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Time Bomb of Public Pension Funding Ticks Louder.

The aggregate level for state and local plans is below 50%, inviting a disaster that would outstrip the occasional municipal bankruptcy.

State and local pension funding is one of those perennial crises that always seem to loom but only occasionally produce limited actual disasters in places like Detroit, Puerto Rico or the smaller but more recent Chester, Pennsylvania. Essentially all 21st-century municipal bankruptcies in the US are due to underfunded pension plans. But none of the defaults so far have led to falling dominoes: soaring municipal bond yields, taxpayer revolts or general government employee strikes. Will state and local pensions stagger along for the next few decades, bankrupting the odd declining city or three but not triggering a general political or economic crisis? Or are we, in Jim Steinman's immortal words, "living in a powder keg and giving off sparks"?

The chart below is the conventional way to look at the pension situation. The vertical axis shows state and local pension assets at stated values (which often contain optimistic valuations of less-liquid assets), divided by actuarial estimates of liabilities. These are estimates by Piscataqua Research, investment consultants who follow this issue closely.

Continue reading.

Bloomberg Opinion

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