



Observations of Reason Foundation's 2025 Pension Solvency and Performance Report April 2026

The Reason Foundation is a self-described libertarian think tank. Reason's Public Integrity Project "offers pro-bono consulting to public officials and other stakeholders to help them design and implement pension reforms that improve plan solvency and promote retirement security."

Reason's "[2025 Pension Solvency and Performance Report](#)" characterizes public pensions as operating continuously on a precipice, one market downturn from falling into an abyss and sending their sponsoring governments to fiscal ruin. Reason relies on specious comparisons of public pension plans and selective data while ignoring industry standards and practices, to present a pessimistic image of public pensions that are in financial and actuarial peril and investing at an inappropriately high level of risk.

This response focuses on a few key elements of Reason's report.

Key Points

- The Reason Foundation report presents state-level rankings of public pension plans that are analytically invalid.
- The report's investment performance calculation focuses on a single, selective time frame that does not fairly reflect the actual investment performance of public pension funds.
- The report's evaluation of asset allocation, particularly regarding investment in alternative assets, reflects a simplistic and inaccurate understanding of institutional investment strategy.

Ranking Pension Plans

Reason introduces its report in part by saying it "ranks every state's pension system across five dimensions—funded status, investment performance, contribution adequacy, asset allocation risk, and the probability of meeting assumed returns—based on the latest fiscal year data from nearly every major plan in the country."

Public pension plans typically are not organized or managed in the manner implied by Reason's report. Rather, public pension plans are each unique legally and operationally distinct entities, with their own governing board, funding policy, investment risk profile, demographics, liabilities, and asset allocation. Moreover, the plan sponsors—the states, counties, cities, and

other public entities that support pension plans—also are unique in myriad ways, including their respective fiscal capacities, their level of legal and political support for the pension plan, etc.

Reason’s use of rankings obscures the significant differences that exist between plans. For example, an industry-wide table showing contributions paid by employers and employees, compared against normal cost and amortization rates, is essentially meaningless in the face of the broad diversity of public pension plans. Such a listing makes no accommodation for such factors as whether the plan’s participants also participate in Social Security; the relative size and cost of benefits, which vary—in some cases widely—among plans; the plan’s assumptions for investment return; etc.

By constructing state-level aggregates from plan-level data and creating rankings that do not incorporate many factors that determine public pension conditions, Reason has created an image of a fictional system that does not correspond to the actual way public pensions are structured or managed. Any conclusions drawn from these aggregates are unreliable.

Ranking Plans Based on Funded Status

Reason’s ranking of states by aggregated public pension funding levels from highest to lowest fails to provide proper context. A funding level is one of many methods for measuring a pension plan’s condition, and a plan’s funding level is affected by other variables, such as the plan’s actuarial assumptions and methods and the historic fiscal capacity and level of support of the plan’s sponsoring government(s). A most-to-least ranking of states based solely on their plan(s)’ actuarial funding level is simplistic and misleading. The liabilities of a plan in a given state belong only to that plan and are not shared by other plans in the same state.

Investment Performance

The Reason report calculates an investment return for 24-year periods ending with each plan’s fiscal year-end date in 2024. This return is calculated both for the individual public pension funds in Reason’s dataset and as a weighted national average of 6.62 percent.

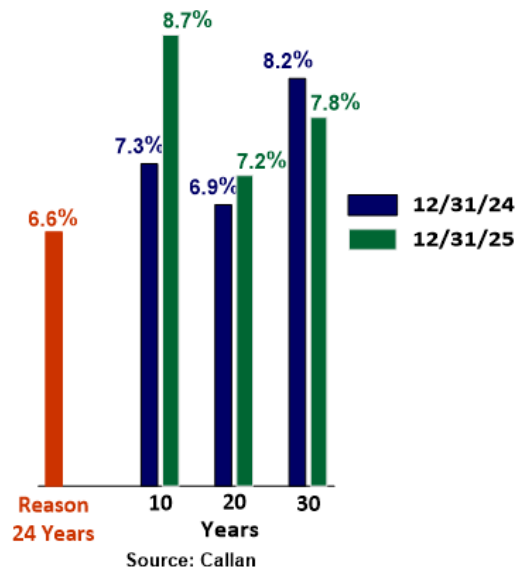
For each fund and for the entire group of funds in its report, Reason then compares its calculated returns to the fund’s average investment return assumption for the 24-year period. Because the return for this selected period for most funds and for the national average fell short of the actual returns, Reason concludes that public pensions are underperforming their investment benchmarks.

Reason’s use of a 24-year timeframe, to the exclusion of others, is unique: no public pension fund or investment consultant uses such a singular time frame to measure or to officially report investment performance. Moreover, this timeframe includes a unique event: two instances of a decline in the S&P 500 of 50 percent or more (in 2000-02 and 2008-09) within the space of one decade. Since 1950, the S&P 500 has declined by 50 percent or more only twice, and Reason’s timeframe happens to incorporate both of those experiences.

Reason relies on this 24-year period to the exclusion of others, such as 10, 20, and 30 years, which are conventional timeframes over which investment returns typically are measured and reported. Reason then uses this unique period to draw important conclusions regarding public pension fund investment efficacy and the propriety of public pension plan investment return assumptions.

The investment experience of Reason’s 24-year period illustrates why investment experts rely on multiple timeframes to assess an investor’s performance: a single period is unlikely to reveal a complete or accurate picture of a fund’s actual investment performance. Indeed, to illustrate how unrepresentative Reason’s 24-year timeframe is, Figure A compares Reason’s calculated experience with median (midpoint) annualized public pension fund investment returns for the 10, 20, and 30 years ending 12/31/24 and 12/31/25. In all cases, the median returns easily exceed those of Reason’s average 24-year period.

Figure A: Comparison of Reason Foundation reported public pension fund investment returns for 24 years ended in FY 24 and median public pension fund investment returns for years ended 12/31/24 and 12/31/25



Investment performance standards, known as GIPS, developed and maintained by the CFA Institute, provide a standardized, industry-wide framework for institutional investors to calculate and present historical investment performance. According to GIPS, standard practice in reporting investment performance includes presentation of returns over multiple timeframes, a practice that is intended to ensure a representative presentation of outcomes and to avoid cherry-picking data.

Reason uses its selective timeframe and method for reporting investment underperformance to contend that public pensions are relying on overly optimistic investment return assumptions. In making this point, Reason ignores professional actuarial industry standards that prescribe how the investment return assumption should be established. Guidelines set forth by the Actuarial Standards Board in *Actuarial Standards of Practice No. 27: Selection of Economic Assumptions*

for Measuring Pension Obligations (ASOP 27) specify the factors actuaries should consider in setting economic actuarial assumptions.

Following the Great Financial Crisis, in response to changing economic and financial conditions and projections, public pension plans initiated an unprecedented period of lower investment return assumptions, culminating in a lower average assumption today of 6.9 percent. This change is consistent with professional standards that direct actuaries to consider multiple factors, including past actual returns and projected returns, when recommending the investment return assumption. Reason's use of a backward-looking experience over a cherry-picked period as the sole factor by which to set an investment return assumption, to the exclusion of other factors, suggests a lack of understanding of how an investment return assumption should be established and contradicts required guidelines set forth by the Actuarial Standards Board.

Asset Allocation and the Use of Alternative Investments

Reason's report ranks pension funds based on the portion of their portfolio allocated to alternative assets (private equity, real estate, hedge funds, etc.). Funds that do not invest in alternative assets are ranked higher than funds with larger allocations to alternatives. In its report, Reason states:

Pension boards justify this shift [to alternatives] by arguing that alternatives can deliver higher returns and provide diversification beyond traditional markets. The theory is that private equity and real estate offer access to returns that public markets can't provide, while also reducing correlation with stock market volatility.

That alternatives can deliver higher returns and provide diversification is not a theory. Institutional investment professionals agree that alternative investments offer multiple benefits, including diversification; the potential for higher returns and stronger risk-adjusted performance; reduced portfolio volatility and downside protection; hedging of inflation; and steady income streams. Each of these outcomes is a helpful advantage of investing in alternatives.

For many large public pension funds, private equity, which is the largest alternative asset held by public pension funds, has produced the largest return of all asset classes over the past 10 and 20 years.

Reason's report also says:

But this chase for higher yields comes with significant tradeoffs. Alternative investments typically charge much higher fees, provide less liquidity, and offer less transparency than traditional stocks and bonds. They also tend to be more complex and harder to value accurately, making it difficult to assess whether they're actually delivering the superior returns that justify their higher costs and risks.

Contrary to Reason’s assertion that public pensions funds are “chasing higher yields,” in fact, public pension funds are seeking to maximize their investment return within an appropriate level of risk. This tolerance for risk must consider multiple factors, including the pension plan’s level of current and projected contributions, future benefit payouts, and the likelihood of future investment gains and losses. Every pension fund investment decision presents tradeoffs, including risks and opportunity costs. By ignoring these tradeoffs, including higher investment returns, the benefit of increased diversification, and other issues pension fund fiduciaries must consider when setting an asset allocation, Reason’s concerns regarding the use of alternative investments are simplistic.

Finally on the issue of public pension funds’ use of alternative investments, Reason states

The timing of this shift is also concerning. Much of the move into alternatives occurred after pension systems accumulated large unfunded liabilities, suggesting that investment strategy changes were driven more by funding pressure than by careful risk-return analysis.

In fact, the overarching purpose for this change in public pension allocations was to broaden the funds’ exposure to a wider range of assets, thereby more effectively managing portfolio risk while also seeking to maintain an adequate investment return.

At the time of the 2000-02 global decline in equity markets, a period when public pension funds experienced significant losses, more than 90 percent of public pension fund assets were invested in only two asset classes: public equities and fixed income (bonds). Rather than a “chase for higher yields,” as Reason presents it, public pension fund managers diversified their portfolios to reduce the possibility of experiencing such large losses in the future.

The use of alternatives is not limited to public pension funds: university endowments and foundations have invested in alternatives long before most public pension funds. According to the most recent study of college and university endowment and foundations, large endowments (those with more than \$5 billion in assets) committed on average *more than half* of their portfolios to alternative investments. The average public pension fund allocation to alternatives currently is around 25 percent. Reason’s approach to public pension investment practices, particularly the role of alternatives, appears to reflect a limited understanding of institutional investment needs, risks, and practices.

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