



Pension Funding Gap:
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The Pension Funding Gap

\$1.3-1.5T Unfunded. 6.9% Assumed Returns. Traditional Portfolios Cannot Close the Gap.

U.S. public pensions remain 78-82% funded after 18 consecutive years below the 90% resilience threshold. With assumed returns of ~6.9% and bonds yielding ~4.5%, pensions require real assets and private equity to bridge the gap.

THE FUNDING SNAPSHOT (2024-2025)

\$1.3T+

Unfunded
Liabilities

~80%

Funded
Ratio

6.87%

Avg Assumed
Return

\$5.1T

Total Assets
(FY 2024)

THE GREAT ALLOCATION SHIFT (2001 vs. 2023)

2001 ALLOCATION

60%

29%

89% Public Equity + Fixed Income
9% Alternatives (PE, RE, HF)

2023 ALLOCATION

46%

23%

30%

69% Public Equity + Fixed Income
30% Alternatives (3x the 2001 level)

Public Equity

Fixed Income

Alternatives

WHY ALTERNATIVES ARE ESSENTIAL TO CLOSE THE GAP?

01 Return Gap

Assumed 6.9% returns require risk premia that bonds at ~4.5% and compressed equity premia cannot deliver alone

02 18 Years Below 90%

No state pension system has achieved sustained resilience since the 2008 crisis without alternatives exposure

03 Negative Cash Flows

Benefits paid exceed contributions in most plans - investment returns must carry the burden of funding

04 Valuation Risk Rising

26% of pension assets now in non-market-valued holdings (up from 9% pre-GFC), requiring higher-return illiquid assets

\$2.74T - projected unfunded liabilities under a single recession scenario (Reason Foundation stress test, 2025). The current \$1.3T shortfall is the best case.

Pensions need 6.9%+ returns to meet obligations. With bonds at ~4.5% and equities at compressed forward multiples, the math demands private equity and real assets. The allocation shift is effectively an actuarial imperative.



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