Oklahoma
State
Senate

Legislative Brief

June 2011

State Pension Systems

Issue Background

Reform of the six state pension systems was a high priority of the Legislature in 2011. The current unfunded liability of the state pension systems is in excess of $16 billion and the Legislature felt it was necessary to take action this session to enact legislation to improve the financial status of these systems while at the same time protecting the interests of both current and future retirees. The Legislature made significant strides towards reducing the unfunded liability of the pension systems by prohibiting the enactment of unfunded cost-of-living adjustments (COLAs). The Legislature also increased the normal retirement age for new members of the Teachers' Retirement System of Oklahoma (OTRS), the Oklahoma Public Employees Retirement System (OPERS) and the Uniform Retirement System for Justices and Judges (URSJJ) which will reduce the unfunded liability of these systems in the long-term. Finally, the Legislature enacted changes to the retirement of elected officials to ensure that newly elected officials will receive the same treatment as regular members of OPERS.

Summary of Actions

Funding of COLAs

A cost-of-living adjustment (COLA) is a benefit enhancement that is periodically granted in public retirement systems to help offset the effects of inflation. In Oklahoma, COLAs have been granted by the Legislature on an ad hoc or discretionary basis. The cost of these COLAs has been absorbed by the pension systems. Legislation enacted in 2004 required each state pension system to adopt a COLA adjustment actuarial assumption in its annual valuation report. The primary purpose of the Oklahoma Pension Legislation Actuarial Analysis Act (OPLAAA), which was enacted in 2006, was to identify legislation that would have a fiscal impact to the state pension systems and to require those fiscal retirement bills to be concurrently funded by the Legislature when such a measure was enacted. The provisions of OPLAAA allowed COLAs to be granted to retirees without concurrent funding if the amount of the COLA did not exceed the COLA actuarial assumption of each System. In order to address the unfunded liability issues, the Legislature passed HB 2132 which ends the practice of unfunded COLAs. HB 2132 amends OPLAAA to require all COLAs to be concurrently funded by the Legislature at the time of enactment. This requirement for the Legislature to fund COLAs will reduce the unfunded actuarial accrued liability for the state's pension systems from $16.2 billion to $10.8 billion. The funded ratios of each system will also increase.

Normal Retirement Age

The normal retirement age for new members of OTRS, OPERS and URSJJ was increased in legislation passed during the 2011 session. SB 377 set the normal retirement date for members of OTRS, whose first creditable service with OTRS occurs on or after November 1, 2011, at age 65 or Rule of 90 with a minimum age of 60. SB 794 set the normal retirement date for members of OPERS, whose first participating service with OPERS occurs on or after November 1, 2011, at age 65 or Rule of 90 with a minimum age of 60. HB 1010 set the normal retirement age for members of URSJJ, whose initial service as a member of URSJJ begins on or after January 1, 2012, at age 62 with ten or more years of service or age 67 with eight or more years of service. These changes in the normal retirement age for these three systems will gradually reduce the accrued liability of these systems which will result in a higher funded ratio over time as current members are replaced by the new hires subject to the higher normal retirement age.

Elected Officials

Elected officials (statewide elected officials, Legislators and county officers in all counties except Oklahoma and Tulsa) may become members of OPERS upon their election. Elected officials are allowed to choose their contribution rate which in turn determines the benefit computation factor (multiplier). The rates range from a contribution rate of 4.5% with a multiplier of 1.9% to a contribution rate of 10% with a multiplier of 4%. Regular members of OPERS have an employee contribution rate of 3.5% with a 2% multiplier. Elected officials are eligible to vest with six full years of participating elected service while regular members of OPERS are eligible to vest with eight years of credited service. The normal retirement age for elected officials is either Rule of 80 or age 60 if vested. The normal retirement age for regular members of OPERS is Rule of 80, Rule of 90 or age 62 if vested. SB 794 takes significant steps to ensure that elected officials are treated in the same manner as regular members of OPERS for retirement purposes. The elected officials provisions of SB 794 are applicable to those who are first elected or appointed to an elected office on or after November 1, 2011. The employee contribution rate for these elected officials will be set at 3.5% while their multiplier will be 2%. These elected officials will be eligible to vest with eight years of participating service. The normal retirement age for these elected officials will be set at age 65 or age 62 with at least 10 years of elected service. In addition to equalizing the treatment between elected officials and regular members of OPERS, the changes in SB 794 will also gradually reduce the accrued liability of OPERS as the current elected officials retire and are replaced by the newly elected officials who are subject to the requirements of SB 794.

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