

State Pension System Overview

Oklahoma administers seven public retirement systems serving about 221,000 active and retired public employees as of 2005. While most of these pensions are in good fiscal health, the state's largest pension plan, the Oklahoma Teacher's Retirement System (OTRS) is the third-worst funded public retirement plan in the nation, with unfunded liabilities exceeding \$7 billion. All together, the state's pension liabilities exceed its assets by \$10 billion. This is a long-term fiscal obligation that becomes more difficult to solve with each passing year of inaction.

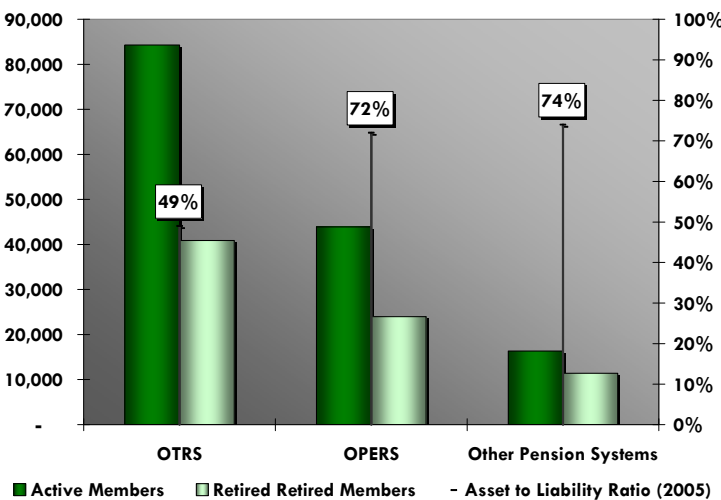
STATE PENSION SYSTEMS

Of the seven pension systems, the two largest are the Oklahoma Teachers Retirement System (OTRS) and the Oklahoma Public Employees Retirement System (OPERS). Together, they cover about 193,000 active and retired employees as of 2005. They account for about 89% of active members and 85% of retired members served by the total public pension system.

The other five pension systems cover about 28,000 active and retired members—about 13% of the entire population in the public pension systems. These systems include the Firefighter's Pension and Retirement System, the Police Pension and Retirement System, the Law Enforcement Retirement System, Uniform Retirement System for Justices and Judges, and the Wildlife Retirement Plan.

STATE PENSION SYSTEM FUNDING

The seven pension systems are all funded by employer and employee contributions, state taxes, and investment income. The health of the pension plans deteriorated earlier this decade with the downturn of the stock market. Funded ratios declined and the unfunded liabilities grew. The health of the systems is based on certain actuarial assumptions, such as how long members will work, annual investment returns, the inflation rate, benefit changes, and state revenue collections dedicated to the pension systems.



Based on these actuarial assumptions, for OTRS, the funded ratio is 49% with unfunded liabilities exceeding \$7.1 Billion. For OPERS, the funded ratio is 72% with unfunded liabilities of \$2.1 Billion. And, combined, the remaining systems have a funded ratio of 74% with unfunded liabilities totaling \$1.4 Billion.

SOLUTIONS FOR PENSION REFORM

Various solutions have been suggested to remedy the unfunded liability problem. These solutions are as follows:

Solution	Pro	Con
Increase State Revenue to the Pension Systems	<ul style="list-style-type: none"> A straightforward approach to solve the unfunded liability problem. 	<ul style="list-style-type: none"> As funds become scarce, the competition to allocate funds to pension systems will increase.
Issue Pension Obligation Bonds (POBs)	<ul style="list-style-type: none"> Issuing market-based bonds has the potential to yield investment returns of about \$20 million per year (based on a 2% spread on a \$1 billion, 30-year bond issue). Supporters point to the success of POBs in Illinois where market timing was favorable to reduce the pension system's liability. 	<ul style="list-style-type: none"> Tying the pension systems to the market is inherently risky. Critics are concerned with converting a <i>soft liability</i> (pension funding), that can be deferred or amortized, into a <i>hard liability</i> (bond payments) that must be paid.
Redirect funds from the Commission of Land Office Trust Fund	<ul style="list-style-type: none"> Revenues from the sale of mineral leases have been flowing into the Trust at near-record levels since 2001. 	<ul style="list-style-type: none"> While the plan would initially provide substantial benefits to OTRS at little expense to public schools, over time, the compounded impact to the Trust and its beneficiaries would be considerable.
Convert from a defined benefit system to a defined contribution system	<ul style="list-style-type: none"> Employees have potentially larger contributions and greater benefits through investment earnings, along with greater portability for employees who change jobs. May create greater fiscal certainty and reduce the state's exposure for future liabilities if funding levels plus investment earnings fail to cover obligated benefits. 	<ul style="list-style-type: none"> Switching to defined contribution plans would be more expensive for up to several decades. Defined contribution plans are more expensive to operate and do not yield higher investment returns. Defined benefit plans promote recruitment and retention of qualified employees.

To read CAP's issue brief, *Oklahoma's Pension Systems: Tomorrow's Problem Requires Attention Today*, and to get more information on the state pension system, go to:

www.okbudgetalliance.org/other-issues.aspx

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