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Where Do Taxpayers Have Highest Total Unfunded Pension Liability?

A new report examines pension liabilities for all types of retirement systems in select jurisdictions, showing sizable fiscal burdens in some cities.

Closely-scrutinized unfunded pension liability figures paint a bleak picture in cities' financial statements. But in some cases, local taxpayers are actually on the hook for far greater unfunded liabilities.

That's because there are other overlapping governments often saddled with unfunded pension liabilities of their own. So along with city governments, the same taxpayer base will also need to foot the bill for their state, school district and any other special district's employee pension plans.

In a new report, Morningstar Municipal Credit Research examined all such pension plans and tallied the total unfunded pension burden for residents in the 25 most populous cities and Puerto Rico, arguing state and local pensions shouldn't be examined in a vacuum. In a few localities, adding up pension liabilities revealed a sizable fiscal burden.

"There's got to be some give at some point," said Rachel Barkley, a Morningstar analyst who wrote the report. "Residents can only contribute so much of their income [to pensions]."

The report found the median aggregate unfunded pension liability for the cities examined to be \$3,550 per resident.

In no major city was the pension burden greater than Chicago. The city's reported unfunded liability continues to remain high, with an actuarial accrued liability of \$19.4 billion, or \$7,149 per resident. The state system's pension woes push up the total liability to \$14,570 per capita. Factoring in pension systems for Chicago Public Schools and Cook County further raise the total per capita burden to \$18,596, according to the Morningstar report.

That total is, by far, the largest of any locality examined, although the figure should dip somewhat with the state legislature's recent pension reforms.

After Chicago, Puerto Rico (\$9,987), New York City (\$9,842) and Boston (\$7,802) recorded the highest per capita unfunded actuarial accrued liabilities in the report.

The following table lists the per capita unfunded actuarial accrued liabilities (UAAL) for each city Morningstar examined, with amounts shown for the most recent fiscal year available (mostly fiscal 2012):

City	Per Capita City Pension UAAL	Per Capita Total Pension UAAL
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Chicago, IL	\$7,149	\$18,596
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Puerto Rico, PR \$9,987 \$9,987

New York, NY \$8,726 \$9,842

Boston, MA \$4,465 \$7,802

Philadelphia, PA \$3,308 \$7,057

Columbus, OH n/a \$6,814

San Francisco, CA \$2,866 \$6,453

Los Angeles, CA \$1,895 \$6,426

San Jose, CA \$1,542 \$6,014

San Diego, CA \$1,642 \$5,973

Denver, CO \$709 \$5,356

Detroit, MI \$911 \$3,758

Jacksonville, FL \$2,586 \$3,675

Indianapolis, IN \$1,011 \$3,426

Phoenix, AZ \$1,649 \$3,351

Austin, TX \$1,571 \$3,009

Dallas, TX \$1,373 \$2,733

Houston, TX \$1,196 \$2,622

Fort Worth, TX \$986 \$2,377

El Paso, TX \$736 \$2,149

Seattle, WA \$1,837 \$1,997

San Antonio, TX \$251 \$1,623

Nashville, TN \$876 \$1,291

Memphis, TN \$317 \$893

Charlotte, NC n/a \$585

Washington, DC -\$409 -\$409

Source: Morningstar Municipal Credit Research, "Determining the Aggregate Per Capita Pension Liability"

It's important to note that the figures shown here are not normalized - Morningstar used each individual system's actuarial methods and interest rate assumptions. And these, of course, can vary

greatly from system to system.

Changes in actuarial methods or assumptions often yield major swings in unfunded liabilities. Take New York City, which posted an unfunded actuarial accrued liability of \$1,112 per capita in fiscal 2011. Then in 2012, the plan's actuarial cost method changed to the entry age method and the assumed interest rate dropped from 8 to 7 percent. The two changes ended up raising the city's per capita liability to \$8,472 that year, while the funded ratio fell from 91.9 to 60.1 percent, according to the report.

Morningstar's Barkley also points out that there are limitations to examining unfunded liabilities on a per capita basis. Some cities, for instance, derive more revenue from commercial properties or businesses than others. The numbers also don't reflect taxes on nonresidents, such as Philadelphia's wage tax, which applies to both residents and non-residents working in the city.

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