MINUTES

JOINT COMMITTEE ON PENSIONS, INVESTMENTS, AND BENEFITS

December 14, 2009
Room 545-N—Statehouse

Members Present

Representative Rob Olson, Chairperson
Senator Steve Morris, Vice-chairperson
Senator Jay Emler
Senator Laura Kelly
Senator Ruth Teichman
Representative Richard Carlson
Representative Geraldine Flaharty
Representative Terrie Huntington
Representative Margaret Long
Representative Sharon Schwartz
Representative Dale Swenson
Representative Jeff Whitham

Staff

Julian Efird, Kansas Legislative Research Department
Michael Steiner, Kansas Legislative Research Department
J.G. Scott, Kansas Legislative Research Department
Gordon Self, Office of the Revisor of Statutes
Kristen Kellems, Office of the Revisor of Statutes
Florence Deeter, Committee Secretary

Conferees

Glenn Deck, Executive Director, Kansas Public Employees Retirement System
Steven Weatherford, Kansas Development Finance Authority
Pat Beckham, Kansas Public Employees Retirement System Consulting Actuary, Milliman, Inc.

Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERS), presented a number of different options for long-term funding in following up the November 2009 meeting where specific additional requests had been made (Attachment 1). Mr. Deck started with the current estimated baseline for KPERS funding, with no change in the statutory cap of an annual

0.6 percent increase for the employer contribution and no change in the 4.0 percent statutory employee contribution. He then presented three options varying from the baseline for increased KPERS funding that would increase the statutory annual employer cap increase and also increase the employee contribution rate. He used graphs to illustrate the effects on the State Group, School Group and Local Group for increased KPERS funding. He noted each of the three options in A, C, and H, which show the projected Actuarial Required Contribution (ARC), the peak actuarial liability date for those plans, and the total amount of estimated new dollars gained. The effect on employer contributions for each of the three options is shown projected from 2010 through 2033. Mr. Deck further commented on the projections for six variations based on Options C and H with displays of data through 2015. He then expanded on those variations and included the effect on state employer contributions.

Turning next to pension obligation bonds, Mr. Deck noted the bond amortization schedule begun in 2004 when $500 million was issued. Mr. Deck provided detailed information on the 2004 pension obligation bonds, outlining key points of that issue. He said the net proceeds for KPERS investments totaled $440.2 million, with the other portion used for capitalized interest to pay the debt service the first three years as State General Fund (SGF) payments were phased-in. Mr. Deck further stated that all remaining debt service on the bonds is paid by the SGF and the current annual payment is $36.1 million through FY 2034. He reported that the annualized return on the investment of $440.2 million through November 30, 2009, was 4.66 percent, generating an additional $132 million in earnings for KPERS.

Next, two pension obligation bond options were presented as bond option P and Q, based on collaboration between KPERS and Kansas Development Finance Authority (KDFA). Both options show comparisons with the baseline. Mr. Deck then offered observations about the various options and commented on the rates and corresponding dates of ARC, funded ratios, the unfunded actuarial liability, and the effect of additional funding.

Members requested KPERS provide additional information on the history of events which brought the state to this juncture, the steps taken by previous legislative bodies in regard to unfunded liability, and a record of cost-of-living allowances showing increases and additional benefits that were awarded to retirees and active members without an increase in the employee statutory contribution rate of 4.0 percent.

Steve Weatherford, President, KDFA, responded to a previous request from the Committee for information about the impact of bond issues on the state credit rating and the capacity to issue additional pension obligation bonds (Attachment 2). He noted the strengths and challenges of the current credit rating provided by Standard and Poor's and Moody's. Mr. Weatherford indicated that, should the state choose not to seek to achieve a greater level of fiscal balance and rebuild reserves, the rating agencies may choose to downgrade the state's credit rating. He discussed current interest rates for taxable municipal bonds, saying that new pension obligation bonds would not be eligible for the federal subsidy paid for Build American bonds, even though they must be issued as taxable revenue bonds. In order to invest the bond funds, the federal arbitrage laws require issuance of taxable revenue bonds, rather than tax exempt municipal bonds. Answering a question, Mr. Weatherford said issuing pension obligation bonds potentially could downgrade the state's credit rating. He said that having a reasonable plan to address the unfunded liability will provide protection of the state's current good credit rating.

Finally, Pat Beckham, KPERS Consulting Actuary, Milliman, Inc., reported on Kansas Police and Firemen's Retirement System and the Retirement System for Judges, and the dramatic increases in the employer contribution rates produced in the last annual actuarial valuations. She pointed out that the potential budget impact of the much higher employer rate increases would impact both state and local governments, and that a modification was being recommended for one year to allow further review of what caused the rapid increase in contribution rates. She recommended suspending application of the corridor methodology pending further study and using employer contribution rates that would be less than those produced with the corridor in effect (Attachment 3).

The Chairperson suggested a motion be made to approve the minutes. *Representative Flaharty moved to approve the minutes. Senator Emler seconded the motion. The motion passed.*

The Chairperson and Vice-chairperson discussed the progress made during the 2009 Interim and indicated that work on KPERS long-term funding would need to continue during the 2010 Session. Consequently, no recommendations will be made in the Committee's final report that will summarize the work to date on the various topics reviewed. Meetings early in the 2010 Legislature were predicted, and KPERS was asked to develop further information to support the work of finding alternative solutions to the long-term funding issue.

Prepared by Florence Deeter
Edited by Julian Efird

Approved by the Committee on:

February 5, 2010
(Date)

50231~(2/5/10{11:21AM})

JOINT COMMITTEE ON PENSIONS, INVESTMENTS AND BENEFITS

GUEST LIST

DATE: Dec. 14, 2009

NAME	REPRESENTING
Ernie Claudel	Coalition
Ron Gardner	Coalition
Jim MacMurray	KDFA
Steve Weatherford	KDFA
Jodi Flower	KDOA
Karen Gutzwiller	SRS
Tom Krebs	KASB
MIKE RUSSO	CITY OF OVERLAND PARK
ERIK SARTORIUS	City of Overland Park
Jane Carter	KOSE
PAT LEHMAN	KFSA
RANDY SEINER	VALIC
Gene Meyer	Kansas Reporter

JOINT COMMITTEE ON PENSIONS, INVESTMENTS AND BENEFITS

KPERS

December 14, 2009

Joint Committee on Pensions,
Investments, and Benefits
December 14, 2009
Attachment 1

Attachment 1-2

Kansas Public Employees Retirement System

KPERS Long-Term Funding

Joint Committee on Pensions, Investments and Benefits ▪ *December 14, 2009*

Introduction

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- Throughout the fall, KPERS has been conducting an analysis of options for addressing long-term funding challenges faced by the KPERS State, School, and Local Groups.
- At the November meeting of the Joint Committee on Pensions, Investments and Benefits, KPERS provided analyses of a range of long-term funding options. The options included various combinations of –
  - Raising the cap on employer rate increases.
  - Increasing the employee contribution rate.
  - Changing the multiplier used in the benefit formula.
- KPERS also presented background information related to defined contribution (DC) plans, along with several design and funding options for a DC plan.
- In response to requests from the Joint Committee, KPERS has developed several variations on options presented in November.
- In addition, KPERS was requested to analyze the impact of using pension obligation bonds (bonds) in lieu of raising the employer contribution cap. Analyses of two options that use bonds to manage the State's costs over the next few fiscal years are included.

Baseline and Basic Funding Solution Options

- To provide a frame of reference for the new options, projections for the KPERS "Baseline" and three of the options presented at the November meeting follow.
- The assumptions used for the Baseline and for each of the options are listed below. All projections assume a level, 8% annual investment return.
- **Baseline:**
  - Employer Contribution Rate: Cap remains at 0.6%.
  - Employee Contribution Rate: No change.
- **Option A:**
  - Employer Contribution Rate: Increase cap to 1.0%, effective 7/1/10 (FY 2011).
  - Employee Contribution Rate: No change.
- **Option C:**
  - Employer Contribution Rate: Increase cap to 1.0%, effective 7/1/10 (FY 2011).
  - Employee Contribution Rate: Increase rate by .5% for both Tiers 1 and 2 in each of four years, beginning 7/1/10 (FY 2011).

Basic Funding Solution Options (Continued)

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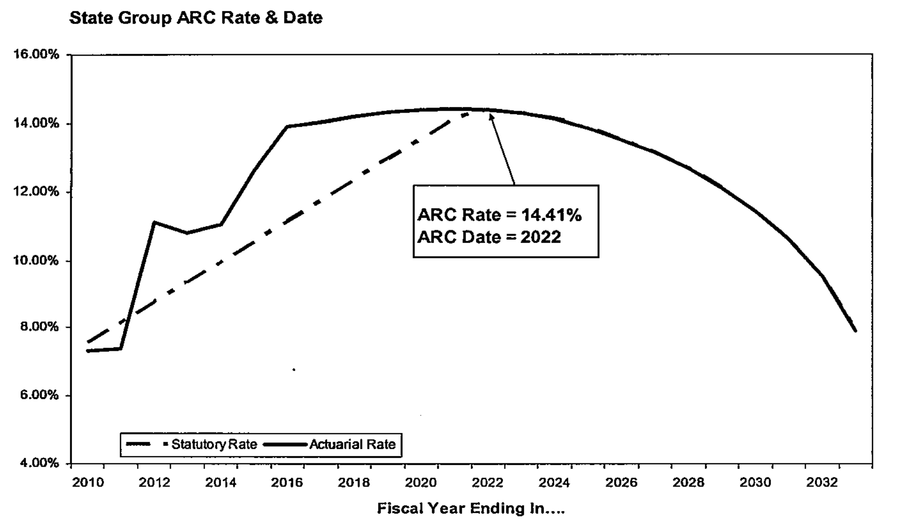
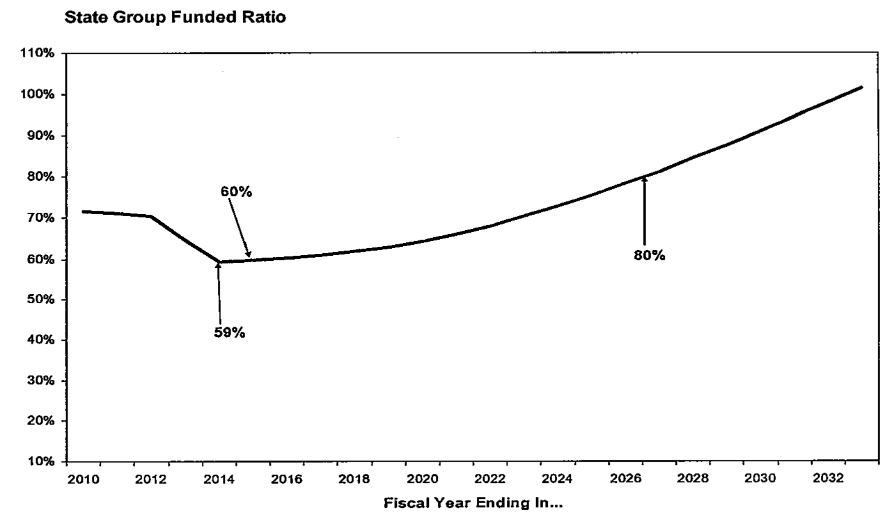
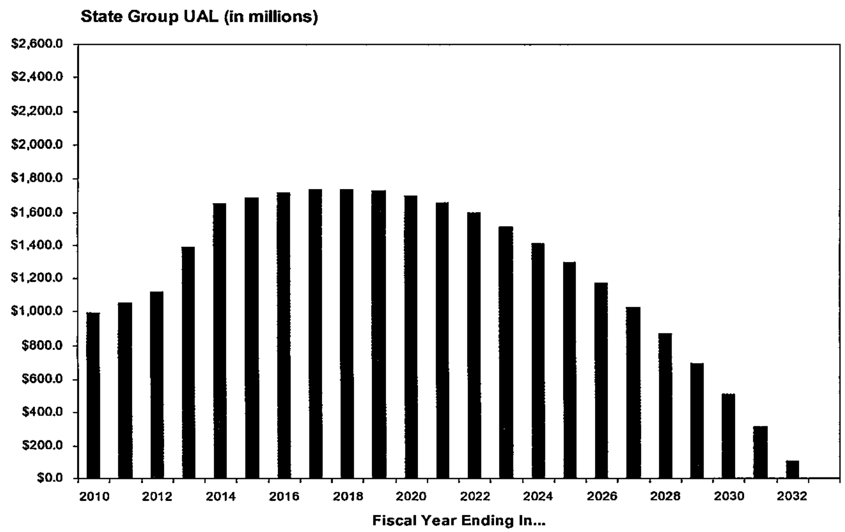
- **Option H:**
  - Employer Contribution Rate: Increase cap to 1.0%, effective 7/1/10 (FY 2011).
  - Employee Contribution Rate: Increase rate 1.0% for Tier I only, effective 7/1/10 (FY 2011).
  - Benefit Multiplier: Increase multiplier to 1.85% for future service (Tier 1 only).

State Group: Baseline Projections

- **No change in the .6% employer rate increase cap.**



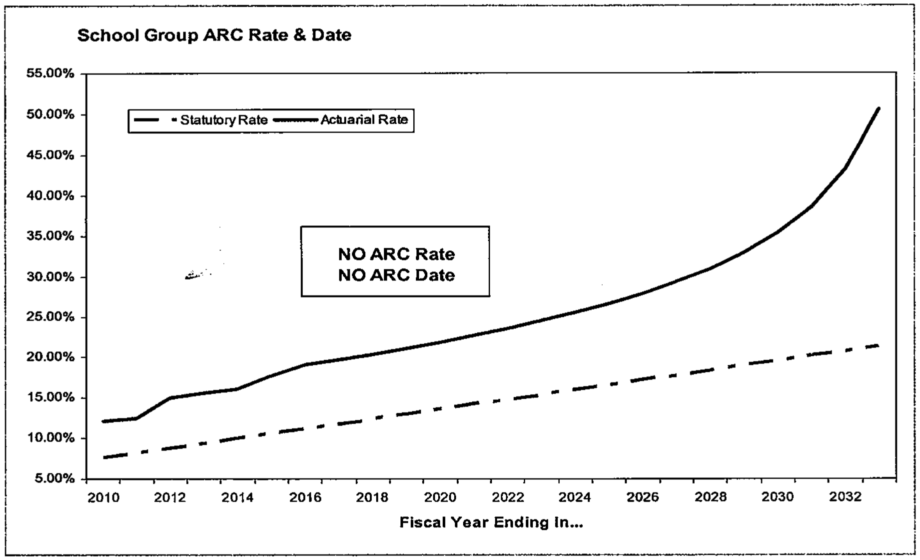


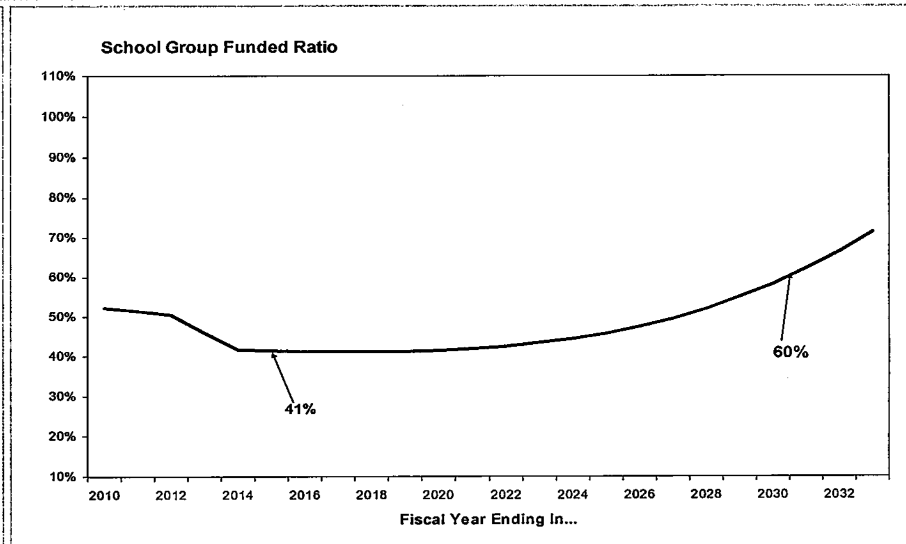


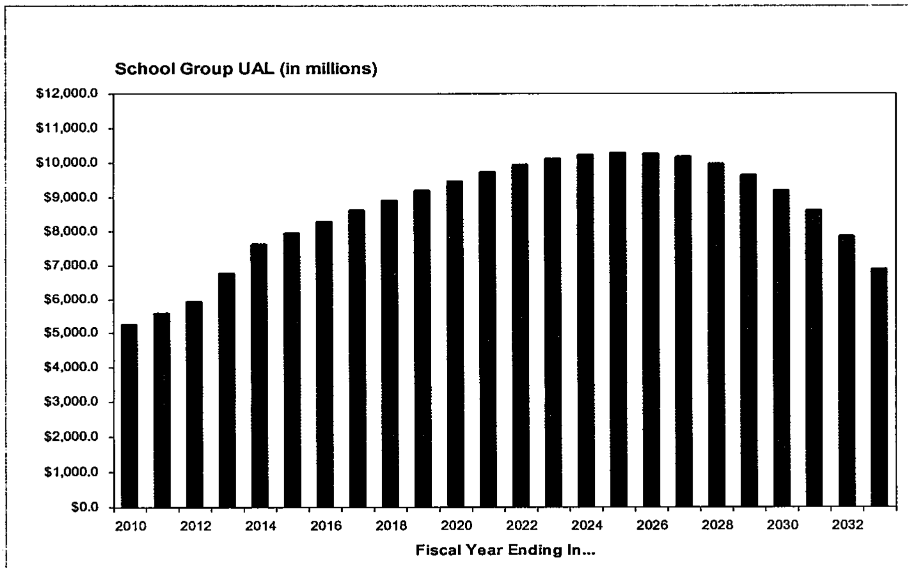
- The projected ARC rate is nearly double the state/school rate paid by state agencies in FY 2010 (7.57%).
- The funded ratio reaches a low of 59% in FY 2014.
- It remains near 60% for an additional 5 years and only reaches 80% in FY 2027.
- The projected UAL rises by nearly 75% to $1.74 billion in FY 2018.

School Group: Baseline Projections

- **No change in the .6% employer rate increase cap.**







- The School Group is not in actuarial balance by FY 2033.
- The funded ratio reaches a low of 41% in FY 2015 and remains at 41 to 43% for 9 years.
- The funded ratio does not reach 60% until FY 2031 and only reaches 80% in FY 2035.
- The projected UAL nearly doubles to $10.3 billion in FY 2025.

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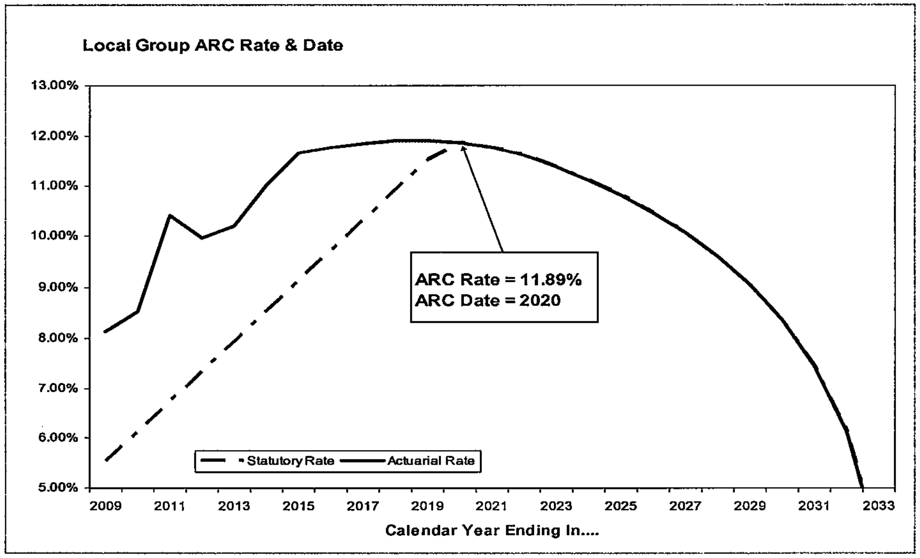
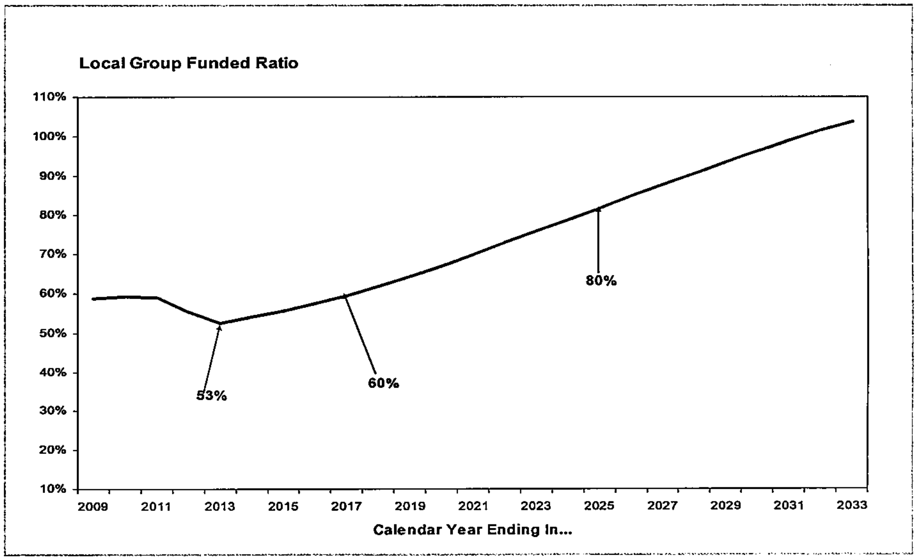
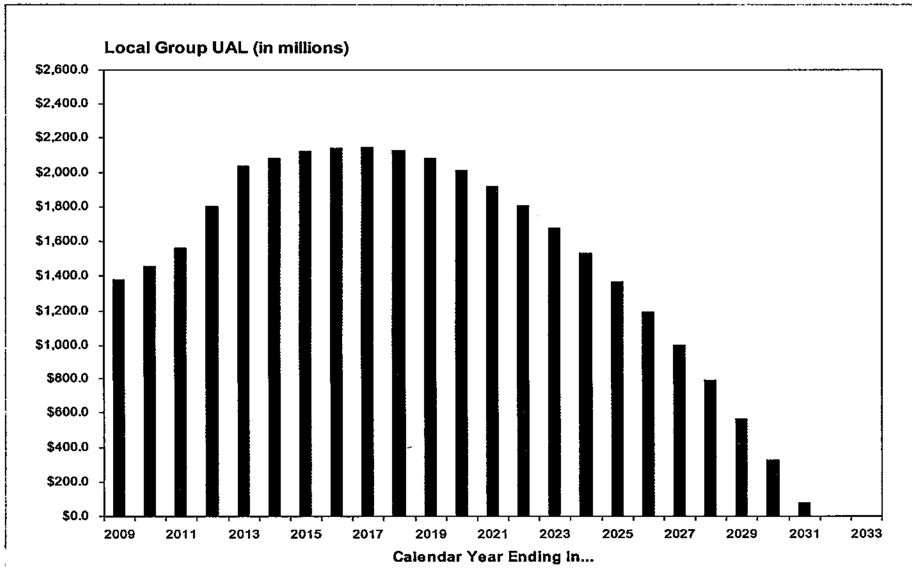
Local Group: Baseline Projections

▪No change in the .6% employer rate increase cap.



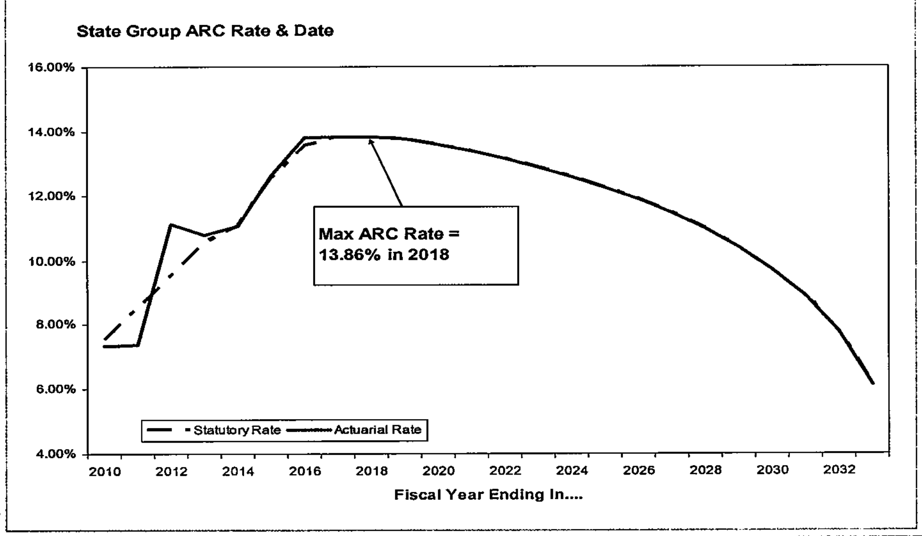


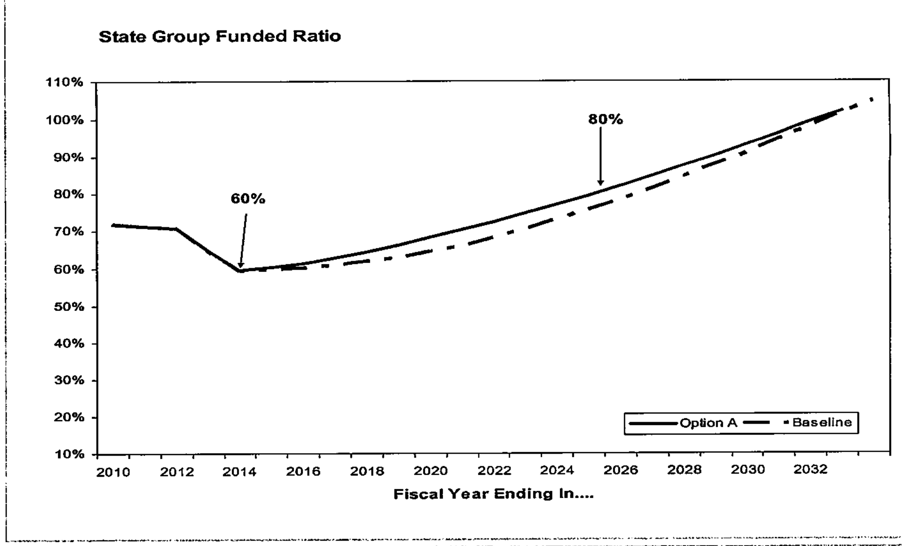


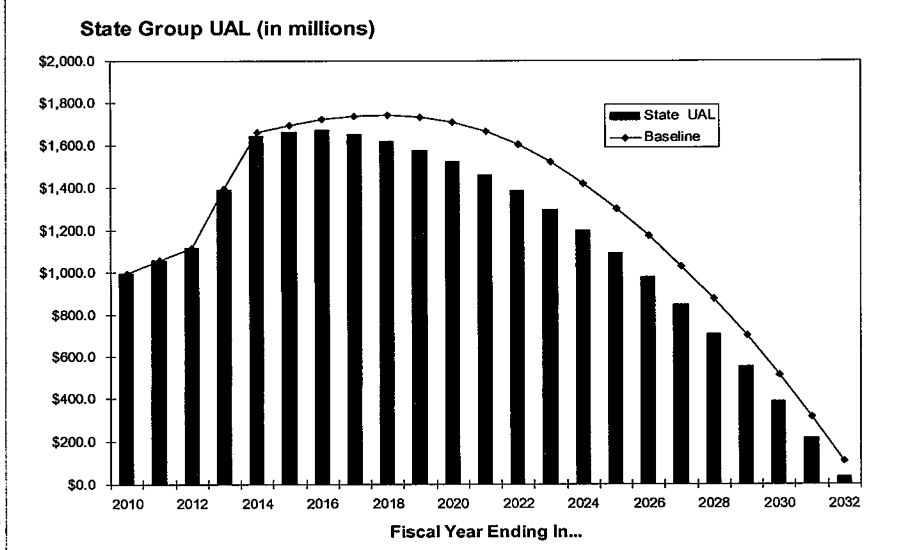
- The Local Group ARC rate is projected to double to 11.89% by CY 2020.
- Its projected funded ratio will fall to 53% by CY 2013, regaining 60% by CY 2017. The funded ratio is projected to reach 80% by CY 2025.
- The UAL is projected to increase by 55.4% to $2.15 billion by CY 2017.

State Group: Option A

- Raise cap on employer rate increases to 1% in FY '11.







- The projected ARC rate rises to a maximum of nearly 14% by FY 2018.
- The funded ratio projections are similar to the Baseline, reaching a low of 60% in FY 2014.
- The funded ratio recovers very gradually to 80% in FY 2026 – one year earlier than the Baseline.
- The projected UAL rises to $1.67 billion in FY 2016 – two years earlier and $74.9 million less than the Baseline.

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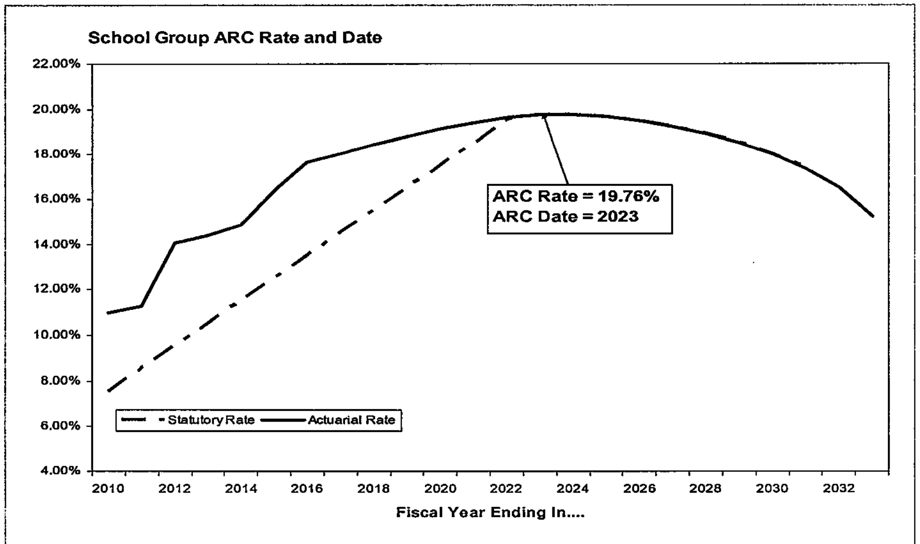
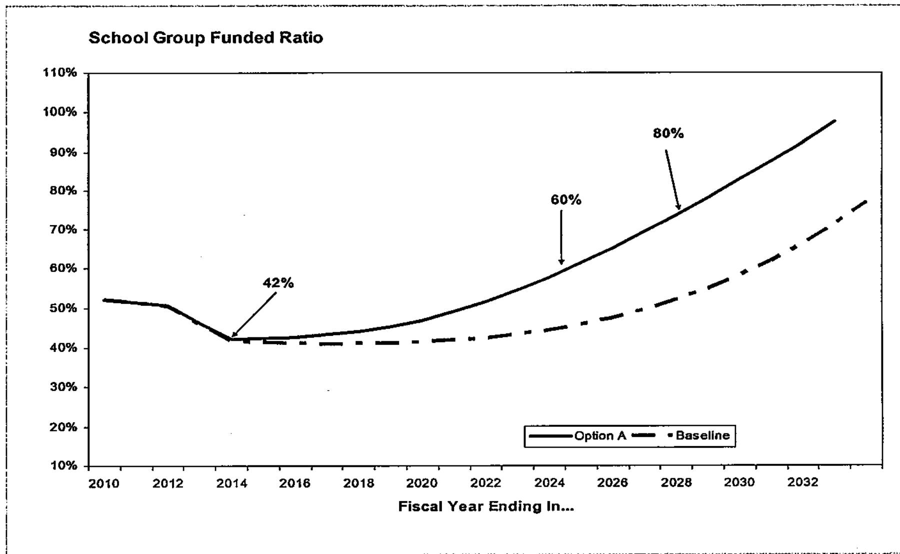
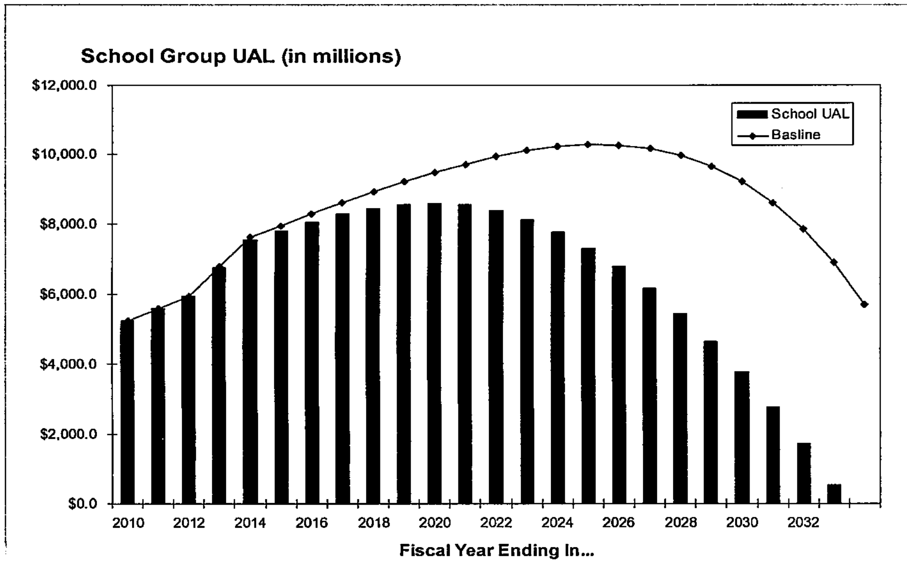
School Group: Option A

▪**Raise cap on employer rate increases to 1% in FY ‘11.**







▪A 1% cap on employer rate pulls the School Group back into actuarial balance by FY 2023, but at a rate of 19.76%.

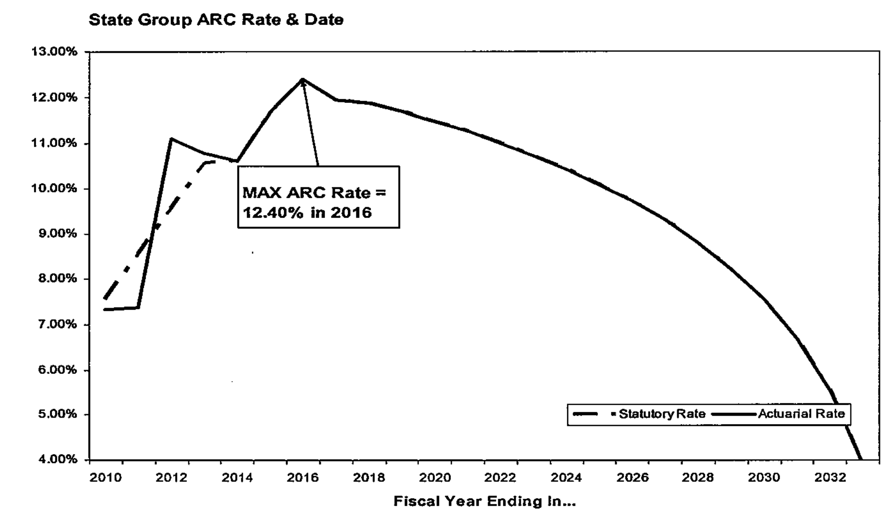
▪The funded ratio is depressed for an extended period of time, falling to 42% in FY 2014 and remaining below 50% for another 7 years.

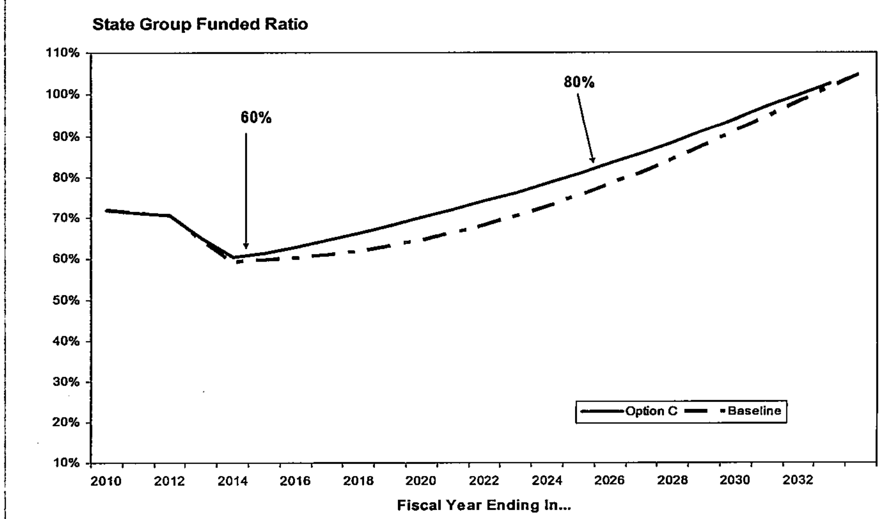
▪The funded ratio continues increasing slowly to 60% in 2025 and to 80% by FY 2030.

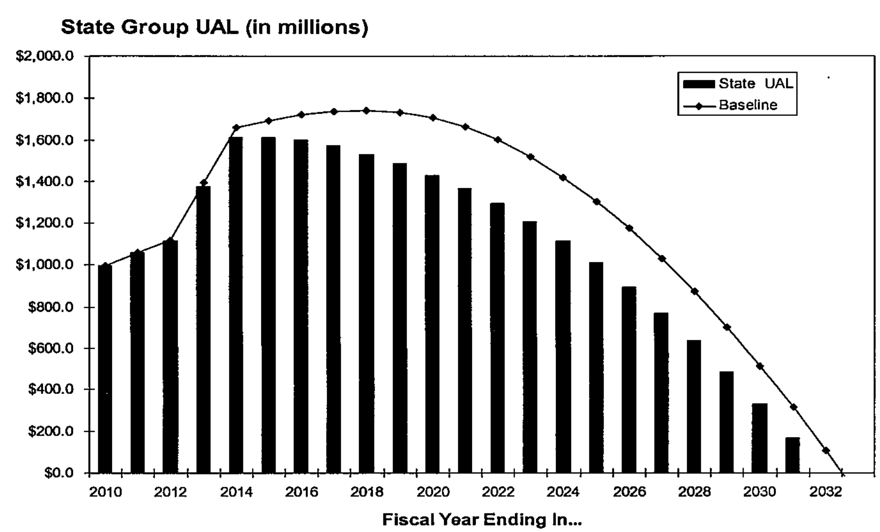
▪The projected UAL peaks at $8.6 billion in FY 2020 – five years earlier and $1.7 billion less than the Baseline.

State Group: Option C

▪Raise cap on employer rate increases to 1% in FY '11. Increase member contributions by .5% in each of four years, beginning FY 2011.







- ▪With the phased addition of 2% in additional member contributions, the projected ARC rate peaks at 12.40% in FY 2016. (The maximum ARC rate is 13.86% in FY 2018 for the 1% cap alone.)
- ▪Funded ratio projections are in the same range as those for the 1% cap option.
- ▪The UAL projections are slightly lower than the 1% cap option, peaking three years earlier at $1.61 billion and $131 million less than the Baseline.

School Group: Option C

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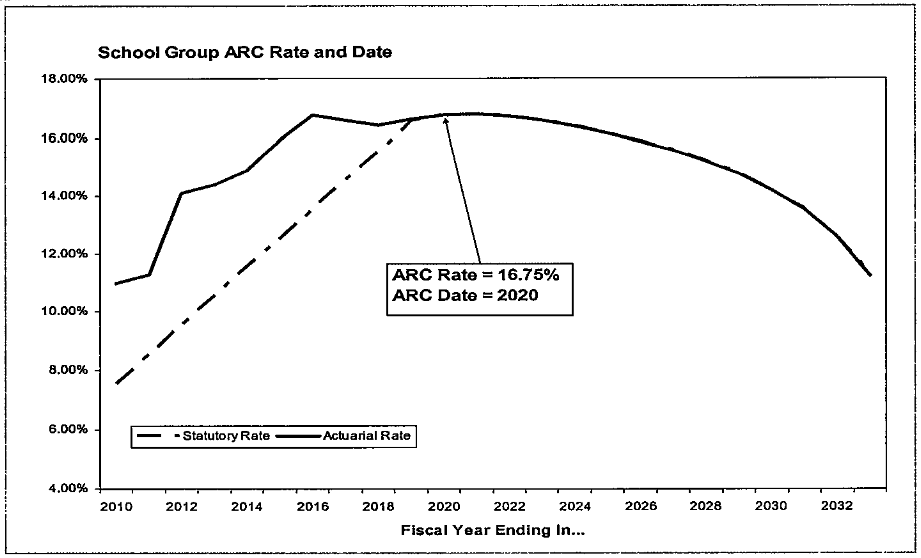
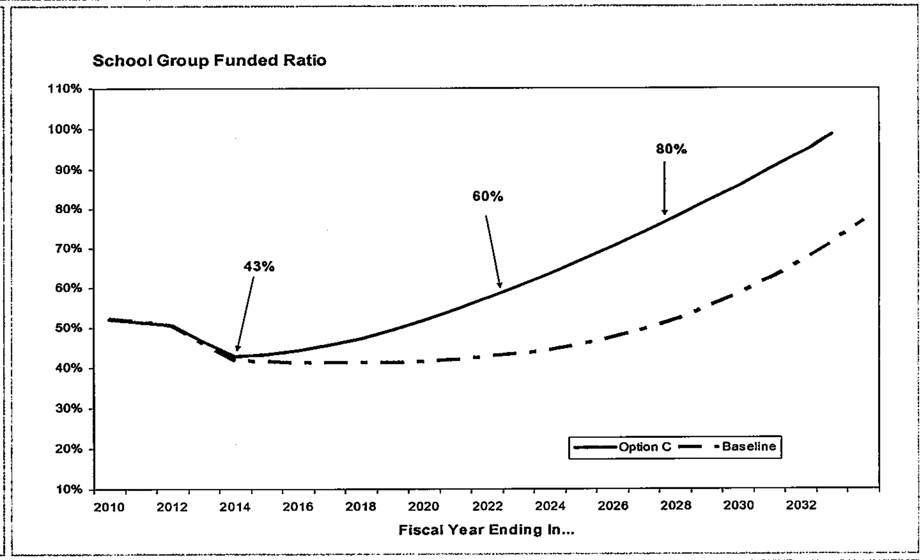
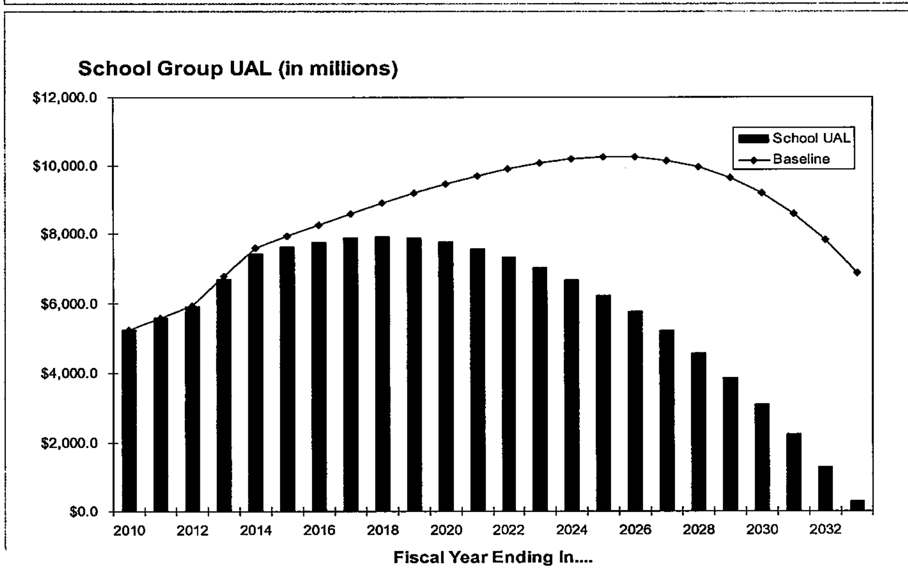
▪Raise cap on employer rate increases to 1% in FY '11. Increase member contributions by .5% in each of four years, beginning FY 2011.







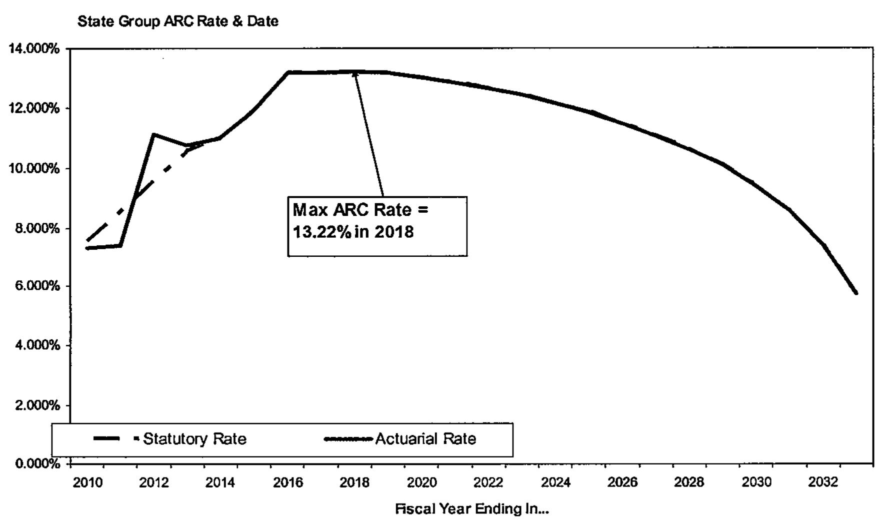
▪The ARC rate and date drops from 19.76% in FY 2023 with the 1% cap to 16.75% in FY 2020 if a phased-in 2% member contribution increase is added.

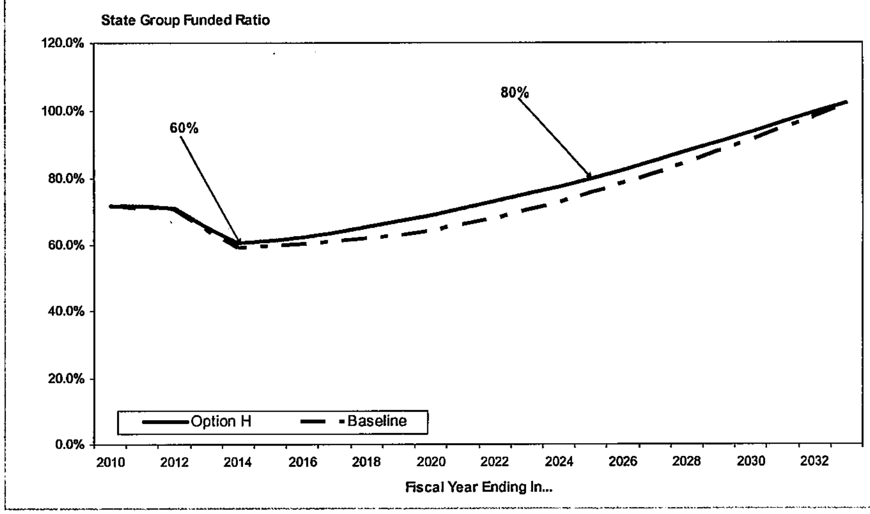
▪The low point of the funded ratio projections is similar to the 1% cap option. A 60% funded ratio is reached in FY 2023 – two years earlier than the 1% option. An 80% funded ratio is projected in FY 2029.

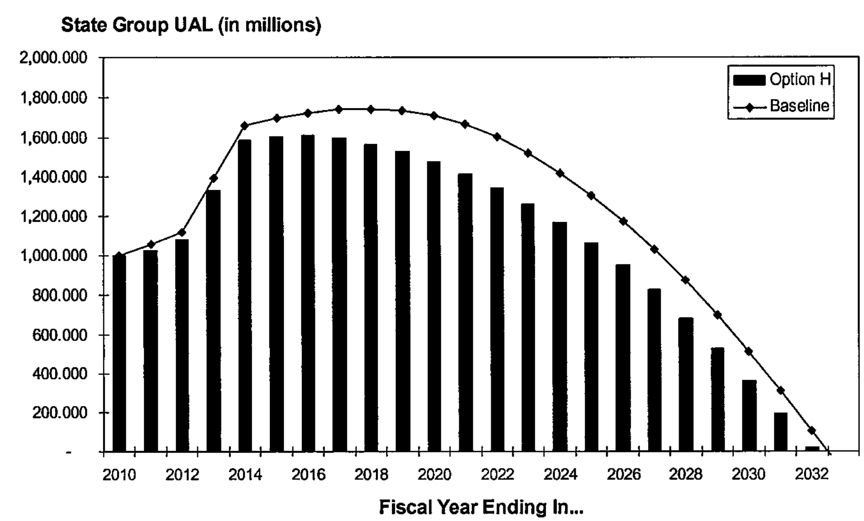
▪With the additional member contributions, the projected UAL peaks seven years earlier – in FY 2018 at $7.9 billion or $2.4 billion less than the Baseline.

State Group: Option H

▪Raise cap on employer rate increases to 1.0% in FY '11. Raise Tier I employee rate by 1.0% in FY '11. Increase Tier I multiplier to 1.85% for future service.







- ▪The projected ARC rate rises to a maximum of 13.22% in FY 2018 – .64% lower than Option A.
- ▪The funded ratio projections are similar to the Baseline, reaching a low of 61% in FY 2014.
- ▪The funded ratio recovers gradually to 80% in FY 2025 – two years earlier than the Baseline.
- ▪The projected UAL peaks at $1.61 billion in FY 2016 – two years earlier and $134.5 million less than the Baseline.

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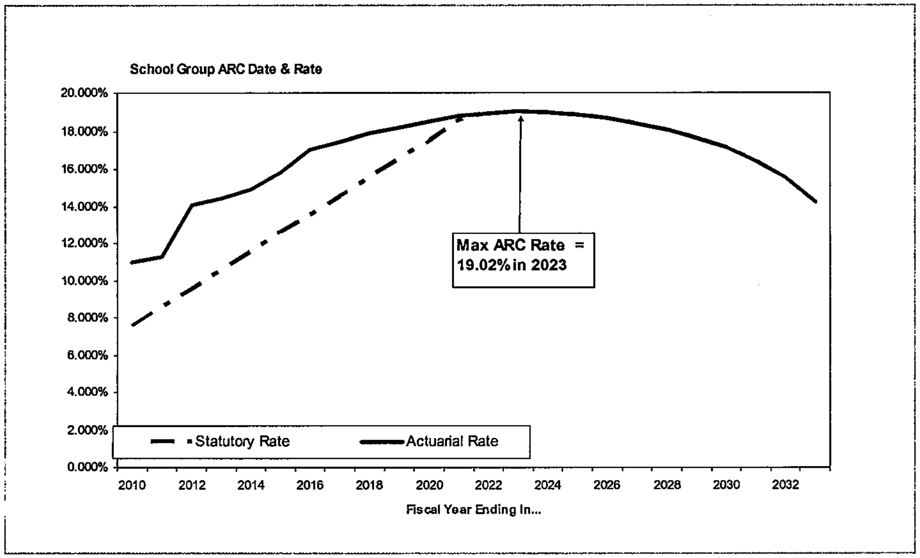
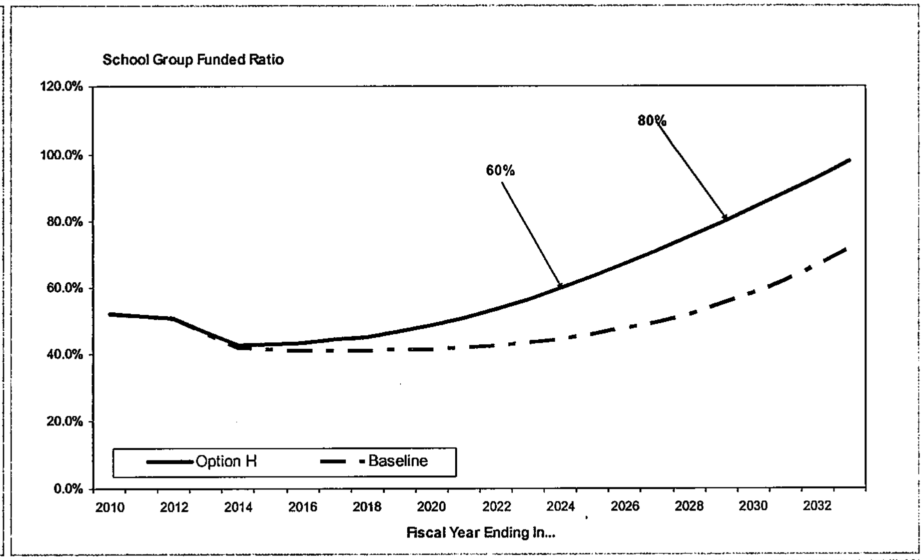
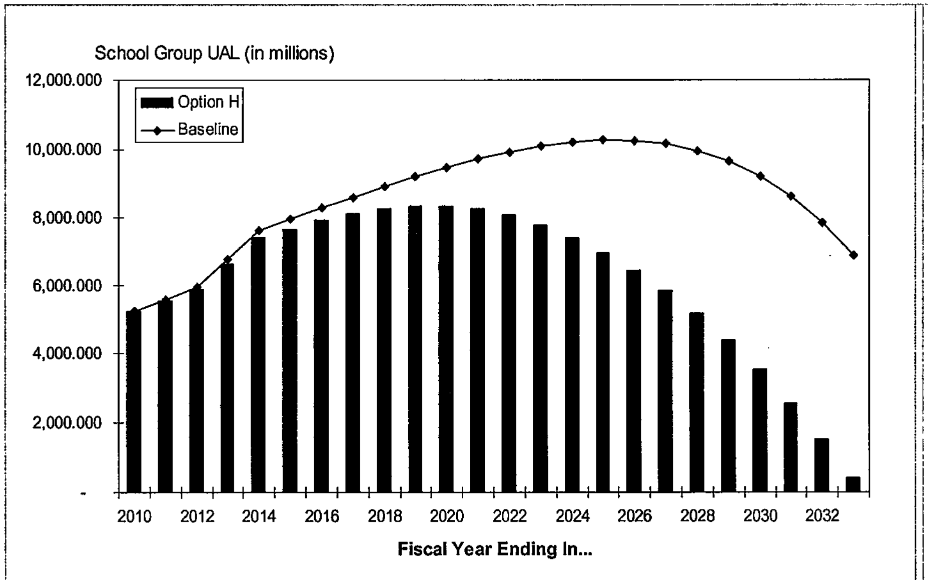
School Group: Option H

▪Raise cap on employer rate increases to 1.0% in FY '11. Raise Tier I employee rate by 1.0% in FY '11. Increase Tier I multiplier to 1.85% for future service.







- The projected ARC rate rises to a maximum of 19.02% in FY 2023 – .74% lower than Option A.
- The funded ratio reaches a low of 43% in FY 2014 and remains below 50% for another 6 years.
- The funded ratio recovers to 60% in FY 2024 and 80% in 2030.
- The projected UAL peaks at $8.3 billion in FY 2020 – five years earlier and $1.96 billion less than the Baseline.

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Effect on State Contributions

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Option A* Estimated Effect on the State and School Group (in millions)

	0.6% Cap	Option A	Additional ER Contributions
FY 2011 Increase in Employer Contributions	$39.35	$57.64	$18.29
FY 2011 Total Employer Contributions	$373.57	$391.86	$18.29
FY 2015 Increase in Employer Contributions	$44.80	$67.48	$22.68
FY 2015 Total Employer Contributions	$538.96	$640.95	$101.99
Total Employer Contributions: FY 2010-2033	$23,977.65	$25,492.03	$1,514.38

Option C Estimated Effect on the State and School Group (in millions)**

	0.6% Cap	Option C	Additional ER Contributions
FY 2011 Increase in Employer Contributions	$39.35	$57.64	$18.29
FY 2011 Total Employer Contributions	$373.57	$391.86	$18.29
FY 2015 Increase in Employer Contributions	$44.80	$67.48	$22.68
FY 2015 Total Employer Contributions	$538.96	$640.95	$101.99
Total Employer Contributions: FY 2010-2033	$23,977.65	$21,936.48	($2,041.17)

*Raise cap on employer rate increases to 1.0% in FY 2011.
**Raise cap on employer rate increases to 1% in FY ‘11. Increase employee rate by .5% for both Tier 1 and 2 in each of four years, beginning FY 2011.

Effect on State Contributions

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Option H* Estimated Effect on the State and School Group (in millions)

	0.6% Cap	Option H	Additional ER Contributions
FY 2011 Increase in Employer Contributions	$39.35	$57.64	$18.29
FY 2011 Total Employer Contributions	$373.57	$391.86	$18.29
FY 2015 Increase in Employer Contributions	$44.80	$67.48	$22.68
FY 2015 Total Employer Contributions	$538.96	$640.95	$101.99
Total Employer Contributions: FY 2010-2033	$23,977.65	$24,689.52	$711.87

*Raise cap on employer rate increases to 1.0% in FY '11. Raise Tier I employee rate by 1.0% in FY '11. Increase Tier I multiplier to 1.85% for future service.

Funding Solution Option Variations

- The Joint Committee requested that KPERS prepare projections for six variations that are based on Options C and H.
- The factors differentiating the variations are the amount and timing of employer and member contribution increases, as well as which Tiers are included in member increases.

Variation 1 (Opt. J: Both Tiers & Opt. K: Tier 1)	FY 2012	FY 2013	FY 2014	FY 2015
Raise employer rate increase cap to:	.8%	1.0%	--	--
Raise employee rate by:	0.5%	0.5%	0.5%	0.5%
Increase multiplier for future service to 1.85%.				

Variation 2 (Opt. L: Both Tiers & Opt. M: Tier 1)	FY 2012	FY 2013	FY 2014	FY 2015
Raise employer rate increase cap to:	1.0%	--	--	--
Raise employee rate by:	1.0%	1.0%		
Increase multiplier for future service to 1.85%.				

Variation 3 (Opt. N: Both Tiers & Opt. O: Tier 1)	FY 2012	FY 2013	FY 2014	FY 2015
Raise employer rate increase cap to:	.8%	1.0%	--	--
Raise employee rate by:	1.0%	1.0%	--	--
Increase multiplier for future service to 1.85%.				

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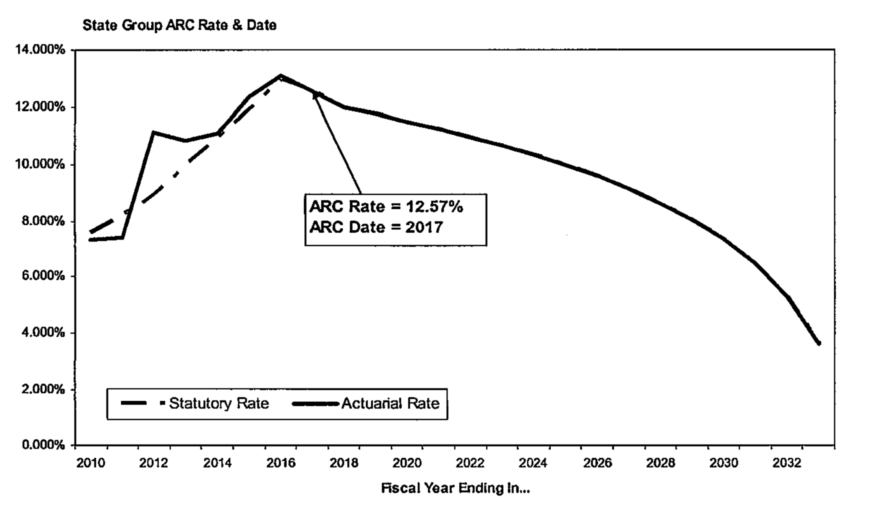
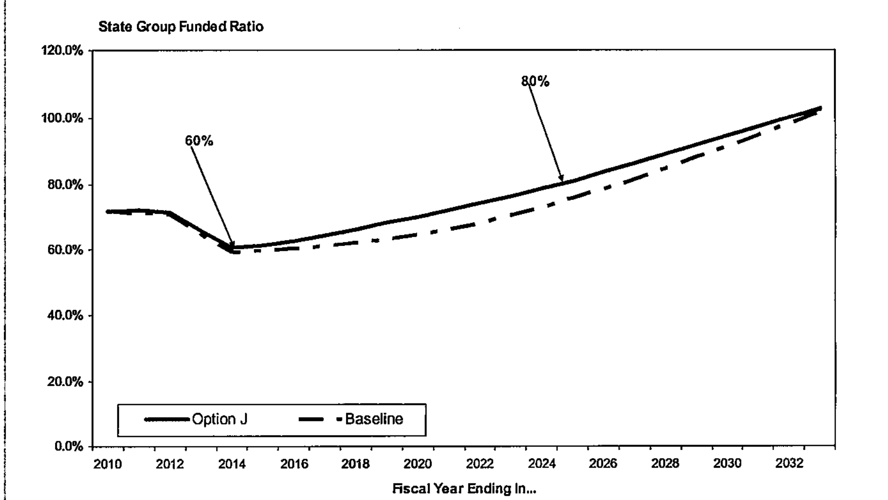
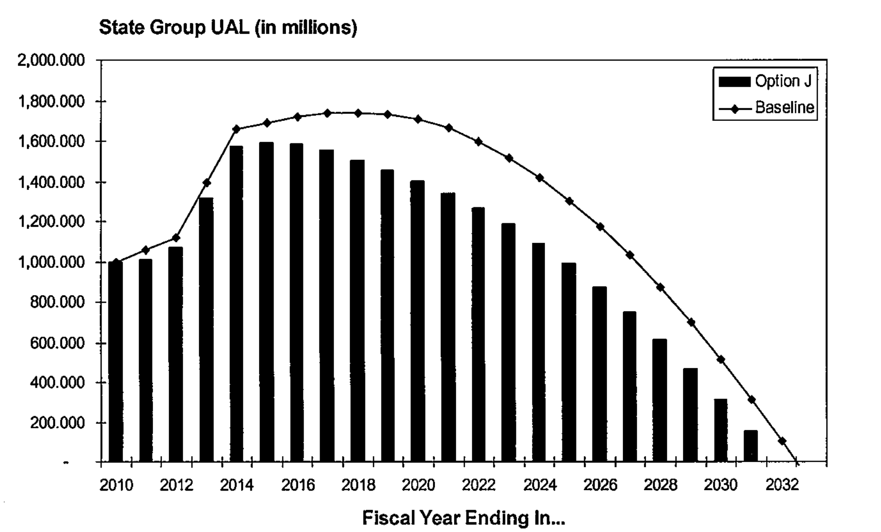
State Group: Option J

▪Raise cap on employer rate increases to 0.8% in FY '12 and 1.0% in FY '13. Raise Tiers I & 2 employee rate by 0.5% in each of four years, beginning in FY '12. Increase Tiers I & 2 multiplier to 1.85% for future service.







- The projected ARC rate rises to 12.57% in FY 2017 – very similar to Option C without the multiplier increase.
- The funded ratio projections reach a low of 60.7% in FY 2014.
- The funded ratio recovers to 80% in FY 2025 –two years earlier than the Baseline.
- The projected UAL peaks at $1.59 billion in FY 2015 – three years earlier and $151 million less than the Baseline.

School Group: Option J

▪**Raise cap on employer rate increases to 0.8% in FY '12 and 1.0% in FY '13. Raise Tiers I & 2 employee rate by 0.5% in each of four years, beginning in FY '12. Increase Tiers I & 2 multiplier to 1.85% for future service.**

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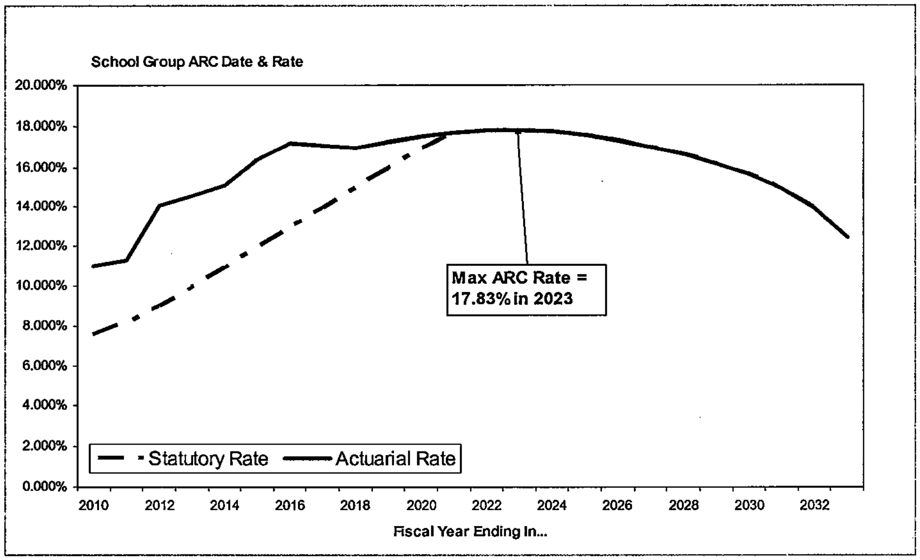
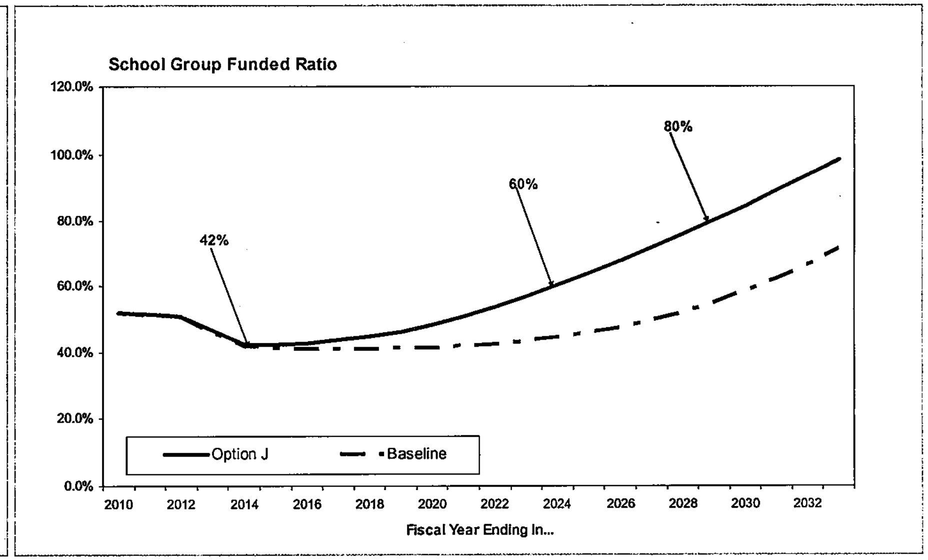
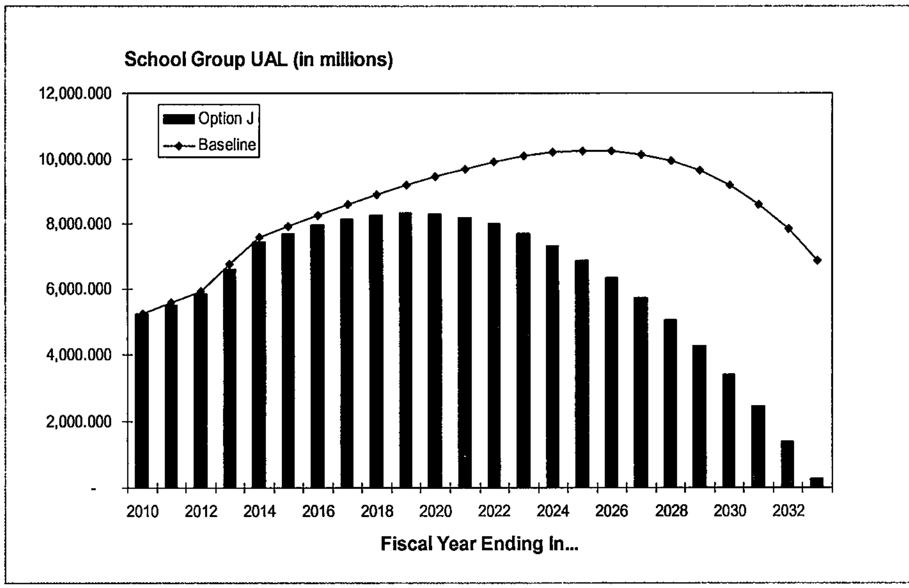


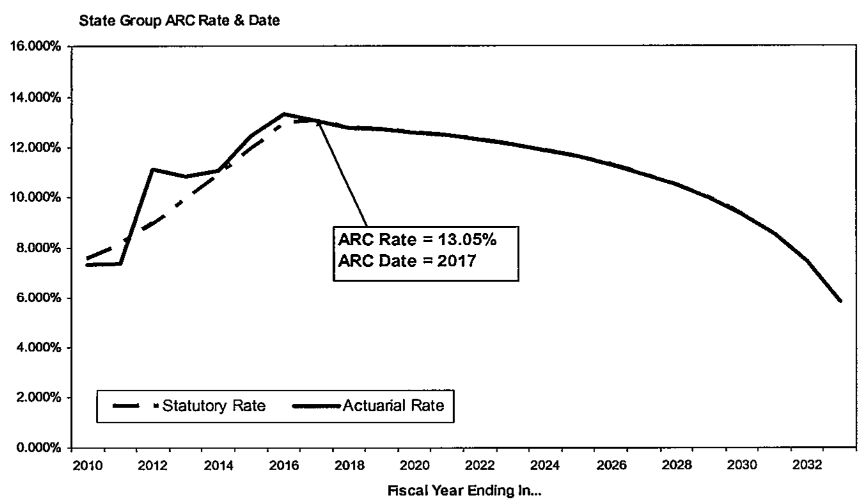


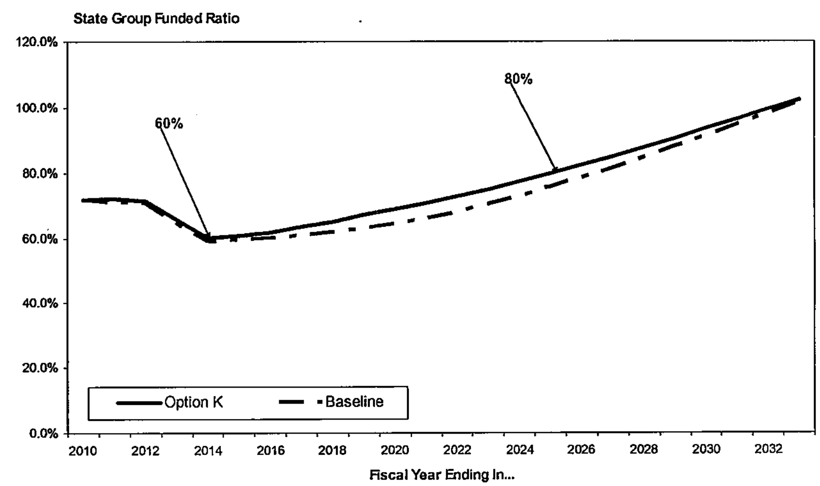


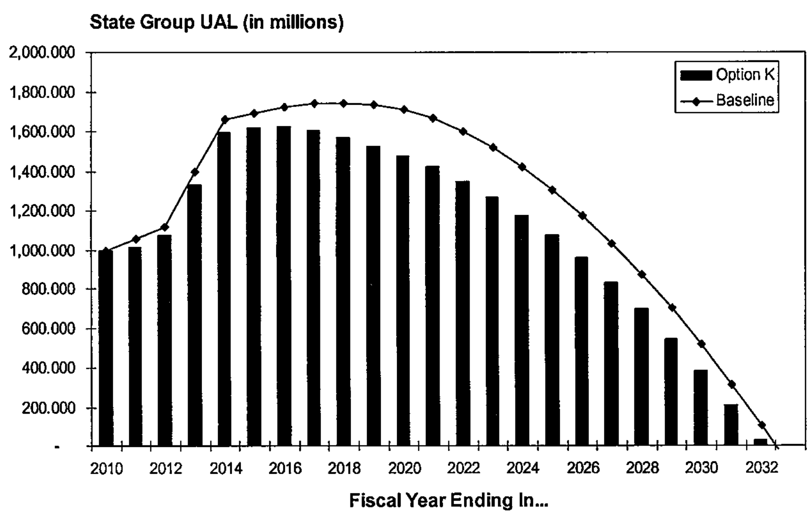
- The projected ARC rate rises to a maximum of 17.83% in FY 2023 – two years later and 1% higher than Option C.
- The funded ratio falls to a low of 42.4% in FY 2014 and remains below 50% for a total of eight years.
- The funded ratio reaches 60% in FY 2024 and 80% by FY 2029 – similar to Option C.
- The projected UAL peaks at $8.34 billion in FY 2019 – six years earlier and $1.94 billion less than the Baseline.

State Group: Option K

▪Raise cap on employer rate increases to 0.8% in FY '12 and 1.0% in FY '13. Raise Tier I employee rate by 0.5% in each of four years, beginning in FY '12. Increase Tier I multiplier to 1.85% for future service.





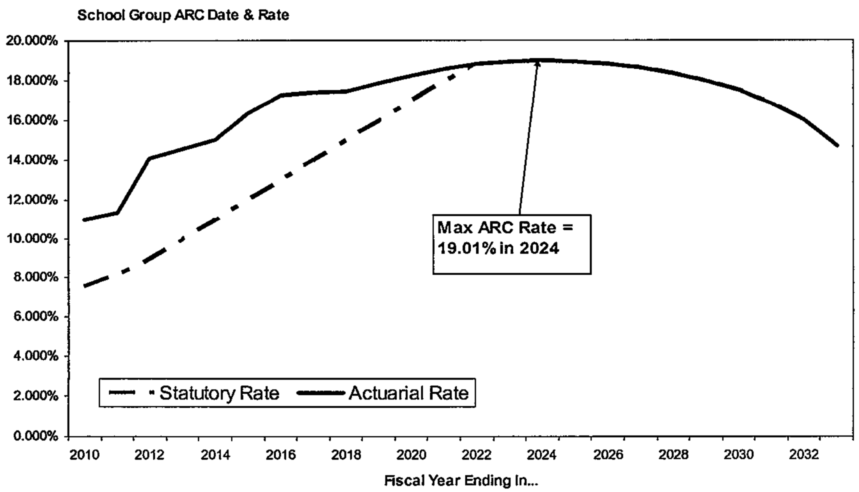


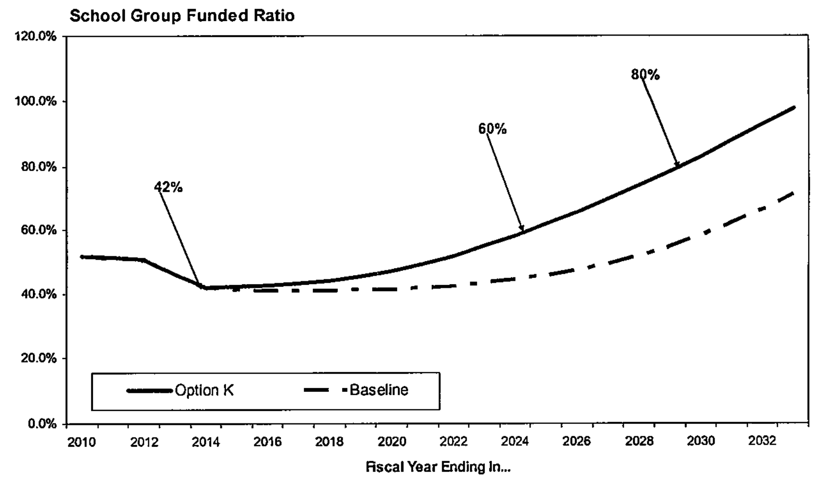
- The projected ARC rate rises to 13.05% in FY 2017 – approximately .5% more than Option J.
- The funded ratio projections reach a low of 60.4% in FY 2014.
- The funded ratio recovers to 80% in FY 2026.
- The projected UAL peaks at $1.62 billion in FY 2016 – $30 million more than Option J.

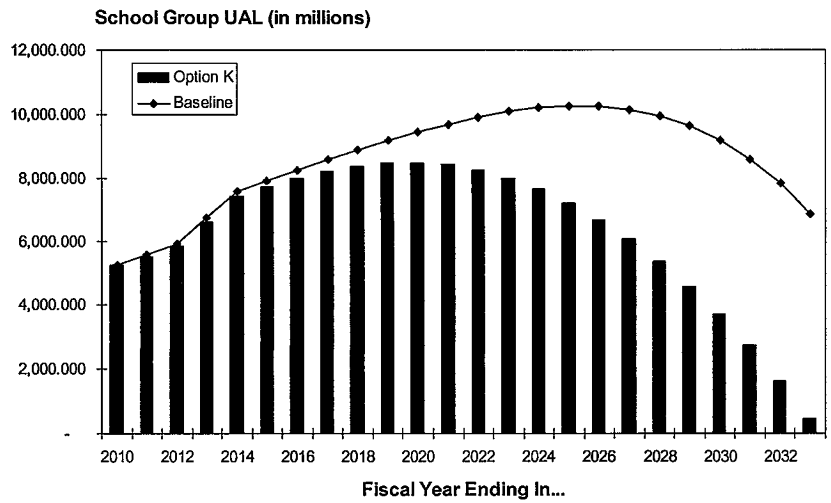
1-20

School Group: Option K

▪**Raise cap on employer rate increases to 0.8% in FY '12 and 1.0% in FY '13. Raise Tier I employee rate by 0.5% in each of four years, beginning in FY '12. Increase Tier I multiplier to 1.85% for future service.**







▪The projected ARC rate rises to a maximum of 19.01% in FY 2024 – 1.18% more than Option J.

▪The funded ratio falls to a low of 42.3% in FY 2014 and remains below 50% for a total of nine years.

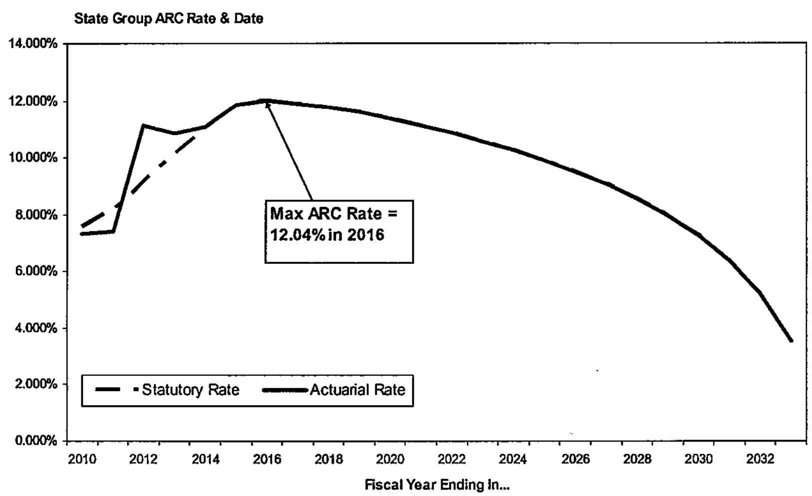
▪The funded ratio reaches 60% in FY 2025 and 80% by FY 2030.

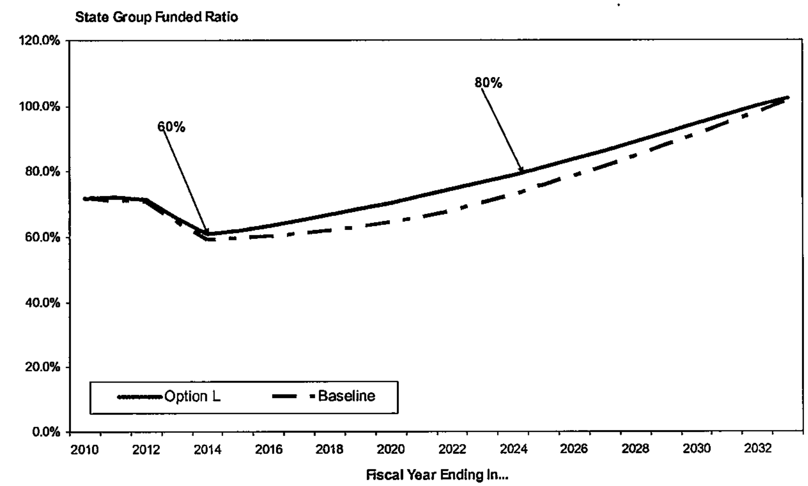
▪The projected UAL peaks at $8.50 billion in FY 2020 – $165 million more than Option J.

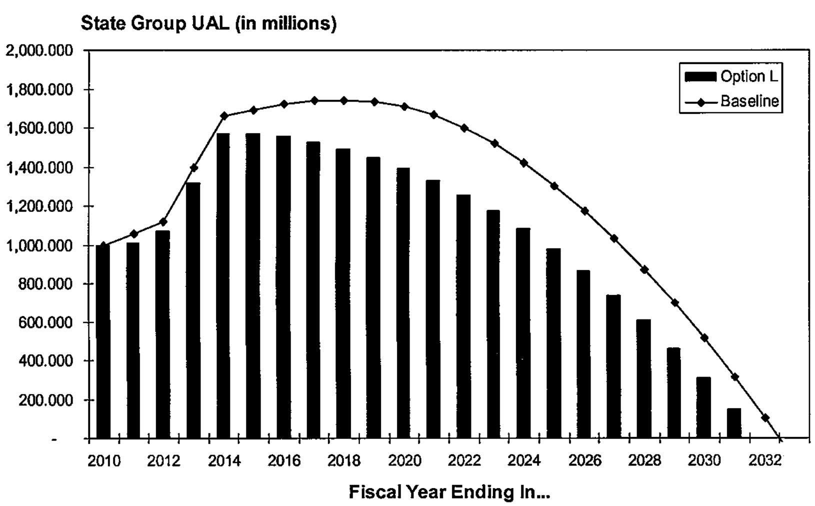
1-31

State Group: Option L

- **Raise cap on employer rate increases to 1.0% in FY '12. Raise Tiers I & 2 employee rate by 1.0% in FY '12 and in FY '13. Increase Tiers I & 2 multiplier to 1.85% for future service.**



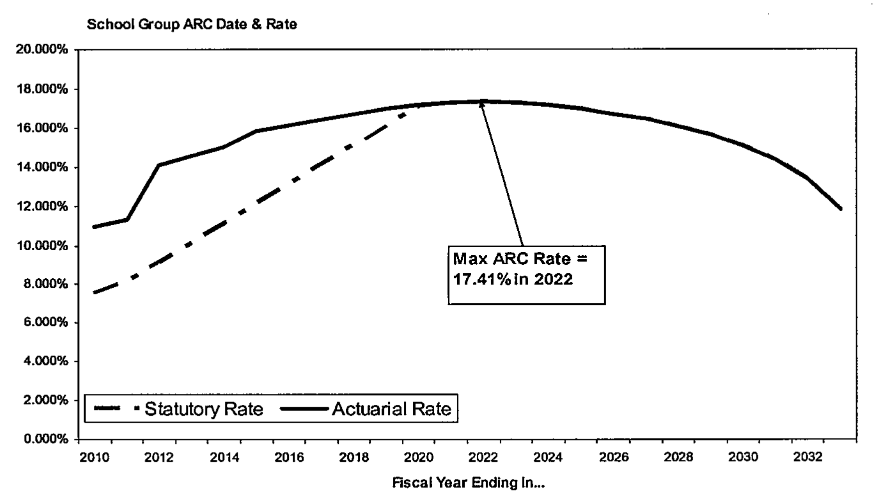


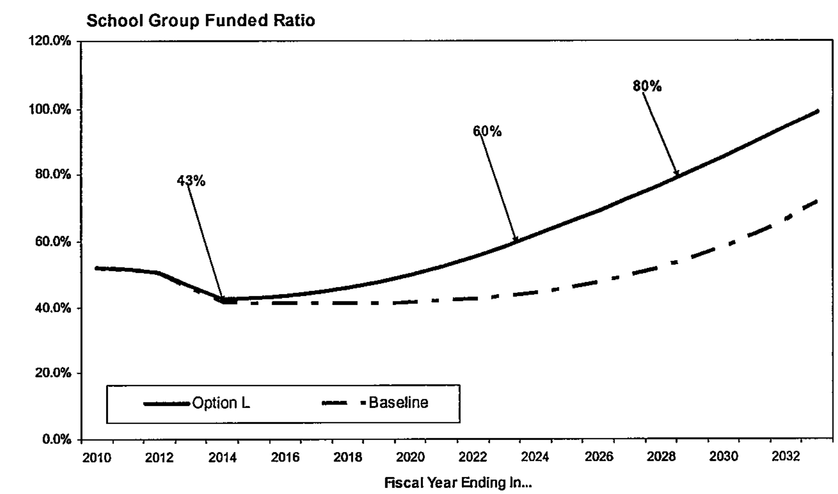


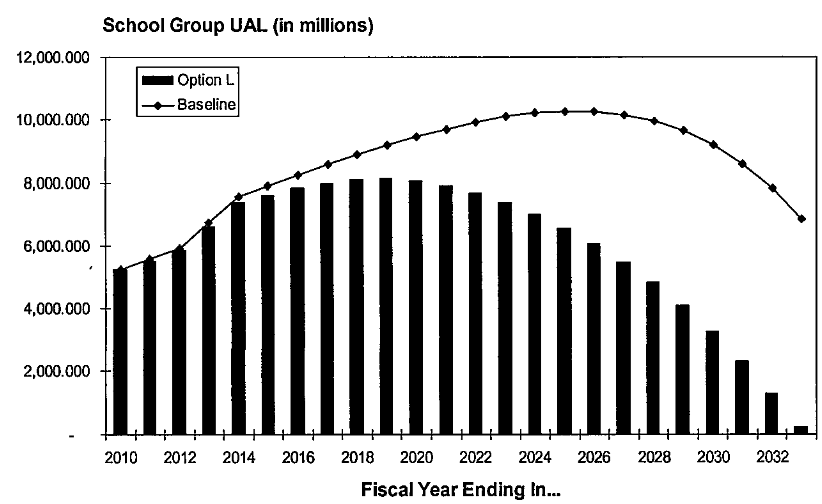
- The projected ARC rate rises to a maximum of 12.04% in FY 2016 – one year earlier and .5% less than Option J.
- The funded ratio projections reach a low of 60.9% in FY 2014.
- The funded ratio recovers to 80% in FY 2025.
- The projected UAL peaks at $1.57 billion in FY 2015 – $24 million less than Option J.

School Group: Option L

▪**Raise cap on employer rate increases to 1.0% in FY '12. Raise Tiers I & 2 employee rate by 1.0% in FY '12 and in FY '13. Increase Tiers I & 2 multiplier to 1.85% for future service.**







▪The projected ARC rate rises to a maximum of 17.41% in FY 2022 – one year earlier and .42% less than Option J.

▪The funded ratio falls to a low of 42.6% in FY 2014 and remains below 50% for a total of seven years.

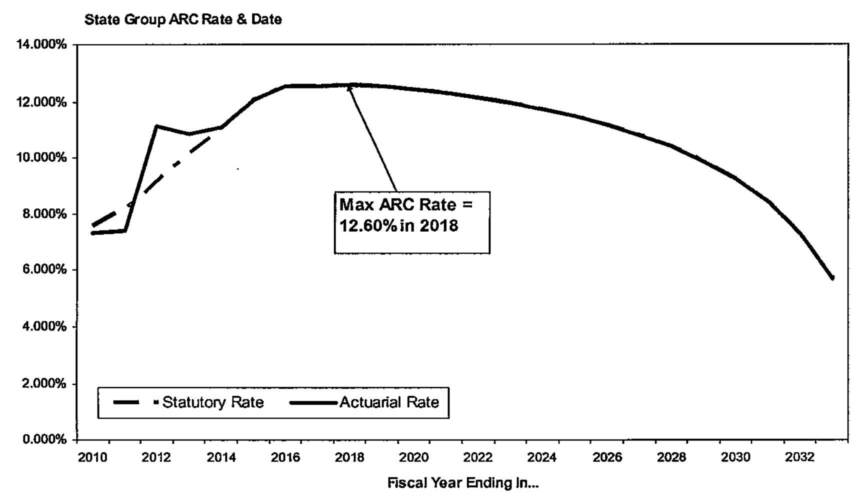
▪The funded ratio reaches 60% in FY 2024 and 80% by FY 2029.

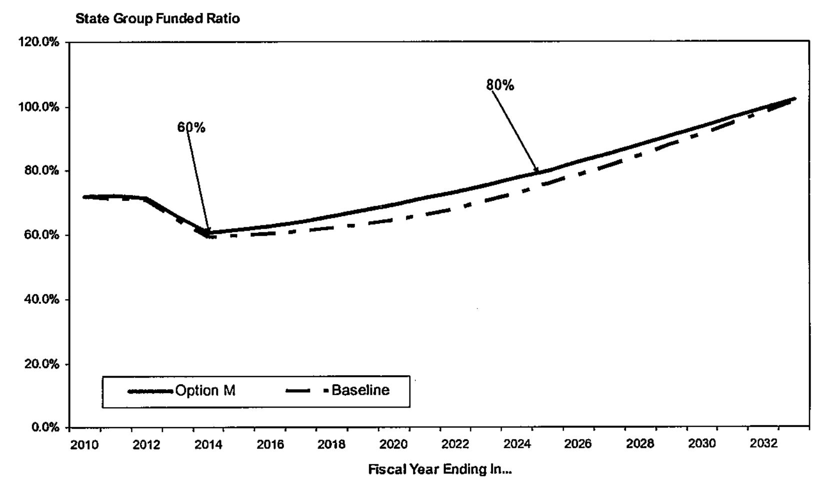
▪The projected UAL peaks at $8.13 billion in FY 2019 – $207 million less than Option J.

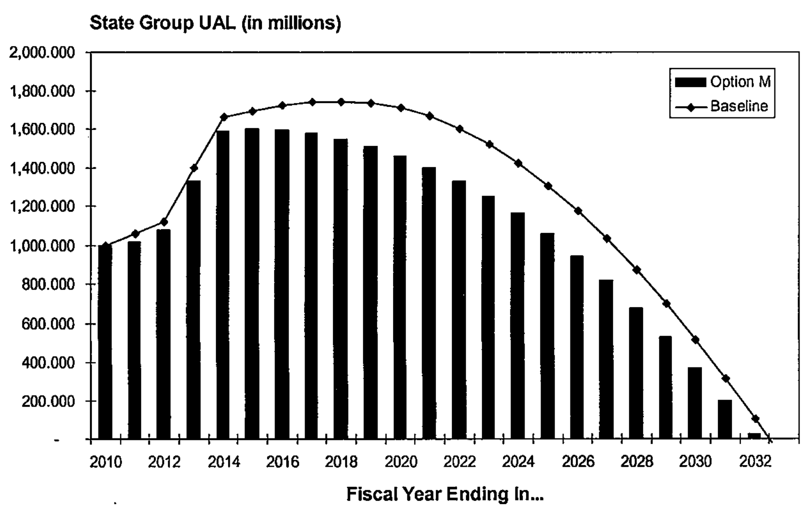
1-23

State Group: Option M

▪Raise cap on employer rate increases to 1.0% in FY '12. Raise Tier I employee rate by 1.0% in FY '12 and in FY '13. Increase Tier I multiplier to 1.85% for future service.







▪The projected ARC rate rises to a maximum of 12.60% in FY 2018 – two years later and .56% more than Option L.

▪The funded ratio projections reach a low of 60.6% in FY 2014.

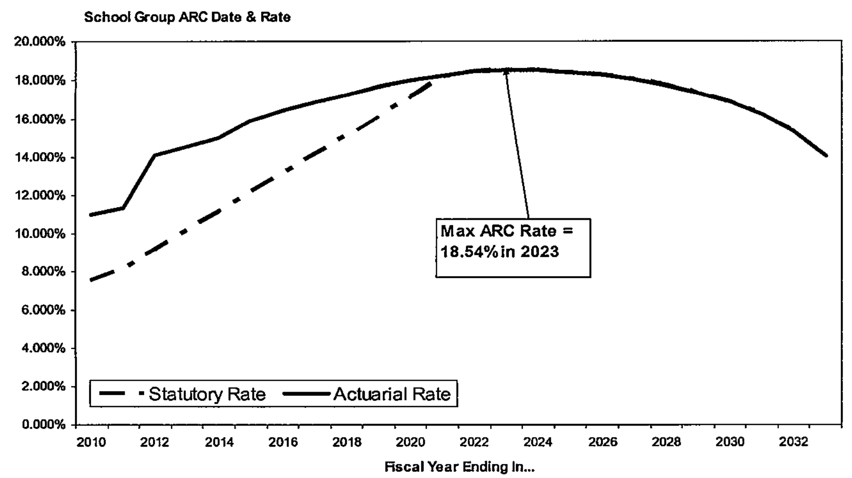
▪The funded ratio recovers to 80% in FY 2025.

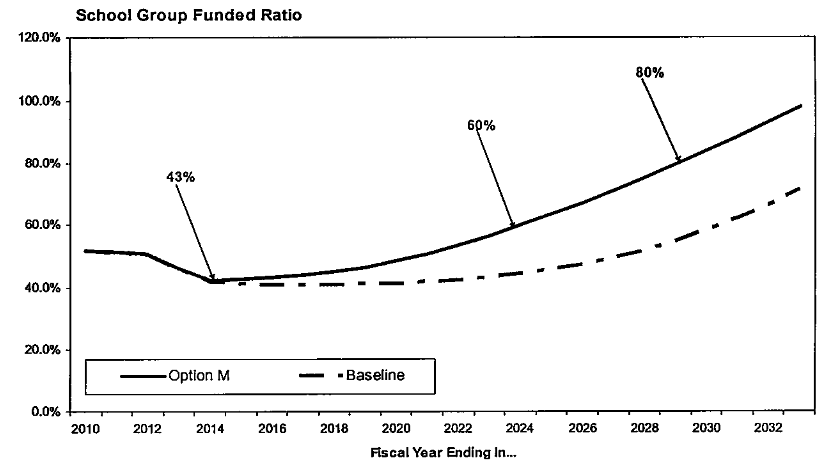
▪The projected UAL peaks at $1.60 billion in FY 2015 – $29 million more than Option L.

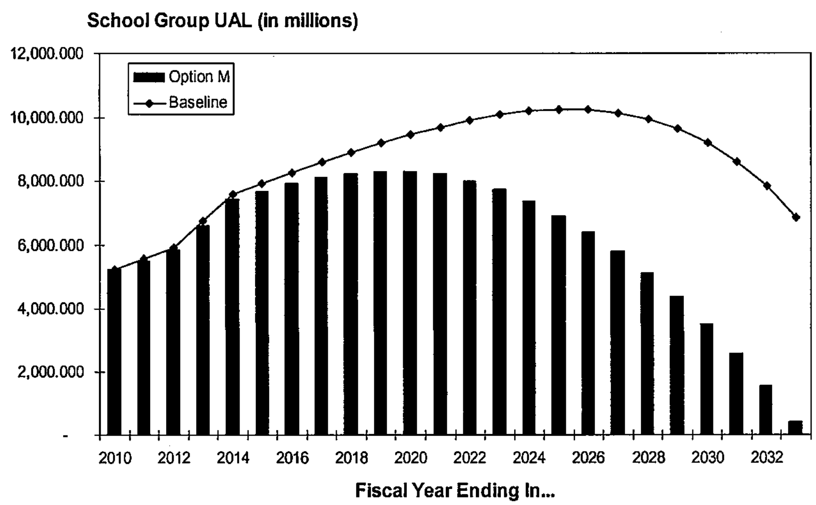
1-34

School Group: Option M

▪Raise cap on employer rate increases to 1.0% in FY '12. Raise Tier I employee rate by 1.0% in FY '12 and in FY '13. Increase Tier I multiplier to 1.85% for future service.







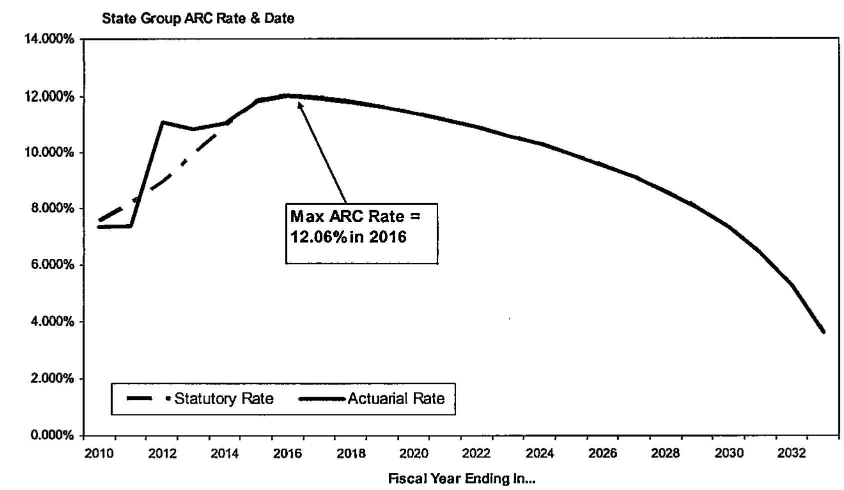
- The projected ARC rate rises to a maximum of 18.54% in FY 2023 – one year later and 1.13% more than Option L.
- The funded ratio falls to a low of 42.5% in FY 2014 and remains below 50% for a total of eight years.
- The funded ratio reaches 60% in FY 2024 and 80% by FY 2030.
- The projected UAL peaks at $8.31 billion in FY 2019 – $177 million more than Option L.

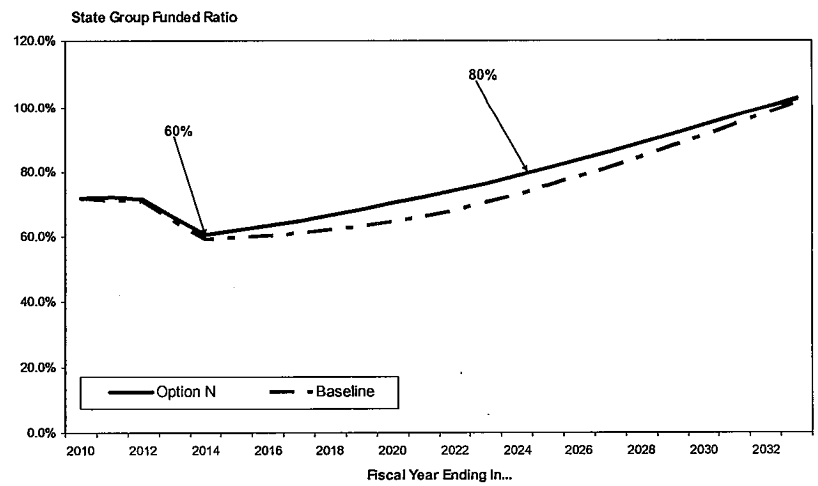
1-25

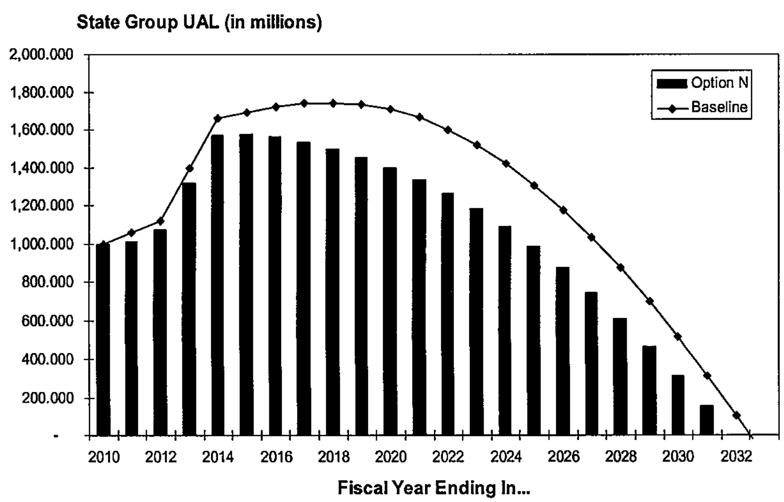
State Group: Option N

1-26

▪Raise cap on employer rate increases to 0.8% in FY '12 and 1.0% in FY '13. Raise Tier I & 2 employee rate by 1.0% in FY '12 and in FY '13. Increase Tier I & 2 multiplier to 1.85% for future service.







▪The projected ARC rate rises to a maximum of 12.06% in FY 2016 – one year earlier and .5% less than Option J.

▪The funded ratio projections reach a low of 60.8% in FY 2014.

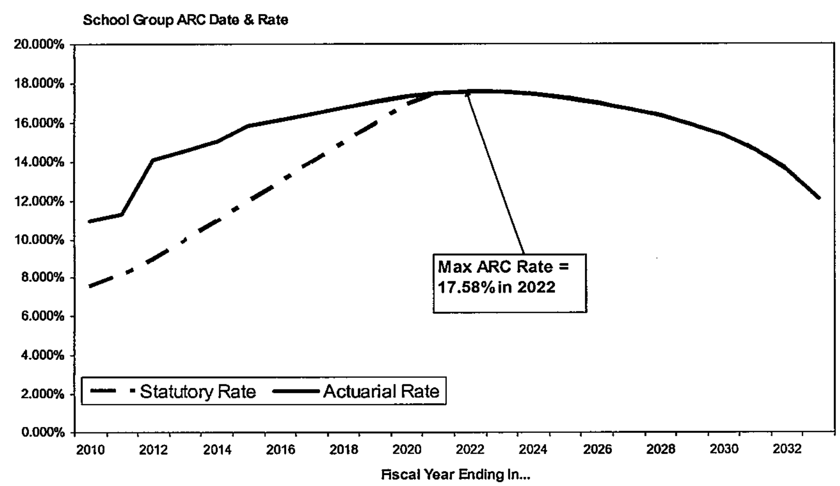
▪The funded ratio recovers to 80% in FY 2025.

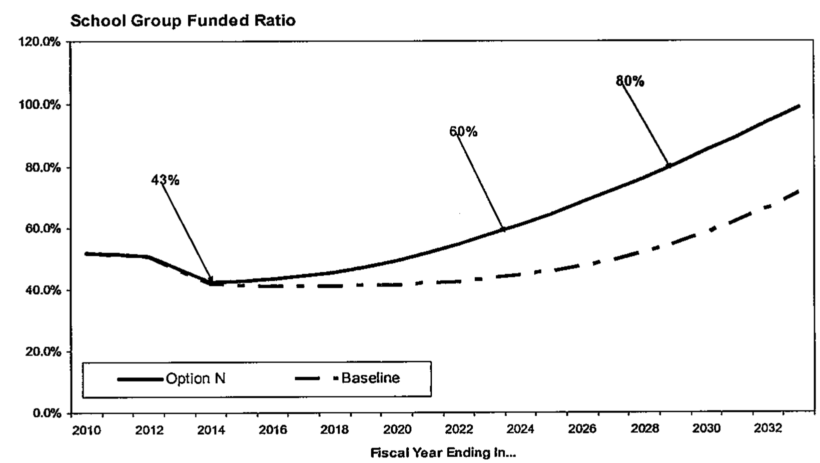
▪The projected UAL peaks at $1.57 billion in FY 2015 – $19 million less than Option J.

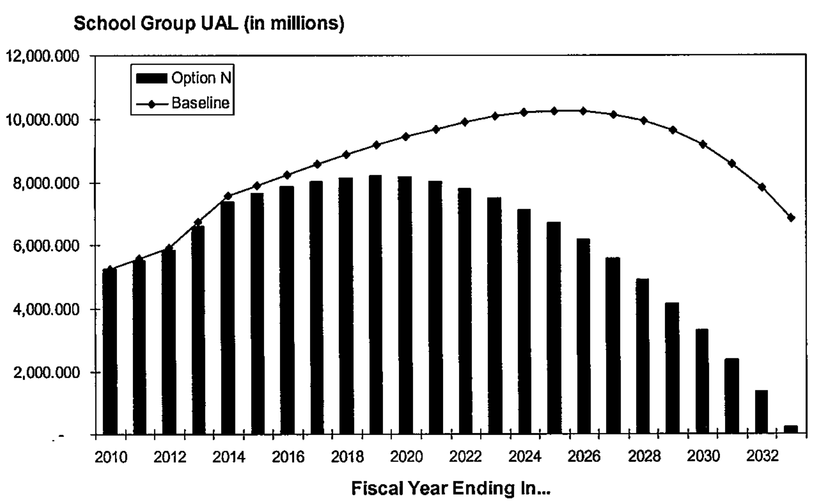
School Group: Option N

▪**Raise cap on employer rate increases to 0.8% in FY '12 and 1.0% in FY '13. Raise Tier I & 2 employee rate by 1.0% in FY '12 and in FY '13. Increase Tier I & 2 multiplier to 1.85% for future service.**

1-27



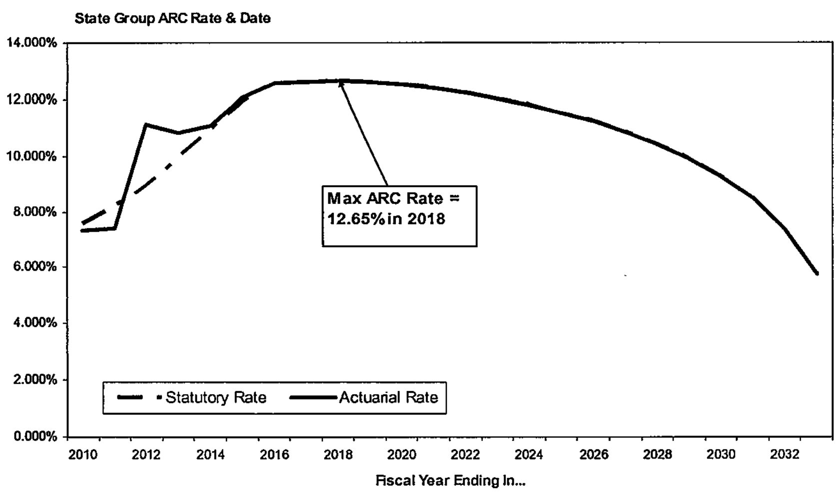


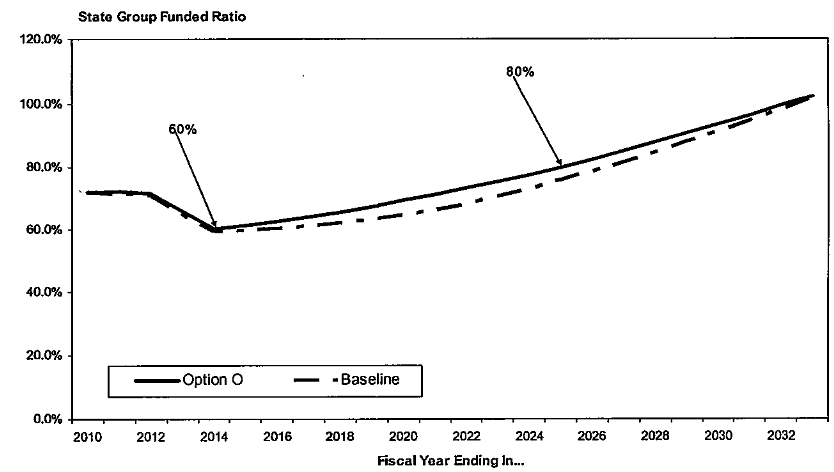


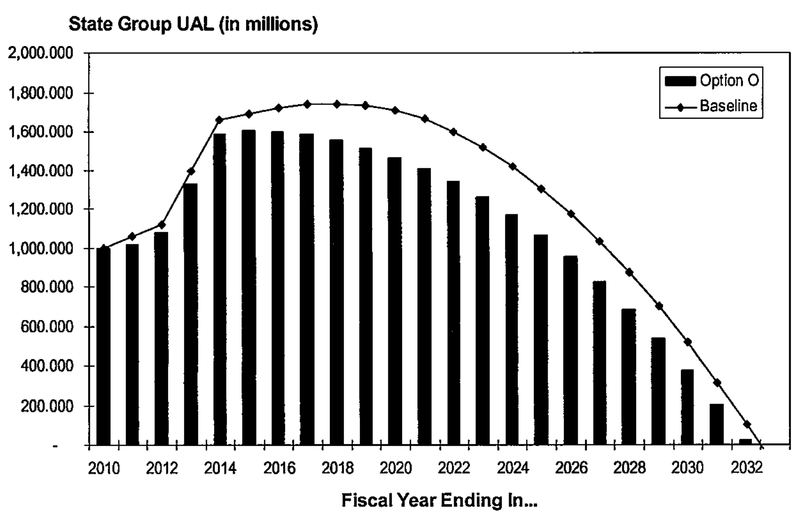
- The projected ARC rate rises to a maximum of 17.58% in FY 2022 – one year earlier and .25% less than Option J.
- The funded ratio falls to a low of 42.5% in FY 2014 and remains below 50% for a total of eight years.
- The funded ratio reaches 60% in FY 2024 and 80% by FY 2029.
- The projected UAL peaks at $8.2 billion in FY 2019 – $130 million less than Option J.

State Group: Option O

- **Raise cap on employer rate increases to 0.8% in FY '12 and 1.0% in FY '13. Raise Tier I employee rate by 1.0% in FY '12 and in FY '13. Increase Tier I multiplier to 1.85% for future service.**







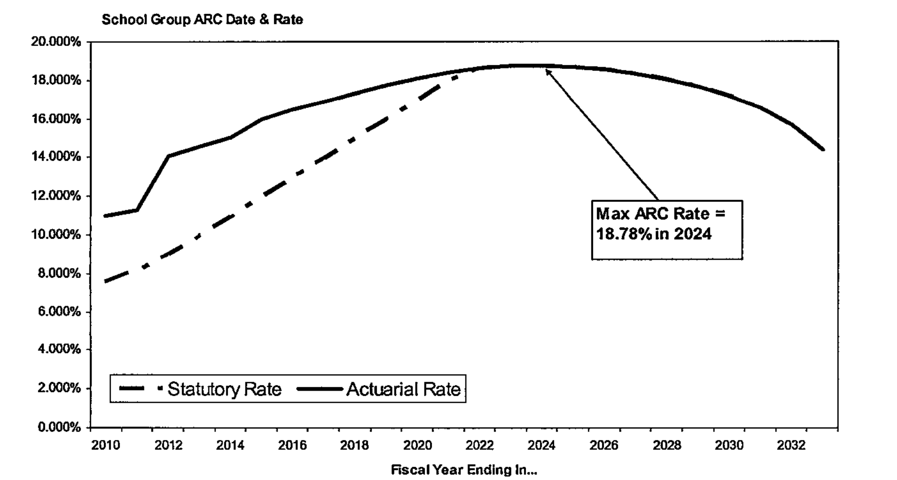
- The projected ARC rate rises to a maximum of 12.65% in FY 2018 – two years later and .59% more than Option N.
- The funded ratio projections are similar to Options K and M – reaching a low of 60.5% in FY 2014.
- The funded ratio recovers to 80% in FY 2025.
- The projected UAL peaks at $1.60 billion in FY 2015 – $29.5 million more than Option N.

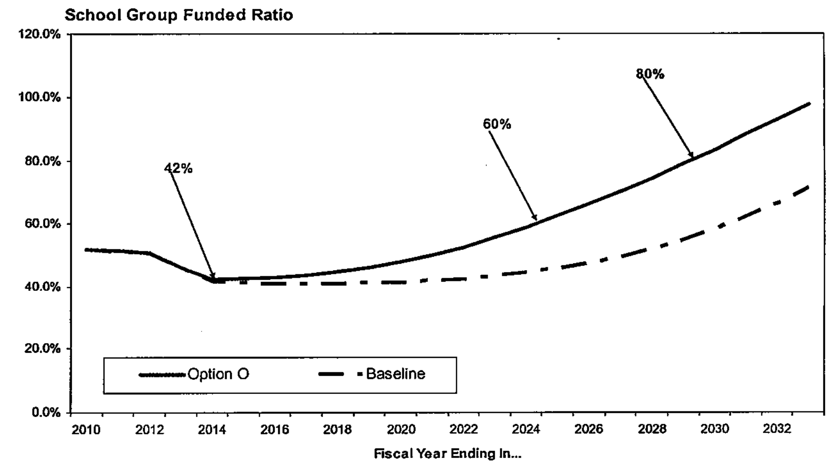
1-28

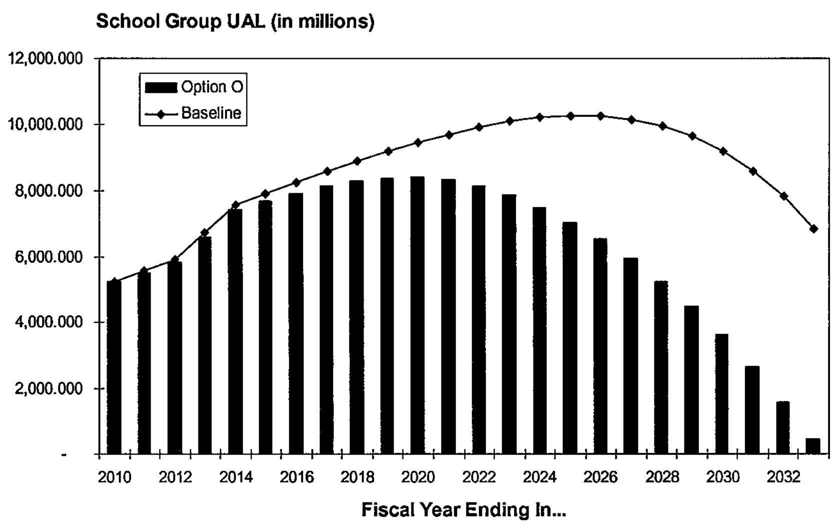
School Group: Option O

- **Raise cap on employer rate increases to 0.8% in FY ’12 and 1.0% in FY ‘13. Raise Tier I employee rate by 1.0% in FY ’12 and in FY ‘13. Increase Tier I multiplier to 1.85% for future service.**

1-39







- The projected ARC rate rises to a maximum of 18.78% in FY 2024 – two years later and 1.2% higher than Option N.
- The funded ratio falls to a low of 42.4% in FY 2014 and remains below 50% for a total of eight years.
- The funded ratio reaches 60% in FY 2025 and 80% by FY 2030.
- The projected UAL peaks at $8.40 billion in FY 2020 – $188 million more than Option N.

Effect on State Contributions

1 - 30

Option J* Estimated Effect on the State and School Group (in millions)

	0.6% Cap	Option J	Additional ER Contributions
FY 2012 Increase in Employer Contributions	$38.13	$47.52	$9.39
FY 2012 Total Employer Contributions	$411.70	$421.09	$9.39
FY 2015 Increase in Employer Contributions	$44.80	$66.62	$21.82
FY 2015 Total Employer Contributions	$538.96	$610.35	$71.39
Total Employer Contributions: FY 2010-2033	$23,977.65	$23,006.01	($971.64)

Option K Estimated Effect on the State and School Group (in millions)**

	0.6% Cap	Option K	Additional ER Contributions
FY 2012 Increase in Employer Contributions	$38.13	$47.52	$9.39
FY 2012 Total Employer Contributions	$411.70	$421.09	$9.39
FY 2015 Increase in Employer Contributions	$44.80	$66.62	$21.82
FY 2015 Total Employer Contributions	$538.96	$610.35	$71.39
Total Employer Contributions: FY 2010-2033	$23,977.65	$24,557.87	$580.22

*Raise cap on employer rate increases to 0.8% in FY '12 and 1.0% in FY '13. Raise Tiers I & 2 employee rate by 0.5% in each of four years, beginning in FY '12. Increase Tiers I & 2 multiplier to 1.85% for future service.

** Raise cap on employer rate increases to 0.8% in FY '12 and 1.0% in FY '13. Raise Tier I employee rate by 0.5% in each of four years, beginning in FY '12. Increase Tier I multiplier to 1.85% for future service.

Effect on State Contributions

Option L* Estimated Effect on the State and School Group (in millions)

	0.6% Cap	Option L	Additional ER Contributions
FY 2012 Increase in Employer Contributions	$38.13	$56.91	$18.78
FY 2012 Total Employer Contributions	$411.70	$430.48	$18.78
FY 2015 Increase in Employer Contributions	$44.80	$66.91	$22.11
FY 2015 Total Employer Contributions	$538.96	$620.55	$81.59
Total Employer Contributions: FY 2010-2033	$23,977.65	$22,570.82	($1,406.83)

Option M Estimated Effect on the State and School Group (in millions)**

	0.6% Cap	Option M	Additional ER Contributions
FY 2012 Increase in Employer Contributions	$38.13	$56.91	$18.78
FY 2012 Total Employer Contributions	$411.70	$430.48	$18.78
FY 2015 Increase in Employer Contributions	$44.80	$66.91	$22.11
FY 2015 Total Employer Contributions	$538.96	$620.55	$81.59
Total Employer Contributions: FY 2010-2033	$23,977.65	$24,155.06	$177.41

*Raise cap on employer rate increases to 1.0% in FY '12. Raise Tiers I & 2 employee rate by 1.0% in FY '12 and in FY '13. Increase Tiers I & 2 multiplier to 1.85% for future service.

**Raise cap on employer rate increases to 1.0% in FY '12. Raise Tier I employee rate by 1.0% in FY '12 and in FY '13. Increase Tier I multiplier to 1.85% for future service.

Effect on State Contributions

1-32

Option N* Estimated Effect on the State and School Group (in millions)

	0.6% Cap	Option N	Additional ER Contributions
FY 2012 Increase in Employer Contributions	$38.13	$47.52	$9.39
FY 2012 Total Employer Contributions	$411.70	$421.09	$9.39
FY 2015 Increase in Employer Contributions	$44.80	$66.62	$21.82
FY 2015 Total Employer Contributions	$538.96	$610.35	$71.39
Total Employer Contributions: FY 2010-2033	$23,977.65	$22,714.30	($1,263.35)

Option O Estimated Effect on the State and School Group (in millions)**

	0.6% Cap	Option O	Additional ER Contributions
FY 2012 Increase in Employer Contributions	$38.13	$47.52	$9.39
FY 2012 Total Employer Contributions	$411.70	$421.09	$9.39
FY 2015 Increase in Employer Contributions	$44.80	$66.62	$21.82
FY 2015 Total Employer Contributions	$538.96	$610.35	$71.39
Total Employer Contributions: FY 2010-2033	$23,977.65	$24,317.79	$340.14

*Raise cap on employer rate increases to 0.8% in FY '12 and 1.0% in FY '13. Raise Tier I & 2 employee rate by 1.0% in FY '12 and in FY '13. Increase Tier I & 2 multiplier to 1.85% for future service.

**Raise cap on employer rate increases to 0.8% in FY '12 and 1.0% in FY '13. Raise Tier I employee rate by 1.0% in FY '12 and in FY '13. Increase Tier I multiplier to 1.85% for future service.

2004 Pension Obligation Bonds

1-33

At the November meeting, the Joint Committee members requested information about the pension obligation bonds issued in February 2004. Key points regarding this bond issue include:

- The Kansas Development Finance Authority (KDFA) issued $500 million of bonds on March 10, 2004, with an effective interest rate of 5.39 percent.
- The KPERS Fund received net proceeds of $440.2 million.
- $55 million of the bond proceeds were used for capitalized interest to lower the debt service in the first three years.
- Debt service on the bonds is paid by the State General Fund. The current annual payment is $36.1 million through FY 2034.
- KDFA anticipates receiving a request from the Secretary of Administration to currently refund the May 1, 2010, $10.415M Series 2004C principal payment in order to obtain current fiscal year budgetary relief. The refunding transaction was authorized by the State Finance Council at its meeting on September 3, 2009.

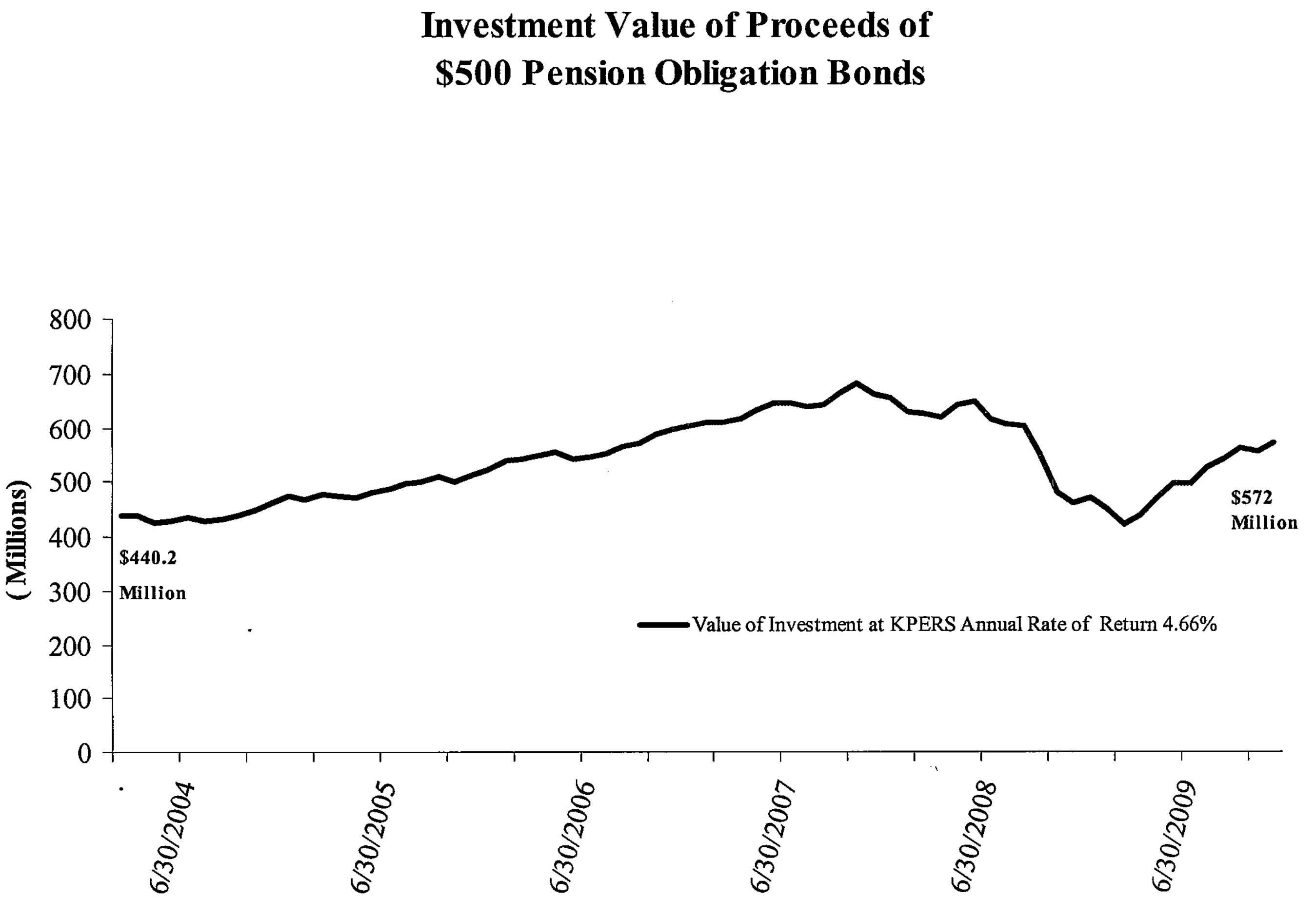
2004 Pension Obligation Bonds (Continued)

1-34

- The annualized return on the investment of the $440.2 million through November 30, 2009, is 4.66 percent, which has generated an additional $132 million in investment earnings to the KPERS Fund.
- See Appendix A for the Sources & Uses Table and Debt Service Schedule for these bonds.

Growth of 2004 Bond Proceeds

1-35



Pension Obligation Bond Options

1-36

At its November meeting, the Committee also requested that KPERS work with KDFA to model two pension obligation bond options. A key reason for considering these options was the substantial projected State budget shortfall in FY 2011 that makes it very difficult to increase employer contribution rates for the next few years.

- **Bond Option P:** The approach in this option is for the State to make an "up-front" employer contribution through a bond issue that matches the present value of a 1% employee contribution increase. In addition, it assumes that member contributions are raised by 1.0% in FY 2012 for Tiers 1 and 2.

- **Bond Option Q:** The approach in this option is for the State to make an "up-front" employer contribution through a bond issue that matches the present value of raising the employer contribution cap from 0.6% to 1.0% (Option A). In addition, it assumes an employee contribution rate increase of .5% for Tiers 1 and 2 in each of four years, beginning FY 2012.

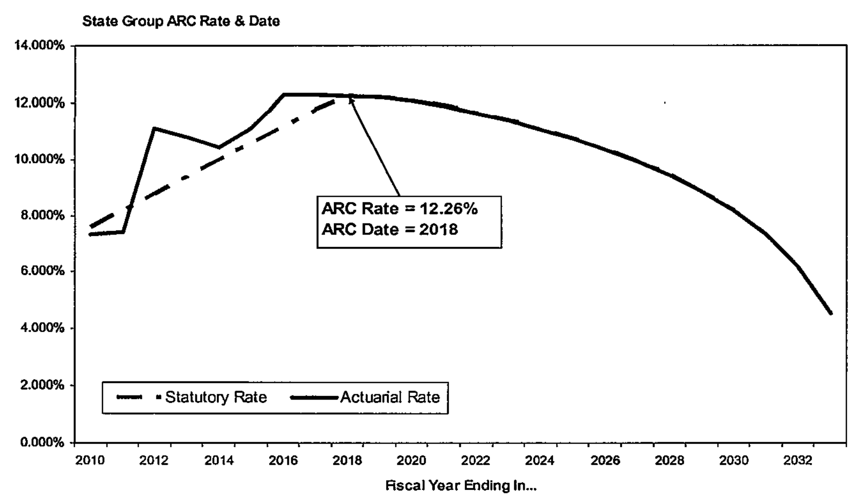
Bond Option P

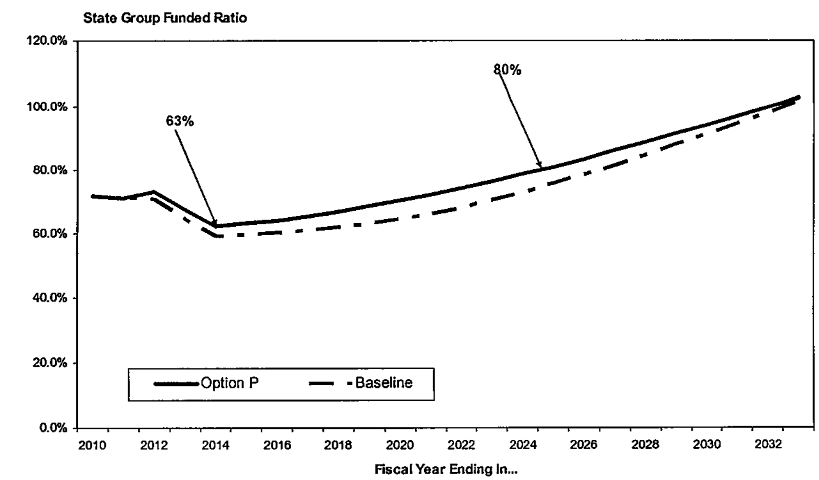
1-37

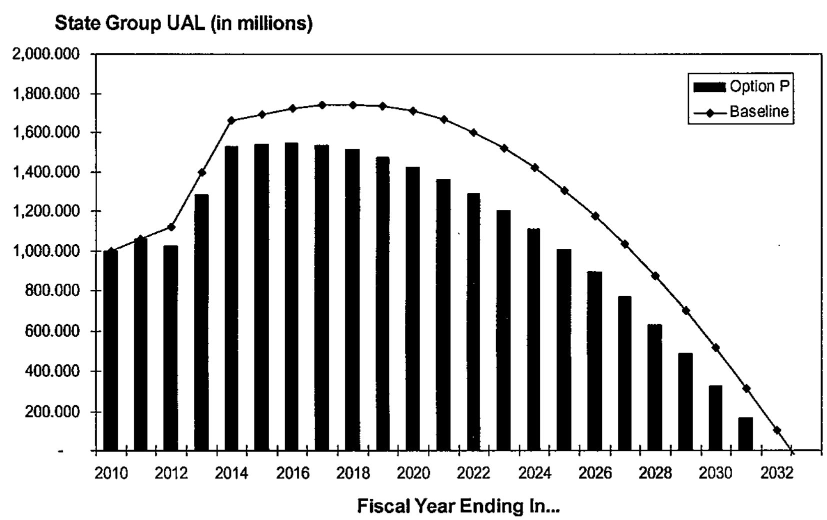
- The approach in this option is for the State to make an up-front employer contribution that matches the present value of a 1% employee contribution increase.
- Assuming a 1.0% increase in the employee contribution rate for both Tiers 1 and 2, effective 7/1/11 (FY 2012), the net present value of the additional employee contributions through FY 2033 is $590 million.
- In addition to the 1.0% increase in member contributions for Tiers 1 and 2, Option P "matches" these employee contributions with a bond issue of $590 million (par amount of $660.3 million).
- Option P is based on the following assumptions.
  - Issuance in 2010.
  - A 23-year amortization period.
  - Phased-in debt service.

State Group: Bond Option P

- **Issue bonds with proceeds of $590 million in 2010 with payments phased in beginning FY '13. Raise Tier I & 2 employee rate by 1.0% in FY '12.**





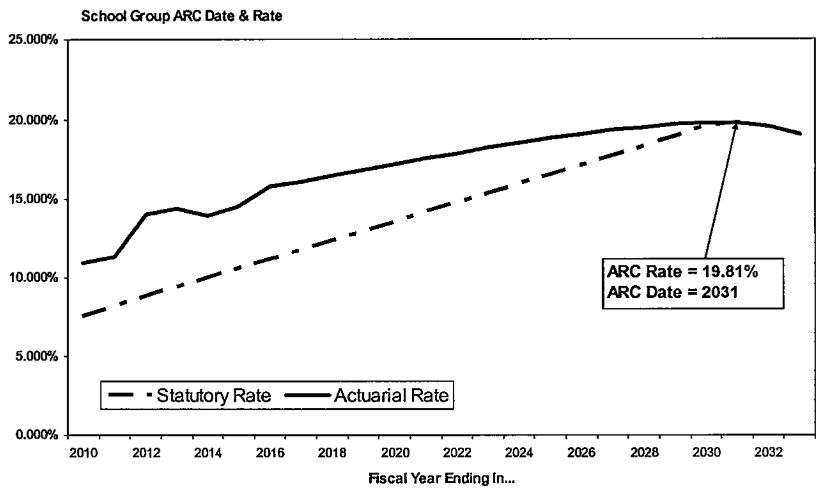


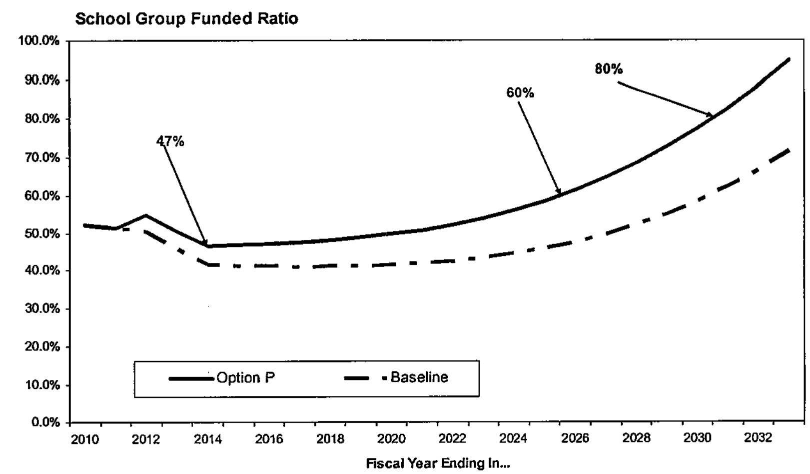
- The projected ARC rate rises to a maximum of 12.26% in FY 2018 – four years earlier and 2.15% less than the Baseline.
- The funded ratio falls to a low of 62.6% in FY 2014 – 3.2% higher than the Baseline.
- The funded ratio reaches 80% by FY 2025.
- The projected UAL peaks at $1.54 billion in FY 2016 – two years earlier and $200 million less than the Baseline.

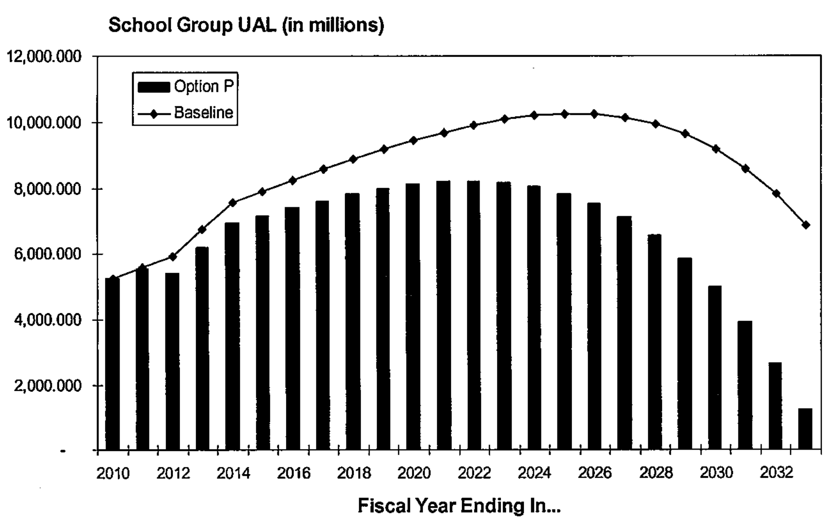
1-38

School Group: Bond Option P

- Issue bonds with proceeds of $590 million in 2010 with payments phased in beginning FY '13. Raise Tier I & 2 employee rate by 1.0% in FY '12.







- The projected ARC rate rises to a maximum of 19.81% in FY 2031. The Baseline does not achieve ARC.
- The funded ratio falls to a low of 46.7% in FY 2014, 5.6% higher than the Baseline.
- The funded ratio reaches 60% in FY 2026 and 80% by FY 2031.
- The projected UAL peaks at $8.23 billion in FY 2022 – $2 billion less than the Baseline.

1-39

Option P: State Contributions and Debt Service

Fiscal Year	Baseline*		Option P: $590 Million Bond Issue*			Total Increase in Annual State Outlays*
	State/School Current Contributions (0.6% Cap)	Annual Increase in Contributions	Option P: State/School Contributions (0.6% Cap)	SGF Debt Service Payments	Total State Payment	
2011	$ 373.57	$ 39.35	$ 373.57	$ -	$ 373.57	$ 39.35
2012	$ 411.70	$ 38.13	$ 411.70	$ -	$ 411.70	$ 38.13
2013	$ 451.81	$ 40.11	$ 451.81	$ 36.69	$ 488.50	$ 76.80
2014	$ 494.17	$ 42.36	$ 494.17	$ 36.69	$ 530.86	$ 79.05
2015	$ 538.96	$ 44.79	$ 538.96	$ 58.36	$ 597.32	$ 103.15
2020	$ 805.78	$ 59.76	$ 805.78	$ 58.36	$ 864.14	$ 118.12
2025	$ 1,164.48	$ 80.45	$ 1,164.48	$ 58.36	$ 1,222.84	$ 138.81
2033	$ 2,004.25	$ 126.70	$ 1,857.81	$ 58.36	$ 1,916.17	$ 185.06
Total	**$ 23,977.65**		**$ 23,775.54**	**$1,182.24**	**$ 24,957.78**	

* In millions

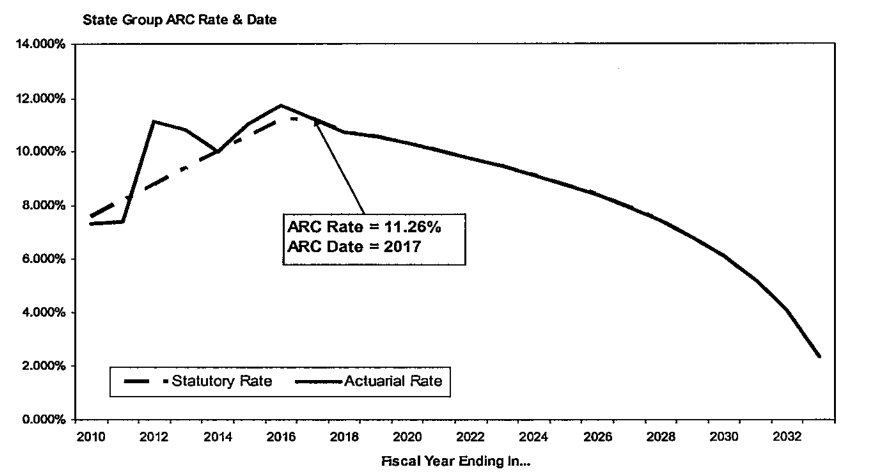
1-40

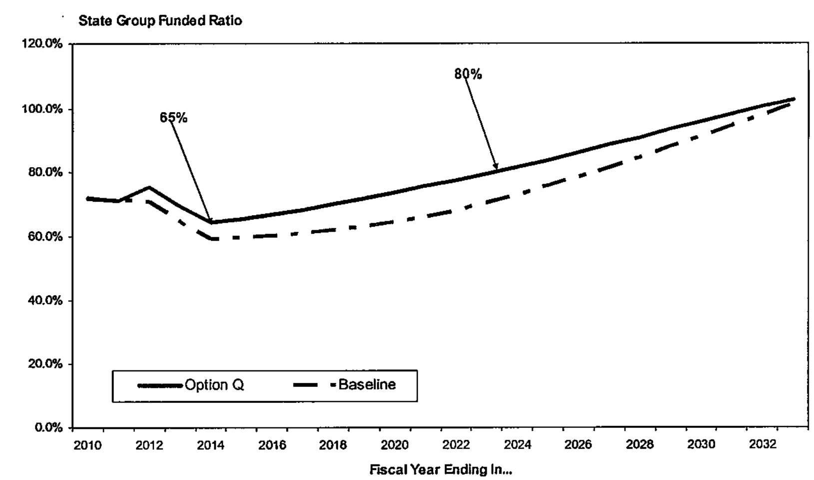
Bond Option Q

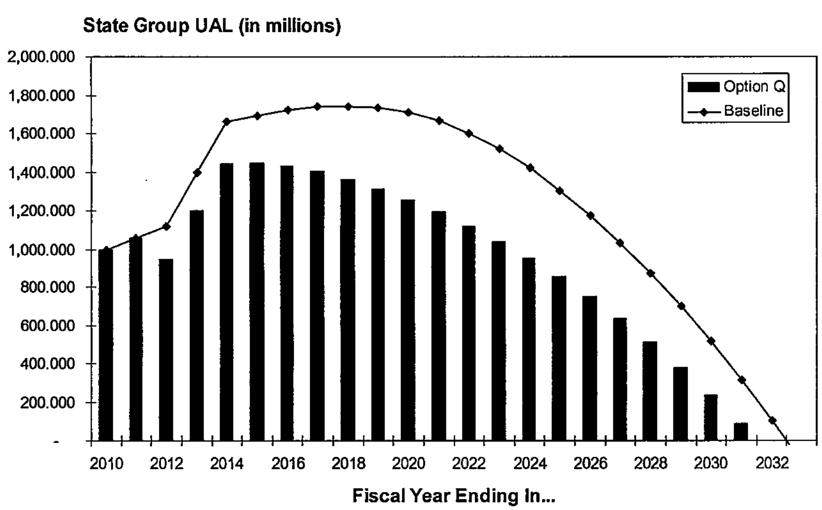
- Option A raises the cap on employer contribution rate increases to 1% per year beginning in FY 2011.
- When compared to the Baseline employer contributions with a .6% cap, Option A results in additional employer contributions of $1.5 billion through the end of the actuarial amortization period (FY 2033).
- The net present value of that payment stream is equivalent to $1.055 billion.
- Option Q replaces the additional employer contribution increases generated by a 1% cap with a bond issue of $1.055 billion (par amount of $1.2 billion). In addition, it includes an increase in member contributions of .5% for both Tiers 1 and 2 in each of four years, beginning FY 2012.
- Option Q is based on the following assumptions:
  - Issuance in 2010.
  - A 23-year amortization period.
  - Phased-in debt service.

State Group: Bond Option Q

- **Issue bonds with proceeds of $1.055 billion in 2010 with payments phased in, beginning FY '13. Raise Tier I & 2 employee rate by .05% in each of four years, beginning in FY '12.**







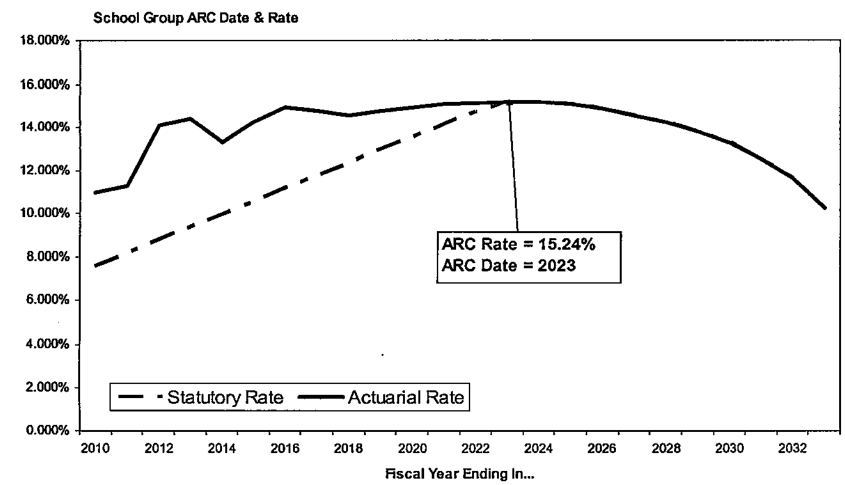
- The projected ARC rate rises to a maximum of 11.26% in FY 2017 – 1.0% lower and one year earlier than Option P.
- The funded ratio dips to 64.7% in FY 2014 and reaches 80% by FY 2024.
- The projected UAL peaks at $1.44 billion in FY 2015 – $100 million less and one year earlier than Option P.

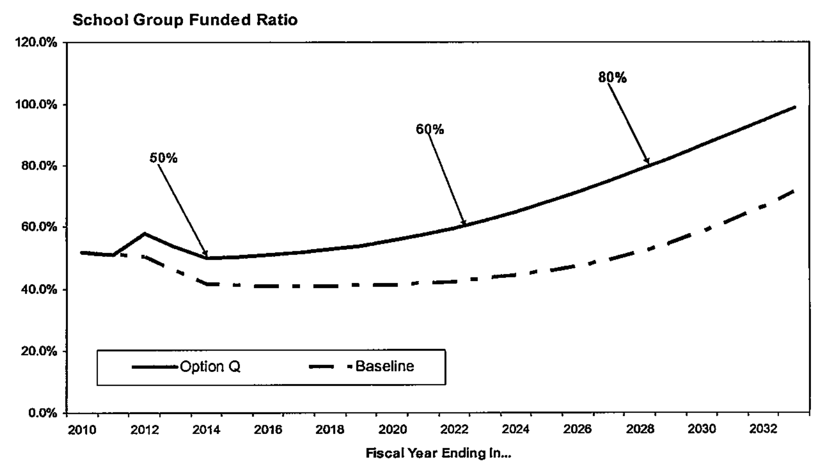
1-42

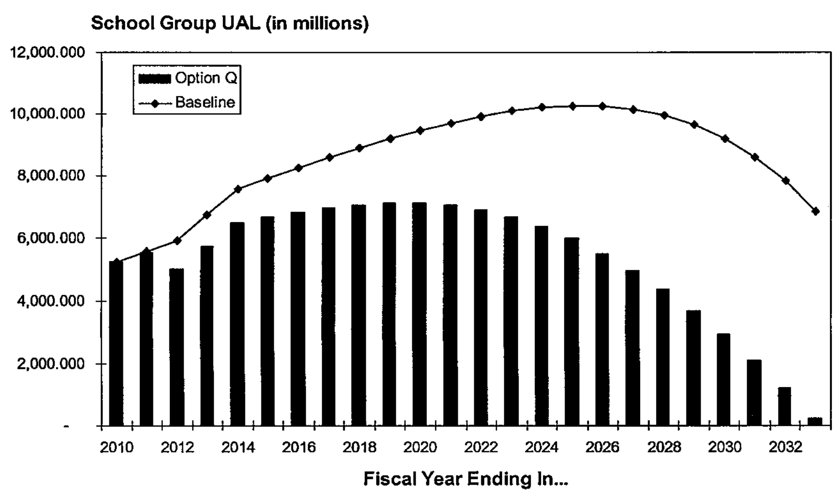
School Group: Bond Option Q

- **Issue bonds with proceeds of $1.055 billion in 2010 with payments phased in, beginning FY '13. Raise Tier I & 2 employee rate by .05% in each of four years, beginning in FY '12.**

1-43







- The projected ARC rate rises to a maximum of 15.24% in FY 2023 – 4.6% lower and 8 years earlier than Option P.
- The funded ratio falls to a low of 50.2% in FY 2014. This is the only option that remains above 50% through FY 2033.
- The funded ratio reaches 60% in FY 2023 and 80% by FY 2029.
- The projected UAL peaks at $7.13 billion in FY 2019 -- $1.1 billion less and three years earlier than Option P.

Option Q: State Contributions and Debt Service

Fiscal Year	Baseline*		Option Q: $1.055 Billion Bond Issue*			Total Increase in Annual State Outlays*
	State/School Current Contributions (0.6% Cap)	Annual Increase in Contributions	Option Q: State/School Contributions (0.6% Cap)	SGF Debt Service Payments	Total State Payment	
2011	$ 373.57	$ 39.35	$ 373.57	$ -	$ 373.57	$ 39.35
2012	$ 411.70	$ 38.13	$ 411.70	$ -	$ 411.70	$ 38.13
2013	$ 451.81	$ 40.11	$ 451.81	$ 65.55	$ 517.36	$ 105.66
2014	$ 494.17	$ 42.36	$ 494.17	$ 65.55	$ 559.72	$ 107.91
2015	$ 538.96	$ 44.79	$ 538.96	$ 104.26	$ 643.22	$ 149.05
2020	$ 805.78	$ 59.76	$ 805.78	$ 104.26	$ 910.04	$ 164.02
2025	$ 1,164.48	$ 80.45	$ 1,061.41	$ 104.26	$ 1,165.67	$ 184.71
2033	$ 2,004.25	$ 126.70	$ 965.89	$ 104.26	$ 1,070.15	$ 230.96
Total	**$ 23,977.65**		**$ 19,625.62**	**$2,112.03**	**$ 21,737.65**	

* In millions

Observations Regarding Options

1-45

A review of all options illustrates various trade-offs and limitations, some of which are summarized below:

ARC Rates and Dates

- The State Group is currently at its ARC of 7.34%, but the ARC will rise to 14.41% in FY 2022 under the Baseline. The School Group is out of actuarial balance under the Baseline.
- ARC rates will rise over a period of years under all options presented to the Committee – for 6 to 8 years for the State Group and 7 to 21 years for the School Group.
  - The State Group's maximum ARC rate ranges from 11.25% to 14.00%.
  - While all options bring the School Group into actuarial balance, many are at very high ARC rates after 10 to 15 years of annual increases.
    - The School Group's maximum ARC rate varies from 15.24% to 20.68%.
- For both Groups, Option Q results in the lowest ARC rate and Option E the highest.
  - Option Q: $1.055 billion bond issue with a 2% increase in member contributions phased in over four years.
  - Option E: Phase in a 1% cap on employer contribution rate increases. No employee rate increases.

Observations Regarding Options (Continued)

1-46

Funded Ratios

- Increases in employer contributions, while necessary, will not substantially affect the funded ratio for a number of years until compounding of investment earnings has the opportunity to grow the new assets relative to liabilities.
- Under all options presented to the Committee, funded ratios continue falling through FY 2014.
  - The State Group's lowest funded ratios are clustered around 60%, while the School Group's low point primarily falls between 41% to 45%.
- A funded ratio of 80% and rising is generally considered to be a "healthy" level for public pension plans.
- Under the options presented to the Committee, both the State Group and School Group will remain below 80% funded for much of the remainder of the amortization period ending in FY 2033. Under most options –
  - The State Group reaches 80% funded around FY 2025.
  - The School Group reaches 80% funded around FY 2028 to FY 2030.

Observations Regarding Options (Continued)

- A funded ratio of 60% or below is generally considered to reflect severe underfunding that requires prompt remedial action.
  - The State Group's funded ratio hovers around 60% at its low point in FY 2014.
  - Under all options provided to the Committee, the School Group's funded ratio remains below 60% for 10 to 15 years, and it remains below 50% for 7 to 9 years under many of the options. As a result, the School Group will remain particularly vulnerable to further market downturns that result in investment performance below 8%.
- A major injection of money in the early years (such as through pension obligation bonds) or large, sustained investment returns in the near term may improve funded ratios somewhat faster than increases in employer and/or employee contributions alone.

Unfunded Actuarial Liability

- Under the Baseline, the State Group's UAL peaks at $1.743 billion in FY 2018, and the School Group's UAL peaks at $10.282 billion in FY 2025.
- As the investment losses from 2009 are smoothed in over the next four years, the UAL is expected to rise more steeply under all options. It will continue rising another one to six years.

1-47

Observations Regarding Options (Continued)

1-48

- All options provided to the Committee reduce the maximum UAL.
  - The reduction in the State Group's UAL ranges from 3% (Option E) to 17% (Option Q).
  - The reduction in the School Group's UAL ranges from 14% (Option E) to 31% (Option Q).

Effect of Additional Funding

- The timing, size and combination of additional funding sources – higher caps on employer rate increases, employee rate increases, or pension obligation bonds – affect all of the measures of the System's long-term funding status.
  - Providing additional funding quickly and in larger amounts results in –
    - The greatest reductions in the ARC rates and UAL.
    - A smaller decline in funded ratios through FY 2014.
    - Lower total employer contributions through the end of the amortization period.
  - Options G and Q provide examples of these effects.
    - Option G: 2% employer cap and 2% Tier 1 employee rate increase, both in FY 2011.
    - Option Q: $1.055 billion bond issue with a 2% increase in member contributions phased in over four years.

Observations Regarding Options (Continued)

1-49

- Options involving delayed and smaller amounts of funding increases result in –
  - The highest UAL's and ARC rates, which rise to levels that may become unsustainable.
  - Greater declines in funded ratios through FY 2014.
  - Higher total employer contributions through the end of the amortization period.
- Options A and E provide examples of these effects.
  - Option A: 1% cap on employer contribution rate increases, effective FY 2011. No employee rate increases.
  - Option E: Phase in a 1% cap on employer contribution rate increases. No employee rate increases.

Appendix A

FINAL

$500,000,000 Kansas Development Finance Authority

Revenue Bonds, 2004C (Taxable)

(Kansas Public Employees Retirement System)

2004C KPERS FINAL

Net Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Capitalized Int	Net New D/S
06/30/2004	-	-	-	-	-	-
06/30/2005	-	-	29,770,445.81	29,770,445.81	(29,770,445.81)	-
06/30/2006	-	-	26,076,302.90	26,076,302.90	(16,076,302.90)	10,000,000.00
06/30/2007	-	-	26,076,302.90	26,076,302.90	(11,076,302.90)	15,000,000.00
06/30/2008	-	-	26,076,302.90	26,076,302.90	-	26,076,302.90
06/30/2009	10,070,000.00	3.426%	26,076,302.90	36,146,302.90	-	36,146,302.90
06/30/2010	10,415,000.00	3.796%	25,731,304.70	36,146,304.70	-	36,146,304.70
06/30/2011	10,805,000.00	4.152%	25,335,951.30	36,140,951.30	-	36,140,951.30
06/30/2012	11,255,000.00	4.372%	24,887,327.70	36,142,327.70	-	36,142,327.70
06/30/2013	11,745,000.00	4.522%	24,395,259.10	36,140,259.10	-	36,140,259.10
06/30/2014	12,275,000.00	4.592%	23,864,150.20	36,139,150.20	-	36,139,150.20
06/30/2015	12,835,000.00	4.722%	23,300,482.20	36,135,482.20	-	36,135,482.20
06/30/2016	13,440,000.00	4.812%	22,694,413.50	36,134,413.50	-	36,134,413.50
06/30/2017	14,085,000.00	4.912%	22,047,680.70	36,132,680.70	-	36,132,680.70
06/30/2018	14,775,000.00	5.012%	21,355,825.50	36,130,825.50	-	36,130,825.50
06/30/2019	15,515,000.00	5.371%	20,615,302.50	36,130,302.50	-	36,130,302.50
06/30/2020	16,345,000.00	5.371%	19,781,991.86	36,126,991.86	-	36,126,991.86
06/30/2021	17,215,000.00	5.371%	18,904,101.90	36,119,101.90	-	36,119,101.90
06/30/2022	18,135,000.00	5.371%	17,979,484.26	36,114,484.26	-	36,114,484.26
06/30/2023	19,105,000.00	5.371%	17,005,453.40	36,110,453.40	-	36,110,453.40
06/30/2024	20,130,000.00	5.371%	15,979,323.86	36,109,323.86	-	36,109,323.86
06/30/2025	21,205,000.00	5.371%	14,898,141.56	36,103,141.56	-	36,103,141.56
06/30/2026	22,335,000.00	5.371%	13,759,221.00	36,094,221.00	-	36,094,221.00
06/30/2027	23,530,000.00	5.501%	12,559,608.16	36,089,608.16	-	36,089,608.16
06/30/2028	24,815,000.00	5.501%	11,265,222.86	36,080,222.86	-	36,080,222.86
06/30/2029	26,165,000.00	5.501%	9,900,149.70	36,065,149.70	-	36,065,149.70
06/30/2030	27,590,000.00	5.501%	8,460,813.06	36,050,813.06	-	36,050,813.06
06/30/2031	29,090,000.00	5.501%	6,943,087.16	36,033,087.16	-	36,033,087.16
06/30/2032	30,675,000.00	5.501%	5,342,846.26	36,017,846.26	-	36,017,846.26
06/30/2033	32,345,000.00	5.501%	3,655,414.50	36,000,414.50	-	36,000,414.50
06/30/2034	34,105,000.00	5.501%	1,876,116.06	35,981,116.06	-	35,981,116.06
Total	**$500,000,000.00**	-	**$546,614,330.41**	**$1,046,614,330.41**	**(56,923,051.61)**	**$989,691,278.80**

Yield Statistics

Bond Year Dollars	$10,199,523.33
Average Life	20.399 Years
Average Coupon	5.3592145%
Net Interest Cost (NIC)	5.3969227%
True Interest Cost (TIC)	5.3848214%
Bond Yield for Arbitrage Purposes	5.3575064%
All Inclusive Cost (AIC)	5.4010885%

FINAL

$500,000,000 Kansas Development Finance Authority

Revenue Bonds, 2004C (Taxable)

(Kansas Public Employees Retirement System)

2004C KPERS FINAL

Sources & Uses

Dated 03/10/2004 | Delivered 03/10/2004

Sources Of Funds

Par Amount of Bonds	$500,000,000.00
Total Sources	**$500,000,000.00**

Uses Of Funds

Deposit to Project Construction Fund	440,165,000.00
Deposit to Capitalized Interest (CIF) Fund	55,030,831.95
Bond Insurance Premium (22.5 bp)	2,231,062.87
Total Underwriter's Discount (0.323%)	1,615,000.00
Costs of Issuance	958,105.18
Total Uses	**$500,000,000.00**

Joint Committee on Pensions, Investments and Benefits

Monday, December 14, 2009 10:00 AM - Statehouse 545-N

Kansas Development Finance Authority Presentation Notes

Steve Weatherford, President

REQUEST: The Committee asked for a short presentation from KDFA about the current Kansas bond ratings and if any negative impact might be anticipated from issuing pension obligation bonds.

Current Rating

In August 2009, Moody's Investors Services affirmed the State's issuer rating of Aa1 with a stable outlook and Standard & Poor's affirmed the State's issuer credit rating of AA+. In their reports, these two credit rating agencies made the following observations regarding the strengths and challenges of the State's finances:

Strengths:

a) Relatively diverse economic base, which limits, in part, the effects of potential softness in manufacturing and agriculture (S&P)

b) Historically conservative fiscal management, which had allowed Kansas to maintain financial stability through economic cycles and revenue shortfalls (S&P)

c) Low debt burden (S&P)

d) Strong management, featuring most fiscal best practices and a high level of institutional financial flexibility (Moody's)

e) Low liability for other post-employment benefits (Moody's)

f) History of timely appropriations for debt service, reliance on market access for subject-to-appropriation debt (Moody's)

Challenges:

a) Ongoing financial challenges related to increased education spending, coupled with another suspension of the statutory reserve requirement (S&P)

b) Spending pressures and revenue slowdown that have reduced state's available reserves (Moody's)

c) Use of non-recurring fiscal measures, such as current debt restructuring transaction [2009M/N], likely to grow through coming fiscal year (Moody's)

d) Economic exposure to volatile aircraft manufacturing sector, as well as consolidating telecommunications industry (Moody's)

Potential Negative Impact of Additional Pension Related Bonds

KDFA believes that it is possible that the issuance of additional SGF-backed bonds to provide proceeds to KPERS to reduce the Unfunded Actuarial Liability (UAL) could result in a negative impact to the State's credit rating. The likelihood of this occurring hinges not simply on the size of such a transaction but more on the overall finances of the State and its ability and willingness to bring revenues and expenditures into balance and rebuilding reserves. If the additional bonds were structured to simply defer or push out the point at which the State would achieve a greater level of fiscal balance and rebuilt reserves, KDFA believes that this would be viewed unfavorably by both S&P and Moody's and could lead to a negative outlook or downgrade.

REQUEST: In addition, it would be helpful to discuss current interest rates for taxable municipal bonds, and why new pension obligation bonds would not be eligible for the federal subsidy paid for Build America Bonds that also are taxable.

Current Interest Rates for Taxable Municipal Bonds

Estimate only for AA/Aa2 rated (vs. KDFA Series 2004C rates)

5 year – 3.70% (3.43%)

10 year – 5.30% (5.37%)

20 year – 6.25% (5.50%)

Not Eligible for Federal Subsidy (BABs)

The American Recovery and Reinvestment Act of 2009 allows governmental issuers to sell bonds as taxable debt *that would otherwise be tax-exempt* and receive a direct cash subsidy from the U.S Treasury equal to 35% of all interest paid for the term of the debt.

Presentation on KP&F and Judges Contribution Rates

Joint Committee on Pension, Benefits, and Investments
December 14, 2009
Attachment 3

Presented By:
Patrice A. Beckham, F.S.A.
Principal & Consulting Actuary

November 20, 2009

Milliman

Actuarial Value of Assets

JCPIB 3-2
12-14-09

- Market value not used directly in valuation
- Asset valuation method used to smooth the effect of market fluctuations
- Gain/loss (actual vs 8% expected) as measured on market value spread evenly over 5 years
- Resulting value of actuarial assets must be within corridor of 80-120% of pure market value (corridor applied this year).
- Magnitude of 2008 loss makes the application of the corridor more significant - large increase in contribution rates for KP&F and Judges

KP&F Actuarial Contribution Rate

JCPIB 3-3
12-14-09

Assumes 8% return for 2009 and all future years

KP&F Employer Contribution Rates

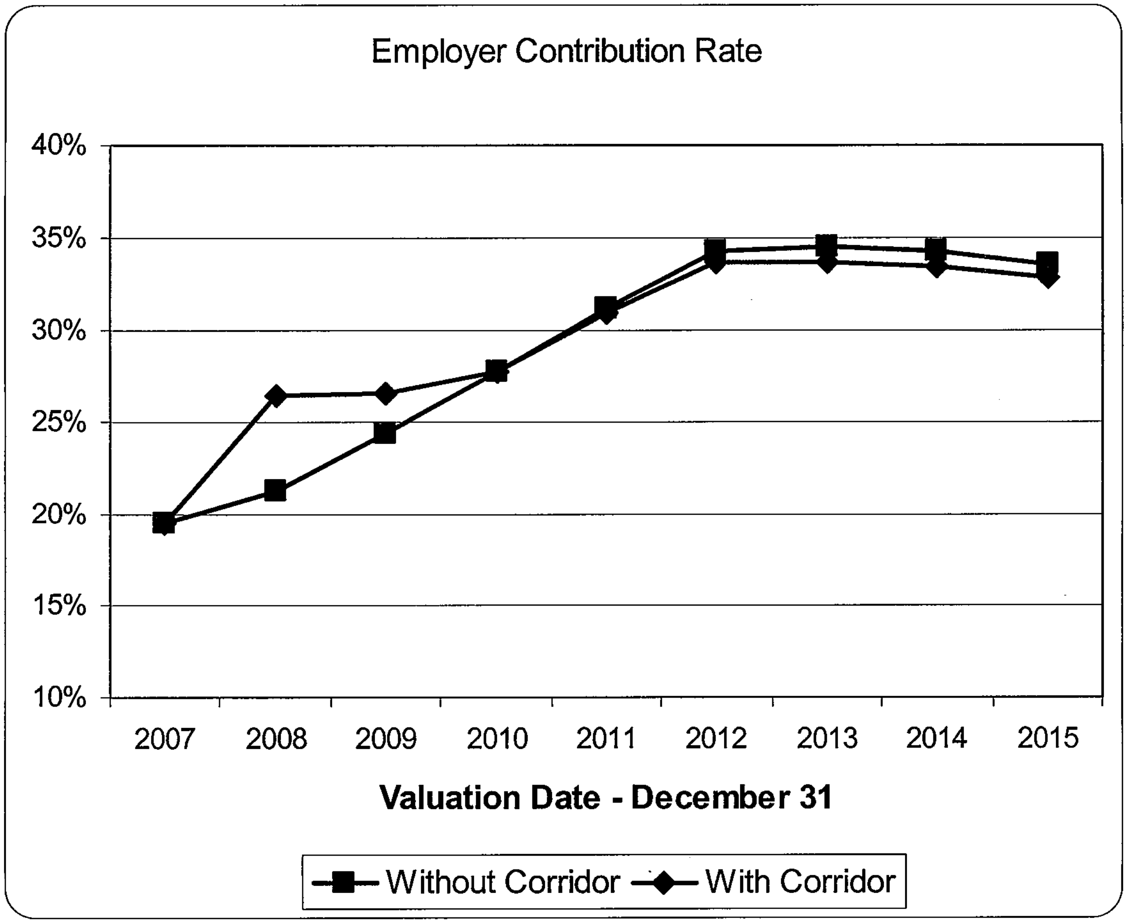
JCPIB 3-4
12-14-09

Val Date 12/31	FYE	With Corridor	Without Corridor
2007	2010	12.86%	12.86%
2008	2011	17.88%	14.57%
2009	2012	18.28%	16.80%
2010	2013	19.10%	19.10%
2011	2014	21.30%	21.53%
2012	2015	22.76%	23.11%
2013	2016	23.02%	23.40%

Assumes 8% return for 2009 and all future years

Judges Actuarial Contribution Rate

JCPIB 3-5
12-14-09



Assumes 8% return for 2009 and all future years

JCPIB 3-6
12-14-09

Judges Employer Contribution Rates

Val Date 12/31	FYE	With Corridor	Without Corridor
2007	2011	19.49%	19.49%
2008	2012	26.38%	21.28%
2009	2013	26.54%	24.46%
2010	2014	27.71%	27.71%
2011	2015	30.91%	31.16%
2012	2016	33.70%	34.31%
2013	2017	33.74%	34.49%

Assumes 8% return for 2009 and all future years

Recommended Action

JCPIB 3-7
12-14-09

- Reconsider contribution rates given the unusual market conditions in 2008
- Impact of corridor was significant
  - KP&F and Judges have no statutory cap on contribution increases to mitigate the impact of the corridor
- Corridor creates volatility in the contribution rates just when you need smoothing the most
- Recommend Board adopt the employer contribution rates that result from suspending application of the corridor
  - More systematic increases
  - Time to plan ahead for future increases
  - Possible relief from increases if future market gains

Milliman

MEMORANDUM

To: Joint Committee on Pensions, Investments and Benefits

From: Glenn Deck, Executive Director Glenn Deck
Kansas Public Employees Retirement System

Date: December 14, 2009

Subject: KP&F and Judges Employer Contribution Rates

At the September Joint Committee meeting, the System's actuary, Milliman, presented the December 31, 2008, actuarial valuation, which calculated employer contribution rates for the State for FY 2012 and local governments for CY 2011.

One of the key steps in determining contribution rates is the valuation of the System's assets. Market value is not used directly in the valuation. The asset valuation method that Milliman uses to determine the actuarial value of assets smoothes the effect of market fluctuations on assets. The actual gain or loss on assets from the year of the valuation vs. the 8% investment assumption is spread evenly over five years. The resulting actuarial value of assets must be within a "corridor" of 80-120% of the market value. If the actuarial value exceeds this corridor, it is adjusted to match the 80% or 120% limit by recognizing additional gains or losses in that valuation year. Therefore, the corridor's impact is to speed up the recognition of extraordinary gains and losses.

This corridor concept was adopted several years ago by the Board of Trustees and, due to the large portfolio loss in 2008, was applied for the first time in this valuation. The application of the corridor would result in a very large increase in the employer contribution rates for the KP&F and Judges systems. If the corridor is applied, KP&F employer contribution rate would increase 5.02% in one year—from 12.86% in FY 2011 for the State (CY 2010 for local governments) to 17.88% in FY 2012 for the State (CY 2011 for local governments). The Judges employer contribution rate would increase 6.89% in one year—from 19.49% in FY 2011 to 26.38% in FY 2012. KPERS employer contribution rates are not affected by the corridor because of the 0.6% statutory cap on annual increases.

Such a large and abrupt increase in KP&F and Judges employer contribution rates would have a major budgetary impact for the State and local governments. Application of the corridor creates volatility in the contribution rates just when smoothing is most needed to even out large swings caused by unusual market losses and gains. Milliman analyzed the impact of suspending application of the corridor for KP&F and Judges. This review found that such a suspension would result in more systematic, measured annual increases and provide employers more time to plan for future increases. Under this method, the KP&F rates would increase 1.71% and Judges rates would increase 1.79% in the first year. Annual increases would be similar for the next four years. Moreover, market gains

KPERS

JCPIB 3-8
12-14-09

in subsequent years may offset some portion of the remaining 2008 losses over the balance of the five-year smoothing period, thereby providing additional relief from employer contribution increases.

Attached is the presentation Milliman made to the KPERS Board at its November meeting showing the projected impact on employer rates from lifting the corridor. The Board approved Milliman's recommendation to adopt the KP&F and Judges employer contribution rates that result from suspending the application of the corridor for FY 2012 for the State (CY 2011 for local employers). Pat Beckham of Milliman will be available to present this material to the Joint Committee and answer any questions.

Attachment