MOODY'S
INVESTORS SERVICE

Announcement: Moody's proposes adjustments to US public sector pension data

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New York, July 02, 2012 -- Moody's Investors Service is requesting comment from market participants on its plan to implement several adjustments to pension liability, asset, and cost information reported by US state and local governments and their pension plans.

Moody's expects the proposed pension adjustments to result in rating actions for local governments where the effect is outsized relative to their rating category, but no state rating changes are expected solely as a result of pursuing the adjustments now under consideration.

"Pension liabilities are widely acknowledged to be understated," said Moody's Managing Director Timothy Blake, who teamed with Vice President and Senior Analyst Marcia Van Wagner on a report outlining the rating agency's plans, "Adjustments to US State and Local Government Reported Pension Data."

"Our proposed adjustments will improve the comparability and transparency of pension information across governments, enhancing our approach to rating state and local government debt," said Blake. "These adjustments build on our current approach to rating state and local government debt that includes an analysis of pension obligations based on reported data and examination of key underlying assumptions."

Growth of reported unfunded pension liabilities over the past decade and the associated budgetary burden of pension contributions have increased the importance of pensions to state and local government credit, according to Moody's, which treats pension liabilities similar to debt in order to better analyze the long-term liabilities of government entities.

Moody's-adjusted fiscal 2010 state and local unfunded pension liabilities total more than $2 trillion -- about three times the total reported by governments.

"Moody's view on pension-related exposure has been reflected in a number of recent downgrades and negative outlooks, including for the states of Illinois, New Jersey and Rhode Island, and the cities of Chicago and Providence," said Blake.

With its data collection now completed for 8,500 local governments and over 14,000 individual pension plans, the rating agency plans four principal adjustments to reported pension information, including:

-- Multiple-employer cost-sharing plan liabilities will be allocated to specific government employers based on proportionate shares of total plan contributions;

-- Accrued actuarial liabilities will be adjusted based on a high-grade long-term corporate bond index discount rate (5.5% for 2010 and 2011);

-- Where possible, asset smoothing will be eliminated in favor of market or fair value as of the actuarial reporting date;

-- Annual pension contributions will be adjusted to reflect the foregoing changes as well as a common amortization period.

"Although Moody's has actively monitored pension pressures, the cost-sharing plan adjustments may change our view of the long-term pension liabilities facing certain local governments," said Van Wagner. "New data regarding sector medians and averages may reveal some unexpected outliers."

The overall expected effect on ratings would reflect the fact that pensions are only one of several factors in the agency's rating methodology.

Moody's invites market participants to provide feedback on its proposal by sending comments by August 31 to cpc@moodys.com.

Moody's subscribers can access the report at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_PBM143254.

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