GOOD JOBS FIRST

JANUARY 2014

PUTTING STATE PENSION COSTS IN CONTEXT:

OKLAHOMA

ALTHOUGH THE LEGISLATURE ENACTED changes in 2011 that raised the retirement age for new hires and restricted cost-of-living adjustments, there has been an effort, supported by Gov. Mary Fallin, to convert the state's public pensions from traditional defined-benefit plans to ones that provide less secure defined-contribution coverage.

While many pension numbers are bandied about, the central issue is how much of an obligation is being taken on each year to provide benefits for current government employees such as teachers and first responders. The best way to measure this is to use an amount known as employer normal cost. Such costs can be found in the annual financial reports that each public pension plan has to produce. In the case of Oklahoma there are two major systems administered by the state: the Oklahoma Public Employees Retirement System (OPERS) and the Oklahoma Teachers Retirement System (OTRS). The most recent financial reports indicate annual employer normal costs of $111.2 million for OPERS.[1] For OTRS the figure was $110.3 million.[2] The total of the two is $221.5 million.

How should this amount be viewed? One approach is to compare it to the financial costs incurred by the state in supporting business through economic development subsidies and other special tax provisions. While not providing an assessment of the effectiveness of any particular subsidy or provision at achieving targeted policy objectives, such as creating family-wage jobs, this approach does provide an important perspective on public sector pensions.

Oklahoma provides subsidies to a wide range of corporations through the Quality Jobs Incentive Payment program, which cost about $78 million in FY2013, and the Investment/New Jobs Tax Credit, which costs about $22 million a year.[3]

The state provides other lucrative tax breaks for business, especially for the energy sector. Gross Production Tax Incentives on wells cost the state more than $100 million a year in lost revenue, while the Oil and Gas Depletion Allowance costs $13 million and the Gas Marketing Deduction $20 million.[4]

Another way Oklahoma loses corporate tax revenue is through its failure to adopt a reform known as combined reporting, which is designed to make it more difficult for large companies to use gimmicks such as passive investment companies to shield a substantial portion of the their income from taxation. The state's tax expenditure report does not estimate how much revenue is thus lost.

Yet another major form of corporate tax avoidance that eats into state revenues is the use of offshore tax havens. In January 2013 the U.S. PIRG Education Fund published a report in which it calculated the impact on this practice on each state. For Oklahoma, the estimated cost is $239 million.[5]

The total of these corporate subsidies, official tax breaks and unofficial tax dodging amount to more than $479 million per year, as summarized in the table below.

In other words, the annual taxpayer cost of funding the retirement benefits of current Oklahoma employees belonging to the main state administered public pension systems is only 46 percent of the cost to the state of economic development subsidies and corporate tax breaks and loopholes.

Quality Jobs Incentive Payment	$78,921,081
Investment/New Jobs Tax Credit	$22,679,000
Gross Production Tax Incentives (Reduced Rates) on Horizontally Drilled Wells	$98,547,000
Gross Production Tax Incentives (Reduced Rates) on Ultra-Deep Wells	$5,307,000
Oil and Gas Depletion Allowance	$13,718,000
Gas Marketing Deduction	$20,861,000
Failure to adopt combined reporting	unknown
Revenue loss from corporate use of offshore tax havens	$239,000,000
TOTAL	**$479,033,081**

NOTES:

1 Derived by multiplying the payroll figure on page 33 of the 2013 report at http://www.opers.ok.gov/publications by the normal cost rate minus the employee contribution rate at http://www.opers.ok.gov/Websites/opers/images/pdfs/Report-2012OPERSVal.pdf

2 Derived by multiplying the employer normal cost rate on page 85 of the 2013 annual report at http://www.ok.gov/TRS/Publications/Annual_Report.html by the payroll amount on page 33.

3 The Quality Jobs figure is derived by adding the value of the individual awards for FY2013 listed at http://www.tax.ok.gov/reports1.html. The Investment/New Jobs Figure is from http://www.tax.ok.gov/reports/Tax%20Expenditure%20Report%202011-2012.pdf

4 http://www.tax.ok.gov/reports/Tax%20Expenditure%20Report%202011-2012.pdf

5 U.S. PIRG Education Fund, *The Hidden Cost of Offshore Tax Havens: State Budgets Under Pressure from Tax Loophole Abuse* (January 2013); http://uspirg.org/reports/usp/hidden-cost-offshore-tax-havens