Oklahoma Public Employees Retirement System (OPERS)

House Bill 2854 Threatens Oklahoma's Pension Progress

Several states facing major pension challenges have successfully transitioned to lower-risk retirement designs, including Oklahoma. House Bill 2854 attempts to undo that progress by eliminating the current Pathfinder defined-contribution retirement plan and reopening the legacy pension plan, re-exposing Oklahoma to unnecessary unfunded liabilities, financial risks, and hidden costs that would ultimately be borne by taxpayers.

Closing one of the best defined-contribution plans in the country to reopen the shuttered OPERS defined benefit pension plan would unwind important reforms and expose taxpayers to potentially massive hidden costs.

- Closing the OPERS defined benefit pension to new hires and adopting other prudent policy changes dramatically improved the financial solvency of the legacy OPERS pension in the last decade. OPERS was 66% funded in 2010, in the wake of the Great Recession, but—after major sacrifices by employees and employers—stands fully funded today.
- HB 2854 would move the state away from the retirement design that has been integral to this success and bring back a system that exposes taxpayers to the same risk of unfunded liabilities that prompted the closing of that pension almost a decade ago.

Transferring defined-contribution account balances to OPERS at the current discount rate would create major immediate risks.

- HB 2854 would allow current Pathfinder defined-contribution plan participants to transfer their account balances over to OPERS to fund an actuarially equivalent pension benefit, but their previously earned service would be transferred using a relatively high discount rate of 6.5%.
- Such transfers would create the risk of a pension-obligation-bond-like situation where any downturn in market performance or lowering of return rate assumptions would quickly create unfunded liabilities in the newly reopened—and currently fully-funded—OPERS system.

House Bill 2854 has not received a rigorous actuarial analysis or stress testing, nor has it received scrutiny from legislative finance committees, leaving important questions for taxpayers unanswered.

- Public pension systems operate over generations, but legislators have only been presented with minimal administrative cost projections based on an assumption that the proposed new pension benefit would do the impossible: get 100% of its assumptions 100% right, 100% of the time.
- Major retirement plan design changes necessitate long-term actuarial analysis and stress testing to ensure financial risks to governments are transparent and clearly understood beforehand.

Bottom Line: *Changes of the magnitude being proposed should receive rigorous actuarial and risk analyses that ensure future generations' interests are protected.*

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