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## **Moody's: Volatile Market Likely to Increase Unfunded U.S. Public Pension Liabilities in FY 2016.**

New York, March 17, 2016 — Recent market volatility has negatively affected the asset performance of several large US pension plans, and could be an early signal that fiscal 2016 returns will fall short of assumed targets for the second consecutive year and erase funding improvements seen in FY 2013 and 2014, Moody's Investors Service says.

"We project unfunded pension liabilities on a reported basis will grow by at least 10% in fiscal 2016 under even our most optimistic return scenario," Thomas Aaron, a Moody's AVP — Analyst says in "Market Volatility Points to Growing US Public Pension Debt in 2016."

Moody's also states that 55% of pension plans in its sample are not receiving contributions from state or local governments that cover current benefit accruals and interest on existing unfunded liabilities. That, combined with poor investment performance, will make pension plan liabilities even larger.

Unfunded pension liabilities could reach a four-year high relative to payroll in all but the most optimistic scenario, Moody's says.

Using available fiscal 2015 accounting disclosures of 56 public plans, Moody's also projects an alternate scenario of negative 10% returns where a 59% increase in reported-basis unfunded liabilities are estimated. Moody's adjusted net pension liabilities (ANPLs) will grow up to 29% under the same return scenarios.

However, exposure to market volatility across public plans varies widely among individual states and local governments. While unfunded pension liability growth is anticipated in 2016, the capacity of individual governments to absorb increasing pension costs depends on revenue growth and the ability to control other expenditures.

For its research, Moody's analyzed 56 state and local government pension plans with total assets of more than \$2 trillion in FY 2015. The sample comprises slightly more than half of all public defined benefit pension assets and mostly includes plans with June 30 fiscal year-ends.

The report is available to Moody's subscribers [here](#).