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## **US State Liability Burdens Fall to 5%; Five States Top 20% Driven by Pensions - Fitch**

Fitch Ratings-New York-26 October 2020: Long-term liabilities burdens fell for a fourth straight year for U.S. states and hit a notable threshold last fiscal year, according to Fitch Ratings in its latest annual survey of state direct debt and pension liabilities.

Long-term liabilities relative to personal income declined to 5% in fiscal 2019, from 6% in fiscal 2016. "The downward trend does not necessarily reflect an enduring drop in state burdens, especially for pensions," said Senior Director Doug Offerman. "Instead, robust economic growth up to the coronavirus pandemic drove faster gains in personal income than in debt and pensions."

Over that time, median personal income by state grew 4.1% annually. Direct debt, which constitutes about 40% of long-term liabilities, remained relatively flat, at 2.1% of personal income in fiscal 2019, vs. 2.3% in fiscal 2016. State debt is carefully managed, including through various limits on authorization, issuance and debt service.

By contrast, net pension liabilities, adjusted by Fitch to a 6% investment return assumption, fell to 2.7% in fiscal 2019, from 3.1% in fiscal 2016, and has been volatile, driven by shifting market values for pension assets.

States have tightened pension management over the last decade, trimming benefits, lowering return targets and raising contributions, but only a few states have seen lower pension burdens. This is because falling investment return assumptions raise liabilities, more than offsetting the incremental gains from lower benefits, higher contributions and other assumption changes.

Five states continue to carry elevated long-term liability burdens above 20% of personal income in fiscal 2019, including Illinois (at 27% of personal income), Connecticut, New Jersey, Hawaii and Alaska. For all of them, pensions remain the driver of elevated liabilities. Conversely, 37 states carried burdens below 10% of personal income, which Fitch views as low.

Fitch's '2020 State Liability Report' is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

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