

The Wall Street Journal news department was not involved in the creation of this content.

PRESS RELEASE | November 12, 2013, 10:07 a.m. ET

Morningstar Evaluates Fiscal Health of 25 City Pension Plans; Finds Washington, D.C. the Strongest-Funded City Pension Plan and Chicago the Weakest

CHICAGO, Nov. 12, 2013 /PRNewswire/ -- Morningstar, Inc. (NASDAQ: MORN), a leading provider of independent investment research, today published "The State of City Pension Plans 2013: A Deep Dive into Shortfalls and Surpluses," a research report that analyzes pension plans and liabilities for the 25 most populous U.S. cities. Morningstar's municipal credit analysts found that the city of Washington, D.C. had the strongest-funded city pension plan system among 25 cities, while Chicago had the weakest-funded plan.

Similar to Morningstar's annual report about the fiscal health of state pensions systems, the company's evaluation of city pension plans found great disparity in funding among the 25 most populous U.S. cities, though U.S. states are slightly better funded than cities on a median basis.

"We focused on the 25 most populous cities because they are major financial centers and play an important role in the overall economy and the larger municipal bond market," Rachel Barkley, municipal credit analyst for Morningstar, said. "While municipal bankruptcies are rare, the recent cases of Stockton and San Bernardino in California, along with the City of Detroit, may have significant impact on the national level as we see how the federal bankruptcy court will view state constitutional protections of retirement benefits."

Additional key conclusions from Morningstar's research report about city pension plans include:

- The 25 most populous U.S. cities have more than \$125 billion of unfunded pension liabilities;
- Twenty-two of the largest cities have the majority of their pension liabilities tied to a pension plan where the city is the major participant, which means the pension liability will have to be funded either solely or mainly by the city;
- Approximately half of the cities evaluated in Morningstar's report contributed the full Annual Required Contribution (ARC), or the required dollar amount a city would need to pay to fund employee benefits earned in the last fiscal year;
- San Jose, Calif.'s 2012 pension contribution was 29.7 percent of general fund spending, the highest among the largest 25 cities;
- Memphis, Tenn. made the smallest pension contribution in 2012 of 3.1 percent of general fund spending;
- Three cities have a funded ratio--the pension plan's assets divided by its liabilities--of more than 90 percent: Detroit, Mich., San Antonio, Texas, and Washington, D.C.;
- Washington D.C. is the strongest among the cities reviewed in the report, with funding for its pension plans above 100 percent;
- Seven of the evaluated cities fall below Morningstar's fiscally sound threshold of a 70 percent funded ratio; and
- Chicago is the weakest-funded city pension system among the cities reviewed in the report, and has the lowest funded ratio of 35.2 percent.

Morningstar's city pensions research report includes analyst commentary about annual budgetary pressures, pension reform, the effects of municipal bankruptcies, and red flags. Morningstar analysts also compiled a number of key metrics and data for the pension plans of the 25 most populous U.S. cities, including actuarial assets, actuarial accrued liability, funded ratios, Unfunded Actuarial Accrued Liability (UAAL) per capita, annual city contributions, annual pension contributions as a percentage of spending, and net outstanding debt.

An excerpt of "The State of City Pension Plans 2013" is available at <http://global.morningstar.com/CityPensions2013>. For an article and video highlighting this year's research findings, please visit <http://www.morningstar.com/goto/CityPensionPlans>. More information about Morningstar's municipal bond research is available at <http://global.morningstar.com/muniresearch>.

About Morningstar, Inc.

Morningstar, Inc. is a leading provider of independent investment research in North America, Europe, Australia, and Asia. The company offers an extensive line of products and services for individual investors, financial advisors, asset managers, and retirement plan providers and sponsors. Morningstar provides data on approximately 437,000 investment offerings, including stocks, mutual funds, and similar vehicles, along with real-time global market data on more than 10 million equities, indexes, futures, options, commodities, and precious metals, in addition to foreign exchange and Treasury markets. Morningstar also offers investment management services through its registered investment advisor subsidiaries and has approximately \$176 billion in assets under advisement and management as of Sept. 30, 2013. The company has operations in 27 countries.

(c)2013 Morningstar, Inc. All Rights Reserved.

MORN-R

Media Contact:

Nadine Youssef, +1 312 696-6601 or nadine.youssef@morningstar.com

SOURCE Morningstar, Inc.

/Web site: <http://www.morningstar.com>

The Wall Street Journal news department was not involved in the creation of this content.