



2013

Pension Reform in Oklahoma

Representative Randy McDaniel

Chairman of the Pension Oversight Committee

Teamwork

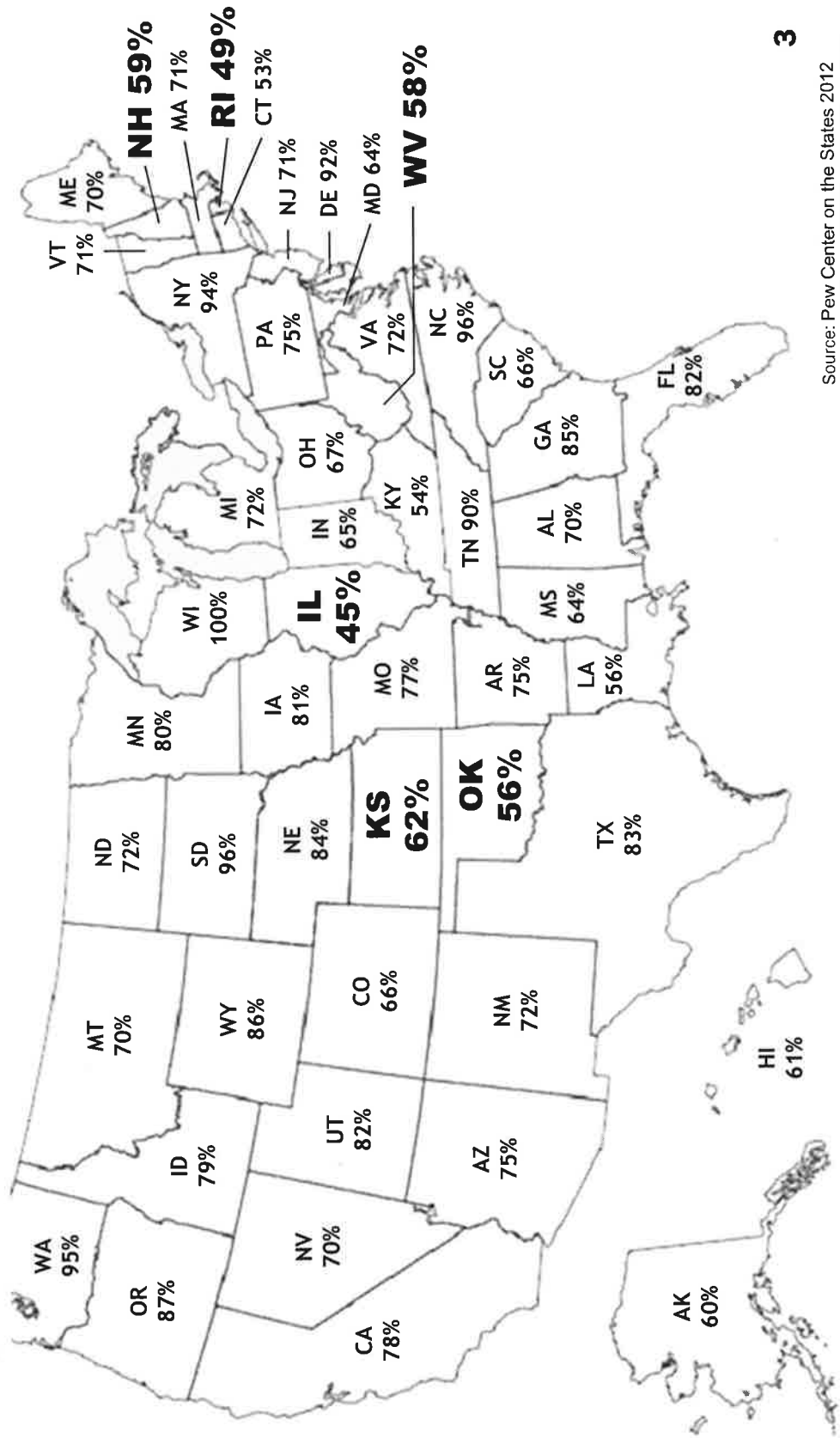


“The goal is to honor the retirement promises made. To achieve this goal over the long run, reforms are necessary. Solving a problem of this magnitude will take teamwork.”

Rep. Randy McDaniel, The Oklahoman, January 10, 2011

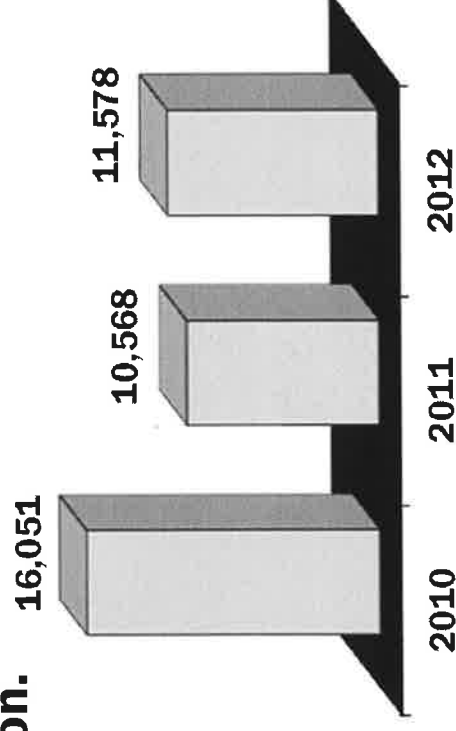
Funded Ratio Comparison

- Pew Center on the States reported that at 56% funded in 2010, Oklahoma's pension funding ranked in the bottom three of all states in the nation.



Results Matter

- Before the 2011 legislative session, the unfunded actuarial accrued liability (UAAL) associated with the state's pension systems totaled over \$16 billion.
- After reforms were enacted in 2011, the UAAL fell to \$10.6 billion. Together we reduced the unfunded liability by \$5.5 billion.
- Due to sluggish market returns and other factors the UAAL in 2012 increased by \$1 billion.



Lower Unfunded Liability

- The major systems experienced a significant reduction in the unfunded liability.

System	2010 UAAL	2011 UAAL	2012 UAAL
OTRS	\$10.4 b	\$7.6 b	\$8.4 b
OPERS	\$3.3 b	\$1.6 b	\$1.7 b
OFPRS	\$1.5 b	\$1.0 b	\$1.1 b
OPPRS	\$587 mm	\$137 mm	\$200 mm
OLERS	\$239 mm	\$217 mm	\$190 mm
URSJJ	\$53 mm	\$9 mm	\$11 mm
Wildlife	\$16 mm	\$21 mm	\$ 24 mm
TOTAL	\$16.1 b	\$10.6 b	\$11.6 b

The Funded Ratio

System	Funded Ratio		
	2010	2011	2012
OTRS	47.9	56.7	54.8
OPERS	66.0	80.7	80.2
OFPRS	53.4	63.7	60.9
OPPRS	74.9	93.0	90.2
OLERS	73.6	75.9	78.4
URSJJ	81.3	96.3	95.7
Wildlife	81.5	78.1	76.1

NOTE: All numbers are percentages.

▪ In 2010, Oklahoma's pension plans were 56% funded.

▪ In 2011, the state's pension plans were 67% funded.

▪ In 2012, Oklahoma's pension plans were 65% funded.

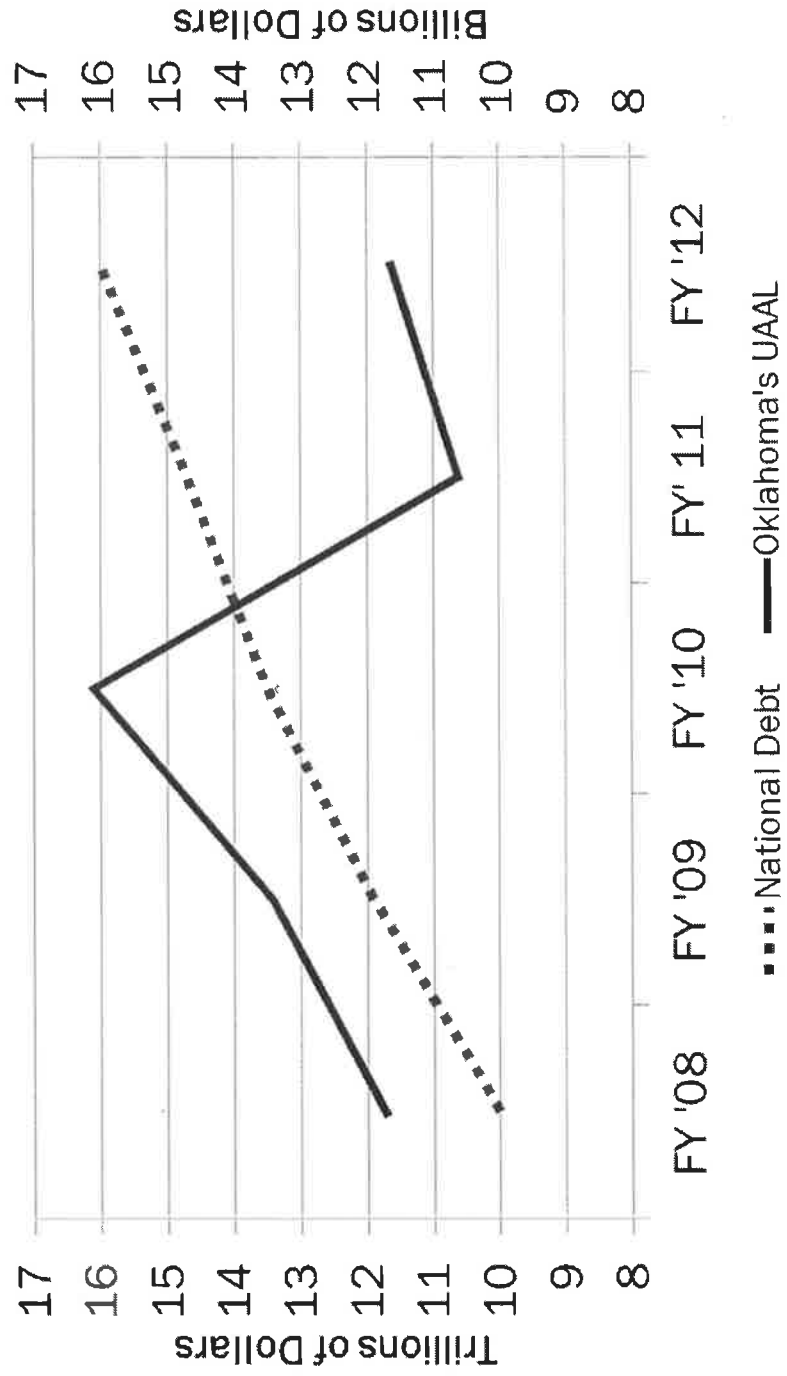
Funding Analysis

- While the financial condition of the state's major pension plans has improved, some annual funding shortfalls still exist.

	OTRS			OPERS			URSJJ			OFPRS			OPPRS			OLERS		
	2012	2010		2012	2010		2012	2010		2012	2010		2012	2010		2012	2010	
Total Normal Cost	9.81	11.8		10.7	12.6		26.7	31.7		28.6	33.4		21.3	26.8		28.4	31.8	
Amortization Cost	15.06	16.3		8.7	15.0		2.8	11.6		40.7	52.7		15.6	38.8		40.2	42.9	
Required Contribution	24.87	28.1		19.8	27.9		30.15	43.7		70.1	86.7		38.1	66.8		70.5	76.2	
Member Contribution	7.0	7.0		4.1	4.1		8.0	8.0		8.0	8.0		8.0	8.0		8.0	8.0	
Employer Contribution	9.5	9.5		16.5	15.5		13.0	10.0		13.0	13.0		13.0	13.0		10.2	10.2	
Dedicated Revenues	7.18	5.9		-	-		-	-		26.63	21.8		10.56	8.9		26.31	21.1	
Total Contributions	23.68	22.4		20.6	19.6		21.0	18.0		47.63	42.8		31.56	29.9		44.51	39.3	
Shortfall/Surplus	1.19	5.7		-0.8	8.4		9.15	25.7		49.3	43.9		6.64	36.9		26.0	37.0	

Note: All numbers are percentages.

Oklahoma UAAL vs. National Debt



Consequences of Inaction

- Increased budget pressure as pension funding requirements rise.
- Potential increase in borrowing costs in the bond markets. The major credit rating agencies are looking in more detail at unfunded pension obligations when determining a state's bond rating.

Pension Funded Ratio

Standard & Poor's ratings methodology includes the following rubric:

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

- Standard & Poor's rates Oklahoma AA+, Outlook Stable. The United States is rated AA+, Outlook Negative. S&P has lowered its credit ratings for many of the world's largest financial institutions.
- High interest rates continue in countries that have not been able to adequately address structural deficits.

Reform Ideas

Defined Contribution Plan:

- New participants of nonhazardous duty plans
- Utilizing infrastructure of successful SoonerSave plan
- Portability for a changing workforce
- Competitive matching by the state
- Considering a new guaranteed investment product
- Economic opportunity and prosperity

Reform Ideas

Safeguarding the Future:

- **Ensure the funding of all future benefit increases.**
- **Creating more awareness of the true costs of benefit increases; for example a 2% COLA = \$325 million.**
- **OLERS reform to improve stability.**

OTRS Reform:

- **Extend salary calculation limitation of HB 2079 (2013) to employees of the OSU Medical Center.**
- **Excludes clinical-related income from final average salary calculation**
- **HB 2079 excluded such from OU Medical Center Employees.**

The Course 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.**
 - **A \$11.6 billion unfunded liability remains a major financial challenge.**
- **Conduct interim studies**
- **Develop fair and meaningful legislation**

Conclusions & Questions



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