The challenges and vulnerabilities facing government pension plans have gained new public prominence and attention of late. Both governing entities and the taxpaying public are beginning to grasp and acknowledge the potential, chronic consequences of looming pension liabilities.

During the past several years, ever-escalating pension costs and liabilities have induced new, sometimes unrelenting, pressure on the finances of state and local governments still hampered by the recession. Current data indicates these pressures are expected to persist, even intensify. A recent report from the actuarial firm Milliman, found a $1.2 trillion gap for the largest 100 U.S. public pension plans while actuarial reports for a large portion of these plans are projecting sizeable increases in required contributions in order to fully fund these liabilities.

Despite their importance, the inner workings of pensions remain mired in foggy opacity, due to a combination of their complexity and sheer number, as well as a lack of transparency precipitated by weak disclosure requirements. To get a better view of the present state of major pension plans, and the potential impact of their vulnerabilities on governments, taxpayers, and investors, Morningstar has analyzed current data for pension plans administered by each of the 50 states. Overall, we found the fiscal health of state pension plans varies drastically with some states having exceptionally strong plans while others are facing severe funding shortfalls.

State pension plans are particularly important for several reasons. Not only do they represent a respective state’s financial obligations, but they’re often structured as umbrella plans covering employees of that state’s myriad local government bodies. State pension plans that solely cover state employees can have a notable influence on underlying governments within the state, as states provide substantial aid to school districts and other local governments. Financial pressure on state governments, including the fiscal strain imposed by ballooning pension costs, can lead to reductions in intergovernmental aid to local governments.