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Moody's Sees Continued Public Pension Funding Gaps.

Despite strong investment returns and reform measures, public pension funds are losing ground in dealing with unfunded liabilities, Moody's Investors Service said in a report issued Thursday.

Between 2004 and 2012, Moody's calculated that the pension systems' unfunded liabilities tripled to an estimated $1.99 trillion, with a compound annual growth rate of 17.7% for the period, in part because of inadequate sponsor contributions.

The contribution shortage will continue to grow as public plan sponsors shift to a new pension accounting and disclosure regime from the Governmental Accounting Standards Board, Moody's warned. Since it emphasizes investment returns over annual contributions, "the resulting funding disincentive is at the core of the public-sector pension asset-liability gap," said Al Medioli, senior credit officer, in a statement about the report.

Another factor, Mr. Medioli said, "is that it is inherently difficult to recover an overall asset position after the double-digit losses seen during the recession. Annual returns may be strong, but incremental gain is small relative to pre-downturn levels because the investment base is so much smaller." Liabilities also face pressure from shifts to riskier asset allocations and an aging population, Moody's said in the report.

Keith Brainard, research director of the National Association of State Retirement Administrators, questioned Moody's choice of time frame to analyze. "It seems selective and not updated," Mr. Brainard said in an interview. "A better time frame would be one that begins to reflect two important variables: improving investment markets and the effect of the pension reforms that virtually every state has enacted."

"We are on the verge of improving pension funding levels. That improvement we expect to be sharp," Mr. Brainard said.

BY HAZEL BRADFORD | SEPTEMBER 25, 2014 3:51 PM | UPDATED 3:55 PM

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