U.S. States Ratings Distribution

Source: S&P Global Ratings U.S. State Ratings And Outlooks: Current List 07/25/2018
Ratings Movements For U.S. States

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State Pension Survey Funded Ratios

State Trends: Best and Worst Pension Funded Ratios


Source: S&P Global Ratings annual U.S. 50 state pension surveys 2012-2017
Combined Medicaid, Debt Service, And Pension And OPEB Contributions Share Of State General Fund Expenditures

Sources: State budget information and NASBO Expenditure reports
A Clear Demographic Trend

The expanding weight of retirement

Source: CalPERS’ Funding Levels and Risk Report
Even with Benefit Reform, Sensitivity Lingers

Sensitivity to Negative Investment Returns

Peak Employer Contribution Rate Increase After a -2.5% Return

Source: CalPERS' Board Presentation
Understanding the Risk
What CalPERS provides

Deterministic risk analysis (in annual valuations):
- 5-year projections if investment experience is at the 5th, 25th, 50th, 75th, and 95th percentile
- Discount rate sensitivity at 6%, 7%, and 8%
- Volatility Ratios

Stochastic modeling with risk metrics (in risk report):
- Probability of falling to a low funded status
- Probability of employer contributions reaching high levels
- Possibility of a high contribution increase in a single year
Investment Risk in U.S. State Pension Plans

- Plans Increase Riskier Investment Allocation to Meet Return Targets

Risky Investments

Proportion of portfolio allocation among equity and alternative investments

- averaged 68% as of 2015
- grew by more than 8% compared to five years earlier

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.

Source: S&P Global Ratings  U.S. State Pensions: Weak Market Returns Will Contribute To Rise In Expense, September 12, 2016
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.

Blue: Pension contributions are actuarially based and usually meet or exceed required levels
Red: Pension contributions do not have an actuarial basis or are not usually fully funded
