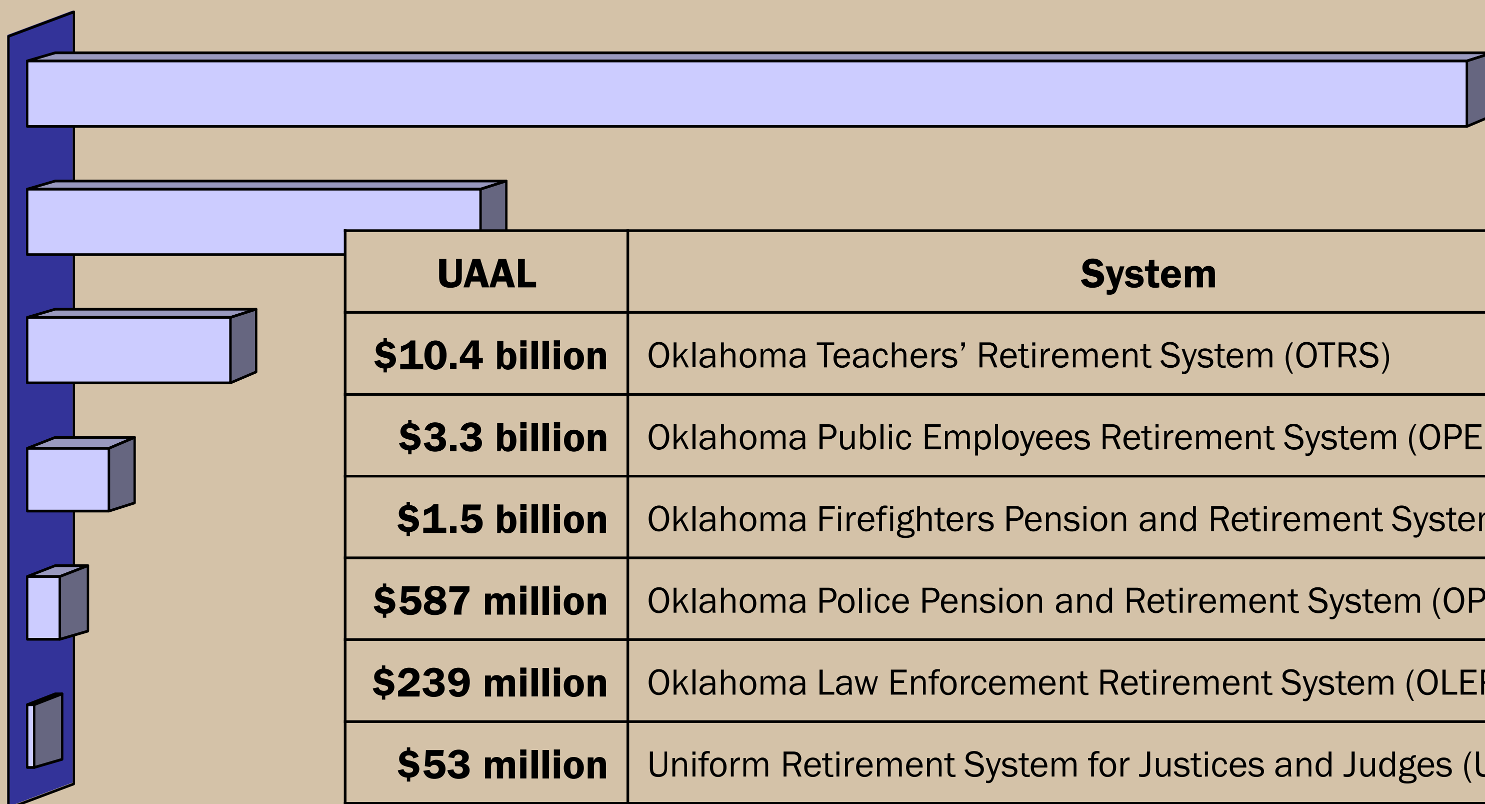
Pension Reform in Oklahoma: The $16 Billion Issue

Representative Randy McDaniel
Chairman of the Pension Oversight Committee

Large Unfunded Liability

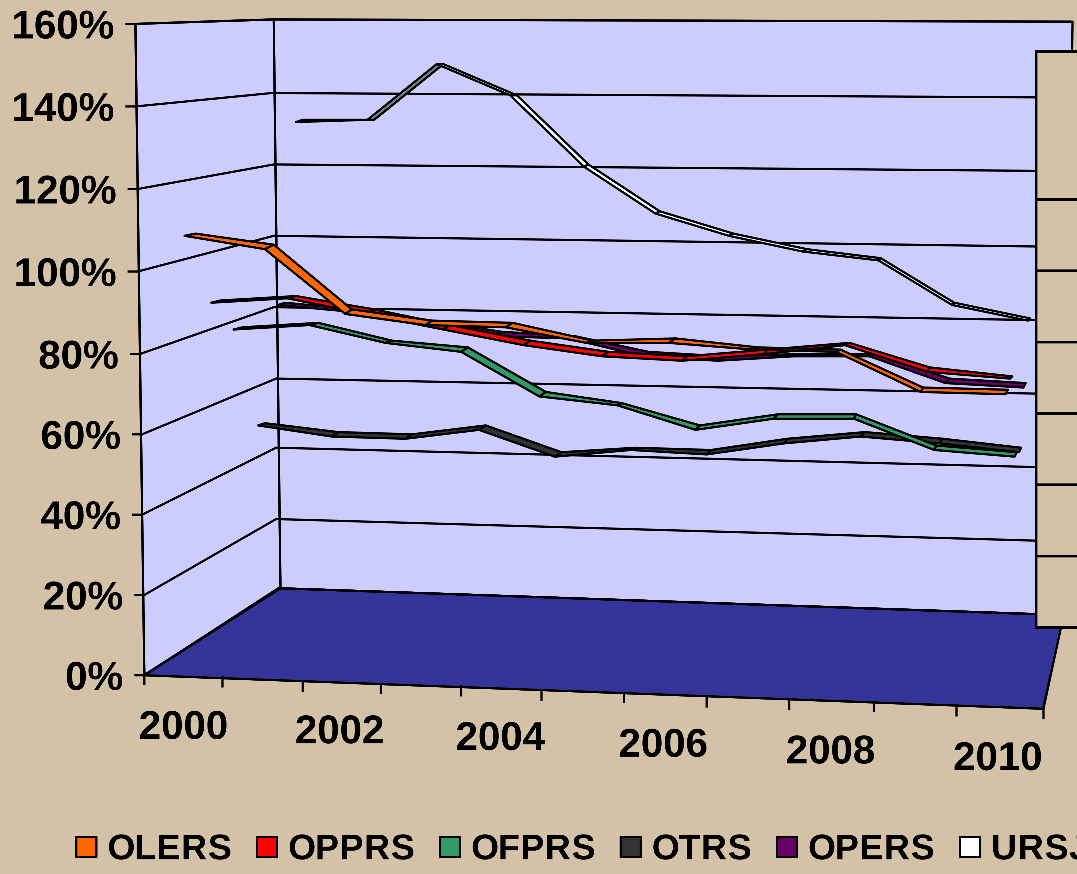
- **The unfunded actuarial accrued liability (UAAL) for the state's major pension systems is currently over $16 billion.**



UAAL	System
$10.4 billion	Oklahoma Teachers' Retirement System (OTRS)
$3.3 billion	Oklahoma Public Employees Retirement System (OPERS)
$1.5 billion	Oklahoma Firefighters Pension and Retirement System (OFPRS)
$587 million	Oklahoma Police Pension and Retirement System (OPPRS)
$239 million	Oklahoma Law Enforcement Retirement System (OLERS)
$53 million	Uniform Retirement System for Justices and Judges (URSJJ)

Declines In Funding

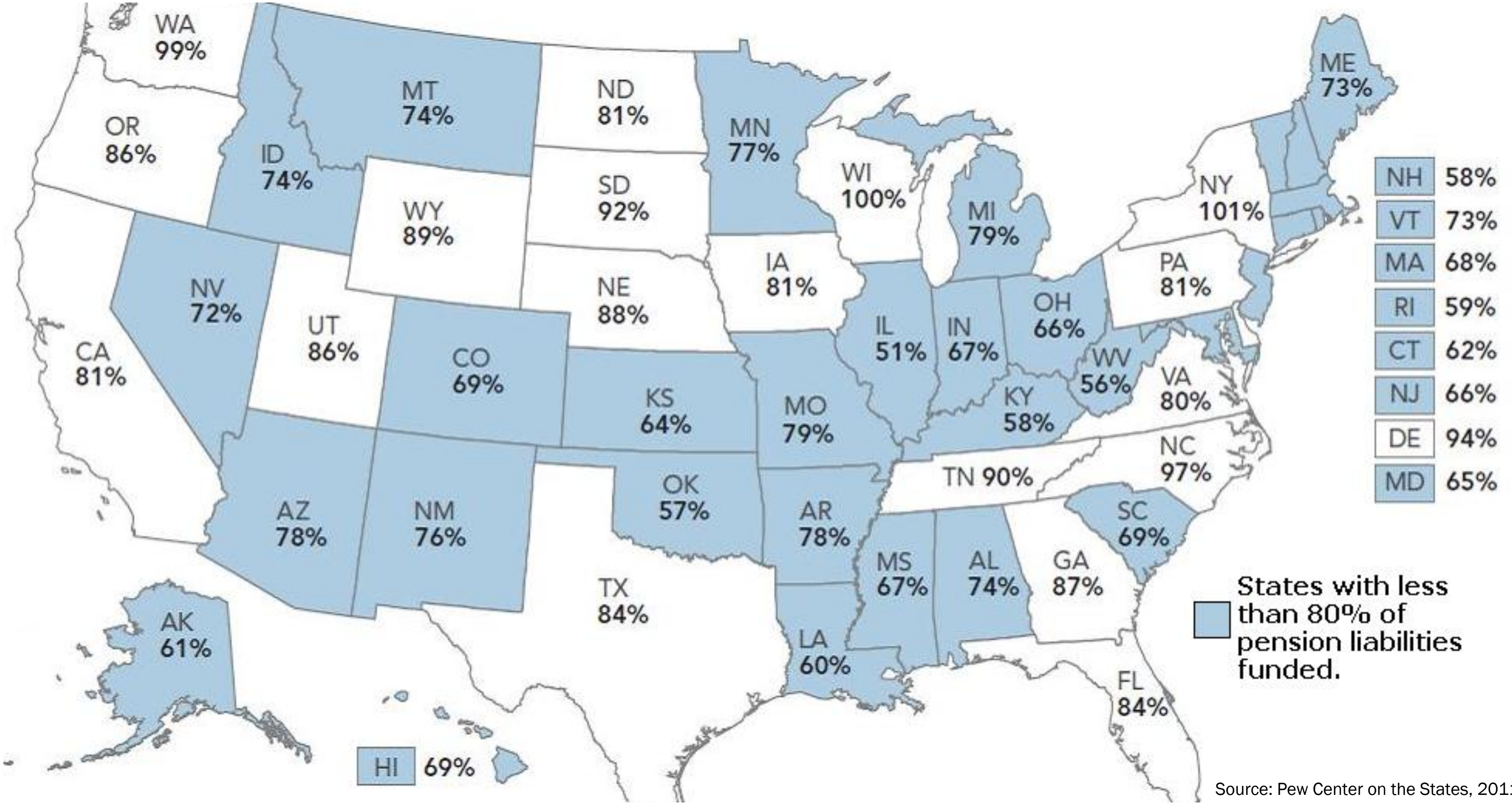
- Funded ratios have declined in all major plans.



System	Funded Ratio (%)	
	2000	2010
OTRS	53.7	47.9
OPERS	84.0	66.0
OFPRS	81.4	53.4
OPPRS	90.2	74.9
OLERS	108.2	73.6
URSJJ	132.6	81.3

Funded Ratio Comparison

- **The Pew Center on the States reported that at 57% funded, Oklahoma's pension funding ranked in the bottom five of states in the nation.**



Source: Pew Center on the States, 2011.

Consequences of Inaction

- **Budget pressure will increase as pension funding requirements rise to improve the financial condition of the plans.**
- **Potential increase in borrowing costs in the bond markets. The major credit rating agencies are looking in more detail at the unfunded pension obligations when determining a state's bond rating.**
  - **For example, Standard & Poor's ratings methodology includes the following pension rubric:**

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

- **Credit rating agencies are discussing the possibility of downgrading the U.S. rating if the issues related to our nation's debt ceiling remain unresolved.**

Oklahoma's Road to Recovery

"The goal is to honor the retirement promises made. To achieve this goal over the long run, reforms are necessary.

State employees and retirees should not be the only Oklahomans concerned about the poor funding status of the pension plans. It affects every Oklahoman."

"Solving a problem of this magnitude will take teamwork. The House, under the leadership of Speaker Kris Steele, plans to lead the way."

Representative Randy McDaniel, January 10, 2011, The Oklahoman

- The approach has been comprehensive and fair.
- Legislation aims to ensure financial soundness over the long run.

Factor for Reform: Funding

- Over the past five years, the Oklahoma Legislature has made the largest financial commitment to the state's retirement plans in our history.
- In fiscal year (FY) 2010, contributions by employers and dedicated state funds totaled over a billion dollars.
- Nonetheless, annual funding shortfalls still existed within all of Oklahoma's major pension systems.

Factor for Reform: Funding

- **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.**

Factors for Reform: Best Practices

- **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.**

The signing of major pension reform in 2011.

Retirement Age: World

- Life expectancy rates around the world continue to rise.
- In November 2010, the President of France, Nicolas Sarkozy, signed a measure increasing the country's retirement age from 60 to 62 years old.
- In the United Kingdom, those who qualify for a state pension currently start to receive payments at 60 for women and 65 for men. This is set to rise to 66 for both sexes by 2020.
- In 2007, the German government voted to gradually increase the nation's retirement age from 64 to 67, starting in 2012.

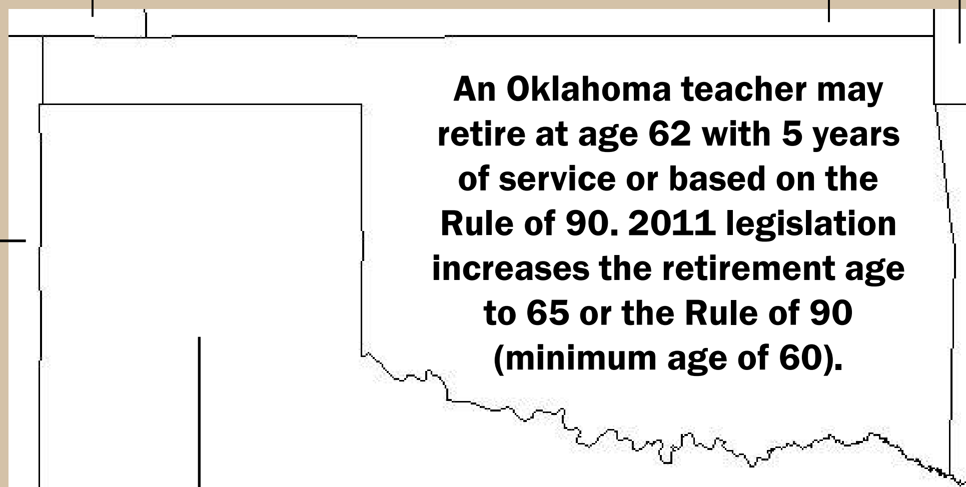
Source: Raising the Retirement Age: 5 Countries Testing the Waters, July 2, 2010

Oklahoma By Comparison

A teacher in **Colorado** hired after January 1, 2010 may retire at any age with 35 years of service, at age 65 with at least 5 years of service, or based on the Rule of 88.

Teachers in **Kansas** who joined the system after July 1, 2009 may retire at age 65 with 5 years of service or at age 60 with 30 years of service.

Teachers in **Missouri** may retire at age 60 with at least 5 years of service, at any age with 30 years of service, or based on the Rule of 80.



Teachers in **New Mexico** who joined the system after July 1, 2010 may retire at age 67 with at least 5 years of service, at any age with 30 years of service, or based on the Rule of 80 (minimum age 65).

An **Arkansas** teacher may retire at age 60 with at least 5 years of service or at any age with 28 years of service.

Texas teachers hired after September 1, 2007 may retire at age 65 with at least 5 years of service or based on the Rule of 80 (minimum 5 years of service and minimum age of 60).

Factor for Reform: Retirement Age

- 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.

- 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.

Factor for Reform: COLAs

- **Cost-of-Living Adjustments (COLAs)**
  - **Many states provide COLAs on an automatic basis.**
  - **Oklahoma grants COLAs on an ad hoc basis. This means that they were never promised by law.**
  - **COLAs granted in Oklahoma have historically been unfunded.**
  - **Even providing a modest COLA results in significant long-term costs. For example, in Oklahoma it costs over $300 million each time the state grants a 2% COLA.**

- **In an effort to recognize the long term effects and financial implications of COLAs, in 2009 the State of Louisiana adopted legislation to change the terminology from "cost-of-living" adjustment to "permanent benefit increase".**

Factor for Reform: COLAs

Gov. Fallin signed HB2132 on May 10, 2011

- **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.**

The Road 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.

- **Interim Studies**
  - Pension Investment Management Review
  - Plan Design Choices for State Retirement Systems
  - Pension Funding Issues and Sustainability
  - Best Practices of Pension Plans

- **Develop fair and meaningful legislation.**

Conclusions & Questions

Representative Randy McDaniel

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