# Pension Debt: The Billion Dollar Problem Still Threatening Omaha

*Even with recent changes, the existing defined benefit plans for public safety and civilian employees continue to accrue unfunded liabilities leaving both employees and taxpayers at risk.*

- **Omaha's retirement systems are underreporting the actual amount of unfunded pension liabilities the city is facing.** The reported unfunded liabilities for Omaha's Police and Fire Retirement System (PFRS) and Employees' Retirement System (ERS) are $835 million as of January 2016 — but that estimate is based on an assumption that investment returns will average 8% in the long run, which is highly unlikely. A more realistic estimate of the current unfunded pension liabilities for PFRS and ERS is $1.99 billion;

- **Despite changes made to Omaha's retirement systems in 2015, growing pension debt remains a considerable threat in the coming years without further reform.** Changes made to benefits in 2010 and 2013 slightly reduced the growth of unfunded liabilities, but they did not fundamentally change the underlying funding policy factors that have been the drivers of the $1.99 billion in unfunded liabilities for PFRS and ERS;

- **There are three underlying causes for Omaha's growing pension debt.** The two most prominent causes of growth in the unfunded liability are (1) the city not paying the full actuarially determined employer contribution to the pension systems and (2) underperforming the assumed investment returns. The third largest contributor is (3) undervaluing the amount of all promised future benefits to employees by using a discount rate that is too high;

- **Over the past 20 years, Omaha has seen the funded ratio of its pension plans fall precipitously from almost 100% funded, to the current situation of being less than half funded.** Since 2001, the city has missed its required contribution payment every year – with the exception of 2015 for PFRS. Collectively, since 1994, the city has paid only 73% of the required contribution for PFRS's, and 62% of ERS's required contribution. This has resulted in a combined funded ratio of 49.7% as reported by the plans (the combined funded ratio is probably closer to 29.3%, based more realistic assumptions);

- **Both the PFRS and ERS have been underperforming their 8% long-term assumed rates of return.** Omaha's pension plans assume investment returns of 8% per year. In 2015, the plans earned just 0.2% and 3.1%, respectively. Whether a near or long-term outlook, the average annual returns for Omaha's pension systems are far less than expected, more than 3% below the assumed 8% return over 15-year averages. If actual returns continue to be lower than the assumed returns, the unfunded liability for the city will continue to grow, increasing the taxpayer risk by hundreds of millions each year;

- **Ever-increasing employer contributions would almost certainly crowd out Omaha's capacity to finance other public services such as public safety, road repairs and snow removal.**

- **Omaha's pension debt is expected to get worse in the coming years without pension reform.** Omaha is likely to see investment returns continue to underperform, unfunded liabilities continue to grow, and employer contribution rates continue to rise;

- **If done correctly, pension reform for Omaha needs two additional steps to the reform already enacted.** First, city officials need to finish the project of capping the growth of liabilities exposed to volatility and significant risk. This can be done by moving future employees into a cash balance or defined contribution plan. Second, Omaha needs to ensure the funding policy for existing liabilities does not remain a threat to the city's budget, given the aggressively optimistic actuarial assumptions currently being used by the plans;

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