

OKLAHOMA

House Bill 2486

Oklahoma is considering changes to retirement plan provisions for its Public Employees Retirement System (OPERS), as presented in House Bill 2486, passed by the House on March 28, 2022. The stated intent of the legislation is to help improve the government’s ability to recruit public employees.¹ Equable Institute has analyzed the proposed changes using [Retirement Security Report](#) methodology, and we report here how these changes to retirement benefits would influence current and/or future OPERS plan members.

RETIREMENT BENEFIT SCORE	
CURRENT PLAN ²	PROPOSED CHANGES ³
72.7% of available points	37.5% of available points

EQUABLE'S ASSESSMENT	
CURRENT PLAN	PROPOSED CHANGES
Serves All Members Moderately Well	Does NOT Serve All Members Well

KEY POLICY CHANGES

- The OPERS defined benefit pension plan that was closed to new members as of November 2015 would be re-opened to new OPERS members.
- Anyone enrolled in the OPERS defined contribution plan would have their individual account balances closed and be converted into pension plan members.
- The pension benefit design would be the same provisions as offered to OPERS members before November 2015.

WHAT HOUSE BILL 2486 MEANS FOR WORKERS

OPERS members would be no longer be offered a defined contribution plan and instead be enrolled in a defined benefit pension plan with lower overall benefits, but guaranteed income. We use a Benefits Score methodology that measures the future income value of retirement plans and compares this to a 70% “replacement rate” income adequacy threshold.

PERCENTAGE OF BENEFITS POINTS SCORED BY PROPOSED PLAN VS CURRENT PLAN⁴

	AVERAGE FOR ALL WORKERS	SHORT TERM WORKERS <10 Years of service	MEDIUM TERM 10-20 years of service	FULL CAREER >20 years of service
TOTAL HB2486 SCORE Status Quo Score	37.5% Current Plan: 72.7%	8.9% Current Plan: 55.8%	20.2% Current Plan: 62.3%	83.3% Current Plan: 100.0%
BENEFIT VALUE v. INCOME ADEQUACY TARGET	50.5% of points Current Plan: 74.3%	11.1% of points Current Plan: 53.0% Earnings Change: -\$2,526/yr	40.4% of points Current Plan: 69.7% Earnings Change: -\$3,061/yr	100.0% of points Current Plan: 100.0% Earnings Change: -\$962/yr
COLA & INFLATION PROTECTION⁵	0.0% of points Current Plan: N/A	N/A	0.0% of points Current Plan: N/A	0.0% of points Current Plan: N/A
FLEXIBILITY & MOBILITY	0.0% of points Current Plan: 40%	0.0% of points Current Plan: 40%	0.0% of points Current Plan: 40%	N/A

This table shows the proposed plan’s total Benefit Scores, e.g., the percentage of available points for a given category. We also show how proposed changes would improve or decrease the Benefits Score of the current plan (the “score change”). And we show what the material effect would be on an average employee’s annual retirement earnings, using salary assumptions used by PERS trustees.

A full scorecard for the current plan is available in the Retirement Security Report Index at www.Retirement Security.Report.

For a breakdown of score changes by worker class, including for employees classified as elected officials and hazardous members, please visit <https://equable.org/oklahoma-house-bill-2486-retirement-security-policy-scores/>.

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EQUABLE INSTITUTE'S ANALYSIS

The proposed pension plan under HB2486 would provide substantially lower benefits to most OPERS members compared to the current defined contribution plan. This is primarily because the OPERS pension plan has no built-in inflation protection or crediting interest rate.

- **Short-Term Workers are served moderately well by the current plan; they would likely be worse off under the proposed plan.**
- **Medium-Term Workers could be slightly worse off under the proposed changes than the current plan because the pension does not automatically adjust for inflation. For those who work 10-20 years covered by OPERS the proposed plan could reduce their benefit value over \$36,000 a year.**
- **Those who work a full career covered by OPERS are likely to have a larger benefit under the current than the proposed plan, but both would serve Full Career Workers well.**

Pension plans are valuable because they can reduce investment risk for members, but the underlying benefit design provisions matter. For OPERS, the current defined contribution plan's benefits are notably better than the legacy pension plan that HB2486 proposes to re-open.

Because the proposed pension plan does not provide meaningfully better benefits, it is unclear whether adopting HB55 would achieve the stated goal of its proponents.

Most academic literature suggests that few individuals join public service because of the retirement benefits, and other factors like salary, health benefits, and working conditions are stronger factors for retention than retirement benefits (no matter the plan design).⁶

However, theoretically the underlying concerns about recruitment of public employees could be addressed by (a) allowing future OPERS members to choose between the current defined contribution plan or an adequate pension plan, and/or (b) adjusting lifetime income provisions of the current plan to provide a better path to retirement income adequacy.

For further Retirement Security Policy Score analysis, including comments on the funding policy provisions of HB2486, visit <https://equable.org/oklahoma-house-bill-2486-retirement-security-policy-scores/>.

FOOTNOTES: 1 - 7

To read more about the methodology behind our scoring system, please reference the notes section in our extended analysis of the proposed legislation at <https://equable.org/oklahoma-house-bill-2486-retirement-security-policy-scores/>.

ABOUT THESE SCORES

These scores are based on a 25-year-old entrant with average starting salary for members of the plan. It is not intended to comprehensively measure every aspect of a retirement plan, but instead to measure the factors that are most important for measuring retirement income adequacy. It is reasonable to compare plan changes against the status quo, but the most fundamental question is whether any retirement plan (the existing benefits or proposed adjusted benefits) is providing retirement income security to all members of the plan. These scores are based on a comparison against a standard benchmark for retirement income adequacy, but there are other reasonable benchmarks too. We've made additional charts available [here](#) that show how the proposed benefits meet different standards of adequacy.

ABOUT EQUABLE INSTITUTE

Equable Institute is a bipartisan non-profit that works with public retirement system stakeholders to solve complex pension funding challenges with data-driven solutions. We exist to support public sector workers in understanding how their retirement systems can be improved, and to help state and local governments find ways to both fix threats to municipal finance stability and ensure the retirement security of all public servants.

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

2021 AT A GLANCE

SUSTAINABILITY SCORE⁷

FOR CURRENT PLAN

Not applicable (DC Plan)

EQUABLE'S ASSESSMENT

FOR LEGACY PENSION PLAN

Stable

FUNDED RATIO:	99.5%
TOTAL PROMISED BENEFITS:	\$11.0 billion
UNFUNDED LIABILITIES:	\$55.0 million
FUNDING SHORTFALL AS A % OF STATE GDP:	0.0%
ASSUMED RATE OF RETURN:	6.5%
YEARS UNTIL ASSET SHORTFALL IS PAID OFF:	7
# YEARS ANNUAL BILL FULLY PAID:	10/10 years
#YEARS PLAN EARNED THE ASSUMED RETURN:	5/10 years
SOCIAL SECURITY	Yes
FY 2022 EMPLOYER CONTRIBUTION RATE:	7.0% DC 6.92% DB
FY 2022 MEMBER CONTRIBUTION RATE:	7.0% DC 3.5% DB
RISK-SHARING TOOLS:	No

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COMPLETE BENEFIT SCORES FOR PROPOSED PLAN

Retirement Income Adequacy Score Goal = 100%

	AVERAGE FOR ALL WORKERS	SHORT TERM WORKERS <10 Years of service	MEDIUM TERM 10-20 years of service	FULL CAREER >20 years of service
TOTAL HB2486 SCORE (10 to 10 Factors)	37.4% of Points	8.9% of Points	20.2% of Points	83.3% of Points
VESTING	20.0% 1 of 5 Points Current Plan: 80.0%	20.0% 1 of 5 Points Current Plan: 80.0%	N/A	N/A
BENEFIT VALUE v. INCOME ADEQUACY TARGET	50.5% of points Current Plan: 74.3%	11.1% of points Current Plan: 53.0% Earnings Change: -\$2,526/yr	40.4% of points Current Plan: 69.7% Earnings Change: -\$3,061/yr	100.0% of points Current Plan: 100.0% Earnings Change: -\$962/yr
COLA POLICY	0.0% 0 of 5 Points Current Plan: N/A	N/A	0.0% 0 of 5 Points Current Plan: N/A	0.0% 0 of 5 Points Current Plan: N/A
FLEXIBILITY & MOBILITY: REFUNDING POLICY	0.0% 0 of 5 Points Current Plan: 40.0%	0.0% 0 of 5 Points Current Plan: 40.0%	0.0% 0 of 5 Points Current Plan: 40.0%	N/A
FLEXIBILITY & MOBILITY: CREDITING INTEREST RATE	0.0% 0 of 5 Points Current Plan: N/A	0.0% 0 of 5 Points Current Plan: N/A	0.0% 0 of 5 Points Current Plan: N/A	N/A

WHAT ARE THESE METRICS?

ELIGIBILITY: VESTING – Retirement plan members want to know when they will be vested into their benefits. There is no formal set of vesting rule guidelines for state retirement systems but there is for private sector plans. We use the federal standards for private sector retirement plans (known as ERISA), which specify that employees should be 100% vested after five years of service (though private plans could use a shorter period).

INCOME ADEQUACY: BENEFIT VALUE – Retirement plan members want to be on a path to an adequate retirement benefit. One way to assess the adequacy of benefits of a plan is to compare the value of what a plan member has earned against an adequacy target. The target used in our analysis is a 70% income replacement rate at age 67.

COLA POLICY – Inflation adjustment of benefits is important for retirement income to actually provide security in the long-run. We grade plans on whether or not they have a policy for providing cost-of-living adjustments, and what the rules are for providing that COLA.

FLEXIBILITY & MOBILITY: REFUNDING POLICY – In most retirement systems if a plan member chooses to withdraw before reaching normal retirement, they are entitled to a refund of their own contributions. Often those contributions are supplemented with some amount of interest at a rate most frequently designated by the plan’s retirement board. In a few cases, the refund will may also include a portion of the contributions made by the employer toward the employee’s retirement benefit. Further, in some cases the level of refund can vary according to the vesting status of the member when they leave the system. Finally, some designs provide individuals all of the employer contributions and investment returns on those contributions even if they leave the plan after vesting.

FLEXIBILITY & MOBILITY: CREDITING INTEREST RATE – The interest rate offered by a retirement system on refunded contributions in the event of a withdrawal are another key factor in determining the mobility of a plan’s benefits. If the interest rate is generous, then it will ensure that the employee will at least depart the system with some moderate savings (which could then help them continue saving for retirement). However, if the system does not offer interest or offers a low interest rate, then the member will leave with minimal savings and it will be much harder to reach a secure retirement.

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SCORE BREAKDOWN BY ENTRY AGE — REGULAR MEMBERS

PERCENTAGE OF BENEFITS POINTS SCORED BY PROPOSED PLAN VS CURRENT PLAN FOR A 25-YEAR-OLD ENTRANT

	AVERAGE FOR ALL WORKERS	SHORT TERM WORKERS <10 Years of service	MEDIUM TERM 10-20 years of service	FULL CAREER >20 years of service
TOTAL HB2486 SCORE (10 to 6 Factors)	33.9% of points Current Plan: 70.0%	7.2% of points Current Plan: 52.8%	11.1% of points Current Plan: 57.3%	83.3% of points Current Plan: 100.0%
VESTING	20.0% of points Current Plan: 80.0%	20.0% of points Current Plan: 80.0%	N/A	N/A
BENEFIT VALUE v. INCOME ADEQUACY TARGET	43.3% of points Current Plan: 74.3%	7.8% of points Current Plan: 48.0% Earnings Change: -\$2,848/yr	22.2% of points Current Plan: 63.1% Earnings Change: -\$5,410/yr	100.0% of points Current Plan: 100.0% Earnings Change: -\$5,650/yr
COLA POLICY	0.0% of points Current Plan: N/A	N/A	0.0% of points Current Plan: N/A	0.0% of points Current Plan: N/A
FLEXIBILITY & MOBILITY: REFUNDING POLICY	0.0% of points Current Plan: 40.0%	0.0% of points Current Plan: 40.0%	0.0% of points Current Plan: 40.0%	N/A
FLEXIBILITY & MOBILITY: CREDITING INTEREST RATE	0.0% of points Current Plan: N/A	0.0% of points Current Plan: N/A	0.0% of points Current Plan: N/A	N/A

PERCENTAGE OF BENEFITS POINTS SCORED BY PROPOSED PLAN VS CURRENT PLAN FOR A 40-YEAR-OLD ENTRANT

	AVERAGE FOR ALL WORKERS	SHORT TERM WORKERS <10 Years of service	MEDIUM TERM 10-20 years of service	FULL CAREER >20 years of service
TOTAL HB2486 SCORE (10 to 6 Factors)	41.1% of points Current Plan: 75.4%	10.6% of points Current Plan: 58.8%	29.3% of points Current Plan: 67.3%	83.3% of points Current Plan: 100.0%
VESTING	20.0% of points Current Plan: 80.0%	20.0% of points Current Plan: 80.0%	N/A	N/A
BENEFIT VALUE v. INCOME ADEQUACY TARGET	57.7% of points Current Plan: 74.3%	14.5% of points Current Plan: 58.1% Earnings Change: -\$2,204/yr	58.5% of points Current Plan: 76.4% Earnings Change: -\$713/yr	100.0% of points Current Plan: 100.0% Earnings Change: \$3,726/yr
COLA POLICY	0.0% of points Current Plan: N/A	N/A	0.0% of points Current Plan: N/A	0.0% of points Current Plan: N/A
FLEXIBILITY & MOBILITY: REFUNDING POLICY	0.0% of points Current Plan: 40.0%	0.0% of points Current Plan: 40.0%	0.0% of points Current Plan: 40.0%	N/A
FLEXIBILITY & MOBILITY: CREDITING INTEREST RATE	0.0% of points Current Plan: N/A	0.0% of points Current Plan: N/A	0.0% of points Current Plan: N/A	N/A

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SCORE BREAKDOWN BY ENTRY AGE — HAZARDOUS MEMBERS

PERCENTAGE OF BENEFITS POINTS SCORED BY PROPOSED PLAN VS CURRENT PLAN
FOR A 25-YEAR-OLD ENTRANT

	AVERAGE FOR ALL WORKERS	SHORT TERM WORKERS <10 Years of service	MEDIUM TERM 10-20 years of service	FULL CAREER >20 years of service
TOTAL HB2486 SCORE (10 to 10 Factors)	36.7% of points Current Plan: 70.0%	10.8% of points Current Plan: 52.8%	15.8% of points Current Plan: 57.3%	83.3% of points Current Plan: 100.0%
VESTING	20.0% of points Current Plan: 80.0%	20.0% of points Current Plan: 80.0%	N/A	N/A
BENEFIT VALUE v. INCOME ADEQUACY TARGET	48.9% of points Current Plan: 70.4%	14.9% of points Current Plan: 48.0% Earnings Change: -\$2,488/yr	31.7% of points Current Plan: 63.1% Earnings Change: -\$3,611/yr	100.0% of points Current Plan: 100.0% Earnings Change: -\$6,715/yr
COLA POLICY	0.0% of points Current Plan: N/A	N/A	0.0% of points Current Plan: N/A	0.0% of points Current Plan: N/A
FLEXIBILITY & MOBILITY: REFUNDING POLICY	0.0% of points Current Plan: 40.0%	0.0% of points Current Plan: 40.0%	0.0% of points Current Plan: 40.0%	N/A
FLEXIBILITY & MOBILITY: CREDITING INTEREST RATE	0.0% of points Current Plan: N/A	0.0% of points Current Plan: N/A	0.0% of points Current Plan: N/A	N/A

PERCENTAGE OF BENEFITS POINTS SCORED BY PROPOSED PLAN VS CURRENT PLAN
FOR A 40-YEAR-OLD ENTRANT

	AVERAGE FOR ALL WORKERS	SHORT TERM WORKERS <10 Years of service	MEDIUM TERM 10-20 years of service	FULL CAREER >20 years of service
TOTAL HB2486 SCORE (10 to 10 Factors)	49.3% of points Current Plan: 75.4%	18.2% of points Current Plan: 58.8%	46.4% of points Current Plan: 67.3%	83.3% of points Current Plan: 100.0%
VESTING	20.0% of points Current Plan: 80.0%	20.0% of points Current Plan: 80.0%	N/A	N/A
BENEFIT VALUE v. INCOME ADEQUACY TARGET	74.1% of points Current Plan: 78.2%	29.7% of points Current Plan: 58.1% Earnings Change: -\$811/yr	92.7% of points Current Plan: 76.4% Earnings Change: \$5,109/yr	100.0% of points Current Plan: 100.0% Earnings Change: \$627/yr
COLA POLICY	0.0% of points Current Plan: N/A	N/A	0.0% of points Current Plan: N/A	0.0% of points Current Plan: N/A
FLEXIBILITY & MOBILITY: REFUNDING POLICY	0.0% of points Current Plan: 40.0%	0.0% of points Current Plan: 40.0%	0.0% of points Current Plan: 40.0%	N/A
FLEXIBILITY & MOBILITY: CREDITING INTEREST RATE	0.0% of points Current Plan: N/A	0.0% of points Current Plan: N/A	0.0% of points Current Plan: N/A	N/A

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SCORE BREAKDOWN BY ENTRY AGE — ELECTED MEMBERS

PERCENTAGE OF BENEFITS POINTS SCORED BY PROPOSED PLAN VS CURRENT PLAN FOR A 25-YEAR-OLD ENTRANT

	AVERAGE FOR ALL WORKERS	SHORT TERM WORKERS <10 Years of service	MEDIUM TERM 10-20 years of service	FULL CAREER >20 years of service
TOTAL HB2486 SCORE (10 to 10 Factors)	34.2% of points Current Plan: 70.0%	7.8% of points Current Plan: 52.8%	11.6% of points Current Plan: 57.3%	83.3% of points Current Plan: 100.0%
VESTING	20.0% of points Current Plan: 80.0%	20.0% of points Current Plan: 80.0%	N/A	N/A
BENEFIT VALUE v. INCOME ADEQUACY TARGET	44.0% of points Current Plan: 70.4%	9.0% of points Current Plan: 48.0% Earnings Change: -\$3,514/yr	23.1% of points Current Plan: 63.1% Earnings Change: -\$6,930/yr	100.0% of points Current Plan: 100.0% Earnings Change: -\$7,195/yr
COLA POLICY	0.0% of points Current Plan: N/A	N/A	0.0% of points Current Plan: N/A	0.0% of points Current Plan: N/A
FLEXIBILITY & MOBILITY: REFUNDING POLICY	0.0% of points Current Plan: 40.0%	0.0% of points Current Plan: 40.0%	0.0% of points Current Plan: 40.0%	N/A
FLEXIBILITY & MOBILITY: CREDITING INTEREST RATE	0.0% of points Current Plan: N/A	0.0% of points Current Plan: N/A	0.0% of points Current Plan: N/A	N/A

PERCENTAGE OF BENEFITS POINTS SCORED BY PROPOSED PLAN VS CURRENT PLAN FOR A 40-YEAR-OLD ENTRANT

	AVERAGE FOR ALL WORKERS	SHORT TERM WORKERS <10 Years of service	MEDIUM TERM 10-20 years of service	FULL CAREER >20 years of service
TOTAL HB2486 SCORE (10 to 10 Factors)	42.3% of points Current Plan: 75.4%	10.5% of points Current Plan: 58.8%	33.0% of points Current Plan: 67.3%	83.3% of points Current Plan: 100.0%
VESTING	20.0% of points Current Plan: 80.0%	20.0% of points Current Plan: 80.0%	N/A	N/A
BENEFIT VALUE v. INCOME ADEQUACY TARGET	60.1% of points Current Plan: 78.2%	14.4% of points Current Plan: 58.1% Earnings Change: -\$2,762/yr	66.0% of points Current Plan: 76.4% Earnings Change: \$895/yr	100.0% of points Current Plan: 100.0% Earnings Change: \$1,732/yr
COLA POLICY	0.0% of points Current Plan: N/A	N/A	0.0% of points Current Plan: N/A	0.0% of points Current Plan: N/A
FLEXIBILITY & MOBILITY: REFUNDING POLICY	0.0% of points Current Plan: 40.0%	0.0% of points Current Plan: 40.0%	0.0% of points Current Plan: 40.0%	N/A
FLEXIBILITY & MOBILITY: CREDITING INTEREST RATE	0.0% of points Current Plan: N/A	0.0% of points Current Plan: N/A	0.0% of points Current Plan: N/A	N/A