



Pension Reform in Oklahoma

Representative Randy McDaniel
Chairman of the Pension Oversight Committee

Teamwork



“The goal is to honor the retirement promises made. To achieve this goal over the long run, reforms are necessary. Solving a problem of this magnitude will take teamwork.”

Rep. Randy McDaniel, The Oklahoman, January 10, 2011

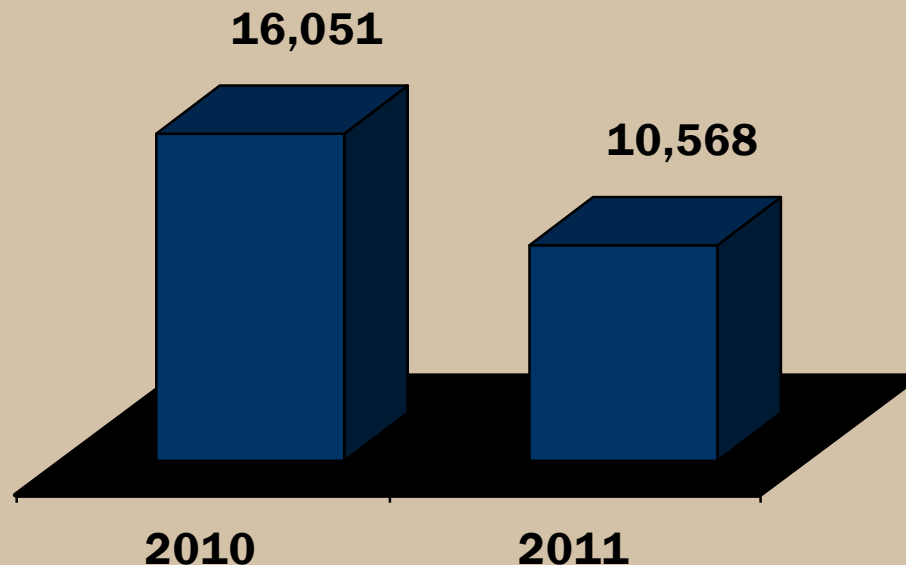
“At a time when nations in Europe, as well as other states in our country, struggle to even address their structural debt problems, Oklahoma's financial condition is already exhibiting remarkable improvement.”

Rep. Randy McDaniel, The Oklahoman, November 11, 2011

Results Matter



- **Before the 2011 legislative session, the unfunded actuarial accrued liability (UAAL) associated with the state's pension systems totaled over \$16 billion.**
- **After reforms were enacted, the UAAL fell to \$10.6 billion. Together we reduced the unfunded liability by \$5.5 billion.**



Lower Unfunded Liability



- The major systems experienced a significant reduction in the unfunded liability.

System	2010 UAAL	2011 UAAL
OTRS	\$10.4 b	\$7.6 b
OPERS	\$3.3 b	\$1.6 b
OFPRS	\$1.5 b	\$1.0 b
OPPRS	\$587 mm	\$137 mm
OLERS	\$239 mm	\$217 mm
URSJJ	\$53 mm	\$9 mm
Wildlife	\$16 mm	\$21 mm
TOTAL	\$16.1 b	\$10.6 b

2011 Funding Legislation



- **HB1007** establishes the Pension Funding Accountability Act of 2011 by adding transparency to the over \$200 million that goes directly into OTRS. The measure also increases the state per pupil spending amount that is recognized nationally.
- **SB891** increases funding for OTRS by \$5 million per year by requiring the same funding rate for both full-time and part-time teachers.

2011 Best Practices Legislation



- **SB347** requires the forfeiture of retirement benefits for municipal employees convicted of certain criminal activities.
- **HB1002** and **SB840** require timely payments of pension funds to OTRS and OPERS in order to increase efficiencies.

2011 Retirement Age Legislation



- **SB377** increases the normal retirement age for new members of OTRS from 62 to 65. The bill honors career teachers by allowing full retirement at age 60 if the Rule of 90 is met.
- **SB794** increases the normal retirement age for new members of OPERS from 62 to 65. The measure honors career public servants by allowing full retirement at age 60 if the Rule of 90 is met. The retirement age for elected officials is also increased from 60 to 65. Those with at least 10 years of elected service can retire at age 62.

2011 Retirement Age Legislation

Cont.



- **HB1010** increases the normal retirement age for new members of URSJJ from 65 to 67. Justices or judges with 10 years of service can retire at age 62.
- The combined savings from legislation to increase the retirement age will be nearly \$2 billion over the next 30 years.

2011 COLAs Legislation



- **HB2132** requires future COLAs to be fully funded at the time of authorization. This prevents the cost of COLAs being absorbed by the plans.
- It is estimated that **HB2132** will decrease the unfunded liability by over \$5 billion.

2012 Contribution Rate Legislation



- **SB 1001** reforms the enhanced benefit salary calculation and automatic permit benefit increases. The legislation also directs the employer of the law enforcement retirement system to increase the contribution rate from 10 to 11 percent of base salary.
- **HB 2319** allows the Police Pension and Retirement System State Board to own and occupy necessary office space as the State Board deems appropriate.

2012 OPERS Legislation



- **HB 2321** establishes sick leave accrual provisions for members who join the Oklahoma Public Employees Retirement System (OPERS) on or after November 1, 2012. The number of years of credited service will be based on actual years and months of credited services.
- **HB 2322** allows newly elected officials to have the same (step-up) provision available to all current OPERS members. The step-up allows members to increase their contribution rate in order to receive an increased retirement benefit.

2012 OTRS Legislation



- **HB 2320** permits the Oklahoma Teachers Retirement System Board of Trustees to invest up to 10 percent of the system's assets in real property owned or to be acquired by the state.
- **HB 2623** requires any member of the Teachers' Retirement System of Oklahoma (OTRS) convicted of a felony in the line of duty to forfeit their taxpayer subsidized retirement benefit.

The Funded Ratio



System	Funded Ratio	
	2010	2011
OTRS	47.9	56.7
OPERS	66.0	80.7
OFPRS	53.4	63.7
OPPRS	74.9	93.0
OLERS	73.6	75.9
URSJJ	81.3	96.3
Wildlife	81.5	78.1

- **In 2010, Oklahoma's pension plans were 56% funded.**
- **In 2011, the state's pension plans were 67% funded.**

NOTE: All numbers are percentages.

Funding Analysis



- While the financial condition of the state's major pension plans has improved, some annual funding shortfalls still exist.

	OTRS		OPERS		URSJJ		OFPRS		OPPRS		OLERS	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Total Normal Cost	10.3	11.8	10.7	12.6	26.6	31.7	28.3	33.4	22.4	26.8	31.6	31.8
Amortization Cost	12.1	16.3	8.3	15.0	2.2	11.6	37.4	52.7	9.8	38.8	42.9	42.9
Required Contribution	22.4	28.1	19.4	27.9	29.4	43.7	66.4	86.7	33.5	66.8	76.5	76.2
Member Contribution	7.0	7.0	4.1	4.1	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Employer Contribution	9.5	9.5	16.5	15.5	11.5	10.0	13.0	13.0	13.0	13.0	10.2	10.2
Dedicated Revenues	6.7	5.9	-	-	-	-	24.6	21.8	9.7	8.9	23.9	21.1
Total Contributions	23.2	22.4	20.6	19.6	19.5	18.0	45.6	42.8	30.7	29.9	42.1	39.3
Shortfall/Surplus	-0.7	5.7	-1.2	8.4	9.9	25.7	20.8	43.9	2.8	36.9	34.4	37.0

Note: All numbers are percentages.

Consequences of Inaction



- **Increased budget pressure as pension funding requirements rise.**
- **Potential increase in borrowing costs in the bond markets. The major credit rating agencies are looking in more detail at unfunded pension obligations when determining a state's bond rating.**

Standard & Poor's ratings methodology includes the following rubric:

Pension Funded Ratio	
Strong (1)	90% or above
Above average (2)	80%-90%
Below average (3)	60%-80%
Weak (4)	60% or below

- **Standard & Poor's rates Oklahoma AA+, Outlook Stable. The United States is rated AA+, Outlook Negative. S&P has lowered its credit ratings for many of the world's largest financial institutions.**
- **High interest rates continue in countries that have not been able to adequately address structural deficits.**

The Course Ahead



- **Future pension reforms are necessary.**
 - **People are living longer.**
 - **The ratio of the number of workers to retirees is decreasing.**
 - **Achieving the assumed discount rate is uncertain.**
 - **Additional funding affects other core functions of government.**
 - **A \$10.6 billion unfunded liability remains a major financial challenge.**
- **Conduct interim studies**
- **Develop fair and meaningful legislation**

Conclusions & Questions



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