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S&P: Overall Not-For-Profit Health Care Pension Funded Ratios Are Stable -- For Now

Key Takeaways

- The median funded status of defined benefit plans dipped slightly in fiscal 2019 to 83% from 84%, due to a lower bond rate.
- However, based on historical bond rate volatility, we do not view this as a fundamental deterioration to funding status levels, which remain very high overall.
- There continues to be significant investment market volatility in 2020 owing to the recession and COVID-19. We expect lower funded ratios in fiscal 2020, leading to higher contributions rates from plan sponsors, which could pressure budgets and cause some entities to seek relief through deferral of pension obligations.
- Overall pension costs for the majority of FASB issuers we rate have remained low and very manageable. However, for some GASB issuers, costs remain a credit pressure.
- Management teams have proactively reduced risk in many defined benefit plans by freezing plans, converting them to defined contribution plans, and funding pension buyouts.
- The CARES Act allows for temporary funding holidays for providers with single employer plans, which could result in weaker future funded ratios.

Continue reading.

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