

Public Pension Plans: Key Insights from the Fiscal Year

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Public pension plans are a vital component of retirement security for millions of public sector employees across the United States. As of June 30, 2025, these plans continue to face evolving challenges and opportunities in the areas of funding, investment performance, demographics and policy.

Investment Performance

During the fiscal year ending June 30, 2025, public pension plans experienced investment returns reflective of prevailing market conditions. While individual plan performance varied based on asset allocation, risk profile and manager selection, the overall trend indicated moderate growth and represented the third consecutive fiscal year of strong absolute returns versus investment return assumptions for most public plans. From a capital markets perspective, global equities were led by international developed and emerging markets, as the MSCI EAFE and MSCI Emerging Markets indices rose 17.7% and 15.3% respectively, while U.S. equities were led by large cap, AI focused growth stocks. The S&P 500, a barometer for large cap U.S. equities, advanced 15.2% for the fiscal year ending June 30, 2025. Fixed income returns were positively influenced by interest rate movements, strong corporate fundamentals and investor appetite for yield. The Bloomberg U.S. Aggregate Bond and Corporate High Yield indices returned 6.1% and 10.3% respectively, for the one-year period ending June 30, 2025. REITs, as measured by the FTSE NAREIT All Equity REITs index, rose 9.2% for the period while real assets, denoted by the S&P 500 Real Assets index, posted an 11.8% return.

Asset Allocation Trends

- **Equities:** Continued to represent a significant portion of portfolios, with global equities performing strongly relative to other asset classes.
- **Fixed Income:** Remained an essential component for risk mitigation by providing a ballast to offset equity volatility. The restoration of high yields has led to better return profiles for fixed income over the last few fiscal years.
- **Alternative Investments:** Many plans maintained or slightly increased allocations to alternatives, such as private equity, real estate and infrastructure, seeking diversification and potential outperformance. An area of particular concern has been the accumulation of redemption queues within open-ended private real estate. While fundamentals and investment performance improved for private real estate, investors waiting for full redemptions will need to remain patient.

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Funded Status and Contributions

The overall funded status of public pension plans remains a primary concern for stakeholders. As of June 30, 2025, the average funded ratio for large statewide and municipal plans is estimated to be between 78.1% and 83.1%.¹ This ratio reflects the proportion of assets held by pension funds relative to their actuarial liabilities. While some plans have maintained or improved their funding levels due to strong investment returns in previous years, others continue to face deficits stemming from underfunding, demographic pressures and legacy costs.

Public plans have taken measures to improve funding by increasing employer and employee contributions, adjusting benefit formulas or implementing reforms aimed at long-term sustainability. However, the impact of these reforms varies, with some plans seeing modest improvements while others still lag actuarial targets.

Key Observations and Outlook

- Three consecutive fiscal years of strong absolute investment returns will likely serve as a tailwind to improve funded status.
- Public pension plans benefited from diversified portfolios and prudent risk management strategies.
- Volatility in global markets underscored the importance of long-term investment horizons for pension funds.
- Looking ahead, plans may continue adjusting allocations to navigate changing economic conditions and enhance resilience against market downturns.

Demographic Trends & Challenges

Demographic shifts continue to influence the sustainability of public pension systems. An aging workforce and increasing retiree population place additional strain on plan resources, leading to higher payout ratios.

Numerous plans are addressing these challenges by reassessing retirement age criteria, modifying cost-of-living adjustment (COLA) policies and evaluating hybrid plan structures that integrate features of both defined benefit and defined contribution models.²

Policy Developments & Reforms

Legislative and regulatory actions at both the state and local levels have shaped the landscape of public pension plans in 2025. Some jurisdictions have enacted reforms to address unfunded liabilities, improve governance and enhance transparency. Notable measures include revised funding policies, enhanced risk management practices and greater disclosure of plan assumptions and investment strategies³.

¹ The Equable State of Pensions 2025

² Center for Retirement Research at Boston College: The Rise of Alternative Design for Public Plans October 2025

³ Equable State of Pensions 2025

The trend towards risk-sharing between employers and employees continues, with new plan designs incorporating features such as adjustable contributions and benefits based on plan performance. These changes aim to help ensure the long-term viability of public retirement systems while balancing the interests of current workers, retirees and taxpayers.

Adapting for Tomorrow: Public Pension Sustainability

Currently, public pension plans remain a critical pillar of retirement security for public sector workers. While many plans have made progress in funding and investment management, ongoing challenges like demographics, market volatility and policy remain. Continued vigilance, coupled with proactive reforms and adaptive investment strategies, we believe will be essential to ensuring the stability and sustainability of these vital systems in the years ahead. For guidance tailored to your organization's needs, please [contact](#) the professionals at Fiducient Advisors today.

About the Author



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As a Partner and Senior Consultant, Chris services institutional clients by providing advice and counsel on all areas of fund oversight including policy, asset allocation, manager research, portfolio structure, portfolio rebalancing, performance monitoring and overall investment policy. He focuses on corporate, nonprofit, and governmental retirement plans. Chris is also a member of the firm's Public Funds Defined Benefit Business Council. Chris joined Fiduciary Investment Advisors, LLC in 2010, which combined with Fiducient Advisors in 2020.

Prior to joining the firm, he was President and Senior Investment Strategist for USI Advisors, Inc., a Goldman Sachs Capital Partners Company. Chris also served as an Investment Analyst with the City of Hartford, Connecticut Treasury Office. He received his BA from Boston University.

Outside of work, Chris is an Investment Committee Member for The Village for Family and Children, a nonprofit providing support services for children and families in the Greater Hartford region and a member of the Government Finance Officers Association and the Connecticut Public Pension Forum.

Disclosures & Definitions

Comparisons to any indices

referenced herein are for illustrative purposes only and are not meant to imply that actual returns or volatility will be similar to the indices. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect our fees or expenses. Market returns shown in text are as of the publish date and source from Morningstar or FactSet unless otherwise listed.

- **MSCI EAFE** is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country.
- **MSCI Emerging Markets** captures large and mid-cap representation across Emerging Markets countries. The index covers approximately 85% of the free-float adjusted market capitalization in each country.