U.S. Municipal Bond Market

Pension Funding Not Improving From Stabilizing Fiscal Conditions, NJ Proposing Full Payment to Avoid Asset Depletion

Tom Kozlik
Head of Municipal Strategy & Credit
214.859.9439
tom.kozlik@hilltopsecurities.com

- New Jersey Governor Phil Murphy proposed his state should spend big for its fiscal year 2022 budget. In the governor's recent budget proposal spending is up over 10% year over year.
- One of the items Gov. Murphy included in the proposal is a full actuarial pension payment, which would be the first full payment in about two decades.
- This full actuarial pension payment is being prioritized, because as Pew wrote in October 2020, "New Jersey could not postpone or reduce pension contributions without risking collapse of the retirement system."

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In the midst of analyzing state and local government revenue shortfalls due to COVID-19, reviewing the potential impact President Biden's $1.9 trillion relief package could have on public finance credit, and while searching for information about how the Big Freeze in Texas and surrounding region is impacting public finance credit, we were reminded of the most important issue facing the municipal bond market for several years until COVID-19 surpassed it in 2020: public pensions.

The Reality Behind the Full Actuarial Pension Contribution

This full actuarial pension payment is being prioritized because "New Jersey could not postpone or reduce pension contributions without risking collapse of the retirement system."

The backdrop against which pensions were brought closer to the market's attention this week is related to the budget proposal recently made by New Jersey Governor Phil Murphy. Gov. Murphy proposed New Jersey should "spend big" and grow the budget to $45 billion, up more than 10%. This budget strategy might seem perplexing to observers considering the status of state revenues in the middle of the COVID-19 pandemic. While New Jersey state revenue forecasts were never as dire from COVID-19 as other states, even going back to last summer, actual results were slightly lower. Urban Institute data shows New Jersey state revenues were down 2.4% from April to December 2020 year over year. Alas, the increase in spending sends aid to schools and includes the first full actuarial pension payment in nearly two decades, among other destinations.

Although it may seem there is an improved financial picture – leading some to believe that is why the state is making a full actuarial pension contribution – nothing could be further from reality. The reason for the full actuarial contribution, as Pew wrote back in October 2020, is "New Jersey could not postpone or reduce pension contributions without risking collapse of the retirement system." Pew was not overstating the reality. New Jersey's pension plan remains in dire need of funding. New Jersey's pensions are among the lowest funded, nationally. Pew shows New Jersey's pensions 38% funded, Illinois is funded only slightly better at 39%. This is where New Jersey's actuarial reports can be found. A 2018 Pew analysis showed the New Jersey state worker plan could run out of money in 12 years. That scenario could increase costs by $4 billion on an annual basis, according to Pew. This number gives us an indication of New Jersey's dire funding situation and why the governor committed to and followed through in his budget proposal with a full pension payment this year.

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