

NCSL 2019 Cross-Branch Invitational Seminar on Pension Topics

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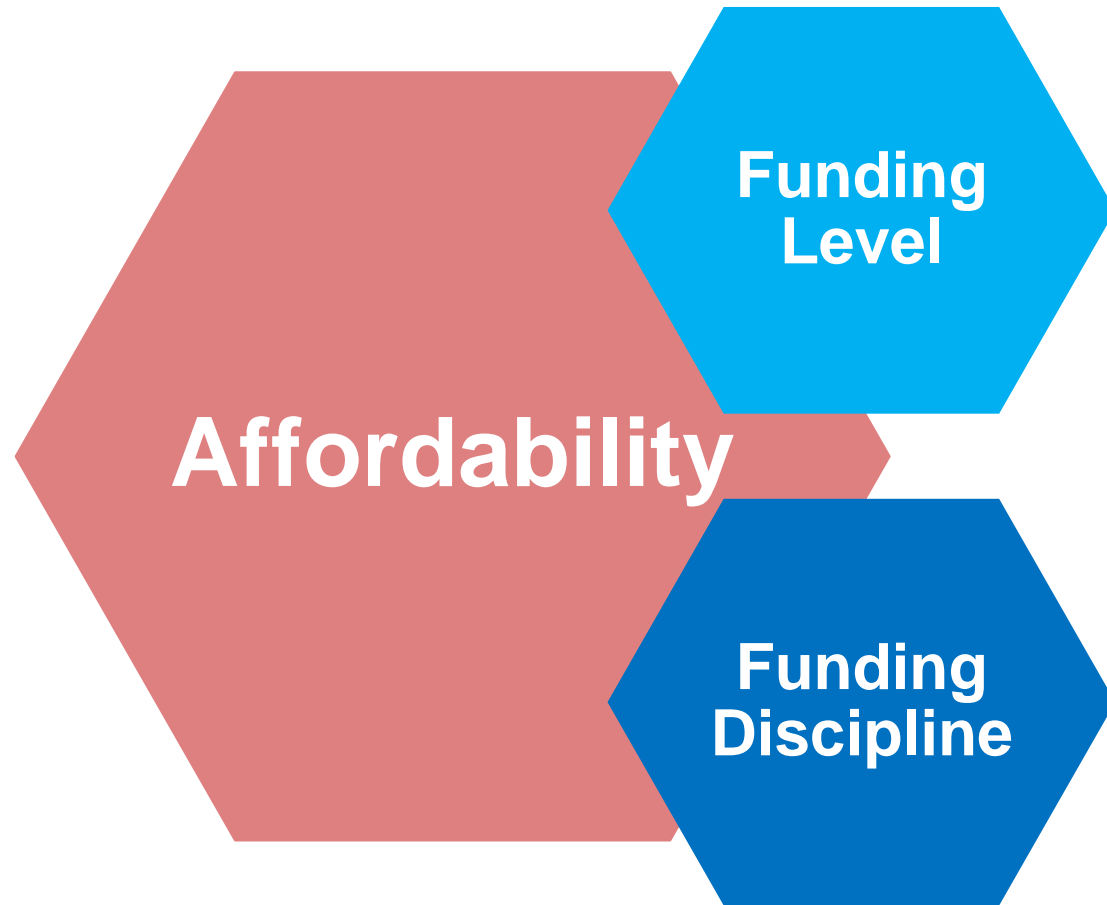
December 10th, 2019



S&P Global
Ratings

Pension Ratings Overview

Is the pension sustainable within a budget?



Where they are

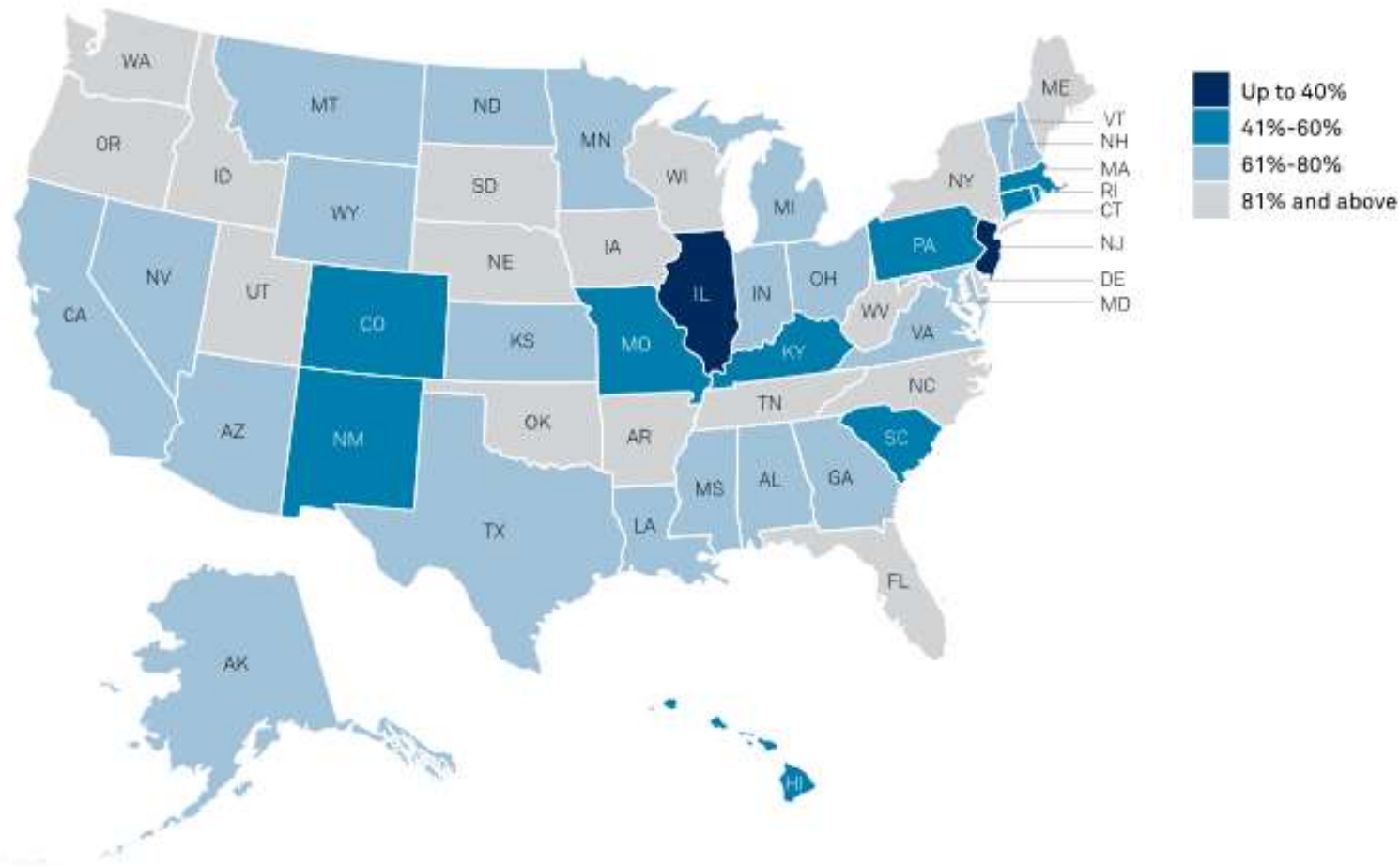
- Funded ratio
- Discount rate used to measure liability

Where they're going

- Minimum Funding Progress / Static Funding
- Actuarially Determined Contribution
 - Methods / assumptions

State Pension Survey Aggregate Funded Ratios

U.S. Pension Funded Ratio 2018



Source: S&P Global Ratings.
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Source: S&P Global Ratings - U.S. State Pension Reforms Partly Mitigate The Effects Of The Next Recession, September 26, 2019

| State | Best 2018 Funded Ratio |
|--------------|-------------------------|
| Wisconsin | 102.93% |
| South Dakota | 100.02% |
| New York | 98.95% |
| Washington | 93.75% |
| Idaho | 91.64% |
| State | Worst 2018 Funded Ratio |
| New Jersey | 38.41% |
| Illinois | 38.98% |
| Colorado | 43.76% |
| Kentucky | 44.83% |
| Connecticut | 46.65% |

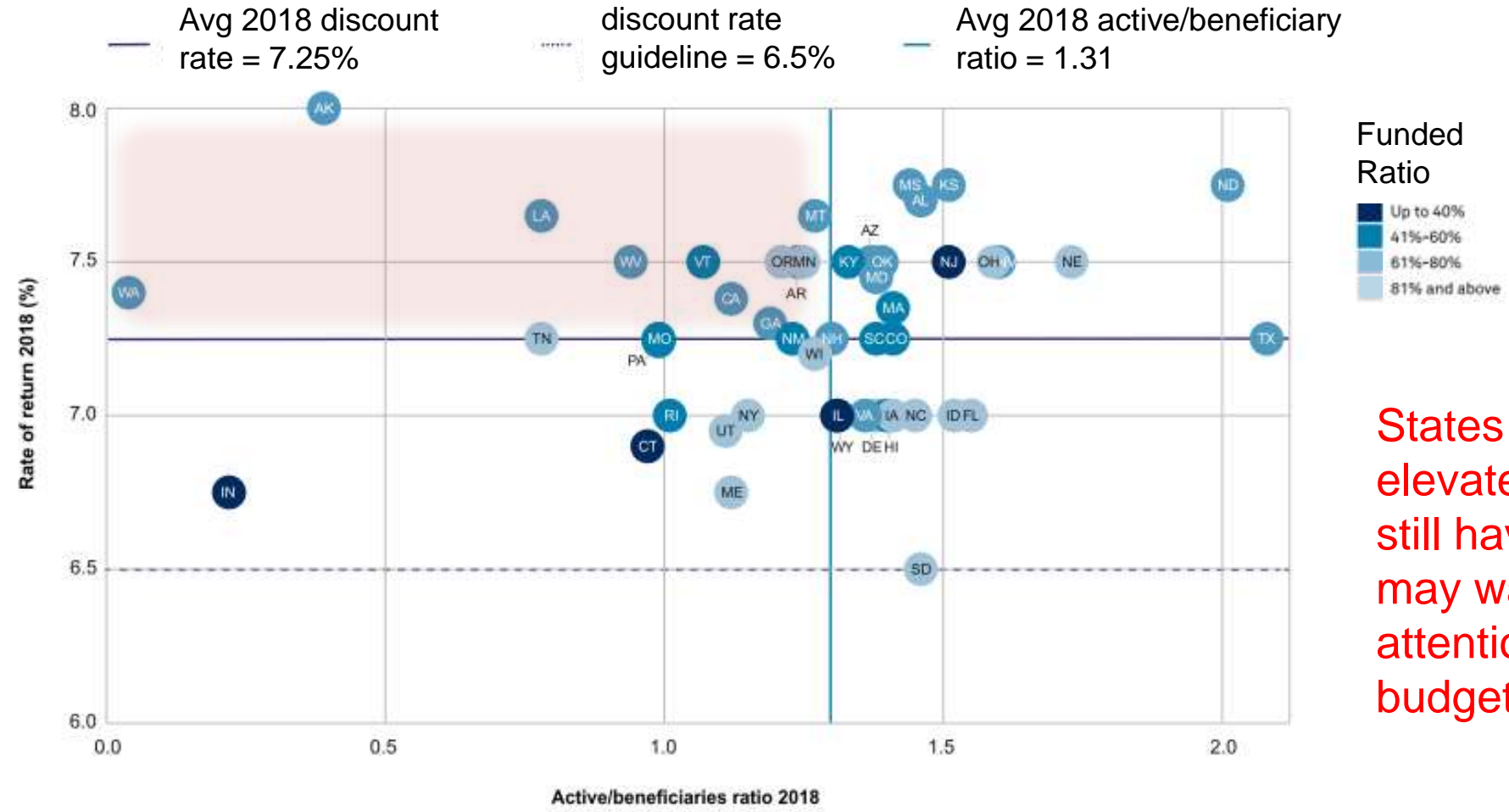
U.S. Public Finance Pension And OPEB Guidance

Discount guideline = 6.5%

- Contribution volatility is key
- Liquidity risk and market shock
- Plans and sponsors are unique
 - Risk sharing and capacity

Mature Plans *Compound* Risks of High Discount Rates

Plan Demographics And Discount Rate - Largest State Plans



States with mature plans and elevated discount rates that still have low funded ratios may warrant additional attention with regard to budgetary vulnerability.

Source: S&P Global Ratings. Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.
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U.S. Public Finance Pension And OPEB Guidance

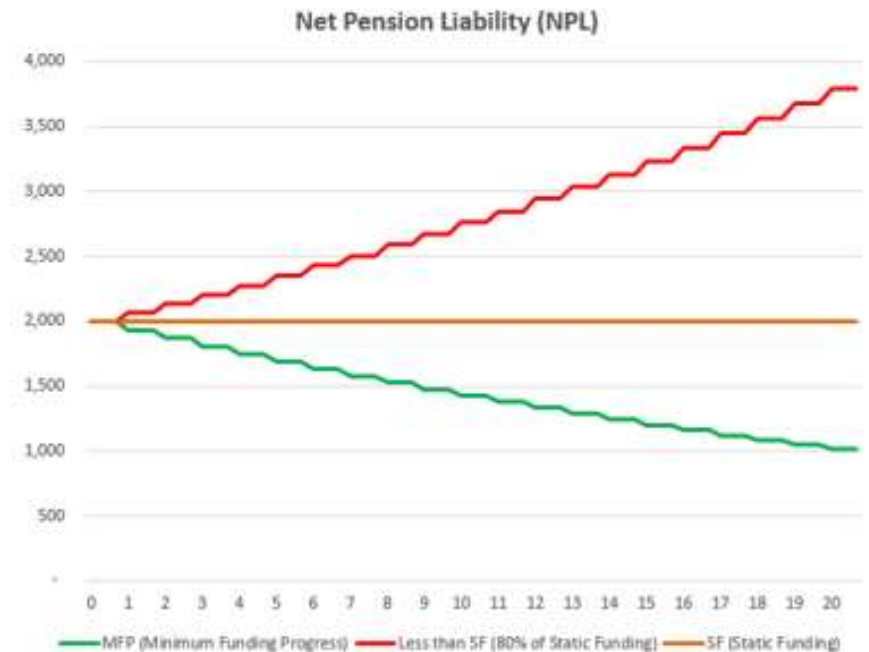
Funding Discipline

1) Actuarial plan

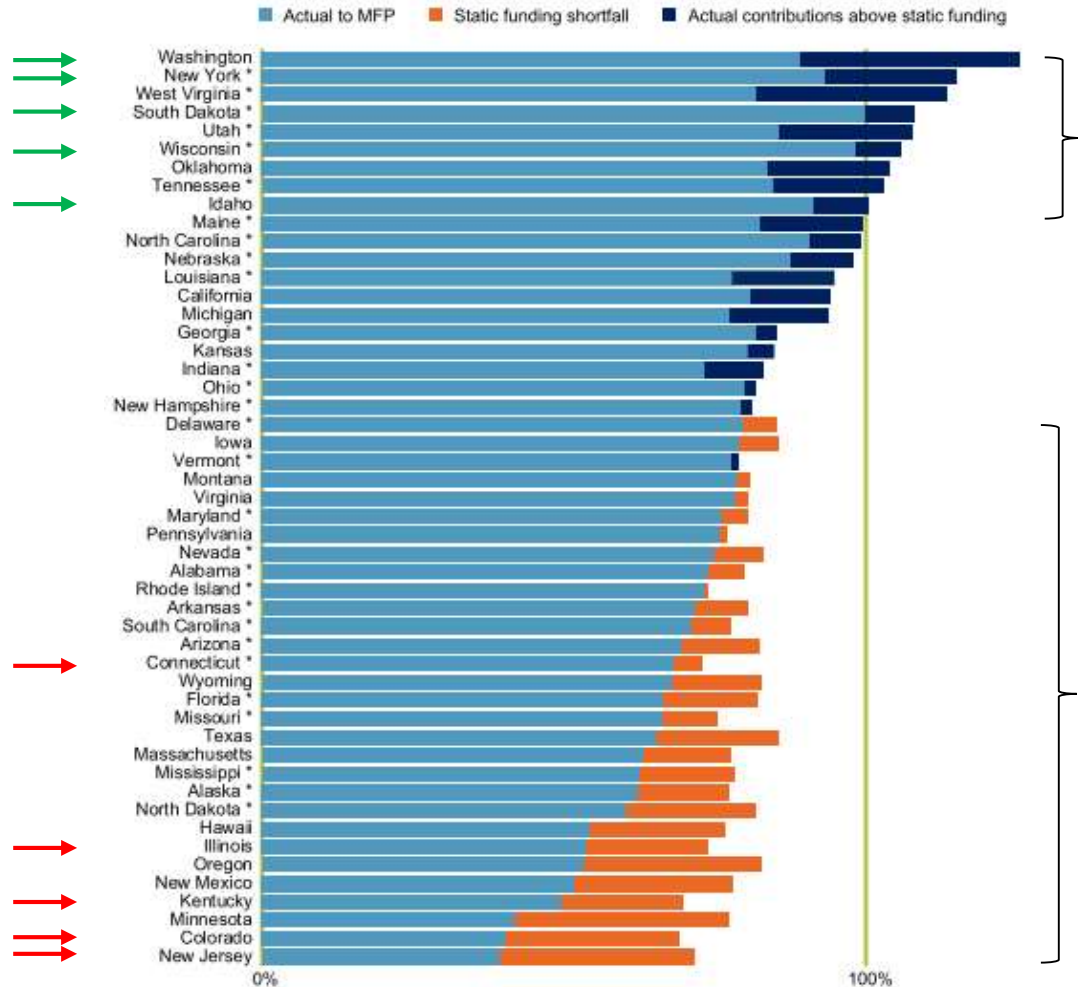
- Minimal deferral to future

2) Last year

- Current costs plus interest (Static)
- Pay down principal (MFP)
- Looking forward?



State Plan Aggregate Actual Contribution Funding Progress



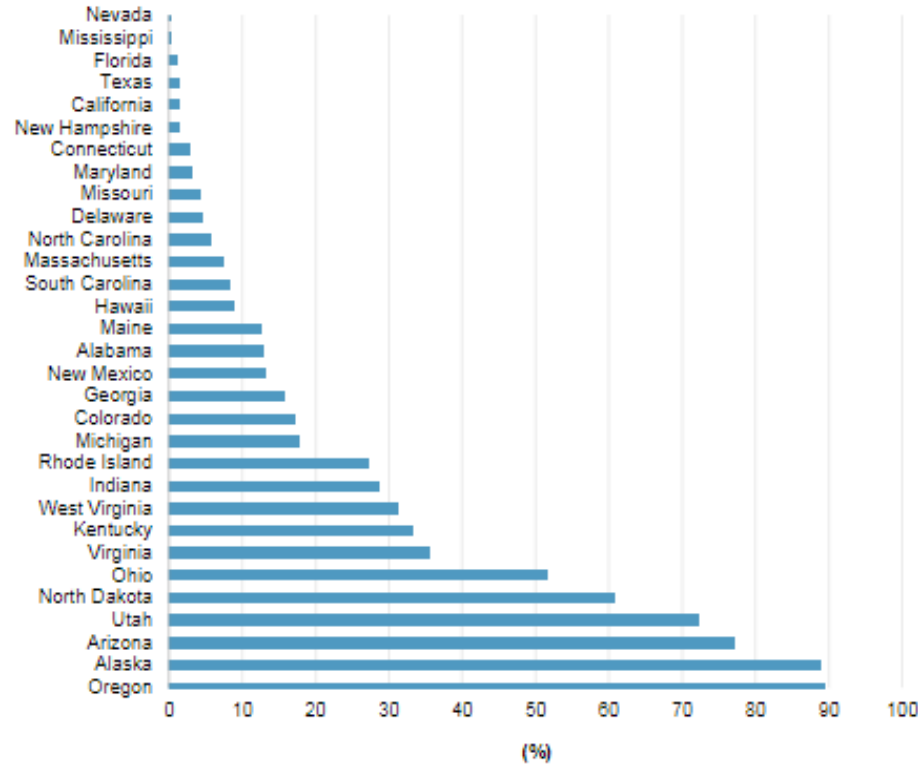
- 9 states contributed in excess of MFP
 - *6 of these follow an actuarial plan*
- 29 states contributed less than static funding
 - *< 50% of these follow an actuarial plan*
- Bottom 8 are not following an actuarial plan

*These states typically fully meet required contributions with an actuarial basis. Source: S&P Global Ratings. Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

Source: S&P Global Ratings - U.S. State Pension Reforms Partly Mitigate The Effects Of The Next Recession, September 26, 2019

Retiree Healthcare (OPEB) Status for States

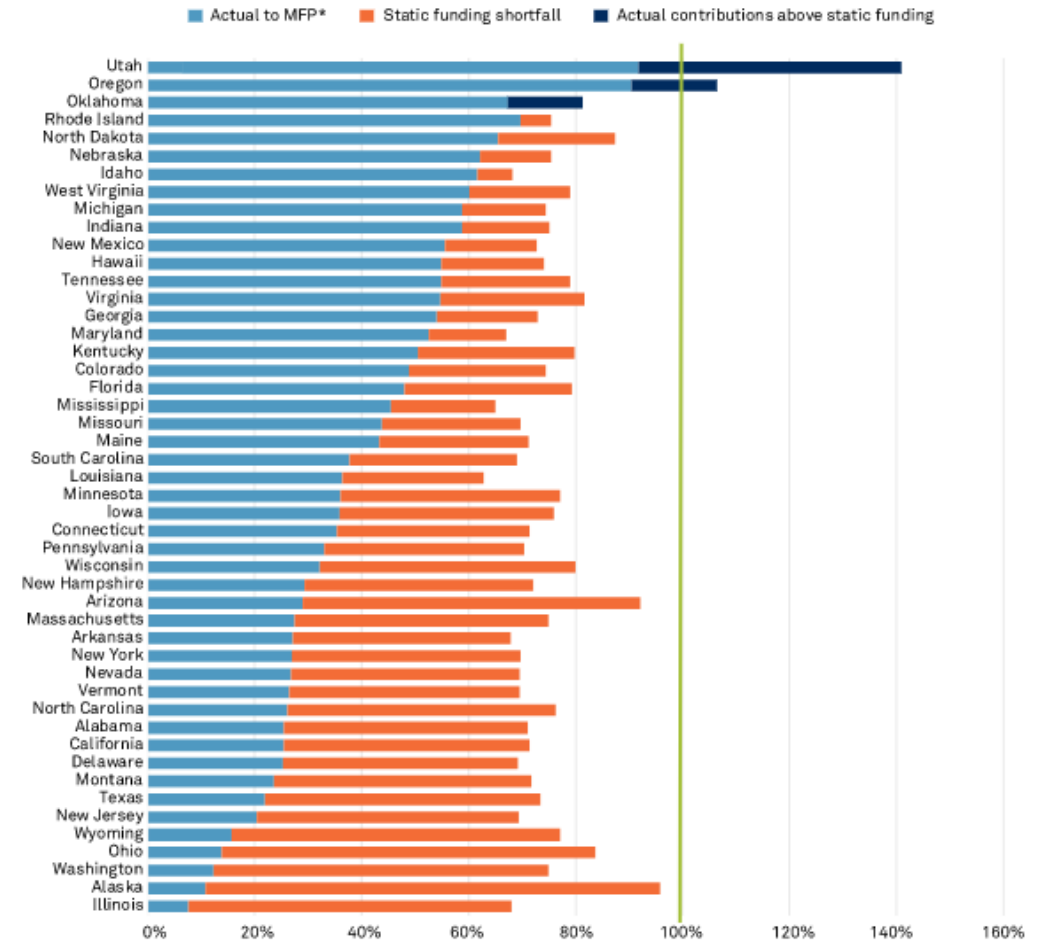
Combined Funded Ratio For OPEB Funds*



*States without accumulated assets have been excluded from the chart. Kansas and South Dakota do not report liability for retiree health care benefits.

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State Plan Aggregate Actual Contribution Funding Progress

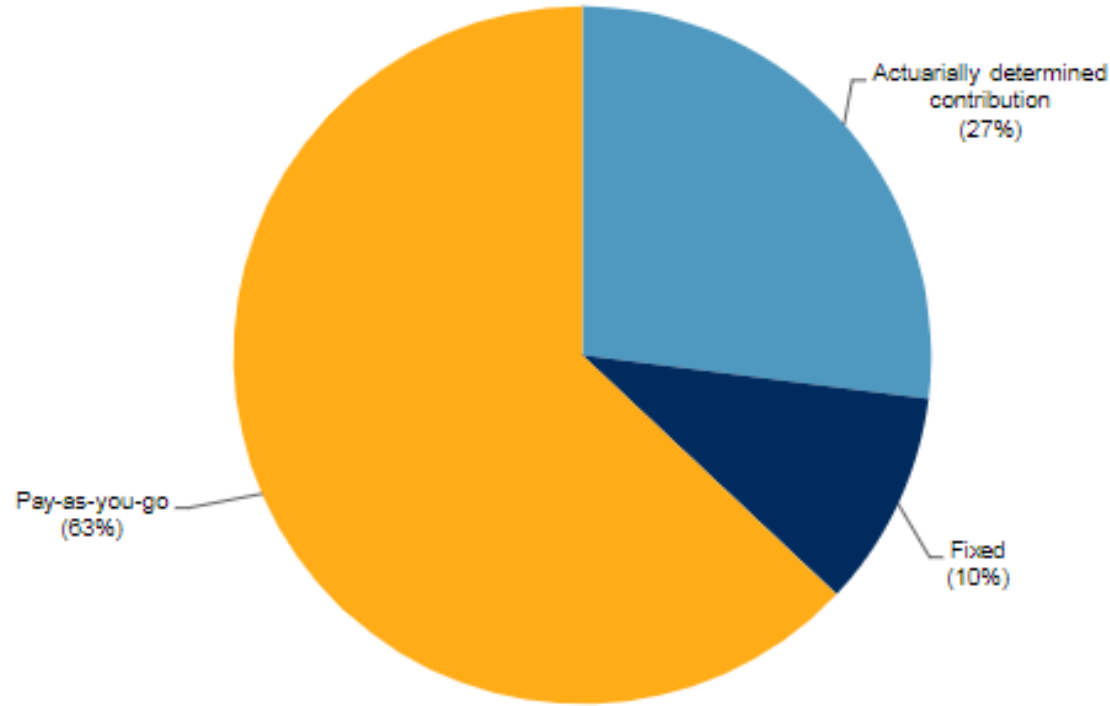


MFP—Minimum funding progress. *For plans that did not disclose schedule of changes to fiduciary net position, we typically counted benefit payments less administrative expenses as contributions, when disclosed. Kansas and South Dakota do not report liability for retiree health care benefits. Source: S&P Global Ratings. Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

Source: S&P Global Ratings - U.S. States Are Slow To Reform OPEBs As Decline In Liabilities Masks Increased Risk, December 3, 2019

OPEB – Rising Concerns

Type Of Funding Method



73% **not** accounting for budgetary growth via actuarial recommendation.

Note: Data are based on 48 states; Kansas and South Dakota do not report a liability for retiree medical benefits.

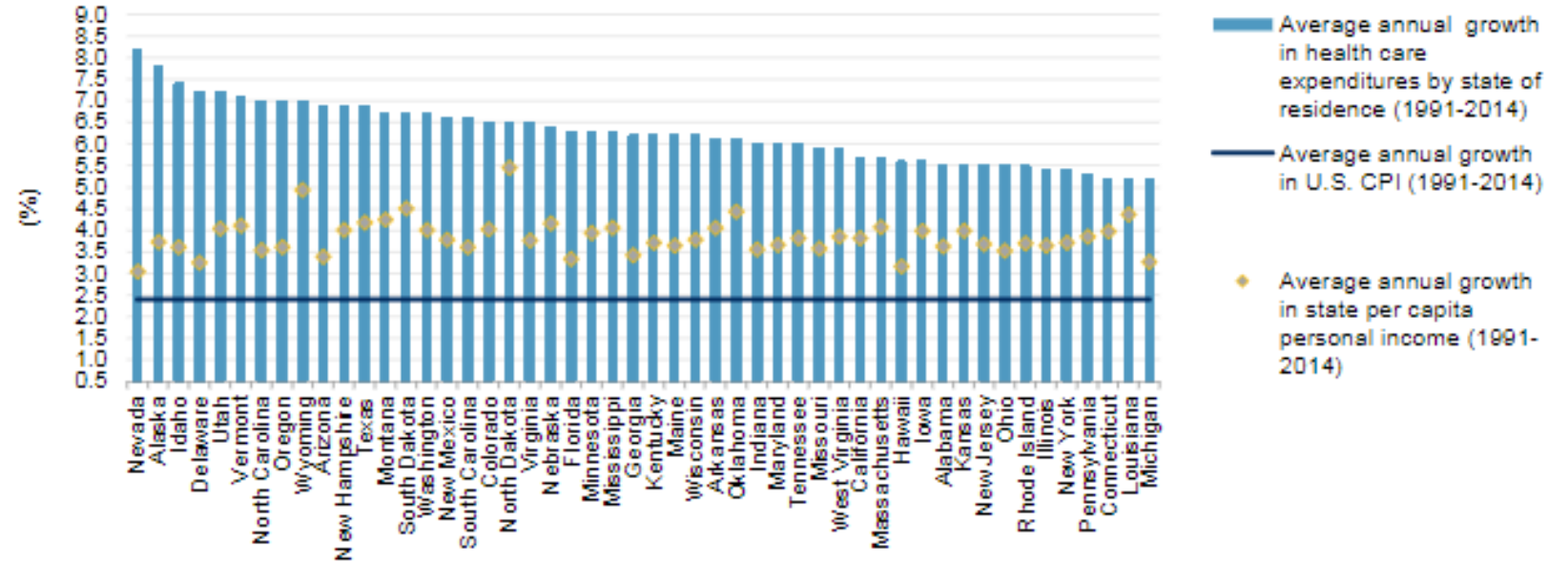
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Source: Retiree Medical Benefits Generate Unique Cost Drivers And Risks For U.S. States, September 17, 2019

OPEB – Rising Concerns

Growth in healthcare costs > growth in personal income & inflation.

Growth In Health Care Expenditures Compared To Personal Income Per Capita And CPI (1991-2014)



Sources: The Henry J. Kaiser Family Foundation "Average Annual Percent Growth in Health Care Expenditures by State of Residence" Timeframe: 1991-2014. Bureau of Labor Statistics "Historical Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, all items, index averages." Bureau of Economic Analysis "SAINC1 Personal Income Summary: Personal Income, Population, Per Capita Personal Income." Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

Source: Retiree Medical Benefits Generate Unique Cost Drivers And Risks For U.S. States, September 17, 2019