Bond Case Briefs

Municipal Finance Law Since 1971

Moody's: Adjusted Net Pension Liabilities Decline for Most U.S. States in FY 2014.

New York, January 15, 2016 — The majority of US states experienced declines in their adjusted net pension liabilities (ANPL) in fiscal 2014, Moody's Investors Service says. Moody's ANPL decreased for 27 states, of which, nine saw a decline for a second year in a row. However, the aggregate 50-state ANPL increased marginally to $1.3 trillion due to rising liabilities in some states.

Strong investment returns drove an average pension liability decline of 15.3%, with median returns for larger plans at 16.1%, Moody's says in "Fiscal 2014 Pension Medians – US States: Robust 2014 Investment Returns Provide Pause in Growth of Adjusted Net Pension Liabilities."

"Double-digit investment returns contributed to reducing pension liabilities. More timely plan disclosures under Governmental Accounting Standards Board (GASB) 67 improve comparison between states," says John Lombardi, a Moody's Associate Analyst.

Also in fiscal 2014, most states made budgetary contributions at or close to their actuarially determined contribution (ADC) levels. Thirty-six states contributed greater than 90% of ADC, with 12 contributing between 60% to 90% and only two funding below 60% of their pension costs.

"The two states most significantly underfunding their pension payments are New Jersey (A2 negative) and California (Aa3 stable) at 18.6% and 48.2%,respectively," Lombardi says.

The median three-year average ANPL as a percentage of governmental revenue remained flat at 53% in fiscal 2014.

However, several states remained outliers with three-year average ANPL beyond 100% of their revenues. The five states with the largest unfunded pension liabilities by this measure were Illinois (Baa1 negative) at 278%, Connecticut (Aa3 stable) at 225%, Kentucky (Aa2 stable) at 182%, Louisiana (Aa2 negative) at 163%, and Hawaii (Aa2 stable) at 149%.

The five states with the lowest three-year average ANPL compared to revenues were Nebraska (Aa2 stable) at 11%, Wisconsin (Aa2 positive) at 14%, New York (Aa1 stable) at 23%, Tennessee (Aaa stable) at 23%, and Iowa (Aaa stable) at 26%.

Moody's anticipates growth of pension liabilities to resume fiscal 2015, as investment performance was much weaker than the prior two years.. Additionally, several states coping with pension underfunding and outsized liabilities will continue to face significant credit challenges.

The report is available to Moody's subscribers here.