Purpose of a Credit Rating

Ratings communicate relative general creditworthiness

- Ability and willingness to repay debt
- Globally scaled: ‘AAA’ to ‘D’
- Methodology described in criteria
  - US public finance: economic context, revenue/expenditure frameworks, long-term liability burden and operating performance
- Analytical judgment, not model-determined
Fitch Approach to Assessing Pensions

Quantitative and qualitative factors to assess pension “sustainability”

• Financial metrics
  • Carrying cost: debt service + pension ADC + OPEB pay-go
  • Long-term liabilities: net tax-supported debt + adjusted NPL

• Context: actuarial, institutional, managerial and operational
  • Discount rate and amortization assumptions
  • Constraints on making actuarial contribution—statutory, budgetary, etc.
  • Constraints on reforming benefits
  • Context of overall operating performance

• Evolving approach as source data changes
First Impressions of CAFRs Under GASB 67/68

Advances from the new GASB standards

• Integration into financial statements
• Consistent actuarial approach for TPL and FNP
• Consistent recognition or deferral of changes to TPL
• New insights from the sensitivity analysis
• Detailed, insight-filled change to NPL schedule
• Reasonable method for allocating CSME liabilities and for NECE/SFS situations
First Impressions of CAFRs Under GASB 67/68

Challenges in using the new GASB reporting

- “Span of control” often left to interpretation
  - Primary governments vs. component units and NECE/SFS situations
- Contribution disclosure in notes vs. RSI
- Agent plans’ GASB 67 reporting
- Date convention is challenging and often unclear
- Depletion dates: discretion in whether to report/absence of details
- Proliferation of disclosure: accounting, “funding” and bond documents
Room for Improvement in Metrics

New metrics helpful, but cautions apply

- Metric data: how many steps removed from what it’s describing?
  - Primary source material: funding and accounting
  - Secondary source material: it’s hard to recreate a valuation

- Possibilities for added insight—mostly linked to funding approach
  - Forecast amortization schedule
  - Employer contribution sensitivity, not just liability sensitivity
  - Potential ASOP changes – risk disclosure or even solvency/risk-free liability

- Qualitative factors important: political, institutional, budgetary, etc.

- Outliers/problem situations mostly identifiable now
People in pursuit of answers
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FitchRatings

New York
33 Whitehall Street
New York, NY 10004

London
30 North Colonnade
Canary Wharf
London E14 5GN