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S&P U.S. Local Government Pension Funding Improved In Fiscal 2024, Helping To Buoy Credit Ratings

Key Takeaways

- The aggregate median funded ratio for U.S. local government (LG) pensions increased to 80% in fiscal 2024 from 78% in fiscal 2022; municipalities saw a bigger jump than counties and school districts.
- Pension costs for municipalities and school districts typically have a greater impact on the issuer credit rating, but counties generally have lower pension costs and their ratings are less directly affected.
- Recent market returns have helped shore up funded ratios, but LGs have also generally increased contributions in fiscal 2024, thereby improving funding discipline, and have made effective changes to their benefit structure, supporting long-term financial sustainability.

Why This Matters

For many years, pensions have been a drag on credit quality for some U.S. LGs. Over the last two years, however, we have observed improvement in pension costs and funded levels for U.S. LGs (municipalities, counties, and school districts), as detailed in the graphic below. Overall, median pension costs as a percentage of governmental revenues decreased to 4.5% from 4.7% from fiscal 2022 to fiscal 2024, while the funded ratio improved to 80% from 78%.

Continue reading.

16-Sep-2025 | 11:09 EDT