

SENATE SELECT COMMITTEE ON PENSIONS

INTRODUCTION

President Pro Tempore Brian Bingman created the Select Committee on Pensions in response to the current unfunded liability of the state pension systems which is in excess of \$16 billion. Senator Bingman thinks it is important for the Oklahoma Legislature to uphold the promises made to retired teachers and other governmental workers in Oklahoma as well as ensure sound fiscal security for Oklahoma's future. The purpose of the Select Committee is to thoroughly review all aspects of the six state pension systems in order to determine what reforms are necessary to protect both current and future retirees while at the same time improving the financial status of these systems. Goals of the Select Committee on Pensions include:

- Reduce Oklahoma's unfunded pension liability;
- Avoid the risk of a massive tax hike;
- Avoid budget cuts to pay for unfunded liabilities; and
- Propose reforms that establish a stable, long-term pension model for Oklahoma.

BACKGROUND

The Select Committee on Pensions held three public meetings for the purpose of hearing testimony and gathering information related to the Committee's mission.

- The first meeting was held on February 17, 2011. The purpose of this meeting was to receive input from a variety of speakers representing local and national perspectives. The committee heard from the following:
 - Ron Snell, Senior Fellow, State Services Division, National Conference of State Legislatures;
 - David Blatt, Director, Oklahoma Policy Institute; and
 - Jonathan Small, Fiscal Policy Director, Oklahoma Council of Public Affairs.

Mr. Snell provided the Select Committee with an overview of the recent legislative actions taken by other states as it related to pension reform. Mr. Blatt and Mr. Small made specific recommendations on how to craft pension reform in Oklahoma. There was a consensus from both of these speakers that the current practice of granting unfunded cost-of-living adjustments (COLA's) should be halted and that only COLA's that are funded by the Legislature should be granted in the future.

Also making a presentation at this meeting was Dr. James Wilbanks, Executive Director of the Teachers' Retirement System of Oklahoma (OTRS). Dr. Wilbanks presented actuarial information related to the cost of eliminating a 2% annual COLA assumption and the fiscal impact of closing the current OTRS defined benefit plan to future new hires. The information presented by Dr. Wilbanks made it abundantly clear that OTRS could not afford the transition costs associated with the closing of the defined benefit plan to implement a defined contribution plan for new hires.

- The second meeting was held on March 3, 2011. The primary purpose of this meeting was to hear from the directors of the other state retirement systems. Those making presentations were:
 - Ginger Poplin, Executive Director, Oklahoma Law Enforcement Retirement System (OLERS);
 - Steven Snyder, Executive Director, Oklahoma Police Pension and Retirement System (OPPRS);
 - Robert Jones, Executive Director, Oklahoma Firefighters Pension and Retirement System (OFPRS); and
 - Tom Spencer, Executive Director, Oklahoma Public Employees Retirement System (OPERS).

The directors presented essentially the same information relating to the cost of closing the defined benefit system to new hires and of eliminating the annual COLA assumption as was presented by OTRS at the first meeting. The information presented at the first and second meetings relating to the cost of unfunded COLA's illustrates that the UAAL for the six state retirement systems would be reduced from \$16.2 billion to \$10.8 billion if unfunded COLA's were prohibited. (See Appendix 1 for actual figures).

Two other items were briefly discussed at this meeting. Senator Susan Paddack provided an update on Oklahoma's credit rating. She reported that according to the Oklahoma Bond Advisor that it appears likely that Oklahoma will see a downgrade in its rating if the unfunded liabilities of the state's pension systems continue to grow. An issue brief relating to deferred retirement option (DROP) plans was handed out to committee members. The DROP allows participants to accumulate a lump-sum cash amount for retirement to be paid in addition to the monthly pension benefits. It adds a lump sum benefit in exchange for a reduced monthly payment. All of the Oklahoma public safety retirement systems offer a DROP and Back DROP plan.

- The third meeting was held on March 24, 2011. The primary purpose of this meeting was to allow representatives from various constituency groups to offer their suggestions and recommendations for reform of the various pension systems. The committee heard from the following:
 - Clifton Ogle, Oklahoma State President American Federation of Teachers;
 - Ron Bartmier, President, Oklahoma Fraternal Order of Police;
 - Joel Robison, Associate Executive Director, Oklahoma Education Association
 - Norman Cooper, Executive Director, Oklahoma Retired Educators Association;
 - Sterling Zearley, Executive Director, Oklahoma Public Employees Association;
 - Herb Bradshaw, Executive Director, Oklahoma State Firefighters Association;
 - Roy Rogers, Oklahoma State Troopers Association; and
 - Ginger Tinney, Executive Director, Professional Oklahoma Educators.

The speakers provided background information pertaining to their particular system and they offered a variety of suggestions on how to address the problems facing the pension systems.

CONCLUSIONS AND RECOMMENDATIONS

The Select Committee on Pensions feels that the legislature must implement pension reform as soon as possible in order to address the \$16 billion in unfunded liabilities. It is imperative that steps be taken immediately in order to shore up Oklahoma's significantly unfunded pension systems to secure retirement for Oklahoma's governmental workers and to avoid massive budget problems in the future. Also action is necessary on the legislature's part in order to preserve Oklahoma's current bond rating. In order to accomplish these goals, the Select Committee on Pensions makes the following recommendations:

All Pension Systems

- The Committee recommends that the practice of granting unfunded COLA's cease. The unfunded liability of the six state pension systems will decrease from \$16.2 billion to \$10.8 billion if these systems no longer make an annual 2% COLA assumption. House Bill 2132 by Speaker Steele and Senator Bingman is currently in the House of Representatives pending consideration of Senate amendments and is in a form that could be sent straight to the Governor for her approval. The Committee recommends that COLA's be granted when the Legislature can provide the funding for such COLA's.
- The Committee recommends that discussions continue regarding the determination of a permanent funding source for COLA's. One suggestion that merits further study is enacting legislation which would transfer a portion of the surplus funds which accrue to the General Revenue Fund over and above that which is placed in the Constitutional Reserve Fund to be used to fund COLA's.
- The Committee recommends that the Legislature closely monitor the progress in reducing the UAAL of each state retirement system. When a System reaches a fiscally sound level, the Legislature should study the feasibility of closing the current defined benefit system to new hires and implementing either a defined contribution or hybrid plan for the new hires. The study should look at the potential benefits and the transition of costs of closing the defined benefit plan and implementing either a defined contribution or hybrid plan.
- The six state retirement systems are required by statute to annually submit to the Oklahoma State Pension Commission a separate and distinct actuarial report which is different from each System's annual actuarial valuation report. The Committee recommends that the statutory requirement to submit an additional actuarial report annually to the Oklahoma State Pension Commission be eliminated.

Oklahoma Teachers' Retirement System (OTRS)

- The Committee recommends that design changes be implemented for OTRS in order to further reduce the unfunded liability. This design change would only be applicable to those persons entering OTRS as a new member on or after July 1, 2011. Currently a member of OTRS may retire at age 62 if the person is vested with five years of contributory service. The Committee

recommends that age 62 be increased to age 65. The Rule of 90 retirement date would stay in effect.

- Currently persons who retire from OTRS must be retired for sixty days before they can return to work in a post-retirement setting. The Committee recommends that OTRS retirees be retired for one year before they can return to work for their former employer. This would put OTRS retirees on par with OPERS retirees who have been subject to the one year waiting period since 2008.

Oklahoma Public Employees Retirement System (OPERS)

- The Committee recommends that design changes be implemented for OPERS in order to further reduce the unfunded liability. Currently a member of OPERS may retire at age 62 if the person is vested with at least eight years of credited service (must have at least six years of full-time equivalent employment with a participating employer). The Committee recommends that age 62 be increased to age 65. The Rule of 90 retirement date would stay in effect. This design change would be applicable to persons entering OPERS as a new member on or after July 1, 2011.
- The Committee recommends that design changes be implemented which would impact elected officials who first become an elected official on or after July 1, 2011. Currently the benefit multiplier, contribution rate, normal retirement age and years of vesting are different for elected officials than for regular non-public safety members of OPERS. The Committee recommends that the multiplier for newly elected officials be reduced to 2%, the normal retirement age be increased from age 60 to age 65 and the vesting period be increased from six to eight years. Also the contribution rate would be reduced to match regular members since the multiplier would be decreased.
- The Committee recommends that the employee contribution rate be increased from 3.5% to 7% in order for the contribution rate to be the same for both members of OPERS and OTRS. This increase would be phased in by 1/2 percent a year over a seven year period.

Uniform Retirement System for Justices and Judges (URSJJ)

- Currently the normal retirement date for members of the URSJJ is age 60 with 10 years of service, age 65 with 8 years of service or Rule of 80 with 8 years of service. The Committee recommends that the retirement age be increased for judges, who first become members of URSJJ on or after January 1, 2012, to age 62 for those with 10 or more years of service and age 67 for those with 8 or more years of service.
- The Committee recognizes that the financial condition of the URSJJ needs to be addressed in the near future as the funded ratio has been steadily declining over the past few years. The Committee recommends that discussions continue between the Legislature and the Judiciary in order to determine the best solution to the situation. Possible changes to stabilize the condition of URSJJ include an increase in contribution rates.

Oklahoma Firefighters Pension and Retirement System (OFPRS)

- All of the public safety pension systems receive revenue from the insurance premium tax with OFPRS receiving the largest percentage. The Committee recommends that further study be conducted to look at the feasibility of repealing transferable tax credits which negatively impact the amount of revenue generated by the insurance premium tax.
- The Committee recommends that further study should be given to the fiscal ramifications of the deferred retirement option (DROP and Back DROP) plans.

Oklahoma Police Pension and Retirement System (OPPRS)

- All of the public safety pension systems receive revenue from the insurance premium tax with OPPRS receiving a percentage of those revenues. The Committee recommends that further study be conducted to look at the feasibility of repealing transferable tax credits which negatively impact the amount of revenue generated by the insurance premium tax.
- The Committee recommends that further study should be given to the fiscal ramifications of the deferred retirement option (DROP and Back DROP) plans.

Oklahoma Law Enforcement Retirement System (OLERS)

- All of the public safety pension systems receive revenue from the insurance premium tax with OLERS receiving a percentage of those revenues. The Committee recommends that further study be conducted to look at the feasibility of repealing transferable tax credits which negatively impact the amount of revenue generated by the insurance premium tax.
- The Committee recommends that further study should be given to the fiscal ramifications of the deferred retirement option (DROP and Back DROP) plans.
- When it comes to the granting of COLA's to retirees, OLERS is unique in that the statues provide that when there is a salary increase for state troopers, a corresponding benefit adjustment is granted to OLERS retirees (half-pay benefit requirement). The Committee recommends that the Legislature should examine the feasibility of linking state trooper pay increases with a benefit increase for retirees.

APPENDIX 1

SELECT COMMITTEE ON PENSIONS

Senator Mike Mazzei
March 2011

OKLAHOMA TEACHERS RETIREMENT SYSTEM

Unfunded Liability	= \$10.4B
Funded Ratio	= 47.9%
Total Contributions	= \$911M (\$225M dedicated income tax)
Additional Required Contributions	= \$268 Million

****IF ELIMINATE UNFUNDED COLA***

Unfunded Liability	= \$7.5B
Funded Ratio	= 56%
2% COLA Cost	= \$170M

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

Unfunded Liability	= \$3.2B
Funded Ratio	= 66.0%
Total Contributions	= \$259.7M
Additional Required Contributions	= \$141M

****IF ELIMINATE UNFUNDED COLA***

Unfunded Liability	= \$1.7B
Funded Ratio	= 78.8%
2% COLA Cost	= \$100M

OKLAHOMA FIREFIGHTERS PENSION & RETIREMENT SYSTEM

Unfunded Liability	= \$1.6B
Funded Ratio	= 50.7%
Total Contributions	= \$54.2M

Additional Required Contributions = \$76.0M

****IF ELIMINATE UNFUNDED COLA***

Unfunded Liability = \$1.1B
Funded Ratio = 60.6%
2% COLA Cost = \$30.4M

OKLAHOMA POLICE PENSION& RETIREMENT SYSTEM

Unfunded Liability = \$689M
Funded Ratio = 71.6%
Total Contributions = \$22.3M
Additional Required Contributions = \$63.6M

****IF ELIMINATE UNFUNDED COLA***

Unfunded Liability = \$234.8M
Funded Ratio = 88.1%
2% COLA Cost = \$22M

OKLAHOMA LAW ENFORCEMENT RETIREMENT SYSTEM

Unfunded Liability = \$279.4M
Funded Ratio = 70.4%
Total Contribution = \$15.5M
Additional Required Contribution = \$27.7M

****IF ELIMINATE UNFUNDED COLA***

(System assumes additional 1/2 pay benefit of 3.25% per year)

Unfunded Liability = \$275.5M
Funded Ratio = 70.7%
2% COLA Cost = \$19M

UNIFORM RETIREMENT SYSTEM FOR JUSTICES AND JUDGES

Unfunded Liability = \$52.7M
Funded Ratio = 81.3%
Total Contributions = \$11.3M
Additional Required Contribution = \$9M

****IF ELIMINATE UNFUNDED COLA***

Unfunded Liability = \$8.6M
Funded Ratio = 96.4%
2% COLA Cost = \$530K

TOTALS

Unfunded Liability = \$16.2B
Funded Ratio = 55.5%
Total Contribution = \$1.274B
Additional Required Contribution = \$585M

****IF ELIMINATE UNFUNDED COLA***

Unfunded Liability = \$10.8B
Funded Ratio = 64.8%
2% COLA Cost = \$342M