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Moody's: Pennsylvania Faces Limited Choices as Unfunded Pension Liabilities, Costs Mount.

New York, February 05, 2016 — The Commonwealth of Pennsylvania's (Aa3 negative) unfunded pension liabilities continue to mount despite implementing numerous benefit changes for new employees in 2010, Moody's Investors Service says. Limited by strong legal pension protections, Pennsylvania has little flexibility to ease rapidly growing accrued liabilities, leaving it and many of its local governments facing considerable increases in pension costs.

"State pension contributions have risen steadily in conjunction with climbing pension debt," Tom Aaron, a Moody's Assistant Vice President-Analyst says. "Leverage from unfunded pension liabilities facing the state has grown faster than state resources over the past decade."

State and local pension costs and unfunded liabilities will remain well above historical levels for years to come, Moody's says in "Moody's Public Pension Landscape Series: Limited Options for Pennsylvania to Avoid Accelerating Pension Costs."

For example, large pension plans in the Cities of Philadelphia (A2 stable) and Pittsburgh (A1 positive) have also experienced growing cost and liability trends. Philadelphia's reported liabilities have been driven up in part by a steady decline in its investment return assumption from a high of 8.75% in 2009 to 7.8% currently. While Pittsburgh has dedicated parking revenues to help shore up its pension funds, its contributions remain too low to prevent its unfunded liabilities from growing under its investment return assumptions.

Through a series of rulings, the Pennsylvania Supreme Court has strictly interpreted legal protections for pension benefits of current and former employees. Using the limited flexibility it has, however, the state has lowered benefits for newly hired employees and constrained cost growth related to cost-of-living adjustments (COLAs).

Several rulings dating to the 1980s provide very stringent legal protections, effectively limiting unilateral changes to benefits to new employees only," said Aaron.

Pennsylvania has more than 3,200 public pension plans, the largest number of all 50 states. However, the state plays an active role in local pensions by mandating minimum funding requirements and providing contribution assistance.

Three out of the four largest plans in the state have fewer active members than retirees and other inactive members. The state and local governments are increasingly susceptible to contribution volatility and funding challenges stemming from negative plan cash flows as the growing portion of retirees increases.

The report is available to Moody's subscribers here.

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