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Fitch Ratings: Relief for U.S. State Pension Liabilities Not Likely to Last

Fitch Ratings-New York-10 December 2019: Rising state pension liabilities reversed course this past year, although this is likely little more than a short-term breather, according to Fitch Ratings in its latest annual state survey.

Fitch's median state pension liability burden fell to 3.1% of personal income in fiscal 2018 from 3.6% in fiscal 2017. States are also seeing a median 6.7% drop in their adjusted net pension liabilities. Despite the improved numbers, they do not reflect a long-term improvement in states' pension situations, but rather the states' exposure to short-term market fluctuations now inherent in pension accounting, according to Douglas Offerman, Senior Director at Fitch. "The lower fiscal 2018 state net pension liabilities are capturing the lagged recognition of strong market gains most pension plans experienced as of their 2017 measurement dates," said Offerman.

State debt burdens drifted lower with the median burden of state direct debt falling slightly to 2.3% of personal income in fiscal 2018 from 2.4% in fiscal 2017. This move, however, is more reflective of a lasting trend. "Unlike with pensions, the drop in the burden of bonded debt continues a longer-term decline underway in many states," said Offerman. With both debt and pensions lower in fiscal 2018, the median state long-term liability burden has also declined year-over-year to 5.7% of personal income from 6%.

Illinois continues to carry the heaviest liability burden (27.5% of personal income) followed by Connecticut, Kentucky, New Jersey, Alaska and Hawaii (rankings unchanged year-over year). By contrast, 37 states have what Fitch views as low liability burdens with Nebraska topping the list at only 1.7% of personal income.

Fitch's "2019 State Pension Update" is available at www.fitchratings.com.

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