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Fitch: Pension Demands on U.S. States and Locals Rising Quickly.

Fitch Ratings-New York-21 December 2016: State and municipal retirement benefit expenditures grew approximately twice as fast as revenues and most other spending areas in recent years, according to an analysis of newly released US Census data by Fitch Ratings. Similar growth has been seen in government contributions to pension plans, reported separately by the Census Bureau.

Rising pension demands for contributions to trust funds from employers and for benefit payments from trust funds have effectively offset much of the revenue gains realized by state and local governments over the last several years, leaving less for other spending categories. This appears likely to continue as governments are forced to address persistent pension funding gaps.

Between 2004 and 2014, retirement benefit expenditures increased by approximately 89% or \$122 billion in nominal terms. That easily outpaced the 47% growth in “own source” revenues, primarily from taxes and fees that governments collected over the same period. Higher retirement benefit expenditures equaled almost 18% of the \$692 billion in nominal revenue growth.

Retirement benefit expenditures growth exceeded corresponding growth rates for all other major spending categories during the period, including hospitals, police and K-12 education. Retirement benefit expenditures expanded as a share of overall expenditures nationwide, to 8.0% in fiscal 2014 from 6.1% in fiscal 2004.

Shifting spending priorities across the large number of jurisdictions reporting to the Census Bureau have contributed to the changing expenditure mix. Retirement benefit expenditure pressures have mounted, but a similar acceleration in spending growth has been reported in areas such as health care and Medicaid.

Looking across the major expenditure categories reported in the Census data over an 11-year period, growth rates for transportation and education were among the lowest at 36% and 38%, respectively, falling short of the 47% revenue growth rate and barely exceeding the inflation rate.

At the same time, employer contributions to pension trusts along with asset returns supporting retirement benefit expenditures, have risen due to heightened concerns over pension sustainability. According to the Census Bureau’s separate Public Pension survey data, contributions rose 82% over the 2004-2014 period, or \$75 billion. Total contributions have remained at around two-thirds of annual benefit payments over that period. Taken together, these two trends indicate that pensions are “crowding out” other spending needs.