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Moody's: Unfunded Pension Liabilities Eclipse Capital-Related Debt at US Public Universities.

New York, November 18, 2016 — Unfunded pension liabilities now exceed debt used to fund campus facilities and other capital investment at Moody's-rated public universities, the rating agency says in a new report. While annual pension expenses are currently manageable for universities at only 3% of operating expenses in FY 2015, they will rise as investment earnings lag discount rates and some states shift pension payment obligations to their universities.

"Based on investment results and discount rates used by state pension plans in fiscal 2015 and 2016, we project that aggregate Adjusted Net Pension Liabilities (ANPL) will increase about 40% between now and fiscal year end 2017," Edie Behr, a Moody's Vice President — Senior Credit Officer says in "Higher Education — US: Pension Liabilities Exceed Capital-Related Debt at US Public Universities."

Across the public university sector, unfunded pension liabilities of more than $183 billion exceeds aggregate capital-related debt and will represent over 60% of total adjusted debt by fiscal year end 2017. Meanwhile, debt issuance for new capital–related projects will continue to be moderate.

Moody's says while pension-related expenses are presently low for public universities, they are expected to increase as actual investment returns lag discount rates and net liabilities continue growing.

A few states currently make some or all of the employer contributions to pension plans on behalf of their public universities, but there is a growing risk that states will begin shifting this burden due to ongoing fiscal strain. Illinois (Baa2 negative) and New Jersey (A2 negative) have significant unfunded pension liabilities and budget imbalances, and Oklahoma (Aa2 negative) and West Virginia (Aa1 negative) are encountering budget pressure from low energy prices.

"Pension challenges are typically similar for public universities within the same state because they participate in the same state-sponsored, cost-sharing, pension plan," Behr says.

The larger and higher-rated public universities also have more than enough liquidity and reserves to cushion short-term revenue disruptions. These reserves can be used for pension contributions and debt payments if needed.

The report is available to Moody's subscribers at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1038438.