement.

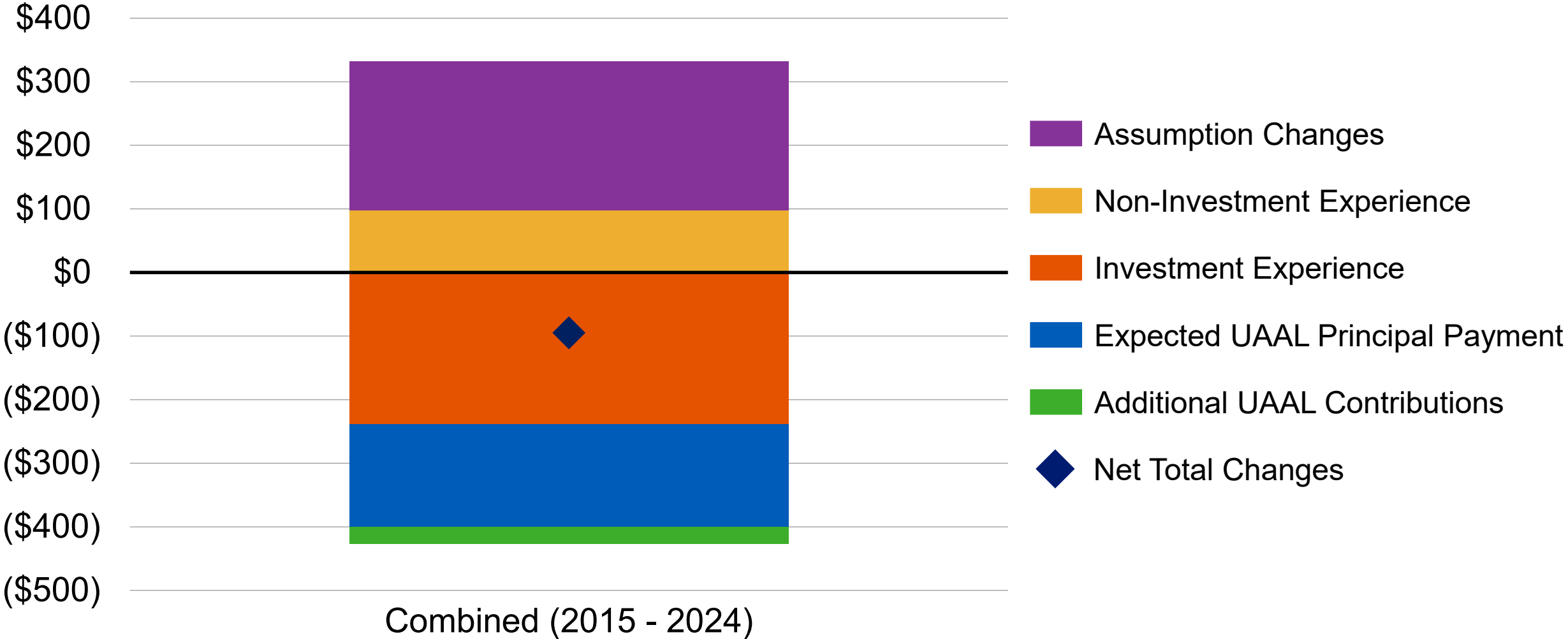
Knowing Your Plan

Unfunded liability causes in millions



Knowing Your Plan

Unfunded liability causes in millions (summary)



Thank You

Todd Tauzer, FSA, MAAA, FCA, CERA
National Public Sector Retirement Practice Leader
Senior Vice President & Actuary

T 415.263.8279 | M 916.834.7994
ttauzer@segalco.com

segalco.com

