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Moody's: Local Government Pension Costs in US Will Remain Elevated in 2014.

New York, February 05, 2014 — Defined benefit pension costs will continue to weigh on US municipal budgets in 2014 despite some reductions in liabilities, says Moody's Investors Service. Rising interest rates and strong investment performance have lowered liabilities going into 2014, but costs will remain elevated.

"Contribution requirements for pensions will remain high and trending upward in most cases, including large statewide systems in California," says Moody's Analyst Tom Aaron, author of the Moody's report "Lower Liabilities, Higher Costs: Pensions Still Weigh on US Local Governments in 2014."

Driving factors behind climbing contribution requirements include the substantial unfunded liability buildup of the past decade, timing lags built into actuarial and budget rules, and the widespread use of deferred amortization approaches, says Moody's.

"Cost growth is further exacerbated when contributions perennially fall short of actuarial requirements; this is a widespread occurrence in cost-sharing plans such as the Pennsylvania School Employees Retirement System," says Moody's Aaron.

As for liabilities, Moody's expects improvements in its Adjusted Net Pension Liabilities (ANPLs) as fiscal year 2013 actuarial valuations are released throughout this year. However, continued high pension costs will persist and continue to contribute budgetary pressure for local governments. Moody's notes multiple years of positive actuarial experience will be necessary to reverse a trend of elevated liabilities and costs.

"Because of the timing of actuarial reports and a common lag between actuarial valuations and budgetary contributions, positive 2013 market performance will not immediately benefit local government budgets," says Aaron.

Moody's also expects more clarity to emerge this year on several important legal issues that affect the ability of local governments to address pension liabilities. There are likely to be rulings and reform measures that could set precedent on whether benefits can be curtailed for future work by current employees, protections of cost of living adjustments, and whether pensions are viewed as contracts that can be impaired in Chapter 9 proceedings.

For more information, Moody's research subscribers can access this report at https://www.moodys.com/research/Lower-Liabilities-Higher-Costs-Pensions-till-Weigh-on-US-Local-PBM PBM163529.

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