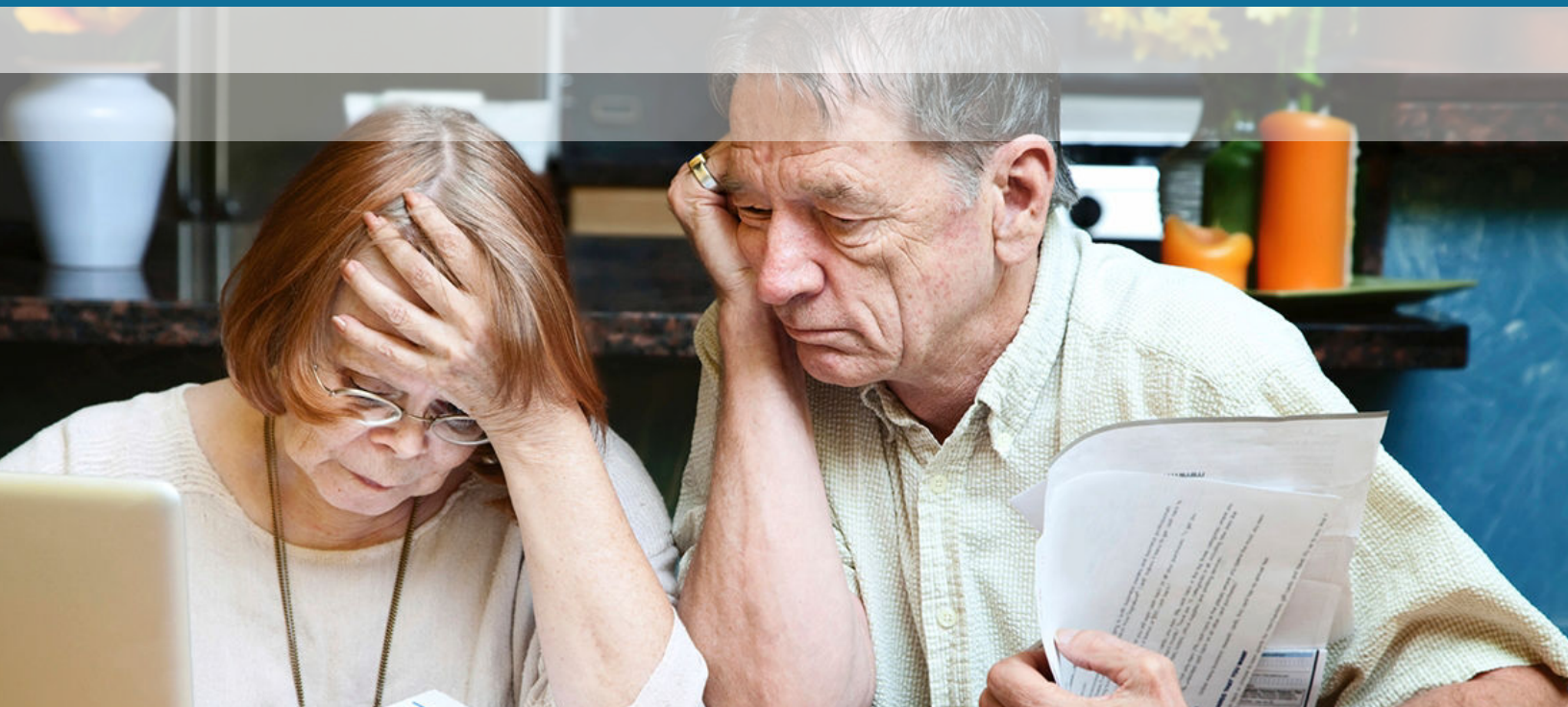




FISCAL RESPONSIBILITY AND 401(K)S

Why Converting Public Employees to Defined-Contribution Retirement Plans Is Wrong For Your State



Summary

Throughout the country, state policymakers are tasked with formulating a state budget. Whether it is a time of financial hardship or pursuing an ideological agenda, too often, those in power will explore the option of converting their defined-benefit pension plans to defined-contribution 401(k) plans for state and local government workers.

This report explores the potential impact states will face should lawmakers decide to convert new public employees from a defined-benefit pension plan to a defined-contribution 401(k) retirement plan as a budget-saving measure.

This report seeks to answer the following questions:

- Has the emergence of defined-contribution plans contributed to the retirement savings crisis in the country?
- Does converting a defined-benefit pension plan to a defined-contribution plan impact the overall cost to the state?
- What are the consequences of converting a defined-benefit pension plan to a defined-contribution plan?
- Does conversion to a defined-contribution plan impact recruitment and retention of public employees?

History of Employer-Sponsored Retirement Plans

Since the 1980s, defined-contribution 401(k) retirement plans have become the predominant plan offered to private-sector employees in the United States. In March 2021, 65% of private-sector employees were offered a defined-contribution plan and 15% were offered a defined-benefit pension plan. Eighty-six percent of state and local public sector employees had access to a defined-benefit pension plan, and of those workers 75% opted to participate.¹

Defined-contribution 401(k) retirement plans were established with the passage of the 1978 Revenue Act. The initial intent of the 401(k) was to provide another vehicle for the wealthy to save money on their taxes.² It wasn't until the 1980s that U.S. corporations saw the 401(k) as a replacement retirement product, creating an opportunity to move away from providing a defined-benefit pension to their employees. The defined-benefit pension plan, which continues to be the standard-bearer in the public sector, is a retirement plan that pools workers' assets and offers a monthly retirement benefit for life after a career of service.

Defined-Contribution Retirement Plans and the Retirement Savings Crisis

Economists and researchers agree that the U.S. is on the precipice of a retirement savings crisis because Americans cannot save enough using defined-contribution 401(k)-style plans or they are not saving at all. The Economic Policy Institute found that the median defined-contribution retirement account balance ranges from \$1,000 for families headed by people in their mid-30s to \$21,000 for near-retirement households—which is not enough to retire with security. Additionally, nearly half of families have no retirement account savings.³

Workers currently participating in defined-contribution plans in the private sector have experienced two major economic downturns in the last 12 years: the Great Recession and the recession caused by the coronavirus pandemic. These downturns have hurt everyday Americans' retirement savings. With the coronavirus pandemic-induced recession specifically,

¹ "Retirement Benefits: Access, Participation, and Take-up Rates for Defined Benefit and Defined Contribution Plans" U.S. Bureau of Labor Statistics, U.S. Department of Labor, last modified March 2021, <https://www.bls.gov/charts/employee-benefits/percent-access-participation-takeup-retirement-benefits.htm#>.

² Olshan, Jeremy, "The inventor of the 401(k) says he created a monster," *MarketWatch*, September 26, 2016, <https://www.marketwatch.com/story/the-inventor-of-the-401k-says-he-created-a-monster-2016-05-16>.

³ Morrissey, Monique, "The State of American Retirement Savings: How the Shift to 401(k)s Has Increased Gaps in Retirement Preparedness Based on Income, Race, Ethnicity, Education, and Marital Status," Economic Policy Institute, December 10, 2019, <https://www.epi.org/publication/the-state-of-american-retirement-savings/>.

the jobless rate increased mainly for low-income workers, while wealthy earners have remained relatively unscathed. CNBC cites a “two-track” economy, where wealthy Americans weather financial storms and low-income workers are forced to withdraw from their retirement savings accounts to get by.⁴ The lack of retirement savings and the two-track economy that prevents lower-income workers from saving enough for retirement directly correlates with the obstacles that are already in place for older and younger workers trying to save.

One of these obstacles is the student debt crisis. The current total U.S. student loan debt is \$1.53 trillion, and 1 in 4 Americans under age 60 have this debt. The average student loan debt in America is \$37,172, and the average student loan payment is \$393 per month.⁵ For younger workers entering the workforce, this presents a significant barrier to properly saving for retirement. According to TIAA, 84% of working Americans cite student loan debt as an obstacle to saving for retirement. Seventy-three percent of borrowers are putting off maximizing their retirement savings while 26% are not saving for retirement at all because of their student loans.⁶

Millennials, the generation born between 1981-1996,⁷ have faced the brunt of the recent economic downturns. Many struggled to find adequate employment when finishing their education due to the Great Recession. Compounding the burden of student loan debt with underemployment, wage stagnation, and other factors have led millennials to drastically under-save for their retirement. That’s why two-thirds of working millennials have nothing saved for retirement.⁸

For older workers, many are concerned about their ability to retire securely and with dignity. In July 2020, the U.S. Government Accountability Office (GAO) released a report entitled

⁴ Iacurci, Greg, “Americans are raiding retirement savings during the coronavirus pandemic,” *CNBC*, September 14, 2020,

<https://www.cnbc.com/2020/09/14/americans-are-forced-to-raid-retirement-savings-during-the-pandemic.html>.

⁵ Nitro College, “Student Loan Debt,” accessed January 8, 2021,

<https://www.nitrocollege.com/research/average-student-loan-debt>.

⁶ TIAA-MIT AgeLab, “TIAA-MIT AgeLab Study Finds Student Loan Debt Significantly Impacts Retirement Savings, Longevity Planning and Family Relationships,” *TIAA-MIT AgeLab*, July 30, 2019,

<https://ttaa.new-media-release.com/mit-agemlab/>.

⁷ CNN Editorial Research, “American Generation Fast Facts,” *CNN*, September 1, 2020,

<https://www.cnn.com/2013/11/06/us/baby-boomer-generation-fast-facts/index.html>.

⁸ Brown, Jennifer Erin, “Millennials and Retirement: Already Falling Short,” National Institute on Retirement Security, February 2018, <https://www.nirsonline.org/reports/millennials-and-retirement-already-falling-short/>.

Retirement Security: Older Women Report Facing a Financially Uncertain Future, which cited the increasing cost of healthcare and housing as two of the primary reasons women 70 years and older are concerned about retirement.⁹

Overall, the reliance on defined-contribution plans paired with Social Security to provide a secure retirement can be faulty. Due to the aforementioned obstacles, the vast majority of workers are not saving enough in defined-contribution accounts, regardless of how hard they may try. This leaves many retired workers to rely solely on Social Security, which does not provide financial security in retirement. The National Institute on Retirement Security (NIRS) released a report in January 2020 that found 40% of retired workers rely solely on Social Security income in retirement. The same report states that Social Security replaces roughly 40 percent of pre-retirement income, but varies depending on a variety of factors.¹⁰

Financial planners advocate for a 70% income replacement rate for retirees in order to maintain their current level of financial security.¹¹ In 2021, Fidelity Investments published these commonly agreed upon multiples that are used across the financial services industry:¹²

- *Age 30: 1x your salary*
- *Age 35: 2x your salary*
- *Age 40: 3x your salary*
- *Age 45: 4x your salary*
- *Age 50: 6x your salary*
- *Age 55: 7x your salary*
- *Age 60: 8x your salary*
- *Age 67: 10x your salary*

A study by Bankrate found that 52% of Americans have stated that they were behind on their own savings goals for retirement, and only 16% said they were right on track.¹³

⁹ Bonvissuto, Kimberly, “Pandemic hurting retirement security; older women face unique challenges, GAO comptroller tells Senate committee,” *McKnight’s Senior Living*, September 25, 2020, <https://www.mcknightsseniorliving.com/home/news/pandemic-hurting-retirement-security-older-women-face-unique-challenges-gao-comptroller-tells-senate-committee/>.

¹⁰ Porell, Frank and Tyler Bond, “Examining the Nest Egg: The Sources of Retirement Income for Older Americans,” National Institute on Retirement Security, January 2020, <https://www.nirsonline.org/reports/examining-the-nest-egg/>.

¹¹ Ibid.

¹² Fidelity, “How Much Do I Need to Retire?,” August 27, 2021, <https://www.fidelity.com/viewpoints/retirement/how-much-do-i-need-to-retire>.

¹³ Royal, James, “Survey: More than half of American workers say they are behind in saving for retirement,” *Bankrate*, November 21, 2019, <https://www.bankrate.com/surveys/financial-security-poll-november-2019/>.

Defined-contribution 401(k) retirement plans have eroded the American worker's path to a stable retirement and contributed heavily to the retirement savings crisis. With so many younger workers having nothing saved for retirement and the economic weariness of older workers who are about to retire or are already retired, it's clear that the U.S. has a major crisis on its hands.

The Negative Financial Consequences of Closing a Pension Plan

Closing a defined-benefit pension plan can be costly for a state. A few states have chosen to close pension plans for future hires in an attempt to reduce their pension plans' unfunded liabilities or reduce short-term budget deficits, but the opposite occurred.

It is important to note that when a state closes a pension plan, the state is not absolved of its liabilities to those already participating in the system. This means current and future pension benefits still need to be paid to those retirees and future retirees who are guaranteed pension benefits. Additionally, by removing new and future employees from the system, their contributions are no longer sustaining the fund. Without new employees paying into the plan, liabilities increase while the state provides new employees with a different type of retirement benefits. The experiences of Michigan and West Virginia provide historical context for these changes.

Michigan

In 1997, Michigan lawmakers closed their state employee pension plan, the Michigan State Employees' Retirement System (SERS). At the time, the plan was 109% funded and had tens of thousands of beneficiaries. Although the system was well-funded, without new employees participating in the fund the funding status has dropped significantly since the plan's closure. When the plan was closed, SERS had \$734 million in excess assets since it was 109% funded.¹⁴ As of September 30, 2020, the plan only has 6,857 active participants and 60,633 beneficiaries. and was \$6.54 billion underfunded with a funded status of 65.4%.¹⁵ This large increase in

¹⁴Bond, Tyler and Dan Doonan, "Enduring Challenges: Examining the Experiences of States that Closed Pension Plans, National Institute on Retirement Security, August 2019, <https://www.nirsonline.org/wp-content/uploads/2019/08/Enduring-Challenges-Final.pdf>.

¹⁵Michigan State Employees' Retirement System, "Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2020," September 30, 2020, https://www.michigan.gov/documents/orsstatedb/CAFR_SERS_Fiscal_Year_2020_716980_7.pdf.

unfunded liabilities can be traced back to the large difference in active and retired employees. With fewer workers participating in the defined-benefit retirement plan and more beneficiaries, the unfunded liability has increased, putting more strain on the state's budget.

West Virginia

After years of underfunding the state's Teacher Retirement System (TRS), lawmakers in West Virginia closed the plan to newly hired teachers in 1991 and moved all future hires into a defined-contribution 401(k) plan. For years, public employees contributed to their pensions with every single paycheck, while the state legislature did not. Fourteen years after the plan's closure, only 18,000 active teachers were contributing to TRS, while having 27,000 retirees. With lopsided pension funding, the funded status of the plan dropped to 25%.¹⁶

With so many newly hired teachers in an inadequate 401(k) retirement plan and the pension plan's funded status plummeting, West Virginia began studying the impact of converting the system back to a defined-benefit pension plan. The state then realized that if they re-opened the defined-benefit plan provided by TRS to new teachers and gave current teachers participating in the 401(k) plan a choice to switch back, they could provide equivalent benefits at half of the cost. In 2005, state lawmakers re-opened the plan and more than 78% of current teachers made the switch to the defined-benefit pension plan.¹⁷ As of July 1, 2019, TRS covers 34,108 active members and 36,652 retirees and beneficiaries, and as of 2020 has a funded ratio of 70.9%.¹⁸

Economic Benefits of Pensions Nationwide

Closing pension plans comes at a cost that will ultimately strain future budgets. Still, the consequences of losing out on pension-generated economic activity can cause even more strain on local communities. Public pension spending has a profound impact on the country's economy. In 2018, the expenditures of 23.8 million retired Americans from their monthly pension payments supported nearly 7 million jobs and \$1.3 trillion in total economic output

¹⁶ Watkins, Jennifer, "Three States That Abandoned Their Pensions - And Suffered the Consequences," National Public Pension Coalition, February 24, 2017, https://protectpensions.org/2017/02/24/abandoned_pensions_consequences/.

¹⁷ Bond, Tyler and Dan Doonan, "Enduring Challenges: Examining the Experiences of States that Closed Pension Plans, National Institute on Retirement Security, August 2019, <https://www.nirsonline.org/wp-content/uploads/2019/08/Enduring-Challenges-Final.pdf>.

¹⁸ West Virginia Consolidated Public Retirement Board, "2020 Comprehensive Annual Financial Report," June 30, 2020, <http://www.wvretirement.com/Forms/2020-CompAnFinR.pdf>.

nationwide.¹⁹ A report from the National Conference on Public Employee Retirement Systems (NCPERS) found that the economy grows by \$1,362 for each \$1,000 of pension funds invested. Taking into account that in 2018, there were \$4.3 trillion in public pension assets, those investments contributed roughly \$872.4 billion to state economies.²⁰

These are real dollars being spent in rural and urban areas around the country. Eliminate this spending by retirees, and many “Main Streets” may struggle in the future.

Recruitment and Retention

Closing a pension plan and moving all newly hired public employees into a defined-contribution plan such as a 401(k) can have adverse effects on the recruitment and retention of employees for state and local governments. Several historical examples show these negative effects on small and large municipalities, and even states. Many governments have eventually re-opened their defined-benefit plans or are currently sounding the alarm about the difficulties they are facing.

The Town of Palm Beach, Florida

In 2012, the Town of Palm Beach, Florida closed its pension system to newly hired public safety officers, including police officers and firefighters. All newly hired public safety officers were provided with a hybrid retirement plan consisting of defined-contribution and defined-benefit components. This new plan did not provide an adequate retirement. According to the Florida Public Pension Trustee Association, Palm Beach lost 24 public safety officers in 2012. The following year, the town lost 24 more. In a short time a er, more than 60% of the town's employees had less than three years of experience in their jobs.²¹ The cost incurred by the town ballooned to almost \$20 million based on the \$240,000 price tag to train a new police

¹⁹ Boivie, Ilana and Dan Doonan, “Pensionomics State Data 2021,” National Institute on Retirement Security, January 6, 2021, <https://www.nirsonline.org/wp-content/uploads/2020/12/Pensionomics-2021-Report-Final-V6.pdf>.

²⁰ Kahn, Michael, “Unintended Consequences: How Scaling Back Public Pensions Puts Government Revenues at Risk,” National Conference on Public Employee Retirement Systems, May 2020, https://www.ncpers.org/files/NCPERS%20Unintended%20Consequences_2020_Update_WEB_FINAL.pdf.

²¹ Ryals, Kimberlie, “City’s move to 401(k) pensions is big mistake as Palm Beach showed,” *The Florida Times-Union*, February 22, 2017, <https://www.jacksonville.com/opinion/columnists/2017-02-22/guest-column-city-s-move-401k-pensions-big-mistake-palm-beach-showed>.

officer.²² With surrounding cities and municipalities still offering a pension plan, police officers and firefighters would train in the Town of Palm Beach and leave for other jurisdictions to earn a better retirement benefit. In 2016, after four years of retention issues, the town reopened its pension plan for public safety officers.

The Town of Branford, Connecticut

The Town of Branford, Connecticut encountered the same issue in 2019: their police officers weren't staying on the job. In 2011, the Town of Branford moved all of its newly hired police officers into a defined-contribution 401(k) retirement plan. After years of losing police officers to neighboring departments that offered a defined-benefit pension, the Representative Town Meeting unanimously approved a new contract that moved all police officers back into the defined-benefit pension plan.²³

The State of Alaska

In 2005, a unique set of circumstances unfolded in Alaska. After the state's actuary made inaccurate projections about the state's pension assets, lawmakers faced a combined \$4.1 billion unfunded liability for their Public Employees Retirement System and their Teachers Retirement System. In response, lawmakers made the ill-informed decision to close their defined-benefit pension plan to newly hired public employees and switched them to a defined-contribution 401(k)-only plan.²⁴ This policy differs from other states that made this change because in Alaska public employees are not eligible for Social Security benefits, making their 401(k) the only retirement vehicle at their disposal.

Since then, Alaskan government agencies have had their fair share of recruitment and retention issues. The Institute of Social and Economic Research at the University of Alaska (ISER) found that the cost of teacher recruitment and turnover became too high, and some rural school districts had trouble keeping up. ISER research has shown that it costs the state

²² Oakley, Diane, "Retirement Reform Lessons: The Experience of Palm Beach Public Safety Pensions," National Institute on Retirement Security, February 2018, <https://www.nirsonline.org/wp-content/uploads/2018/02/Final-Palm-Beach-Feb-2018.pdf>.

²³ Zaretsky, Mark, "Branford RTM approves PD switch back to traditional defined-benefit police pensions," *New Haven Register*, May 15, 2019, <https://www.nhregister.com/metro/article/Branford-Police-Department-switching-back-to-13848213.php>.

²⁴ Bond, Tyler and Dan Doonan, "NIRS, Case Study: Alaska faces mounting challenges thirteen years after closing pension plans," National Institute on Retirement Security, August 2019, <https://www.nirsonline.org/wp-content/uploads/2019/08/Enduring-Challenges-Final.pdf>.

roughly \$20 million a year, or \$20,431 for every teacher turnover.²⁵ Some superintendents have offered up to \$3,000 signing bonuses for teachers to entice recent college graduates to their school districts.²⁶

Recruitment troubles aren't only found in the teaching profession. In 2018, the Alaska State Troopers had to undergo a rebranding effort to entice recruits to the state. The Alaska Department of Public Safety Recruitment and Retention Plan Overview for 2018-2023 found that the department was drastically understaffed. The report stated, "The budget climate, reduced resources, inadequate wages and the inability to provide a defined benefits retirement system have placed the department at critically low staffing levels. Low staff and reduced funding are detrimental to the department's ability to effectively deliver core public safety services. (emphasis added)"²⁷ With multiple government agencies having issues with recruitment and retention, the misguided decision to eliminate the defined-benefit pension plans is a direct cause of their troubles.

Teachers and Public Pensions

In a study conducted by NIRS, it was found that although attrition is high in the first five years of employment, the number of teachers that leave the profession drops dramatically after those years and stays low through the middle of their career. This can be attributed to one thing: Pensions. Sixty-five percent of teachers from the states of Connecticut, Colorado, Georgia, Kentucky, Missouri, and Texas will serve for at least 20 years. Additionally, NIRS found that retaining experienced teachers lowers teacher turnover, which can help school districts that are facing staffing shortages.²⁸ Eliminating pensions for future employees would harm teacher retention and there would be no incentive for experienced teachers to stay on the job.

²⁵ "This is what teacher turnover looks like in Alaska," *Anchorage Daily News*, February 3, 2020, <https://www.adn.com/sponsored-content/2020/02/01/this-is-what-teacher-turnover-looks-like-in-alaska/>.

²⁶ Petersen, Victoria, "A Perennial Challenge in Rural Alaska: Getting and Keeping Teachers," *Education Week*, September 10, 2019, <https://www.edweek.org/ew/projects/letters-from-alaska/a-perennial-challenge-in-rural-alaska-getting.html>.

²⁷ "Alaska State Troopers Stepping Up Recruitment Efforts," *Associated Press*, August 25, 2018, <https://apnews.com/article/0fb7d3516a6e470895fe19ad9ae797df>.

²⁸ Rhee, Nari and Leon F. "Rocky" Joyner, Jr, "Teacher Pensions vs. 401(k)s in Six States: Connecticut, Colorado, Georgia, Kentucky, Missouri, and Texas," National Institute on Retirement Security, January 2019, https://www.nirsonline.org/wp-content/uploads/2019/01/Teacher-Pension-vs-401ks-in-Six-States_FINAL.pdf.

Public Employees' Views

In 2019, a NIRS poll of current public employees found that pensions remain one of the best recruitment and retention tools available for municipalities, cities, and states. For millennial public employees, 74% cited their pension benefit as a major reason why they chose public service. Additionally, 94% of state and local employees polled said that pensions are a useful tool for retention, and 73% said they would be likely to leave their job if their pensions are cut.²⁹

²⁹Kenneally, Kelly and Tyler Bond, "State and Local Employees Views on Their Jobs, Pay and Benefits," National Institute on Retirement Security, November 2019, <https://www.nirsonline.org/reports/state-and-local-employees-views-their-jobs-pay-and-benefits/>.

ARIZONA BY THE NUMBERS

PENSIONOMICS IN ARIZONA

Total Economic Output: \$8.3 billion
Total Jobs Supported: 50,443
Pension Benefit Multiplier: \$1.00 = \$1.72
total output
Total Federal, State, Local Taxes Revenue
Generated: \$1.3 billion

Boivie, Ilana and Dan Doonan, "Pensionomics State Data 2021," National Institute on Retirement Security, January 6, 2021, <https://www.nirsonline.org/wp-content/uploads/2020/12/Pensionomics-2021-Report-Final-V6.pdf>.

ARIZONA STATE RETIREMENT SYSTEM

Active Members: 214,810
Inactive Members: 241,518
Current Beneficiaries: 163,069

Arizona State Retirement System, "Facts & Figures," date accessed February 11, 2021, <https://www.azasrs.gov/content/facts-figures>.

The Arizona State Retirement System's (ASRS) history can be traced back to when Arizona first became a state. In 1912, Arizona not only became the 48th state in the union but also administered its first pension to a teacher.³⁰ Thirty years later in 1943, the state formalized the creation of the Teachers' Retirement System, and in 1953 the legislation that created ASRS. ASRS now facilitates retirement plans for the state's educators in public and charter schools, state universities and community colleges, as well as state and local government employees.

Today, ASRS provides an average monthly benefit of \$1,704 to more than 163,000 retirees and beneficiaries. In other words, employees who retire after 30 years of service will receive a benefit equivalent to 69% of their pre-retirement income.³¹ As of June 30, 2020, ASRS's funding status stood at 72.8%, with \$41.8 billion in assets.³²

In order to ensure that ASRS continues to provide a benefit to public employees, the state legislature has made changes to the benefit formula. In the 2008-2009 legislative sessions, lawmakers passed legislation that increased the length of service needed for a normal

³⁰ Arizona State Retirement System, "Our History" date accessed February 11, 2021, <https://www.azasrs.gov/content/our-history>.

³¹ AARP, and the National Institute on Retirement Security "AARP in the States: Arizona," date accessed February 11, 2021, <https://www.nirsonline.org/wp-content/uploads/2021/01/AARP-In-The-States-Snapshot-AZ-Public-Employee-Retirement-System.pdf>.

³² Arizona State Retirement System, "Facts & Figures," date accessed February 11, 2021, <https://www.azasrs.gov/content/facts-figures>.

retirement, and extended the average salary calculation for new hires after July 1, 2011.³³ They also eliminated a cost-of-living adjustment for anyone hired after September 13, 2013.³⁴

In recent years, members of the legislature have discussed the possibility of closing the defined-benefit pension plan and changing the system to a defined-contribution plan. These efforts have not extended past the hearing phase in the legislature, but discussions continue each year. As illustrated earlier in this report, these changes will not absolve the state of the accrued unfunded liability for benefits already earned by active and retired ASRS members. In addition to the cost of paying off the unfunded liability, the state would have to find the dollars to replace the contributions new employees would pay into the system.

Arizona lawmakers are already experiencing the financial costs of enacting similar changes to another system. In 2013, state lawmakers passed legislation impacting the Elected Officials Retirement Plan (EORP), which covers judges and elected officials. This closed the pension plan on January 4, 2014 to any newly elected or appointed officials and moved them into a defined-contribution plan.³⁵ At the time, the state statute did not set an actuarially determined contribution that could account for the loss of employee contributions and investment returns. Instead, the statute set a fixed rate of 29.5% for employers, coupled with a \$5 million annual contribution from the state and dedicated revenue from court fees in hopes that that would be enough. It was not. The system is now hovering at a 31% funded ratio. In order to pay down the unfunded liability, the legislature is considering SB 1467, which would increase the state's annual contribution amount to EORP by \$1 million, starting at \$6 million in FY 2020 and capping at \$10 million in FY 26 through FY 43.³⁶ What this means is, the cost of switching from a defined benefit system to a defined contribution system is borne by employers and taxpayers. And the portion of cost borne by employers is ultimately passed on to taxpayers. Despite the intent of Arizona lawmakers to save the taxpayers money by switching plans, taxes have instead been increased as a consequence.

³³ AARP, and the National Institute on Retirement Security "AARP in the States: Arizona," date accessed February 11, 2021, <https://www.nirsonline.org/wp-content/uploads/2021/01/AARP-In-The-States-Snapshot-AZ-Public-Employee-Retirement-System.pdf>.

³⁴ Ibid.

³⁵ Arizona State Library, Archives & Records "Elected Officials' Retirement Plan (EORP)," date accessed February 11, 2021, https://azlibrary.gov/sla/agency_histories/elected-officials%E2%80%99-retirement-plan-eorp.

³⁶ Legiscan, "AZ SB 1467," date accessed March 31, 2021, <https://legiscan.com/AZ/bill/SB1467/2021>.

KANSAS BY THE NUMBERS

PENSIONOMICS IN KANSAS

Total Economic Output: \$3.1 billion
Total Jobs Supported: 18,344
Pension Benefit Multiplier: \$1.00 = \$1.60
total output
Total Federal, State, Local Taxes Revenue
Generated: \$413.4 million

Boivie, Ilana and Dan Doonan, "Pensionomics State Data 2021," National Institute on Retirement Security, January 6, 2021, <https://www.nirsonline.org/wp-content/uploads/2020/12/Pensionomics-2021-Report-Final-V6.pdf>.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Active Members: 156,253
Deferred Vested: 25,708
Deferred Non-Vested: 37,529
Current Beneficiaries: 106,058
Total with a Direct Financial Interest:
325,568

Kansas Public Employee Retirement System, "Gaining Momentum: 2020 Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020," June 30, 2020, <https://www.kpers.org/annualreport2020.pdf>

In 1961, the Kansas legislature created the Kansas Public Employees Retirement System (KPERS), providing a defined-benefit retirement plan for the state's public employees.

According to KPERS, the fund has \$20.6 billion in assets and, during the fiscal year 2020, paid \$1.8 billion in pension benefits to retired public employees.³⁷ KPERS is broken down into the following tiers and systems:

- KPERS Tier One: Employees hired before July 1, 2009
- KPERS Tier Two: Employees hired between July 1, 2009, and December 31, 2014
- KPERS Tier Three: Employees hired after January 1, 2015 (cash-balance retirement plan)
- Kansas Police and Firemen's System (KP&F)
- Judges System

Over the last decade and a half, KPERS and its subsequent systems have undergone several changes. These changes include increasing service and contribution requirements, as well as plan design changes.

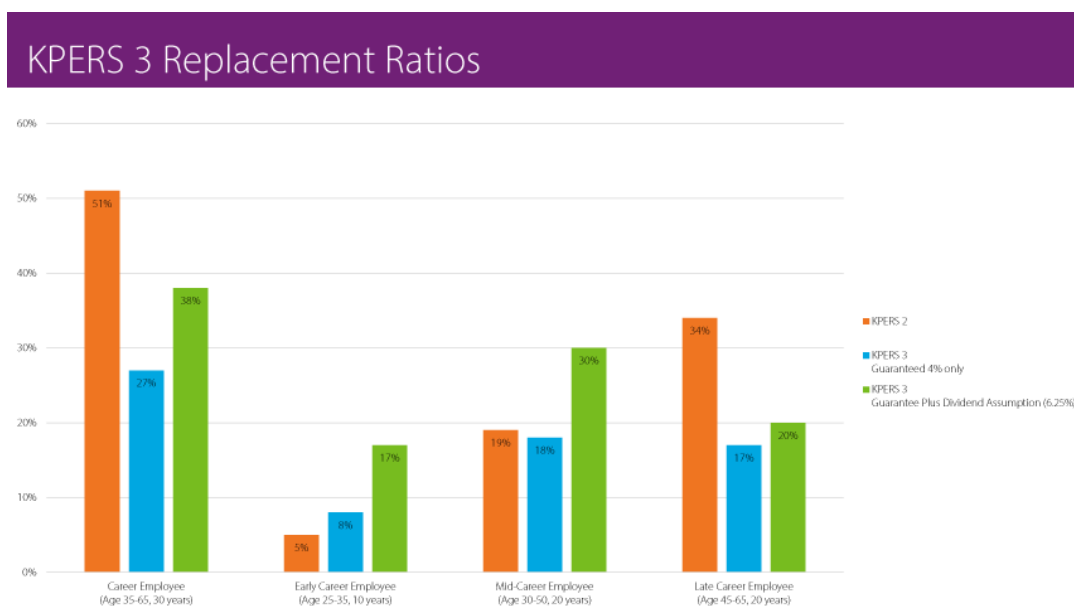
In 2009, with the plan's funded status deteriorating due to the start of the Great Recession, the state legislature enacted reforms, such as creating KPERS Tier Two. The changes also included increasing employee contributions to the plan from 4 percent to 6% , increasing the years of

³⁷ Kansas Public Employee Retirement System, "Gaining Momentum: 2020 Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020," June 30, 2020, <https://www.kpers.org/annualreport2020.pdf>.

service required, and increasing the final average salary from three years to five years. Once these changes were enacted, the funded status continued to decline due to the state making inadequate payments, including skipping and partially paying into the system.

Facing a continuous drop in the systems' funded status, in 2012, state lawmakers passed HB 2233, creating KPERS Tier Three. Unlike KPERS Tiers One and Two, KPERS Tier Three is a cash balance retirement plan. Relatively rare across the United States, cash balance plans do not provide the same benefit as defined-benefit pension plans. KPERS Tier Three is similar to a 401(k), except the employee does not choose their investments. Public employees participating in KPERS Three contribute 6% of their pay to the plan, with employer contributions varying based on the number of years an employee has been employed. Employers contribute 4% at five years, 5% at 12 years, and 6% at 24 years of employee service. At the end of the employee's career, the cash balance plan is annuitized, or members can withdraw up to 30% of their balance in a lump sum.³⁸

Overall, KPERS Tier Three does not provide an equivalent benefit to employees after a career in service to their communities. As the below graph shows, the replacement rate, or the difference between benefits received, between KPERS Tier Two and the KPERS Tier Three cash balance plan for a career employee is 13%.



source: KPERS

³⁸ Snell, Ronald, "Highlights of State Pension Reform in 2012," National Council of State Legislatures, July 17, 2012, <https://www.ncsl.org/research/fiscal-policy/highlights-pension-reform-2012.aspx>.

In recent years, the KPERS funded ratio has continued to climb due to strong investment performance and the state upholding its obligations to regularly contribute the amount owed to the system each and every year. For example, in 2019, the state legislature passed SB 9, which paid back the \$115 million borrowed from KPERS through skipped payments in prior years with interest. In that same year, the legislature added \$51 million to KPERS as an extra payment, bringing the total to \$166 million. If the state continues to make its actuarially-required contributions every year, KPERS will continue to be on solid footing for years to come.

MONTANA BY THE NUMBERS

PENSIONOMICS IN MONTANA

Total Economic Output: \$1.4 billion
Total Jobs Supported: 9,287
Pension Benefit Multiplier: \$1.00 = \$1.21 total output
Total Federal, State, Local Taxes Revenue Generated: \$247.3 million

Boivie, Ilana and Dan Doonan, "Pensionomics State Data 2021," National Institute on Retirement Security, January 6, 2021, <https://www.nirsonline.org/wp-content/uploads/2020/12/Pensionomics-2021-Report-Final-V6.pdf>.

MONTANA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Active Members: 29,028
Current Beneficiaries: 24,276

Montana Public Employee Retirement Association, "2021 Actuarial Valuation Studies: Public Employees' Retirement System," September 30, 2021, https://mpera.mt.gov/_docs/actuarial_info/2021/Valuations-2021/09.30.21_FYE_2021_MT_PERS.pdf.

MONTANA TEACHERS' RETIREMENT SYSTEM

Active Members: 19,658
Current Beneficiaries: 16,985

Teachers' Retirement System State of Montana, "2021 Actuarial Valuation," July 1, 2021, https://trs.mt.gov/miscellaneous/PdfFiles/Information/ActuarialValuations/2021_TRSvaluation.pdf.

At the start of the 2013 legislative session, five of Montana's eight public pension systems were in trouble. The prolonged period of low investment earnings stemming from the recession was negatively impacting amortization and funding. This, combined with insufficient legislative increases to state, employee, or employer contribution levels, created a funding crisis.³⁹

Montana's two largest pension systems, the Teachers' Retirement System (TRS) and Public Employees' Retirement System (PERS), are responsible for around 90% of funding and covered payroll. In 2013, neither TRS nor PERS were amortized over any length of time.^{40,41} In response to this emerging crisis, a large coalition of stakeholders came together to work out a solution. From the efforts of this group two major pieces of legislation emerged, which then passed the 2013 Legislature and were signed into law by the governor: HB 377 (TRS) and HB 454 (PERS).

³⁹ Legislative Fiscal Division, "An Overview of State Expenditures: Bills Addressing Major Budget Issues." Legislative Fiscal Report 2015 Biennium," accessed 10 Sep. 2021, www.leg.mt.gov/content/Publications/fiscal/Pensions/Pensions-Fiscal-Report.pdf.

⁴⁰ Montana Public Employees' Retirement Board, "Montana Public Employees Retirement Board: A Component Unit of the State of Montana Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012," January 7, 2013, https://mpera.mt.gov/_docs/CAFR/2012CAFR.pdf.

⁴¹ The Montana Teachers Retirement System, "Montana Teachers' Retirement System: A Component Unit of the State of Montana Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2012," January 18, 2013, <https://trs.mt.gov/miscellaneous/PdfFiles/Information/AnnualReports/2012cafr.pdf>.

These bills increased employee contributions by 1%, increased employer contributions by 2% over the following decade, and supplied additional revenue from the state. The legislature also required employees to work more years before becoming eligible for retirement benefits, and reduced benefits for new hires. The guaranteed annual benefit adjustment (GABA) was capped at 1.5% and tied to the plan's funded ratio.

In response to these changes, Montana's pension plans have been trending in the right direction. As new employees are hired in the lower benefit tier, the normal cost is reduced. This frees up a larger portion of contributions to pay down the unfunded liability, improving the funded ratio and reducing the amortization period.⁴²

However, the decision in 2001 to increase the GABA to 3% will continue to create drag for the next several decades, and changes to pension systems are inevitably slow.

Even in the short period since 2013, however, the situation of the systems has improved. The amortization periods of TRS and PERS dropped from "does not amortize" to 29 years and 35 years, respectively. The funded ratios were 69% and 74% at the last valuation.⁴³

In 2021, a study resolution (HJ 8, 2021) was adopted which stalled major pension attacks. The State Administration and Veterans' Affairs Interim Committee (SAVA) has taken up this study and is currently soliciting stakeholder input and researching options for pension structure and funding. Based on the current solid investment returns, the SAVA committee is unlikely to take drastic action.

⁴² Scurr, Sheri S, "Montana Legislative Services Division, 2020, A Legislator's Guide to Montana's Public Employee Retirement Systems," December, 2020, www.leg.mt.gov/content/Committees/Interim/2021-2022/State-Administration-and-Veterans-Affairs/Studies-Topics/HJ%208/2020-Legislator-Guide-Pensions.pdf.

⁴³ Scurr, Sheri S, "Montana Legislative Services Division, 2020, Green Sheets: Montana's Public Employee Retirement Systems Summary of Benefit, Actuarial, and Investment Data As of June 30, 2020," accessed Sep 15, 2021, www.leg.mt.gov/content/Committees/Interim/2021-2022/State-Administration-and-Veterans-Affairs/Studies-Topics/HJ%208/FINALGreenSheets2020.pdf.

NORTH DAKOTA BY THE NUMBERS

PENSIONOMICS IN NORTH DAKOTA

Total Economic Output: \$805.8 million
Total Jobs Supported: 4,610
Pension Benefit Multiplier: \$1.00 = \$1.43 total output
Total Federal, State, Local Taxes Revenue Generated: \$110.7 million

Boivie, Ilana and Dan Doonan, "Pensionomics State Data 2021," National Institute on Retirement Security, January 6, 2021, <https://www.nirsonline.org/wp-content/uploads/2020/12/Pensionomics-2021-Report-Final-V6.pdf>.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

Active Members: 24,489
Current Beneficiaries: 12,945

North Dakota Public Employee Retirement Association, "2020 Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2020 and June 30, 2019," December 3, 2020, <https://www.ndpers.nd.gov/sites/www/files/documents/about/financial/cafr-2020.pdf>.

During the 2021 session, members of the North Dakota State Legislature attempted to pass SB 2046, a bill that would have closed the North Dakota Public Employees Retirement System (NDPERS) defined-benefit hybrid retirement plan for all new hires effective July 1, 2023.⁴⁴ Although North Dakota United—the state’s public employees union—member activists, and legislative allies eventually defeated the bill, state legislators passed HB 1209 requiring the interim Retirement Committee to develop a plan to effectively accomplish the same goal by January 1, 2024.^{45,46} Adding to the pressure is North Dakota’s governor: he announced at the end of September 2021 his plan to spend state surplus dollars during the state legislature’s upcoming special session. His plan would allocate \$100 million for NDPERS to help pay down the pension’s unfunded liability, but these funds would only be deposited if the state legislature closes the main pension plan.⁴⁷

⁴⁴ North Dakota Legislative Assembly, SB 2046, 2021, www.legis.nd.gov/assembly/67-2021/documents/21-0095-05000.pdf.

⁴⁵ North Dakota Legislative Assembly, "Bill Actions for SB 2046," 2021, www.legis.nd.gov/assembly/67-2021/bill-actions/ba2046.html.

⁴⁶ North Dakota Legislative Assembly, HB 1209, 2021, www.legis.nd.gov/assembly/67-2021/documents/21-0566-04000.pdf.

⁴⁷ North Dakota Office of the Governor, "Burgum Unveils Accelerate ND Plan with Strategic Investment of Federal Funds, Tax Relief for Citizens," 30 Sep. 2021, www.governor.nd.gov/news/burgum-unveils-accelerate-nd-plan-strategic-investment-federal-funds-tax-relief-citizens.

The main pension plan covers most North Dakota state employees and participating political subdivisions as well as many educational support and higher ed staff. Although only the main pension plan is facing closure under HB 1209, lawmakers have suggested that state pension plans for teachers and others may be next up for closure.⁴⁸

In 2007, the main pension plan was 93.4% funded. After the Great Recession, the plan's funding declined, bottoming out at 62.0% in 2013. It has gradually increased almost every year since and now stands at 69.1% funded as of July 2020.^{49,50}

In 2011, the employee contribution rate was 4%, has been increased twice since, and stands at its present rate of 7%. Since then, the rate has held steady despite attempts supported by many employees to increase the employee and employer contribution rates to ensure proper funding of the plan.^{51,52} At current contribution rate levels, the main pension plan is expected to lose ground on its unfunded liability "indefinitely."⁵³

Members of NDPERS have done their part to support the pension's solvency, including several concessions in recent years. Starting in 2016, legislators bumped the longstanding "Rule of 85," which determines when an employee may retire and draw full benefits, up to 90 for new hires.⁵⁴ The rule is calculated by adding the member's age and years of service credit. In 2017, SB 2047 passed, which decreased the benefit multiplier from 2% to 1.75% for employees hired after December 31, 2019.⁵⁵ During that session, lawmakers also ended the employee health insurance credit for new hires.⁵⁶

⁴⁸ North Dakota Legislative Assembly, "67th Legislative Assembly – House Government and Veterans Affairs," 15 Apr. 2021, [video.legis.nd.gov/en/PowerBrowser/PowerBrowserV2/20210415/-1/20071#info_](https://www.legis.nd.gov/en/PowerBrowser/PowerBrowserV2/20210415/-1/20071#info_).

⁴⁹ North Dakota Public Employees Retirement System, "2010 Comprehensive Annual Financial Report," 30 Dec. 2010, www.ndpers.nd.gov/sites/www/files/documents/about/financial/2010-cafr.pdf.

⁵⁰ North Dakota Public Employees Retirement System, "2020 Comprehensive Annual Financial Report," 3 Dec. 2020, www.ndpers.nd.gov/sites/www/files/documents/about/financial/cafr-2020.pdf.

⁵¹ Brainard, Keith & Alex Brown, "Spotlight on: Significant Reforms to State Retirement Systems," *National Association of State Retirement Administrators*, Dec. 2018, [www.nasra.org/files/Spotlight/Significant Reforms.pdf](http://www.nasra.org/files/Spotlight/Significant%20Reforms.pdf).

⁵² North Dakota Legislative Assembly, SB 2048, 2019, www.legis.nd.gov/assembly/66-2019/documents/19-0131-02000.pdf.

⁵³ North Dakota Public Employees Retirement System, "Actuarial Valuation as of July 1, 2020," *GRS*, 23 Oct. 2020, www.ndpers.nd.gov/sites/www/files/documents/about/financial/pers-valuation-2020.pdf.

⁵⁴ North Dakota Public Employees Retirement System, "Defined Benefit Hybrid Retirement Plan (Main), 2019-2021," Jan. 2020, www.ndpers.nd.gov/sites/www/files/documents/members-additional-information/all-defined-benefit/db-plan.pdf.

⁵⁵ North Dakota Legislative Assembly, SB 2047, 2019, www.legis.nd.gov/assembly/66-2019/documents/19-0130-03000.pdf.

⁵⁶ North Dakota Legislative Assembly, SB 2046, 2019, www.legis.nd.gov/assembly/66-2019/documents/19-0129-03000.pdf.

Legislators also adjusted the final average salary portion of a member’s monthly defined benefit in a way that may significantly reduce the monthly benefit available to employees who work seasonally or are contracted for fewer than 12 months each year. The traditional calculation of the average of a member’s 36 best months (out of the last 180) was capped to only include months before 2020. Moving forward, members may take the average of their highest three-year-long consecutive periods.⁵⁷ Additionally, all current members had their account balance’s interest rate reduced by 0.50 percentage points for 2021 onward.⁵⁷

The main pension gained another potential funding source in 2021 via the state’s Legacy Fund. Some earnings from the fund may be transferred to the plan as long as certain requirements are met, such as the plan’s funded ratio being below 90%. However, only a maximum of \$150 million—with other expenses likely reducing this amount—may be available for transfer. Thus, this may not make much of a dent in the fund’s \$1.4 billion unfunded liability.⁵⁸

Lawmakers have experimented with pushing employees towards the defined contribution plan before. NDPERS was founded in 1966 as a defined contribution plan. In 1977, state legislators converted the plan to a defined benefit pension to provide a more secure retirement for participating employees.⁵⁹ More recently, in 2013, the state legislature gave all new hires the opportunity to participate in the state’s defined contribution plan. After four years, “only 3% of new employees chose the DC plan.” Many regretted it and pushed for the option to be transferred to the main pension plan. Legislators acquiesced in 2017, and three out of every four eligible employees chose to switch to the defined benefit pension plan.⁶⁰

In July 2020, defined contribution plan membership consisted of only 93 total participants, compared to the main pension plan’s active membership of 23,495. Since 2010, the plan’s active membership has increased by roughly 13.5%, while the number of retirees and beneficiaries has jumped by about 71.5%.⁶¹

⁵⁷ North Dakota Public Employees Retirement System, “Actuarial Valuation as of July 1, 2020,”

⁵⁸ North Dakota Legislative Assembly, HB 1380, 2021, www.legis.nd.gov/assembly/67-2021/documents/21-0218-10000.pdf.

⁵⁹ Miller, Scott A, “Retirement Committee Initial Presentation,” *North Dakota Public Employees Retirement System*, 11 Aug. 2021, www.legis.nd.gov/files/committees/67-2021/23_5034_03000appendixc.pdf.

⁶⁰ Miller, Scott A, “Retirement Committee Initial Presentation.”

⁶¹ North Dakota Public Employees Retirement System, “2020 Comprehensive Annual Financial Report.”

Public employees, along with the North Dakota League of Cities and North Dakota Association of Counties, have cited public employee pensions as an integral recruitment and retention tool, especially as both private businesses and public entities need to compete for workers.⁶²

Pensions for public employees in North Dakota don't just support retirees and quality public services—they generate significant economic activity in communities across the state, providing consistent income for retirees to spend locally and support local jobs. This effect is intensified in rural areas of the state. Taxpayers only cover about one-fifth the cost of NDPERS but enjoy over \$800 million in economic output from these pension payments.⁶³ Without the guaranteed benefits provided by NDPERS, thousands of workers and their families across the state would face economic instability and additional risk in retirement. Tax revenues supporting local communities could drop and additional strain may be placed upon existing social programs to cover the gap in benefits.

⁶² Thompson, Dave, “Legislative Interim Committee Looking at Changing Retirement Plan for New Government Employees,” *Prairie Public Broadcasting*, 5 Oct. 2021, news.prairiepublic.org/local-news/2021-10-05/legislative-interim-committee-looking-at-changing-retirement-plan-for-new-government-employees.

⁶³ AARP in the States, “Snapshot: North Dakota Public Employees Retirement System,” AARP and NRTA, www.nirsonline.org/wp-content/uploads/2021/01/AARP-In-The-States-Snapshot-ND-Public-Employee-Retirement-System.pdf. Accessed 8 Oct. 2021.

OKLAHOMA BY THE NUMBERS

PENSIONOMICS IN OKLAHOMA

Total Economic Output: \$4.0 billion
Total Jobs Supported: 23,789
Pension Benefit Multiplier: \$1.00 = \$1.52
total output
Total Federal, State, Local Taxes Revenue
Generated: \$593.2 million

Boivie, Ilana and Dan Doonan, "Pensionomics State Data 2021," National Institute on Retirement Security, January 6, 2021, <https://www.nirsonline.org/wp-content/uploads/2020/12/Pensionomics-2021-Report-Final-V6.pdf>.

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Active Members: 33,115
Current Beneficiaries: 36,179

Oklahoma Public Employees Retirement System, "2020: Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2020 and June 30, 2019, A Component Unit of the State of Oklahoma," June 30, 2020, https://www.opers.ok.gov/wp-content/uploads/2020/11/2020_CAFR_OPERS.pdf.

OKLAHOMA TEACHERS' RETIREMENT SYSTEM (OTRS)

Active Members: 89,945
Current Beneficiaries: 67,016

Teachers' Retirement System of Oklahoma, "Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2021," October 6, 2021, <https://oklahoma.gov/content/dam/ok/en/trs/documents/publications/2021-Actuarial-Valuation-Report-FINAL.pdf>.

OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM (FPRS)

Active Members: 12,240
Current Beneficiaries: 11,686

Oklahoma Firefighters Pension and Retirement System, "Oklahoma Firefighters Pension and Retirement Plan Administered by Oklahoma Firefighters Pension and Retirement System (The Auditors' Communication with Those Charged with Governance) June 30, 2021," October 12, 2021, <https://www.ok.gov/fprs/documents/2021%20Audited%20Financial%20Statements.pdf>.

OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM (OPPRS)

Active Members: 5,727
Current Beneficiaries: 3,977

Oklahoma Police Pension and Retirement System, "Comprehensive Annual Financial Report For the Fiscal Years Ended June 30, 2019 and 2018, Oklahoma Police Pension and Retirement System, A Component Unit of the State of Oklahoma," June 30, 2019, https://publicplansdata.org/reports/OK_OK-OPPRS_CAFR_2019_134.pdf.

OKLAHOMA LAW ENFORCEMENT RETIREMENT SYSTEM (OLERS)

Active Members: 1,250
Current Beneficiaries: 1,475

Oklahoma Law Enforcement Retirement Plan Administered by Oklahoma Law Enforcement Retirement System, "Financial Statements June 30, 2020 and 2019 (With Independent Auditors' Report Thereon)," June 30, 2020, <https://www.olders.state.ok.us/index.php/document-forms/category/5-annual-audit>.

UNIFORM RETIREMENT SYSTEM FOR JUSTICES AND JUDGES (URSJJ)

Active Members: 263
Current Beneficiaries: 304

Uniform Retirement System for Justices and Judges, "Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2020 and June 30, 2019, A Component Unit of the State of Oklahoma," June 30, 2020, https://www.opers.ok.gov/wp-content/uploads/2020/11/2020_CAFR_URSJJ_5.pdf.

OKLAHOMA WILDLIFE AND CONSERVATION RETIREMENT PLAN (OWCRP)

Active Members: 201
Current Beneficiaries: 229

Oklahoma Department of Wildlife Conservation, "Financial Statements, June 30, 2019 and 2018 (With Independent Auditors' Report Thereon)," June 30, 2019, https://www.wildlifedepartment.com/sites/default/files/2019-FS-6-30-0-DWC-FINAL_0.pdf.

In 2014, Oklahoma Governor Mary Fallin and the state legislature passed HB 2630, which made significant changes to the Oklahoma Public Employees Retirement System (OPERS). All future public employees, except teachers and hazardous employees such as police officers and firefighters, can only participate in a defined-contribution 401(k) retirement plan, essentially closing OPERS to future employees. The law took effect on November 1, 2015.⁶⁴ At the time of closing the plan in 2014, OPERS was in good financial standing at 88.6% funded.⁶⁵

Before moving all future public employees into a defined-contribution plan, the funded status of OPERS was already on an upward trajectory since the start of the Great Recession. The funded status of OPERS in 2010 was 66%, but the funding of the plan jumped to 80.7% in 2011 after reforms were implemented, including eliminating the cost of living adjustments (COLAs) for retired public employees. By the end of the fiscal year in 2015, OPERS was 93.6% funded.⁶⁶

The closing of the fund in 2015 did not have an immediate impact on the plan's funding status. OPERS' funded status was already improving due to the state increasing employer and employee contributions for the better part of a decade and a half as well as eliminating COLAs.

Although it is too early to judge the future financial impact, or recruitment and retention issues due to OPERS's closing, the state is already trending in a direction similar to Michigan and West Virginia. The trend can be found by comparing the number of active participants and beneficiaries in the plan over the years. In June 2015, OPERS had 43,843 active members paying into the plan with 32,754 beneficiaries receiving a pension benefit.⁶⁷ By 2020, those numbers dropped - only 33,115 active members and 36,179 beneficiaries. If the disparity between active and retired members grows further, the unfunded liability will increase.

In 2020, the state legislature and governor granted Oklahoma's first COLA to retired public employees in 12 years. HB 3350 was approved unanimously by the state House of

⁶⁴ Collier, Andrew, "Oklahoma: A Historical Look at Public Pensions," National Public Pension Coalition, November 21, 2019, <https://protectpensions.org/2019/11/21/oklahoma-historical-look-public-pensions/>.

⁶⁵ Oklahoma Public Employee Retirement System, "2014 OPERS: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2014, A Component Unit of the State of Oklahoma," June 30, 2014, <https://www.opers.ok.gov/wp-content/uploads/2020/05/CAFR-2014-OPERS.pdf>.

⁶⁶ Oklahoma Public Employees Retirement System, "Seasons: Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2019 and June 30, 2018, A Component Unit of the State of Oklahoma," June 30, 2019, <https://www.opers.ok.gov/wp-content/uploads/2020/05/CAFR-2019-OPERS.pdf>.

⁶⁷ Oklahoma Public Employees Retirement System, "2016 By The Numbers: Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2016 and June 30, 2015, A Component Unit of the State of Oklahoma," June 30, 2016, <https://www.opers.ok.gov/wp-content/uploads/2020/05/CAFR-2016-OPERS.pdf>.

Representatives, by a vote of 41-5 in the Senate, and signed into law by the governor. This was a monumental piece of legislation that provided retired public employees with a necessary boost in retirement benefits. Although the Senate almost unanimously approved the COLA, there continues to be the threat of similar style OPERS reform for the state's other pension systems, including the Teachers' Retirement System (TRS) and the Oklahoma Firefighters Pension and Retirement System (OFPRS). Several senators are on the record saying they would like to make these changes.⁶⁸

In July of 2020, the TRS lowered the pension system's discount rate from 7.5% to 7%, which will extend the amount of time the system will take to reach 100% funded status from 14 to 27 years. Such a drastic reduction in the discount rate will increase the unfunded liability, which may cause some lawmakers to panic.

In Oklahoma, pensions have a profound effect on the state's economy. As one of the seven public employee pension plans, TRS makes up 50% of all the systems' assets if combined. TRS alone contributes \$4 billion in economic output in the state, supports 23,789 jobs, and produces \$593.2 million in federal, state, and local tax revenues.⁶⁹ The economic output, jobs supported, and taxes collected benefit both rural and urban economies throughout the state. Closing a pension plan could reduce tax revenue in the future and harm the states' small businesses, and urban and rural communities.

⁶⁸ Forman, Carmen, "Oklahoma Senate passes cost-of-living adjustment for state retirees," *The Oklahoman*, May 16, 2020, <https://oklahoman.com/article/5662428/stitt-to-decide-on-cost-of-living-adjustment-for-state-retirees>.

⁶⁹ AARP in the States, "Snapshot: Oklahoma Teachers Retirement System," AARP and NRTA, accessed January 14, 2021, <https://www.nirsonline.org/wp-content/uploads/2021/01/AARP-In-The-States-Snapshot-OK-Public-Employee-Retirement-System.pdf>.

WYOMING BY THE NUMBERS

PENSIONOMICS IN WYOMING

Total Economic Impact: \$891.5 million
Total Jobs Supported: 5,121
Pension Benefit Multiplier: \$1.00 = \$1.12
total output
Total Federal, State, Local Taxes Paid:
\$129.4 million

Boivie, Ilana and Dan Doonan, "Pensionomics State Data 2021," National Institute on Retirement Security, January 6, 2021, <https://www.nirsonline.org/wp-content/uploads/2020/12/Pensionomics-2021-Report-Final-V6.pdf>.

WYOMING RETIREMENT SYSTEM

Active Members: 40,928
Deferred Vested: 8,272
Deferred Non-Vested: 28,812
Current Beneficiaries: 33,280
Total with a Direct Financial Interest: 111,292

Wyoming Retirement System A Fiduciary of the State of Wyoming, "Annual Comprehensive Financial Report For the Fiscal Year Ended December 31, 2020," December 31, 2020, <https://retirement.wyo.gov/-/media/Documents/Financial/WRS-ACFR-2020.ashx>.

Created in 1953, the Wyoming Retirement System (WRS) has provided pension benefits to retired public employees across the state for more than half a century. Made up of several different funds under the umbrella of WRS, the system provides pensions to nearly 80,000 active and retired public employees across Wyoming. The different funds include:

- Public Employee Pension Plan (Including Pre K - 12 Education)
- Law Enforcement Pension Plan
- State Patrol, Game & Fish, Warden, and Criminal Investigator Pension Plan
- Paid Fire A Pension Plan
- Paid Fire B Pension Plan
- Judicial Pension Plan
- Air Guard Firefighter Pension Plan
- Volunteer Firefighter & EMT & Search and Rescue (SAR) Pension Plan

Over the last decade, the Wyoming legislature has considered and adopted policies aimed at WRS. Several successful efforts have been made to increase funding to WRS, including boosting funding from the state, and increasing employee contributions to the plan. Since funding to the system has increased over the years, the unfunded liability of the public employee plan, which comprises the largest portion of WRS, now stands at 73.2%.⁷⁰ According to WRS's 2020 annual report, Wyoming has the lowest contribution rate in the nation at 1.98%

⁷⁰ Wyoming Retirement System, "Summary Report 2020," January 1, 2021, <https://retirement.wyo.gov/-/media/Files/Admin/Summary-Reports/2020SummaryReport.ashx>.

of state and local budget expenses, compared to the national average of 5.2%.⁷¹ With such a small cost to state and local governments, WRS provides a secure retirement to thousands of retired public employees at a fraction of the cost of state and local budget expenses.

In addition to increased funding, legislation that would have moved all future public employees from the defined-benefit pension plan into a defined-contribution plan failed to pass in 2020.

Financial planners use the “three-legged stool” as a way to describe how to adequately save for retirement. The three-legged stool includes a pension, personal savings, and Social Security. WRS assists public employees in their quest for a fiscally-sound retirement by offering a 457(b) deferred compensation plan. This 457(b) plan, established in 2001, allows public employees to save their own money for retirement, along with their pension and Social Security benefits.

Conclusion

History has shown that closing a defined-benefit pension plan for future public employees and converting them to a defined-contribution 401(k)-style plan only creates more issues for governments and lawmakers. States will see increased costs of funding their pension plans in the future, as the plans cannot keep up with the disparity between active and retired public employees. Additionally, eliminating defined-benefit pensions can create recruitment and retention issues for all levels of government.

Lawmakers who favor conversion will point to short-term savings as a reason why their state should consider it. As described throughout this report, this idea is short-sighted and fails to acknowledge the real long-term fiscal impact. Lawmakers should notice trends in the private sector as to why they should not strip future public employees of a defined-benefit pension, especially those who dedicate their lives in service to their communities.

Defined-contribution 401(k) retirement plans were also never meant to be a primary retirement vehicle for any worker, either in the private or public sector. Ted Benna, who is widely regarded as the “father of the 401(k),” has called the 401(k) “a monster.”⁷²

⁷¹ “NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems,” NASRA, Updated December 2020, <https://www.nasra.org/files/Issue%20Briefs/NASRACostsBrief.pdf>.

⁷² CBS News, “401(k) Founder: My Creation is ‘a Monster,’” November 29, 2011, *CBS News*, <https://www.cbsnews.com/news/401k-founder-my-creation-is-a-monster/>.

With a defined-benefit pension plan, workers and employers do not stop contributing during an economic downturn. Since workers' assets are pooled in the pension fund, they can weather financial storms, such as the Great Recession and the coronavirus pandemic-induced economic downturn. Also, with a pension, retired workers do not have to worry about running out of money in retirement - their retirement benefits are earned and paid every month for the rest of their lives.

Observing the wealth of evidence in this report and the examples provided by other local and state governments, lawmakers should strongly consider this research and evaluate the adverse outcomes of passing 401(k) conversion legislation to the detriment of state and local budgets and public employees. 401(k) conversion is not the answer. Instead, maintaining their defined-benefit pensions and practicing fiscal discipline by ensuring that systems are fully funded each year is the better course of action.

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