

OKLAHOMA

House Bill 2486 – Senate Amended

Oklahoma is considering changes to retirement plan provisions for its Public Employees Retirement System (OPERS). House Bill 2486 was passed by the House on March 28, 2022, and amended in the Senate on April 4, 2022. The stated intent of the legislation is to help improve the government’s ability to recruit public employees.<sup>1</sup> 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 <sup>2</sup>	PROPOSED CHANGES <sup>3</sup>
72.7% of available points	83.6% of available points

EQUABLE’S ASSESSMENT	
CURRENT PLAN	PROPOSED CHANGES
Serves All Members Moderately Well	Serves All Members Well

KEY POLICY CHANGES

- The House version of HB2486 would have re-opened the OPERS defined benefit pension plan for all current and new workers.
- The Senate amended version of HB2486 would instead keep open the OPERS defined contribution plan and increase employer contribution rates.
- The employer match on member contributions would jump from up to 7% of salary to up to 10%; the minimum employer rate would rise from 6% to 8%.

WHAT HOUSE BILL 2486-SENATE AMENDED MEANS FOR WORKERS

OPERS members would be offered a defined contribution plan that serves all members well, on average. There would be no option to select a pension instead. 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 PLAN<sup>4</sup>

	AVERAGE FOR ALL WORKERS	SHORT TERM WORKERS <10 Years of service	MEDIUM TERM 10-20 years of service	FULL CAREER >20 years of service
<b>TOTAL SCORE HB2486-SENATE</b>	83.6% Current Plan: 72.7%	69.5% Current Plan: 55.8%	81.3% Current Plan: 62.3%	100.0% Current Plan: 100.0%
<b>BENEFIT VALUE v. INCOME ADEQUACY TARGET</b>	96.9% of points Current Plan: 74.3%	75.8% of points Current Plan: 53.0% Earnings Change: \$1,711/yr	95.1% of points Current Plan: 69.7% Earnings Change: \$4,466/yr	100.0% of points Current Plan: 100.0% Earnings Change: \$11,566/yr
<b>COLA &amp; INFLATION PROTECTION<sup>5</sup></b>	Not Applicable Current Plan: N/A	Not Applicable	Not Applicable Current Plan: N/A	Not Applicable Current Plan: N/A
<b>FLEXIBILITY &amp; MOBILITY</b>	40.0% of points Current Plan: 40%	40.0% of points Current Plan: 40%	40.0% of points Current Plan: 40%	Not Applicable

*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 OPERS trustees.*

A full scorecard for the current plan is available in the Retirement Security Report Index at [www.RetirementSecurityReport.com](http://www.RetirementSecurityReport.com).

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 improvements to the OPERS defined contribution plan under HB2486 as amended in the state senate would increase retirement benefits for all members.

- **Short-Term Workers** would be served moderately well by the new plan, scoring 69.5% of available points (up from 55.8%).
- **Medium-Term Workers** would be much better off going from being served moderately well (62.3% of available points) to being served well (81.3% of available points).
- **Those who work a full career** covered by the OPERS defined contribution plan are already well served by the current plan, and the value of their retirement income would effectively go up by over \$11,000 year under the Senate proposed plan.

The proposed changes in the Senate amended version are notably better than the version of HB2486 passed out of the House. That version would have *reduced* benefits for most members of OPERS, in exchange for the benefits provided being guaranteed income.

Even though OPERS benefits are better under the Senate amended proposed changes, it is not clear that it will help meet the stated goal of improving recruitment.

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).<sup>6</sup>

Theoretically, public employers could be given more tools for recruiting like giving future workers a choice between different kinds of retirement plans. And the current DC plan could be improved by adding the option of a lifetime income product. But it is unlikely that any change to retirement benefits fundamentally improves recruitment.

For further Retirement Security Policy Score analysis, including comments on the House adopted version 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 SCORE<sup>7</sup>

## 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
<b>TOTAL SCORE HB2486-SENATE</b> (6 to 10 Factors)	83.6% of Points	69.5% of Points	81.3% of Points	100.0% of Points
<b>VESTING</b>	80.0% 4 of 5 Points Current Plan: 80.0%	80.0% 4 of 5 Points Current Plan: 80.0%	N/A	N/A
<b>BENEFIT VALUE v. INCOME ADEQUACY TARGET</b>	96.9% of points Current Plan: 74.3%	75.8% of points Current Plan: 53.0% Earnings Change: \$1,711/yr	95.1% of points Current Plan: 69.7% Earnings Change: \$4,466/yr	120.0% of points Current Plan: 100.0% Earnings Change: \$11,566/yr
<b>COLA POLICY</b>	Not Applicable Current Plan: N/A	N/A	Not Applicable Current Plan: N/A	Not Applicable Current Plan: N/A
<b>FLEXIBILITY &amp; MOBILITY: REFUNDING POLICY</b>	40.0% 2 of 5 Points Current Plan: 40.0%	40.0% 2 of 5 Points Current Plan: 40.0%	40.0% 2 of 5 Points Current Plan: 40.0%	N/A
<b>FLEXIBILITY &amp; MOBILITY: CREDITING INTEREST RATE</b>	Not Applicable Current Plan: N/A	Not Applicable Current Plan: N/A	Not Applicable 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
<b>TOTAL SCORE HB2486-SENATE</b> (6 to 10 Factors)	80.9% of points Current Plan: 70.0%	65.1% of points Current Plan: 52.8%	77.6% of points Current Plan: 57.3%	100.0% of points Current Plan: 100.0%
<b>VESTING</b>	80.0% of points Current Plan: 80.0%	80.0% of points Current Plan: 80.0%	N/A	N/A
<b>BENEFIT VALUE v. INCOME ADEQUACY TARGET</b>	96.9% of points Current Plan: 70.4%	68.5% of points Current Plan: 48.0% Earnings Change: \$1,585/yr	90.2% of points Current Plan: 63.1% Earnings Change: \$4,137/yr	120.0% of points Current Plan: 100.0% Earnings Change: \$15,327/yr
<b>COLA POLICY</b>	Not Applicable Current Plan: N/A	N/A	Not Applicable Current Plan: N/A	Not Applicable Current Plan: N/A
<b>FLEXIBILITY &amp; MOBILITY: REFUNDING POLICY</b>	40.0% of points Current Plan: 40.0%	40.0% of points Current Plan: 40.0%	40.0% of points Current Plan: 40.0%	N/A
<b>FLEXIBILITY &amp; MOBILITY: CREDITING INTEREST RATE</b>	Not Applicable Current Plan: N/A	Not Applicable Current Plan: N/A	Not Applicable 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
<b>TOTAL SCORE HB2486-SENATE</b> (6 to 10 Factors)	86.3% of points Current Plan: 75.4%	73.8% of points Current Plan: 58.8%	85.0% of points Current Plan: 67.3%	100.0% of points Current Plan: 100.0%
<b>VESTING</b>	80.0% of points Current Plan: 80.0%	80.0% of points Current Plan: 80.0%	N/A	N/A
<b>BENEFIT VALUE v. INCOME ADEQUACY TARGET</b>	100.0% of points Current Plan: 78.2%	83.0% of points Current Plan: 58.1% Earnings Change: \$1,838/yr	100.0% of points Current Plan: 76.4% Earnings Change: \$4,796/yr	120.0% of points Current Plan: 100.0% Earnings Change: \$7,805/yr
<b>COLA POLICY</b>	Not Applicable Current Plan: N/A	N/A	Not Applicable Current Plan: N/A	Not Applicable Current Plan: N/A
<b>FLEXIBILITY &amp; MOBILITY: REFUNDING POLICY</b>	40.0% of points Current Plan: 40.0%	40.0% of points Current Plan: 40.0%	40.0% of points Current Plan: 40.0%	N/A
<b>FLEXIBILITY &amp; MOBILITY: CREDITING INTEREST RATE</b>	Not Applicable Current Plan: N/A	Not Applicable Current Plan: N/A	Not Applicable 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
<b>TOTAL SCORE HB2486-SENATE</b> (6 to 10 Factors)	80.9% of points Current Plan: 70.0%	65.1% of points Current Plan: 52.8%	77.6% of points Current Plan: 57.3%	100.0% of points Current Plan: 100.0%
<b>VESTING</b>	80.0% of points Current Plan: 80.0%	80.0% of points Current Plan: 80.0%	N/A	N/A
<b>BENEFIT VALUE v. INCOME ADEQUACY TARGET</b>	92.9% of points Current Plan: 70.4%	68.5% of points Current Plan: 48.0% Earnings Change: \$1,597/yr	90.2% of points Current Plan: 63.1% Earnings Change: \$4,168/yr	120.0% of points Current Plan: 100.0% Earnings Change: \$15,441/yr
<b>COLA POLICY</b>	Not Applicable Current Plan: N/A	N/A	Not Applicable Current Plan: N/A	Not Applicable Current Plan: N/A
<b>FLEXIBILITY &amp; MOBILITY: REFUNDING POLICY</b>	40.0% of points Current Plan: 40.0%	40.0% of points Current Plan: 40.0%	40.0% of points Current Plan: 40.0%	N/A
<b>FLEXIBILITY &amp; MOBILITY: CREDITING INTEREST RATE</b>	Not Applicable Current Plan: N/A	Not Applicable Current Plan: N/A	Not Applicable 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
<b>TOTAL SCORE HB2486-SENATE</b> (6 to 10 Factors)	86.3% of points Current Plan: 75.4%	73.8% of points Current Plan: 58.8%	85.0% of points Current Plan: 67.3%	100.0% of points Current Plan: 100.0%
<b>VESTING</b>	80.0% of points Current Plan: 80.0%	80.0% of points Current Plan: 80.0%	N/A	N/A
<b>BENEFIT VALUE v. INCOME ADEQUACY TARGET</b>	100.0% of points Current Plan: 78.2%	83.0% of points Current Plan: 58.1% Earnings Change: \$1,654/yr	100.0% of points Current Plan: 76.4% Earnings Change: \$4,317/yr	120.0% of points Current Plan: 100.0% Earnings Change: \$7,025/yr
<b>COLA POLICY</b>	Not Applicable Current Plan: N/A	N/A	Not Applicable Current Plan: N/A	Not Applicable Current Plan: N/A
<b>FLEXIBILITY &amp; MOBILITY: REFUNDING POLICY</b>	40.0% of points Current Plan: 40.0%	40.0% of points Current Plan: 40.0%	40.0% of points Current Plan: 40.0%	N/A
<b>FLEXIBILITY &amp; MOBILITY: CREDITING INTEREST RATE</b>	Not Applicable Current Plan: N/A	Not Applicable Current Plan: N/A	Not Applicable 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
<b>TOTAL SCORE HB2486-SENATE</b> (6 to 10 Factors)	80.9% of points Current Plan: 70.0%	65.1% of points Current Plan: 52.8%	77.6% of points Current Plan: 57.3%	100.0% of points Current Plan: 100.0%
<b>VESTING</b>	80.0% of points Current Plan: 80.0%	80.0% of points Current Plan: 80.0%	N/A	N/A
<b>BENEFIT VALUE v. INCOME ADEQUACY TARGET</b>	92.9% of points Current Plan: 70.4%	68.5% of points Current Plan: 48.0% Earnings Change: \$1,910/yr	90.2% of points Current Plan: 63.1% Earnings Change: \$4,986/yr	120.0% of points Current Plan: 100.0% Earnings Change: \$18,472/yr
<b>COLA POLICY</b>	Not Applicable Current Plan: N/A	N/A	Not Applicable Current Plan: N/A	Not Applicable Current Plan: N/A
<b>FLEXIBILITY &amp; MOBILITY: REFUNDING POLICY</b>	40.0% of points Current Plan: 40.0%	40.0% of points Current Plan: 40.0%	40.0% of points Current Plan: 40.0%	N/A
<b>FLEXIBILITY &amp; MOBILITY: CREDITING INTEREST RATE</b>	Not Applicable Current Plan: N/A	Not Applicable Current Plan: N/A	Not Applicable 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
<b>TOTAL SCORE HB2486-SENATE</b> (6 to 10 Factors)	86.3% of points Current Plan: 75.4%	73.8% of points Current Plan: 58.8%	85.0% of points Current Plan: 67.3%	100.0% of points Current Plan: 100.0%
<b>VESTING</b>	80.0% of points Current Plan: 80.0%	80.0% of points Current Plan: 80.0%	N/A	N/A
<b>BENEFIT VALUE v. INCOME ADEQUACY TARGET</b>	100.0% of points Current Plan: 78.2%	83.0% of points Current Plan: 58.1% Earnings Change: \$2,620/yr	100.0% of points Current Plan: 76.4% Earnings Change: \$6,387/yr	120.0% of points Current Plan: 100.0% Earnings Change: \$11,127/yr
<b>COLA POLICY</b>	Not Applicable Current Plan: N/A	N/A	Not Applicable Current Plan: N/A	Not Applicable Current Plan: N/A
<b>FLEXIBILITY &amp; MOBILITY: REFUNDING POLICY</b>	40.0% of points Current Plan: 40.0%	40.0% of points Current Plan: 40.0%	40.0% of points Current Plan: 40.0%	N/A
<b>FLEXIBILITY &amp; MOBILITY: CREDITING INTEREST RATE</b>	Not Applicable Current Plan: N/A	Not Applicable Current Plan: N/A	Not Applicable Current Plan: N/A	N/A