

Approved Feb. 9, 1983
Date

MINUTES OF THE House COMMITTEE ON Pensions, Investments & Benefits

The meeting was called to order by Rep. Bob Ott at
Chairperson

9:10 a.m./~~pm~~ on February 8, 1983 in room 527-S of the Capitol.

All members were present except:

Rep. Patrick (Excused)
Rep. Whitaker

Committee staff present:

Louis Chabira, Legislative Research
Richard Ryan, Legislative Research
Gordon Self, Revisor's Office

Conferees appearing before the committee:

Dr. John Mackin, Martin E. Segal Company, Consultants and Actuaries

Chairman Ott called the meeting to order at 9:10 a.m. Rep. Meacham moved that the minutes of the February 3 meeting be approved, Rep. Laird seconded the motion and the minutes were approved.

Chairman Ott then introduced Dr. John Mackin of the Martin E. Segal Company who gave an overview of KPERS funding and supplied the committee with two hand-outs with this information (See attachments).

After Dr. Mackin's discussion and questions from the committee members, Chairman Ott announced that the Wednesday meeting would hear State Treasurer Joan Finney and Thursday we would hear Mr. Richard Coover.

Meeting was adjourned at 10:25 a.m.



Rep. Bob Ott, Chairman

HOW KPERS IS FUNDED

KPERS benefits are funded on an actuarial reserve basis by employee contributions of 4% of salary and actuarially-determined employer contributions. The 4% employee contribution rate is fixed by law; it can only be changed by legislation amending this provision of the KPERS Act. Employer contribution rates, on the other hand, are adjusted each year to reflect the emerging experience of KPERS and the results of annual actuarial valuations.

Actuarial funding refers, in general, to a systematic schedule of accumulating assets expected to be sufficient to pay future retirement benefits. Contributions made to an actuarially funded retirement system exceed current benefit payments and anticipate the system's long-term financial needs. Assets accumulated during employees' working careers are invested and, in combination with investment earnings, used to pay retirement benefits to the employees throughout their periods of retirement.

In contrast to actuarial funding, pay-as-you-go financing does not involve the systematic accumulation of assets in a reserve fund to pay future retirement benefits. Under pay-as-you-go financing the contributions are only sufficient to meet the cost of current benefit payments. Consequently, as the number of retirees and total benefit payments grow, the cost of the retirement system increases rapidly for many years (as in the case of the Social Security system). Pay-as-you-go financing means that the retirement benefits being earned by present employees must be paid for by future generations of taxpayers. Moreover, because assets are not accumulated under the pay-as-you-go approach, investment earnings are not available to help meet the cost of future benefit payments; the cost of a pay-as-you-go system is therefore much greater over the long run than the cost of a system funded on an actuarial reserve basis.

Objectives of Actuarial Funding

Funding KPERS on an actuarial re-

serve basis accomplishes many objectives, including all of the following:

- Meets the stated purpose of the KPERS Act, as set forth in the first section (K.S.A. 74-4901): "The purpose of this act is to provide an orderly means . . . to enable employees to accumulate reserves for themselves and their dependents to provide for old age, death and termination of employment . . .".
- Keeps employer contribution requirements relatively level as a percentage of total payroll.
- Finances the KPERS benefits earned by present employees on a current basis. (Actuarial funding means that the present generation of Kansas taxpayers pays for the KPERS benefits being earned by present employees.)
- Results in the accumulation of assets which enhances the benefit security of all KPERS members
- Produces investment earnings on the accumulated assets to help meet future retirement benefit costs
- Makes it possible to realistically estimate the long-term actuarial cost of proposed amendments to KPERS benefit provisions.

Actuarial funding, in brief, is a most important element in maintaining the long-term financial viability of KPERS.

Actuarial Valuations

When a retirement system is funded on an actuarial reserve basis, the amount of employer contributions depends on the results of actuarial valuations. In the case of KPERS, annual actuarial valuations are made as of each June 30th, based on the current benefit provisions and on the characteristics of KPERS school and non-school members as of the valuation date.

The actuarial projection of future benefit payments requires the use of a series of assumptions regarding uncertain future events: the rate of investment earnings on assets accumulated and to be accumulated in the future, salary increases, rates of turnover and disability before retirement,

rates of death both before and after retirement, and the ages at which covered employees will retire in the future. If each of the assumptions is exactly matched by the experience of the retirement system, the actual cost of the system will equal the calculated cost derived from the actuarial valuation. However, this result is rarely achieved because of the very long period of time and numerous variables involved in actuarial valuations. Actuarial experience investigations need to be prepared periodically—every three years in the case of KPERS—to determine the extent to which the assumptions used in the annual actuarial valuations reflect the system's actual emerging experience and expected future experience.

As noted, employees covered by KPERS make contributions at the statutory rate of 4% of salary. Employers participating in KPERS make actuarially-determined contributions comprised of the following two components (and, in addition, pay for the total cost of insured death and disability benefits and for the cost of administration):

1. The participating service rate, which is often called the employer normal cost rate—the level percentage-of-payroll contribution rate required to pay all future benefits after subtracting expected future employee contributions, the liability for prior service benefits, and the assets accumulated as of the valuation date; and
2. The amortization payment—the annual payment required to amortize the total prior service liability over not more than 40 years from each employer's entry date.

The fundamental purpose of annual actuarial valuations is to determine the employer contributions required to fund KPERS in accordance with the actuarial reserve funding provisions of the KPERS Act. Each year the Board of Trustees certifies the total employer contribution rates to be applied to the

(Continued on page 2)

(Continued from page 1)

salaries of KPERS school and non-school employees during the fiscal year beginning in the next calendar year. For fiscal years beginning in 1982, for example, the total employer contribution rates will be 4.7% of the total payroll of KPERS school employees and 5.2% of the total payroll of KPERS nonschool employees. These rates were certified by the Board at its May 21, 1981 meeting, based on the provisions of House Bill #2529 and the results of actuarial valuations made as of June 30, 1980.

KPERS Funded Ratios

The State of Kansas has consistently maintained an excellent record of funding state-administered retirement systems on a level-cost actuarial reserve basis. KPERS has been

funded on a sound actuarial basis since it began operations almost twenty years ago.

KPERS members can be proud of the substantial improvement in KPERS funded ratios during the past decade. Between 1971 and 1980, the funded ratio for KPERS non-school members increased from 64% to 91% and the funded ratio for school members increased from 29% to 73% (see table). The funded ratio for school members is lower than for the non-school group because a program of actuarial reserve funding has been in effect for only ten years for school employees (the Kansas School Retirement System under which school employees were covered before 1971 was financed on a pay-as-you-go basis).

The total prior service liability is being amortized—or paid off—by KPERS participating employers over a period of 40 years from entry date. As shown in the table, the combined unfunded prior service liabilities for school and nonschool members decreased from almost \$250 million in 1971 to approximately \$193 million as of June 30, 1980.

Kansas ranks high among the fifty states in terms of the degree of retirement system funding. The maintenance of a sound actuarial reserve funding policy—and the systematic amortization of the actuarial liability for prior service benefits—has enhanced the retirement security of all KPERS members and played an important role in insuring the long term financial viability of KPERS.

**KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
Unfunded Prior Service Liabilities and Funded Ratios, 1971 to 1980**

Actuarial Valuation as of June 30	Unfunded Prior Service Liabilities (in millions of dollars)		Funded Ratios (assets/unfunded prior service liability + assets)	
	Non-School	School	Non-School	School
1971	\$53.7	\$195.2	64%	29%
1972	53.1	193.3	69	32
1973	52.9	191.3	72	37
1974	43.2	181.6	78	42
1975	43.7	179.8	80	46
1976	46.1	178.3	82	51
1977	46.2	176.7	84	57
1978	45.4	174.6	86	63
1979	44.6	172.3	88	67
1980	39.9	152.7	91	73

Notes: Beginning in 1976, unfunded prior service liabilities included liabilities for post-retirement benefit increases. Unfunded prior service liabilities for KPERS non-school members exclude KPERS-TIAA members. For both the non-school and school groups, the dollar amount of the unfunded prior service liability will increase between 1980 and 1981 because of the improvements in prior service benefits provided by House Bill 2529.

Board Appoints Acting Executive Secretary

The Board of Trustees of the Kansas Public Employees Retirement System (KPERS), appointed Marshall Crowther acting executive secretary effective July 1, 1981. The position became vacant on the resignation and retirement of John K. Corkhill.

Crowther served as the agency's chief legal counsel from 1967 through August of 1980, and at that time assumed the newly created position of KPERS deputy executive secretary. He has also served as assistant attorney general since 1969.

KPERS RATE OF RETURN IMPRESSIVE

Over the past six years, KPERS has outperformed on four occasions, the median rate of return of 31 the state retirement plans whose combined assets exceeded \$36 billion.

Calendar years 1979 and 1980 were most impressive with KPERS more than doubling this median rate of return. Presented below is a table comparing the rate of return for KPERS stocks, bonds and the total fund as compared with the median rate of return of these 31 other state retirement programs.

	1975	1976	1977	1978	1979	1980	1975-80
KPERS Stock	32.5	21.4	-4.5	3.0	26.3	35.2	18.0
Bond	15.5	18.7	2.4	0.9	-1.6	-1.6	5.4
Total	21.0	18.1	-0.2	3.2	11.4	15.0	11.2
Median Rate of other systems							
Total Fund	18.9	19.0	1.9	2.8	3.5	7.3	9.2

HOUSE COMMITTEE ON PENSIONS, INVESTMENTS AND BENEFITS

KPERS Funding

Discussion Outline
February 8, 1983 Committee Meeting

- A. KPERS Funded on Actuarial Reserve Basis
 - 1. Employee contribution rate is 4% of salary.
 - 2. Employer contribution rates are actuarially determined (adjusted each year to reflect the results of annual actuarial valuations).
- B. Objectives of Actuarial Funding

(See September 1981 KPERS PAPERS)
- C. Actuarial Valuations
 - 1. Prepared as of each June 30th to determine employer contribution rates required to fund KPERS in accordance with actuarial reserve funding provisions of KPERS Act.
 - 2. Annual actuarial valuations are based on four basic elements:
 - (a) current benefit provisions; (b) characteristics of active, inactive, and retired members as of valuation date; (c) assets as of valuation date; and (d) actuarial assumptions adopted by Board.
 - 3. Actuarial valuations involve the mathematical calculation of expected future benefit payments based on a series of assumptions regarding uncertain future events.
- D. Actuarial Experience Investigations
 - 1. Prepared every three years.
 - 2. Basis for proposing actuarial assumptions for adoption by Board.
 - 3. Most recent KPERS triennial actuarial experience investigations covered three-year period ended June 30, 1980.
 - 4. New assumptions adopted on the basis of 1977-80 actuarial experience investigations.
- E. Employer Contribution Rates
 - 1. Components of total rate: (a) participating service rate, (b) amortization percentage, and (c) group insurance plus administration.
 - 2. Rates based on last ten actuarial valuations (see Table 1).
 - 3. Total State contribution rates by membership group, 1974-75 to 1983-84 (see Table 2).
 - 4. State contribution rates for fiscal 1984-85 will be based on results of actuarial valuations as of June 30, 1982.
- F. Questions and Comments by Committee Members

Table 1

Calculated Employer Contribution Rates
For KPERS School and Non-School Members
Based on Annual Actuarial Valuations of KPERS

Actuarial Valuation as of June 30	KPERS SCHOOL			
	Participating Service Rate	Amortization Percentage	Group Insurance + Administration	Total Rate
1972	1.511%	3.428%	.700%	5.639%
1973	1.728	3.383	.700	5.811
1974	4.045	3.093	.750	7.888
1975	3.674	2.846	.775	7.295
1976	2.779	2.584	.775	6.138
1977	3.359	2.189	.775	6.323
1978	2.330	2.070	.775	5.175
1979	2.457	1.915	.700	5.072
1980	.867	1.773	.700	3.340
1981	.673	2.767	.700	4.140
Actuarial Valuation as of June 30	KPERS NON-SCHOOL*			
	Participating Service Rate	Amortization Percentage	Group Insurance + Administration	Total Rate
1972	4.982%	1.385%	.700%	7.067%
1973	5.299	1.400	.700	7.399
1974	5.548	1.037	.750	7.335
1975	4.959	.924	.775	6.658
1976	4.521	.896	.775	6.192
1977	4.625	.807	.775	6.207
1978	3.988	.747	.775	5.510
1979	4.433	.683	.700	5.816
1980	2.963	.607	.700	4.270
1981	2.491	1.137	.700	4.328

* Excluding TIAA members and certain correction officers.

Table 2

Total State Contribution Rates to Kansas Retirement Systems
by Membership Group, 1974-75 to 1983-84

Fiscal Year beginning in	KPERS NON-SCHOOL				KP&F		JUDGES (since affiliation)
	KPERS SCHOOL	All except CO & TIAA	Correction Officers	TIAA	Highway Patrol	Bureau of Investigation	
1974	5.6%	7.1%	--	1.9%	28.5%	25.1%	--
1975	5.8	7.4	--	1.9	25.7	22.2	19.5%
1976	7.9	7.3	--	2.0	23.0	19.7	19.5
1977	7.3	6.7	9.7%	1.9	22.6	20.6	19.5
1978	6.1	6.2	9.4	1.7	20.8	19.2	19.5
1979	6.3	6.2	9.1	1.5	20.2	18.5	15.6
1980	5.2	5.5	8.4	1.4	20.9	18.7	15.6
1981	4.7	5.2	7.5	1.7	21.1	19.7	15.6
1982	4.5	4.8	7.2	1.7	18.0	16.8	10.4
1983	4.5	4.8	6.3/8.7/12.7	1.6	18.3	16.9	10.4

Note: The State also makes annual payments to fund the actuarial liability for KSRS service annuities. Based on the actuarial valuation of KSRS as of June 30, 1981 and the service annuity rates in effect on that date, the full funding of the liability for KSRS service annuities will require 3 annual payments of \$10 million on each July 1 from 1982 through 1984 and a final partial payment of approximately \$6.5 million on July 1, 1985.

research and statistics note

Report No. 3
July 20, 1982

STATE AND LOCAL GOVERNMENT EMPLOYEES COVERED UNDER SOCIAL SECURITY*

This note presents the latest data available on Federal Social Security coverage provided to State and local government employees under the elective provisions of the Social Security Act. Data are shown on the extent of coverage, the characteristics of covered workers, and the extent of coverage terminations.

Extent of Coverage

On March 31, 1979, approximately 9¼ million, or about 71 percent, of the 13 million¹ State and local government jobs in the 50 States were covered by the Social Security (OASDI) program. Total State and local government employment has increased about 13 percent in the 5-year period since March 1974, but the percent of those jobs covered by the OASDI program has remained about the same (table 1).

Table 2 shows the number of State and local government jobs, the number of jobs covered, and the percent covered in each of the 50 States. In 15 States coverage is virtually complete, exceeding 95 percent. In only five States are less than 25 percent of the jobs covered.

Although over 9¼ million State and local government jobs are covered under Social Security, the number of persons employed in those jobs is slightly less—9.1 million. For nearly 8.9 million persons, the covered State and local government job is their major job; that

TABLE 1.—Social Security coverage of employees of State and local governments, 1951-81 (first calendar quarter)

(Numbers in thousands)

Year	All employees	Covered employees	Percent covered
1951	3,623	414	11
1952	4,053	622	15
1953	4,053	782	19
1954	4,145	944	23
1955	4,807	1,088	23
1956	5,004	1,418	28
1957	5,223	2,047	39
1958	5,558	3,021	54
1959	5,841	3,252	56
1960	6,037	3,561	59
1961	6,334	3,823	60
1962	6,668	4,278	64
1963	6,948	4,495	65
1964	7,278	4,860	67
1965	7,688	5,041	66
1966	8,292	5,528	67
1967	8,791	5,854	67
1968	9,185	6,261	68
1969	9,463	6,531	69
1970	9,824	6,876	70
1971	10,265	7,288	71
1972	10,693	7,699	72
1973	11,160	8,035	72
1974	11,481	8,266	72
1975	11,976	8,623	72
1976	12,178	8,768	72
1977	12,252	8,796	72
1978	12,889	9,230	72
1979	12,983	9,259	71
1980 ¹	13,194	9,368	71
1981 ¹	13,257	9,412	71

¹Preliminary.

*By Bert Kestenbaum, Division of OASDI Statistics. Data as of Mar. 31, 1979 (coverage); 1977 (characteristics); and December 1981 (terminations).

¹The total employment of 13 million is based on the 1977 Census of Governments' *Compendium of Public Employment*, table 10; the Bureau of the Census' *Public Employment in 19—* series; and the Bureau of Labor Statistics' monthly series on State and local government employment.

is, provides them with more earnings than any other job.

TABLE 2.—Estimates of Social Security coverage of State and local government jobs, March 1979
(Numbers in thousands)

State ¹	Number of jobs	Number of jobs covered	Percent covered
Total.....	12,983	9,259	71
1. California.....	1,442	562	39
2. New York.....	1,093	1,045	96
3. Texas.....	751	428	57
4. Illinois.....	589	237	40
5. Pennsylvania.....	570	570	100
6. Ohio.....	567	---	0
7. Michigan.....	551	505	92
8. Florida.....	498	427	86
9. New Jersey.....	422	422	100
10. North Carolina.....	357	323	90
11. Georgia.....	345	279	81
12. Massachusetts.....	337	---	0
13. Virginia.....	307	307	100
14. Indiana.....	293	263	90
15. Wisconsin.....	284	256	90
16. Missouri.....	279	198	71
17. Minnesota.....	258	182	71
18. Tennessee.....	253	207	82
19. Maryland.....	252	252	100
20. Louisiana.....	244	49	20
21. Washington.....	230	230	100
22. Alabama.....	218	218	100
23. Colorado.....	185	45	24
24. Kentucky.....	181	137	75
25. Iowa.....	180	175	98
26. Oklahoma.....	179	155	87
27. South Carolina.....	177	177	100
28. Connecticut.....	161	97	60
29. Kansas.....	161	146	90
30. Oregon.....	161	154	96
31. Arizona.....	157	147	93
32. Mississippi.....	150	148	99
33. Arkansas.....	119	114	96
34. Nebraska.....	111	106	95
35. West Virginia.....	109	104	96
36. New Mexico.....	87	71	81
37. Utah.....	86	78	91
38. Maine.....	72	23	32
39. Montana.....	67	48	71
40. Idaho.....	60	58	96
41. Hawaii.....	58	41	71
42. New Hampshire.....	53	47	89
43. Rhode Island.....	52	38	74
44. Nevada.....	49	3	6
45. South Dakota.....	47	42	90
46. North Dakota.....	44	38	85
47. Alaska.....	36	25	70
48. Wyoming.....	35	32	91
49. Delaware.....	34	22	63
50. Vermont.....	28	28	99

¹States are ranked by number of jobs.

Characteristics of Covered Workers

Table 3 compares State and local government employees with other workers covered under Social Security in 1977 by selected demographic and economic characteristics. Among workers whose major OASDI-covered job was in non-Federal government, 54 percent are women compared with 42 percent among other wage and salary workers. By race, 15 percent are black.² Less than 20 percent are under age 25, compared with more than 30 percent for other wage and salary workers. The relatively older age of the

TABLE 3.—Percentage distribution of OASDI-covered wage and salary workers by selected characteristics, 1977

Characteristic	State and local government workers	Other workers
Sex:		
Total.....	100	100
Male.....	46	58
Female.....	54	42
Race:		
Total.....	100	100
Black.....	15	10
All others.....	85	90
Age:		
Total.....	100	100
Under 25.....	19	31
25-34.....	28	25
35-44.....	19	16
45-54.....	17	14
55 and over.....	16	13
Insured status, January 1, 1978:		
Total.....	100	100
Insured for survivor benefits.....	91	89
Not insured.....	9	11
Quarters of coverage in 1977:		
Total.....	100	100
None or one.....	10	11
Two or three.....	21	25
Four.....	69	64
Wage and salary earnings:		
Total.....	100	100
Less than \$16,500.....	88	86
\$16,500 or more.....	12	14

²Compare with U.S. Bureau of the Census, "Government Workers," *Census of Population:1970*, PC(2)-7D. Some States with large numbers of noncovered employees have relatively small black populations, Massachusetts and California especially.

former group could account for their slightly higher rate of insuredness for survivor benefits—91 percent of State and local government workers versus 89 percent of other workers.

Sixty-nine percent of covered State and local government workers earned four quarters of coverage in 1977 with 12 percent earning the maximum taxable—\$16,500. The corresponding percentages for other workers are 64 and 14, respectively.

Extent of Coverage Terminations Since 1959

State and local government employers may request termination of their Social Security coverage. The termination, which is irreversible, becomes effective 2 years after the request is made, unless the notice to terminate is canceled during the 2-year period.

As of December 31, 1981, 881 employers, including the Alaska State government, have terminated their Social Security coverage (table 4). Three-fourths of these employers are in only three States—California,

TABLE 4.—Number of OASDI coverage terminations by State and local government employers, December 1981

State	Employers	Workers
Terminations effective, 1959-81		
Total.....	881	171,741
Alaska.....	11	15,424
California.....	316	49,230
Georgia.....	46	19,705
Louisiana.....	203	46,122
Texas.....	144	32,914
All others.....	161	8,346
Terminations pending, 1982-83		
Total.....	308	148,628
Alaska.....	12	1,783
California.....	85	88,180
Georgia.....	45	29,742
Louisiana.....	18	933
Texas.....	53	11,022
All others.....	95	16,968

Louisiana, and Texas. The total number of workers affected is approximately 170,000, or about 1.8 percent of the current covered State and local government work force.

Another 308 employers with some 149,000 workers have coverage terminations scheduled for 1982 and 1983. Three-fifths of them are located in California, 28 percent; Texas, 17 percent; and Georgia, 15 percent. Undoubtedly some of these terminations will not take place. During 1980 and 1981, 76 employers with 51,000 workers rescinded their notices prior to the effective date. As of December 1981, a total of 206 employers with 538,000 workers had rescinded notices of termination.

Data Sources

Extent of coverage.—The number of covered jobs was derived from the number of wage items reported by employers on form OAR-S3 for the first quarter of 1979. A relationship between employment over the quarter and employment as of a certain time was calculated for each State from the 1977 1-percent employee-employer statistical file.³ This was done by determining the percent of first-quarter workers reported by the same employer in the second quarter or who reached the maximum taxable in the first quarter. This file contains all of an individual's covered wage and salary employment in 1977; thus it was also used to estimate the number of persons in covered State and local government jobs and the number for whom such employment was the major job.

Characteristics of covered workers.—Data presented in this section are from the 1977 1-percent sample discussed above. Also included is employment in Puerto Rico and the Virgin Islands.

Extent of coverage terminations since 1959.—Data on total numbers of workers affected by employer termination of Social Security coverage is based on the number of wage items reported by employers on form OAR-S3.

³ For a description of the sample design and generalized tables of sampling error, see Robert H. Finch, Jr., *Sampling Variability in the 1-percent Continuous Work History Sample*, Washington, D.C., U.S. Govt. Print. Off., 1977.