Moving to a 401(K)-system
Disaster for Taxpayers

Last year, the state of Oklahoma rushed through a legislative package that closed the Oklahoma Public Employees pension system and moved many new employees into risky 401(k) plans. That plan, now under costly litigation, was enacted with no study or oversight by financial experts.

Now, some Oklahoma lawmakers propose the same move for other public retirement systems. This time, we should look at the facts and make an informed decision.

Actuaries have studied proposed 401(K) transition plans in more than a dozen states. In each case, they find that it comes with a hefty price tag -- millions or even billions in "transition" costs that are conveniently swept under the rug during political debate.[8] When a defined benefit plan is closed, new employees are no longer paying into the system – making debt problems worse.[9] What's more, taxpayers are left on the hook to pay these transition fees, which go straight to Wall Street hedge funds, instead of just going back into the pension system.[10]

States that have made the shift to 401(K) plans have done so to disastrous financial consequences.

- In Alaska, pension debt ballooned from $5.7 million to $11.9 billion[11]
- In Michigan, debt grew to $5.4 billion, from $697 million[12]
- West Virginia reopened its pension plan after its 14-year failed experiment with 401(k) plans.[13] The state's pension fund had reached a rock-bottom funding ratio of 18 percent. Retirees whose modest but reliable pensions plans were replaced with defined contribution accounts had little savings and were increasingly forced to rely on social welfare programs like Soonercare.

Moving employees into defined contribution systems will only increase the burden on taxpayers and leave retirees with uncertainty and risk.[14] Oklahoma can't afford to repeat the mistakes of the past with our teachers, first responders and other pubic servants.

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PENSIONS & RETIREMENT
2015 Oklahoma Legislative Guide

Distributed By Keep Oklahoma's Promises, a coalition of educators, public safety professionals and concerned citizens.

Oklahomans deserve a prudent and thoughtful approach to retirement. This guide addresses some of the proposed changes to Oklahoma's retirement systems and provides an overview of how the systems are structured. Most of the systems are on a path to full funding within 20 years, and several plans boast investment returns that are near or at the top of the nation.

Oklahoma Public Pensions

The Facts

As the 2015 legislative session approaches, talk of public pension "reform" will proliferate in the media and throughout the halls of the Oklahoma Capitol. Some special interests will claim the sky is falling on the financial health of Oklahoma's pension plans. This is simply not the case.

- *Teachers, firefighters, police, state troopers, judges and other public employees are enrolled in six defined benefit pension plans. These are large public funds that are invested on behalf of Oklahoma workers.*
- *Defined benefit plans save taxpayer dollars because they enjoy lower fees and higher returns than individual accounts. Individual 401(k) plans would end up costing taxpayers 50 percent to 80 percent more for the same benefits.[1]*
- *The majority of the defined benefit systems are between 60 percent and 95 percent funded, which the Government Accountability Standards Board deems to be a healthy funded ratio.[2]*
- *Oklahoma's public pension plans have made significant progress over the last four years. The unfunded liability has decreased by $6 billion, and the funding ratio has improved by 16 percent.*
- *The majority of the defined benefit systems are on track toward full funding within 18-22 years, which GASB praises as a robust timeline.[3]*

The Government Accountability Standards Board (GASB) is the independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local government.

Changing these plans risk the stability that stakeholders and lawmakers worked so hard to attain over the last decade. Moreover, the alternatives pose major risks.[4]

Consolidation • **Betting the Farm**

During the 2015 legislative session, Oklahoma legislators will consider consolidating some or all of the state's pension investment boards into one administrative body. This may seem like a harmless administrative move, but the reality is fraught with complications.

- *Consolidation puts over 30 billion in pension assets into the hands of a few political appointees hand selected by the governor, significantly reducing opportunities for public accountability and oversight.[5]*
- *Similar efforts in other states have cost taxpayers millions of dollars in transition costs and fees.[6]*
- *Assuming the very best market conditions, combining the state's pension boards would produce savings of one quarter of one percent.[7] But a wide array of research shows that even these mere savings might never be realized.*

Bigger is not always better. Multiple pension boards allow for self determination and more flexible investment strategies tailored to the unique needs of each system. Consolidation is a risk Oklahomans simply cannot afford.