



Omaha Public Schools Pension System: The Forgotten One

By Jim Vokal, Executive Director

The Platte Institute has devoted much attention to the pension crisis facing Nebraska's political subdivisions. Last December, we analyzed the flawed assumptions in Omaha's fire union contract and how the negotiated terms impact Omaha taxpayers in the future. In a research paper to be released later this month, the Platte Institute will take a harder look at honest accounting practices that should be applied statewide in contract negotiations. In these discussions the last few years the Omaha Public Schools system has escaped similar scrutiny.

Omaha taxpayers are aware of the pension woes in city government. Over the last five years, the unfunded pension liability for the Omaha Police Fire Pension System has increased over 81 percent. [\[1\]](#) So, how does the unfunded liability for the Omaha Public Schools compare? In the same five-year period, the unfunded liability for Omaha Public School increased a staggering 217%, from \$137 million to over \$437 million. [\[2\]](#) And taxpayers are on the line for this ever increasing liability.

There are three major items that warrant further attention for OPS:

- First, compounding the unfunded liability situation, the contract assumes an eight percent return on investments in the fund portfolio. As discussed with Omaha's police and fire pension systems, this investment rate is unrealistic in a good investment market, let alone a challenging one. With only 56 percent of OPS' fund portfolio comprised of equities, an eight percent return is even more unlikely. According to Andrew Biggs of the American Enterprise Institute (AEI), with every percentage point the future yield falls below eight percent, the plan liabilities and required annual contributions rise by 20 percent, further exasperating the growing OPS pension problem. Notably, the actual rate of return over the last five and ten years for the fund has only been 3.1 percent and 5.04 percent, respectively. [\[3\]](#)
- Second, there is the question of how liquid the pension system's investments are. Several of the funds the OPS pension system invests in are limited partnerships (LP), which means investors receive profit returns but are only liable for the amount they

contribute.[4] LP investments are often linked to real estate, which is typically hard to sell quickly and convert into cash without losing value by having to reduce the price from time constraints. This illiquidity due to the real estate impacts the ultimate valuation and may lead to overvaluation. So although the real estate assets of the OPS pension system are estimated to have a market value of over \$93 million, the illiquidity of these assets may mean the actual value is much lower.[5]

- Finally, the actuarial report by Cavanaugh Macdonald Consulting, LLC demonstrates that the market value of assets is not used directly in the calculation of the unfunded actuarial liability and actuarial contribution rate. Rather, the asset value of the pension system is determined utilizing an asset valuation method, which attempts to "smooth" the effect of market fluctuations. This asset smoothing will either over or under estimate the market value of assets based on the performance of the plan. According to Cavanaugh Macdonald, the market value of the assets has been below the actuarial value in each of the last five years, with the greatest gap of \$177 million realized in 2009.[6] While the smoothing method is used for various plans by some actuaries, taxpayers may be at risk if the current market value falls short of the actuarial value presented.

As is the case with other political subdivisions across the state of Nebraska, the strength of Omaha Public Schools' pension system is questionable. The unfunded liability is growing at an extremely rapid pace, the risks associated with the asset composition may not be transparent, and the funding methodology may bring additional exposure to Omaha taxpayers. Although LB 553 requires additional contributions by employees and the state, Omaha taxpayers deserve meaningful reform to address all of the shortcomings.

[1]http://www.cityofomaha.org/humanresources/images/stories/public_documents/retirement/valuations/Police_Fire/Actuarial%20Valuation%201-1-12.pdf

[2]http://www.osers.org/Portals/0/OSERS_FILES/Reports/Actuarial%20Reports/September%201,%202012%20Annual%20Actuarial%20Report.pdf

[3]

http://www.osers.org/Portals/0/OSERS_FILES/Reports/Actuarial%20Reports/September%201,%202012%20Annual%20Actuarial%20Report.pdf

[4]

<http://legal-dictionary.thefreedictionary.com/limited+partnership>

[5]

http://www.osers.org/Portals/0/OSERS_FILES/Investments/Fourth%20Quarter%202012.pdf

[6]

http://www.osers.org/Portals/0/OSERS_FILES/Reports/Actuarial%20Reports/September%201,%202012%20Annual%20Actuarial%20Report.pdf

