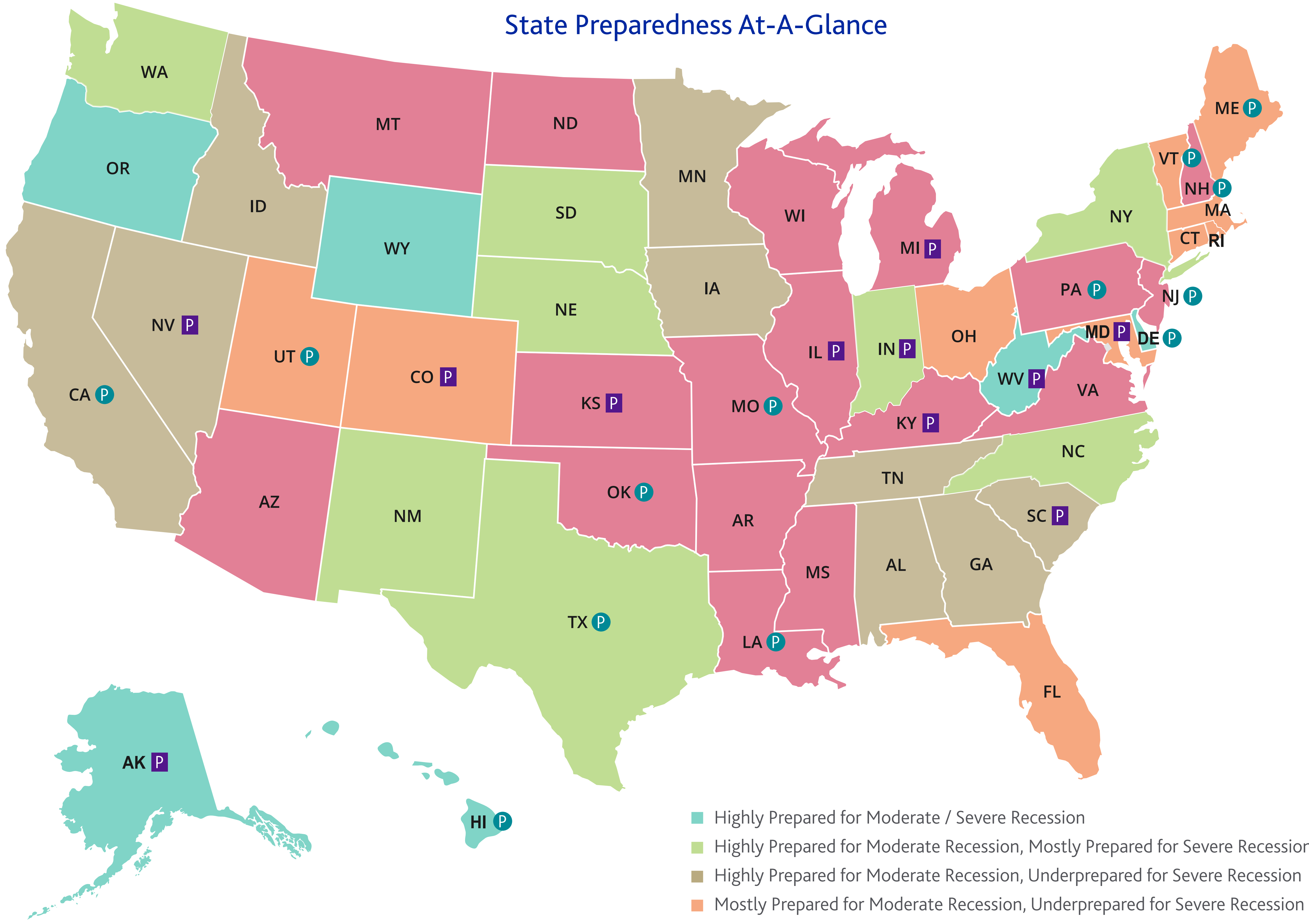
For more information, read related report on **moodys.com**

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 for Moderate / Severe Recession
- Highly Prepared for Moderate Recession, Mostly Prepared for Severe Recession
- Highly Prepared for Moderate Recession, Underprepared for Severe Recession
- Mostly Prepared for Moderate Recession, Underprepared for Severe Recession
- Significantly Underprepared for Next Recession
- P Increased Pension ADCs* of 1 to 2 % due to a Moderate Recession
- P Increased Pension ADCs* of over 2% due to a Moderate Recession

*Actuarially Defined Contributions (ADCs)

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

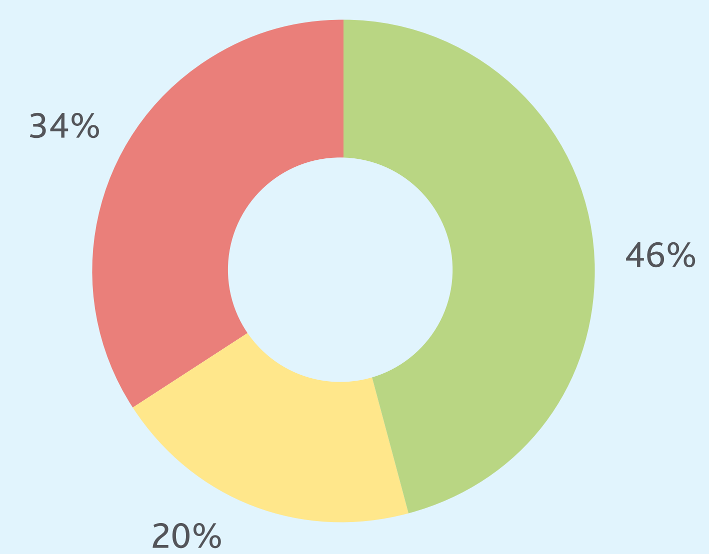
$14 Billion Severe Recession

Key Takeaways for States

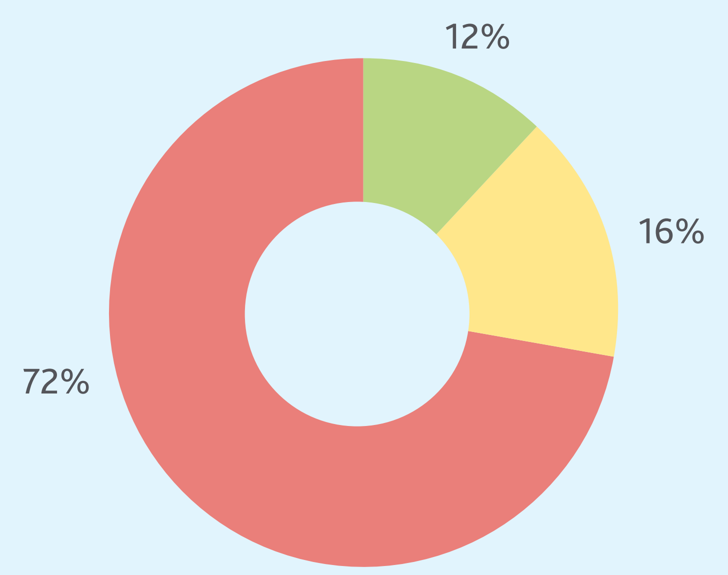
» Distinguish between rainy-day funds and total balances
» Develop a stated plan for rainy-day reserves
» Continue to build up reserve funds
» Pensions will have long-term effect on health of states

Preparation of US States (%)

Moderate Recession



Severe Recession



- Highly Prepared
- Mostly Prepared
- Underprepared

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