The pension crisis is over

David Blatt

Oklahoma’s seven public pension systems have a combined unfunded liability of $11.6 billion as of June 30, 2012. This large number alone is often put forward to make the case for doing away with traditional defined benefit pensions for state workers. Others point to the fiscal crisis in cities like Detroit and Stockton, California, or to the size and growth of the federal debt, and draw the conclusion that a major pension overhaul is needed in Oklahoma. The alarming rhetoric obscures the real progress that Oklahoma policymakers have made in recent years to put our public pensions on sound footing.

Without question, Oklahoma’s pension systems have faced serious challenges for a long time. Over several decades, lawmakers allowed problems to build by offering current and future retired workers more generous benefits than what was adequately paid for. In 2006, the Oklahoma Pension Oversight Commission issued a report titled “Crisis in the Oklahoma State Pension Systems”, declaring that “a crisis state has been reached,” and warning that “without definitive action in the near future, the eventual cost of restoring the systems to financial health may be prohibitively expensive.” As recently as 2010, the total unfunded liability of the pensions systems totaled $16.1 billion, and the systems had a combined funded ratio of just 56 percent, third worst in the nation. The state’s largest pension plan, the Oklahoma Teachers Retirement System (OTRS), by itself accounted for $10.4 billion of this total liability. Its funded ratio was just 47.9 percent and its funding period – the length of time it would take to be fully funded – was nearly fifty years.

Yet over the last decade, legislators have awakened to the state’s pension problems and have enacted strong reform measures. These include:

- In 2003, the legislature began increasing employer contributions to the Oklahoma Public Employee Retirement Systems (OPERS). The state contribution rose from 10 percent of salary in 2004 to 16.5 percent in 2011;
- In 2006, the legislature passed SB 1894, the Actuarial Analysis Act, requiring an actuarial determination that any future increase in retirement benefits is fully funded and imposing constraints on how retirement bills can be enacted;
- In 2011, the legislature approved a series of reforms that included raising the retirement age for new teachers and state employees, and prohibited the granting of future retiree COLAs (cost-of-living-adjustments) without full funding.
- In 2013, the legislature approved HB 2078 to shore up the Oklahoma Firefighters Pension and Retirement Systems, including increased employer and employee contributions, additional dedicated tax revenue, and stricter eligibility requirements for benefits.
- Also in 2013, the legislature passed SB 847, which provides that future revenue surpluses above the cap on the Rainy Day Fund will be allocated to a new Pension Stabilization Fund to address unfunded pension liabilities.

None of these reforms represents a magic bullet. But together they are bearing fruit, stabilizing the systems and putting them on a course toward long-term solvency.

- Total unfunded liability of the seven systems has dropped from $16.1 billion in 2010 to $11.6 billion in 2012 and the funded ratio has increased from 56 to 65 percent.
• The funded ratio for OPERS (public employees) has improved from 72.0 percent in 2005 to 80.2 percent in 2012. In 2013, dedicated revenues to OPERS slightly exceeded the system’s “actuarial required contribution”, or the amount of contributions needed to pay for benefits accruing and pay off its unfunded liability over the next twenty-five years.

• For OTRS (teachers), the funded ratio has risen from 49.5 percent in 2005 to 54.8 percent in 2012. More significantly, employer and employee contributions and dedicated revenues are now within 1.2 percentage points of the system’s actuarial required contribution. The system’s funding period – the length of time the actuaries project it will take to be fully funded – has fallen to 22 years.

• The unfunded liability for OFPRS (firefighters) declined from $1.5 billion in 2010 to $1.1 billion in 2012. Passage of this year’s landmark reform bill “will make the firefighters’ pension system more stable and assure future firefighters will have a pension they can count on receiving”, according to Speaker T.W. Shannon.

It should now be time to officially declare the “Crisis in the Oklahoma State Pension Systems” to be over. The reforms enacted in recent years have substantially increased funding to the state’s pension systems, while preventing future imbalances caused by approval of unfunded benefits. Continued discipline will certainly be needed to ensure that these gains are preserved, along with continued legislative tweaks to ensure that funding is adequate to meet obligations.

Despite the success of these pragmatic fixes, lawmakers have begun discussing a much more radical change. A push is underway to eliminate defined benefit pension plans for future public employees, and replace it with a type of plan that could create more risk for public employees. Whether such a policy shift would be in the best interest of the state and its employees is a debate worth having, and one that we intend to explore in future blogs posts. But we should not proceed hastily due to a crisis mentality. Thanks to sound actions of Oklahoma’s elected officials over the past decade, the crisis has been addressed and Oklahoma’s pension systems are now on a stable and sustainable path.

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