

# Bond Case Briefs

*Municipal Finance Law Since 1971*

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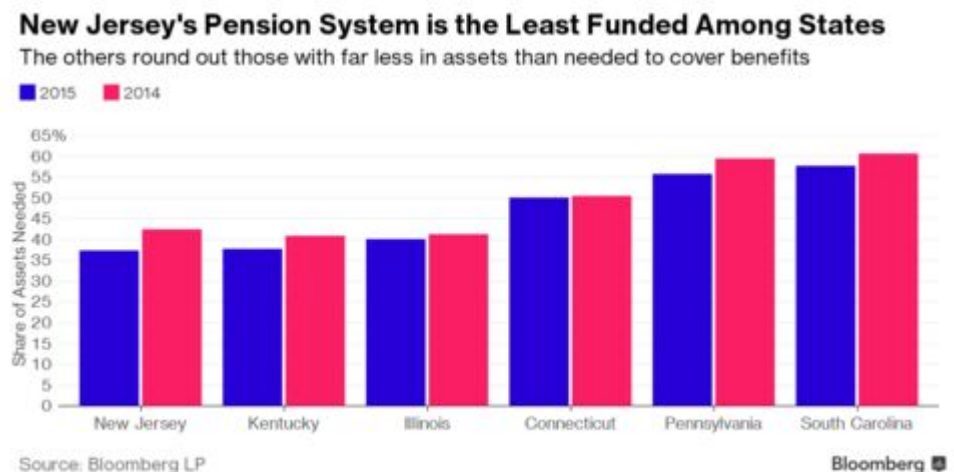
## New Jersey Tops Illinois as State With Worst-Off Pension System.

New Jersey became the state with the worst-funded public pension system in the U.S. in 2015, followed closely by Kentucky and Illinois.

The Garden State had \$135.7 billion less than it needs to cover all the benefits that have been promised, a \$22.6 billion increase over the prior year, according to data compiled by Bloomberg. Illinois's unfunded pension liabilities rose to \$119.1 billion from \$111.5 billion.

The two were among states whose retirement systems slipped further behind as rock-bottom bond yields and lackluster stock-market gains caused investment returns to fall short of targets. The median state pension had 74.5 percent of assets needed to meet promised benefits, down from 75.6 percent the prior year. The decline followed two years of gains. The shortfall for states overall was \$1.1 trillion in 2015.

"It's a long-lived problem and a long-lived solution," said Natalie Cohen, managing director for municipal-securities research with Wells Fargo Securities LLC in New York. "Unfortunately, the solution is ugly, long, hard and requires everybody to sit down at the table together."



Pressure on governments to increase pension contributions has mounted because of investment losses during the recession that ended in 2009, benefit increases, rising retirements and flat or declining public payrolls that have cut the number of workers paying in. U.S. state and local government pensions logged median increases of 3.4 percent for the 12 months ended June 30, 2015, according to data from Wilshire Associates.

State and local pensions count on annual gains of 7 percent to 8 percent to pay retirement benefits for teachers, police officers and other civil employees. The funds are being forced to re-evaluate

projected investment gains that determine how much money taxpayers need to put into them, given the recent run of lackluster returns.

Large pension shortfalls may lead to cuts in services as governments face pressure to pump more cash into the retirement systems, Cohen said. Illinois, whose effort to roll back benefits was struck down by a state court, owes vendors \$9 billion and is behind on payments to schools and universities. In Connecticut, state spending on retired teachers' pensions is set to surge 28 percent, \$282.7 million, next fiscal year, the Connecticut Mirror reported Tuesday.

"The crowding out is pretty obvious," Cohen said. States can't file bankruptcy, which gives them less leverage than municipalities to negotiate benefit cuts, she said.

Broad numbers mask big difference in the health of public pensions between states. While New Jersey only has 37.5 cents available to pay each \$1 of benefits, South Dakota, the state with the best-funded pension, had \$1.04, according to data compiled by Bloomberg. Kentucky, the state with the second-worst funded retirement system, had a ratio of assets to liabilities of 37.8 percent, followed by Illinois at 40.2 percent.

New Jersey and Illinois' pension liabilities have led to credit-rating cuts and higher borrowing costs relative to other governments. The Garden State 10-year bonds yield about 2.5 percent, or 0.8 percentage point more than top-rated debt and the second highest among 20 states surveyed by Bloomberg. Illinois pays the highest, 3.7 percent.

In New Jersey, a proposed constitutional amendment supported by public-employee unions that would have mandated the state to make the full actuarially required contributions by 2022 failed to make it on the ballot this November.

In May 2015, the Illinois Supreme Court struck down a 2013 pension overhaul saying it violated the state constitution's ban on reducing worker retirement benefits. The ruling highlighted the lack of legal flexibility some states have in addressing their pension funding deficits.

Oregon's pension funding levels declined by 11.7 percentage points in fiscal 2015, the most among states that report liabilities under Government Accounting Standards Board rules that made it more difficult for some plans to minimize the scale of their unfunded liabilities. Oregon's pensions are 92 percent funded, lagging only North Carolina and South Dakota.

Alaska was the only state whose pension funding increased among states that have adopted the new standards.

## **Bloomberg**

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