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# S&P Credit FAQ: Pension And OPEB Guidance In U.S. Public Finance Credit Analysis

On Oct. 7, 2019, S&P Global Ratings published "Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Benefit Obligations For GO Debt, Local Government GO Ratings, And State Ratings." Here, we answer the most frequently asked questions from investors and other market participants.

Elsewhere, we have also provided an overview on our approach to U.S. state and local government pensions within the context of our three government criteria (see "Credit FAQ: Quick Start Guide To S&P Global Ratings' Approach To U.S. State And Local Government Pensions," published May 13, 2019).

#### **Frequently Asked Questions**

# Will the guidance change over time?

Yes, guidance may change over time. Specifically, the market periodically changes and the discount rate and long-term medical trend guidelines may be adjusted to align with updated capital market assumptions and medical trend models. It is important to note that, while we expect this discount rate guideline may continue to be updated periodically, it represents a long-term view of underlying risk.

## Why did the discount rate guideline change?

The discount rate, generally equivalent to the assumed return on assets in the U.S. public sector, is equal to inflation plus the real return on accepted market risk for an individual pension plan. The guideline is updated for two primary reasons: the underlying long-term inflation assumption decreased to 2.4% from 2.6%; and updated market conditions reflect generally lower returns for a given level of risk.

# Will ratings change as a result of the published guidance, including periodic updates?

We expect no rating changes due to the publication, or periodic update, of guidance, as the purpose of this guidance is to provide clarity on important pension and OPEB factors, including actuarial inputs, that we consider in applying our existing criteria. Our analysts consider the guidelines for assumptions and methods within the context of an obligor's overall unique credit profile, including its ability to afford rising costs and proactive management measures to address them. Because guidance articulates and provides transparency about application of existing criteria, it does not necessitate a review of existing ratings covered by these criteria.

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