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Moody's: Adjusted Pension Liabilities for US States Increase in FY 2012, Possibly Reach Cyclical Peak.

New York, January 30, 2014 — Moody's adjusted net pension liabilities (ANPLs) widened for most US states in fiscal year 2012, says Moody's Investors Service in a new report "US State Pension Medians Increase in Fiscal 2012." The year could well prove the cyclical peak for these liabilities, however, given increases in investment returns and interest rates since then.

"The widening in ANPLs in fiscal 2012 was mainly a result of minimal investment returns and a decrease in the interest rate used to derive the present value of liabilities," says Moody's Associate Analyst John Lombardi, who wrote the medians report. "We expect a more favorable stock market and interest trends in 2013 to bring ANPLs down across the sector."

Moody's says most states have three-year average ANPLs that remain in the low-to-moderate range relative to measures of their capacity to pay, such as governmental revenues. However, the burden varies enormously, with adjusted pension liabilities relative to revenues for individual states ranging from Nebraska's 12% to Illinois' 318%.

The median ratio of ANPL to government revenue increased to 64% for fiscal 2012 from 45% for fiscal 2011. In all, adjusted net pension liabilities increased for 38 states, with the 10 states with the largest pension burdens seeing increases ranging from 35% to 77%.

In aggregate for all the states, the adjusted net pension liability increased 24% to $1.2 trillion in fiscal 2012, from $998 billion in fiscal 2011.

After Illinois, the states with the highest pension burdens in fiscal 2012 were Connecticut (ANPL as percent of revenue 243.4%), Kentucky (211.3%), Hawaii (199.1%), and Louisiana (183.9%).

After Nebraska, the states with the lightest pension burdens by this measure were Wisconsin (13.8%), New York (16.5%), Tennessee (20.8%), and Washington (25.2%).

Moody's uses measures comparing the size of adjusted net liabilities to state resources in its credit analysis because they indicate the strain the liabilities are likely to place on finances. Adjusted net pension liability relative to governmental revenue is a measure of pension burden that Moody's employs in its state rating methodology scorecard. Pension liabilities are one of many factors Moody's considers when determining a state's credit rating.

For more information, Moody's research subscribers can access this report at https://www.moodys.com/research/US-State-Pension-Medians-Increase-in--iscal-2012–PBM_PBM163311.