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Fitch: Funded Ratios Stabilize, Demographic Strains Grow for U.S. State Pensions.

Fitch Ratings-New York-15 October 2015: As funded ratios continue to stabilize, a combination of more people retiring and fewer state and local government employees being hired highlight the continued pressure on U.S. state pensions, according to Fitch Ratings in a new report.

The median funded ratio for major state pension systems was almost unchanged for the second straight year in 2014 at 71.5%. Several years of strong market gains have offset steadily rising liabilities. However, the recovery of systems' investment portfolios has not necessarily meant a recovery in their funded ratios, according to Senior Director Douglas Offerman. 'Unlike asset portfolios that are prone to year-to-year cyclicalities, pension liabilities have risen steadily for all but a handful of closed systems because active employees continue to accrue benefits as they work,' said Offerman. 'Additionally, few pension systems have implemented benefit reforms that immediately reduce liabilities.' As a result, funded ratios have not returned to their pre-recession peaks.

States' median debt burdens total 2.4% of personal income in 2014 while the median pension burden is 3.7% of personal income. The debt burden in 2014 is a slightly lower percentage than Fitch's update from last year while the unfunded pension burden is slightly higher. Additionally, contribution practices are improving. Actual pension contributions relative to governments' actuarially-calculated levels are at their highest point since fiscal 2009. However, in nearly half of systems reviewed by Fitch, the contribution is inadequate relative to the levels calculated by actuaries. In fiscal 2014, 53% of major statewide systems received at least 100% of the actuarially-calculated contribution, up from 42% in fiscal 2011.

Eroding demographics are also increasingly weighing on state pension liabilities. The median major pension system's ratio of active employees to retirees and beneficiaries fell to 1.4 last year, a rather stark contrast to 1.9 in 2008, which according to Offerman is indicative of longer retirements and consequent higher benefit payment obligations. Moreover, 'headcount for numerous state and local governments has been stagnant while weakening demographics is shifting more of the contribution burden onto government employers,' said Offerman.

Fitch's '2015 State Pension Update' is available at 'www.fitchratings.com'.