

# **Bond Case Briefs**

*Municipal Finance Law Since 1971*

---

## **Moody's: Enhanced Pension Disclosures Under GASB 68 Improve Credit Analysis but Leave Underlying Credit Risks Unchanged,**

New York, April 18, 2016 — The added disclosure of pension liability exposure for US states and local governments under Governmental Accounting Standards Board (GASB) Statement 68 enables improved credit analysis of the relative strength or weakness of government contributions, according to Moody's Investors Service in a new report. GASB 68 allows Moody's to establish a new "tread water" indicator, which measures the minimum annual contribution required from a government to prevent its net pension liability (NPL) from growing under reported assumptions.

The report, "FAQ: Improved GASB Pension Disclosure Does Not Eliminate Need for Adjustments," addresses frequently asked questions about the new standards, which do not alter credit risk stemming from unfunded pension liabilities.

"Underlying credit risk from pensions remains, as does our need for balance sheet adjustments to reported data," says Thomas Aaron, a Vice President at Moody's. "Our analytical approach to pensions will only be affected minimally."

Moody's considers pensions as debt-like balance sheet obligations that are unaffected by the new reporting rules, which increasingly separate financial reporting on pension exposure from the funding of government pension obligations. For example, the reporting of pension obligations on government balance sheets under GASB 68 is no longer related to the record of payments against the Annual Required Contribution (ARC) funding standard.

The FAQ outlines how Moody's "tread water" analysis measures whether government contributions are sufficient to pay down part of reported unfunded pension liabilities, using the required disclosure of "service cost" under GASB 67 and 68. Those governments with contributions above this threshold are stronger from a credit perspective than those below.

"Ratios comparing government contributions to the "tread water" level and "tread water" costs to government revenues shed light on budgetary fixed cost burdens stemming from pensions," Aaron says.

The new GASB standards also provide better information regarding the sensitivity of liabilities to discount rate changes, allocations of cost-sharing plan exposure, and projected asset depletion dates, in some scenarios.

The report is available to Moody's subscribers at

[https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM\\_1013199](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1013199).

