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Pensions' Unfunded Liabilities Still Going Up.

A new survey finds that pension funding levels across all states and major cities inched downward in 2013 and that cities are bearing a greater burden in their budgets than states.

A new survey has found that pensions' unfunded liabilities across all states and major cities inched up in 2013 and that cities are bearing a greater financial burden than states.

State pensions averaged a funded level of 73.1 percent in 2013, down from 73.5 percent in 2012, a Loop Capital Markets report released this week found. In cities, that ratio of the value of money in the pension fund compared to the cost of benefits already promised to retirees was 65.3 percent, down from 65.6 percent in 2012. (Actuaries tend to rate anything above 80 percent funded as an acceptable level.)

Additionally, cities face about three times the pension burden in their budgets that states do, Managing Director Chris Meir said during a conference call with investors Wednesday. On average, annual pension payments make up 4 percent of state budgets and 12 percent of city budgets, the report found. The budget strain doesn't correlate with how well a pension is funded. Cities like Philadelphia, Jacksonville and Phoenix all spend more than 20 percent of their budgets on pensions while Memphis and Little Rock spend 3 percent or less. All five of those cities have plans that are less than 75 percent funded.

Meir cautioned that a plan can appear healthy on paper but still be in trouble. For example, before filing for bankruptcy, Detroit had pension funds that were 91 percent funded and its pension payments accounted for 7 percent of the city budget. But Detroit had also assumed huge debt in 2006 to sell bonds that went directly into the city's pensions as a way to eliminate its then-unfunded liability. In essence, the city transferred its debt from one part of its books to another.

"Management skill and a culture of debt avoidance also very important factors," Meir said.

On the state level, funded ratios for 19 states improved in fiscal 2013, up from five states in 2012 and 14 states in 2011. Those that showed the biggest improvement (at least a 7 percentage point jump in funded levels) were Montana, Oregon, South Dakota and Ohio. The report found some similar attributes between these and other states that showed bigger improvements last year, including having a generally smaller population or one with lower union concentration (Ohio is an exception). "Right-to-work" states, in particular, tend to avoid such pension problems.

The report found fewer similar attributes between the 26 states that saw their funded levels decrease in 2013. But Meir said there are still some generalities among the states that saw the biggest declines. New Jersey pensions declined the most in 2013, dropping 7 percentage points in the average funded level. The next-biggest drops were in Massachusetts, New York and Virginia, which all dropped by 5 percentage points. Except for New York, states with funded ratios that have deteriorated the most in fiscal 2013 were weak pension performing states to begin with. And, the report noted, these are mostly "older" states in the Northeast and mid-Atlantic. More established states tend to have older — and therefore more expensive to maintain — infrastructure, which adds to their burden.

The conference call ended on an optimistic note. Meir noted that pension reforms have helped eat away at unfunded liabilities in many states and localities, albeit slowly. Thanks to each state's particular legal and economic structure, he said, the reform process has been a "state-by-state skirmish," thus dragging out the process.

"Therefore, we do not believe is a systemic problem," he said. "It is a state-by-state problem with a state-by-state solution."

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