

Bond Case Briefs

Municipal Finance Law Since 1971

Moody's: Modest Credit Impact for GASB Pension Changes, but Contribution Weaknesses Now Highlighted.

New York, March 16, 2015 — The release of 2014 Comprehensive Annual Financial Reports (CAFRs) by US public pension plans that comply with Government Accounting Standards Board (GASB) Statement 67 have only a modest credit impact, and are in line with Moody's expectations, Moody's Investors Service says in a new report.

US public pension plans are now releasing 2014 financial statements that comply with GASB Statement 67 for the first time. Moody's analysis of 54 public pension plans with liabilities over \$10 billion finds the new data not only align to expectations, but offer new insight to funding trajectories.

In fiscal 2015 disclosures by state and local governments must comply with GASB 68, which for the first time requires placing net pension liabilities on their balance sheets. Moody's rating methodologies already consider unfunded pension liabilities as debt-like obligations. Thus, the new accounting has little credit impact because Moody's already approaches the liabilities in a similar way.

"While GASB 67 and 68 impose many new rules related to pension accounting disclosure, our approach to evaluating credit risk stemming from public pension remains fundamentally unchanged," Moody's Assistant Vice President — Analyst Thomas Aaron says in "New Pension Accounting Increases Clarity of Plan Funding Trajectories."

Moody's finds that contributions for nearly three quarters of public pension plans studied are insufficient to prevent reported net pension liabilities from growing, even if plan assumptions are met. Of the plans in Moody's sample, just 13 received government contributions that were enough to reduce reported net pension liabilities. Even among the plans that received 100% of the actuarially determined contribution, only a minority received contributions large enough to prevent liabilities from growing.

Rules surrounding public pension discount rates change dramatically under the new GASB rules. However, Moody's findings indicate these changes will impact only a few pension plans. Therefore, the discount rates for the large majority of pension plans will continue to match assumed rates of investment return under GASB 67 and 68.

The full report can be purchased [here](#).

Global Credit Research - 16 Mar 2015