INTERIM STUDY REPORT

Pension Oversight Committee
Representative Randy McDaniel, Chairman
Oklahoma House of Representatives
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Best Practices of Pension Plans

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Pension Oversight Committee
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- At the beginning of last session, the total unfunded liability across all pension plans equaled $16.1 billion. After several major pension reform measures were enacted, the total unfunded liability decreased to $10.6 billion. This is the largest single year debt reduction in state history.
- As a result of the comprehensive reform package that was enacted, the funded ratio across all plans improved from 56% as of June 30, 2010 to 67% as of June 30, 2011.
- HB 2132, enacted during the 2011 legislative session, had the largest immediate impact on the state's pension plans, decreasing the total unfunded liability by over $5 billion. While the state's pension plans will also benefit from other enacted reforms, the financial improvements will be seen over the longer term.
- Investment returns were stronger last year, which helped the financial position of the system.
- The goal is to ensure that every pension plan is sustainable. In order to provide cost-of-living-adjustments (COLAs), the pension plans will have to be better funded and be on a sustainable path. Dedicated revenues should also be considered as part of the COLA discussion.

See Pension System Funding Handout (presentation a).

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- The National Institute on Retirement Security, based in Washington D.C., released a report in June 2011 highlighting best practices for funding and administering pension plans. The six recommendations in the report are as follows:
    1. Employer pension contributions should cover the full amount of the annual required contribution, and stability in the contribution rate should be maintained over time, that is, at least equal the normal cost.
    2. There must be employee contributions to help share in the cost of the plan.
    3. Benefit improvements must be actuarially valued before adoption, and properly funded upon adoption. Dr. Wilbanks notes that Oklahoma has adopted legislation requiring that before the legislature may adopt any benefit improvement, a fiscal impact study must be completed and the funding must be provided.
    4. COLAs should be granted responsibly, for example through an ad hoc COLA that is amortized quickly, or an automatic COLA that is capped at a modest level.
    5. Plans should have anti-spiking measures in place that ensure actuarial integrity and transparency in pension benefit determination. Dr. Wilbanks notes that spiking is the