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S&P: U.S. State OPEB Liability is Stabilizing, But Funding Remains Low, Report Says.

NEW YORK (Standard & Poor's) Nov. 17, 2014–Total unfunded state other postemployment benefit (OPEB) liabilities are stable from last year, although funding ratios remain low for the nation's combined $529.8 billion in liabilities, said a report published today by Standard & Poor's Ratings Services.

The report entitled,"Diverging Trends Underlie Overall Stable U.S. State OPEB Liability," highlights states that have done the most to reduce absolute OPEB liabilities, led by North Carolina, Michigan, and Hawaii, as well as those for which liabilities have actually increased, including Texas, New Jersey, and Alaska. The report also notes that proposed changes to the Governmental Accounting Standards Board (GASB) to make future OPEB reporting align with new standards for pension reporting could improve the ability to compare OPEB liability across states.

A companion to this OPEB report, "Proposed GASB Changes To OPEB Reporting Could Enhance Comparability But Reduce Information On Funding Progress," also published today, outlines proposed GASB changes and the effect they could have on how states report OPEB liabilities. If implemented, the new rules could improve OPEB comparability but obscure information on a state.

Standard & Poor's annual survey of U.S. states OPEB liabilities shows only a 0.1% decline from last year's report, showing some states' practical measures to address rising health care costs and the largely unfunded status of OPEB trusts, taking into account divergence among states.

"We believe states' efforts to address OPEB liabilities have slowed the growth in total unfunded liabilities in the past several years," said Standard & Poor's credit analyst Sussan Corson.

"Funding ratios have also improved slightly for most states that have established OPEB trusts, and changes to certain states' OPEB plan design or eligibility requirements have also led to declines," Ms. Corson continued. "Conversely, some states continue to report rising OPEB liabilities that could eventually pressure budgets and credit unless addressed," Ms. Corson concluded.

Despite the overall stability of state OPEB funding, several states have reported large changes in their actuarial unfunded liability since our last survey. The largest absolute decline in unfunded OPEB liabilities based on updated OPEB valuations in the past year occurred in Michigan, North Carolina, and Hawaii.

The OPEB report also notes the effect of the Patient Protection And Affordable Care Act on long-term health care costs that will continue to affect states and could provide both opportunities and costs.

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Publication date: 17-Nov-2014 11:02:48 EST

Primary Credit Analyst: Sussan S Corson, New York (1) 212-438-2014;
sussan.corson@standardandpoors.com

Media Contact: Alex Ortolani, New York 212-438-5054;
alex.ortolani@standardandpoors.com

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