

# State and Local Government Credit Forum

Atlanta, GA  
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# Agenda – Pensions

## Analytical Framework for Pensions



- How are pensions factored into the rating process at S&P
- How OPEB factored into the rating process

## Pension Fund Performance



- 50 State Pension Fund Survey
- 50 State OPEB Survey
- Pension and OPEB trends we are seeing

## Q&A



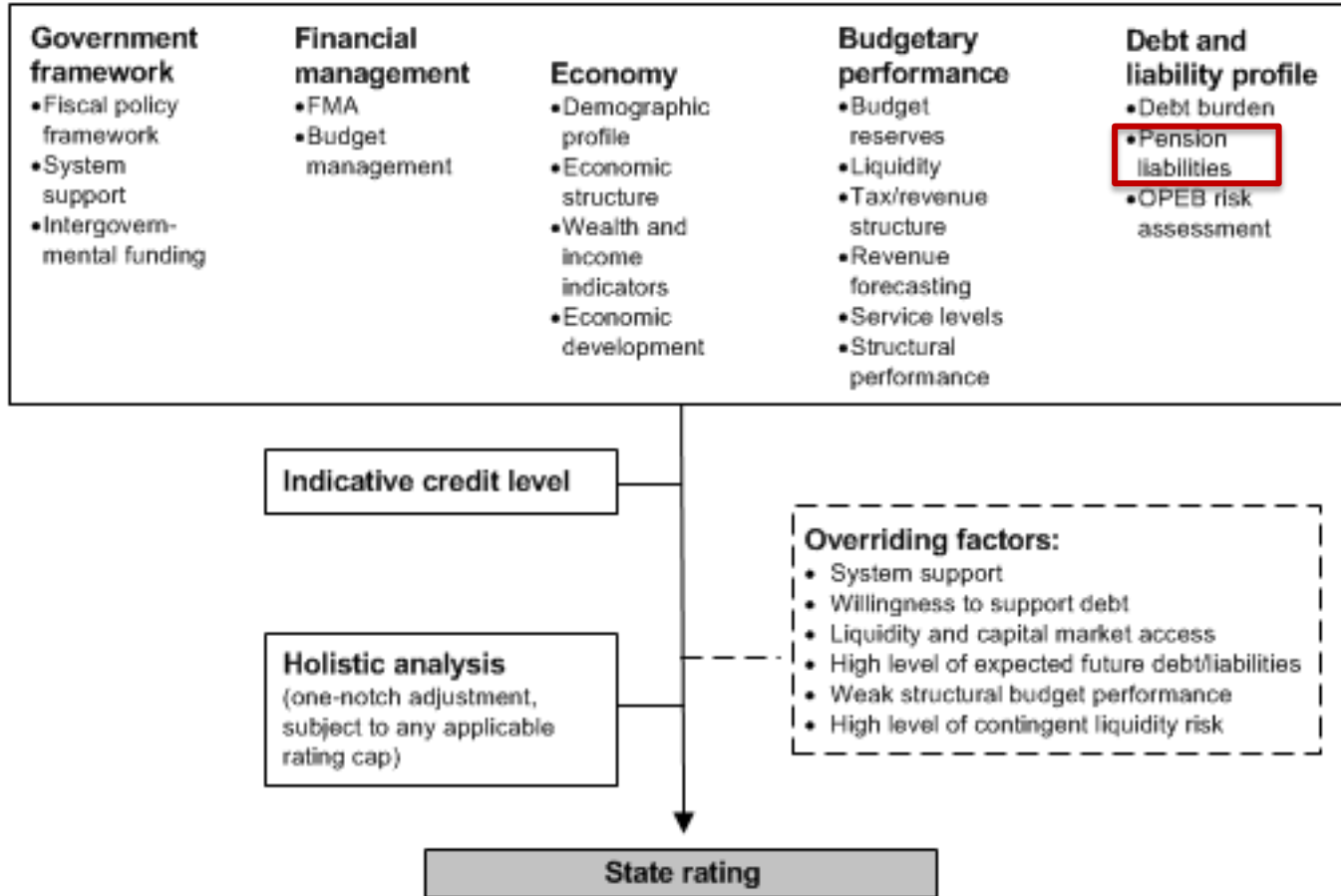
- Q&A

# State Pensions and OPEB

# S&P State Ratings Overall Analytical Framework

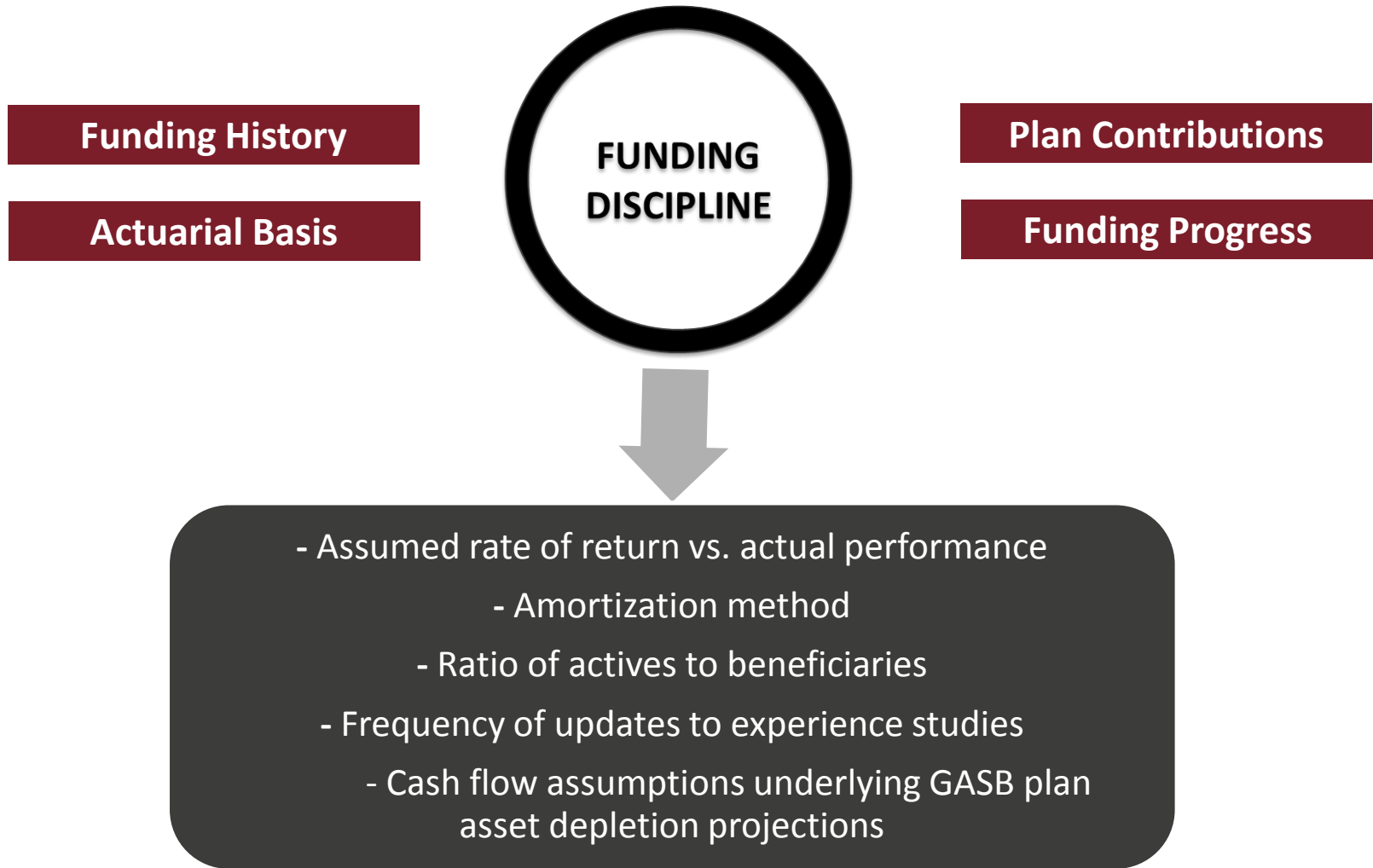
Chart 1

Standard & Poor's Analytic Framework For Rating U.S. States

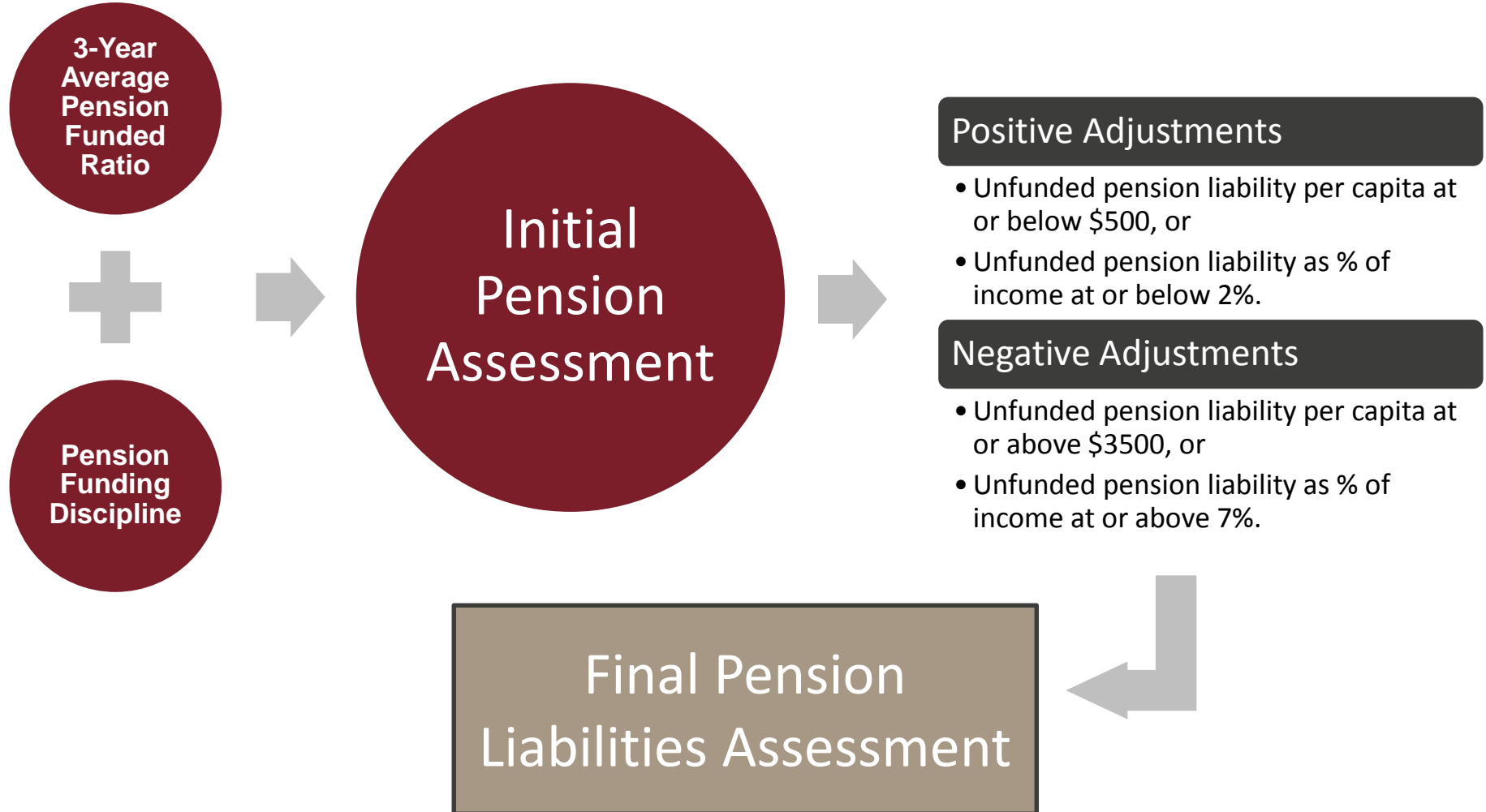


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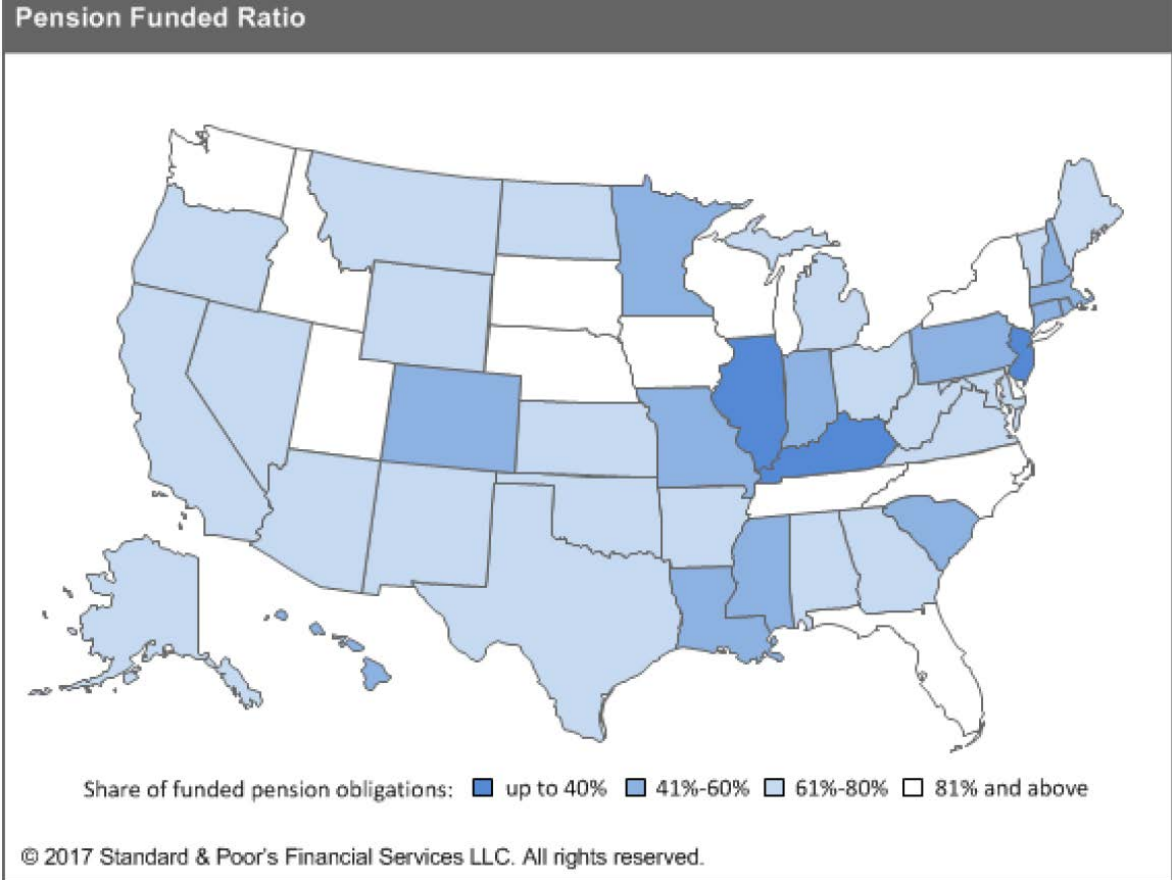
# S&P State Ratings Pension Approach



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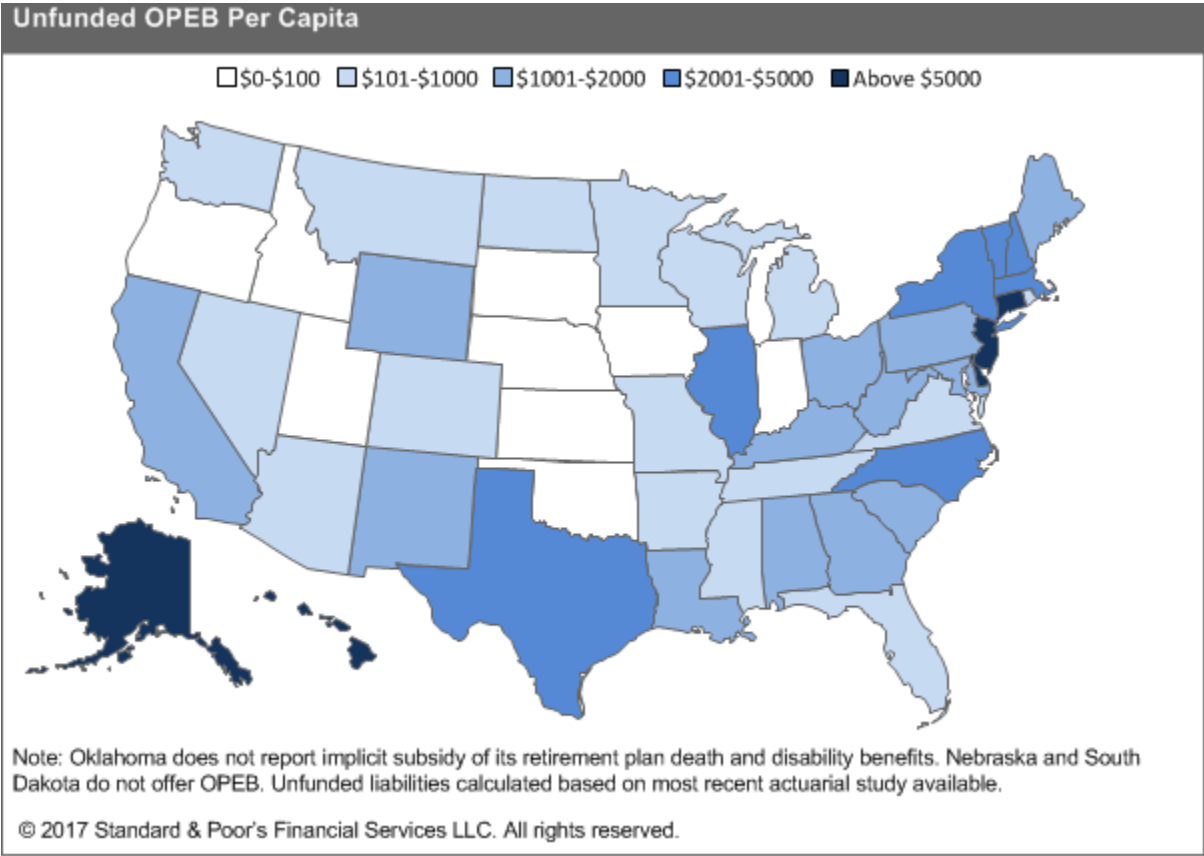


# State Pension Survey Funded Ratios



Source: S&P Global Ratings U.S. State Pensions: Funded Ratios Declined Again in 2016, October 18, 2017

# OPEB Survey Unfunded Liability Per Capita



Source: S&P Global Ratings U.S. State Retiree Medical And OPEB Liabilities Keep Rising As States Prioritize Other Obligations, October 18, 2017

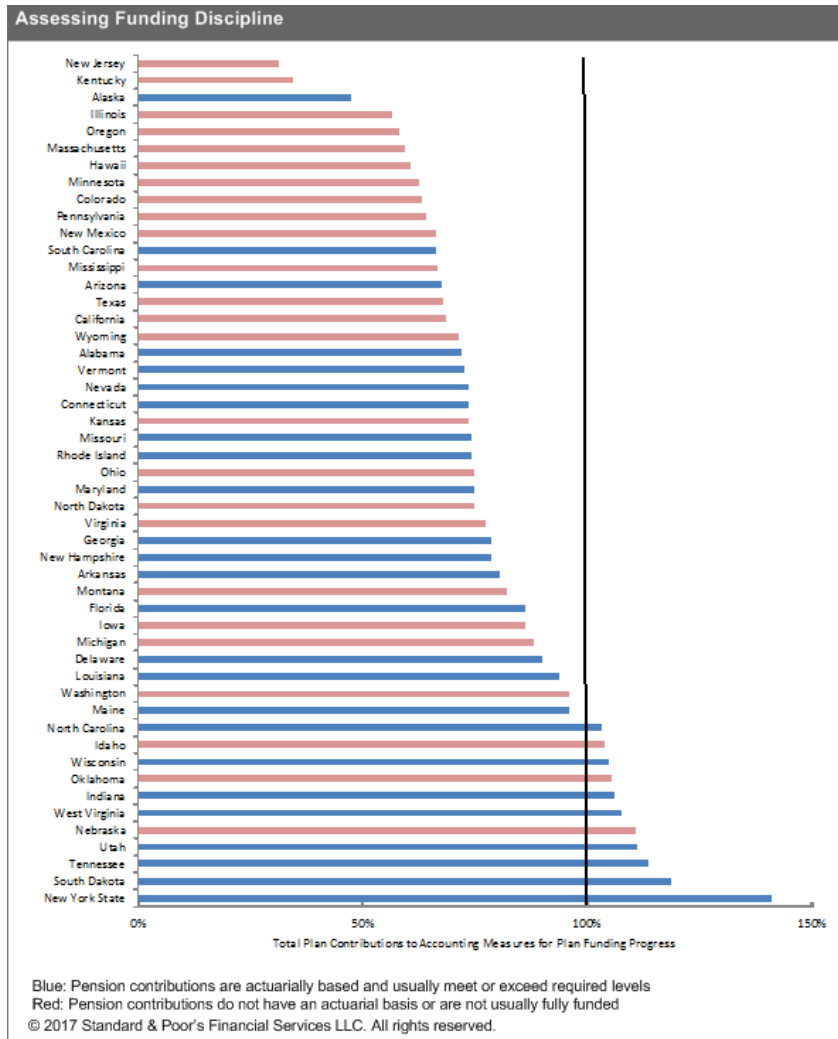


# Weak Market Returns And Lower Assumed Return Targets Suggest Contributions Will Rise

More plans are moving to gradually lower assumed rates of return, although many remain around 7.5%.

California PERS	7.50%	➔	7.0%
California STRS	7.50%	➔	7.0%
Connecticut SERS	8.0%	➔	6.9%
Hawaii ERS	7.65%	➔	7.0%
Oregon's PERS	7.75%	➔	7.2%
Illinois TRS	7.50%	➔	7.0%
New York ERS	7.50%	➔	7.0%
New Jersey TPAF	7.90%	➔	7.65%

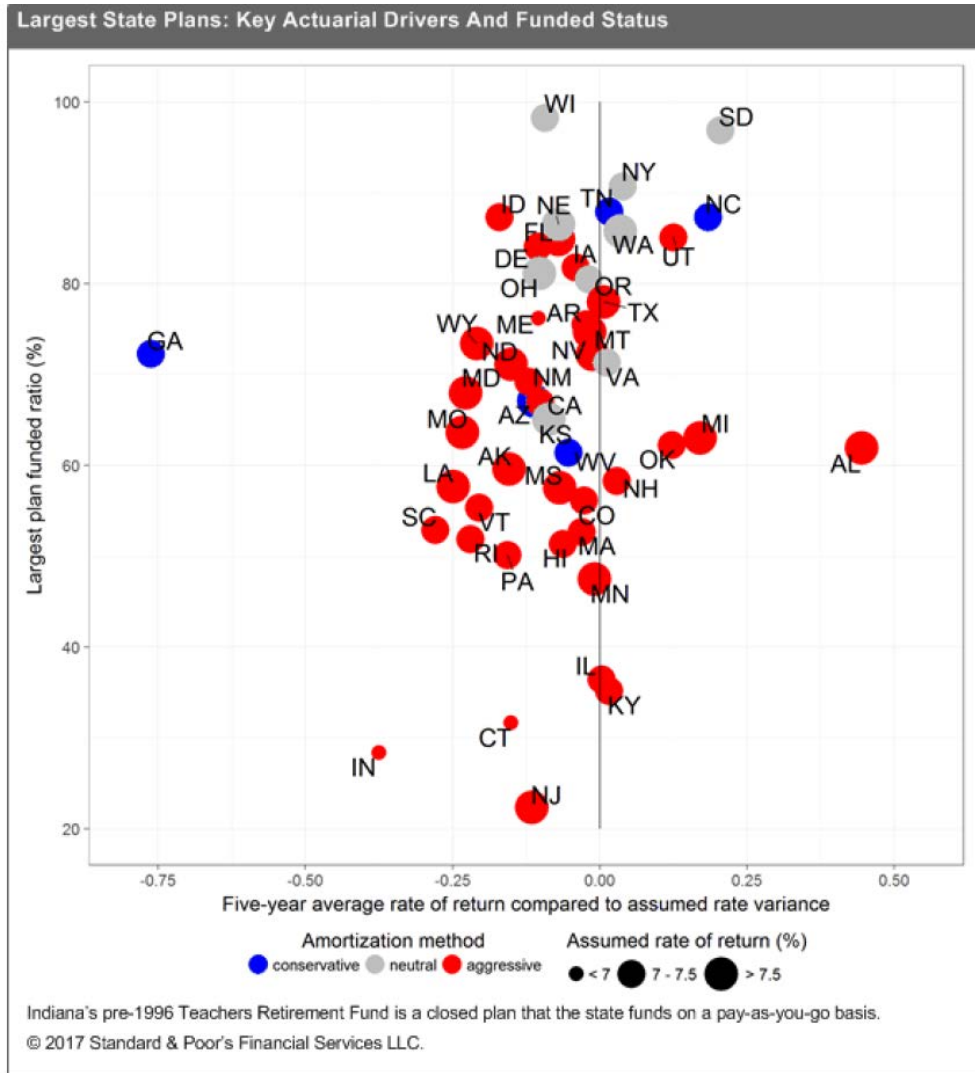
# U.S. State Pension Funding Discipline



In our view, states that **consistently fund** full required contributions on an actuarial basis and use **conservative assumptions** and methods are more likely to **effectively manage** their pension liabilities and the associated long-term budgetary costs than states that do not.

Source: S&P Global Ratings U.S. State Pensions: Funded Ratios Declined Again in 2016, October 18, 2017

# U.S. State Pension Funding Discipline

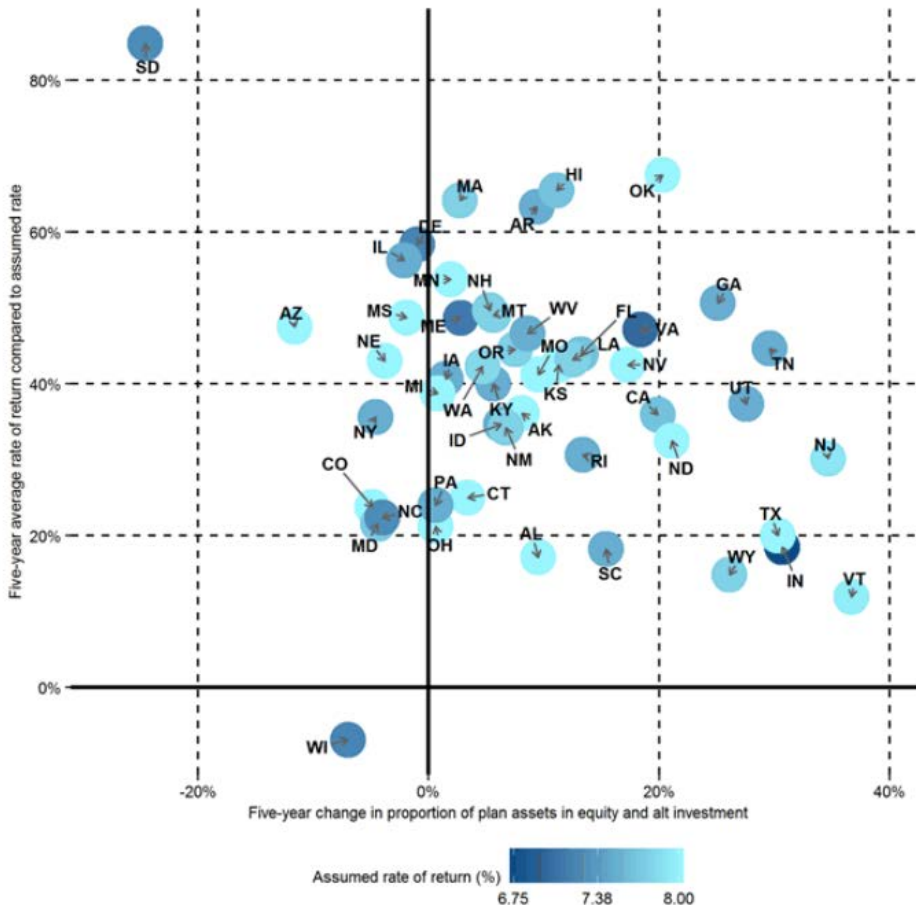


Rate of return assumptions and amortization methods are among the **key actuarial drivers** that, if currently **misaligned** with experience could result in **significant growth** in future reported pension liabilities and annual costs.

Source: S&P Global Ratings U.S. State Pensions: Funded Ratios Declined Again in 2016, October 18, 2017

# Investment Risk in U.S. State Pension Plans

## Plans Increase Riskier Investment Allocation to Meet Return Targets



We note the proportion of the portfolio allocation among **equity** and **alternative investments** for the states' largest pension plan (measured by share of the state's net pension liability) averaged **68%** as of 2015 and grew by more than **8%** compared to the allocation five years earlier.

IN reflects the investment allocation of the consolidated defined benefit assets across INPRS funds. WI reflects the investment allocation for the Wisconsin Retirement Fund reported as of Dec. 31, 2014 compared to Dec. 31, 2009.  
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Data from reported plan investment allocations between 2010 and 2015 found on the Public Plans Data website maintained by the Center for Retirement Research at Boston College or from plan reports.

# S&P: 2017 YTD Pension/OPEB Publications

"Pension Pressures Will Weigh On 15 Largest U.S. Cities' Budgets" March 8, 2017

"California Pension Giants Take the Long-Term View in Preserving Credit Quality" March 15, 2017

"Dallas Pension Reforms Cemented via State Legislature Vote" June 1, 2017

"Pennsylvania Pension Reform Doesn't Address Near-Term Credit Pressures" June 13, 2017

"Chicago's Alternate Pension Funding Plan Would Stave Off Immediate Credit Pressure But Not Stabilize Liabilities" July 5, 2017

"U.S. State Pensions: Funded Ratios Declined Again in 2016" October 18, 2017

"Dallas And Houston Start To Address Pension Liabilities, But Substantial Work Remains" February 9, 2017

"South Carolina's Proposed Pension Reform Provides Path To Improve Funding, But Challenges Remain" March 14, 2017

"Jacksonville Adopts Pension Reform, But The Ultimate Impact On Credit Quality Remains Uncertain" May 24, 2017

"State Steps In To Stabilize Michigan Schools' Pension Liabilities With Reforms, Fiscal 2018 Budget" June 29, 2017

"Rising OPEB Liabilities For The 15 Largest U.S. Cities Could Strain Budgets And Pose Credit Risks" October 10, 2017

"U.S. State Retiree Medical And Other Postemployment Benefit Liabilities Keep Rising As States Prioritize Other Obligations" October 18, 2017

As of October 16, 2017

# Thank you

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