Fitch Ratings

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Metrics & Measurements for State Pension Plans

NCSL Fiscal Leaders Seminar

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November 17, 2016

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 + <u>adjusted</u> 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 liabilitiy
- Qualitative factors important: political, institutional, budgetary, etc.
- Outliers/problem situations mostly identifiable now

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