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When Underfunded Pensions Become Debt.

With concerns about the sustainability of states' underfunded pensions growing, and with "$70 billion in US municipal bonds across our asset management business" analysts at JP Morgan have set out to try and determine the riskiest states to invest in.

The findings of this analysis were published in a report last week, which ranked the 20 most risky cities and eight most risky counties by credit profile. On average, while a few states have very large debts relative to their revenues, many are in decent shape.

However, in general, US cities and counties have substantially more debt relative to their revenues than US states. While most have several years to undertake remediation measures, some "very difficult choices will be required in order for them to meet all of their future obligations."

What's of more concern to investors is the fact that, according to JP Morgan, when rare municipal bankruptcies do occur, bondholders have "usually received lower recoveries than pensioners."

When underfunded pensions become debt

JP Morgan's analysts point out in the report that cities' debt is not just limited to interest-paying bonds. Debt also includes unfunded obligations related to "pensions and retiree healthcare along with bonds, leases and other obligations supported by each municipality's general account."

Interestingly, when all of these factors are added in, bonds and leases only represent around one-third of the total debt of US cities and counties.

Continue reading.

ValueWalk

by Rupert Hargreaves

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