US States Preparedness for the Next Recession

Moody’s Analytics performs annual stress tests on state government budgets - estimating the amount of fiscal stress likely to be applied to state budgets under different recession scenarios and comparing that to what states have in reserve. This year’s exercise also looks at how economic stress translates to public pensions.

State Preparedness At-A-Glance

Highly Prepared
Mostly Prepared
Underprepared

Moderate Recession
Severe Recession

2018 Stress-Testing Study Insights

Testing Assumptions
- State balanced-budget requirements hold true
- Stress test limited to changes in general fund revenues and Medicaid spending
- Pension contributions are stressed as part of the exercise, but they are not included in the final measure of fiscal shock
- Baselines compared differ slightly from previous work

Measuring Fiscal Shock
Without having to raise taxes or cut spending, states would need:

- 11% of general fund revenues in reserve for the next recession
- 18% of general fund revenues to survive the next Great Recession

2018 Stress Test Findings

- 23 states have the funds they need for the next recession
- 10 states have most of the funds they need for the next recession
- 17 states have significantly fewer funds than they need for the next recession

Stress Testing Pensions
Aggregate State ADCs* would increase by:

- $11 Billion Moderate Recession
- $14 Billion Severe Recession

Key Takeaways for States
- Distinguish between rainy-day funds and total balances
- Develop a stated plan for rainy-day reserves
- Continue to build up reserve funds
- Pensions will have long-term effect on health of states

Preparation of US States (%)

- 34% Moderate Recession
- 46% Severe Recession

Highly Prepared
Mostly Prepared
Underprepared

*Actuarially Defined Contributions (ADCs)