Bond Case Briefs

Municipal Finance Law Since 1971

Moody's: U.S. Local Governments Have Little Control Over Pensions.

Many U.S. local governments have large pension liabilities, but few control the management, reforms and investments of their retirement plans, according to a report by Moody's Investors Service released on Monday.

Altogether, an estimated 75 percent of U.S. local government pensions are run through centrally administered plans, such as state "cost-sharing" systems, the ratings agency found in a sweeping survey of the public pension landscape that analyzed 8,000 local governments.

School districts in particular have little pension independence, it added, as all but a handful of school district pensions are run by cost-sharing plans. In addition, more than a dozen states pay part or all of school districts' annual pension contributions.

"The unfunded liabilities of U.S. municipal defined benefit pensions are significant, whether expressed in terms of balance sheet or annual budget," Moody's said in its report.

The aggregate net pension liabilities for the thousands of governments it studied are equivalent to 150 percent of their outstanding direct debt, Moody's found.

In budgetary terms, the approximate median pension liability for the governments is equivalent to 100 percent of annual operations.

State governments have generally received more scrutiny during the heated battles over public employees' retirement benefits.

But the Pew Center on the States at the beginning of the year found the most populous 61 U.S. cities are short by a collective $99 billion for pensions. The shortfall grew to $217 billion when other retiree promises, such as healthcare, were added.

Moody's noted "taxpayers can be responsible for the pension obligations of multiple levels of government," which in turn can cloud large aggregate pension exposure. For example, a resident of the city of Chicago could support 16 different pension plans.

Local pensions face other risks, as well, it said, such as exposure to changes in financial markets. Centrally administered plans have been moving out of fixed-income investments and into equities in the search for higher returns.

"In half of the states, many local governments of all types are directly linked to the asset performance of one or two large pension plans," Moody's said. "Management of this market risk is beyond the control of most local governments in cost-sharing plans, where they typically have little if any influence over investment policy or decisions."

As for the subsidies, states frequently pay at least part of pension contributions on behalf of school districts – New Jersey districts do not have to bear any pension costs or liabilities for their schools. The states may cut these payments as they grapple with their own budget and pension problems, Moody's said.

"How likely is the risk that on-behalf payments would be terminated? For many states, it may not be a matter of if but when," Moody's said, noting Maryland recently approved shifting pension costs to local schools.

Without a subsidy, Illinois school districts' unfunded pension liability would rise to more than 30 percent of their budgets compared to 2 percent currently, Moody's found.

However, Pennsylvania school districts' pension burden would double.

Moody's also said there are advantages to centralized plans, mainly in the form of lower administration costs.

Altogether, it found pension contributions may have more bearing on credit quality than local government control.

"A strong history of funding based on conservative financial assumptions confers low risk even if plan types are not conducive to local control of benefits or funding, or if state law constrains the ability to alter benefits," the report said.

Copyright © 2025 Bond Case Briefs | bondcasebriefs.com