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S&P: New Jersey Pension Ruling is No Reason to Celebrate from a Credit Standpoint.

NEW YORK (Standard & Poor's) June 9, 2015–While today's New Jersey Supreme Court ruling that the state's payments to its pension system under Chapter 78 (2011 pension reform) are not a constitutionally protected contractual right will likely provide budget and liquidity relief in the very near term, it will most likely weaken the state's liability profile, which is not a reason for celebration from a credit standpoint.

The decision is a double-edged sword. While it averts a potential liquidity crunch, it may do so at the expense of the state's liability position, which has steadily deteriorated over several years. The decision provides the state with more time to address its pension liabilities, and potentially some additional leverage in negotiations with labor unions. However, if this window of time does not produce a solution to pension and other post retirement liabilities, budget and credit pressure will accelerate and the state's rating could be vulnerable to further downgrade. New Jersey's general obligation debt is rated 'A' with a stable outlook.

Chapter 78, while less than perfect, provided the state with some much-needed discipline and structure for addressing its pension liabilities. Today's decision certainly provides the state with some increased budgetary flexibility, but if the past is any indicator, flexibility around pension payments does not bode well for New Jersey's liability position and is a key contributor to the state's current pension funding situation and deterioration in credit quality.

We will continue to monitor budget deliberations for fiscal 2016 and the progress being made on addressing the state's large and growing pension liabilities. Currently, the executive and the legislative branches are far apart on how to manage the long-term pension liability. Failure to develop consensus on a way forward, either through increased payments, benefit reform, or some combination of both, will only accelerate the growth of the liability and weaken the state's credit profile further. In our view, it is still, ultimately, how the state addresses its large and growing unfunded liability that will determine the future credit quality.