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Fitch Ratings: Adjusted Net Pension Liabilities Hit $1 Trillion for U.S. States

Fitch Ratings-New York-12 November 2018: Steady increases in the present value of future benefits and lackluster performance in pension assets led to net pension liabilities reaching a noteworthy milestone this past fiscal year for U.S. states, according to Fitch Ratings in a new report.

Fitch-adjusted net pension liabilities (NPLs) surpassed $1 trillion in fiscal 2017 (up from $892 billion in fiscal 2016) and now encompass 3.6% of personal income for states. Fitch recalculates state-reported pension liabilities based on a 6% discount rate for plans using a higher discount rate. The pension liability burden of individual states, combined with bonded debt, varies widely. Illinois tops the list of seven states with long-term liability burdens that Fitch considers elevated (above 20% of personal income) with a highwater mark of 29%. Another eight states carry moderate long-term liability burdens measuring between 10% and 20% of personal income. Conversely, the state with the lowest liability burden is Nebraska at 1.5% of personal income.

"Many of the net pension liabilities that states have comprise pension obligations for non-state employees, usually local teachers, legally carried and directly funded by the state," said Senior Director Douglas Offerman. In fact, nearly all states with the highest pension burdens reflect this dynamic.

Discount rate changes are also proving to have a discernible effect on state pensions with 80 state-reported plans lowering their discount rates from a year earlier. "For such plans, states like Illinois, Kentucky and New Jersey are feeling the effect of insufficient contributions in the form of severely underfunded pensions and rising budgetary demands for pension contributions," said Offerman.

Despite rising NPLs, the median level of tax-supported debt relative to personal income remained virtually unchanged at 2.3% of personal income for fiscal 2017. "States in general remain selective debt issuers and tend to do so primarily as capital needs arise," said Offerman. "As a result, most states will continue to see only gradual shifts in their debt burdens from year to year."

Fitch's "2018 State Pension Update" is available at www.fitchratings.com.

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