PUBLIC PENSION FUNDING POLICY

Stabilizing a state pension system through risk-informed funding policy

A U.S. state government engaged Bolton as an external advisor to evaluate its pension funding policy. Working alongside the plan actuary, plan leadership, and the legislature, we helped reframe technical funding risks as policy choices and supported a revised approach that earned broad stakeholder alignment.

CLIENT
State Public Retirement System
(anonymized)

SECTOR
Public sector ·
State government

BOLTON ROLE
Advisor to the State
Not to the retirement plan

01 THE CHALLENGE

A funding policy with hidden volatility risk.

Several years earlier, the State had adopted a single-layer closed amortization policy for pension funding. While consistent with certain policy objectives, it introduced structural risks the State now needed to evaluate. Bolton identified contribution volatility as the central concern.

Sensitivity to experience.
Required contributions reacted sharply to investment and demographic experience.

Year-to-year variability.
Employer contribution requirements swung meaningfully from one year to the next.

Budgeting strain.
Less predictable contributions made multi-year budget planning materially harder for the State.

Funding policy is a policy choice, not just an actuarial method. The State needed to see the trade-offs in those terms.

02 BOLTON'S APPROACH

Risk analysis in the State's language.

We applied Bolton's risk analysis framework to evaluate the policy implications of the existing approach — translating technical funding mechanics into the trade-offs the State's decision-makers were already weighing. All analysis was performed in our capacity as advisor to the State, with full respect for the plan's actuarial independence.

A

Quantify the volatility

Assessed how the amortization design could move contributions under varying experience outcomes.

B

Speak the State's language

Framed technical funding risks in policy-relevant terms for non-technical stakeholders.

C

Respect governance lines

Surfaced structural risks without advocating for a specific actuarial method at the plan level.

03 THE PROPOSAL

Three design principles for a more stable funding footing.

Working collaboratively with State contacts, Bolton helped shape a revised funding policy proposal organized around three core principles.

- **Reduce expected contribution volatility**
  So required contributions move within ranges the State can plan around.
- **Maintain a reasonable amortization period**
  Long enough to absorb shocks, disciplined enough to preserve solvency.
- **Avoid negative amortization**
  Contributions cover interest on the unfunded liability — the balance does not grow on autopilot.

RESULTS, STAKEHOLDER ALIGNMENT

A revised policy that earned buy-in across every stakeholder group.

TECHNICAL	PLAN GOVERNANCE	POLICY
The plan actuary	**Plan representatives**	**Members of the legislature**

BOLTON VALUE

A retirement system on more stable footing, built on consensus, not compromise.

01

Risk-based analysis applied to public-sector funding policy decisions.

02

Complex funding structures translated into clear policy implications.

03

Consensus-driven solutions across technical and legislative stakeholders.