Retiring Right

A Publication of the Oklahoma Public Employees Retirement System

OPERS newsletter

Summer 2004

Regular Edition

Legislative Summary Edition

2004 Legislative Session Brings Changes, Including Retiree COLA

The 2004 Regular Session of the Oklahoma Legislature produced several retirement-related changes to the plans administered by OPERS, including a cost of living adjustment (COLA) for most OPERS retirees. Senate Bill 1134 provides the COLA as a percentage increase ranging from 2.5% to 4.5%, based on each retired member's years of service and amount of monthly benefit. It applies to any person receiving benefits as of June 30, 2003 and who continues to receive benefits on or after July 1, 2004.

Senate Bill 1134 also instructs the OPERS Board of Trustees to include a cost of living adjustment assumption in its actuarial valuation report. This report is used to determine the System's funding requirements and is performed annually. Actually, the Board has been including such an assumption by policy since 1999 when it adopted the actuary's recommendation. The recommendation called for a 2% per year COLA assumption, after the actuary conducted a study of the history of COLAs over the previous 25 years.

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What to Consider Before Withdrawing Your OPERS Contributions

OPERS members who terminate employment may request to withdraw their contributions. In fact, OPERS receives about 250 withdrawal applications every month. However, it is important to look at the big picture before deciding whether or not to withdraw.

OPERS is a defined benefit plan which is designed to give the participant a lifetime monthly benefit, once certain eligibility requirements are met. In a defined benefit plan, earnings on contributions are used to provide lifetime benefits to current and future members. This is unlike other types of retirement accounts which increase through interest and earnings for a cash value. When OPERS processes a withdrawal, no accumulated interest or increased value is paid. OPERS is required to withhold a mandatory 20% federal tax and 5% state tax unless the withdrawn money is rolled over into a qualified plan or account.

Participants who withdraw from OPERS are no longer OPERS members. If they later return to work with an OPERS participating employer, they start as a new member. If they were previously under the 80-point rule, they return under the 90-point rule. Many who return to OPERS participation wish to regain their service credit (and their lost 80-point status, if applicable). To do this, they must pay the sum of the withdrawn contributions plus interest at 10% per year.

Some participants withdraw contributions even if they are eligible to "vest". This means they have accumulated enough service to be eligible for a lifetime benefit in the future. When these participants submit a withdrawal application to OPERS, they are provided with the amount of the lifetime benefit, and when they could draw it if they do not withdraw their contributions. OPERS must make certain the person knows the valuable benefit they are giving up.

In today's mobile workforce, people change jobs frequently. For OPERS members, withdrawing may be the best choice. However, we urge plan members to be aware of these considerations when making their decision.

The Director's Corner

by Tom Spencer, OPERS Executive Director

It's hard enough to be a new employee, but when you're a new Executive Director of an agency, it's particularly hard. I still consider myself new after beginning my tenure here at OPERS in August of 2003. I am adjusting to my new responsibilities and my staff is still getting used to the "new guy." The good news to public employees and our retirees is that we have an excellent retirement system. We have good people working here who are committed to serve you. However, the purpose of my first column is to let our membership know about the growing funding problem here at OPERS.

Let me start with a definition or two. First, your basic state retirement benefit is in the form of a "defined benefit" plan. In other words, each employee's ultimate retirement benefit is set by a defined statutory formula. No matter how much money comes in, and no matter how well or poorly the stock market performs, your basic benefit is "defined" as a fixed annuity paid to you for life after you retire. Second, the fundamental measurement of the financial well-being of a defined benefit retirement system is its "funded ratio." That is the ratio of a system's assets compared to its liability to pay all of the benefits that the State of Oklahoma has promised to pay. If a system is 100% funded, it has exactly enough assets to pay for the expected benefits it will pay out. Many may disagree, but Oklahoma needs to be striving toward the 100% funded goal for its retirement systems. Unfortunately, OPERS' funded status has been steadily declining for the last six (6) years.

There is no cause for panic or undue alarm. There is no money missing and OPERS has done an excellent job at investing its assets. Over the last 15 years, OPERS has an average return on investment of 9.9% per year. I wish I could do that well with my personal funds. But as well as OPERS has done in the investment arena, your retirement system has been shortchanged over the past few years. Back in 1998 OPERS had a funded ratio of 91%, which is not a bad place to be. In 1999 the Legislature cut the amount of money the State and other public employers was contributing to OPERS. For instance, the contribution rate for state employers was reduced from 12.5% of salaries to 10%. Put away your calculators. That's a 20% reduction of employer contributions into OPERS. It couldn't have happened at a worse time. Within a year or so after the cut, OPERS and practically every investor in the United States, experienced three straight years of negative returns in the stock market. The net effect is that at the end of FY 2003, OPERS' funded ratio had sunk to 76.8%. We expect even a lower number when the FY 2004 numbers are calculated by our actuaries.

Fortunately, in 2003 the Legislature authorized a gradual increase of employer contributions to OPERS, but the increase was not scheduled to begin until July 1, 2006. This past session, the Legislature moved the increase to July 1, 2005. It will go up another 1.5% that year and go up 1% per year to a maximum of 16.5% for state agencies. Let's all hold our breath and hope that is enough to reverse the downward trend over the next few years.

Public employees really have a good retirement benefit structure. The best way to improve our retirement benefits is not to change the basic structure of OPERS' benefits. Because our retirement benefits are tied to wages, the best way to improve benefits is to improve wages. Let's not make changes to the basic system that will hurt the funded ratio of OPERS.

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OPERS Right of Offset

The Board may offset from any benefits payable to a member or beneficiary, for amounts owed from judgments or settlements involving a crime against the System, fraud or breach of fiduciary obligation to the System, or for overpayments by the System to a member or beneficiary. Such offsets must be consistent with the Internal Revenue Code and will apply to any benefit otherwise payable to the member or beneficiary from any Plan administered by the Board.

"Medicare Gap" or "Income Leveling" Option

Senate Bill 1226 provides for what is known as a "Medicare Gap" option or "income leveling." This option allows those who retire before becoming Medicare eligible to receive a higher benefit to cover the cost of health insurance until that person becomes Medicare eligible. The year after that person becomes Medicare eligible, his or her retirement benefit will be reduced. The total benefits payable to the member over a lifetime remain essentially the same, on average. This option must be chosen prior to retirement, and if a member chooses this option, such election is irrevocable. OPERS has until January 2005 to make this option available.

Study of a "DROP" Plan

OPERS will conduct a study of the creation of a deferred retirement option plan ("DROP") for active and future members of the System. In DROP plans, a member who is eligible to retire makes an irrevocable election to enter the DROP Plan instead of retiring and drawing his or her benefit. A specific termination date is chosen in the future and the member's monthly benefit is deposited into an individual account. The member also stops paying contributions to the retirement System. When the member actually terminates employment on the agreed upon date, the member has access to the accumulated deposits plus interest in the account.

A report on the DROP study must be issued and submitted to the Legislature no later than December 1, 2004.

All DOC Employees Receive "In-Line-Of-Duty" Death Benefit With Dependent Coverage

Senate Bill 1203 extends the "in-line-of-duty" death benefit previously given only to DOC correctional officers and probation and parole officers, to all DOC employees. This death benefit is also enhanced by paying a surviving spouse of the deceased DOC employee, or the person caring for any of the employee's surviving minor children (either under 18 or under 22 if enrolled full-time at an institution of higher education), an amount of $400 per month. This shall be paid until each child reaches 18 (or 22 if enrolled in any institution of higher education).

DOC Officers and Agents May Remain in “20 and out” Plan

Senate Bill 1203 permits correctional officers, probation and parole officers, and fugitive apprehension agents of the Department of Corrections, with at least 5 years of experience in their positions, to remain eligible for retirement upon completion of at least 20 years of full-time-equivalent employment, even if they transfer to positions within DOC which are not normally eligible for retirement after 20 years.

Disclosure of Member Information

An amendment permits the disclosure of a member’s name, age, amount of contributions paid in, benefits being paid, amount of credited service, and any documents verifying credited service or benefits. The prior consent of the member is not required to release such information. All other information related to a member, as kept in his or her retirement file, shall be kept confidential unless the member has consented to its release. Any information in a member’s retirement file is subject to subpoena or court order.

Public Safety Plan Study

OPERS is required to conduct a comparative study of retirement benefit designs used by other states regarding retirement benefits for employees engaged in public safety positions. The study is to cover retirement benefits, disability benefits and survivor benefits. The study must have a recommendation for what jobs should be included in such a benefit structure, as well as recommended employer and employee contribution rates. The study is required to be submitted to the Legislature no later than December 1, 2004.

Military Service Clarification and Requirements

Senate Bill 1434 clarifies what type of military service may be used to add as service credit. Military service credit may be granted to a member honorably discharged from active service which occurred during specified time periods.

The bill also adds language that allows military service credit if the member served during a period of war or combat military operation other than the conflicts listed in the statute. The war or combat military operation must have lasted for a period of ninety (90) days or more. The member must have served in the area of responsibility of the war or combat military operation and only the service time while in that area of responsibility may be used as credited service for retirement. The burden of proof is on the member to provide adequate documentation of such service.

Increase in Employer Contributions Beginning July 1, 2005

Beginning July 1, 2005 employer contributions will increase. This increase is to partially address the system’s declining funding ratio and improve its ability to pay benefits in the future.

State agencies will contribute 11.5% instead of the current 10%. This percentage will increase by 1% each year thereafter through the fiscal year ending June 30, 2011, when it tops out at a rate of 16.5%. For non-state participating employers and their employees, the total employer and employee contributions will increase from 13.5% to 15% beginning July 1, 2005 and will increase by 1% each year, finally reaching 20% in FY 2011.

Employer Contribution Deadline and Penalty

All participating employers must remit retirement contributions to OPERS monthly.

- For non-state agency employers, all contributions and documentation are due on or before the 15th of the month following the month for which the contributions were payable.
- For state agencies, all contributions must be received by OPERS on or before the 15th day following the last day of the pay period for which they are due.

If the contributions are paid over 30 days from the due dates, they are subject to a late charge of 1.5% of the unpaid balance.

Step Up Clarification

Any member who elects the “Step Up” option and pays the required increased contributions, is entitled to have his or her benefit calculated using the 2.5% multiplier for the “stepped up” years, regardless of whether they selected normal or early retirement.

Task Force for the Study of Public Retirement Systems Benefit Design

House Bill 2536 creates the “Task Force for the Study of Public Retirement Systems Benefit Design and Equity.” Its purpose is to conduct a review of the major state public retirement systems. The Task Force is to consist of 17 members and must include the Executive Director of OPERS, or a person designated by the Executive Director. The review must cover a history of benefit designs of each state system, the funding history of each system, dedicated taxes going to certain systems, COLA’s, and other relevant matters.

OPERS has Moved

In April, OPERS moved its office quarters to the 4th floor of the Paragon Building at 5801 N. Broadway Extension in Oklahoma City.

The new location is only accessible via Robinson Street. Visitors are advised to use the following route: exit Broadway Extension on N.W. 63rd Street; travel one block west to Robinson; turn south on Robinson and continue to the Paragon Building.

The OPERS mailing address and telephone numbers did not change and continue to be:

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