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Fitch: U.S. Pension Contributions Trending Higher but Pace Slowing.

Fitch Ratings-New York-01 May 2018: Actuarial pension contributions of state and local governments are and will continue to grow over time, though the pace has slowed following the rapid increases that took place immediately after the Great Recession, according to a new report by Fitch Ratings.

Following a high water mark of 8.6% in fiscal 2011, the median actuarially determined contribution (ADC) rose only 3.5% last year. Actual contributions rose marginally quicker (3.7%), as governments continue to pay a larger share of what actuaries target for supporting pension systems. However, pension contribution growth has been far faster than the growth in state and local tax resources. State and local tax resources are about one-third higher than a decade ago, while pension ADCs are 74% higher.

Though the pace has slowed, the contribution burden of pensions is likely to continue rising, according to Senior Director Douglas Offerman. “ADCs must rise further to cover asset performance that over time is unlikely to match the investment return targets that plans set for themselves,” said Offerman. “Slower ADC growth is taking place against a backdrop of longer-term unfavorable factors that will continue to push the carrying costs of pension liabilities higher over time.”

Actual contributions to pensions have risen faster than ADCs as governments have responded to pension funding concerns by paying a higher share of their ADCs. Two-thirds of major pensions are receiving at least the full ADC in fiscal 2017, the highest level in the last decade. Despite this positive trend, the willingness of states and local governments to make full ADC is generally cyclical. Fitch sees this as a negative over time. “The damage done by weak contribution practices is higher today compared to decades past because pension systems are more mature, with less favorable demographic and cash flow profiles,” said Offerman.

‘Slower Growth in Pension Contributions’ is available at www.fitchratings.com.

Contact:

Douglas Offerman
Senior Director
+1 212 908-0889
Fitch Ratings, Inc., 33 Whitehall Street, New York, NY 10004

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com

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