GOOD JOBS FIRST

PUTTING STATE PENSION COSTS IN CONTEXT:

OKLAHOMA

2015 Normal Cost of Oklahoma Public Employee Pensions:	**$299,406,679**
2015 Cost of Oklahoma Subsidies and Corporate Tax Breaks:	**$796,815,342**
Percentage of Pension Costs to Subsidy Costs:	**37.6%**

Although 401(k)s have proven a dismal tool for retirement security, since late 2015, Oklahoma's traditional state pension plan has been closed to new hires, replaced by a 401(k)-style, defined contribution plan. Still, state legislators struggle to fully fund the pension relied on by a majority of state public servants. Closing a pension plan does not solve an underlying funding challenge, but there are other options legislators can consider.

While many pension numbers are circulated in public discussion, 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 $170 million for OPERS.[1] For OTRS the figure was $129 million.[2] The total of the two is $299.4 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 good paying 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 $89 million in FY2015[3], and the Investment/New Jobs Tax Credit, which cost about $57.6 million last year.[4]

The state provides other lucrative tax breaks for business, especially for the energy sector. Various Gross Production Tax Incentives on wells cost the state more than $460 million a year in lost revenue, including $402 million for subsidies for horizontal drilling alone (more than quadrupling since our 2013 report. This single tax break is enough to pay the state's entire normal cost of state workers' pensions.) The Oil and Gas Depletion Allowance costs $19 million and the Gas Marketing Deduction costs $14 million.[5]

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 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 November 2016, the U.S. PIRG Education Fund published a report in which it calculated the impact of this practice on each state. For Oklahoma, the estimated cost is $147 million.[6]

The total of these corporate subsidies, official tax breaks and unofficial tax dodging amount to more than $715 million per year, as summarized in the following table.

Quality Jobs Incentive Payment	$89,197,952
Quick Action Closing Fund	$6,725,000
Investment/New Jobs Tax Credit	$57,588,000
Gross Production Tax Incentives (Reduced Rates) on Horizontally Drilled Wells	$402,290,000
Gross Production Tax Incentives (Reduced Rates) on Other Wells	$59,012,000
Oil and Gas Depletion Allowance	$19,141,000
Gas Marketing Deduction	$13,960,000
Credit for Employers in Aerospace Industry	$1,989,000
Failure to adopt combined reporting	unknown
Revenue loss from corporate use of offshore tax havens	$146,912,390
TOTAL	$796,815,342

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 37.6 percent of the cost to the state of economic development subsidies and corporate tax breaks and loopholes. If Oklahoma cut the subsidies and tax breaks identified here, they could pay the annual normal cost of state pensions each year, and use the balance to pay off all unfunded liabilities in state pension funds in less than 15 years.

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[1] Derived by multiplying normal cost rate on page 2 of the 2015 OPERS Actuarial Valuation Report http://www.opers.ok.gov/Websites/opers/images/pdfs/Report-2016OPERSVal.pdf by the covered payroll on page 25.

[2] Teachers Retirement System 2015 CAFR Derived by multiplying the employer normal cost rate on page 77 of the 2015 annual report at https://www.ok.gov/TRS/documents/2015%20CAFR%20Final.pdf by the covered payroll amount on page 84.

[3] The Quality Jobs figure is derived from Good Jobs First's Subsidy Tracker www.subsidytracker.com

[4] by adding the value of the individual awards for FY2013 listed at http://okcommerce.gov/media/#news The Investment/New Jobs Figure is from the Oklahoma Tax Expenditure Report 2015-16 https://www.ok.gov/tax/documents/Tax%20Expenditure%20Report%202015-2016.pdf

[5] Oklahoma Tax Expenditure Report 2015-16 https://www.ok.gov/tax/documents/Tax%20Expenditure%20Report%202015-2016.pdf

[6] 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

Good Jobs First: 1616 P St., NW, Washington D.C. 20036
(202) 232-1615
www.goodjobsfirst.org
