THE POLITICAL ECONOMY OF PENSION REFORMS

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ABSTRACT

Over the past decade, municipal fiscal stress and the rapid accumulation of unfunded pension liabilities have triggered a wave of public pension reforms. However, the complexity of these policy decisions, the timing of their adoption, and the intricate negotiations among key decision-makers create significant challenges in understanding how a plan-sponsoring government's political and financial characteristics drive reform outcomes. Applying the logic model of pension governance, this study analyzes the decade-long reform of the City of Omaha Police and Firefighter Retirement System (COPFRS). By examining historical benefit designs, financial pressures, legal constraints, and the competing incentives of core stakeholders (politicians, public unions, and taxpayers), this study proposes an integrated political-economic framework to advance future public pension reform research.

INTRODUCTION

The continuous growth of unfunded pension liabilities has threatened financial sustainability in many state and local governments and triggered a wave of pension reforms. (Pew Charitable Trusts 2019, NASRA 2018). Previous studies emphasized the role of political dynamics, fiscal stress, legal constraints, unions, and the diffusion effects as primary determinants of pension reforms (Brown 2014; Thom 2013, 2015; Wang and Peng 2018; St.Clair and Martinez Guzman 2017; Gehl, Willoughby, and Bell 2013). However, the complexity of pension reform negotiations, as well as the timing, lagging effects, and endogeneity of government's financial decisions, creates challenges in modeling the relationship between government political economy and pension reform decisions. As the literature has shown, significant differences in pension funding levels and managerial approaches are fundamentally driven by the system's political economy, where the power dynamics between elected officials, public employee unions, and taxpayers shape the ultimate structure of pension benefits (Chen, Hoang, and Ebdon 2025; Hoang and Goodman 2018; Hoang 2022). To promote further understanding of the pension reform, we applied the theory of path dependence and institutional framework to analyze the pension reform process in the City of Omaha Police and Firefighter Retirement System (COPFRS) from 2001 to 2019 as a case study.

The paper focuses on addressing the following questions: (1) What are the challenges of reforming a pension plan? (2) What are the determinant factors influencing the pension reform agenda? And (3) What can other municipal governments learn from the city of Omaha's experiences? Our intention with this research is to propose a reform framework that identifies key actors and their roles in the negotiation process and suggests typology to categorize reform

determinants. This exploratory work provides insight from a pension plan for public safety personnel, which are often more costly and seriously underfunded, in order to highlight the dynamic policymaking leading to the problem and structural changes as well as fiscal measures to correct the pension funding problem.

We chose the city of Omaha and its pension plan for police and firefighter because of two main reasons: (1) the plan was severely underfunded for various reasons; and (2) the prolonged but successful pension reform process disclosed the complexity of institutional factors and challenges to the reform negotiation and implementation. Low pension funding has been a consistent financial challenge for the city. Increases in pension liabilities made it hard for the city to meet promised benefits, particularly after dramatic losses in investment return during the 2007-2009 economic recession, compounded by declines in the city's revenues. In its report on the pension funding status in 61 key cities across America, Pew (2013) ranked Omaha among one of the bottom-nine cities whose pension fare worse during 2007-2009. Since 2001, COPFRS has encountered different pension benefits negotiations but none of these initiatives secured enough support from the Mayors, the City Council, and the unions. The pension reform process eventually reached some initial success in 2011-2012 and further agreement on benefit reductions and contribution increases during the following years.

The important contributions of this research to the literature are twofold. First, we provide a theoretical framework that captures the multidimensional internal and external factors determining pension reform outcomes. Built upon the political economy of pension reform and the logic model of pension governance (Chen, Hoang, and Ebdon 2025), this integrated framework provides an in-depth analysis of how competing stakeholder incentives drive a local pension plan into distress, why structural reforms are frequently delayed by political friction, and

how a municipality ultimately negotiates a reform agenda when faced with external crisis triggers. Second, this study identifies practical lessons that other municipal governments can draw from the COPFRS experience. Between 2001 and 2019, the city of Omaha encountered political, financial, and legal hurdles common to many local governments considering pension overhauls. By understanding Omaha's trajectory through a political-economic lens, other municipalities can better anticipate and overcome the inherent challenges of negotiating structural pension changes.

The paper is organized as follows. The next section reviews prior literature on state and local pension reforms to identify common themes and existing research challenges. Drawing from the logic model of pension governance and political economy theories, we then develop a conceptual model. This model maps how the self-interest of different stakeholder groups (politicians, unions, taxpayers, and administrators), combined with legal and environmental constraints, directly dictates policy outputs and long-term reform outcomes. Following this theoretical foundation, we detail the study's methodology and introduce the case data for the City of Omaha Police and Firefighter Retirement System (COPFRS). The focus then shifts to a longitudinal overview of Omaha's pension crisis, followed by a comprehensive outline of the actions taken and the stakeholders involved in the reform process from 2001 to 2019. Our proposed political-economic framework is then applied to analyze the COPFRS case, illustrating how these theoretical mechanisms operate in practice. Finally, we conclude with the theoretical and practical implications of our findings, along with a discussion of the study's limitations and avenues for future research.

LITERATURE REVIEW

In the wake of the 2007-2009 economic recession, many state and local governments have adopted significant changes to reduce the cost of public pension plans in two ways (Brainard and Brown 2018). Pension reform imposes benefit reductions on public employees to reduce the futural accrual benefits or increase employee contribution to reduce government financial obligation to pension funds. Pension reform also aims to alter the timing of benefit payment, such as increases in retirement age or full retirement requirement, to reduce the unfunded liabilities.

Since then, previous research has suggested different factors driving pension reform adoptions among state and local governments. Studies found that increases in pension costs and fiscal severity can increase the probability of pension reform adoption (Munnell, Aubry, and Cafarelli 2014; St.Clair and Martinez Guzman 2017). Facing short-term fiscal stress, states appear more likely to increase employee contributions and to adjust the amortization period, while reductions in pension benefit and increases in employer contributions are only adopted when short-term fiscal stress turns into a long-term issue (Chen 2016). St.Clair and Martinez-Guzman (2017) demonstrated that the volatility of pension annual required contribution is positively associated with state pension reform. Thom (2013) found that increases in state debt level increase the likelihood of adopting a defined contribution plan.

Additionally, the governments' political environment plays an important role in the adoption of pension reform. Some studies found that Republican-controlled states are more likely to adopt pension reforms relative to Democrat-controlled states largely because Republican often desire to reduce the government budgets and are in favor of pension benefit model mirrored the private sector such as defined contribution plan, while Democrats may deter

from reform efforts due to an ideological affinity to broader labor benefits, employer-based pensions and Social Security (Thom 2015; St.Clair and Martinez-Guzman 2017). In a different study, Anzia and Moe (2017) tested the effect of party-controlled legislatures on pension generosity and concluded that pension benefits are more likely to be a partisan issue in the economic expansion; the issue becomes more politically polarized during government retrenchment. More recently, Wang and Peng (2018) found that political appointees are more likely to reduce pension discount rates if the investment returns are low. While this action can help boost long-term pension funding, this decision leads to higher state pension contributions and puts more financial burden on the state budget in the short term (Wang and Peng 2018).

Moreover, studies found different impacts of unions on pension benefit negotiation. Anzia and Moe (2015) demonstrated that the density of union presence, along with collective bargaining power, can influence pension benefit and pension reform negotiation. On the other hand, studies by Thom (2015) and Munnell (2012) found no significant relationship between pension reform and union membership, suggesting that organized labor's power might not directly shape pension outcomes or exist independently from the effects of other political factors. Similarly, Hoang and Goodman (2018) found no significant relationship between unions' collective bargaining power and pension benefit design. However, union campaign contribution is more likely to increase pension benefit generosity (Hoang and Goodman 2018).

Overall, while the existing research suggests that state financial condition and political economy can impact the adoption of pension reform, there exist mixed findings of how these financial and political factors influence the pension reform process. One possible explanation is that the unique characteristics of individual state and local governments can also affect public pension management and pension reform agenda. For instance, in a case study of Illinois State

University Retirement System (SURS), Brown (2104) found that strong constitutional benefit protections, political resistance to taxes, and series of court cases imposed severe limits on pension reform options (Brown 2014). In a rare case analysis of pension reform at a local level, Gehl, Willoughby, and Bell (2013) show that the cooperation between the City Council and the Mayor's office is critical for making changes to pension benefits and pension contribution in the city of Atlanta's pension system, where any changes to pensions need to be approved by the full Council to put in the city code (Gehl, Willoughby, and Bell 2013).

Using the case study of Florida state-wide pension system (FRS), Matkin, Chen, and Khalid (2016) pointed out an interactive relationship between pension solvency and the complexity of the institutional factors surrounding pension fund management. Besides the political environment, formal institutions, such as pension policies and practices, benefits, contribution, investment strategy, are critical in pension governance (Matkin, Chen, and Khalid 2016). The study also found that changes in formal institutional factors, such as increases in pension benefits or assumed rate of return, have lagged and endogenous effects on pension assets and liabilities, in which the changes might not immediately reflect on the actuarial report in the short term, but it can be accumulated and have some lagged effect for future liabilities (Matkin, Chen, and Khalid 2016). Along the same line, other studies demonstrate the connection between compensation policies, pension benefit structures, pension reforms. Using the ICMA survey of personal policies in municipal Police and Fire Department, Ehrenberg (1980) found a "benefit-wage tradeoff relationship," in which an increase in the contribution made by uniformed employees to their retirement systems leads to a compensating increase in salaries. Koedel, Podgursky, and Shi (2013) studied teacher pension plans in Missouri and found that the structure of pension benefits with heavy backload acts as a "pull" incentive to retain experienced teachers.

However, the plans' earlier retirement requirements that lower the retirement eligibility acts as a "push" incentive to encourage teachers to retire earlier (Koedel, Podgursky, and Shi 2013).

In sum, pension reforms and the structure of pension benefits are complex and embedded with the unique institutional factors of the individual state and local government. As pension reforms can provoke conflicts among the government, political parties, unions, and public employees, as well as taxpayers, a more comprehensive analysis of the institutional context and the historical decisions influencing to the reform process and outcomes is much needed to understand the complexity of pension governance.

CONCEPTUAL FRAMEWORK

The conceptual framework for this research is built on the integration of Public Choice Theory and the Logic Model of Pension Management (Chen, Hoang & Ebdon 2025) to provide a robust theoretical foundation for understanding how political incentives shape administrative decisions and long-term pension sustainability. While the standard logic model maps the operational pipeline of pension governance, tracing inputs (e.g. environment, legal constraints, stakeholders) through policy outputs to ultimate outcomes, public choice theory supplies the underlying political optimization engine. It demonstrates how self-interested actors manipulate specific policy outputs, such as benefit levels, contribution rates, and actuarial assumptions, within institutional constraints until forced into structural reform.

The Unified Political Objective Function

Rather than operating purely to maximize public welfare, municipal decision-makers optimize policy outputs to maximize their net political utility. The political payoff of setting pension outputs is defined by promised benefits B_t, government contributions $C_{g,t}$, employee

contributions $C_{e,t}$, and the assumed discount rate i. This behavior can be captured by a unified political objective function:

$$V(B_t, C_{g,t}, C_{e,t}, i) = \lambda_U U_U(B_t, C_{e,t}) - \lambda_T T_t(C_{g,t}) + \phi(i) - \Omega(UL_t)$$

Within this function, the system's inputs represent stakeholder weights and institutional constraints. The parameters $\lambda_U$and λ_T denote the relative political influence of public employee unions and taxpayers, respectively. Because public sector unions operate as highly organized interest groups that mobilize targeted campaign contributions, their political weight (λ_U) is typically high. In contrast, general taxpayers face significant monitoring costs and lower interest in public pension benefits and fundings, rendering their political influence (λ_T) relatively low during prosperous economic periods.

These input dynamics drive the system's policy outputs. Decision-makers are heavily incentivized to approve generous future benefits (B_t) to increase union utility (U_U) and secure immediate political support. This dynamic mimics rent-seeking behavior, as unions seek to extract enhanced benefits for their members, while politicians grant these benefits to expand their political support and influence (Brueckner and Neumark, 2011). Furthermore, political actors actively exploit actuarial discount rate arbitrage ($\phi(i)$) while hiding the true cost of funding pension system (Hoang and Gang 2026). By artificially inflating the assumed interest rate i (given that $\partial UL_t/\partial i < 0$), decision-makers suppress the calculated normal cost and the actual amount of unfunded liabilities. This maneuver allows politicians to lower immediate required contributions without triggering voter resistance to current tax increases ($T_t(C_{g,t})$) or service cuts. However, these short-term choices eventually trigger a fiscal stress penalty

($\Omega(UL_t)$), which represents the political fallout associated with accumulated unfunded liabilities UL_t, such as bond rating downgrades or a loss of municipal liquidity.

Intertemporal Liability Growth and Fiscal Pressures

The political temptation to maximize short-term utility by inflating discount rates and deferring required contributions directly drives long-term financial underfunding. Consequently, the intertemporal growth of unfunded pension liabilities evolves according to standard actuarial dynamics:

$$UL_{t+1} = (1 + r_t)UL_t + NC_t(i) - \left(C_{g,t} + C_{e,t}\right)$$

In this equation, $NC_t(i)$ represents the current service normal cost calculated under the politically selected discount rate i, while r_t reflects the actual realized market return. When external market shocks occur and actual returns fall significantly short of assumed rates ($r_t \ll i$), unfunded liabilities grow exponentially. This mechanical outcome rapidly erodes plan solvency, degrading long-term sustainability and elevating the fiscal stress penalty ($\Omega(UL_t)$) imposed on incumbent politicians.

The Direct Pension Reform Trigger

Enacting structural pension reform, such as cutting benefit generosity ($\Delta B < 0$), eliminating pension spiking mechanisms, increase retirement age, or forcing higher employee contributions ($\Delta C_e > 0$), imposes significant political friction ($\Delta V_{political}$) due to fierce union opposition and embedded legal hurdles. Consequently, the model dictates that structural reform will only occur when the exogenous cost of a financial crisis and public backlash exceeds the political cost of negotiating policy changes:

$$\text{Structural Reform} = \begin{cases} 1 & \text{if } \Omega\left(UL_t, \text{Rating}_t\right) > \Delta V_{political}(\Delta B, \Delta C_e) \\ 0 & \text{if } \Omega\left(UL_t, \text{Rating}_t\right) \leq \Delta V_{political}(\Delta B, \Delta C_e) \end{cases}$$

METHODOLOGY

The City of Omaha Police and Firefighter Retirement System (COPFRS) case is used in this study. The steep falls of the 2007-2009 financial market exacerbated the pension low funding issue and push the plan to the precipice of pension insolvency. In 2008, COPFRS experienced a significant investment loss of 28.7%, partially leading to an unprecedented low funding level of 39.5% (Actuarial Report 2008). Since 2001, during the contract negotiations process, the city proposed some changes to pension benefits and pension to improve the plan's funding level. However, since police and firefighter often seem to be a high priority service and police and fire unions often more political influence than other groups of public employees, the political situation makes it difficult to adopt any financial cutbacks to police and firefighter departments, including pension benefits.

In order to highlight the dynamic of policy and financial decisions leading to the pension reform process, it is useful to examine a particular case study (Ferris 1984). One of the advantages of a case study research in comparison to a quantitative (large-N) study is its ability to directly observe slow-moving variables (time-invariant variables or unobserved information that are likely to be absorbed in a fixed-effect model) or independent variables that are hard to quantify (Honig 2019). This characteristic makes case-study analysis a complementary research strategy to study the nuance of the pension reforms where the process was typically prolonged, slowly changed, and involved direct and indirect impacts of different groups, including the city administration, the Mayors, the City Council, unions, business communities, and the general public. Considering its ability to explain the complexity of public pension governances and the endogenous effects of those changes to pension plan's financial management, case study research method was applied by previous studies to analyze the institutional context and path

dependence of pension governance (Matkin, Chen, and Khalid 2016; Cong, Neshkova, and Frank 2017).

We analyze a series of pension negotiations between the city of Omaha and the Police and Fire Unions during 2001-2019. Following Yin (2014)'s recommended steps for case-study research, multiple sources of data were collected: (1) comprehensive annual financial reports (CAFRs) from the city of Omaha and COPRFS from 2001-2019, these reports include relevant financial data on the financial conditions of the city and the plan; (2) CORFRS annual actuarial valuation report from 2001-2019, these reports provides information of plan's contributions, funding ratios, and investment return back to FY 2001, as well as the plan's actuarial assumptions; (3) City of Omaha' municipal code to track the changes in pension contributions and other rules/regulations related to COPFRS since 1989; (4) pension task forces' reports in 2009 and Nebraska Retirement System Committee Report in December 2011 to examine different pension reforms and revenue recommendations; (5) newspaper articles from Omaha' primary newspaper (Omaha World-Herald (OWH)). The analysis of news articles offers the research some advantages in collecting more details of the events happening around pension reform negotiation, more timely and objective assessment of the pension issues, and the views of various stakeholders and the public toward the city's pension problems.

Build upon the data on pension benefits and reform process in COPFRS, we first provide the timeline and key events of COPFRS pension reform from 2001-2019. Then, we applied the conceptual framework above to analyze the pension reform negotiations, including the typology for reform determinants and the interaction of key decision-makers.

THE LONGITUDINAL EVOLUTION OF THE COPFRS REFORM (2001–2019)

The city of Omaha is the nation's 42nd largest city, with a population exceeding 460,000 residents (USCB 2019). In fiscal year 2018, total revenues from governmental activities were $624.2 million, with property taxes constituting the largest revenue source at approximately 23% of general fund revenues (CAFR 2018). The city's expenditures cover a wide range of services, heavily weighted toward public safety, which accounts for 43.5% of total expenses (CAFR 2018). Omaha administers two local pension plans, including the City of Omaha Police and Firefighter Retirement System (COPFRS), where public safety unions have historically maintained a critical role in benefit negotiations.

Pension benefits and labor contract negotiation have been a front-burner issue for the city. The pension negotiation process conveys the interactive relationships among a municipal government, the City Council, the Unions, Pension Board, Personnel Board, the state labor court (Commission of Industrial Relations or CIR), State Legislature, Chamber of Commerce, and the Task Force. Figure 1 outlines the timeline of this multi-decade negotiation process.

[Insert Figure 1 here]

2001–2007: Budget Shortfalls and Deferred Policy Outputs

The reform process began in 2001 under newly elected Mayor Fahey, whose administration faced a severe structural budget shortfall of $7–10 million for FY 2004–2006. To balance the immediate budget, the city pursued a benefit-wage tradeoff strategy. The mayor negotiated a pay freeze with the Police and Fire Unions in exchange for future pension benefit enhancements.

The administration's strategy relied on *"push and pull"* incentives: increasing pension benefits and lowering the minimum retirement age to encourage senior, higher-paid officers to

retire. The city projected this would yield $1.1 million in savings over two years by replacing veterans with lower-paid recruits who would forgo scheduled raises. However, the City Council strongly opposed this output, arguing the plan was overly generous and merely deferred current budgetary pain to future taxpayers. As the political gridlock continued, the 2007 actuarial report revealed that unfunded pension liabilities had surged from $280 million in 2005 to $320.5 million.

2008–2009: Macroeconomic Shocks and Institutional Gridlock

The 2008 global financial crisis served as a severe external shock, decimating the plan's investment returns and asset values. By the end of 2008, the COPFRS funding ratio plummeted to just 39.5%. Simultaneously, local negotiations over pension "spiking," benefit calculations, and healthcare premiums reached an impasse. In 2008, the dispute was elevated to the Nebraska Commission of Industrial Relations (CIR). Because the CIR lacks the statutory authority of a traditional labor arbitrator to restructure pension systems, it ruled primarily on health insurance and hourly wages, leaving the structural pension crisis unresolved. Recognizing the institutional limitations, the outgoing Mayor established a Pension Task Force in 2009. Comprising business leaders, union presidents, and financial experts, the Task Force was designed to evaluate the crisis and propose actionable reform recommendations for the incoming administration.

2010–2012: The Reform Trigger and Initial Policy Shifts

In 2009, newly elected Mayor Suttle leveraged the escalating fiscal crisis to introduce a reform agenda aimed at eliminating pension spiking, reducing overall benefits, and extending wage freezes to close a $6.5 million budget gap. To shore up plan revenues, the administration also successfully proposed a new restaurant tax (approved at 2.5% in 2011).

By August 2010, the City Council narrowly approved (4-3) a new Police contract running through 2013, which generated a 13.5% payroll savings for the system (12.7% from benefit cuts and 0.8% from increased employee contributions). Key reforms included (1) adjust COTA for pensionable earnings (exclude COTA for new hires), (2) increase the final period to calculate pension benefits from 26 bi-weekly payroll periods to 78 bi-weekly payroll periods: (3) reduce the maximum benefits received for new hires from 70% to 65% (for those with 25 YOS) and increase full retirement age without penalty from 50 to 55 for new hires.

However, the broader business community criticized these measures as insufficient. A parallel Fire contract failed to secure Council approval, leading to another CIR gridlock in 2011. The political backlash was severe; Mayor Suttle faced a recall election driven largely by public outrage over "union deals," narrowly surviving with 51% of the vote. In a rare structural shift, the City Council formally stripped the mayor of his bargaining authority in August 2011, directly negotiating a 2012 Fire contract that eliminated spiking and introduced a DROP plan. The new contract also secured 12.74% in payroll savings through: (1) add 5 more years of service (YOS) to those with less than 15 YOS, and additional 10 years for new hires; (2) reduce new hires maximum benefits from 75% to 65%; (3) increase retirement age for new hires from 50 to 55; (3) firefighter contributed additional 1.7%.

2013–2020: Political Realignment and Gradual Stabilization

Pension reform dominated the 2013 mayoral election, resulting in the victory of former Councilwoman Jean Stothert. The City Council subsequently restored executive bargaining authority, allowing Mayor Stothert to directly negotiate subsequent contracts.

New labor agreements were finalized in 2015 and 2017, followed by subsequent renewals in 2019 (Fire) and 2020 (Police). While these later contracts largely maintained the structural

pension cuts achieved earlier in the decade, they established new equilibriums regarding salary increases and medical premiums. During this period, the city also adopted more conservative actuarial assumptions, lowering the investment return target from 8.0% to 7.75% in 2018. Concurrently, the state legislative Retirement Committee began holding hearings in 2019 to scrutinize municipal defined benefit plans, signaling ongoing external oversight.

Longitudinal Outcomes on System Solvency

While the political and economic costs were high, the longitudinal reform effort succeeded in halting the system's rapid deterioration. Figures 2 and 3 illustrates the trajectory of the COPFRS funded ratio and unfunded liabilities. The funding ratio had steadily declined from 92% in 1998 to 60.1% in 2007, bottoming out at 38.6% following the 2008 financial crisis. Since the implementation of the structural reforms, the financial condition has slowly stabilized, reaching a 54% funded ratio by 2020. However, the absolute level of unfunded liabilities remains a significant municipal burden, nearly tripling from $234.7 million in 2005 to $663.9 million in 2020 (Actuarial Reports).

[Insert Figure 2 here]

[Insert Figure 3 here]

ANALYSIS: THE POLITICAL ECONOMY OF THE COPFRS REFORM

Building upon the political-economic conceptual framework of pension governance, this analysis deconstructs the structural reform of the City of Omaha Police and Firefighter Retirement System (COPFRS). The prolonged negotiation process was not merely a technical administrative adjustment, but a complex political settlement forged under legal constraints, fiscal distress, public backlash, and market discipline.

Political Functions, Wage-Benefit Tradeoff, and Union Rent-Seeking

In accordance with the political objective function, municipal decision-makers in Omaha historically optimized policy outputs to balance short-term budgets while deferring long-term costs. Driven by the significant political influence of police and firefighter labor unions, the city repeatedly authorized generous future benefits to secure immediate political support. This dynamic strongly reflects rent-seeking behavior; public employee unions utilized their organizational strength to influence municipal elections, successfully exchanging campaign support for lucrative contracts. For example, union contributions were highly significant during the Daub, Fahey, and Suttle mayoral campaigns, creating inherent political friction for elected officials tasked with negotiating benefit reductions. The complexity of the modern pension crisis was deeply rooted in the path-dependent policy decisions of the 1990s, where the Daub administration agreed to massive wage increases, specialty pay, cost-of-living adjustments, and decreased service requirements. Furthermore, policy outputs permitted "pension spiking," enabling police and firefighters to artificially inflate their lifetime pension benefits by an average of 18% through the inclusion of extensive overtime hours.

Furthermore, faced with structural budget deficits, decision-makers continually leveraged pension parameters to solve immediate political problems. Contrary to the assumption that governments cut benefits during fiscal distress, the Fahey administration successfully convinced unions to forgo scheduled wage increases in exchange for enhanced future retirement benefits to close a multi-million-dollar budgetary shortfall. The city also deployed *push and pull* incentives, deliberately lowering the minimum retirement age from 50 to 45 to encourage senior, higher-paid officers to retire. This generated immediate personnel cost savings but vastly expanded long-term pension liabilities.

Complicating these policy outputs were strict legal constraints. The city's municipal code mandated "substantial equal contributions," meaning the city could not unilaterally alter contribution rates without demanding matching funds from the unions. This means that if the city increases its contributions to the pension systems, the unions are also required to contribute more to the system. And vice versa, if the city required higher contribution from the employees, it also has to find additional financial resources to match up with the contribution increases from their side. Figure 4 illustrates the distribution of pension contributions between the city and its employees. Before the 2011 reform, the city covered approximately 20% of these costs, with COPFRS members providing about 10%. Following the introduction of new contracts, the city's share increased to 30–35%, and employee contributions rose to 15%.

[Insert Figure 4 here]

Additionally, the state's labor court lacked the statutory authority to alter legacy pension structures or address existing unfunded liabilities, effectively paralyzing systemic adjustments. One of the key issues during the CIR ruling in 2008 was that CIR could not take into account the government's ability to pay for the contracts while some other neighboring states, such as Iowa, require their labor arbitrators to take into account a city's financial picture. Even though under the revised law in 2011, the CIR will take pension and health care benefits into account in assessing workers' pay, the law falls shorts in requiring CIR to order changes in pension or health care policies. This new CIR rule only included new pension costs, not existing ones, and would only look at costs for current employees, not for retirees.

Unfunded Liabilities, Macroeconomic Shocks, and Fiscal Pressures

The political temptation to defer costs directly drove a severe degradation of the system's funded ratio. Between 2001 and 2003, the actuarially recommended contribution leaped from 27.18% to 40.55%. Although the city consistently paid the baseline statutory contributions required by municipal code, these payments fundamentally failed to meet the actuarial levels needed to cover politically negotiated benefit enhancements. Figure 5 highlights the historical funding gap between the city's actuarially required pension contributions and the actual percentage paid. Prior to reform, the city experienced a chronic contribution shortfall that widened drastically during and immediately following the Great Recession (2009–2012). During this crisis period, as negotiations remained stalled, the actuarially required rate surged to approximately 65%, while actual city payments lagged significantly behind. However, the data visually demonstrates the efficacy of the structural reforms; beginning in 2014, the new contracts successfully aligned the city's actual payments with the actuarial requirements, maintaining parity through 2019. This systemic underfunding left the pension highly vulnerable to exogenous macroeconomic shocks. The 2007–2009 Great Recession devastated the city's budget, causing a 28.7% loss, approximately $150 million in pension asset value.

[Insert Figure 5 here]

Following this crisis, the plan's investment performance repeatedly missed its assumed target rate of return, suffering chronic shortfalls in a low-yield environment. This eroded previous positive returns and placed severe pressure on the city's general fund. Simultaneously, elected officials faced the fiscal pressures of keeping taxes low to avoid angering voters. Because

politicians resisted raising taxes or finding alternative revenues to fill the escalating funding gap, the pension burden compounded an existing structural municipal deficit. Between 2001 and 2009, city budget growth fell below the rate of inflation, forcing a 13% reduction in civilian jobs to subsidize the mounting cost of deferred public safety compensation (OWH 2009).

Figure 6 illustrates the high volatility of the annualized yield on the actuarial value of assets for the pension system between 2004 and 2018. The data captures the profound impact of exogenous macroeconomic shocks on the plan's financial health, most notably during the 2008 Great Recession, when the fund suffered a catastrophic loss of nearly 29%. Furthermore, the graph highlights a chronic pattern of investment underperformance in the subsequent decade. In years such as 2011, 2014, 2015, and 2018, yields either hovered near zero or turned negative, repeatedly failing to meet the plan's assumed target rate of return. Within the political-economic framework of pension governance, this highly volatile and frequently low-yield environment eroded previous positive returns and compounded existing structural municipal deficits. By dramatically accelerating the growth of unfunded liabilities, these chronic investment shortfalls served as a primary external trigger that ultimately forced resistant political actors and unions to negotiate structural pension reforms.

[Insert Figure 6 here]

Pension Reform Triggers: Market Discipline and Taxpayer Mobilization

Consistent with the conceptual framework, structural pension reform only materialized when the external costs of the financial crisis outweighed the political costs of confronting the public employee unions. Financial markets acted as a severe, exogenous reform trigger. Moody’s downgraded the city’s bond rating from AAA to Aa1 in 2008. In 2013, S&P followed suit by

downgrading the city to AA, marking Omaha's first sub-AAA rating in over three decades. These downgrades were explicitly tied to pension shortfalls and unsettled labor contracts, instantly elevating the fiscal stress penalty on incumbent politicians and providing Mayors with the necessary leverage to demand union concessions.

Simultaneously, the sheer scale of the fiscal crisis triggered an unprecedented level of public scrutiny over pension costs. Public sentiment shifted dramatically against the generosity of public pensions. A 2009 poll indicated that 80% of registered voters wanted police and firefighters to yield benefits, and during a 2010 City Council hearing, 271 out of 281 public callers opposed the generous police contract. This fierce public backlash forced union leadership to recognize that rejecting moderate concessions could provoke devastating taxpayer retaliation. To channel this momentum, the 2009 Pension Task Force involved the Chamber of Commerce and local business leaders to raise civic awareness of the bankruptcy threat. This coalition successfully justified structural benefit cuts and built community support for a new restaurant tax to shore up plan revenues.

Synthesis of Reform Outcomes

The culmination of macroeconomic stress, intense public outrage, and strict bond market discipline forced a definitive political realignment. The exogenous crisis threshold had finally been breached. Unlike previous reform efforts that stalled due to deep political divisions, the election of a new mayor forged a critical political alignment between the executive office, the City Council, and the state legislature. This unified bargaining power effectively broke the prolonged negotiation deadlock and made structural reform possible. The resulting contracts successfully reversed decades of path-dependent benefit expansion. Overcoming immense political friction, the city secured massive structural reforms to stabilize the system, achieving an

end to pension spiking and establishing a significantly higher contribution baseline for both the municipality and its employees. Table 1 provides a summary of pension reform highlights during the contract negotiation between 2010-2018.

[Insert Table 1 here]

DISCUSSION AND CONCLUSION

This study examines the determinants of municipal pension reform by applying a political-economic framework to the structural overhaul of the City of Omaha Police and Firefighter Retirement System (COPFRS). While previous literature presents mixed findings on the relationship between fiscal distress and pension reform outcomes, this study clarifies these inconsistencies by demonstrating that reform is fundamentally a complex political settlement rather than a straightforward administrative adjustment. By viewing the municipal government as a nexus of political exchange, our analysis reveals how the rational behavior of key actors, including mayors, city councils, public employee unions, and state legislatures, is shaped by competing incentives. Specifically, the historical accumulation of unfunded liabilities in Omaha was not merely an accounting failure, but the path-dependent result of political cost-deferral and union rent-seeking. We find that the trajectory of reform is ultimately dictated by the collision between these entrenched political behaviors and exogenous macroeconomic realities.

Crucially, our framework establishes that financial deterioration alone is insufficient to catalyze structural reform due to the powerful political friction generated by organized labor and political coalition. Instead, reform requires exogenous triggers that fundamentally alter the political cost-benefit calculus for elected officials. As illustrated in the COPFRS case, severe macroeconomic shocks exacerbated existing structural deficits, but it was the explicit discipline

of the municipal bond market, manifested through consecutive credit downgrades by Moody's and S&P, that elevated the cost of political inaction. Coupled with a dramatic shift in taxpayer engagement and the mobilization of civic coalitions through a multi-stakeholder Task Force, these external pressures provided municipal leaders with the necessary leverage to demand union concessions. Ultimately, the successful enactment of reform was contingent upon forging a unified political alignment across the executive branch, the city council, and the state legislature, which provided the consolidated bargaining power needed to break the historical negotiation deadlock.

This paper makes several distinct theoretical contributions to the broader public economics and pension finance literature. First, it operationalizes a comprehensive political-economic model that integrates public choice theory with municipal finance, offering a robust analytical tool for understanding why local governments systematically underfund pensions despite stark actuarial warnings. Second, by mapping the precise mechanisms through which exogenous shocks (e.g., credit rating downgrades and recessions) translate into local policy changes, this research bridges the gap between macroeconomic volatility and micro-level municipal decision-making. Finally, the study provides a detailed empirical anatomy of how multi-jurisdictional political alignment can overcome institutional inertia, offering a predictive framework for researchers analyzing the viability of structural reforms in other distressed municipalities across the United States.

Beyond its theoretical contributions, this study offers critical practical implications for policymakers and public administrators navigating the fiscal and political complexities of pension management. The COPFRS case underscores that successfully addressing unfunded liabilities requires balancing three immense pressures: managing the political dynamics between

the executive and legislative branches, navigating the entrenched bargaining power of municipal unions, and securing the sheer financial capacity to stabilize the system. However, it also illustrates strategic pathways to achieving reform. Administrators can leverage independent task forces—incorporating city officials, union representatives, and business leaders—to establish a shared factual baseline and cultivate community support, effectively translating complex actuarial problems into actionable civic priorities. Furthermore, policymakers must recognize and seize "policy windows" generated by external crises, using market penalties or acute public scrutiny as essential leverage to drive consensus. As pension solvency remains a dominant threat to municipal fiscal health nationwide, the political-economic framework and strategic lessons derived from this study equip public administrators with a realistic approach to negotiating benefit modifications and securing the long-term sustainability of public retirement systems.

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Figure 1: Pension Reform Timeline

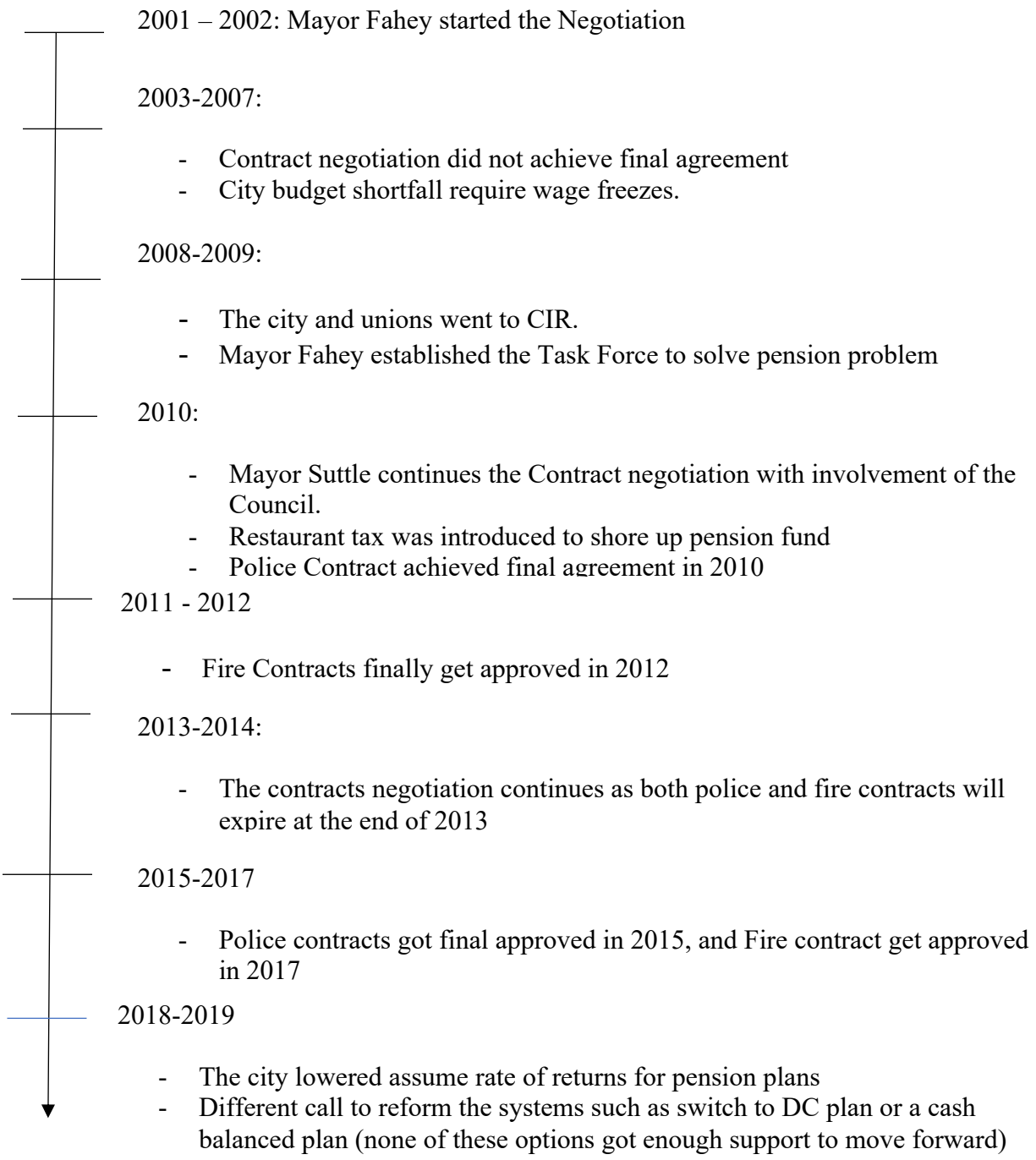
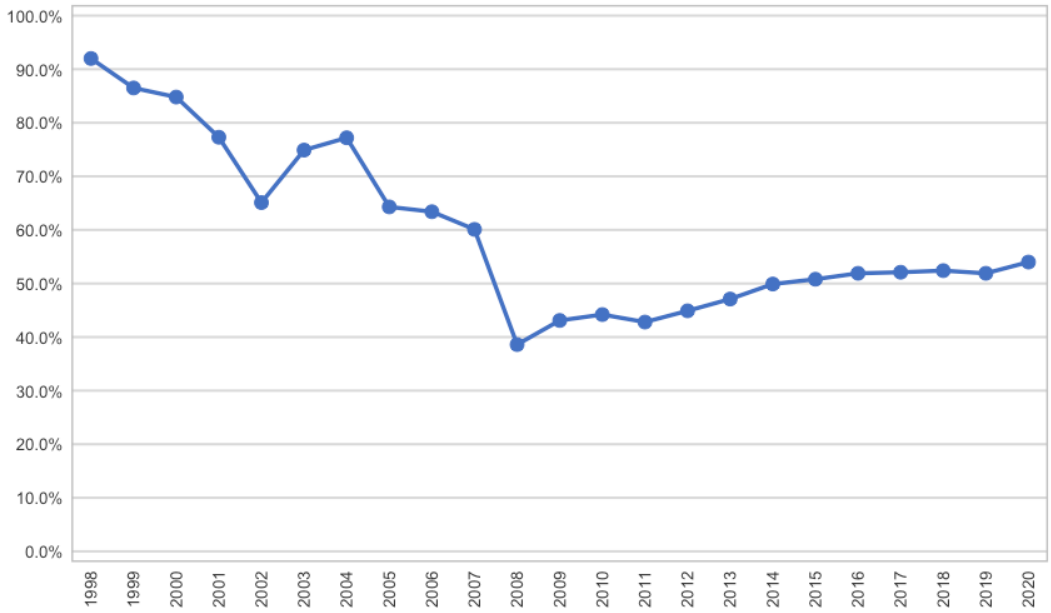
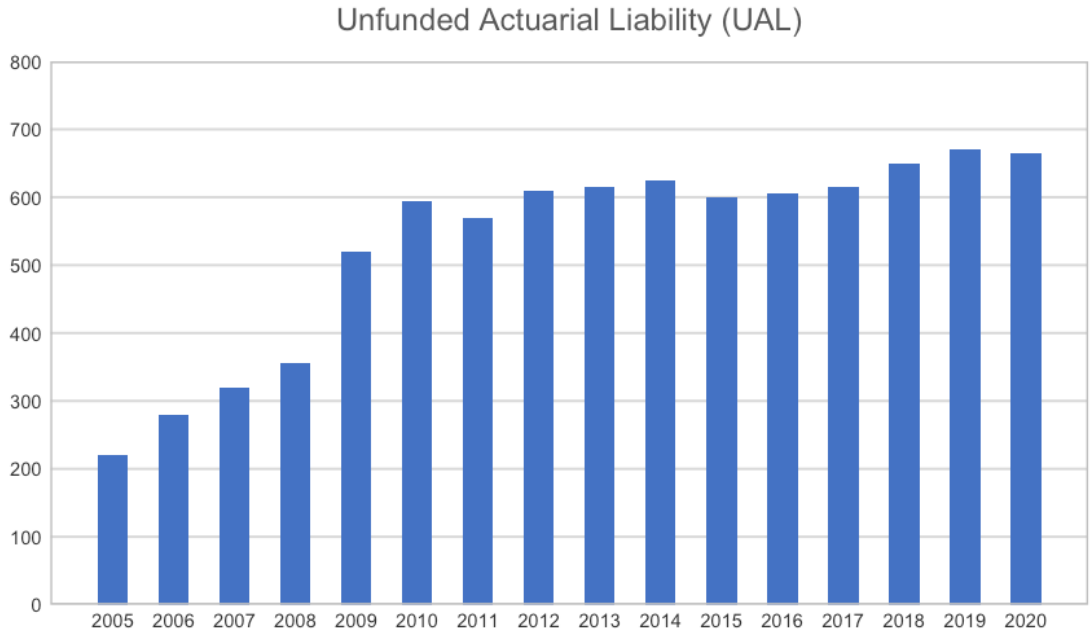


Figure 2: COPFRS Funded Ratios (1998-2020)



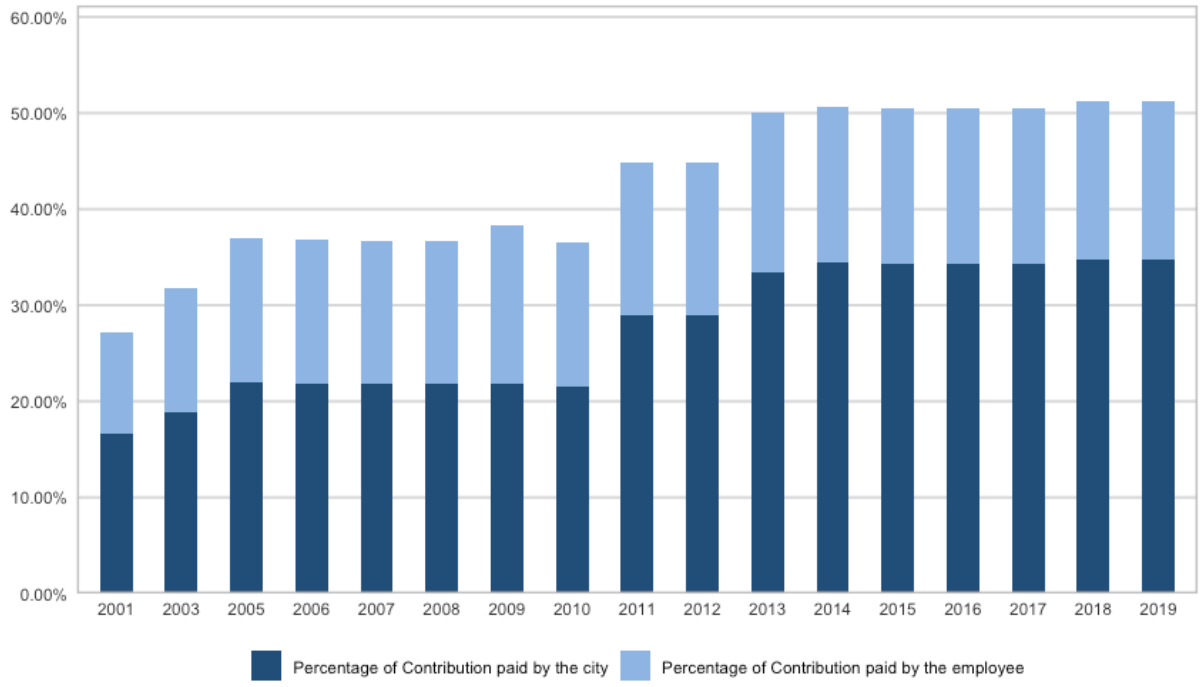
Source: Authors collected this data from the plan actuarial reports

Figure 3: COPFRS Unfunded Actuarial Liability (2005-2020)



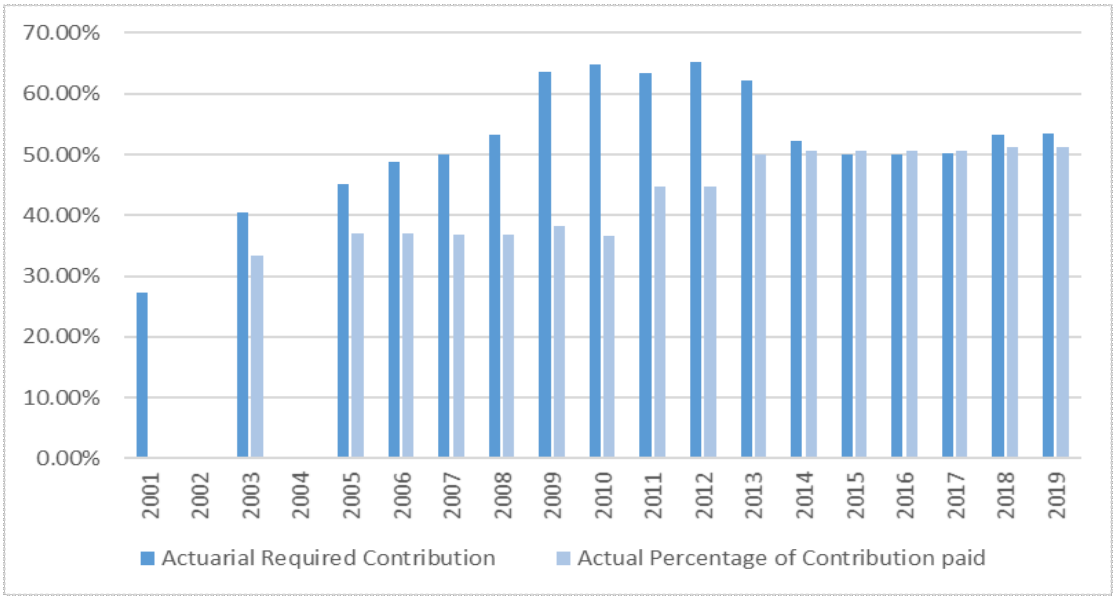
Source: Authors collected this data from the plan actuarial reports

Figure 4 – Percentage of Pension Contributions Paid by the City and the Employee



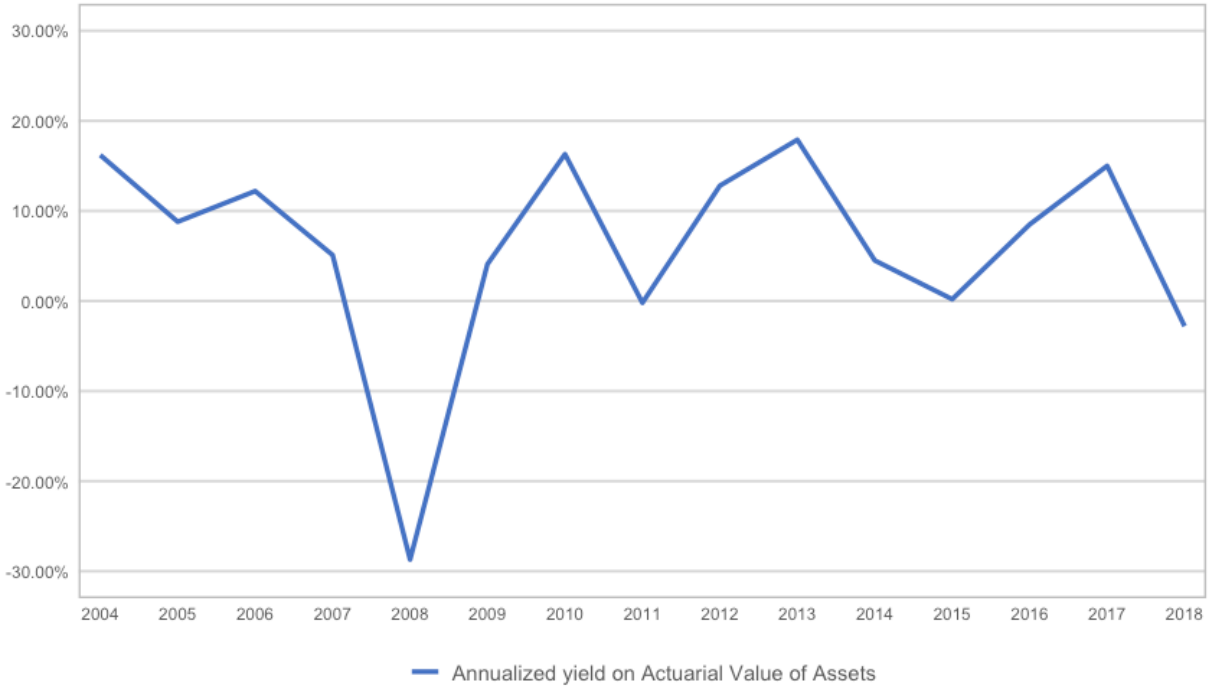
Source: Authors collected this data from the plan actuarial reports

Figure 5 – Actuarial Required Contributions and Actual Contribution Paid



Source: Authors collected this data from the plan actuarial reports (2003-2019). There is not report prior to 2003, however, the actuarial required contribution of 2001 was retrieved from 2003 report. Before 2005, the report is every other year, leading to the missing report in 2002 and 2004.

Figure 6 - Annualized Yield on Actuarial Value of Assets



Source: Authors collected this data from the plan actuarial reports

Table 1 - Major Highlights on Pension Changes

	2010-2014 Contracts		2015 - 2018 Contracts	
	Police (2010 – 2013)	Fire (2011-2014)	Police	Fire (2015-2018)
Pension Contribution	- Police will contribute additional 1.8% cash in three years 2011, 2012, 2013, and full 1% in 2010	- City agrees to contribute additional 11.95% of the cash contribution to address unfunded liabilities	- Employee will contribute additional 0.8% contribution	- No change compared to 2011-2014 contracts
Pension benefits	- Exclude COTA pay from pensionable salary for new hires after January 2010. - Ending of pension "spiking"	- Ending of pension "spiking"	- No change compared to 2010-2013 contracts	- No change compared to 2011-2014 contracts
Full retirement eligibility	- Raise minimum retirement age to 50 for current officers and 55 for new hires	- Additional five (5) years of services to retirement to existing firefighter and ten (10) years for new hires	- No change compared to 2010-2013 contracts	- No change compared to 2011-2014 contracts