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S&P: Rising U.S. State Post-Employment Benefit Liabilities Signal An Unsustainable Trend.

Total unfunded state other postemployment (OPEB) liabilities have increased, according to S&P Global Ratings' latest survey of U.S. states. For states that have completed new OPEB actuarial studies since our last survey (which used 2013 or prior studies), total liabilities increased \$59.4 billion, or 12% over a span of two years. This reverses a trend of stable to declining liabilities found in our 2014 and 2013 surveys. However, looking at recent growth in total liabilities alone would ignore that many states have taken measures to curb their liabilities, with 17 of the 41 states reporting new data showing a decline in liabilities. Also, several states, such as Alaska, have made significant contributions or changes to plans yet to be reflected in new actuarial data. Nevertheless, the growth in total state OPEB liabilities underscores the magnitude of liability growth states can experience over a short period of time absent fully funding actuarially required contributions (ARC) or implementing reforms.

Many states have favored underfunding OPEB ARC as a trade-off to address more immediate rising costs amid a slow revenue growth environment, a practice that we do not view as sustainable. A trend of underfunding and potential changes to actuarial assumptions suggests that OPEB liabilities and annual costs will continue to rise. Given the lean margins we see across many states, fully funding ARC, or even growth in pay-as-you-go expenses, could tip states into budgetary imbalance. While we view efforts to better align OPEB funding with actuarial costs as favorable, increased payments might come at the cost of other areas of budget management.

Treatment of OPEB liabilities varies widely across states, and as such, our analysis studies a variety of ratios, plan offerings, and flexibility to adjust benefits. We also recognize that changes to plan offerings and increases in funding could mitigate OPEB challenges, noting that often OPEB reform efforts produce material improvement in key metrics only as a result of sustained commitment on the part of policymakers and sometimes over many years.

Overview

- While overall unfunded state OPEB liabilities have increased, many states have taken action to mitigate rising costs.
- Liabilities measured on a per capita basis remain low for most states, with several notable exceptions.
- OPEB expenditures make up a small share of overall general spending, but a significant share of liabilities, and these costs could pressure state budgets if fully funded.
- Analysis of OPEB pressure requires a variety of measures.
- Despite many states' ability to change OPEB benefits, thus reducing liabilities, OPEB ratios still matter to credit quality.

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07-Sep-2016

