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Oklahoma Firefighters Pension System

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CERTIFICATION STATEMENT

I hereby certify that this paper constitutes my own product, that where the language of others is set forth, quotation marks so indicate, and that appropriate credit is given where I have used the language, ideas, expressions, or writings of others.

Signed _____

Abstract

The problem was that the Oklahoma Legislature had raised financial concerns with the current Oklahoma Firefighters Pension System. The purpose of the research was to determine if the Oklahoma Firefighters Pension System had negative or undesirable financial issues.

Evaluative research was used to answer the following questions; (a) What issues have the Oklahoma Legislators identified which need further consideration? (b) How does the Oklahoma Firefighters Pension System differ from other state sponsored firefighter pensions? (c) What changes are being considered to the Oklahoma Firefighters Pension System?

The procedures in this research consisted of interviewing key members of the Oklahoma State Firefighters Association (OSFA) as they are the decision makers to the state firefighter's pension system. In addition, relevant legislators were also interviewed to understand the issues from their perspective. Data was also collected from other pension systems and resolutions to those respective pension systems and how they related to the Oklahoma Firefighters Pension System. Once the interviews were completed and the data from other pension system was acquired, a comparison with possible resolutions were discussed and compared with the direction that the OSFA was considering.

The results section revealed that after the consideration of other pension systems across the country, that the Oklahoma Firefighters Pension System should alter the guaranteed rate of return. In addition, the results also discovered that an adjustment to the age at retirement and time of service required for retirement should be given serious consideration. The results section took into account as to the legislative criteria of each individual state as they vary somewhat as to how a pension can be changed.

Recommendations from the research were expected to be derived in part, from the results of the consulting group which was not immediately available at the time of this research. It is obvious after this research that the system should be make significant changes to the current system and those changes are listed in Appendix C in detail. The recommendations currently are to limit the guaranteed amount of the rate of return after a member retires in Plan B. That amount should be capped at 10% or at market value less 2% administrative fees of any rate of return of less than 7.5%. In addition further data should be collected and analyzed after the consulting company (Buck Consultants) has rendered its examination of the data supplied to them by the OSFA.

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Introduction

The Oklahoma Firefighter Pension System receives a large amount of funding from the state legislature. Due to recent economic conditions and a perceived negative benefit to its members, there was considerable interest to alter the current system. The problem was that the Oklahoma Legislature raised financial concerns with the current Oklahoma Firefighters Pension System. There was an attempt to alter the system in the summer of 2012 but the municipalities, firefighters and the legislature were not able to complete a resolve due to time constraints in the legislative session. The purpose of the research was to determine if the Oklahoma Firefighters Pension System had negative or undesirable financial procedures. In addition, the purpose was to also examine the processes which took place in an effort to protect the pension system, firefighters and the State of Oklahoma and examine if other pensions had similar issues.

Evaluative research was used to answer the following questions; (a) What issues have the Oklahoma Legislators identified which need further consideration? (b) How does the Oklahoma Firefighters Pension System differ from other state firefighter pensions? (c) What changes are being considered to the Oklahoma Firefighters Pension System?

The research was used to provide information to solve or improve the system if problems did exist with the Oklahoma Firefighters Pension System. Through interviews of legislatures and board members, historical data of past and projected actuaries, detailed analysis will compare the current financial picture to determine if the Oklahoma Firefighters Pension System needed amending. Some factors which were considered as variables were interest rates, payouts to members, and contributions by current and future members. In addition, by comparing the Oklahoma Firefighters Pension System to other firefighter pension systems and to other State of

Oklahoma Pension Systems, a good comparison analysis could be developed in an effort to measure the current system.

While many pensions systems “adjust” variables such as employee or employer contributions, few pensions have a guaranteed interest rate as high as 7.5% as does the Oklahoma Firefighters Pension System. This guaranteed rate of return on millions of dollars can be devastating to a system if there is no risk to the retiree. When the market of return is less than 7.5%, firefighters are still paid the guaranteed amount of return and the difference must come from the State of Oklahoma. This is the issue which has legislators concerned about this unfunded liability.

Background and Significance

The Oklahoma Firefighters and Retirement System was signed into law in 1908. In order help fund the system for volunteer and paid firefighters a 1% tax on insurance premiums was assessed (Firefighters Pension and Retirement System of Oklahoma, 1908, 1). That contribution is now up to 34%. The need for this additional influx of monies to the system is because Oklahoma firefighters’ employers do not pay into the traditional Social Security Tax (6.2%) and Medicare (1.45%) and firefighters do not pay into social security like typical workers at a cost of 4.2% (Social Security Administration [SSA], 2012). Instead, each firefighter in the Oklahoma Pension System contributes 8% while his/her municipality contributes 13% to his/her pension. In addition to the 8% by each firefighter and 13% by the municipality, the remainder comes from the tax insurance premium of 34%. When the fund was initially created, it was 11% funded and as of June 30, 2011 the system was 63.7% funded (Jones, 2012, 3). Up until 2009, the fund maintained a positive incline in its unfunded liability column. Since that time, economic

conditions have seen the pension system require more contributions from the state than before. It was because of this increase of funding from the state, that the legislatures showed more attention to all pensions systems in the State of Oklahoma. Some legislatures have communicated to their constituents that if some type of action is not taken they will be forced to take more aggressive action to how the Oklahoma Firefighters Pension System pays its benefits.

Firefighters in the State of Oklahoma can be no older than forty-five years of age when hired and must retire by age sixty-five (OSFPRS, 2012, 129). Most cities require a candidate to be 21 years of age in order to be hired but the pension system has a minimum age of 18 years of age. Most firefighters retire after 20-30 because of the dangerous and physically taxing job. Michael Coleman, policy advisor for the league of California cities states “that’s as it should be” (Johnson & Francescani, 2012, p.1). Mr. Coleman believes that firefighting is very dangerous firefighters cannot work past age sixty-five because of the demands of the job not always seen by other occupations. Throughout this research there seemed to be little, if any, argument that firefighters should retire earlier than other municipal employees because of the physical and stressful demands placed upon them in their positions.

Currently in Oklahoma firefighters can retire after 20 years of service at 50% pay. Firefighter’s salaries are computed by taking the highest 30 months of the members last 60 months of service. For each year over 20 years, the member gets an additional 2 ½% above the 50% at 20 years. The maximum allowed percentage of service is 75% which is 30 years of service. Members prior to retirement may participate in the Deferred Retirement Option Plan (DROP) or Plan B. The DROP system provides where a member can elect to “forward” drop which means on a future date designated by the member in which they will retire. At the time the member makes this decision, all of the municipalities’ and the members’ contributions go into a

special DROP fund not to exceed five years. In essence, the firefighter has a regular pension and a DROP pension fund which are separate from each other. One pitfall of the forward DROP is that the member must retire by the date specified which can be no longer than five years. It is for this reason that most members chose the “back” DROP which is designed for a member to retire at any point and if he/she elects to participate in the DROP, their contributions and the municipality’s contributions can be pulled from their pension (no more than five years) from the past five years and placed in the DROP fund. The “back” DROP is the most preferred choice since members can retire at any time and is especially beneficial if they sustain a career ending injury. The largest benefit to the Oklahoma Firefighters Pension System DROP option is that the fund guarantees its members, “forward” or “back”, a 7.5% interest rate at a minimum regardless of the market only for the funds in the Plan B. In addition, members participating in the DROP will earn the same amount the fund earns less 2% for administrative fees.

The overall fund is managed by the Oklahoma Firefighters Pension Board and the investments are contracted through an outside investment company. Until 1980, Oklahoma cities and towns managed the system which is now managed by the Oklahoma Legislature. The “Board of Trustees” of the firefighters retirement system is comprised of 13 members consisting of members of the Oklahoma State Firefighters Association Executive Board (5 members), Professional Firefighters of Oklahoma (1 member), Oklahoma Retired Firefighters Association (1 member), Oklahoma Municipal League (2 members), State of Oklahoma Insurance Commissioner (1 member), President Pro Tempore of the Senate (1 member), and the Director of the Office of State Finance (1 member) and the Speaker of the House of Representatives (1 member). This board oversees the system. As mentioned earlier, members contribute 8% of their wages, 13% from the municipality based on wages and 34% from the premium insurance fund.

Ultimately, the State of Oklahoma is responsible to ensure that there are enough funds in the system to fund the retirement benefits. The guarantee of at least 7.5% annually is the concern for lawmakers when there is no risk to the firefighter if the market performs poorly.

Over the past 18 months, several Tulsa firefighters have watched intensely as to the amendments being considered to the current pension system. Their concern, as it has been the past three years, is that the Plan B rules will be amended and they would consider early retirement in an attempt to retain the 7.5% guarantee over their lifelong retirement. The impact for the Tulsa Fire Department could mean mass retirements depending on the actions and time lines of the state legislature if the pension system changes dramatically. The problem this could present is the short staffing issue for the Tulsa Fire Department. Short staffing typically requires the fire department to call back members which has the possibility of requiring members to work longer hours or fewer resting off days resulting in a higher incident of injuries. In addition, if the retirement system is altered, fewer candidates may not apply if the retirement was a key component in deciding a career as a Tulsa Firefighter. The Tulsa Fire Department has 676 members of which 212 are assigned to three platoons. There is a requirement of at least 144 members always on duty in Field Operations. If the staffing falls below the 144, the on-duty Assistant Chief will call back either voluntary or mandatory members to report back to work to maintain the minimum staffing number. Field Operations Section consists of 30 fire stations encompassing 210 square miles covered with 42 apparatus. If adjustments are made to the current pension system, the financial burden could be substantial as it typically takes five months to conduct a firefighter academy. Prior to the fire academy, the Tulsa Human Resource Department conducts interviews, background checks, written exam, a physical and a physical assessment test. The process in Human Resources takes approximately 4-5 months. Therefore, if

there were a drastic change in the pension system, the Tulsa Fire Department could see many members retire prior to any new rules affecting the current pension system. The longer effect could be that potential employees may look elsewhere for employment thereby possibly reducing the quantity and quality of candidates.

During this author's fourth year of the Executive Fire Officer Program (EFO), it became evident in my new role as Fire Chief that executive leadership would be a valuable resource. Shortly after my appointment to Fire Chief in July, 2012, I was contacted by Senator Mike Mazzei. Senator Mazzei is the head of the pension systems in the State of Oklahoma. Senator Mazzei was soliciting my opinion and assistance in resolving what he perceived as an issue with the Oklahoma Firefighters Pension of retired members dividends related to their DROP funds of having a minimum of 7.5%. In the early conversations with Senator Mazzei, this author had a better understanding of the importance of "politics and public policy" as described in the objectives of the final year of this authors EFO program. The information gained in all of the EFO classes and particular the final year, but also the relationships developed meeting other firefighters across the country, proved invaluable during the resource gathering as to how this author would proceed with legislators. The issue of the pension system of firefighters in Oklahoma directly correlates to the "collective decision making of groups" as described in the program (United States Department of Homeland Security [USDHS], 2011, 7-5). Decisions are made on a collective nature and require a form of negotiations with other interest in addition to those based upon what is the best solution. Lawmakers want to make informed decisions while also maintaining the criteria of becoming re-elected. The topics of leadership, politics, effective communication, negotiating as seen in the Cuban Missile Crisis and most importantly, the

networking and interaction with other firefighters who offer advice based upon personal experience, makes the EFO program a valuable tool for success.

One of the United States Fire Administration strategic objectives was to “improve the fire and emergency services’ professional status” (United States Fire Administration [USFA], 2012, 1). The correlation of this objective and the Oklahoma Firefighters Pension System was the communication and attempts to resolve issues which if it continued to become salient would undoubtedly possess a negative shadow among firefighters across the State of Oklahoma. If adjustments were not made to the system, firefighters would be perceived as greedy. The background for this rests with the fact that no other pension in the State of Oklahoma has a guaranteed rate of at least 7.5% regardless of the market. In fact, this research found no other pension in the United States that offered such a return on investment with no risk. The fact that firefighters were receptive to come to the table in an attempt to be involved in a solution and offer concessions could prove valuable for the status and recognition of firefighters across the state. This administrative goal, while not in the typical sense of emergency service, would help retain the status for firefighters who understand the impacts of their retirement packages in relation to the rest of the financial market. As seen later in the Literature Review, many persons of authority have already labeled the Oklahoma Firefighter as greedy and this is not what can be perceived as an “improvement to the fire service” as mentioned by the United States Fire Administration.

Literature Review

Gerald Garrett, Chairman of the Oklahoma State Firefighters Association (OSFA), stated in personal communication on November 24, 2012 that “I understand that we should always look

for ways to improve our system and be aware of issues which could harm the system”. Mr. Garrett’s perspective is important because the OSFA is the governing body over the pension system. Mr. Garrett has been a member of the OSFA for over 30 years either as a member or elected board member. Mr. Garrett states that minor alterations to the system such as contribution rates and retirement ages would be sufficient to paint a better financial picture to the pension system. Herb Bradshaw, Executive Director of the OSFA, seems to have a different opinion. In an interview with Mr. Bradshaw on November 26, 2012, he stated that “merely changing the contribution of current and future members will not solve our problem. The problem is paying out a guaranteed 7.5% when the financial markets are performing poorly”. Mr. Bradshaw states that the pension system needs to be adjusted so that when the system performs well, some of the proceeds should be put back into the system in preparation for poorly performing years. Casey Morrison, 1st Vice-President of the OSFA, stated on November 16, 2012 that “the system only needs minimal changes”. Mr. Morrison agrees with Mr. Garrett that contribution rates of employees and employers will have an impact in the unfunded liability over a 30 year period, even though there is not sufficient data to support such a proposal. While it is understood that additional contributions will improve the system, the time frame to accomplish this is extensive, typically 30 years. The OSFA Board can submit a resolution to the membership and change any portion of the current retirement system if approved. In past years, there has been little involvement in the membership attending the conventions where annual voting occurs and the resolutions submitted typically are approved.

The State of Oklahoma Legislators’ watched the pensions systems in the state since the economic downturn in 2008. The obvious reason for concern for the legislators is because the State of Oklahoma is responsible for any unfunded liabilities of the pensions supported by the

state. Some of these pensions systems in the state which are which are partially funded by the State of Oklahoma are the Oklahoma Firefighters Pension, Oklahoma Police Pension, Oklahoma Law Enforcement, Oklahoma Public Employees Retirement System and the Oklahoma Teacher's Retirement System. The Oklahoma Teachers Retirement System was 54.8% funded on June 30, 2011 (McNutt, 2012, p.A15). Prior to adjustments to the teachers system in 2011, this system was the most under funded system in the state. After the adjustments in 2011-2012 such as cost-of-living-adjustments (COLA), dedicated funding from the state rather than the retirement system, and increased contributions of the teachers, their retirement system is now on track to be fully funded in 22 years. In the past, COLA's expected the individual pension funds to supply the COLA increase. This was an unfunded liability which placed a significant strain on the pension systems. House Bill 2132 signed by the governor on May 10, 2011 required the state to fund increases in the future. COLA raises have a significant cost to the state. Each 2% COLA given to retired employees cost the State of Oklahoma over \$300 million (McDaniel, 2011, p.13).

Carolyn Sager, President of the Oklahoma Municipal League (OML), has a vested interest in the firefighter's pension system because the municipalities that she represents could be required to contribute extra dollars if the legislature imposes employer contribution increases. Ms. Stager and the OML have been critical of the firefighter's pension system because of the drain on the municipality's and the State of Oklahoma. In addition, Ms. Stager wants the firefighters to contribute more to the system and alter the 7.5% guarantee which she feels is the real problem. Ms. Stager has stated that "Merely increasing the contributions to the plan without reform will not solve the problem. The system is fundamentally flawed. The benefits exceed the income and that cannot be sustained over the long term, regardless of the rate of return" (Stager,

2012, 1). The OML had been meeting regularly with Senator Mazzei in an attempt to garner his support to require firefighter pension overhaul.

Standard and Poor's rating system identifies a strong pension funded ratio as one which is 90% and above. An above average is considered 80%-90%, below average is 60%-80% and 60% and less is considered weak (McDaniel, 2011, p.5). At the end of 2011, the Oklahoma Firefighters Pension System was 63.7% funded.

Many states feel that one of the key issues of state funded retirement system is the age at which one retires. Therefore, many states have risen the minimum retirement age of employees in an attempt to help funding of retirement systems. In Illinois, the normal retirement age went to 67 from 60. Michigan established a retirement age of 60 instead of basing retirement on 30 years of service. Mississippi raised the minimum years from 25 to 30 years and raised the retirement age to 65 with 10 years of service from 62 years and 5 years of service (Anderson, 2010, 37). The Oklahoma Public Employees Retirement System increased the age at which employees can retire from 65 to 67 for new members who were hired after January, 2012 (Sunshine Review, 2012, p.1).

One of the most recent issues for state funded pension systems is the change in how the Governmental Accounting Standards Board (GASB) views pension funds. In the past the GASB recognized current revenues and expenses of a states financial outlook. The new proposal will examine how the states obligations are being accrued rather than when the contributions/payments are being disbursed (McTigue, 2012, p.1). This has a substantial impact on the financial well-being of a municipality. The perceived less stable financial picture of the city will result in a lower credit rating. A negative financial picture of a municipality because of poorly funded pensions will affect the credit rating which in turn will affect the amount of money

that each city can sell bonds for improvements within the city. The State of Illinois is feeling the new implications of the negative affects of their responsibility of state funded pension funds. “Illinois’ credit outlook was downgraded to negative because the state’s pension funding pressures are likely to persist and perhaps worsen in the near future” (Burr, 2012, p.1). This is one of the arguments that Ms. Sager and the Oklahoma Municipal League make in opposing the requirement of municipalities to contribute even more to employees pension funds.

Oklahoma is not the only state which has seen a negative impact on pension funds over the past several years. “Since the 2007 recession, some cities have tried to roll back pension benefits and pay, among the most rigid and, in some cases, highest expenses in municipal budgets” (Johnson & Francescani, 2012, p.1). Mr. Johnson cites the poorly performing stock market as the catalyst to exposing pension systems which have financial flaws.

In 2004, Omaha, Nebraska officials signed a contract with police and firefighters unions which affected the amount that the city would pay to the respective pension funds. The issue approved in that contract, which had negative consequences, was that firefighters and police officers could add to their retirement accounts by computing their overtime into the retirement calculation. This was titled as “spiking” their retirement accounts. As the years progressed into 2011, the City of Omaha realized that the contract which permitted the “spiking”, came at a cost of an unfunded liability of \$320 million which was \$40 million worse than the year before (Omaha News 6, 2012). The firefighters in Omaha felt compelled to offer some financial assistance to the City of Omaha and negotiated a new contract which removed the article of spiking, raised the retirement age for firefighters and raised the amount of contributions that firefighters make to the pension system. This adjustment to the contract saved the City of Omaha \$6 million and instilled the already high confidence the city has in its firefighters (Omaha Mayor,

2011, p.1). This type of proactive action by firefighters is crucial to show administrators and citizens that the professional firefighter is conscientious of financial constraints within their city. This was a good example of the objective to “improve the fire and emergency services’ professional status” required by the USFA as discussed in the Background and Significance.

In San Jose, California firefighters and police officers were receiving negative publicity for their retirement pensions. Some police and firefighters received 90% of their salary when they retired, a number which used to be 75% in prior years. San Jose contributed its financial woes to the late 1990’s when California lawmakers expanded benefits for workers in state-run pensions. Because of the dot-com boom, San Jose made additional contributions to firefighter and police funds to lure employment into their city (Corkery, 2012). City leaders urged these two employee groups to make voluntary concessions in an attempt to bring the cities obligations to a more reasonable level. Neither the police officers nor the firefighters’ union have been receptive to the opportunity to renegotiate. This could leave both unions and its members into a difficult situation if a decision is not negotiated. Unlike most cities in the U.S., San Jose residents have unilateral power to restructure pensions. The plan in San Jose which could be offered for voter approval will require city workers to contribute an additional 16%, up from between 5% and 11%, toward their pensions. It is situations such as this that firefighters across the country should recognize the danger that pensions are enduring and coming to the table to negotiate with lawmakers is far better than not having a seat at the table and decisions being made for you.

City Manager Bob Lee of Naples, Florida says that cities have over the last five years tried to balance their budgets with layoffs, then the cutting of services, and now officials are seriously looking at pension plans as a way to reduce expenditures (Hale & Buzzacco-Foerster, 2011). State legislators are also targeting an increase in insurance premiums and freezing cost of

benefits as a stop gap measure. The increase in insurance premium idea is one that has also been proposed in Oklahoma. As a result to the impending need for change in Florida, Bonita Springs, Florida firefighters increased their contributions from 5% to 7% of their annual salary. In Naples, Florida a general employee union voluntarily increased its members' contribution to 10.5% from 5%. In Fort Lauderdale, Florida, city officials have reduced the municipality's contribution to the employees fund from 23% to 9%. Estimates are that this will save the City of Fort Lauderdale \$100 million during the next 30 years. Florida legislators are also urging for a defined contribution plan instead of a defined benefit plan which is strongly opposed by the police and firefighters unions. The argument they make is that a defined contribution plan may force a firefighter or police officer to work longer than physically possible and could have an adverse affect on cities. With a defined benefit plan, if the plan underperforms, a firefighter or police officer may be forced to work into their 60's in order to have a safe retirement package. In the next session of the Florida Congress, a bill will be proposed which will require local governments to move to a defined 401(k)-like contribution system.

In Newport Beach, Tennessee, Newport Beach Firefighters Association (NBFA) voted for firefighters to contribute more to their retirement and allowing the city to contribute less. Under the new contract, firefighters will contribute 7% to their retirement fund whereas previously they contributed 3.5%. New hires will contribute 9% to their pension fund. Brian McDonough, President of the NBFA, stated that the union was able to sit at the table with city officials and keep the city financially viable (Serna, 2012). City Manger Dave Kiff praised the firefighters for coming to the table and fostering a solution with the city. The effort will save the city \$325,000 a year and will help to ensure financial balance in city's budget.

A letter from the OML to Senator Mazzei dated October 15, 2012 described some recommendations to alter the firefighter's pension system. First of all, the OML suggests not guaranteeing the 7.5% to retired firefighters. The OML would guarantee the 7.5% during the five years that members were on Plan B and then the investment return would be based on actual returns after the five year Plan B period. The OML alleges that the guarantee drains the principle from the system. Secondly, the OML suggests extending the required age of retirement and the years of service. Currently the system allows firefighters to be vested at 10 years and retire with 50% pay at 20 years of service. The OML proposes to increase the age of retirement from 20 years to 22 years. In addition, the OML would like firefighters to be at least 50 to draw benefits after July 1, 2012 and at least age 60 for new hires after July 1, 2015. Another suggestion was to improve the governance on the system. The OML proposes a new appointed Administrative Board over all pension funds. Firefighters could serve on the board but only as a minority. Next, the OML suggests canceling survivor benefits. Currently the system allows for spouses to receive full benefits at the death of the firefighter. The fifth recommendation was to link the state contributions to the employee's wages. The goal in this issue is for the municipalities to link the amount an employee contributes, as this will affect the GASB standards. The alteration will essentially require the employee to contribute more of their earnings. The final recommendation was to increase the state's contributions. This funding would come directly from the state and the municipalities could be exempt from having to contribute other than what is currently the required amount of 13%. The OML has targeted the areas which it feels will best protect the interest of its members, the municipalities. The OML is asking for areas of financial improvement yet as of this date, the OML has not offered any financial actuaries other than some proposed by its members which was not validated by any financial institution.

Procedures

The research of this paper focused around the issues and potential issues as viewed by firefighters and legislators. The issues first become salient shortly after the economic downturn in 2008-2009. Up until that point the pension funds across the country were relatively solvent as the market had been consistently positive. For the most part many pension funds had not been tested in such a negative financial crisis and this crisis exposed many previously undetected pitfalls. In the case of the Oklahoma Firefighters Pension System, the pension fund had not experienced such a negative experience and most of the attention was on the Plan B aspect and less attention to the contribution rates. The research first examined the history of the pension system and in particular the system since 2008-2009. The reason for the focus at this point was because of the negative financial impact on the State of Oklahoma. A history of the firefighter's pension system and its returns can be viewed in Appendix A. Research was then compiled as to the how the Oklahoma Firefighters Pension System came into existence followed by the governing bodies of the system. The research also gathered opinions of key players as to problem identification and resolution of the current system as discussed in the literature review. Those interviewed were asked how they would alter the system if they even felt as though the system needed to be altered at all. Some interviewees were asked to give their opinions on the firefighter pension system and most felt as though the system only needed minimal changes. All of those interviewed except Herb Bradshaw felt as though the guarantee of return was not a key financial issue to alter. All of the personal communications with key persons were done by this author in the summer and fall of 2012. In addition to this research, this author attended a meeting in Dallas, Texas on December 4, 2012 to discuss the retirement system with analysts. Buck

Consultants was approached and given the task to examine several scenarios if the OSFA were to submit changes to the retirement system. The Buck Consultant Group was identified by Senator Mazzei as an organization which had done actuaries in the past and had the confidence of the State Senate. In this meeting, six members of the OSFA Board and this author discussed other pension systems across the country, the advantages and disadvantages of the Oklahoma Firefighters Pension System, and amendments to the current system for financial solvency.

In addition, other pension funds were considered as to how other elected officials and the public viewed the public perception of the pensions of firefighters. It was seen that across the country many municipalities and state governments were encountering funding revenues to supply pension funds. In almost every case, the resolve seemed to be an increase in contributions by the employee and an adjustment in the age at which one can retire.

A synopsis was compiled of the cities researched and can be found in Table 1 page 22. The data in Table 1 is the resolutions of the cities who negotiated with their unions to alter the pension systems. Table 1 gives a clearer overall picture of the action the municipalities took to overhaul their respective pensions systems.

Limitations. It should be noted that as with any research there are limitations, unknown variables or variables which require sophisticated mathematical calculations. Some of these calculations are actuarial numbers which typically require a financial management organization who can input all of the variables related to an organization. This is what occurred in the case of the Oklahoma Firefighters Pension System. Buck Consultants out of Dallas, Texas was retained to input all data related to those firefighters in the Oklahoma Pension System including those firefighters who were retired. It is costly to have a consultant input the data but is required in order to accurately predict when an organization is considering a number of options.

It should also be noted that estimates on future funding is not definite. Impacts of legislation regarding pension systems, multiple firefighters involved in serious career ending incidents, discontent with administration, and other job opportunities can cause firefighters to retire sometimes before they intend to leave the job. The impact this has will be that these firefighters with several years on the job now become liabilities and will start receiving pensions from the system typically earlier than calculated. The younger firefighters who take their place typically make less salary and results less income for the system with more expenditure costs (pension). These adjustments must also be recognized and considered when exploring actuaries of a pension system.

Results

The results of this research focused on what issues other pension systems around the country were experiencing and more importantly how the issues were resolved. The research drew conclusions that most firefighter and legislators felt that a change in the contribution rate of employees and the time of service for retirement were the most common resolves to addressing pension financial shortfalls.

In particular to the Oklahoma Firefighters Pension System, this research revealed that the biggest issue was the guaranteed rate of return regardless of the market return. In addition, the contribution rate of employee and employer, age at which one can retire, and the time in service or working years of the employee needed amending.

The overwhelming difference in the Oklahoma Firefighters Pension System and the systems in California, Florida, Illinois, Michigan, Mississippi, Nebraska and Tennessee was that

none of these states had a guaranteed interest rate paid to the individual pension funds. The common denominator of all of the listed state pension funds was the need to amend retirement ages and ages at which a person can withdrawal funds.

The States of Illinois, Michigan and Mississippi all rose the retirement age of employees in an effort to have more contributions into the pension systems. The Oklahoma Public Employees Retirement System rose the retirement age from 65 years of age to 67 years of age for new employees hired after January 1, 2012. The State of Illinois also had their credit rating downgraded because of the newly imposed pension liability requirement by the GASB. Nebraska, California, Florida and Tennessee raised the amount that employees contribute to their pension funds in an attempt to keep the systems solvent.

Table 1 is a compilation of the results of each municipality as to the changes in their respective pension funds. It became apparent that raising the contribution rates of employees, age at which one can retire and years of service were the most popular variables of the forecasted cities. In addition, omitting other more unusual impacts to the pensions were also considered and acted upon by cities such as Omaha, Nebraska.

Table 1

Alterations of other Firefighter Pension Systems

	<u>Employee Contr.-Old</u>	<u>Employee Contr.-New</u>
San Jose, Cal.	5-11%	16%
Naples, Fla.	5%	10.5%
Bonita Springs, Fla.	5%	7%
Newport Beach, Tenn.	3.5%	7%

	<u>Retirement age-Previous/New</u>	<u>Years of Service-Previous/New</u>
Illinois	60/67	
Michigan	65/67	25/30
Mississippi	62/65	25/30

Fort Lauderdale, Florida municipalities decreased their contribution rate from 23% to 9%.

Omaha, Nebraska omitted “spiking” of overtime.

At the time of this research, the current changes which were being considered by the OSFA for the Oklahoma Firefighters Pension System were: contribution increases for employee and employer, increasing the age at which a person can retire, decreasing the percentage paid for years of service (from 2 1/2% a year to 2% a year), and decreasing the guaranteed rate for new hire's from 7.5% to 6%. Interviews with Gerald Garrett (Chairman of OSFA) and Casey Morrison (1st Vice-President of OSFA) concluded that their intent for changes to the pension system would focus around contribution increases, retirement ages and percent contributed based upon years of service. Herb Bradshaw felt as though the emphasis should be placed on the guaranteed interest rate and limiting the 7.5% after a member retires. This was also the attitude of Carolyn Sager (President of the Oklahoma Municipal League) as she stated it is not practical that anyone should receive a minimum of 7.5% return on their Plan B pension without regard to lower performing years of less than 7.5% return. It can be seen in Appendix A that the retirement system sustained negative reaction when the market did not perform at the rate of at least 7.5%. At the time that this research was concluded, the Buck Consultants had not yet returned the results of the request by the OSFA Board. What was known was that the consultants were not instructed to review the 7.5% rate of return on the investment of Plan B funds.

Appendix C is offered as a viable option to address the financial concerns of the Oklahoma Firefighters Pension System. The Plan B guaranteed interest rate of return is the largest negative financial variable upon the Oklahoma Firefighters Pension System and this is altered under the provisions in Appendix C.

Discussion

As other pension systems across the country were examined, the consistent issue was the amount of money coming into the pension systems as compared to the amount of funds being disbursed as retirement checks. Firefighters and legislators recognized this inherent problem and negotiated amendments to the systems which should improve the unfunded liabilities for the individual states. The issue in the Oklahoma Firefighters Pension System as recognized by Herb Bradshaw, Carolyn Sager, Buck Consultants and this author was that there is no pension system in the country similar to Plan B which guarantees a minimum of 7.5% regardless of the market. A complimentary problem with that is that when the market is doing very well, the member earns the market value less the 2% administrative fee. As can be seen in Appendix A on 6-30-11, the end of the fiscal period, the system earned 21.45%. Deduct the administrative fee (2%) and firefighters who had a Plan B account received 19.45%. In comparison, in 6-30-12 the system made 0.79% yet firefighters in the Plan B system made the guaranteed rate of 7.5%. This leaves no room for the system to help fund itself in under performing years. As a result, during the under performing years (less than 9.5%) the State of Oklahoma will have to provide additional funding. In addition to this negative affect, municipalities now must follow the GASB rules and present their pension liabilities on their financial documents which affect their credit rating and ultimately their bonding values (United States Government Accountability Office [USGAO], 2012, 12). Many retired Oklahoma firefighters state that they have a contract with the State of Oklahoma and the guaranteed interest rate should not be amended. In a personal communication with Senator Mazzei on November 4, 2012, he too feels as though the firefighters have a contract with the State of Oklahoma and he does not intend to breach that contract. Senator Mazzei does understand that the OSFA Board

and its members have the authority to change the current pension system. As mentioned earlier, the retired firefighters in the State of Oklahoma do not want the Plan B altered as stated by retired District Chief Bill Goswick in a personal communication on July 23, 2012. Chief Goswick's stance is that the State of Oklahoma approved the plan years before he retired and if it is flawed, it is incumbent upon the State of Oklahoma to adjust the plan for future members. The plan being proposed by the OSFA Board does not seem to address the issue at hand of no negative market relevance on Plan B recipients. Current firefighters, including this author, have issue with only increasing the contributions of employees and employers. The argument is made that they are funding the retiree's un-practical benefit of a guaranteed 7.5%. Current firefighters also argue that the approach and proposals of the OSFA Board to only affect increase contributions, age at retirement and service percentages is burdening the real financial issue on backs of current and future firefighters. When this author visited with Casey Morrison on November 16, 2012 as we returned from visiting with Buck Consultants, he was asked why he would not support a resolution by the OSFA Board to the membership of OSFA to alter the 7.5% guarantee and he stated "I would never get re-elected". This comment was very concerning to this author that members of the OSFA Board member's intentions seemed to be consistent with Mr. Morrison.

While most potential employees of the Tulsa Fire Department, as with most 21-30 year olds, seem to have little concern of the pension system. Most at this age want a job with benefits and they are intrigued with the job itself. However, since this authors appointment to Fire Chief and as Deputy Chief prior to that, the newer generation of firefighters have different goals and aspirations as this author has experienced over the last 3 years of interviewing approximately 400 candidates in their final interview. While the pension system does not always come up in the

interview process, the number of candidates has decreased significantly. While there are other variables which also affect the number of candidates, once members are hired there is much more involvement in the younger firefighters when issues to the pension system arise on the Tulsa Fire Department. The concern for the Tulsa Fire Department and this author is that if the pension system is altered in such a way which will not resolve the issue(s) long term, prospective candidates make seek employment in other fire departments or in other careers. If this were to occur, it could be viewed that exceptional candidates to choose from the pool, would be less because the pool would be less. If that pool was less, this could also affect the diversity in the fire department as well as less minorities would apply if all things were equal.

A new proposal, which has been offered to the OSFA Board, is to limit the maximum amount a member can earn in Plan B. That limit is 10% and the 7.5% is deleted and the lower limit is determined by what the market earns less the 2% administrative fee. This is what is represented in Appendix B and one can see that over the 23 year period the system still earned 8.21% but the member's share of Plan B over the same period went to 7.25%. This is a difference of 3.24%. This number is substantial when as of 12-31-12, the Oklahoma Firefighters Pension System balance for Plan B members was just over \$400 million. It can be noted that the difference of 3.24% is not substantial to members but because of the large amount collectively over all members, the amount could make a large impact to the system. Also, it should be noted that the OSFA Board was proposing a 1% increase in contribution from the employee and a 1% contribution increase from the municipality. If this Appendix B plan was initiated, the employee and employer would not have to bear any additional burden and the system could still earn 1.24% ($3.24\% - 1\% - 1\% = 1.24\%$) more than what was being proposed.

It can be seen in the other pensions researched that many of the systems have the same issues yet none of the pensions experience the financial burden that the Plan B in its current form has caused the Oklahoma Firefighters Pension System. The largest financial negative impact in the Oklahoma Firefighters Pension System is the 7.5% guarantee. This guarantee must be addressed in order to truly slow the unfunded liability upon the pension system.

Recommendations

Once the findings of the consultant have been acquired, the OSFA Board and its members will have to decide which of the recommendations to pursue. Prior to deliberation of OSFA members, the legislature should also be consulted with the recommendations of the consulting company. In the end, the OSFA Board will have to draft a resolution at the next OSFA conference and allow members to vote on the proposed changes after having statewide meetings to inform the membership. The meetings with the membership must outline efforts in other states which have amended other pension funds and the results and expected actuaries. The next step would be for the OSFA Board to partner again with legislatures and inform others within the House and Senate to foster support for the proposed bill.

For research of this nature affecting pension system, it would be recommended to involve the persons with authority to make necessary changes. In this research it was the OSFA Board and the local legislators. In addition, thorough and accurate actuaries must be acquired from a reputable and experienced consulting company. The computer software and human resources needed are unique to this type computation. When a consultation group is found, the members must be open-minded to address the issues even if it means that it could affect them personally.

In this research, there seemed to be a large number of opinions which sometimes seemed to drive the decisions. The members having the authority to make decisions have to understand that they could be held liable if a pension system were allowed to stand idle and not make changes which would ensure solvency for the system. In addition, the members must make decisions based upon the expertise of organizations in the particular field of financial study. The recommendations from this research were derived from the issues extracted from the literature review. The issues were identified and compared to other systems with the outcome of those systems to reflect a positive financial outcome.

The State of Oklahoma legislators had good reason for concern for the Oklahoma Firefighters Pension System as the system did have negative financial issues as compared to other pension systems. The Oklahoma legislators identified that the Plan B interest rate return needed to be amended. The Oklahoma Firefighters Pension System mirrors many other pension systems across the country with exception of the Plan B interest return guarantee. Appendix C offers a viable resolution to consider when trying addressing the unfunded liability of the Oklahoma Firefighters Pension System.

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Appendix A

SUMMARY OF INVESTMENT RETURNS

	RETURN	RETURN PLAN B
JUNE 30, 1990	10.25%	8.25%
JUNE 30, 1991	8.25%	7.50%
JUNE 30, 1992	13.84%	11.84%
JUNE 30, 1993	14.60%	12.60%
JUNE 30, 1994	2.50%	7.50%
JUNE 30, 1995	15.60%	13.60%
JUNE 30, 1996	15.77%	13.77%
JUNE 30, 1997	19.48%	17.48%
JUNE 30, 1998	19.31%	17.31%
JUNE 30, 1999	6.90%	7.50%
JUNE 30, 2000	11.41%	9.41%
JUNE 30, 2001	7.60%	7.50%
JUNE 30, 2002	7.00%	7.50%
JUNE 30, 2003	4.21%	7.50%
JUNE 30, 2004	13.82%	11.82%
JUNE 30, 2005	9.70%	7.70%
JUNE 30, 2006	10.93%	8.93%
JUNE 30, 2007	15.97%	13.97%
JUNE 30, 2008	3.48%	7.50%
JUNE 30, 2009	17.55%	7.50%
JUNE 30, 2010	9.74%	7.74%
JUNE 30, 2011	21.45%	19.45%
JUNE 30, 2012	0.79%	7.50%
AVERAGE RETURN	8.21%	10.49%

Appendix B

SUMMARY OF INVESTMENT RETURNS

	RETURN	RETURN PLAN B	DIFF.
JUNE 30, 1990	10.25%	8.25%	0%
JUNE 30, 1991	8.25%	6.25%	+1.25%
JUNE 30, 1992	13.84%	10.00%	+1.84%
JUNE 30, 1993	14.60%	10.00%	+2.60%
JUNE 30, 1994	2.50%	0.50%	+7.00%
JUNE 30, 1995	15.60%	10.00%	+3.60%
JUNE 30, 1996	15.77%	10.00%	+3.77%
JUNE 30, 1997	19.48%	10.00%	+7.48%
JUNE 30, 1998	19.31%	10.00%	+7.31%
JUNE 30, 1999	6.90%	4.90%	+2.60%
JUNE 30, 2000	11.41%	9.41%	0%
JUNE 30, 2001	7.60%	5.60%	+1.90%
JUNE 30, 2002	7.00%	5.00%	+2.50%
JUNE 30, 2003	4.21%	2.21%	+5.29%
JUNE 30, 2004	13.82%	10.00%	+1.82%
JUNE 30, 2005	9.70%	7.70%	0%
JUNE 30, 2006	10.93%	8.93%	0%
JUNE 30, 2007	15.97%	10.00%	+3.97%
JUNE 30, 2008	3.48%	1.48%	+6.02%
JUNE 30, 2009	17.55%	10.00%	+2.50%
JUNE 30, 2010	9.74%	7.74%	0%
JUNE 30, 2011	21.45%	10.00%	+9.45%
JUNE 30, 2012	0.79%	-1.21%	+8.71%
AVERAGE RETURN	8.21%	7.25%	

Appendix C

Amendments to be considered for the Oklahoma Firefighters Pension System to be determined by the Oklahoma State Firefighters Association and Senator Mazzei.

- After analysis and actuaries are determined, review the years of service that a member must contribute into the pension system before they are eligible to receive retirement proceeds.
- After analysis and actuaries are determined, review the years of age at which a member in the pension system are eligible to receive retirement proceeds.
- Alter the current 7.5% guaranteed rate of Plan B proceeds to as follows: Any member who has retired and elects to leave their Plan B “funds” in the Oklahoma Firefighters Retirement System will receive a maximum amount of 10% annum of the funds in said account. If the interest rate of the “funds” earns less than 10%, the Plan B account will only receive the amount as determined by the Board of the Oklahoma Firefighters Association, typically the current value as determined by investment group selected to oversee the current fiscal period. The 2% administrative fee will always apply, regardless of the dividend interest return.
- No action will be taken to alter the provision of survivorship as currently described in the Oklahoma Firefighters Pension System.
- No action will be taken to alter the requirements for newly hired employees.
- No action will be taken which could affect the contribution amount of each employee.
- No action will be taken which could affect the contribution amount of each employer.
- No action will be taken by the OSFA which would not allow the State of Oklahoma to make additional contributions to the Oklahoma Firefighters Pension System such as the insurance premium tax.