MINUTES

JOINT COMMITTEE ON PENSIONS, INVESTMENTS, AND BENEFITS

September 2, 2010
Room 548-S—Statehouse

Members Present

Senator Steve Morris, Chairperson
Representative Rob Olson, Vice-chairperson
Representative Geraldine Flaharty, Ranking Minority Member
Senator Jay Emler
Senator Anthony Hensley
Senator Laura Kelly
Representative Richard Carlson
Representative Margaret Long
Representative Richard Proehl
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
Daniel Yoza, Office of the Revisor of Statutes
Gary Deeter, Committee Secretary

Conferees

Glenn Deck, Executive Director, Kansas Public Employees Retirement System
Patrice Beckham, Kansas Public Employees Retirement System Consulting Actuary, Milliman, Inc.
Vince Smith, Chief Investment Officer, Kansas Public Employees Retirement System

Thursday, September 2
Morning Session

The Chairperson welcomed Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERS), who introduced Patrice Beckham, the KPERS Consulting Actuary, Milliman, Inc. Ms. Beckham reviewed the actuarial valuation of KPERS as of December 31, 2009 (Attachment 1). She explained that the valuation measures the assets and liabilities of KPERS, calculates future employer contribution rates, and provides a baseline for legislators. She noted that this report is the first valuation to include Tier II KPERS members. She offered a summary as follows:

- The unfunded actuarial liability (UAL) decreased by $600.0 million from $8.3 billion in December 2008 to $7.7 billion as of December 31, 2009. The decrease in the UAL increased the funded ratio from 59.0 percent to 64.0 percent.

- The market value of assets (MVA) increased 23.0 percent and the actuarial value (AVA) increased 16.7 percent.

- The deferred actuarial loss totaled $1.7 billion; it is likely this deferred loss will continue to impact future valuations, even if the 8.0 percent expected return is met. This translates into a higher UAL and lower funded ratio. The target funded ratio is 80.0 percent; there is reason for concern if the funded ratio is 60 percent or lower. Currently, the KPERS School group funded ratio is 56.0 percent.

- A shortfall in employer contributions exists due to a gap between the actuarial and statutory rates; the KPERS State and Local groups are in actuarial balance, but the KPERS School group is not.

Ms. Beckham concluded by stating that action is needed to strengthen funding, especially for the KPERS School group, a recommendation echoed by the Chairperson. Mr. Deck added that KPERS is nationally ranked as one of the lowest funded systems at 64.0 percent funding.

Ms. Beckham also reviewed a preliminary document issued by the Government Accounting Standards Board (GASB), which sets forth proposed changes in accounting standards used by state and local governments (Attachment 2). She noted that, although the new standards will not affect pension plans directly, the proposed standards, by decoupling accounting from funding, will require adjustments in the way reports are composed. The decoupling will eliminate both the Annual Required Contribution and the contribution shortfall. Further, she explained that the proposed standards will require KPERS participating employers to share in the net pension Unfunded Actuarial Liability (UAL) of KPERS. Currently, participating KPERS employers do not share in the UAL. The proposed changes will create two sets of numbers; accounting numbers will be separate from funding (valuation) numbers.

Answering a Committee member's question, Mr. Deck replied that GASB board members come from various areas of private and public sectors, and GASB principles are used by such organizations as the National Council of State Legislatures. KPERS could elect not to follow the proposed standards, but such a course of action could affect the bond rating for all units of government.

Vince Smith, Chief Investment Officer, KPERS, briefed the Committee on KPERS' investment experience during the past year, saying that the agency's asset value increased 14.9 percent

(Attachment 3). Commenting on the volatility of stocks and interest rates, he would expect limited growth and low inflation for the near future. KPERS will pursue its strategy of long-term growth, while taking advantage of opportunities that arise in the shifting investment environment. He noted that the three-year Asset/Liability Study will conclude in November 2010 with a report on actual experience.

Afternoon Session

Glenn Deck, responding to earlier requests from the Committee, reviewed previous funding options presented to the Committee, among which were:

- Raise the statutory employer contribution rate cap from 0.6 percent to 1.0 percent or 2.0 percent;
- Increase employee contribution rates;
- Change the statutory multiplier for benefits;
- Issue bonds to cover shortfalls; and
- Create a mandatory defined-contribution plan for future employees.

Mr. Deck recounted legislative action during the 2010 Session:

- SB 564, which would have increased employer and employee contribution rates;
- House Sub. for HB 2400, which would have raised the annual increase in employer contributions from 0.6 percent to 1.0 percent per year; and
- HB 2751, which proposed to create a defined-contribution plan to replace KPERS Tier I and Tier II.

Mr. Deck noted that none of the bills considered by the 2010 Legislature were passed. The final appropriations bill, House Sub. for Senate Sub. for SB 572, included the statutory 0.6 percent increase in employer contributions for FY 2011. He stated that KPERS will continue to be proactive in searching for funding solutions that offer sustainability, and warned that investment returns alone cannot sustain the system. He urged members to begin a process that will address the shortfall (Attachment 4).

Mr. Deck updated the Committee on retirees working after retirement, an option subject to Kansas statutes and Internal Revenue Service regulations (Attachment 5). He noted recent statutory changes:

- 2006 House Sub. for SB 270 raised the earnings limitation from $15,000 to $20,000 if a retiree returned to work for his/her previous employer. (No earnings limit was imposed if an employee goes to work for a different employer.)

- 2008 House Sub. for SB 309 removed the sunset provision for the earnings limitation exemption for nurses who go back to work after retirement.

- Senate Sub. for HB 2072 incorporated features of SB 196 (2009); provisions included requirements that third-party entities pay the same actuarial employer contribution rate as school district employers. Retirees were allowed to return to work for their previous employer without penalty; and the earnings limit of $20,000 was removed for a three-year period for professional educators (teachers and administrators).

Mr. Deck commented that the new statutes about working after retirement require more extensive reporting from employers. He responded to Committee members' questions:

- A school district will pay a 20.48 percent employer assessment for each licensed KPERS retiree returning to work. The $20,000 cap was lifted only for licensed retirees returning to school work at the participating employer from whom they retired.

- Generally, school districts appreciate the flexibility of the new statutes, although reporting requirements are more complex.

- Some school districts reduced a returning retiree's salary to compensate for the 20.48 percent employer assessment rate paid in lieu of contributions.

- Most other states have variations in the restrictions on working after retirement.

A Committee member commented that, while welcoming retirees returning to work, Kansas needs to accommodate and encourage young teachers to enter the teaching profession.

A Committee member requested further information on bond funding for KPERS' shortfalls.

A Committee member requested that each of the proposed plans to address KPERS' UAL show the plan's relation to the SGF. Mr. Deck noted that a 1.0 percent employer contribution increase results in a $55.0 million additional expenditures for the SGF.

Kansas Legislative Research Department staff distributed information to show what other states have done to address the funding shortfalls in other pension plans (Attachment 6).

The meeting was adjourned at 2:30 p.m. The next meeting was scheduled for Thursday, December 2, 2010.

Prepared by Gary Deeter
Edited by Michael Steiner and Julian Efird

Approved by the Committee on:

December 2, 2010
(Date)

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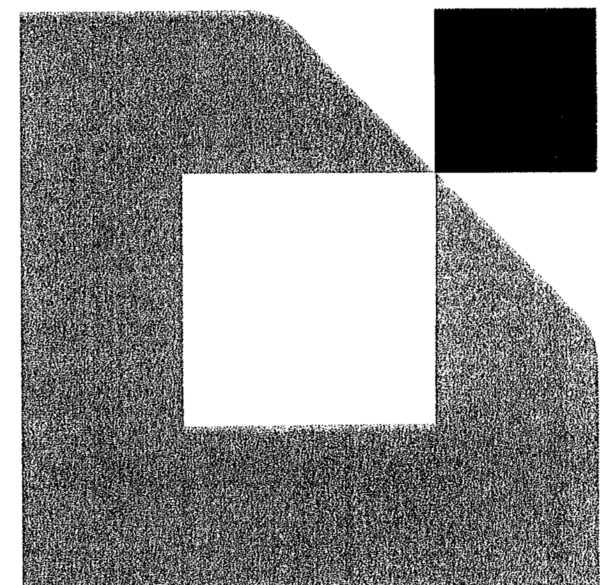
JOINT COMMITTEE ON PENSIONS, INVESTMENTS AND BENEFITS

GUEST LIST

DATE: September 2 2010

NAME	REPRESENTING
Karen Gutzwiller	JRS
Jodi Flower	KDOA
Lea Ann Curtis	KDOT
Edmond Leboeuf	KDOT
Rachel Relber	KPERS (Board of Trustees)
Leland Breedlove	KPERS
Faith Loretto	"
Glenn Deck	"
Melissa Wangemann	KAC
Ernie Claudel	KCPR
Dennis Phillips	KSCFF
Ed Redmon	KSCFF
Jim Hays	KASB
Ron Gardner	KCPR
Gene Meyer	Kansas Reporter
Linda Hubbard	KCPR
Jane Carter	KOSE
Ed Klumpp	KACP/KSA/KPOA

Presentation of 12/31/09 Valuation Results to the Joint Committee on Pensions, Investments and Benefits



Presented by:

Patrice A. Beckham, F.S.A.
Principal and Consulting Actuary

September 2, 2010

Milliman

Purpose of Actuarial Valuation

- Measurement of Assets and Liabilities
  - Use assumptions to estimate future benefit payments
  - Apply cost method to allocate to periods of service
  - Snapshot on single date
- Calculate Employer Contribution Rates
  - FY13 for State
  - FY12 for Local
- Disclosures for Financial Reporting
- Baseline for Pricing Legislation

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12/31/09 Actuarial Valuation

- No change
  - Assumptions
  - Actuarial methods
- First valuation with Tier 2 Members
- Active member count increased for State and Local due to first day coverage

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Valuation Results

1-4

- UAL decreased about $602 million
- Actuarial Value Greater Than Market Value
  - 2009 Return on MVA about +23%
  - Deferred loss is still about $1.7 billion
  - Significant implications for future years
- Contribution Rates
  - Actuarial contribution rates lower than last year
  - Shortfall in contribution rate still exists
  - State and Local still in actuarial balance, but not School

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Actuarial Value of Assets

- Market value not used directly in valuation
- Asset valuation method used to smooth the effect of market fluctuations
- Gain/loss as measured on market value recognized over 5 years
- Resulting value of actuarial assets must be within corridor of 80-120% of pure market value

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Asset Values ($M)

	MVA	AVA
Value at 12/31/08	$ 9,856	$ 11,828
▪ Contributions	747	747
▪ Benefit Payments	(1,058)	(1,058)
▪ Investment Income	2,210	1,944
Preliminary value at 12/31/09	$ 11,755	$ 13,461
Application of corridor	N/A	$ N/A
Final value at 12/31/09	$ 11,755	$ 13,461
Approximate Return	23.1%	16.7%

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Market vs. Actuarial Value

1-7

- Actuarial/Market = 115%
- Deferred recognition of investment experience: $1.7 billion
- Significant deferred loss yet to be recognized
  - Expect loss on actuarial assets in future years even if 8% expected return met
  - Loss will translate to higher UAL and lower funded ratio absent offsetting favorable experience

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Unfunded Actuarial Liability (UAL)

1-8

- Actuarial Liability less Actuarial Assets
- Impacted by:
  - benefit changes
  - experience gains/losses
  - assumption and method changes
  - actual contributions
- Expected to increase:
  - Payment methodology results in increase in UAL
  - Planned difference in contribution rates increases UAL each year
  - Deferred investment losses are significant

UAL

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12/31/09 UAL ($M)

	Actuarial Liability(AL)	Actuarial Assets	Unfunded AL*
State	$ 3,696	$ 2,890	$ 806
School	11,437	6,438	4,999
Local	3,624	2,309	1,315
KP&F	2,232	1,702	530
Judges	148	122	26
Total	$ 21,138*	$ 13,461*	$ 7,677*

* Amounts may not add due to rounding

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Change in UAL ($M)

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UAL 12/31/08	$ 8,279
Cap/Timing/Method	480
Experience	
– Investment	(1,011)
– Other	(71)
Assumption Change	0
Benefit Change	0
UAL 12/31/09	$ 7,677

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Funded Ratio
(Actuarial Assets/Actuarial Liability)

	December 31				
	2005	2006	2007	2008	2009
State	85%	86%	87%	72%	78%
School	61%	61%	63%	52%	56%
Local	67%	69%	70%	59%	64%
KP&F	80%	83%	86%	71%	76%
Judges	85%	87%	89%	75%	82%
Total	69%	69%	71%	59%	64%

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Funded Ratio on Actuarial and Market Value

	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09
Using Actuarial Value of Assets:						
Funded Ratio (AVA/AL)	70%	69%	69%	71%	59%	64%
Unfunded Actuarial Liability (AL-AVA)	$4,743	$5,152	$5,364	$5,552	$8,279	$7,677
Using Market Value of Assets:						
Funded Ratio (MVA/AL)	71%	72%	76%	75%	49%	56%
Unfunded Actuarial Liability (AL-MVA)	$4,536	$4,583	$4,184	$4,817	$10,250	$9,384

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Contribution Rates

1-13

System	Actuarial 12/31/08	Actuarial 12/31/09	Statutory 12/31/09
State	11.13%	9.55%	9.37%
School	14.96%	14.69%	9.37%
Local	10.42%	9.44%	7.34%
KP&F	17.88%	16.54%	16.54%
Judges	26.38%	23.75%	23.75%

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Projected Funded Status-Total System

1-14

Return in 2010

Valuation Date (12/31)	8% UAL	8% Funded Ratio	0% UAL	0% Funded Ratio	-8% UAL	-8% Funded Ratio
2009	$7,677	64%	$7,677	64%	$7,677	64%
2010	8,681	61%	8,867	60%	9,571	57%
2011	9,814	58%	10,259	56%	10,703	54%
2012	10,920	55%	11,628	52%	12,412	49%

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Funding Projections

- Not precise predictions but general estimates
- Based on many assumptions
  - 8% return on market value from 12/31/08 forward
  - All actuarial assumptions met
  - Current plan provisions
  - Current statutory caps and timing lag
  - New entrant profile

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State Funded Status

	Valuation Results	
	12/31/08	12/31/09
Funded Ratio	72%	78%
Actuarial Rate	11.13%	9.55%
Statutory Rate	8.77%	9.37%
ARC Date	FY2022	FY2018
ARC Rate	14.50%	11.86%

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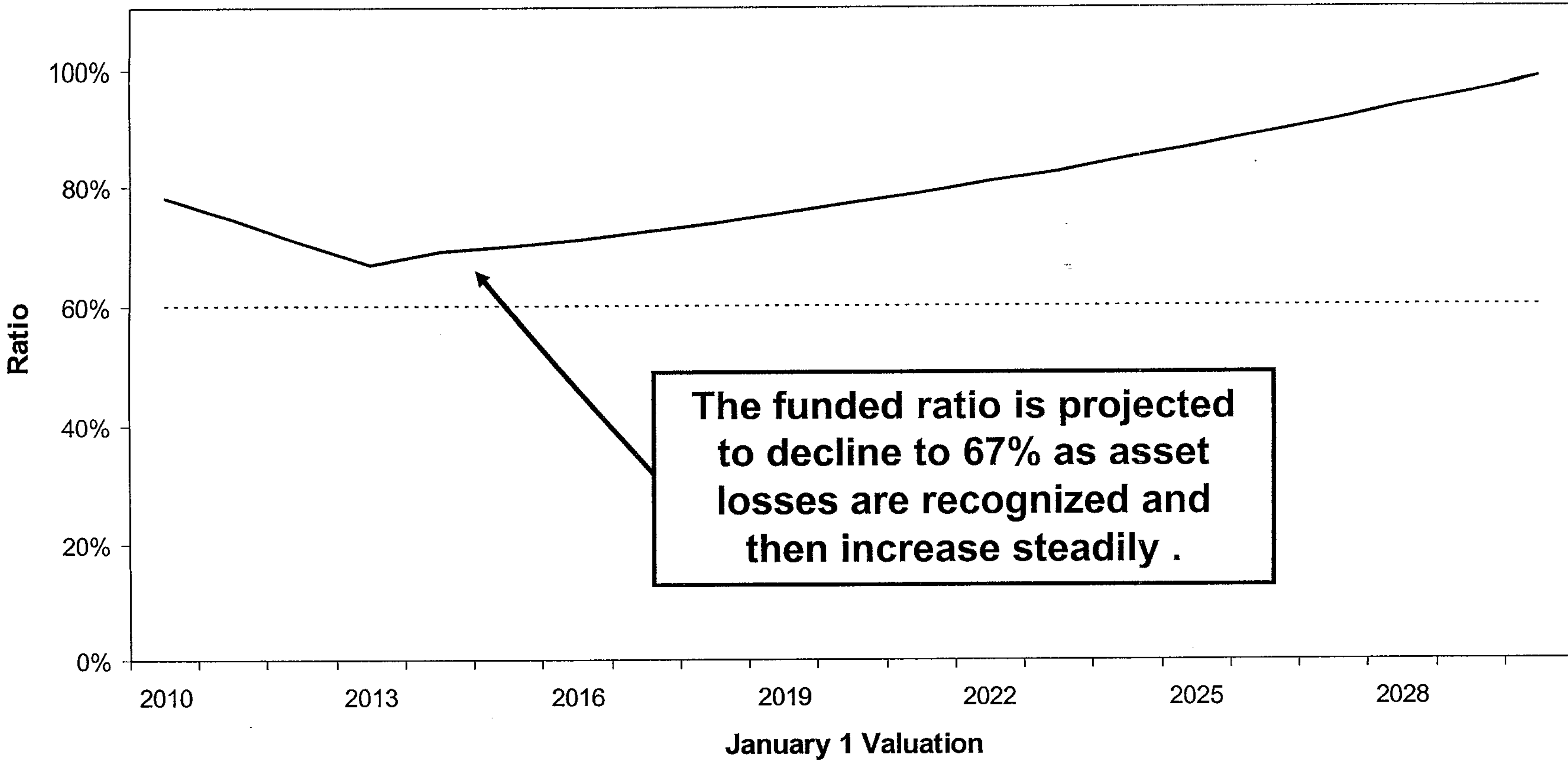
State Projected Funded Ratio



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School Funded Status

	Valuation Results	
	12/31/08	12/31/09
Funded Ratio	52%	56%
Actuarial Rate	14.96%	14.69%
Statutory Rate	8.77%	9.37%
ARC Date	None	None
ARC Rate	N/A	N/A

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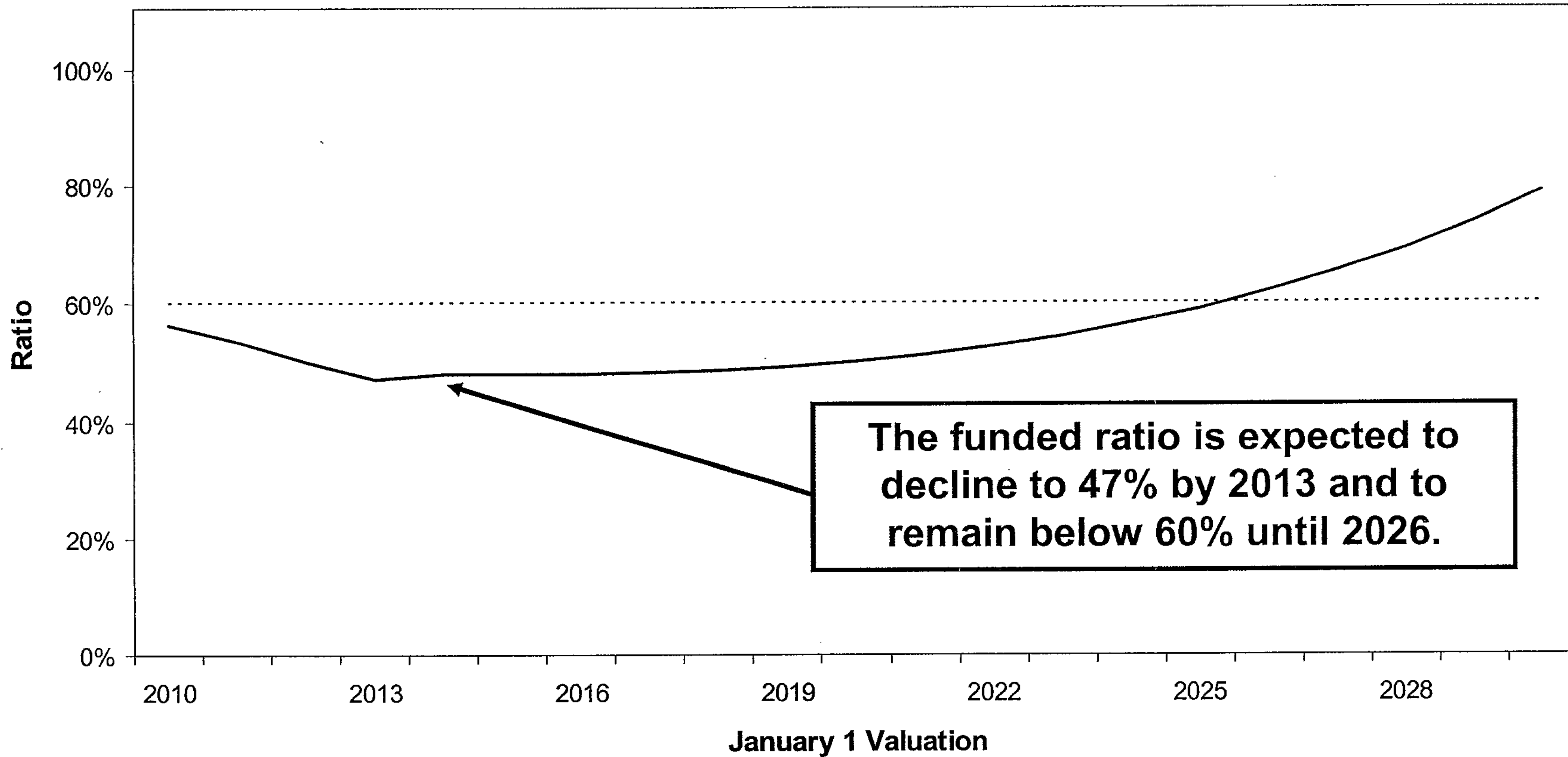
School Projected Funded Ratio



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Local Funded Status

	Valuation Results	
	12/31/08	12/31/09
Funded Ratio	59%	64%
Actuarial Rate	10.42%	9.44%
Statutory Rate	6.74%	7.34%
ARC Date	FY2020	FY2019
ARC Rate	11.90%	10.64%

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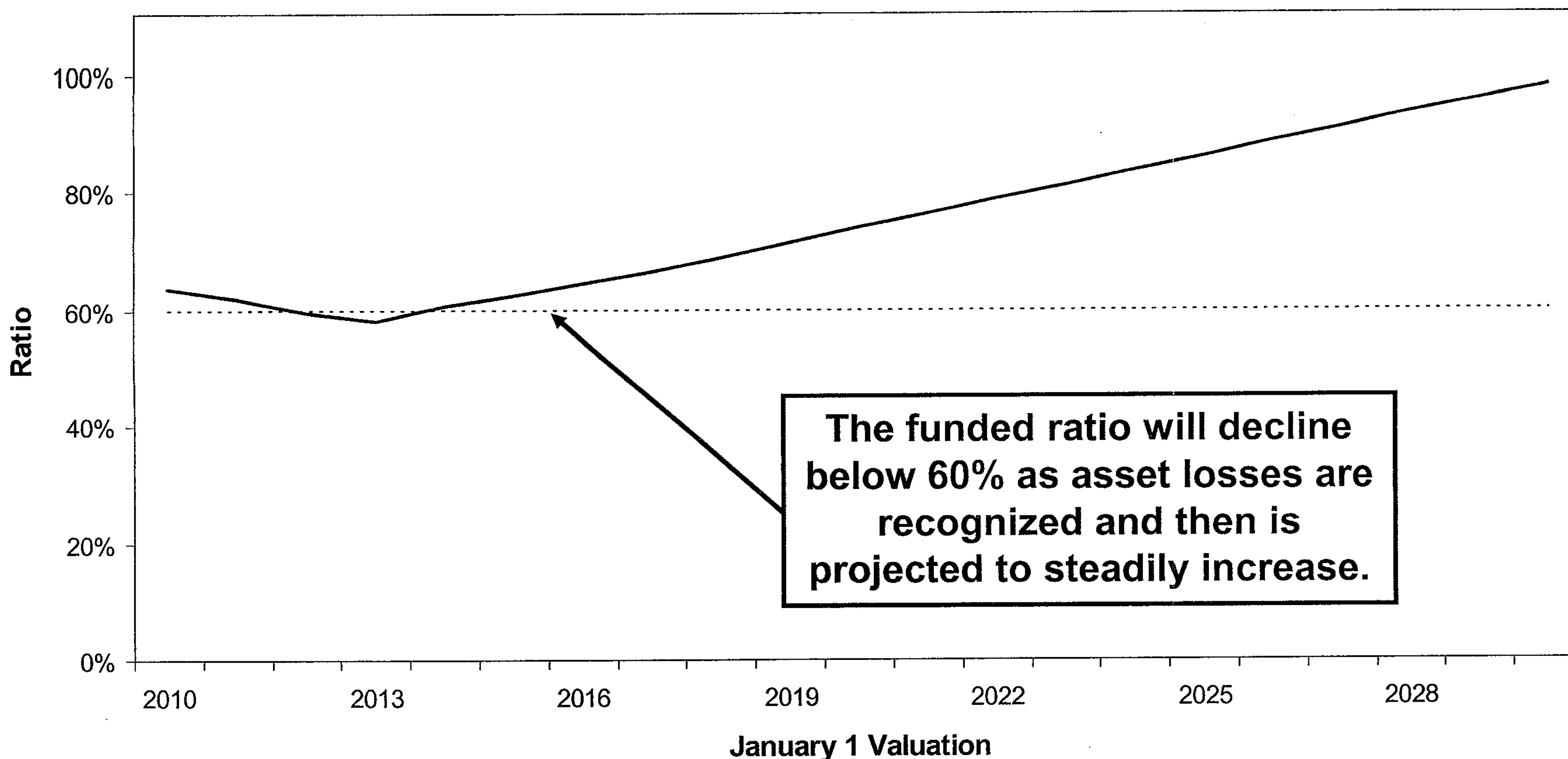
1-20

Local Projected Funded Ratio



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Comments on Valuation

- Actuarial value is 15% higher than market value
- School group not in actuarial balance
- State/Local ARC rates around 12%
- Concern for long-term funding given current funding levels and projected employer contributions.
  - Further analysis
  - Action needed

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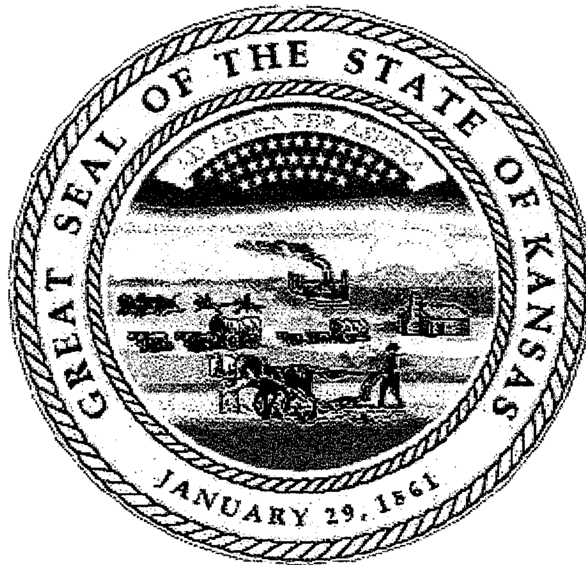
Kansas Public Employees Retirement System



Valuation Report as of December 31, 2009

Kansas Public Employees Retirement System
Actuarial Valuation Report

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July 7, 2010

Board of Trustees
Kansas Public Employees Retirement System
611 S. Kansas Ave., Suite 100
Topeka, KS 66603

Dear Members of the Board:

At your request, we performed an actuarial valuation of the Kansas Public Employees Retirement System as of December 31, 2009 for purposes of determining contribution rates for fiscal year 2013 for the State and 2012 for Local employers. The major findings of the valuation are contained in this report. This report reflects the benefit provisions in place on December 31, 2009. There was no change in the actuarial assumptions or methods from the prior valuation.

In preparing our report, we relied, without audit, on information (some oral and some in writing) supplied by the System's staff. This information includes, but is not limited to, statutory provisions, member data and financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The valuation results depend on the integrity of this information. If any of this information is inaccurate or incomplete, our results may be different and our calculations may need to be revised.

We further certify that all costs, liabilities, rates of interest and other factors for the System have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the System and reasonable expectations); and which, in combination, offer our best estimate of anticipated experience affecting the System. Nevertheless, the emerging costs will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions. The Board of Trustees has the final decision regarding the appropriateness of the assumptions and adopted them as indicated in Appendix C.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

Actuarial computations presented in this report are for purposes of determining the recommended funding amounts for the System. Actuarial computations presented in this report under GASB Statements No. 25 and 27 are for purposes of fulfilling financial accounting requirements. The computations prepared for these two purposes may differ as disclosed in our report. The calculations in the enclosed report have been made on a basis consistent with our understanding of the System's funding requirements and goals. The calculations in this report have been made on a basis consistent with our understanding of GASB Statements No. 25 and 27. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

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(a) The System may provide a copy of Milliman's work, in its entirety to the System's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the System.

(b) The System may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

We would like to express our appreciation to Glenn Deck, and to members of his staff, who gave substantial assistance in supplying the data on which this report is based.

We respectfully submit the following report and look forward to discussing it with you.

MILLIMAN, Inc.

Sincerely,

Patrice A. Beckham, F.S.A.
Consulting Actuary

Brent A. Banister, F.S.A.
Consulting Actuary

SECTION I
BOARD SUMMARY

OVERVIEW

The Kansas Public Employees Retirement System is an umbrella organization which administers the following three statewide pension groups: the Kansas Public Employees Retirement System (KPERS), the Kansas Police and Firemen's Retirement System (KP&F) and the Kansas Retirement System for Judges (Judges). This report presents the results of the December 31, 2009 actuarial valuations for each of the Systems.

The primary purposes of performing actuarial valuations are to:

- determine the employer contribution rates required to fund each System on an actuarial basis,
- determine the statutory employer contribution rates for each System,
- disclose asset and liability measures as of the valuation date,
- determine the experience of the System since the last valuation date, and
- analyze and report on trends in System contributions, assets, and liabilities over the past several years.

The valuation results provide a "snapshot" view of the System's financial condition on December 31, 2009. The unfunded actuarial liability for the System as a whole decreased by $602 million due to various factors. A detailed analysis of the change in the unfunded actuarial liability from December 31, 2008 to December 31, 2009 is shown on page 5.

There were no changes in the actuarial assumptions or methods used in the valuation since last year. This is the first valuation to include members of KPERS Tier 2 who became members on or after July 1, 2009. There is no measurable impact on the valuation results from the Tier 2 members because they are new members and account for a small proportion of the active membership. Over time, as Tier 1 members leave covered employment and are replaced with Tier 2 members, the employer contribution rate is expected to be lower than it would otherwise have been. In addition, the impact of the change to first day coverage, (employees become members of KPERS on their date of hire) effective July 1, 2009, is also reflected in this valuation. As a result, the active member count increased 6.7% for the State group and 14% for the Local group. This is a one-time increase that reflects the participation of all members who were in their one year of service waiting period as well as new hires after July 1, 2009. The School group already had first day coverage so there was no impact on that group.

In KPERS, the State, School and Local employers do not necessarily contribute the full actuarial contribution rate. Based on legislation passed in 1993, the employer contribution rates certified by the Board may not increase by more than the statutory cap. The statutory cap, which has been changed periodically, is currently 0.60% for the State, School and Local groups.

A summary of actuarial and statutory employer contribution rates for the Retirement System (excluding the statutory contribution for the Death and Disability Program) for the last two valuation dates follows:

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System	December 31, 2009 Valuation		Difference
	Actuarial	Statutory	
State[1]	9.55%	9.37%	0.18%
School[1]	14.69%	9.37%	5.32%
Local[1]	9.44%	7.34%	2.10%
Police & Fire - Uniform Rates[2]	16.54%	16.54%	0.00%
Judges	23.75%	23.75%	0.00%

System	December 31, 2008 Valuation		Difference
	Actuarial	Statutory	
State[1]	11.13%	8.77%	2.36%
School[1]	14.96%	8.77%	6.19%
Local[1]	10.42%	6.74%	3.68%
Police & Fire - Uniform Rates[2]	17.88%	14.57%[3]	3.31%
Judges	26.38%	21.28%[3]	5.10%

[1] By statute, rates are allowed to increase by a maximum of 0.60% plus the cost of any benefit enhancements.

[2] For KP&F, the statutory contribution rate is equal to the "Uniform" rate. The rate shown is for local employers. The rate for State employers is 16.43% this year, which includes a payment of 0.51% for the debt service payment on the bonds issued for the 13th check. The uniform rate does not include the payment required to amortize the unfunded past service liability or any 15% excess benefit liability determined separately for each employer. (See Table 13.)

[3] Contribution rates were recertified to the rates shown after the valuation report was issued.

Over the last decade, much time and effort has been devoted to improving the long-term funding outlook for KPERS. As a result of legislative changes, Board action and investment performance from 2003 to 2007, the System's long-term funding outlook improved, although the positive results for the System were highly dependent on attaining the 8% assumption in future years. Modeling indicated that investment returns below the 8% assumption could change the long-term funding outlook, particularly for the School group. The unprecedented negative investment experience in 2008 was a significant setback in the System's long-term funding. Although the investment return in 2009 was strong (about 23%) it has not reversed the damage done by the 2008 investment experience. As of the valuation date, the State and Local groups remain in actuarial balance (the statutory contribution rate is projected to converge with the actuarial required contribution (ARC) rate before the end of the amortization period (2033) <u>if all actuarial assumptions are met in future years</u>). For the School group, the statutory and actuarial contribution rates are not projected to converge before 2033 even if all assumptions are met in future years. This situation should continue to be closely monitored and further analysis performed in order to determine the appropriate actions to be taken. As the deferred investment losses are recognized in the next three years, the actuarial contribution rate is expected to increase. As this occurs, the shortfall between the actuarial and statutory contribution rates will grow and will produce increases in the UAL. As a result, the actuarial contribution rate is expected to increase until the ARC Date (defined as the date at which the actuarial and statutory contribution rates are equal) is reached.

The actuarial value of assets is about 15% higher than the pure market value, which equates to $1.7 billion. This is due to the use of an asset smoothing method and the delayed reflection of market experience in the actuarial value of assets. These deferred losses, which are significant, will be reflected in the actuarial value of assets over the next four years. However, the net impact of the deferred experience on the actuarial value of assets in future years will depend on actual investment experience during that period.

EXPERIENCE - ALL SYSTEMS COMBINED

December 31, 2008 – December 31, 2009

In many respects, an actuarial valuation can be thought of as an inventory process. The inventory is taken as of the actuarial valuation date, which for this valuation is December 31, 2009. On that date, the assets available for the payment of benefits are appraised. The assets are compared with the liabilities of the System, which are generally in excess of assets. The actuarial process leads to a method of determining the contributions needed by members and employers in the future to balance the System assets and liabilities.

Changes in the Systems' assets and liabilities impacted the change in the actuarial contribution rates between the December 31, 2008 and December 31, 2009 actuarial valuations. On the following pages each component is examined and quantified.

MEMBERSHIP

Below is a summary of the changes in active members between the December 31, 2008 and December 31, 2009 actuarial valuations.

	State	School	Local	KP&F	Judges	Total
12/31/2008 (Starting count)	24,374	87,948	36,247	7,242	262	156,073
New actives	3,623	7,071	8,482	298	17	19,491
Nonvested Terminations	437	3,849	1,189	169	0	5,644
Elected Refund	323	1,119	586	93	0	2,121
Vested Terminations	553	1768	941	53	4	3,319
Total Withdrawals	1,313	6,736	2,716	315	4	11,084
Deaths	32	54	45	8	0	139
Disabilities	89	87	75	34	0	285
Early Retirements	54	229	68	13	3	367
Unreduced Retirements	462	1,668	560	105	15	2,810
Total Retirements	516	1,897	628	118	18	3,177
Other/Transfer	(42)	(197)	68	114	9	(48)
12/31/2009 (Ending count)	26,005	86,048	41,333	7,179	266	160,831

ASSETS

As of December 31, 2009, the System had total funds when measured on a market value basis, of $11.8 billion, excluding assets held for the Group Insurance and Optional Life reserves. This was an increase of $1.9 billion from the December 31, 2008 figure of $9.9 billion.

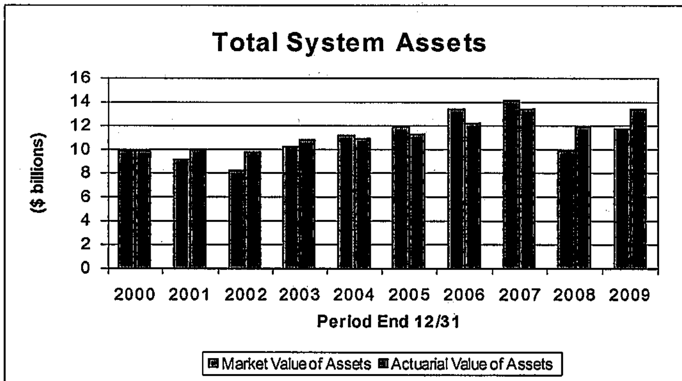
The market value of assets is not used directly in the calculation of contribution rates. An asset valuation method is used to smooth the effect of market fluctuations. The smoothing method calculates the difference between the actual return and the expected return (assumed rate of return) on the market value of assets each year. The difference is recognized equally over a five-year period. The resulting value must be no less than 80% of market and no more than 120% of market. See Tables 3A through 3F and 4 for the detailed development of the actuarial value of assets as of December 31, 2009 for each group.

The components of the change in the market value and actuarial value of assets for the Retirement System (in millions) are set forth below.

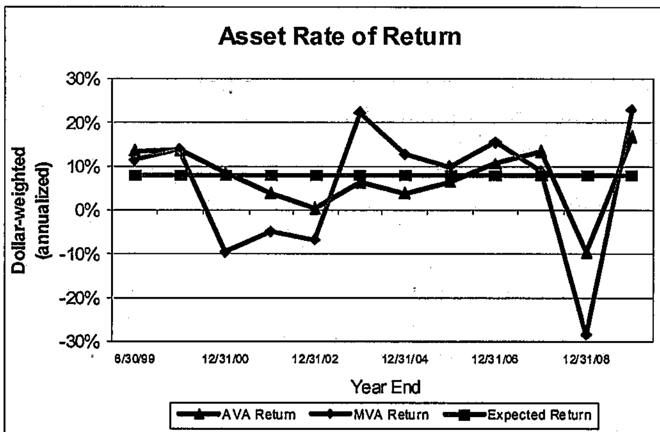
	Market Value $(millions)	Actuarial Value $(millions)
Assets, December 31, 2008	$9,856	$11,828
• Employer and Member Contributions	747	747
• Benefit Payments and Expenses	(1,058)	(1,058)
• Investment Income	2,210	1,944
Preliminary Asset Value, December 31, 2009	$11,755	$13,461
Application of Corridor	N/A	N/A
Final Asset Value, December 31, 2009	$11,755	$13,461

The actuarial value of assets as of December 31, 2009, was $13.461 billion. The annualized dollar-weighted rate of return for 2009, measured on the actuarial value of assets, was approximately 16.7% and measured on the market value of assets, as reported by KPERS, was 23.1%, net of investment and administrative expenses.

Due to the use of an asset smoothing method, there is about $1.7 billion of net deferred investment loss experience that has not yet been recognized. This deferred investment loss will gradually be reflected in the actuarial value of assets over the next three years, but may be offset by actual investment experience if more favorable than assumed.



The actuarial value of assets has been both above and below the market value during the period, which is to be expected when using an asset smoothing method.



The rate of return on the actuarial (smoothed) value of assets has been less volatile than the market value return. Due to the magnitude of the deferred investment losses, the return on the actuarial value of assets is expected to be below 8% in the next few years absent favorable investment experience.

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LIABILITIES

The actuarial liability is that portion of the present value of future benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and asset values at the same date is referred to as the unfunded actuarial liability (UAL). The unfunded actuarial liability will be reduced if the employer's contributions exceed the employer's normal cost for the year, after allowing for interest earned on the previous balance of the unfunded actuarial liability. Benefit improvements, experience gains and losses, and changes in actuarial assumptions and methods will also impact the total actuarial liability (AL) and the unfunded portion thereof.

The unfunded actuarial liability ($ million) by group is summarized below:

	State	School	Local	KP&F	Judges
Actuarial Liability	$3,696	$11,437	$3,624	$2,232	$ 148
Actuarial Value of Assets	2,890	6,438	2,309	1,702	122
Unfunded Actuarial Liability	$ 806	$ 4,999	$1,315	$ 530	$ 26

See Table 6 for the detailed development of the Actuarial Liability by System. The calculation of the Unfunded Actuarial Liability by System is shown in Table 8.

When the actuarial cost method was changed by the Legislature in 1993, the payment methodology for the unfunded actuarial liability (UAL) for all groups except the Judges System was set in statute as a level percentage of payroll over a 40 year closed period. Payments on the UAL increase four percent each year, the same as the payroll growth assumption. For over half of the amortization period, the payment is less than the interest accruing on the UAL. As a result, the dollar amount of UAL is expected to increase for many years before it begins to decline. In addition, with the planned difference in KPERS' statutory and actuarial contribution rates prior to the ARC Date, the unfunded actuarial liability is expected to increase by an additional amount each year.

Other factors influencing the UAL from year to year include actual experience versus that expected based on the actuarial assumptions (on both assets and liabilities), changes in actuarial assumptions, procedures or methods and changes in benefit provisions. The actual experience measured in this valuation is that which occurred during the prior plan year (calendar year 2009). The KPERS Local group and KP&F had a net liability loss for the year. The KPERS State and School groups and the Judges had liability gains for the 2009 year. There was an experience gain from investment return on the actuarial value of assets for all groups.

Between December 31, 2008 and December 31, 2009 the change in the unfunded actuarial liabilities for the System as a whole was as follows (in millions):

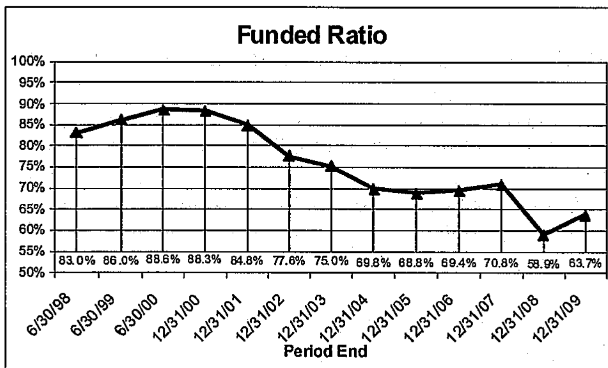
	$ millions
Unfunded Actuarial Liability, December 31, 2008	$ 8,279
• effect of contribution cap/time lag	384
• expected increase due to amortization method	96
• (gain) from investment return on actuarial assets	(1,011)
• demographic experience[1]	(68)
• all other experience	(3)
• change in actuarial assumptions	0
• change in benefit provisions	0
Unfunded Actuarial Liability, December 31, 2009	$ 7,677

[1]Liability gain is about 0.3% of total actuarial liability.

A detailed summary of the change in the unfunded actuarial liability by System is shown on page 12.

An evaluation of the unfunded actuarial liability on a pure dollar basis may not provide a complete analysis since only the difference between the assets and liabilities (which are both very large numbers) is reflected. Another way to evaluate the unfunded actuarial liability and the progress made in its funding is to track the funded status, the ratio of the actuarial value of assets to the actuarial liability. There was a change in actuarial assumptions in the 2004 and 2007 valuations, which impacted the UAL and the funded status. The funded status information is shown below (in millions).

	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09
Using Actuarial Value of Assets:						
Funded Ratio (AVA/AL)	70%	69%	69%	71%	59%	64%
Unfunded Actuarial Liability (AL-AVA)	$4,743	$5,152	$5,364	$5,552	$8,279	$7,677
Using Market Value of Assets:						
Funded Ratio (MVA/AL)	71%	72%	76%	75%	49%	56%
Unfunded Actuarial Liability (AL-MVA)	$4,536	$4,583	$4,184	$4,817	$10,250	$9,384



Due to strong investment returns, the funded status of the System generally improved in the last half of the 1990's. Changes in actuarial assumptions and methods, coupled with investment returns below the assumed rate (particularly in 2008) significantly reduced the funded ratio in the latter part of the period.

Given the current funded status of the System, the amount of the deferred investment loss, the amortization method, the amortization period, and the scheduled increases in employer contribution rates, the unfunded actuarial liability for the entire System is expected to grow for many years. The funded ratio is expected to decline as asset losses are recognized and then gradually improve.

CONTRIBUTION RATES

The funding objective of the System is to establish contribution rates that over time will remain relatively level, as a percentage of payroll, and to pay off the unfunded actuarial liability by the 2033 valuation.

Generally, the actuarial contribution rates to the various Systems consist of:

- a "normal cost" for the portion of projected liabilities allocated by the actuarial cost method to service of members during the year following the valuation date,
- an "unfunded actuarial liability contribution" for the excess of the portion of projected liabilities allocated to service to date over the actuarial value of assets.

There is also a statutory contribution rate that is used to finance the Death and Disability Program. Contributions for the Death and Disability Program are deposited in a separate trust fund, from which benefits are paid. A separate actuarial analysis and report is prepared for the Death and Disability Program on June 30 of each year. Therefore, the death and disability contribution rate is not reflected in this report.

The contribution rates in the December 31, 2009 valuation will set rates for fiscal year end 2013 for the State and 2012 for Local employers.

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In KPERS, State, School and Local employers do not necessarily contribute the full actuarial contribution rate. Based on legislation passed in 1993, the employer contribution rates certified by the Board may not increase by more than the statutory cap. The statutory cap, which has been changed periodically, is currently 0.60% for all groups.

A summary of the actuarial and statutory employer contribution rates for the System is shown below:

System	December 31, 2009 Valuation		Difference
	Actuarial	Statutory	
State[1]	9.55%	9.37%	0.18%
School[1]	14.69%	9.37%	5.32%
Local[1]	9.44%	7.34%	2.10%
Police & Fire - Uniform Rates[2]	16.54%	16.54%	0.00%
Judges	23.75%	23.75%	0.00%

[1] By statute, rates are allowed to increase by a maximum of 0.60% plus the cost of any benefit enhancements.

[2] For KP&F, the statutory contribution rate is equal to the "Uniform" rate. The rate shown is for local employers. The rate for State employers is 16.43% this year, which includes a payment of 0.51% for the debt service payment on the bonds issued for the 13th check. The uniform rate does not include the payment required to amortize the unfunded past service liability or any 15% excess benefit liability determined separately for each employer. (See Table 13.)

Separate employer contribution rates are calculated for two subgroups of the State. Two Correctional Employee Groups, one with normal retirement age 55 and the other with normal retirement age 60 have higher contribution rates to finance the earlier normal retirement age. The actuarial contribution rates for the Correctional Employee Groups are shown below:

	Actuarial Rate	Statutory Rate
Retirement Age 55:	11.24%	9.84%
Retirement Age 60:	10.06%	9.70%

The change in the actuarial contribution rate from December 31, 2008 to December 31, 2009 and the primary components thereof are shown in the table on page 13.

Due to statutory caps, the full actuarial contribution rate is not contributed for the School and Local groups. Based on the current valuation, there is a difference (shortfall) between the actuarial and statutory contribution rates of 0.18%, 5.32% and 2.10% respectively for the State, School and Local groups. Assuming an 8% return on the market value of assets for 2010 and beyond, all other actuarial assumptions are met in the future, and the current level of statutory caps, the estimated ARC Date (statutory and actuarial contribution rates are equal) for the State group is 2018 and the Local group is 2019. The actuarial and statutory rates for School are not projected to converge before the end of the amortization period.

COMMENTS

The strong investment performance of +23% in calendar year 2009 was a welcome change after the severe market decline in 2008, but it represents a modest improvement in the long-term funding of KPERS. While the investment return in 2009 was well above the 8% assumed rate, there are still significant deferred investment losses which have not been recognized in the valuation process. As of December 31, 2009, the actuarial value of assets exceeds the market value of assets by about 15%, or $1.7 billion. This deferred experience will flow through the asset valuation method in the next three years and be recognized in the valuation process, absent investment experience significantly above the 8% assumed rate of return. As the deferred losses are recognized, the funded ratio can be expected to decline and the UAL and the actuarial contribution rate to increase. KPERS continues to face a significant long-term funding challenge, particularly with the School group. Action is necessary now in order to strengthen the System's funding over the long term. Benefits are paid out of the System from two sources: contributions and investment earnings. In order to improve the System's long-term funding, contributions and/or investment earnings must increase, benefit payments must decrease, or

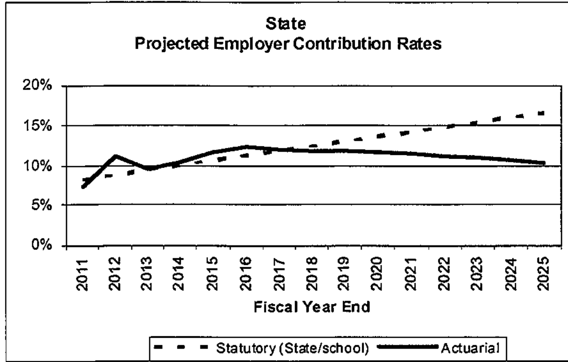
both must occur. The options within the control of the plan sponsor include increasing contributions to the System or reducing benefits in future years. Both of these options typically take many years before an improvement in the funded ratio can be seen, particularly if the benefit reductions apply only to new hires. The other component of the long-term funding equation is investment return. If returns exceed the 8% assumption in future years, it will result in higher funded ratios. In fact, due to the size of the assets, higher returns have the greatest potential to impact the funded ratio in the short term – both positive and negative. There seems to be little optimism that returns will consistently exceed the 8% assumption in the next ten years so this option does not appear to be a viable solution to the long-term funding problem.

The System utilizes an asset smoothing method in the valuation process. While this is a common procedure for public retirement systems, it is important to identify the potential impact of the deferred (unrecognized) investment experience. To illustrate the impact of the deferred losses, the key valuation results are shown below for the State/School and KPF groups using both the actuarial value of assets and the pure market value. The impact would be similar for the other groups.

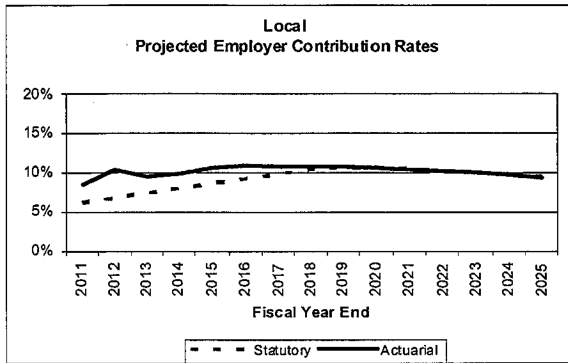
	State/School		KP&F	
	Actuarial	Market	Actuarial	Market
Actuarial Liability	$15,141	$15,141	$2,232	$2,232
Asset Value	9,329	8,130	1,702	1,485
Unfunded Actuarial Liability	5,812	7,011	530	747
Funded Ratio	62%	54%	76%	67%
Contribution Rate:				
Normal Cost Rate	8.54%	8.54%	14.71%	14.71%
UAL Payment	9.00%	10.79%	8.17%	11.61%
Total	17.54%	19.33%	22.88%	26.32%
Employee Rate	4.07%	4.07%	6.52%	6.52%
Employer Rate	13.47%	15.26%	16.36%	19.80%

The asset smoothing method impacts only the timing of when the actual market experience on the assets will be recognized. Despite a return of over 23% on market value, the actuarial value of assets still exceeds the pure market value by about 15% due to the deferred investment experience in 2008. If there are not significantly higher returns consistently over the next few years, the deferred investment experience will be recognized and the ultimate impact on the employer contribution rate can be expected to be similar to the column shown above based on the market value of assets. Also, see the graphs on the following page that show projected contribution rates assuming an 8% rate of return in all future years.

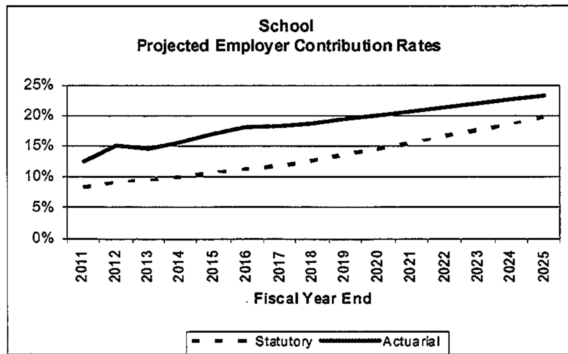
Actual investment returns over the next few years will determine exactly how the System's funding will be affected and the magnitude of the increase in the unfunded actuarial liability and the actuarial contribution rate. The negative return in 2008 had a substantial impact on the System's long-term funding outlook. While investment experience was favorable in 2009 (23% actual versus 8% assumed), it has not offset the impact of the 2008 experience. While the System has sufficient assets to pay benefits for many years into the future, the long-term actuarial soundness of the System will be impacted if returns do not exceed 8%, contributions increase, benefits decrease, or some combination occurs. The System continues to face significant funding challenges, particularly if investment returns are below the 8% expected return. Studies on the long-term financial health of the System were performed last year and are continuing in the current year.



Although the State will be contributing the ARC rate in 2010 through 2012, the actuarial rate is expected to exceed the statutory rate from 2013 until 2018.

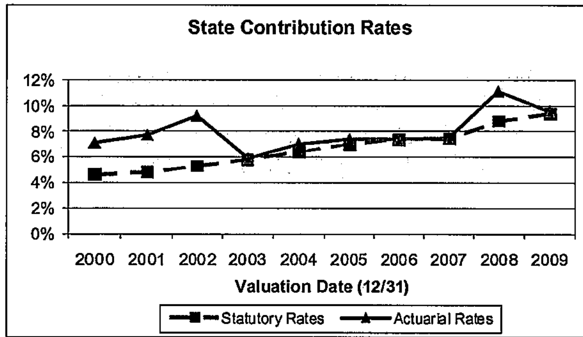


The ARC date is projected to occur in approximately 2019, assuming all actuarial assumptions are met in future years. Actual experience in future years will impact the ARC date.

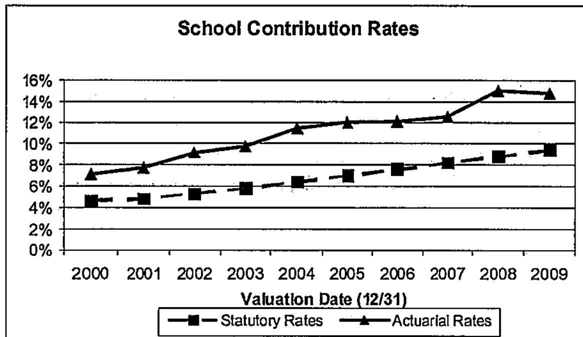


The statutory rate and actuarial contribution rates are not projected to converge before the end of the amortization period. Future experience, especially investment returns, will influence the movement in the ARC Date.

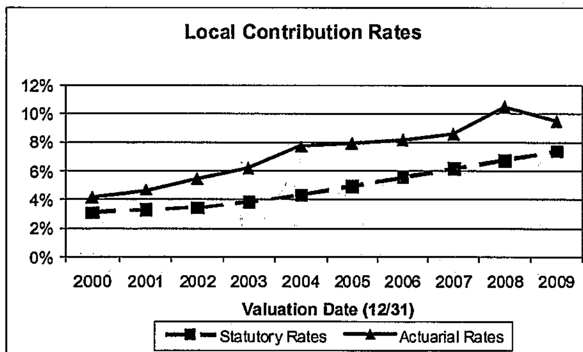
Historical contribution rates for each group are shown on the following pages. Please note that prior to the December 31, 2003 valuation, one contribution rate was developed for the State and School together as one group. Legislation passed in 2004 split the contribution rate calculations into two separate groups, although the statutory contributions are still determined on a combined basis. Significant changes in funding methods as well as a Pension Obligation Bond issue occurred in 2003 and actuarial assumptions were changed in both the 2004 and 2007 valuations. These changes impact the comparability of contribution rates between various valuation dates.



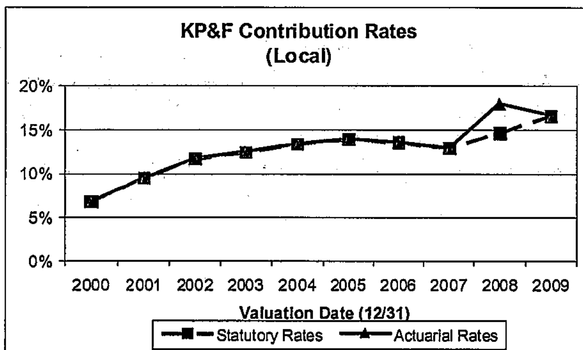
The split of the State group into a separate group with the 2003 valuation, coupled with the bond issue, lowered the actuarial contribution rate. The State's statutory contribution rate in this valuation is less than the actuarial contribution rate due to the impact of the 2008 investment experience.



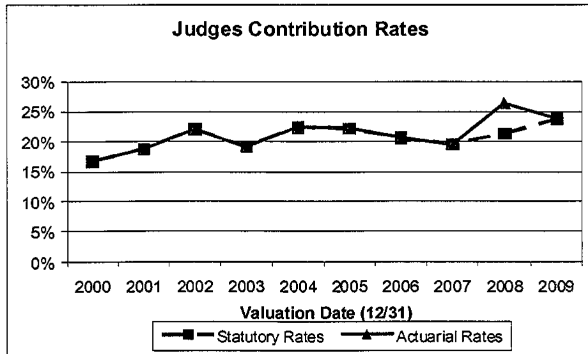
Due to investment experience, changes in actuarial methods and assumptions, and the magnitude of the difference between the actuarial and statutory contribution rates, the funded status of the School group has declined and the actuarial contribution rate has increased.



The Local contribution rate has also been impacted by changes in actuarial assumptions and methods as well as investment performance. As a result, a significant difference still exists between the statutory and actuarial contribution rate. Legislation passed in 2004 provided for increased statutory caps, under which the statutory and actuarial rates are expected to converge if all actuarial assumptions are met in future years.



Investment experience, coupled with a change in actuarial methodology, dramatically increased the contribution rates in the first half of the period. Investment experience in 2008, which has still not been totally reflected, resulted in higher contribution rates in the last two valuations.



Significant changes in the actuarial assumptions in the 2004 valuation and investment experience in 2008 resulted in higher contribution rates.

Over the last decade the development of a comprehensive plan to address the long-term funding of KPERS has been a high priority. HB 2014, which was passed by the 2003 Legislature, increased the statutory cap on the State/School employer contribution rate from 0.20% to 0.40% in FY2006, 0.50% in FY2007 and 0.60% in FY 2008 and beyond. It also authorized the issuance of up to $500 million in pension obligation bonds (POBs). The POBs were sold and proceeds of $440.2 million were received on March 10, 2004. The debt service payments on the bonds are paid by the State in addition to the regular KPERS employer contribution rate.

The 2004 Legislature passed SB 520, which continued to address issues related to the long term funding of the System. It gave the KPERS Board of Trustees the authority to establish the actuarial cost method and amortization method/period. With this authority, the Board changed both the actuarial cost method and the asset valuation method with the December 31, 2003 actuarial valuation. SB 520 also increased the statutory cap for Local employers from 0.15% to 0.40% in FY2006, 0.50% in FY2007 and 0.60% in FY2008 and beyond.

The 2007 Legislature passed SB 362 which created a new benefit structure for members first employed on or after July 1, 2009. The change was made partially due to long term funding considerations, but also in response to demographic changes in the membership.

Based on the December 31, 2009 actuarial valuation results and the current statutory caps, the statutory contribution rates for the State and Local groups are projected to converge with the actuarial required contribution (ARC) rate before the end of the amortization period. As a result, those groups are in long-term actuarial balance. However, these projections assume that all actuarial assumptions are met exactly in each future year and the statutory contributions continually increase. To the extent that actual experience deviates from that expected, the ARC Date (date at which the statutory and actuarial rates are expected to converge), as well as the ARC rate, will vary. For the School group, the unfavorable experience in 2008 has created the situation where the statutory contribution rate is not projected to reach the actuarial required contribution (ARC) rate before the end of the amortization period if assumptions are met. Future investment experience will be critical to the financial health of all groups, but particularly the School group. Additional analysis with respect to long-term funding is expected to continue later this year.

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SUMMARY OF CHANGE IN UNFUNDED ACTUARIAL LIABILITY

DECEMBER 31, 2009 VALUATION
($ millions)

	State	School	Local	KP&F	Judges	Total
UAL in 12/31/2008 Valuation Report	$1,001.7	$5,238.5	$1,384.7	$618.7	$35.5	$8,279.2 [1]
• Effect of contribution cap/timing	42.0	258.9	76.2	5.7	0.9	383.7
• Expected increase due to method	10.9	62.5	16.1	6.8	(0.5)	95.8
• Actual vs. expected experience						
• Investment return	(232.0)	(476.2)	(162.7)	(131.1)	(9.1)	(1,011.1)
• Demographic experience	(7.1)	(90.0)	18.3	21.4	(1.1)	(58.5)
• All other experience	(9.3)	5.1	(17.1)	8.8	0.4	(12.0)
• Change in assumptions	0.0	0.0	0.0	0.0	0.0	0.0
• Change in benefit provisions	0.0	0.0	0.0	0.0	0.0	0.0
UAL in 12/31/2009 Valuation Report	$806.2	$4,998.8	$1,315.5	$530.3	$26.1	$7,677.0 [1]

[1]May not add due to rounding.

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SUMMARY OF HISTORICAL CHANGES IN TOTAL SYSTEM UAL
as of
DECEMBER 31, 2009 VALUATION

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	As Reported on Valuation Date									
%(millions)	6/30/94	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	12/31/00	12/31/01	12/31/02
Actual Experience vs. Assumed										
• Investment	$(102)	$(143)	$(280)	$(323)	$(413)	$(360)	$(441)	$(23)	$350	$644
• Other	320	72	136	157	104	46	99	84	(9)	68
Assumption Changes	0	(96)	0	0	350	0	0	(206)	0	0
Changes in Data/Procedures	244	0	0	0	0	21	71	145**	5	177**
Change in Cost Method	0	0	0	0	0	0	0	0	0	0
Effect of Contribution Cap/Lag	*	95	70	63	54	78	66	60	115	143
Amortization Method	*	47	38	35	32	30	22	12	14	21
Change in Benefit Provisions	75	0	0	0	88	0	19	0	0	37
Bond Issue	0	0	0	0	0	0	0	0	0	(41)
Total	$537	$(25)	$(36)	$(68)	$215	$(194)	$(164)	$72	$475	$1,048

*Not calculated for this year.

Unfunded actuarial liability 6/30/93: $ 968 million
Unfunded actuarial liability 12/31/09: $ 7,677 million

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SUMMARY OF
CHANGES IN ACTUARIAL CONTRIBUTION RATE
BY SYSTEM
AS OF DECEMBER 31, 2009

Percentage of Payroll	State	School	Local	KP&F[1]	Judges
Actuarial Contribution Rate in 12/31/2008 Valuation	11.13%	14.96%	10.42%	17.88%	26.38%
Change Due to Amortization of UAL					
• effect of contribution cap/time lag	0.27	0.51	0.30	0.09	0.29
• amortization method	0.00	0.00	0.00	0.00	(0.47)
• investment experience	(1.47)	(0.94)	(0.65)	(1.97)	(2.94)
• liability experience	(0.04)	(0.18)	0.07	0.32	(0.36)
• all other experience	(0.33)	0.40	(0.62)	0.21	0.26
• change in assumptions	0.00	0.00	0.00	0.00	0.00
• change in benefit provisions	0.00	0.00	0.00	0.00	0.00
Change in Normal Cost Rate					
• change in benefit provisions	0.00	0.00	0.00	0.00	0.00
• change in assumptions	0.00	0.00	0.00	0.00	0.00
• all other experience	(0.01)	(0.06)	(0.08)	0.01	0.59 [2]
Actuarial Contribution Rate in 12/31/2009 Valuation	9.55%	14.69%	9.44%	16.54%	23.75%

[1]Contribution rate for Local employers only.

[2]A new benefit structure was established for the Judges' System in July, 1987. The normal cost rate is impacted by the change in membership as members hired before July 1, 1987 leave active employment and are replaced with new entrants, with benefits under the current benefit structure.

SUMMARY OF HISTORICAL CHANGES IN TOTAL SYSTEM UAL
as of
DECEMBER 31, 2009 VALUATION (continued)

	As Reported on Valuation Date							
$(millions)	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**	**12/31/07**	**12/31/08**	**12/31/09**	**Total**
Actual Experience vs. Assumed								
• Investment	$140	$456	$167	$(293)	$(626)	$2,332	$(1,011)	$74
• Other	(32)	16	(84)	139	99	78	(70)	1,223
Assumption Changes	0	437	(5)	0	384	0	0	864
Changes in Data/Procedures	(286)***	0	0	0	0	0	0	377
Change in Cost Method	1,147	0	0	0	0	0	0	1,147
Effect of Contribution Cap/Lag	178	179	247	258	251	246	383	2,486
Amortization Method	47	68	84	83	78	71	96	778
Change in Benefit Provisions	3	1	0	24	2	0	0	249
Bond Issue	(440)	0	0	0	0	0	0	(481)
Total	$757	$1,157	$409	$211	$188	$2,727	$(602)	$7,677

** Reflects the impact of re-establishing the KP&F Supplemental Actuarial Liability at December 31, 2002. The additional unfunded actuarial liability as of December 31, 2000 for the State/School and Local groups not recognized in the prior valuation due to the phase-in of the change in actuarial procedures is included.

*** Change in asset valuation method.

Unfunded actuarial liability 6/30/93: $ 968 million
Unfunded actuarial liability 12/31/09: $ 7,677 million

SUMMARY OF PRINCIPAL RESULTS

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
(STATE)

		12/31/2009 Valuation		12/31/2008 Valuation	% Change
1. PARTICIPANT DATA					
Number of:					
Active Members		26,005		24,374	6.7 %
Retired Members and Beneficiaries		15,936		15,621	2.0
Inactive Members		5,863		5,712	2.6
Total Members		47,804		45,707	4.6
Projected Annual Salaries of Active Members	$	1,048,674,951	$	972,080,168	7.9
Annual Retirement Payments for Retired Members and Beneficiaries	$	186,322,148	$	178,648,359	4.3
2. ASSETS AND LIABILITIES					
a. Total Actuarial Liability	$	3,696,501,526	$	3,554,600,691	4.0
b. Assets for Valuation Purposes		2,890,275,842		2,552,895,270	13.2
c. Market Value of Assets		2,506,018,054		2,127,412,725	17.8
d. Unfunded Actuarial Liability (a) - (b)		806,225,684		1,001,705,421	(19.5)
e. Funded Ratio (b) / (a)		78.2%		71.8%	8.9
3. EMPLOYER CONTRIBUTION RATES AS A PERCENT OF PAYROLL					
Normal Cost		4.16%		4.17%	
Amortization of Unfunded Actuarial and Debt Service		5.39%		6.96%	
Actuarial Contribution Rate		9.55%		11.13%	
Statutory Employer Contribution Rate*		9.37%		8.77%	

* Statutory Employer Contribution Rate may not exceed last year's rate by more than rate increase limit of 0.60%. This rate does not include the contribution rate for the Death and Disability Program. Any excess of the statutory over actuarial contribution rates times actual State payroll is deposited to the School assets.

SUMMARY OF PRINCIPAL RESULTS

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
(SCHOOL)

	12/31/2009 Valuation	12/31/2008 Valuation	% Change
1. PARTICIPANT DATA			
Number of:			
Active Members	86,048	87,948	(2.2) %
Retired Members and Beneficiaries	38,878	37,346	4.1
Inactive Members	24,958	24,212	3.1
Total Members	149,884	149,506	0.3
Projected Annual Salaries of Active Members	$ 3,352,328,403	$ 3,345,545,288	0.2
Annual Retirement Payments for Retired Members and Beneficiaries	$ 509,617,413	$ 477,612,789	6.7
2. ASSETS AND LIABILITIES			
a. Total Actuarial Liability	$ 11,437,206,665	$ 10,937,800,107	4.6
b. Assets for Valuation Purposes	6,438,367,288	5,699,278,482	13.0
c. Market Value of Assets	5,624,405,754	4,749,398,735	18.4
d. Unfunded Actuarial Liability (a) - (b)	4,998,839,377	5,238,521,625	(4.6)
e. Funded Ratio (b) / (a)	56.3%	52.1%	8.0
3. EMPLOYER CONTRIBUTION RATES AS A PERCENT OF PAYROLL			
Normal Cost	4.58%	4.64%	
Amortization of Unfunded Actuarial and Debt Service	10.11%	10.32%	
Actuarial Contribution Rate	14.69%	14.96%	
Statutory Employer Contribution Rate*	9.37%	8.77%	

* Statutory Employer Contribution Rate may not exceed last year's rate by more than rate increase limit of 0.60%. This rate does not include the contribution rate for the Death and Disability Program.

SUMMARY OF PRINCIPAL RESULTS

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM (STATE/SCHOOL)

		12/31/2009 Valuation		12/31/2008 Valuation	% Change
1. PARTICIPANT DATA					
Number of:					
Active Members		112,053		112,322	(0.2) %
Retired Members and Beneficiaries		54,814		52,967	3.5
Inactive Members		30,821		29,924	3.0
Total Members		197,688		195,213	1.3
Projected Annual Salaries of Active Members	$	4,401,003,354	$	4,317,625,457	1.9
Annual Retirement Payments for Retired Members and Beneficiaries	$	695,939,561	$	656,261,148	6.0
2. ASSETS AND LIABILITIES					
a. Total Actuarial Liability	$	15,133,708,191	$	14,492,400,798	4.4
b. Assets for Valuation Purposes		9,328,643,130		8,252,173,752	13.0
c. Market Value of Assets		8,130,423,808	$	6,876,811,460	18.2
d. Unfunded Actuarial Liability (a) - (b)		5,805,065,061		6,240,227,046	(7.0)
e. Funded Ratio (b) / (a)		61.6%		56.9%	8.3
3. EMPLOYER CONTRIBUTION RATES AS A PERCENT OF PAYROLL					
Normal Cost		4.47%		4.53%	
Amortization of Unfunded Actuarial and Debt Service		8.99%		9.56%	
Actuarial Contribution Rate		13.46%		14.09%	
Statutory Employer Contribution Rate*		9.37%		8.77%	

* Statutory Employer Contribution Rate may not exceed last year's rate by more than rate increase limit of 0.60%. This rate does not include the contribution rate for the Death and Disability Program.

SUMMARY OF PRINCIPAL RESULTS

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM (LOCAL)

		12/31/2009 Valuation		12/31/2008 Valuation	% Change
1. PARTICIPANT DATA					
Number of:					
Active Members		41,333		36,247	14.0 %
Retired Members and Beneficiaries		14,087		13,501	4.3
Inactive Members		11,172		10,466	6.7
Total Members		66,592		60,214	10.6
Projected Annual Salaries of Active Members	$	1,661,357,024	$	1,454,109,452	14.3
Annual Retirement Payments for Retired Members and Beneficiaries	$	127,657,737	$	118,235,853	8.0
2. ASSETS AND LIABILITIES					
a. Total Actuarial Liability	$	3,624,727,632	$	3,376,131,873	7.4
b. Assets for Valuation Purposes		2,309,262,337		1,991,428,225	16.0
c. Market Value of Assets		2,033,031,884		1,659,523,521	22.5
d. Unfunded Actuarial Liability (a) - (b)		1,315,465,295		1,384,703,648	(5.0)
e. Funded Ratio (b) / (a)		63.7%		59.0%	8.0
3. EMPLOYER CONTRIBUTION RATES AS A PERCENT OF PAYROLL					
Normal Cost		4.07%		4.15%	
Amortization of Unfunded Actuarial and Supplemental Liability		5.37%		6.27%	
Actuarial Contribution Rate		9.44%		10.42%	
Statutory Employer Contribution Rate*		7.34%		6.74%	

* Statutory Employer Contribution Rate exceeds last year's rate by the statutory rate increase limit of 0.60%. This rate does not include the contribution rate for the Death and Disability Program.

SUMMARY OF PRINCIPAL RESULTS

KANSAS POLICE AND FIREMEN'S RETIREMENT SYSTEM

		12/31/2009 Valuation		12/31/2008 Valuation	% Change
1. PARTICIPANT DATA					
Number of:					
Active Members		7,179		7,242	(0.9) %
Retired Members and Beneficiaries		4,060		3,909	3.9
Inactive Members		1,317		1,348	(2.3)
Total Members		12,556		12,499	0.5
Projected Annual Salaries of Active Members	$	441,454,916	$	426,955,831	3.4
Annual Retirement Payments for Retired Members and Beneficiaries	$	105,015,030	$	98,058,811	7.1
2. ASSETS AND LIABILITIES					
a. Total Actuarial Liability	$	2,232,037,029	$	2,098,292,549	6.4
b. Assets for Valuation Purposes		1,701,719,235		1,479,595,175	15.0
c. Market Value of Assets		1,484,548,360		1,232,995,979	20.4
d. Unfunded Actuarial Liability (a) - (b)		530,317,794		618,697,374	(14.3)
e. Funded Ratio (b) / (a)		76.2%		70.5%	8.1
3. EMPLOYER CONTRIBUTION RATES AS A PERCENT OF PAYROLL					
Normal Cost		8.19%		8.18%	
Amortization of Unfunded Actuarial and Supplemental Liability		8.35%		9.70%	
Actuarial Contribution Rate (Local Employers)		16.54%		17.88%	
Statutory Employer Contribution Rate*		16.54%		14.57% **	

* The Statutory Employer Contribution Rate is equal to the Actuarial Rate. This is referred to as the "Uniform" rate, and varies for State and Local employers. The total contribution is equal to the appropriate uniform rate plus the payment required to amortize any unfunded past service liability or 15% excess benefit liability, determined separately for each employer.

** The contribution rate was recertified to the rate shown after the 12/31/08 valuation report was issued.

SUMMARY OF PRINCIPAL RESULTS

KANSAS RETIREMENT SYSTEM FOR JUDGES

		12/31/2009 Valuation		12/31/2008 Valuation	% Change
1. PARTICIPANT DATA					
Number of:					
Active Members		266		262	1.5 %
Retired Members and Beneficiaries		203		190	6.8
Inactive Members		14		11	27.3
Total Members		483		463	4.3
Projected Annual Salaries of Active Members	$	28,681,056	$	27,835,460	3.0
Annual Retirement Payments for Retired Members and Beneficiaries	$	7,312,743	$	6,682,870	9.4
2. ASSETS AND LIABILITIES					
a. Total Actuarial Liability	$	147,733,263	$	139,961,680	5.6
b. Assets for Valuation Purposes		121,596,003		104,421,422	16.4
c. Market Value of Assets		106,498,558		87,017,852	22.4
d. Unfunded Actuarial Liability (a) - (b)		26,137,260		35,540,258	(26.5)
e. Funded Ratio (b) / (a)		82.3%		74.6%	10.3
3. EMPLOYER CONTRIBUTION RATES AS A PERCENT OF PAYROLL					
Normal Cost		15.22%		14.63%	
Amortization of Unfunded Actuarial and Supplemental Liability		8.53%		11.75%	
Actuarial Contribution Rate		23.75%		26.38%	
Statutory Employer Contribution Rate*		23.75%		21.28% **	

* Statutory Employer Contribution Rate is equal to the Actuarial Rate. This rate excludes the contribution for the Death and Disability Program.

** The contribution rate was recertified to the rate shown after the 12/31/08 valuation report was issued.

SUMMARY OF PRINCIPAL RESULTS

ALL SYSTEMS COMBINED

		12/31/2009 Valuation	12/31/2008 Valuation	% Change
1.	**PARTICIPANT DATA**			
	Number of:			
	Active Members	160,831	156,073	3.0 %
	Retired Members and Beneficiaries	73,164	70,567	3.7
	Inactive Members	43,324	41,749	3.8
	Total Members	277,319	268,389	3.3
	Projected Annual Salaries of Active Members	$ 6,532,496,350	$ 6,226,526,200	4.9
	Annual Retirement Payments for Retired Members and Beneficiaries	$ 935,925,071	$ 879,238,682	6.4
2.	**ASSETS AND LIABILITIES**			
	a. Total Actuarial Liability	$ 21,138,206,114	$ 20,106,786,900	5.1
	b. Assets for Valuation Purposes	13,461,220,705	11,827,618,574	13.8
	c. Market Value of Assets	11,754,502,610	9,856,348,812	19.3
	d. Unfunded Actuarial Liability (a) - (b)	7,676,985,409	8,279,168,326	(7.3)
	e. Funded Ratio (b) / (a)	63.7%	58.8%	8.3

Update on GASB Preliminary Views Document

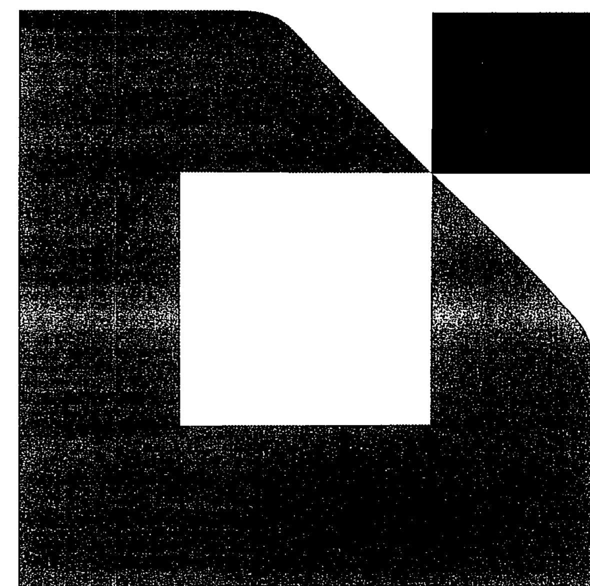
Attachment 2
JCPIB 9-2-10

Presented by:

Patrice A. Beckham, F.S.A.

Principal and Consulting Actuary

September 2, 2010



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Background on GASB

- Governmental Accounting Standards Board (GASB)
  - Establish and improve standards of accounting and financial reporting for state and local governments
  - Official source of generally accepted accounting principles (GAAP) for state and local governments
- Undergoing a review of current standards for reporting of pension benefits (GASB 25 and 27 issued in 1994)
- Issued a document called "Preliminary Views" (PV Document) in June 2010

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GASB Preliminary Views Document

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- PV document relates to accounting and financial reporting issues for employers – NOT system reporting
- GASB considering major changes to the rules for accounting and financial reporting for pensions
- Focus is on pension liability measurement and recognition
  - Pension benefits are part of total compensation package
  - Employer is responsible for any unfunded obligation
- Separates accounting and funding standards
- PV document shares what the board members are thinking for new rules

NB

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Who Will Be Affected By the New Rules?

- All employers who issue GAAP financial statements and whose employees participate in a defined benefit retirement plan
  - Impacts the State and some local employers and school districts
  - Changes in balance sheet and expense determinations
- All defined benefit retirement systems
  - Will have to provide employers with the required information
  - May require additional work outside the regular actuarial valuation used to set contribution rates

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Biggest Changes in GASB PV

- Balance Sheet Changes
- Decoupling of Accounting from Funding

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Balance Sheet Changes

- Current rules
  - Calculate ARC (Annual Required Contribution)
  - No liability on books as long as contributions = ARC
  - In general, if contribute less than ARC, accumulated value of difference with interest is called NPO (Net Pension Obligation) and is reflected on employer's balance sheet
  - If participate in cost sharing multiple employer system (like KPERS) and contribute the contractually required contribution, there is no NPO even if the contribution is less than ARC
    - No liability on the state's books in the past

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Balance Sheet Changes

- Proposed rules in GASB PV document
  - Entire Net Pension Liability (NPL) on the balance sheet
    - Actuarial liability (using entry age normal) less market value of assets
    - Single discount rate based on when expected assets are projected to run out
      - Expected return used for payments before assets run out
      - Municipal bond index rate for payments after assets depleted
    - UAL using market value would be on state's balance sheet. If discount rate lower than 8%, UAL could be much higher
  - No more Annual Required Contribution (ARC)
  - Contribution shortfalls no longer reported on balance sheet

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Net Pension Liability

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- Cost sharing employers will include proportionate share of Net Pension Liability (NPL) as own balance sheet liability
  - GASB feels obligation for cost sharing employer is not substantively different than single employer's liability
- Retirement System will determine the whole NPL and then allocate the total to each participating employer
  - PV document suggests based on portion of contributions
  - GASB is asking for alternative approaches

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Decoupling of Accounting from Funding

- Currently, accounting standards prescribe reasonable funding parameters
- Have been used as de facto national funding benchmark
  - No more Annual Required Contribution (ARC)
  - No direct connection between ARC and expense amount
  - No reporting on contribution shortfall
- PV document does NOT extend to funding of pension plans
  - Under current rules funding and accounting are linked
  - PV document decouples accounting and funding standards
- Many systems will need to revisit their funding policy

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Cost Sharing Multiple Employer Plans

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- Pension obligation should be measured the same as a sole/agent employers
- Each employer within the plan recognizes proportionate share of obligations
- Timing issues
  - Cannot use valuation more than 24 months prior to FYE
  - If valuation date is not FYE, update to that date
  - Different fiscal years for different employers
- Only required for accounting numbers, not funding

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GASB Preliminary Views Document

- Many unknown factors
  - School NPL allocated to state or to individual employers?
  - How are future assets projected for current members? Include projected increases in the statutory contribution rate?
- Potential increase in liability could be significant if discount rate is lower than expected rate of return
- For many systems accounting numbers will vary from funding (valuation) numbers
  - Creates two sets of numbers
  - Potential confusion or misunderstanding

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GASB Preliminary Views Document

- Timeline
  - September 2010: Public comments
  - October 2010: Public hearings
  - Exposure draft: Scheduled for June 2011
  - Comments on ED (Sept 2011)
  - Final Standard: June 2012
  - Effective Date/Transition Rules: ??????

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Kansas Public Employees
Retirement System

Attachment 3
JC PIB 9-2-10

Investments Briefing

Joint Committee on Pensions, Benefits and Investments • September 2, 2010

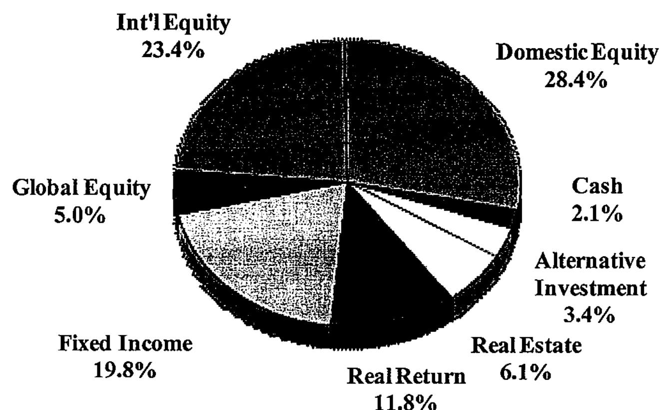
KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
INVESTMENT PERFORMANCE REPORT
For the Period Ending June 30, 2010

Time-Weighted Return	Latest Quarter*	Fiscal Year to Date*	Calendar Year to Date*	Latest 1 Year	Latest 3 Years	Latest 5 Years
Total Portfolio	**-5.7%**	**14.9%**	**-2.1%**	**14.9%**	**-4.1%**	**3.2%**
Domestic Equity	-10.1%	18.1%	-4.5%	18.1%	-9.5%	-0.6%
International Equity	-11.4%	10.9%	-9.9%	10.9%	-11.8%	3.0%
Global Equity	-12.1%	12.7%	-9.8%	12.7%	-10.4%	0.7%
Fixed Income	2.7%	17.0%	6.3%	17.0%	8.5%	6.4%
Real Return	2.7%	12.3%	4.7%	12.3%	8.3%	4.2%
Real Estate	-1.0%	12.1%	0.6%	12.1%	-11.8%	0.3%
Alternative Investments	-3.1%	10.3%	1.9%	10.3%	2.2%	10.8%
Cash Equivalents	0.1%	0.4%	0.2%	0.4%	2.4%	3.3%

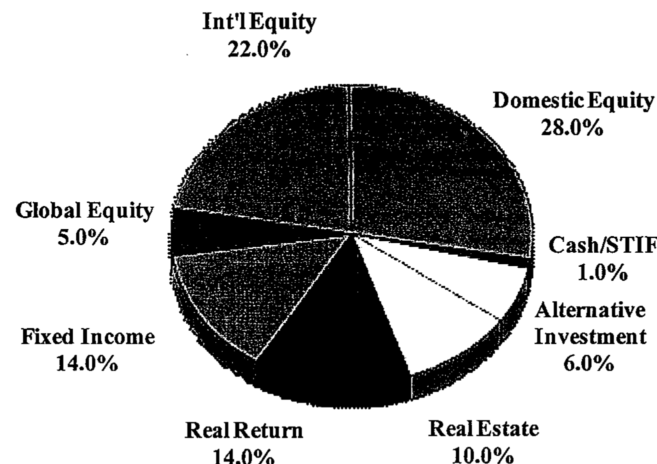
*Not Annualized

ASSET ALLOCATION
Total Portfolio Net Asset Value $11,165.4 Million as of June 30, 2010

Current Position***



Target Allocation**



***All allocations reflect the impact of the Beta Overlay Program.

**Target Allocation As Of March 21, 2008

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
ASSET CLASS, RELATIVE RETURN COMPARISON

	06/30/10 Asset Value Millions[2]	Time Weighted Total Return[1]					
		Latest Quarter	Fiscal YTD	Calendar YTD	Latest 1 Year	Latest 3 Years	Latest 5 Years
TOTAL PORTFOLIO[3]	$11,165.4	-5.7%	14.9%	-2.1%	14.9%	-4.1%	3.2%
Policy Index[4]		-6.0%	12.5%	-2.8%	12.5%	-3.7%	3.0%
Consumer Price Index		-0.4%	0.9%	-0.1%	0.9%	1.5%	2.3%
Domestic Equity Portfolio	3,171.9	-10.1%	18.1%	-4.5%	18.1%	-9.5%	-0.6%
Russell 3000 Index		-11.3%	15.7%	-6.0%	15.7%	-9.5%	-0.5%
Total International Equity	2,409.1	-11.4%	10.9%	-9.9%	10.9%	-11.8%	3.0%
KPERS International Equity Benchmark[5]		-12.4%	10.5%	-11.1%	10.5%	-10.4%	3.5%
Global Equity Portfolio	552.2	-12.1%	12.7%	-9.8%	12.7%	-10.4%	0.7%
MSCI All Country World Index		-12.0%	12.3%	-9.1%	12.3%	-10.0%	1.7%
Fixed Income Portfolio	2,407.7	2.7%	17.0%	6.3%	17.0%	8.5%	6.4%
KPERS Fixed Income Benchmark[6]		3.1%	10.6%	5.2%	10.6%	7.2%	5.6%
Real Return Portfolio	1,319.9	2.7%	12.3%	4.7%	12.3%	8.3%	4.2%
Custom Real Return Benchmark[7]		3.8%	9.5%	4.4%	9.5%	7.7%	3.9%
Real Estate Portfolio	684.4	-1.0%	12.1%	0.6%	12.1%	-11.8%	0.3%
KPERS Real Estate Benchmark[8]		1.6%	7.4%	4.3%	7.4%	-2.7%	5.4%
Alternative Investment Portfolio	383.6	-3.1%	10.3%	1.9%	10.3%	2.2%	10.8%
KPERS Alternative Investment Benchmark[9]		-10.7%	18.7%	-4.7%	18.7%	-6.4%	2.6%
Cash Equivalents Portfolio	211.6	0.1%	0.4%	0.2%	0.4%	2.4%	3.3%
Merrill Lynch 0-1 Yr. Treasury Index		0.1%	0.5%	0.2%	0.5%	2.3%	3.1%

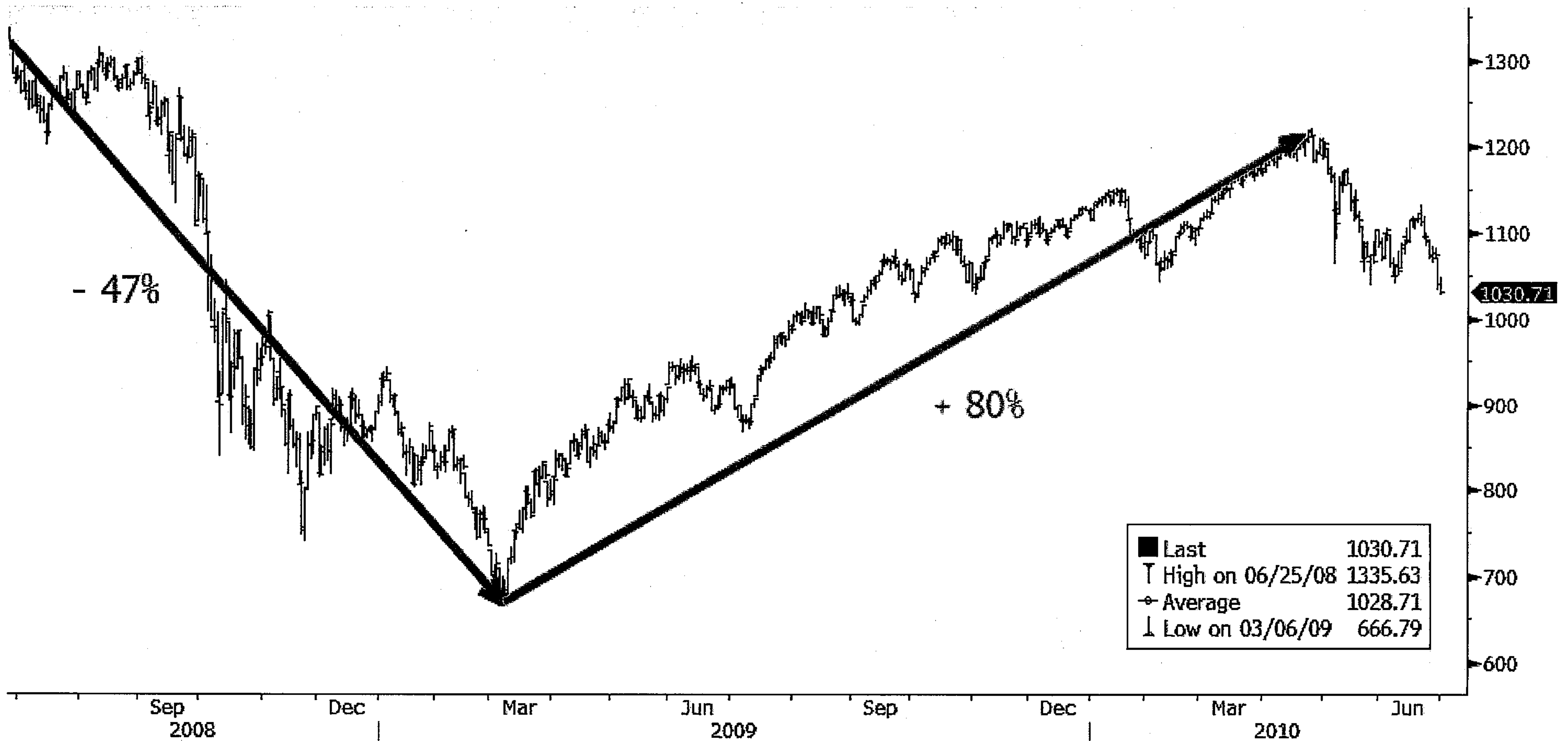
[1] Time weighted total return includes income and changes in market value. The latest quarter, fiscal year to date, and calendar year to date results are not annualized.
[2] Net Asset Value is the market value of investments plus accrued receivables less accrued payables. The cash portion of the portfolio is managed by Payden & Rygel.
[3] The Net Asset Value for the Total Portfolio includes the unrealized gain/loss amounts for the Pareto Partners Currency Overlay and Barclays Active Currency accounts. These amounts are shown on page 7.
[4] The current Policy Index was implemented April 1, 2008. This asset allocation mix is 28% Domestic Equity; 22% International Equity; 5% Global Equity; 14% Fixed Income; 14% Real Return; 10% Real Estate; 6% Alternative Investments; and 1% Cash. Prior indexes varied by composition and are reflected in the longer term returns. Prior allocations are available upon request.
[5] The KPERS International Equity Benchmark is the MSCI ACWI Ex U.S Net / EAFE Custom Benchmark. The prior benchmarks varied by composition and are reflected in the longer-term returns. These benchmarks are available upon request.
[6] The current Fixed Income Benchmark is the Barclays Capital Universal Index. Prior benchmarks varied by composition and are reflected in the longer-term returns. These benchmarks are available upon request.
[7] The current Real Return Benchmark is the Barclays Capital U.S. TIPS Index. The prior benchmark varied by composition and is reflected in the longer-term returns. This benchmark is available upon request.
[8] The current KPERS Real Estate Benchmark is a weighted average of the following indexes: Custom NCREIF-50%; NCREIF +3% -25%; and Morgan Stanley REIT-25%. Prior benchmarks varied by composition and are reflected in the longer term returns. These benchmarks are available upon request.
[9] The current KPERS Alt. Inv. Benchmark is the Russell 3000+3%. The prior benchmarks varied by composition and are reflected in the longer term returns. These benchmarks are available upon request.

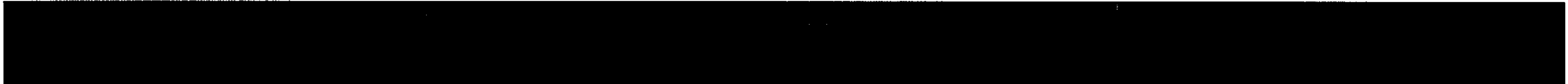
ACTUAL & ESTIMATED PORTFOLIO RETURNS
AND MAJOR INDICIES RETURNS

Time-Weighted Return	Calendar Year-To-Date*	Fiscal Year-To-Date*	Month-To-Date*	July-2010	June-2010	May-2010	Apr-2010	Mar-2010	Feb-2010	Jan-2010
Total Portfolio Assets	1.4% 11.724 **	3.8% 11.724 **	-1.2% 11.724 **	5.1% 11.841 **	-1.6% 11.165 **	-5.4% 11.420 **	1.4% 12.128 **	4.5% 12.006 **	1.0% 11.505	-1.9% 11.431 **
Dow Jones Industrial	-0.9%	4.4%	-2.7%	7.2%	-3.4%	-7.6%	1.5%	5.3%	3.0%	-3.3%
MSCI EAFE	-7.4%	6.3%	-3.0%	9.5%	-1.0%	-11.4%	-1.7%	6.3%	-0.7%	-4.4%
MSCI ACWI x US	-5.2%	6.2%	-2.6%	9.1%	-1.1%	-10.5%	-0.8%	6.9%	0.0%	
S & P 500	-3.3%	3.6%	-3.2%	7.0%	-5.2%	-8.0%	1.6%	6.0%	3.1%	-3.6%
Russell 3000 I-Shares/Index	-2.8%	3.5%	-3.1%	6.9%	-5.8%	-7.9%	2.2%	6.3%	3.4%	-3.6%
Barclays Aggregate I-Shares/Index	7.0%	1.4%	0.5%	1.1%	1.6%	0.8%	1.0%	-0.1%	0.4%	1.5%
MS REIT Index	14.7%	8.5%	-1.1%	9.7%	-5.2%	-5.4%	7.1%	10.1%	5.6%	-5.3%
FTSE/EPRA NAREIT Global ex U.S. Index	-2.1%	9.6%	-0.1%	9.6%	-1.9%	-8.4%	-0.7%	7.0%	1.5%	-5.8%
Merrill Lynch REIT Preferred Index	12.2%	5.0%	1.8%	3.1%	1.9%	-1.3%	1.2%	3.3%		
TIP I Shares	5.2%	1.0%	1.2%	0.2%	1.4%	0.0%	2.4%	0.1%	-1.2%	1.6%

*** Through August 27, 2010**
**ESTIMATED--ACTUAL RETURNS MAY VARY. BGI alpha tilts. Mellon LC Index and TIPS accounts are priced monthly.

A Volatile Environment for Stocks...





…As Well As Interest Rates

4.000
3.500
3.000
2.933
2.500
2.000

■	Mid Line	2.933
T	High on 07/23/08	4.118
-o-	Average	3.399
⊥	Low on 12/30/08	2.055

Sep 2008 Dec Mar Jun 2009 Sep Dec Mar 2010 Jun

ENERIC 10Y N/B G-1 Daily 7/1/08 to 6/30/10

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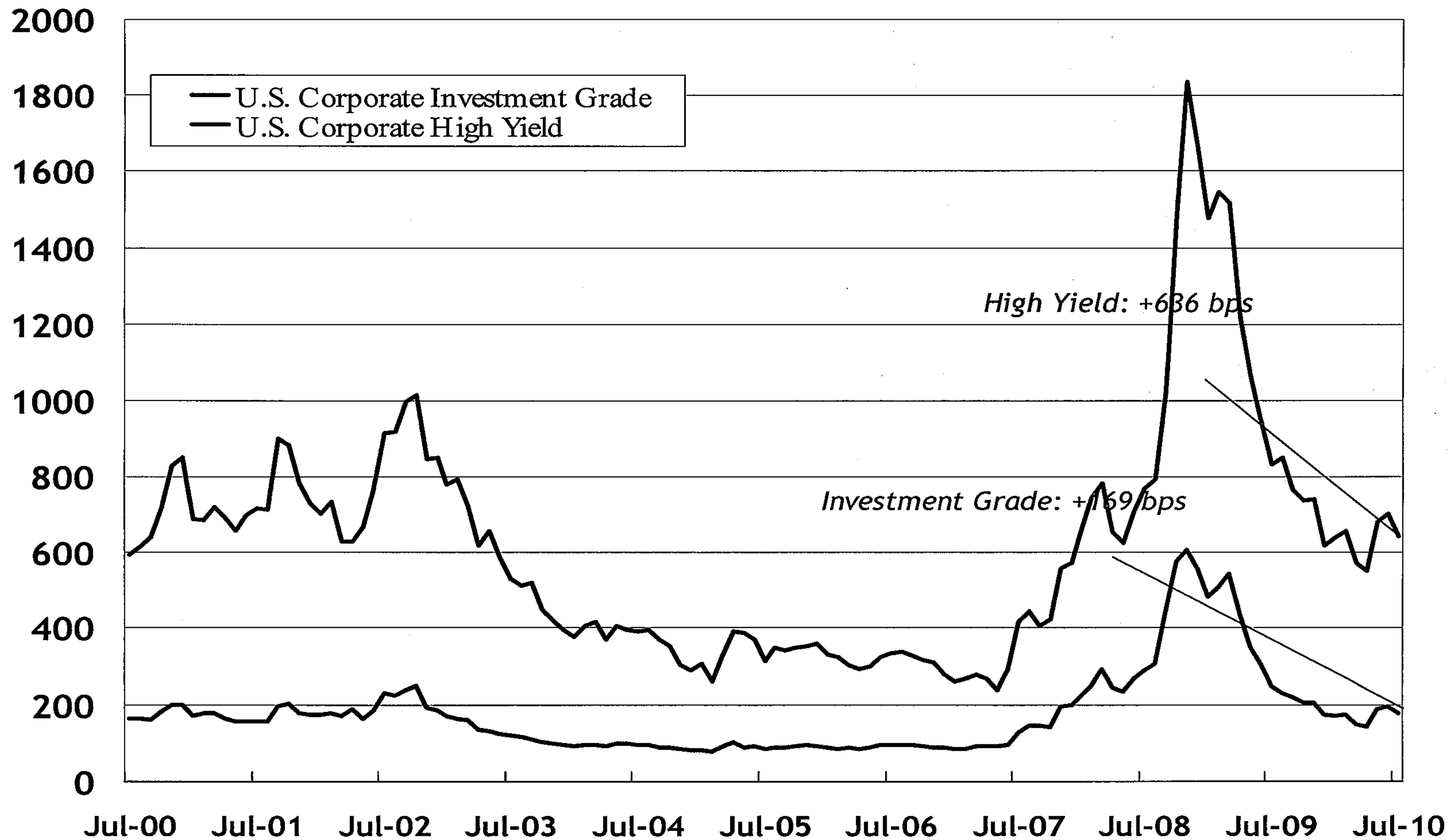
Corporate Bond Spreads



Source: Barclays Capital; History Through July 31, 2010, monthly data

3-8

The Dollar As A Barometer

Last	86.019
High on 03/04/09	89.624
Average	80.744
Low on 07/15/08	71.314

86.019

90
85
80
75
70

Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun

2008 2009 2010

-- DOLLAR INDEX SPOT G-1 Daily 7/1/08 to 6/30/10 Copyright 2010 Bloomberg Finance L.P. 31-Aug-2010 10:54:54

Macro Environment

Base Case: Low Growth, Low Inflation

- The U.S. and China will be the engines of global growth, Latin America will be strong and Europe to remain weak. Fiscal consolidation and pressures will increasing act as headwinds.

- U.S. inventory rebuilding and fiscal stimulus will fade and business capital expenditures (capex) and consumer spending will pick up, though not to robust levels:
    - Capex can rise as businesses are in good shape with high cash levels and some profit growth.
    - Consumers will continue to pay down debt, but a more stable jobs market will allow better spending. Income growth will be sluggish, however, limiting the rise.

- The bottom in housing still looks to come, with prices artificially supported by expiring tax credits.

- Stocks are in an environment where they can provide modest returns; bond yields should trade in a range on disinflation, slow growth and stable monetary policy.

3-10

Expectations Risks

Key Downside Risks

Euro crisis becomes a financial crisis, fiscal contraction begins in the U.S.

- Consumer spending remains flat for a considerable period of time.
- Savings rate rises and unemployment rate resumes its uptrend. Unemployment (or under-employment) and lack of a house price rebound weigh on consumers. Credit tightens.
- Stimulus fades, and is not renewed due to budget concerns
- Residential and commercial real estate losses continue to pile up, limiting banks' ability to lend (or stay solvent)
- China's efforts to moderate growth goes to far and that economy fails to provide growth in a global context.
- "Risk appetite" diminishes, and "growth" assets fail to perform.

Key Upside Risks

Consumer Spends, Strong Business Capital Expenditure Cycle, Global Growth Jumps

- Real GDP matches or exceeds the Fed's expectation of 4%.
- Pent-up demand by businesses ignite a strong capex cycle.
- Both consumer and corporate credit become more readily available
- The employment picture improves, incomes rise, consumers spend.
- The U.S. dollar stabilizes in a range and begins to lose its status as the funding currency. Yields begin to move up investors begin to fear inflation and supply.

Investment Strategy

- KPERS invests with the long term in mind, seeking to grow the portfolio's assets and provide income for benefit payments.
- KPERS portfolio is diversified across several asset classes in order to mitigate the volatility of any one type of asset and to source investment returns from many different areas.
- In the current environment, KPERS is particularly focused on:
  - managing our liquidity;
  - monitoring assets which are showing signs of distress;
  - Focusing on cash yield, and investments from which cash yield is an significant part of return;
  - staying aware of opportunities that arise as the macroeconomic environment shifts.

3-12

Asset / Liability Study

- Presently, the staff and Board are engaged in an Asset/Liability Study. In this study, done triennially:
  - the liability stream of KPERS is analyzed and;
  - an appropriate asset mix is developed to fund the liabilities, based upon assumptions regarding future expected rates of return and risks posed by various asset classes, as well as KPERS ability to invest in them.

- The study should conclude in November 2010 with any changes to the current asset mix adopted at that time.

Asset / Liability Study – Asset Return, Risk and Correlations Assumptions

Summary of Investment Class Assumptions

	Expected Avg. Nominal Annual Return	Expected Geo. Compund Nominal Annual Return	Expected Risk of Nominal Returns (Annl. SD)	Cash	TIPS	CoreFxd	IntlBds	GlblBds	RealEst	RealRet	USEq	IntlEq	GlblEq	HIntlEq	PrivEq
Cash	3.50	3.50	2.00												
Treasury Infl. Protected Securities	5.00	4.80	6.00	0.20											
Domestic Core Fixed Income	4.00	3.90	4.50	0.30	0.60										
International Fixed Income	4.00	3.50	10.00	-0.15	0.40	0.40									
Global Fixed Income	4.00	3.70	8.00	-0.05	0.50	0.50	0.95								
Core Real Estate	7.25	6.80	10.00	0.30	0.00	0.00	-0.20	-0.20							
Real Return	7.00	6.50	10.00	0.20	0.60	0.30	0.00	0.00	0.25						
Domestic Equity	9.25	7.80	17.00	0.00	0.00	0.30	0.00	0.00	0.40	0.25					
International Equity	9.75	7.75	20.00	0.00	0.00	0.10	0.10	0.10	0.40	0.25	0.85				
Global Equity	9.50	8.00	17.50	0.00	0.00	0.20	0.05	0.05	0.40	0.25	0.90	0.90			
Hedged International Equity	9.65	7.85	19.00	0.10	0.00	-0.10	-0.10	-0.10	0.50	0.35	0.90	0.90	0.90		
Priv Equity/Venture Capital	12.50	9.40	25.00	0.00	0.00	0.00	0.00	0.00	0.40	0.25	0.90	0.80	0.85	0.90	
Inflation	3.00	3.00	2.00	0.50	0.50	-0.10	-0.15	-0.20	0.40	0.60	0.20	0.20	0.20	0.20	0.10

Significant Changes from Last Year's Ten-Year Assumptions

- Fixed income expected returns have come down significantly, declining to 4.00% from 5.25%, due to falling rates and tighter spreads.
- Core real estate expected returns have risen from 6.75% to 7.25% due to price declines.
- Equity expected returns have declined across the board owing to price gains since last year.
- We have differentiated between the expected return to Domestic and International Equity owing to higher expected growth in EM equity.
- The standard deviation of inflation has increased as uncertainty around the level of inflation is expected to rise.

Indices Used in Modeling Asset Class Assumptions

Asset Class	Index
Cash	Citigroup 3 month US Treasury Bill Index
TIPS	Barclays Capital TIPS, simulated TIPS series per Bridgewater
Domestic Core Fixed	Barclays Capital Universal, Barclays Capital Aggregate Index, Barclays Capital G/C Index, Barclays Capital Intermediate Govt. Index, Barclays Capital Corp/Credit Index
International Fixed	Barclays Capital Global Treasury ex-US Unhedged, Solomon/Citigroup World Non-US Government Bond Index
Global Fixed	Barclays Capital Global Treasury Index, Salomon/Citigroup World Government Bond Index
Core Real Estate	NCREIF NPI Index, Prior Indices
Real Return	Barclays Capital TIPS, various Hedge Fund Indices, NCREIF Timber Index, Dow Jones UBS Commodity Index
Domestic Equity	Russell 3000 Index, S&P 500 Index
International Equity	MSCI/Barra ACWI ex-US Index, MSCI/Barra EAFE Index
Global Equity	MSCI/Barra ACWI World Index
Hedged Intl. Equity	Hedged MSCI/Barra ACWI ex-US Index, MSCI/Barra EAFE Index
Private Equity	Prior Brinson Venture Capital Index, VCJ Post Venture Capital Index

Attachment 4
JCPIB 9-2-10

Kansas Public Employees
Retirement System

Long-Term Funding Overview

Joint Committee on Pensions, Investments and Benefits ▪ September 2, 2010

Long-Term Funding: 2010 Legislative Activities

4-2

- **2009 Interim Studies.** The Joint Committee on Pensions, Investments, and Benefits requested KPERS to model a series of funding solution options, which were presented during three Joint Committee meetings during the 2009 Interim. These options included:
  - Raising the statutory employer contribution rate cap to 1.0% or 2.0% over various time periods (from FY 2011 through FY 2013).
  - Increasing employee contribution rates for Tier 1 only or for both Tier 1 and Tier 2.
    - Increases ranged from 1.0% to 2.0% over various time periods.
  - Changing the statutory multiplier for future service, including –
    - A decrease in the multiplier from 1.75% to 1.5%.
    - In combination with higher employee contributions, an increase to 1.85%.
  - Issuing bonds of $660 million to $1.2 billion at par in lieu of raising the statutory cap on employer contribution increases.
  - Combining various employer and employee rate increases and multiplier changes.
  - Creating a new mandatory defined contribution plan for future employees.

Long-Term Funding: 2010 Legislative Activities

4-3

- **LTF Record.** At the request of the Joint Committee, KPERS also prepared a comprehensive record covering a report on KPERS' long-term funded status; KPERS' plan design and funding history; and a record of options considered by the Committee.
- **SB 564.** Based on its review of options for improving KPERS' funded status, the Joint Committee recommended introduction of SB 564 as an initial step in addressing the shortfall. This bill would have –
  - **Increased Contributions.** Raised the cap on employer contribution rate increases from 0.6% per year to 1.0% per year, beginning in FY 2012. Increased employee contribution rates for both Tier 1 and Tier 2 by .5% in each of four calendar years (total of 2%), beginning January 1, 2012.
  - **Increased Multiplier for Future Service.** Effective January 1, 2012, raised the benefit formula's multiplier to 1.85% for all future years of service.
- **House Sub for HB 2400.** The House Select Committee on KPERS recommended this substitute bill, which would have raised the maximum increase in employer contributions for the KPERS State and School Groups to 1.0% a year, effective FY 2013.

Long-Term Funding: 2010 Legislative Activities

4-4

- **HB 2751.** The House Appropriations Committee introduced a bill to create a Tier 3 KPERS Defined Contribution retirement plan for those hired after June 30, 2012.
  - Employees would contribute 7% of compensation to their retirement account.
  - Employers would contribute 5% to each employee's account, as well as percentages set by the Board for death and disability benefits, a funding rate for the current defined benefit plan, and a rate for plan administration expenses.
- Hearings were held for SB 564 and HB 2400, but neither of the bills passed out of its house of origin.
- No hearing was held on HB 2751. It was introduced a few days before adjournment.
- The final appropriations bill passed by the Legislature included funding for the statutory 0.6% increase in employer contributions during FY 2011.

Long-Term Funding: Next Steps

4-5

- Proactive steps to address KPERS' long-term funding shortfall are critical. The price of inaction will continue to grow along with the unfunded actuarial liability.
- KPERS is continuing its long-term funding analysis. Areas of particular focus may include:
  - Updated measurements of the impact of steps to improve long-term funding, beginning with contribution increases.
  - Ways to measure sustainability.
- In addition, KPERS is conducting an asset/liability study and an experience study.
  - Together, they potentially may result in changes to economic assumptions, including the 8% investment return.
  - If the Board approves a lower investment return assumption, the lower rate would result in higher unfunded liabilities and lower funded ratios.
  - KPERS will model the long-term funding impact of any changes that result from these studies.
- As this work is completed, KPERS will share the results with the Joint Committee, along with any recommendations by the Board for legislation. In addition, KPERS will respond to any directions from the Joint Committee regarding additional information or analyses it would like KPERS to present at subsequent meetings.

Long-Term Funding: Conclusions

4-9

- Current benefits are safe for a period of time. Assets of more than $11 billion are available to pay benefits.
- While the 12/31/09 valuation indicates a modest, short-term improvement in KPERS' funding status, the fundamental long-term funding shortfall remains and will continue to grow.
- KPERS' ability to withstand future economic downturns is compromised.
- Last year's strong investment returns do not happen every year. Even with a yearly 8% return, the unfunded liability will continue to increase.
- Investment returns alone cannot fix the funding problem. Employers are still not contributing at the required rate.
- Legislative action is needed to begin the process of addressing the shortfall, with additional employer contributions as a basic element.

Kansas Public Employees
Retirement System

2010 Senate Bill 564

Senate Ways and Means Committee

March 10, 2010

4-7

Overview

- The unprecedented investment market declines in 2008 had a substantial negative impact on the funding status of the System, reversing forward progress on long-term funding.
- The 12/31/08 actuarial valuation report reflected a significant deterioration in all measures of KPERS' long-term funding status.
  - **Unfunded Actuarial Liability (UAL)**. The entire System's UAL increased by $2.7 billion to $8.3 billion.
    - The UAL for all three KPERS groups is projected to continue growing for seven to 15 years by 55% (Local) to almost double the current UAL (School).
    - Because the School Group is out of actuarial balance, its remaining UAL at the end of the amortization period in FY 2033 is projected to be $6.9 billion, compared to a UAL of $3.9 billion at the end of 2007.
  - **Funded Ratio.**
    - For public plans, a funded ratio of 80% and rising is considered to indicate adequate funding.
    - Funded ratios of 60% or below are considered to reflect severe underfunding requiring prompt remedial action.

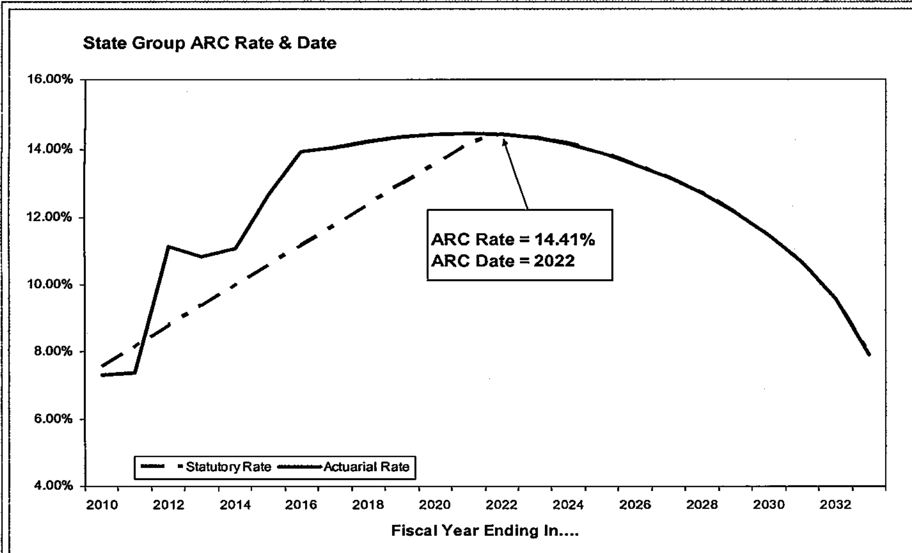
Overview (Continued)

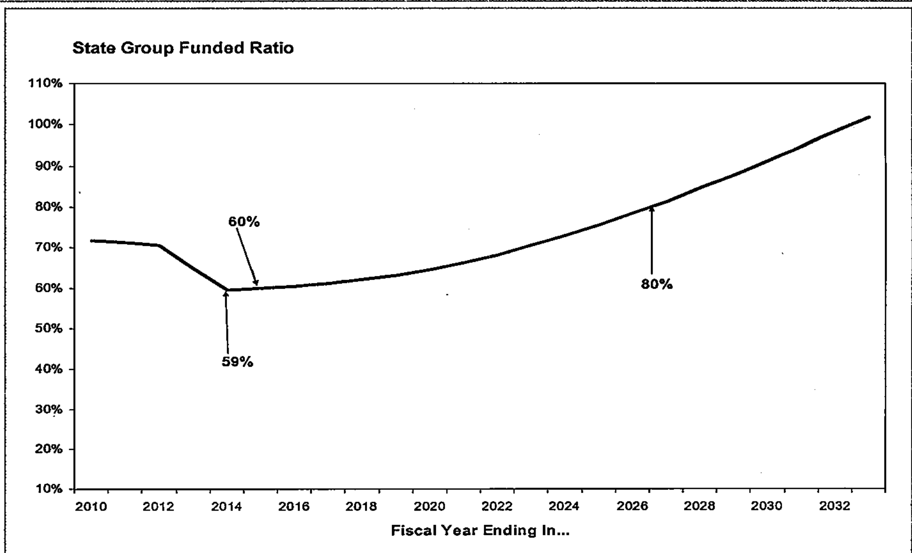
- **Funded Ratio (Continued).**
  - The State Group's funded ratio dropped to 72% and is projected to fall to near 60% for six years.
  - The School Group's funded ratio immediately fell to 52%. It is projected to reach 41.7% in FY 2014 and remain at 41 to 43% for another nine years, before finally reaching 60% in FY 2031.
- **Actuarially Required Contribution (ARC) Rate.**
  - The School Group is out of actuarial balance. Although its statutory rate is projected to rise to more than 20% by FY 2033, its ARC rate at that point is expected to approach 40%.
  - The actuarially required contribution (ARC) rates for State and Local Groups are projected to nearly double their current contribution rates.

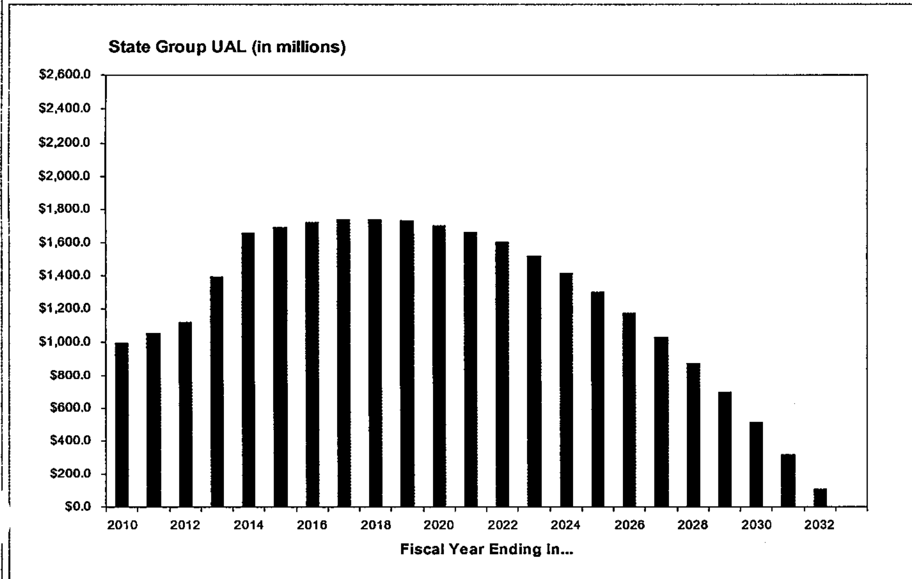
- Collectively, these measures of KPERS' long-term funded status indicate that its ability to withstand future economic downturns has been compromised.
- The funding problem facing KPERS does not constitute a crisis threatening its short-term viability. Instead, it is KPERS' ability to pay benefits over the long-term that is in jeopardy.

State Group: Baseline Projections

▪**No change in the .6% employer rate increase cap. Assumes average annual investment return of 8%.**







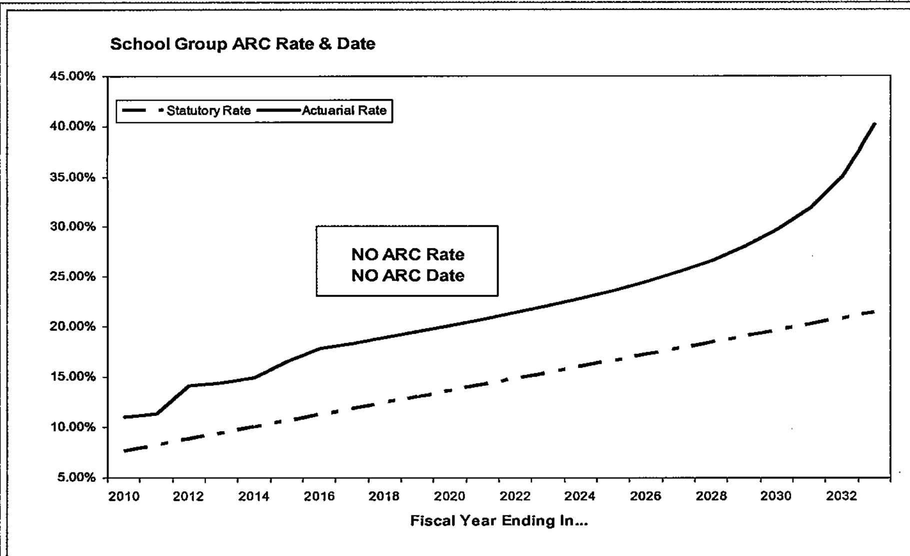
- The projected ARC rate is nearly double the state/school rate paid by state agencies in FY 2010 (7.57%).
- The funded ratio reaches a low of 59% in FY 2014.
- It remains near 60% for an additional 5 years and only reaches 80% in FY 2027.
- The projected UAL rises by nearly 75% to $1.74 billion in FY 2018 and does not return to its 2008 level until FY 2027.

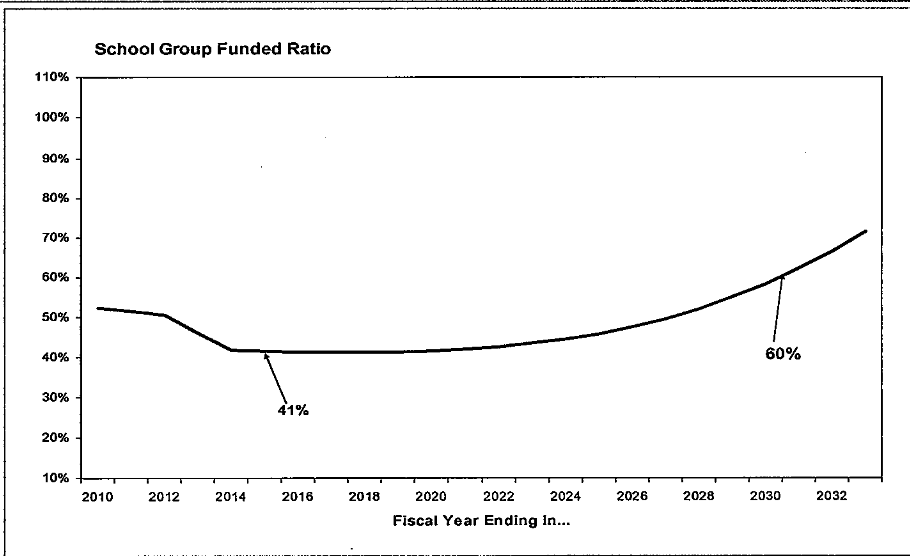
4-10

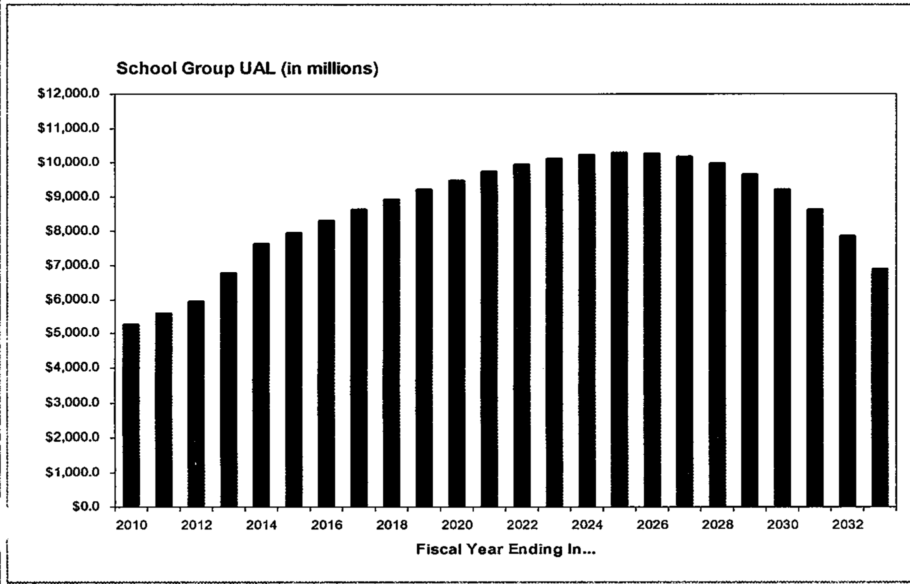
School Group: Baseline Projections

- **No change in the .6% employer rate increase cap. Assumes average annual investment return of 8%.**

4-11





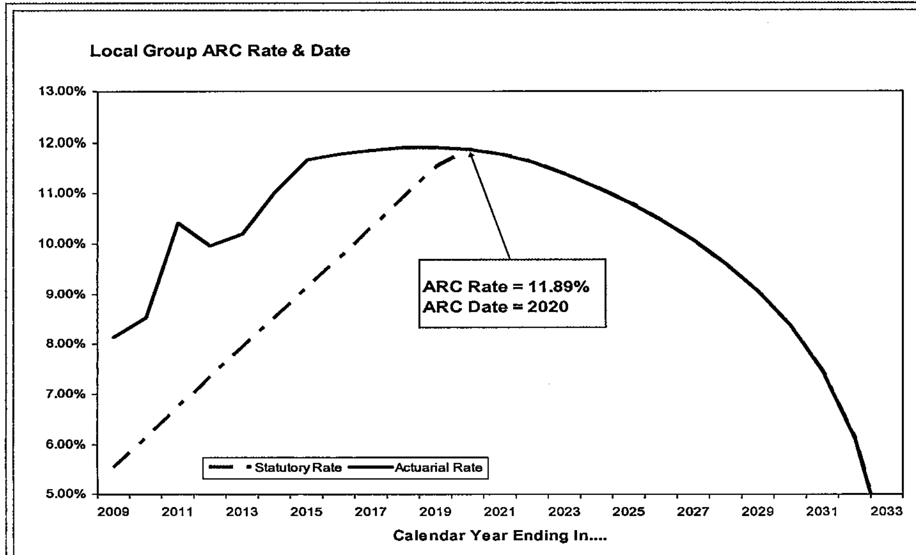


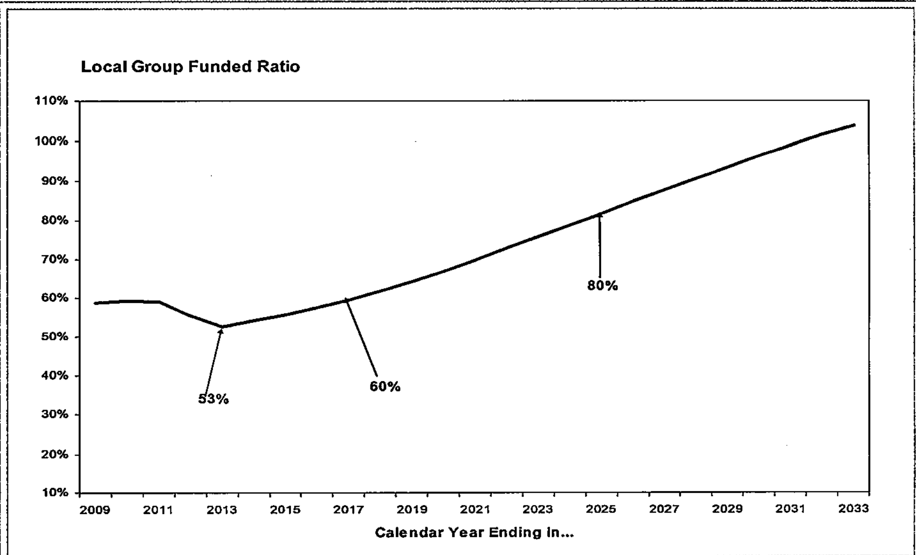
- The School Group is not in actuarial balance by FY 2033. ARC rates are expected to rise to around 40%, with statutory rates climbing to 20%.
- The funded ratio reaches a low of 41.4% in FY 2014 and remains at 41 to 43% for 10 years.
- The funded ratio does not reach 60% until FY 2031 and only reaches 80% in FY 2035.
- The projected UAL nearly doubles to $10.3 billion in FY 2025. At the end of the amortization period, the unpaid balance of the UAL is projected to be 80% higher than the UAL prior to 2008.

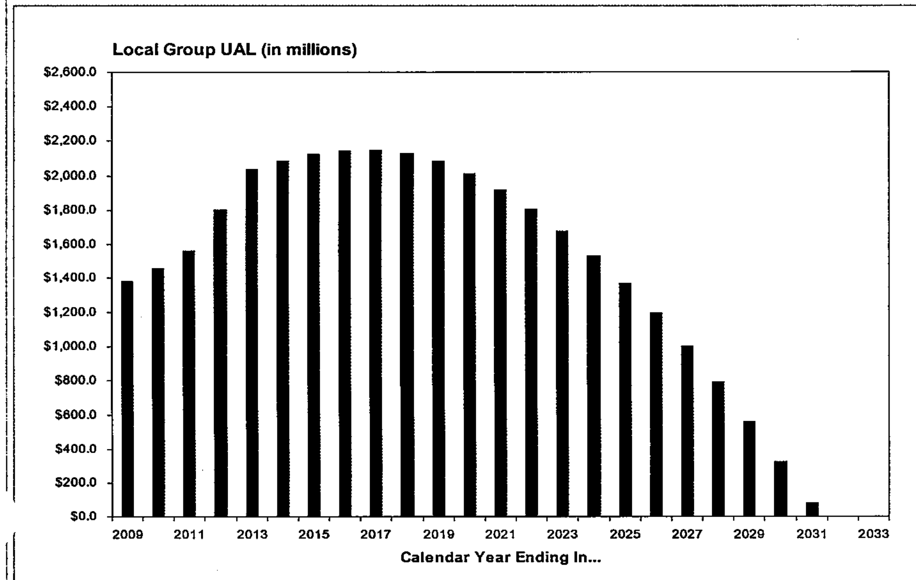
Local Group: Baseline Projections

4-12

▪No change in the .6% employer rate increase cap. Assumes average annual investment return of 8%.







- 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 and does not return to its 2008 level until FY 2025.

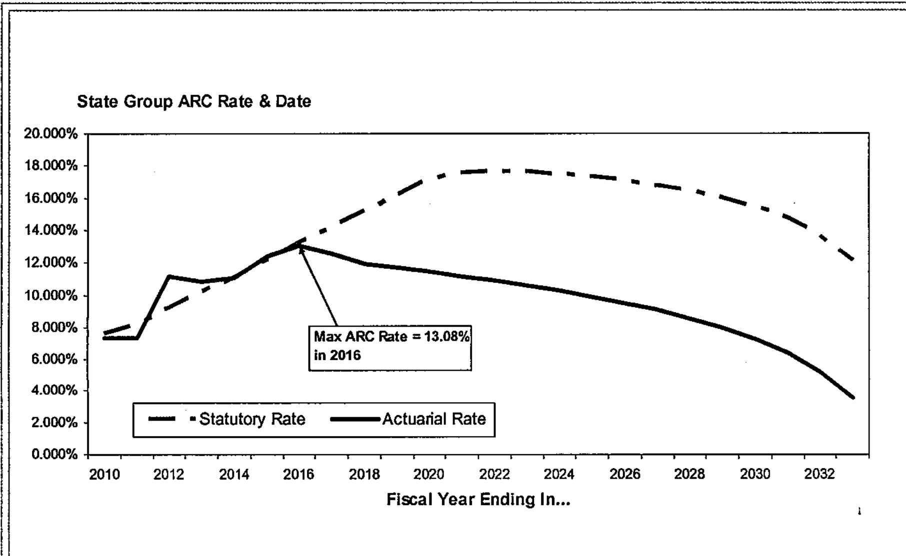
SB 564

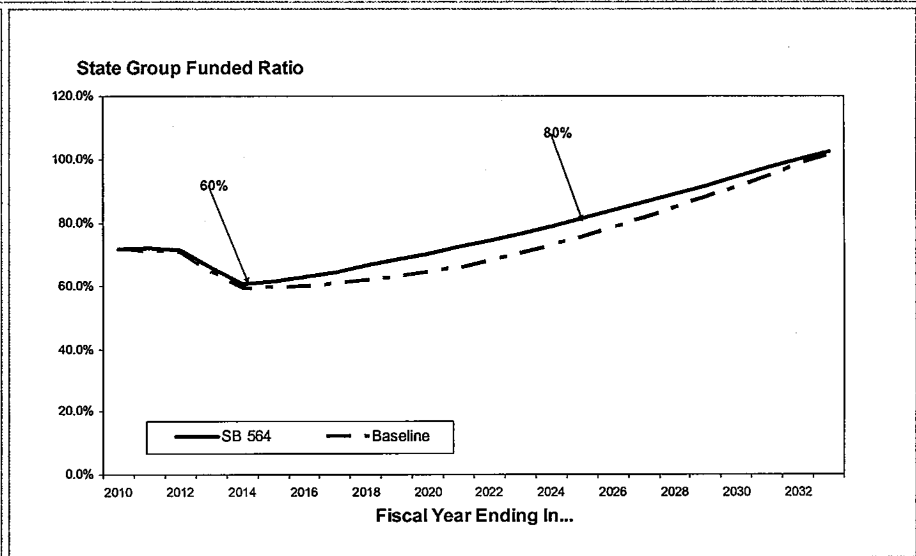
4-13

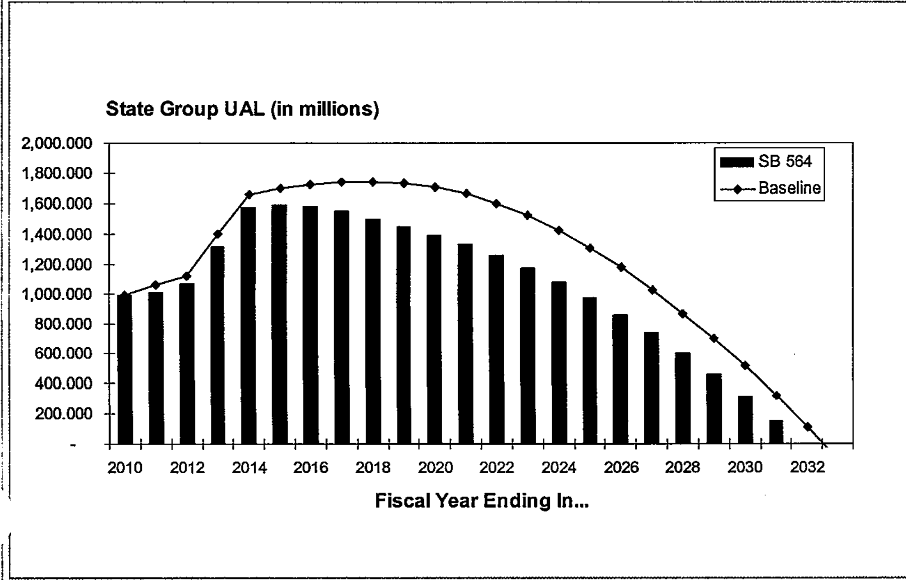
- Throughout the Interim, the Joint Committee Pensions, Investments, and Benefits studied KPERS' long-term funding shortfall and a range of options for improving KPERS' funding status.
- Based on this review, the Joint Committee recommended introduction of SB 564 as an initial step in addressing the shortfall.
- SB 564 has three components:
  - **Increased Employer Contributions.** Raise the cap on employer contribution rate increases from .6% per year to 1.0% per year, beginning in FY 2012.
  - **Increased Employee Contributions.** Increase employee contribution rates for both Tier 1 and Tier 2 by .5% in each of four calendar years, beginning January 1, 2012. By CY 2015, the contribution rate for Tier 1 would be 6.0%, and the contribution rate for Tier 2 would be 8.0%.
  - **Increased Multiplier for Future Service.** Retirement benefits are calculated by multiplying the member's years of service by the final average salary (FAS), times a "multiplier" of 1.75%. Effective with the increase in employee contributions beginning January 1, 2012, SB 564 would raise the multiplier to 1.85% for all future years of service credited to members.
- An analysis of the projected impact of SB 564 on measures of KPERS' funded status and on employer and employee contributions follows.

State Group: Senate Bill 564

- Raise cap on employer rate increases to 1.0% in FY '12. Raise Tiers I & 2 employee rate by 0.5% in each of four years, beginning 1/1/12. Increase Tiers I & 2 multiplier to 1.85% for future service. Assumes average annual investment return of 8%.





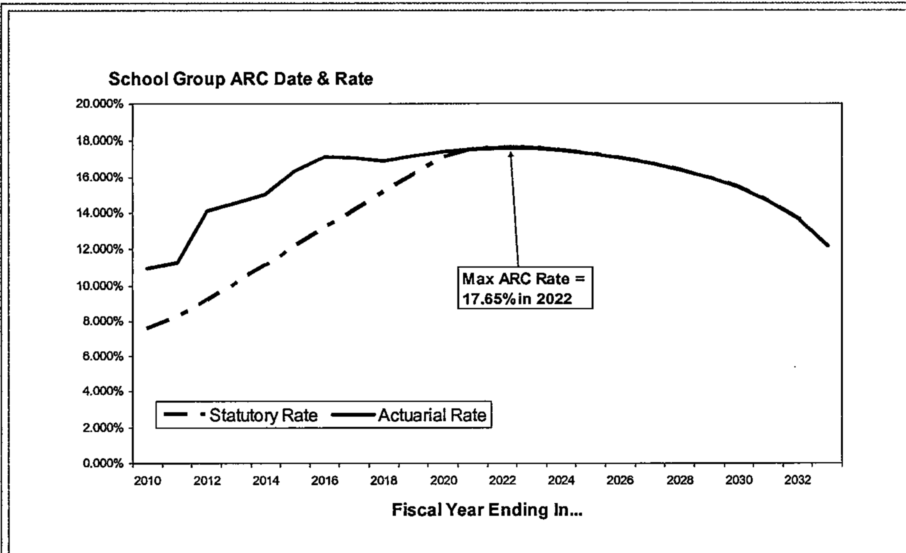


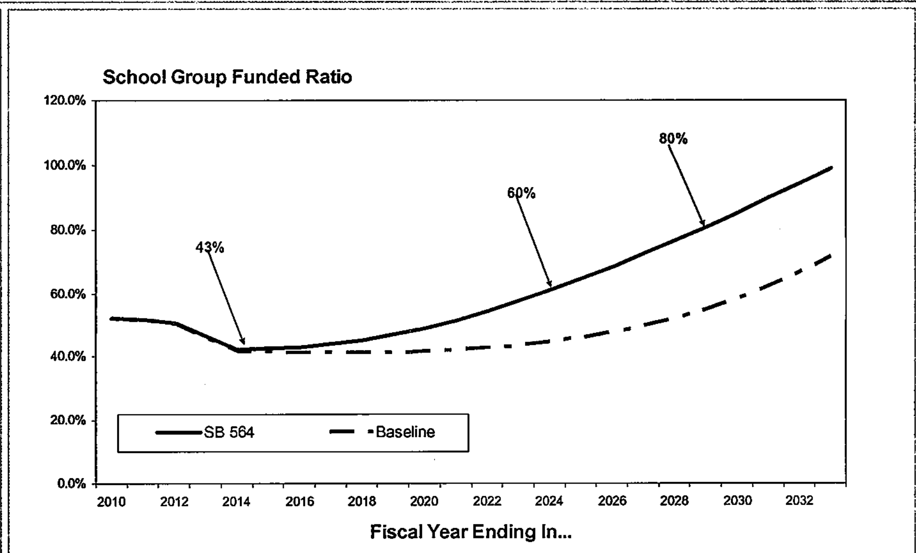
- The projected ARC rate rises to a maximum of 13.08% in FY 2016 – six years earlier and 1.33% lower than the Baseline.
- The funded ratio falls to a low of 60.8% in FY 2014.
- The funded ratio reaches 80% in FY 2025, two years earlier than the Baseline.
- The projected UAL peaks at $1.59 billion in FY 2015 – three years earlier and $156.9 million less than the Baseline.

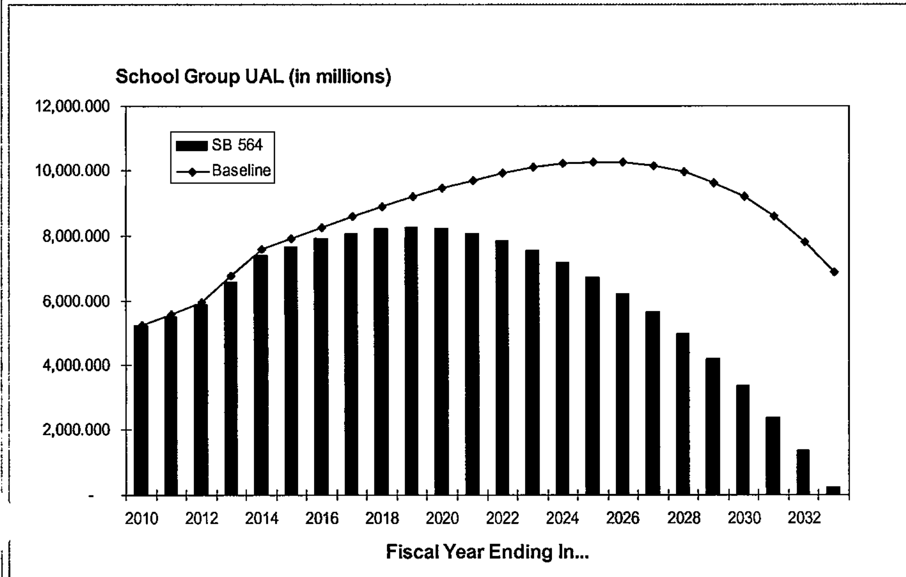
4-44

School Group: Senate Bill 564

▪**Raise cap on employer rate increases to 1.0% in FY '12. Raise Tiers I & 2 employee rate by 0.5% in each of four years, beginning in 1/1/12. Increase Tiers I & 2 multiplier to 1.85% for future service. Assumes average annual investment return of 8%.**





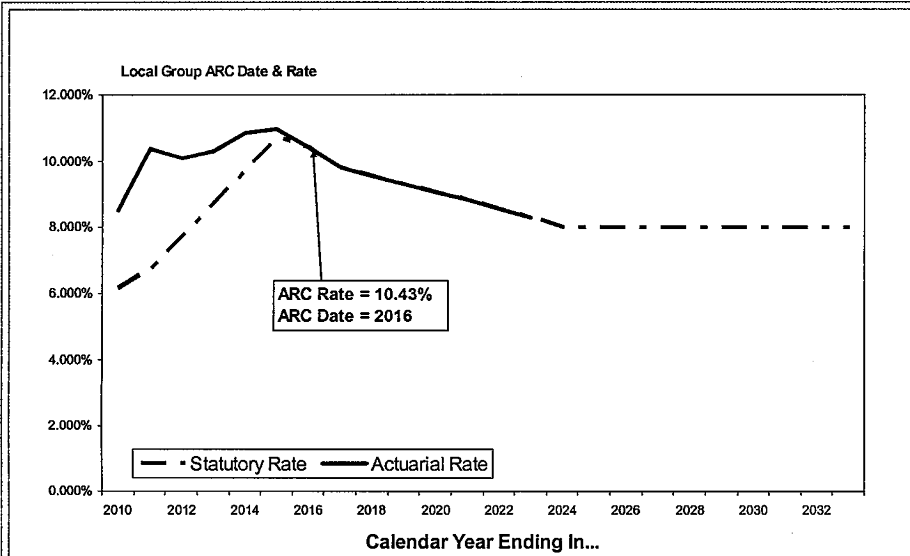


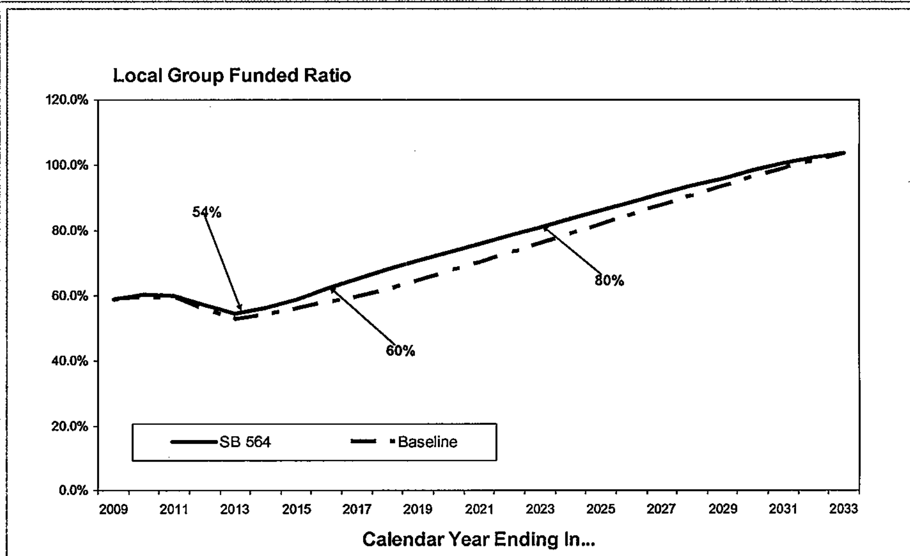
- The projected ARC rate rises to a maximum of 17.65% in FY 2022.
- The funded ratio falls to a low of 42.5% in FY 2014. It remains below 50% for 8 years, compared to 15 years under the Baseline.
- The funded ratio reaches 60% in FY 2024 and 80% in FY 2029. Under Baseline projections, 60% is not reached until FY 2031 and 80% at FY 2035.
- The projected UAL peaks at $8.27 billion in FY 2019 and is paid off by FY 2033. Under the Baseline, a UAL of $6.9 billion would remain unpaid in FY 2033.

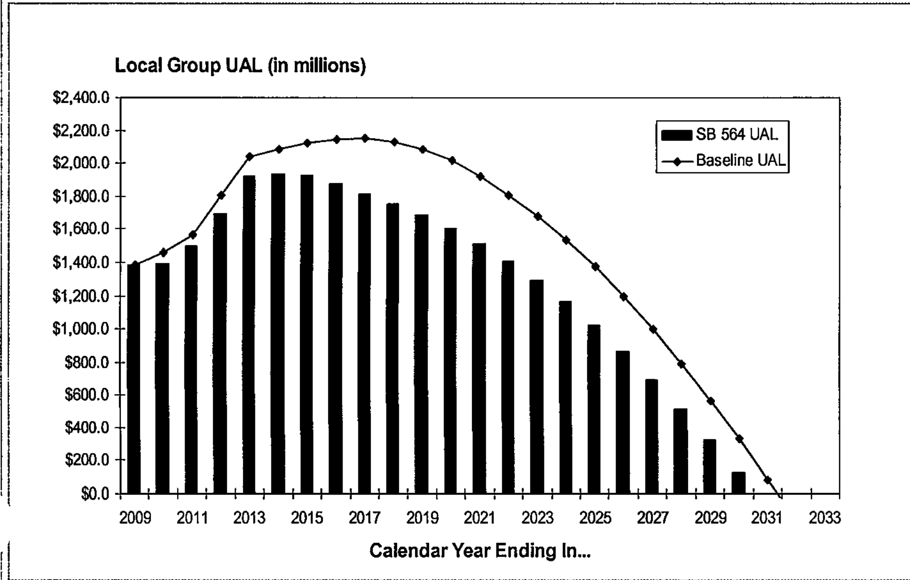
4-13

Local Group: Senate Bill 564

▪Raise cap on employer rate increases to 1.0% in CY '12. Raise Tiers I & 2 employee rate by 0.5% in each of four years, beginning 1/1/12. Increase Tiers I & 2 multiplier to 1.85% for future service. Assumes average annual investment return of 8%.



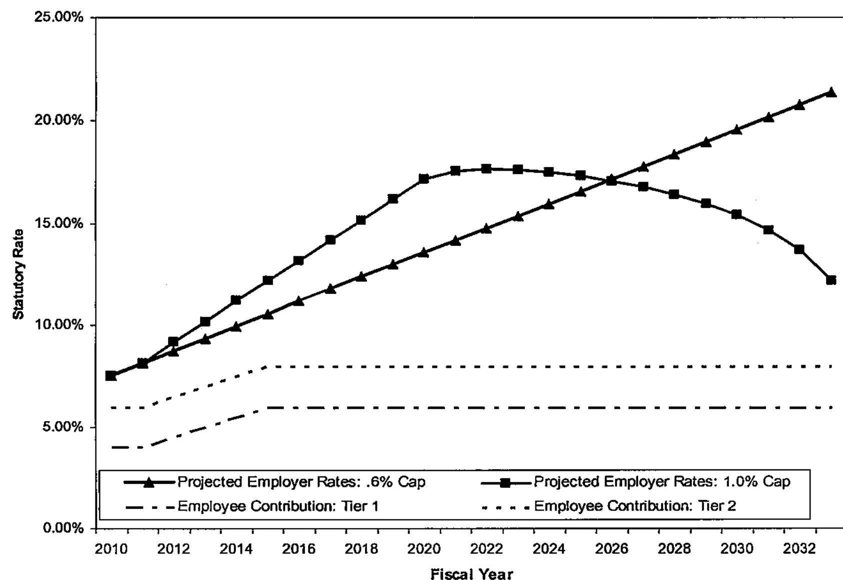


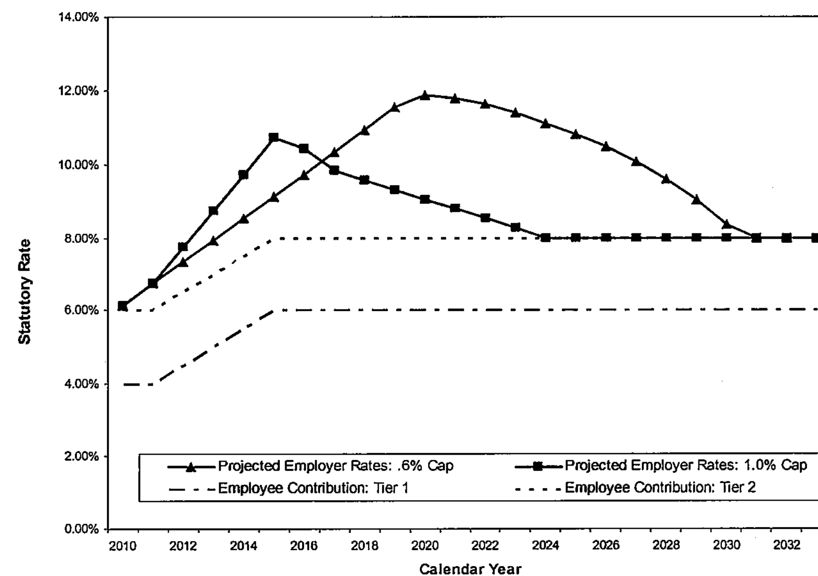


- The projected ARC rate rises to a maximum of 10.43% in CY 2016, which is 1.46% lower and four years earlier than the Baseline.
- The funded ratio falls to a low of 54.3% in CY 2013. It remains below 60% for 4 years, compared to 8 years under the Baseline.
- The funded ratio reaches 80% in CY 2023. Under Baseline projections, 80% is reached in CY 2025.
- The projected UAL peaks at $1.94 billion in CY 2014. A maximum UAL of $2.15 billion in CY 2017 is projected under the Baseline.

Senate Bill 564 Impact on Contribution Rates

- The following graphs show projected employer contribution rates for the State/School Groups and Local Group under the Baseline and under SB 564.
- The graphs also show the phase-in of the 2% increase in employee contributions under SB 564 for both Tiers 1 and 2.





SB 564 Effect on Employer Contributions

4-18

SB 564 Estimated Effect on the State and School Group (in Millions)

	0.6% Cap	SB 564	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 2017 Increase in Employer Contributions	$50.15	$74.95	$24.80
FY 2017 Total Employer Contributions	$636.51	$766.30	$129.79
Total Employer Contributions: FY 2010-2033	$23,977.66	$22,862.62	($1,115.04)

SB 564 Estimated Effect on the Local Group (in millions)

	0.6% Cap	SB 564	Additional ER Contributions
CY 2012 Increase in Employer Contributions	$14.61	$21.72	$7.11
CY 2012 Total Employer Contributions	$130.53	$137.64	$7.11
CY 2017 Increase in Employer Contributions	$19.37	($5.39)	($24.76)
CY 2017 Total Employer Contributions	$217.34	$206.63	($10.71)
Total Employer Contributions: CY 2010-2033	$5,816.37	$5,131.32	($685.05)

SB 564 Effect on Employee Contributions

4-19

SB 564 Estimated Effect on the State and School Employee Group (in Millions)

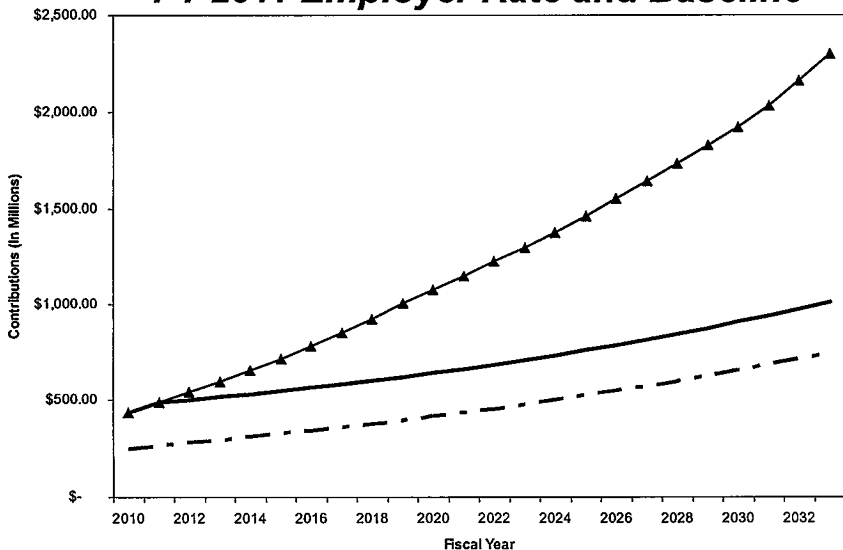
	Current Law	SB 564	Additional EE Contributions
FY 2012 Increase in Employee Contributions	$10.69	$22.43	$11.74
FY 2012 Total Employee Contributions	$200.17	$211.91	$11.74
FY 2017 Increase in Employee Contributions	$12.16	$15.33	$3.17
FY 2017 Total Employee Contributions	$257.08	$365.23	$108.15
Total Employee Contributions: FY 2010-2033	$7,972.51	$10,712.52	$2,740.01

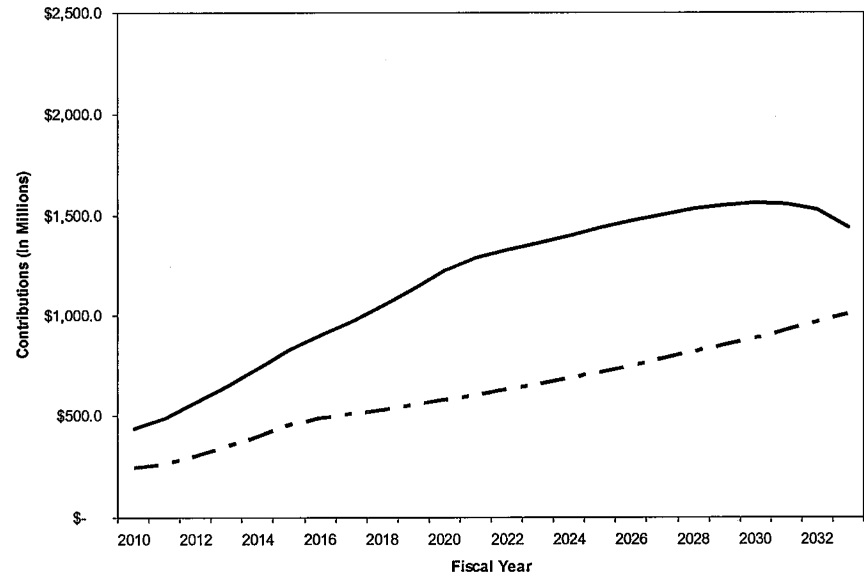
SB 564 Estimated Effect on the Local Employee Group (in millions)

	Current Law	SB 564	Additional EE Contributions
CY 2012 Increase in Employee Contributions	$4.68	$13.57	$8.89
CY 2012 Total Employee Contributions	$78.53	$87.42	$8.89
CY 2017 Increase in Employee Contributions	$5.01	$6.40	$1.39
CY 2017 Total Employee Contributions	$102.48	$144.52	$42.04
Total Employee Contributions: CY 2010-2033	$3,175.26	$4,270.71	$1,095.45

- **Graph 1** shows projected KPERS employer and employee contributions:
  - With no increase in employer contribution rates after FY 2011, to illustrate growth in contributions due to payroll growth alone. (State/School – 8.17% and Local – 6.74%)
  - Under current law – with a .6% cap on employer contribution rate increases and no change in employee rates or benefit formula multiplier.
- **Graph 2** shows projected KPERS employer and employee contributions under SB 564.
- See Appendices A through C for detailed employer and employee contribution projections that are the basis for these graphs.

4-20





Effect of Increasing Multiplier

- The following table shows the impact of increasing the benefit multiplier factor to 1.85% for all future service, beginning January 1, 2012.

	Years of Service	X	Multiplier	X	Final Average Salary	=	Annual Benefit: Subtotal		Annual Benefit: Total
Current Law	30	X	1.75%	X	$40,000	=			$21,000
Example 1:	25	X	1.75%	X	$40,000	=	$17,500.00	=	$21,200
	5		1.85%		$40,000		$3,700.00		
Example 2:	15	X	1.75%	X	$40,000	=	$10,500.00	=	$21,600
	15		1.85%		$40,000		$11,100.00		
Example 3:	5	X	1.75%	X	$40,000	=	$3,500.00	=	$22,000
	25		1.85%		$40,000		$18,500.00		

4-22

Appendix A
State/School Group
Contributions

4-23

Kansas Public Employees Retirement System
Analysis of Additional Employer Contributions
State and School Groups FY 2010 - 2033

Fiscal Year	Level FY '11 Employer Rate: State/School Group Employer Rate	Level FY '11 Employer Rate: Employer Contributions (in millions)	Current Cap Increase: State/School Group Employer Rate	Current Cap Increase: Employer Contributions (in millions)	SB 564: State/School Group Employer Rate	SB 564: Employer Contributions (in millions)	SB 564: Additional Contributions from FY 2011 Rate (in millions)	SB 564: Additional Contributions from Current Cap (in millions)	
2010	7.57%	$ 334.2	7.57%	$ 334.2	7.57%	$ 334.2	$ -	$ -	
2011	8.17%	373.6	8.17%	373.6	8.17%	373.6	-	-	
2012	8.17%	383.5	8.77%	411.7	9.17%	430.5	46.9	**18.8**	
2013	8.17%	393.9	9.37%	451.8	10.17%	490.4	96.4	**38.6**	
2014	8.17%	404.9	9.97%	494.2	11.17%	553.6	148.7	**59.5**	
2015	8.17%	416.6	10.57%	539.0	12.17%	620.5	204.0	**81.6**	
2016	8.17%	428.9	11.17%	586.4	13.17%	691.3	262.5	**105.0**	
2017	8.17%	441.8	11.77%	636.5	14.17%	766.3	324.5	**129.8**	
2018	8.17%	455.5	12.37%	689.7	15.17%	845.8	390.3	**156.1**	**1,683.2**
2019	8.17%	469.9	12.97%	746.0	16.17%	930.1	460.2	**184.1**	
2020	8.17%	485.1	13.57%	805.8	17.17%	1,019.6	534.4	**213.8**	
2021	8.17%	501.2	14.17%	869.2	17.58%	1,078.4	577.2	**209.1**	
2022	8.17%	518.1	14.77%	936.6	17.65%	1,119.4	601.3	**182.8**	
2023	8.17%	535.9	15.37%	1,008.2	17.62%	1,155.6	619.7	**147.4**	
2024	8.17%	554.6	15.97%	1,084.0	17.50%	1,187.9	633.3	**103.8**	
2025	8.17%	574.2	16.57%	1,164.5	17.32%	1,217.3	643.2	**52.8**	
2026	8.17%	594.7	17.17%	1,249.7	17.08%	1,243.1	648.5	**(6.6)**	
2027	8.17%	616.1	17.77%	1,340.1	16.79%	1,266.2	650.1	**(73.9)**	
2028	8.17%	638.5	18.37%	1,435.7	16.43%	1,284.1	645.5	**(151.7)**	
2029	8.17%	662.0	18.97%	1,537.1	15.98%	1,295.0	633.0	**(242.1)**	
2030	8.17%	686.5	19.57%	1,644.3	15.43%	1,296.2	609.8	**(348.0)**	
2031	8.17%	712.0	20.17%	1,757.7	14.70%	1,280.9	568.9	**(476.8)**	
2032	8.17%	738.5	20.77%	1,877.6	13.70%	1,238.6	500.1	**(638.9)**	
2033	8.17%	766.2	21.37%	2,004.2	12.20%	1,144.0	377.8	**(860.2)**	
FY '10-'33		**$ 12,686.5**		**$ 23,977.7**		**$ 22,862.6**	**$ 10,176.2**	**$ (1,115.0)**	

Appendix B
Local Group
Contributions

Kansas Public Employees Retirement System
Analysis of Additional Employer Contributions
Local Group FY 2010-2033

Calendar Year	Level CY '11 Employer Rate: Local Group Employer Rate	Level CY '11 Employer Rate: Employer Contributions (in millions)	Current Cap Increase: Local Group Employer Rate	Current Cap Increase: Employer Contributions (in millions)	SB 564: Local Group Employer Rate	SB 564: Employer Contributions (in millions)	SB 564: Additional Contributions from CY 2011 Rate (in millions)	SB 564: Additional Contributions from Current Cap (in millions)	
2010	6.14%	$ 102.0	6.14%	$ 102.04	6.14%	$ 102.0	$ -	$ -	
2011	6.74%	115.9	6.74%	115.9	6.74%	115.9	-	-	
2012 (2)	6.74%	119.9	7.34%	130.5	7.74%	137.6	17.8	7.1	
2013	6.74%	123.9	7.94%	146.0	8.74%	160.7	36.8	14.7	
2014	6.74%	128.1	8.54%	162.3	9.74%	185.2	57.0	22.8	$ 90.1
2015	6.74%	132.5	9.14%	179.7	10.74%	211.1	78.6	31.4	
2016	6.74%	137.0	9.74%	198.0	10.43%	212.0	75.0	14.1	
2017	6.74%	141.7	10.34%	217.3	9.83%	206.6	65.0	(10.7)	
2018	6.74%	146.5	10.94%	237.8	9.58%	208.2	61.6	(29.7)	
2019	6.74%	151.5	11.54%	259.5	9.31%	209.3	57.8	(50.2)	
2020	6.74%	156.8	11.89%	276.5	9.06%	210.7	54.0	(65.8)	
2021	6.74%	162.2	11.79%	283.8	8.82%	212.4	50.1	(71.4)	
2022	6.74%	168.0	11.63%	289.9	8.56%	213.3	45.4	(76.5)	
2023	6.74%	173.9	11.40%	294.0	8.29%	213.8	39.9	(80.2)	
2024	6.74%	180.1	11.12%	297.2	8.00%	213.8	33.7	(83.4)	
2025	6.74%	186.7	10.82%	299.7	8.00%	221.6	34.9	(78.2)	
2026	6.74%	193.5	10.48%	300.8	8.00%	229.7	36.2	(71.2)	
2027	6.74%	200.6	10.08%	300.1	8.00%	238.1	37.5	(61.9)	
2028	6.74%	208.1	9.62%	297.0	8.00%	247.0	38.9	(50.0)	
2029	6.74%	215.9	9.06%	290.2	8.00%	256.3	40.4	(33.9)	
2030	6.74%	224.1	8.36%	278.0	8.00%	265.9	41.9	(12.1)	
2031	6.74%	232.6	8.00%	276.0	8.00%	276.0	43.5	-	
2032	6.74%	241.4	8.00%	286.5	8.00%	286.5	45.1	-	
2033	6.74%	250.6	8.00%	297.5	8.00%	297.5	46.8	-	
FY '10-'33		$ 4,093.5		$ 5,816.4		$ 5,131.3	$ 1,037.8	$ (685.1)	

Appendix C
Employee Contributions

4-26

Kansas Public Employees Retirement System
Analysis of Additional Employee Contributions Under SB 564
Tier 1 and Tier 2 Combined

State's Fiscal Year(1)	Employee Contributions: Current Statutory Rates (in millions)			Employee Contributions: .5% increase for 4 years (in millions)			Additional Contributions (in millions)		
	State/School	Local	Total	State/School	Local	Total	State/School	Local	Total
2010	$ 178.4	$ 69.0	$ 247.4	$ 178.4	$ 69.0	$ 247.4	$ -	$ -	$ -
2011	189.5	73.9	263.3	189.5	73.9	263.3	-	-	-
2012 (2)	200.2	78.5	278.7	211.9	87.4	299.3	11.7	8.9	20.6
2013	210.9	83.2	294.1	247.1	101.6	348.6	36.2	18.4	54.6
2014	221.9	87.9	309.7	283.9	116.4	400.2	62.0	28.5	90.5
2015	233.2	92.6	325.8	322.4	131.9	454.4	89.2	39.3	128.5
2016	244.9	97.5	342.4	349.9	138.1	488.0	105.0	40.7	145.6
2017	257.1	102.5	359.6	365.2	144.5	509.8	108.2	42.0	150.2
2018	269.7	107.7	377.4	381.3	151.1	532.4	111.5	43.5	155.0
2019	283.0	113.0	396.0	398.0	158.0	556.0	115.0	45.0	160.0
2020	296.7	118.5	415.3	415.5	165.1	580.5	118.8	46.5	165.3
2021	311.1	124.3	435.3	433.7	172.4	606.2	122.7	48.1	170.8
2022	326.0	130.2	456.2	452.8	180.1	632.9	126.8	49.8	176.7
2023	341.4	136.4	477.8	472.6	188.0	660.6	131.2	51.6	182.8
2024	357.5	142.8	500.3	493.3	196.3	689.5	135.8	53.5	189.2
2025	374.2	149.5	523.7	514.8	204.9	719.6	140.6	55.4	195.9
2026	391.6	156.4	547.9	537.1	213.8	750.9	145.6	57.4	203.0
2027	409.6	163.5	573.1	560.4	223.1	783.5	150.8	59.5	210.4
2028	428.3	171.0	599.3	584.6	232.7	817.3	156.3	61.8	218.1
2029	447.7	178.7	626.4	609.7	242.8	852.5	162.1	64.1	226.1
2030	467.8	186.7	654.5	635.8	253.2	889.1	168.0	66.5	234.5
2031	488.7	195.1	683.8	663.0	264.1	927.1	174.3	69.0	243.3
2032	510.4	203.7	714.1	691.2	275.4	966.5	180.8	71.6	252.4
2033	532.9	212.7	745.6	720.5	287.1	1,007.6	187.6	74.4	261.9
FY '10-'33	**$ 7,972.5**	**$ 3,175.3**	**$11,147.8**	**$ 10,712.5**	**$ 4,270.7**	**$ 14,983.2**	**$ 2,740.0**	**$ 1,095.4**	**$3,835.5**

(1) Increased employee contributions are proposed to begin on January 1, 2012, of State and School Fiscal Year 2012 and Local Fiscal/Calendar Year 2012. The increase in the benefit formula multiplier is also effective January 1, 2012, for future service only.

(2) For State and School Groups, the proposed employee rate increase is effective for the second half of Fiscal Year 2012. For the Local Group, it is effective for full Fiscal/Calendar Year 2012.

Session of 2010

SENATE BILL No. 564

By Joint Committee on Pensions, Investments and Benefits

3-4

AN ACT concerning retirement and pensions; relating to the Kansas public employees retirement system; employer and employee contributions; benefits; amending K.S.A. 74-4915 and 74-4919 and K.S.A. 2009 Supp. 74-4914d, 74-4920, 74-49,205 and 74-49,210 and repealing the existing sections.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 2009 Supp. 74-4914d is hereby amended to read as follows: 74-4914d. Any additional cost resulting from the normal retirement date and retirement before such normal retirement date for security officers as provided in K.S.A. 74-4914c, and amendments thereto, and disability benefits as provided in K.S.A. 74-4914e, and amendments thereto, shall be added to the employer rate of contribution for the department of corrections as otherwise determined under K.S.A. 74-4920, and amendments thereto, except that the employer rate of contribution for the department of corrections including any such additional cost added to such employer rate of contribution pursuant to this section shall in no event exceed the employer rate of contribution for the department of corrections for the immediately preceding fiscal year by more than the following amounts expressed as a percentage of compensation upon which security officers contribute during the period: (a) ~~For the fiscal year commencing in calendar year 2006, an amount not to exceed more than 0.5% of the amount of the immediately preceding fiscal year; and (b)~~ For the fiscal year commencing in calendar year ~~2007, and in each subsequent calendar year~~ *2010*, an amount not to exceed more than 0.6% of the amount of the immediately preceding fiscal year*; and (b) for the fiscal year commencing in calendar year 2011, and in each subsequent calendar year, an amount not to exceed more than 1.0% of the amount of the immediately preceding fiscal year*.

Sec. 2. K.S.A. 74-4915 is hereby amended to read as follows: 74-4915. (1) Any member who retires on or after such member's normal retirement date shall be entitled to receive an annual retirement benefit equal to the sum obtained by adding an amount for participating service and an amount for prior service determined as provided in this section. The amount for prior service shall be equal to 1% of the member's prior

1 service annual salary multiplied by the number of years of prior service
2 entitled to credit as provided in K.S.A. 74-4913 and amendments thereto,
3 except that for members retiring on or after July 1, 1981, who were last
4 employed by a participating employer which had affiliated with the system
5 under K.S.A. 74-4910, 74-4912, 74-4929 or 74-4991 and amendments
6 thereto, and for the period commencing January 1, 1986, for members
7 retiring before July 1, 1981, who were last employed by a participating
8 employer which had affiliated with the system under K.S.A. 74-4910, 74-
9 4912, 74-4929 or 74-4991 and amendments thereto, except that any in-
10 crease in benefits under this section shall be reduced by any postretire-
11 ment benefit adjustments received by such member prior to July 2, 1985,
12 the amount for prior service shall be calculated using final average salary
13 in lieu of prior service annual salary and, in the case of any such member
14 who became a member under subsection (3) of K.S.A. 74-4925 and
15 amendments thereto and for whom a final average salary cannot be oth-
16 erwise determined, such member's final average salary shall be based on
17 all service for which such member received assistance in a plan under
18 subsection (2) of K.S.A. 74-4925 and amendments thereto as certified by
19 such employer upon request of the board. For any member who retires
20 on or after July 1, 1993, the amount for participating service shall be equal
21 to the total of 1.75% of the member's final average salary multiplied by
22 the number of years of participating service *earned prior to January 1,*
23 *2012, and 1.85% of the member's final average salary multiplied by the*
24 *number of years of participating service earned on and after January 1,*
25 *2012. Notwithstanding any provision of law to the contrary, in no event*
26 *shall service that is purchased under the provisions of K.S.A. 74-4919a et*
27 *seq., and amendments thereto, be credited at a rate that exceeds 1.75%*
28 *of the final average salary of any member.*
29 (2) (A) Any member who retires on or after July 1, 1993, but before
30 the normal retirement date and has attained age 60 but has not attained
31 age 62 with the completion of 10 years of credited service, shall receive
32 an annual retirement benefit equal to the annual retirement benefit pay-
33 able had the member retired on the normal retirement date but based
34 upon the member's final average salary and years of participating and
35 prior service credited to the date of actual retirement reduced by an
36 amount equal to the product of (i) such annual retirement benefit payable
37 had the member retired on the normal retirement date, multiplied by (ii)
38 the product of .2% multiplied by the number of months' difference, to
39 the nearest whole month, between the member's attained age at the time
40 of retirement and age 62.
41 (B) Any member who retires on or after July 1, 1993, but before the
42 normal retirement date and has attained age 55 but has not attained age
43 60 with the completion of 10 years of credited service, shall receive an

1 annual retirement benefit equal to the annual retirement benefit payable
2 had the member retired on the normal retirement date but based upon
3 the member's final average salary and years of participating and prior
4 service credited to the date of actual retirement reduced by an amount
5 equal to the total of: (i) (a) The product of such annual retirement benefit
6 payable had the member retired on the normal retirement date, multi-
7 plied by (b) the product of .6% multiplied by the number of months'
8 difference, to the nearest whole month, between the member's attained
9 age at the time of retirement and age 60; and
10 (ii) on and after July 1, 1993, the product of such annual retirement
11 benefit payable had the member retired on the normal retirement date,
12 multiplied by 4.8%.
13 (3) Upon death of a retirant, there shall be paid to such retirant's
14 beneficiary an amount equal to the excess, if any, of such retirant's ac-
15 cumulated contributions over the sum of all retirement benefit payments
16 made.
17 (4) Such annual retirement benefits shall be paid in equal monthly
18 installments except, that the board may provide for the payment of re-
19 tirement benefits which total less than $240 a year on other than a
20 monthly basis.
21 (5) In the event that an application in such form as may be prescribed
22 by the board for any amount due under the provisions of this act, is not
23 filed with the office of the retirement system by the person entitled to
24 same within five years of the date such amount became due and payable,
25 an amount equal to same shall be transferred to the retirement benefit
26 accumulation reserve and such amount shall no longer be due and pay-
27 able, except that if any such person shall present evidence satisfactory to
28 the board that such person's failure to file such application within that
29 time period was due to lack of knowledge or incapacity on such person's
30 part, the amount equal to the amount originally due shall be transferred
31 from the retirement benefit accumulation reserve to the reserve or re-
32 serves from which such transfer was initially made and the amount orig-
33 inally due shall be paid to such person.
34 (6) The participating employer, when an employee files an applica-
35 tion for retirement, shall certify to the system all member contributions
36 of such employee which have not been reported previously. In the event
37 the amount certified results in an overpayment of retirement benefits,
38 the employer shall be held responsible for the contribution amount pre-
39 viously certified from the time of commencement of the overpayment of
40 retirement benefits until the time that such overpayment is discovered
41 by the system. At the time that such overpayment of retirement benefits
42 is discovered by the system, the system shall adjust the amount of retire-
43 ment benefits paid to the employee to the correct amount based on the

1 participating employer's certification of member contributions which had
2 not been previously reported. The participating employer of the em-
3 ployee who has had such member's retirement benefits adjusted as pro-
4 vided in this subsection shall notify such employee of such overpayment
5 and such adjustment of retirement benefits. If the contributions previ-
6 ously certified are lower than the actual amount reported, the employer
7 shall be responsible for remitting the correct amount and the member's
8 monthly benefit shall be recalculated based on the amount reported by
9 the employer. When an employee in school employment files such an
10 application, the participating employer responsible for any such amounts
11 as provided in this subsection shall be the employee's eligible employer
12 as specified in subsection (1), (2) or (3) of K.S.A. 74-4931, and amend-
13 ments thereto, and shall not be the state of Kansas. The provisions of law
14 in effect on the retirement date of a member under the system shall
15 govern the retirement benefit payable to the retirant, any joint annuitant
16 and any beneficiary.

17 Sec. 3. K.S.A. 74-4919 is hereby amended to read as follows: 74-
18 4919. (1) Each participating employer, beginning with the first payroll for
19 services performed after the entry date, shall deduct from the compen-
20 sation of each member 4% of such member's compensation as employee
21 contributions. *Each participating employer, for services performed by an*
22 *employee first employed prior to July 1, 2009, shall deduct from the com-*
23 *pensation of each member, the following amounts expressed as a per-*
24 *centage of compensation during the following periods: (a) Commencing*
25 *January 1, 2012, 4.5% of such member's compensation as employee con-*
26 *tributions; (b) commencing January 1, 2013, 5.0% of such member's com-*
27 *pensation as employee contributions; (c) commencing January 1, 2014,*
28 *5.5% of such member's compensation as employee contributions; and (d)*
29 *commencing January 1, 2015, and in each subsequent calendar year, 6.0%*
30 *of such member's compensation as employee contributions.* Such deduc-
31 tions shall be remitted quarterly, or as the board may otherwise provide,
32 to the executive director for deposit in the Kansas public employees re-
33 tirement fund. Such deductions shall be credited to the members' indi-
34 vidual accounts and interest shall be added annually to such accounts.

35 (2) (a) Subject to the provisions of K.S.A. 74-49,123 and amend-
36 ments thereto, each participating employer, pursuant to the provisions of
37 section 414(h)(2) of the federal internal revenue code, shall pick up and
38 pay the contributions which would otherwise be payable by members as
39 prescribed in subsection (1) commencing with the third quarter of 1984.
40 The contributions so picked up shall be treated as employer contributions
41 for purposes of determining the amounts of federal income taxes to with-
42 hold from the member's compensation.

43 (b) Member contributions picked up by the employer shall be paid

1 from the same source of funds used for the payment of compensation to
2 a member. A deduction shall be made from each member's compensation
3 equal to the amount of the member's contributions picked up by the
4 employer, provided that such deduction shall not reduce the member's
5 compensation for purposes of computing benefits under the system.
6 (c) Member contributions picked up by the employer shall be remit-
7 ted quarterly, or as the board may otherwise provide, to the executive
8 director for credit to the Kansas public employees retirement fund. Such
9 contributions shall be credited to a separate account within the member's
10 individual account so that amounts contributed by the member com-
11 mencing with the third quarter of 1984 may be distinguished from the
12 member contributions picked up by the employer. Interest shall be added
13 annually to members' individual accounts.
14 Sec. 4. K.S.A. 2009 Supp. 74-4920 is hereby amended to read as
15 follows: 74-4920. (1) (a) Upon the basis of each annual actuarial valuation
16 and appraisal as provided for in subsection (3)(a) of K.S.A. 74-4908 and
17 amendments thereto, the board shall certify, on or before July 15 of each
18 year, to the division of the budget in the case of the state and to the agent
19 for each other participating employer an actuarially determined estimate
20 of the rate of contribution which will be required, together with all ac-
21 cumulated contributions and other assets of the system, to be paid by
22 each such participating employer to pay all liabilities which shall exist or
23 accrue under the system, including amortization of the actuarial accrued
24 liability as determined by the board. The board shall determine the ac-
25 tuarial cost method to be used in annual actuarial valuations, to determine
26 the employer contribution rates that shall be certified by the board. Such
27 certified rate of contribution, amortization methods and periods and ac-
28 tuarial cost method shall be based on the standards set forth in subsection
29 (3)(a) of K.S.A. 74-4908 and amendments thereto and shall not be based
30 on any other purpose outside of the needs of the system.
31 (b) (i) For employers affiliating on and after January 1, 1999, upon
32 the basis of an annual actuarial valuation and appraisal of the system
33 conducted in the manner provided for in K.S.A. 74-4908 and amend-
34 ments thereto, the board shall certify, on or before July 15 of each year
35 to each such employer an actuarially determined estimate of the rate of
36 contribution which shall be required to be paid by each such employer
37 to pay all of the liabilities which shall accrue under the system from and
38 after the entry date as determined by the board, upon recommendation
39 of the actuary. Such rate shall be termed the employer's participating
40 service contribution and shall be uniform for all participating employers.
41 Such additional liability shall be amortized as determined by the board.
42 For all participating employers described in this section, the board shall
43 determine the actuarial cost method to be used in annual actuarial valu-

1 ations to determine the employer contribution rates that shall be certified
2 by the board.
3 (ii) The board shall determine for each such employer separately an
4 amount sufficient to amortize all liabilities for prior service costs which
5 shall have accrued at the time of entry into the system. On the basis of
6 such determination the board shall annually certify to each such employer
7 separately an actuarially determined estimate of the rate of contribution
8 which shall be required to be paid by that employer to pay all of the
9 liabilities for such prior service costs. Such rate shall be termed the em-
10 ployer's prior service contribution.
11 (2) The division of the budget and the governor shall include in the
12 budget and in the budget request for appropriations for personal services
13 the sum required to satisfy the state's obligation under this act as certified
14 by the board and shall present the same to the legislature for allowance
15 and appropriation.
16 (3) Each other participating employer shall appropriate and pay to
17 the system a sum sufficient to satisfy the obligation under this act as
18 certified by the board.
19 (4) Each participating employer is hereby authorized to pay the em-
20 ployer's contribution from the same fund that the compensation for which
21 such contribution is made is paid from or from any other funds available
22 to it for such purpose. Each political subdivision, other than an instru-
23 mentality of the state, which is by law authorized to levy taxes for other
24 purposes, may levy annually at the time of its levy of taxes, a tax which
25 may be in addition to all other taxes authorized by law for the purpose of
26 making its contributions under this act and, in the case of cities and coun-
27 ties, to pay a portion of the principal and interest on bonds issued under
28 the authority of K.S.A. 12-1774 and amendments thereto by cities located
29 in the county, which tax, together with any other fund available, shall be
30 sufficient to enable it to make such contribution. In lieu of levying the
31 tax authorized in this subsection, any taxing subdivision may pay such
32 costs from any employee benefits contribution fund established pursuant
33 to K.S.A. 12-16,102 and amendments thereto. Each participating em-
34 ployer which is not by law authorized to levy taxes as described above,
35 but which prepares a budget for its expenses for the ensuing year and
36 presents the same to a governing body which is authorized by law to levy
37 taxes as described above, may include in its budget an amount sufficient
38 to make its contributions under this act which may be in addition to all
39 other taxes authorized by law. Such governing body to which the budget
40 is submitted for approval, may levy a tax sufficient to allow the partici-
41 pating employer to make its contributions under this act, which tax, to-
42 gether with any other fund available, shall be sufficient to enable the
43 participating employer to make the contributions required by this act.

(5) (a) The rate of contribution certified to a participating employer as provided in this section shall apply during the fiscal year of the participating employer which begins in the second calendar year following the year of the actuarial valuation.

(b) (i) Except as specifically provided in this section, for fiscal years commencing in calendar year 1996 and in each subsequent calendar year, the rate of contribution certified to the state of Kansas shall in no event exceed the state's contribution rate for the immediately preceding fiscal year by more than 0.2% of the amount of compensation upon which members contribute during the period.

(ii) Except as specifically provided in this subsection, for the fiscal years commencing in the following calendar years, the rate of contribution certified to the state of Kansas and to the participating employers under K.S.A. 74-4931, and amendments thereto shall in no event exceed the state's contribution rate for the immediately preceding fiscal year by more than the following amounts expressed as a percentage of compensation upon which members contribute during the period: (A) ~~For the fiscal year commencing in calendar year 2005, an amount not to exceed more than 0.4% of the amount of the immediately preceding fiscal year; (B) for the fiscal year commencing in calendar year 2006, an amount not to exceed more than 0.5% of the amount of the immediately preceding fiscal year; and (C)~~ For the fiscal year commencing in calendar year ~~2007 and in each subsequent calendar year~~ *2010*, an amount not to exceed more than 0.6% of the amount of the immediately preceding fiscal year*; and (B) for the fiscal year commencing in calendar year 2011, and in each subsequent calendar year, an amount not to exceed more than 1.0% of the amount of the immediately preceding fiscal year*.

(iii) Except as specifically provided in this section, for fiscal years commencing in calendar year 1997 and in each subsequent calendar year, the rate of contribution certified to participating employers other than the state of Kansas shall in no event exceed such participating employer's contribution rate for the immediately preceding fiscal year by more than 0.15% of the amount of compensation upon which members contribute during the period.

(iv) Except as specifically provided in this subsection, for the fiscal years commencing in the following calendar years, the rate of contribution certified to participating employers other than the state of Kansas shall in no event exceed the contribution rate for such employers for the immediately preceding fiscal year by more than the following amounts expressed as a percentage of compensation upon which members contribute during the period: (A) ~~For the fiscal year commencing in calendar year 2006, an amount not to exceed more than 0.4% of the amount of the immediately preceding fiscal year; (B) for the fiscal year commencing in~~

~~calendar year 2007, an amount not to exceed more than 0.5% of the amount of the immediately preceding fiscal year; and (C)~~ For the fiscal year commencing in calendar year ~~2008 and in each subsequent calendar year~~ *2011*, an amount not to exceed more than 0.6% of the amount of the immediately preceding fiscal year*; and (B) for the fiscal year commencing in calendar year 2012, and in each subsequent calendar year, an amount not to exceed more than 1.0% of the amount of the immediately preceding fiscal year*.

(v) As part of the annual actuarial valuation, there shall be a separate employer rate of contribution calculated for the state of Kansas, a separate employer rate of contribution calculated for participating employers under K.S.A. 74-4931 and amendments thereto, a combined employer rate of contribution calculated for the state of Kansas and participating employers under K.S.A. 74-4931, and amendments thereto, and a separate employer rate of contribution calculated for all other participating employers.

(vi) There shall be a combined employer rate of contribution certified to the state of Kansas and participating employers under K.S.A. 74-4931, and amendments thereto. There shall be a separate employer rate of contribution certified to all other participating employers.

(vii) If the combined employer rate of contribution calculated for the state of Kansas and participating employers under K.S.A. 74-4931, and amendments thereto, is greater than the separate employer rate of contribution for the state of Kansas, the difference in the two rates applied to the actual payroll of the state of Kansas for the applicable fiscal year shall be calculated. This amount shall be certified by the board for deposit as additional employer contributions to the retirement benefit accumulation reserve for the participating employers under K.S.A. 74-4931, and amendments thereto.

(6) The actuarial cost of any legislation enacted in the 1994 session of the Kansas legislature will be included in the June 30, 1994, actuarial valuation in determining contribution rates for participating employers.

(7) The actuarial cost of the provisions of K.S.A. 74-4950i will be included in the June 30, 1998, actuarial valuation in determining contribution rates for participating employers. The actuarial accrued liability incurred for the provisions of K.S.A. 74-4950i shall be amortized over 15 years.

(8) Except as otherwise provided by law, the actuarial cost of any legislation enacted by the Kansas legislature, except the actuarial cost of K.S.A. 74-49,114a, and amendments thereto, shall be in addition to the employer contribution rates certified for the employer contribution rate in the fiscal year immediately following such enactment.

(9) Notwithstanding the provisions of subsection (8), the actuarial

1 cost of the provisions of K.S.A. 74-49,109 et seq., and amendments
2 thereto shall be first reflected in employer contribution rates effective
3 with the first day of the first payroll period for the fiscal year 2005. The
4 actuarial accrued liability incurred for the provisions of K.S.A. 74-49,109
5 et seq., and amendments thereto shall be amortized over 10 years.
6 (10) The cost of the postretirement benefit payment provided pur-
7 suant to the provisions of K.S.A. 2009 Supp. 74-49,114b, and amendments
8 thereto, for retirants other than local retirants as described in subsection
9 (11) or insured disability benefit recipients shall be paid in the fiscal year
10 commencing on July 1, 2007.
11 (11) The actuarial accrued liability incurred for the provisions of
12 K.S.A. 2009 Supp. 74-49,114b, and amendments thereto, for the KPERS
13 local group and retirants who were employees of local employers which
14 affiliated with the Kansas police and firemen's retirement system shall be
15 amortized over 10 years.
16 (12) The cost of the postretirement benefit payment provided pur-
17 suant to the provisions of K.S.A. 2009 Supp. 74-49,114c, and amendments
18 thereto, for retirants other than local retirants as described in subsection
19 (13) or insured disability benefit recipients shall be paid in the fiscal year
20 commencing on July 1, 2008.
21 (13) The actuarial accrued liability incurred for the provisions of
22 K.S.A. 2009 Supp. 74-49,114c, and amendments thereto, for the KPERS
23 local group and retirants who were employees of local employers which
24 affiliated with the Kansas police and firemen's retirement system shall be
25 amortized over 10 years.
26 (14) The board with the advice of the actuary may fix the contribution
27 rates for participating employers joining the system after one year from
28 the first entry date or for employers who exercise the option contained
29 in K.S.A. 74-4912 and amendments thereto at rates different from the
30 rate fixed for employers joining within one year of the first entry date.
31 (15) For employers affiliating on and after January 1, 1999, the rates
32 of contribution certified to the participating employer as provided in this
33 section shall apply during the fiscal year immediately following such cer-
34 tification, but the rate of contribution during the first year following the
35 employer's entry date shall be equal to 7% of the amount of compensation
36 on which members contribute during the year. Any amount of such first
37 year's contribution which may be in excess of the necessary current serv-
38 ice contribution shall be credited by the board to the respective em-
39 ployer's prior service liability.
40 (16) Employer contributions shall in no way be limited by any other
41 act which now or in the future establishes or limits the compensation of
42 any member.
43 (17) Notwithstanding any provision of law to the contrary, each par-

ticipating employer shall remit quarterly, or as the board may otherwise provide, all employee deductions and required employer contributions to the executive director for credit to the Kansas public employees retirement fund within three days after the end of the period covered by the remittance by electronic funds transfer. Remittances of such deductions and contributions received after such date are delinquent. Delinquent payments due under this subsection shall be subject to interest at the rate established for interest on judgments under subsection (a) of K.S.A. 16-204 and amendments thereto. At the request of the board, delinquent payments which are due or interest owed on such payments, or both, may be deducted from any other moneys payable to such employer by any department or agency of the state.

Sec. 5. K.S.A. 2009 Supp. 74-49,205 is hereby amended to read as follows: 74-49,205. For any member who is first employed by a participating employer on or after July 1, 2009, and who retires on or after such member's normal retirement date, the amount for participating service shall be equal to the total of 1.75% of the member's final average salary multiplied by the number of years of participating service *earned prior to January 1, 2012,* to be used in determining such member's annual retirement benefit, *and 1.85% of the member's final average salary multiplied by the number of years of participating service earned on and after January 1, 2012, to be used in determining such member's annual retirement benefit. Notwithstanding any provision of law to the contrary, in no event shall service that is purchased under the provisions of K.S.A. 74-4919a et seq., and amendments thereto, be credited at a rate that exceeds 1.75% of the final average salary of any member.*

Sec. 6. K.S.A. 2009 Supp. 74-49,210 is hereby amended to read as follows: 74-49,210. ~~(a)~~ Each participating employer ~~who was a participating employer under the provisions of K.S.A. 74-4901 et seq., and amendments thereto, before July 1, 2009,~~ beginning with the first payroll for services performed by an employee first employed on or after July 1, 2009, shall deduct from the compensation of each member 6% of such member's compensation as employee contributions. *Each participating employer, for services performed by an employee first employed on and after July 1, 2009, shall deduct from the compensation of each member, the following amounts expressed as a percentage of compensation during the following periods: (a) Commencing January 1, 2012, 6.5% of such member's compensation as employee contributions; (b) commencing January 1, 2013, 7.0% of such member's compensation as employee contributions; (c) commencing January 1, 2014, 7.5% of such member's compensation as employee contributions; and (d) commencing January 1, 2015, and in each subsequent calendar year, 8.0% of such member's compensation as employee contributions.*

1 ~~(b) Each participating employer who affiliates for any purpose on or~~
2 ~~after July 1, 2009, beginning with the first payroll for services performed~~
3 ~~by an employee first employed on or after July 1, 2009, shall deduct from~~
4 ~~the compensation of each member 6% of such member's compensation~~
5 ~~as employee contributions.~~
6 Sec. 7. K.S.A. 74-4915 and 74-4919 and K.S.A. 2009 Supp. 74-4914d,
7 74-4920, 74-49,205 and 74-49,210 are hereby repealed.
8 Sec. 8. This act shall take effect and be in force from and after its
9 publication in the statute book.

SESSION OF 2010

SUPPLEMENTAL NOTE ON SUBSTITUTE FOR HOUSE BILL NO. 2400

As Recommended by House Select Committee on KPERS

Brief*

Sub. for HB 2400 would raise the annual cap on employer contribution increases for the state and school groups from the current 0.6 percent to 1.0 percent for the state's payments to the Kansas Public Employees Retirement System (KPERS), effective July 1, 2012. In addition, the bill would permit the use of Expanded Lottery Act moneys for paying the unfunded actuarial liability of the KPERS state and school groups.

Background

The bill, as introduced in 2009, would have raised the annual cap to 1.0 percent in FY 2010 and would have appropriated $13.49 million from federal stimulus funds for the additional cost of the state's
annual employer contribution increase.

The KPERS Executive Director testified in support of HB 2400, indicating that raising the state's employer contribution rate would be one of the actions needed to address the KPERS long-term funding issue. Because of a projected funding shortfall in long-term KPERS financing, the KPERS Board of Trustees requested the Joint Committee on Pensions, Investments and Benefits to consider increasing the annual statutory cap for state contributions to 1.0 percent no later than FY 2011. The Joint Committee recommended to the 2009 Legislature that such action should be undertaken not later than FY 2012 in order to increase annual contributions by the state for KPERS. Increases in local employer KPERS contribution

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*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at http://www.kslegislature.org

caps were not addressed and no increase for local units of government is included in HB 2400.

In 2009, the House Select Committee on KPERS amended the bill to change the implementation date from FY 2010 to FY 2011 and increased the appropriation amount from $13.49 million to $18.41 million in FY 2011. The source of funding would be federal stimulus money.

KPERS staff indicated that the revised fiscal note for FY 2011 would be $18.41 million to implement HB 2400 as amended.

HB 2400 as amended was re-referred from House General Orders during the 2009 Session.

In 2010, the House Select Committee on KPERS further amended the bill to change the implementation date from FY 2011 to FY 2013 in recognition of the continuing budget shortfalls. The Committee deleted the appropriations language from the 2009 version of the bill and replaced that section with an amendment to KSA 74-8768 to allow the use of moneys from the Expanded Lottery Act for KPERS state and school payments.

By delaying implementation to FY 2013, the estimated first year cost for increasing the cap from 0.6 percent to 1.0 percent for KPERS state and school groups would be $19.3 million in additional funding, including $16.5 from the State General Fund, according to KPERS staff.

Substitute for HOUSE BILL No. 2400

By Select Committee on KPERS

3-22

AN ACT concerning retirement and pensions; relating to the Kansas public employees retirement system and systems thereunder; employer contributions; authorizing lottery act revenues to be used for unfunded liability of system; amending K.S.A. 2009 Supp. 74-4920 and 74-8768 and repealing the existing sections.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 2009 Supp. 74-4920 is hereby amended to read as follows: 74-4920. (1) (a) Upon the basis of each annual actuarial valuation and appraisal as provided for in subsection (3)(a) of K.S.A. 74-4908 and amendments thereto, the board shall certify, on or before July 15 of each year, to the division of the budget in the case of the state and to the agent for each other participating employer an actuarially determined estimate of the rate of contribution which will be required, together with all accumulated contributions and other assets of the system, to be paid by each such participating employer to pay all liabilities which shall exist or accrue under the system, including amortization of the actuarial accrued liability as determined by the board. The board shall determine the actuarial cost method to be used in annual actuarial valuations, to determine the employer contribution rates that shall be certified by the board. Such certified rate of contribution, amortization methods and periods and actuarial cost method shall be based on the standards set forth in subsection (3)(a) of K.S.A. 74-4908 and amendments thereto and shall not be based on any other purpose outside of the needs of the system.

(b) (i) For employers affiliating on and after January 1, 1999, upon the basis of an annual actuarial valuation and appraisal of the system conducted in the manner provided for in K.S.A. 74-4908 and amendments thereto, the board shall certify, on or before July 15 of each year to each such employer an actuarially determined estimate of the rate of contribution which shall be required to be paid by each such employer to pay all of the liabilities which shall accrue under the system from and after the entry date as determined by the board, upon recommendation of the actuary. Such rate shall be termed the employer's participating service contribution and shall be uniform for all participating employers. Such additional liability shall be amortized as determined by the board.

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1 For all participating employers described in this section, the board shall
2 determine the actuarial cost method to be used in annual actuarial valu-
3 ations to determine the employer contribution rates that shall be certified
4 by the board.
5 (ii) The board shall determine for each such employer separately an
6 amount sufficient to amortize all liabilities for prior service costs which
7 shall have accrued at the time of entry into the system. On the basis of
8 such determination the board shall annually certify to each such employer
9 separately an actuarially determined estimate of the rate of contribution
10 which shall be required to be paid by that employer to pay all of the
11 liabilities for such prior service costs. Such rate shall be termed the em-
12 ployer's prior service contribution.
13 (2) The division of the budget and the governor shall include in the
14 budget and in the budget request for appropriations for personal services
15 the sum required to satisfy the state's obligation under this act as certified
16 by the board and shall present the same to the legislature for allowance
17 and appropriation.
18 (3) Each other participating employer shall appropriate and pay to
19 the system a sum sufficient to satisfy the obligation under this act as
20 certified by the board.
21 (4) Each participating employer is hereby authorized to pay the em-
22 ployer's contribution from the same fund that the compensation for which
23 such contribution is made is paid from or from any other funds available
24 to it for such purpose. Each political subdivision, other than an instru-
25 mentality of the state, which is by law authorized to levy taxes for other
26 purposes, may levy annually at the time of its levy of taxes, a tax which
27 may be in addition to all other taxes authorized by law for the purpose of
28 making its contributions under this act and, in the case of cities and coun-
29 ties, to pay a portion of the principal and interest on bonds issued under
30 the authority of K.S.A. 12-1774 and amendments thereto by cities located
31 in the county, which tax, together with any other fund available, shall be
32 sufficient to enable it to make such contribution. In lieu of levying the
33 tax authorized in this subsection, any taxing subdivision may pay such
34 costs from any employee benefits contribution fund established pursuant
35 to K.S.A. 12-16,102 and amendments thereto. Each participating em-
36 ployer which is not by law authorized to levy taxes as described above,
37 but which prepares a budget for its expenses for the ensuing year and
38 presents the same to a governing body which is authorized by law to levy
39 taxes as described above, may include in its budget an amount sufficient
40 to make its contributions under this act which may be in addition to all
41 other taxes authorized by law. Such governing body to which the budget
42 is submitted for approval, may levy a tax sufficient to allow the partici-
43 pating employer to make its contributions under this act, which tax, to-

gether with any other fund available, shall be sufficient to enable the participating employer to make the contributions required by this act.

(5) (a) The rate of contribution certified to a participating employer as provided in this section shall apply during the fiscal year of the participating employer which begins in the second calendar year following the year of the actuarial valuation.

(b) (i) Except as specifically provided in this section, for fiscal years commencing in calendar year 1996 and in each subsequent calendar year, the rate of contribution certified to the state of Kansas shall in no event exceed the state's contribution rate for the immediately preceding fiscal year by more than 0.2% of the amount of compensation upon which members contribute during the period.

(ii) Except as specifically provided in this subsection, for the fiscal years commencing in the following calendar years, the rate of contribution certified to the state of Kansas and to the participating employers under K.S.A. 74-4931, and amendments thereto shall in no event exceed the state's contribution rate for the immediately preceding fiscal year by more than the following amounts expressed as a percentage of compensation upon which members contribute during the period: (A) For the fiscal year commencing in calendar year 2005, an amount not to exceed more than 0.4% of the amount of the immediately preceding fiscal year; (B) for the fiscal year commencing in calendar year 2006, an amount not to exceed more than 0.5% of the amount of the immediately preceding fiscal year; ~~and~~ (C) for the fiscal year commencing in calendar ~~year 2007 and in each subsequent calendar year~~ *years 2007 through 2011*, an amount not to exceed more than 0.6% of the amount of the immediately preceding fiscal year*; and (D) for the fiscal year commencing in calendar year 2012 and in each subsequent calendar year, an amount not to exceed more than 1% of the amount of the immediately preceding fiscal year*.

(iii) Except as specifically provided in this section, for fiscal years commencing in calendar year 1997 and in each subsequent calendar year, the rate of contribution certified to participating employers other than the state of Kansas shall in no event exceed such participating employer's contribution rate for the immediately preceding fiscal year by more than 0.15% of the amount of compensation upon which members contribute during the period.

(iv) Except as specifically provided in this subsection, for the fiscal years commencing in the following calendar years, the rate of contribution certified to participating employers other than the state of Kansas shall in no event exceed the contribution rate for such employers for the immediately preceding fiscal year by more than the following amounts expressed as a percentage of compensation upon which members contribute during the period: (A) For the fiscal year commencing in calendar year

1 2006, an amount not to exceed more than 0.4% of the amount of the
2 immediately preceding fiscal year; (B) for the fiscal year commencing in
3 calendar year 2007, an amount not to exceed more than 0.5% of the
4 amount of the immediately preceding fiscal year; and (C) for the fiscal
5 year commencing in calendar year 2008 and in each subsequent calendar
6 year, an amount not to exceed more than 0.6% of the amount of the
7 immediately preceding fiscal year.
8 (v) As part of the annual actuarial valuation, there shall be a separate
9 employer rate of contribution calculated for the state of Kansas, a separate
10 employer rate of contribution calculated for participating employers un-
11 der K.S.A. 74-4931 and amendments thereto, a combined employer rate
12 of contribution calculated for the state of Kansas and participating em-
13 ployers under K.S.A. 74-4931, and amendments thereto, and a separate
14 employer rate of contribution calculated for all other participating
15 employers.
16 (vi) There shall be a combined employer rate of contribution certified
17 to the state of Kansas and participating employers under K.S.A. 74-4931,
18 and amendments thereto. There shall be a separate employer rate of
19 contribution certified to all other participating employers.
20 (vii) If the combined employer rate of contribution calculated for the
21 state of Kansas and participating employers under K.S.A. 74-4931, and
22 amendments thereto, is greater than the separate employer rate of con-
23 tribution for the state of Kansas, the difference in the two rates applied
24 to the actual payroll of the state of Kansas for the applicable fiscal year
25 shall be calculated. This amount shall be certified by the board for deposit
26 as additional employer contributions to the retirement benefit accumu-
27 lation reserve for the participating employers under K.S.A. 74-4931, and
28 amendments thereto.
29 (6) The actuarial cost of any legislation enacted in the 1994 session
30 of the Kansas legislature will be included in the June 30, 1994, actuarial
31 valuation in determining contribution rates for participating employers.
32 (7) The actuarial cost of the provisions of K.S.A. 74-4950i will be
33 included in the June 30, 1998, actuarial valuation in determining contri-
34 bution rates for participating employers. The actuarial accrued liability
35 incurred for the provisions of K.S.A. 74-4950i shall be amortized over 15
36 years.
37 (8) Except as otherwise provided by law, the actuarial cost of any
38 legislation enacted by the Kansas legislature, except the actuarial cost of
39 K.S.A. 74-49,114a, and amendments thereto, shall be in addition to the
40 employer contribution rates certified for the employer contribution rate
41 in the fiscal year immediately following such enactment.
42 (9) Notwithstanding the provisions of subsection (8), the actuarial
43 cost of the provisions of K.S.A. 74-49,109 et seq., and amendments

1 thereto shall be first reflected in employer contribution rates effective
2 with the first day of the first payroll period for the fiscal year 2005. The
3 actuarial accrued liability incurred for the provisions of K.S.A. 74-49,109
4 et seq., and amendments thereto shall be amortized over 10 years.
5 (10) The cost of the postretirement benefit payment provided pur-
6 suant to the provisions of K.S.A. 2009 Supp. 74-49,114b, and amendments
7 thereto, for retirants other than local retirants as described in subsection
8 (11) or insured disability benefit recipients shall be paid in the fiscal year
9 commencing on July 1, 2007.
10 (11) The actuarial accrued liability incurred for the provisions of
11 K.S.A. 2009 Supp. 74-49,114b, and amendments thereto, for the KPERS
12 local group and retirants who were employees of local employers which
13 affiliated with the Kansas police and firemen's retirement system shall be
14 amortized over 10 years.
15 (12) The cost of the postretirement benefit payment provided pur-
16 suant to the provisions of K.S.A. 2009 Supp. 74-49,114c, and amendments
17 thereto, for retirants other than local retirants as described in subsection
18 (13) or insured disability benefit recipients shall be paid in the fiscal year
19 commencing on July 1, 2008.
20 (13) The actuarial accrued liability incurred for the provisions of
21 K.S.A. 2009 Supp. 74-49,114c, and amendments thereto, for the KPERS
22 local group and retirants who were employees of local employers which
23 affiliated with the Kansas police and firemen's retirement system shall be
24 amortized over 10 years.
25 (14) The board with the advice of the actuary may fix the contribution
26 rates for participating employers joining the system after one year from
27 the first entry date or for employers who exercise the option contained
28 in K.S.A. 74-4912 and amendments thereto at rates different from the
29 rate fixed for employers joining within one year of the first entry date.
30 (15) For employers affiliating on and after January 1, 1999, the rates
31 of contribution certified to the participating employer as provided in this
32 section shall apply during the fiscal year immediately following such cer-
33 tification, but the rate of contribution during the first year following the
34 employer's entry date shall be equal to 7% of the amount of compensation
35 on which members contribute during the year. Any amount of such first
36 year's contribution which may be in excess of the necessary current serv-
37 ice contribution shall be credited by the board to the respective em-
38 ployer's prior service liability.
39 (16) Employer contributions shall in no way be limited by any other
40 act which now or in the future establishes or limits the compensation of
41 any member.
42 (17) Notwithstanding any provision of law to the contrary, each par-
43 ticipating employer shall remit quarterly, or as the board may otherwise

provide, all employee deductions and required employer contributions to the executive director for credit to the Kansas public employees retirement fund within three days after the end of the period covered by the remittance by electronic funds transfer. Remittances of such deductions and contributions received after such date are delinquent. Delinquent payments due under this subsection shall be subject to interest at the rate established for interest on judgments under subsection (a) of K.S.A. 16-204 and amendments thereto. At the request of the board, delinquent payments which are due or interest owed on such payments, or both, may be deducted from any other moneys payable to such employer by any department or agency of the state.

Sec. 2. K.S.A. 2009 Supp. 74-8768 is hereby amended to read as follows: 74-8768. There is hereby created the expanded lottery act revenues fund in the state treasury. All expenditures and transfers from such fund shall be made in accordance with appropriation acts. All moneys credited to such fund shall be expended or transferred only for the purposes of reduction of state debt, state infrastructure improvements ~~and~~, reduction of local ad valorem tax in the same manner as provided for allocation of amounts in the local ad valorem tax reduction fund *and expenditures by the Kansas public employees retirement system to be applied to the payment of the unfunded actuarial liability of the state for the state of Kansas and participating employers under K.S.A. 74-4931, and amendments thereto, portion of such liability, as directed by the Kansas public employees retirement system.*

Sec. 3. K.S.A. 2009 Supp. 74-4920 and 74-8768 are hereby repealed.

Sec. 4. This act shall take effect and be in force from and after its publication in the statute book.

KANSAS
DIVISION OF THE BUDGET

Mark Parkinson, Governor
Duane Goossen, Director

http://budget.ks.gov

May 13, 2010

The Honorable Kevin Yoder, Chairperson
House Committee on Appropriations
Statehouse, Room 351-S
Topeka, Kansas 66612

Dear Representative Yoder:

SUBJECT: Fiscal Note for HB 2751 by House Committee on Appropriations

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2751 is respectfully submitted to your committee.

HB 2751 would create a new, mandatory defined contribution (DC) plan for all future members of the Kansas Public Employees Retirement System (KPERS), effective July 1, 2012. The KPERS Board of Trustees would be required to establish a separate DC plan within KPERS. The DC plan would be a qualified governmental plan as provided by Sections 401(a) and 414(d) of the Internal Revenue Code and related regulations. As such, all assets of the plan would be held in trust for the exclusive benefit of its members.

The new DC plan would become the primary retirement plan, which would be known as "Tier 3," and would include the following KPERS State, School, and Local Group employees: employees who are first employed in an eligible position on or after July 1, 2012, and inactive, non-vested KPERS members who return to work in an eligible position on or after July 1, 2012.

In addition, any member of Tier 1 or Tier 2 may make a one-time, irrevocable election to transfer to the Tier 3 DC plan within a 90-day window established by the Board. Those who do not make an election to transfer are considered to have made an irrevocable election to remain in Tier 1 or 2. The member's account balance as of the date of transfer would be credited to the member's DC plan account. The Tier 1 and 2 transfer option would not be implemented unless it is first approved by the Internal Revenue Service.

HB 2751 would identify treatment of service purchases and domestic relations orders for Tier 1 or Tier 2 members who wish to transfer to the new Tier 3 and would set out the election options for employees moving between positions covered by KPERS and the Board of Regents optional retirement plan established by KSA 74-4911. HB 2751 specifically states that it would not apply to members of the Kansas Police and Firefighters Retirement System or the Retirement System for Judges.

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Employee Contributions

HB 2751 would require active members to contribute 7.0 percent of compensation, deposited in their mandatory contribution account. These contributions and the income earned on them would be vested immediately. The contributions would be made prior to tax calculations for federal income tax purposes. Members would not be permitted to make additional, voluntary contributions to their DC account. Tier 3 members could continue using any alternative supplemental retirement plans provided by their employer, such as the Kansas Public Employees Deferred Compensation Plan, the State's 457 plan. However, the DC Plan would accept rollover of contributions and income from another eligible retirement plan, within the limits of applicable federal law. Rollover contributions would be deposited in a separate rollover account, and the contributions and income earned would be vested immediately.

Employer Contributions

Participating employers would be responsible for making an "Employer DC Account Contribution," which would be defined as an amount equal to 5.0 percent of the active members' compensation. This contribution would be credited to the employer contribution account of each active member and would be vested only when the member has three years of participating service in the DC plan. In addition, there would be a "plan funding rate," which would be defined as a percent of active members' compensation determined by the Board. The plan funding rate would be paid to the KPERS defined benefit (DB) plan (Tiers 1 and 2) and would be set at a rate as necessary to actuarially fund the DB plan's unfunded liabilities and the change in the normal cost contribution rate that would result from establishing the new DC plan for future members and closing the existing DB plan. Also, there would be a "Death and Long-Term Disability Plan Rate," which would be a percent of active members' compensation determined by the Board to fund coverage of Tier 3 members under the insured death benefit and insured disability benefit provided by KSA 74-4927. Finally, an "Administrative Expense Rate," would be funded as a percent of active members' compensation determined by the Board to pay for costs incurred by the Board in administering the Plan.

Investments

The Board would be responsible for selecting and reviewing the investment alternatives offered through the DC plan. The investment alternatives may be those offered under the state's 457 plan, and the Board may change the alternatives offered after notifying affected members of the changes. Individual members are to direct the investment of their employee contribution account, their employer contribution account, if vested, and any rollover account. The Board is required to designate a default investment option for the employer contribution account of non-vested members and for the employee contribution account and rollover account of any member who does not select one or more investment alternatives. The default investment alternative may be a balanced fund.

Distributions

HB 2751 prohibits distribution or refund of any portion of a member's vested account balance before termination of service. Upon termination, the member can choose to terminate membership and receive a distribution of the member's vested account balance or to leave the vested account balance in the DC plan until a later date, subject to minimum distribution requirements under federal and state law. Distributions are to be made through one or more authorized payout options – a direct or regular rollover to an eligible retirement plan, a lump-sum distribution, or any other distribution option provided by the Plan Document adopted by the Board.

Death and Disability Benefits

HB 2751 provides coverage for active Tier 3 members by the same death and long-term disability benefits as Tier 1 and Tier 2 KPERS members. In addition, if a Tier 3 member receiving the insured disability benefit would become permanently and totally disabled, the member's employer would contribute 5.0 percent for the employer contribution and the 7.0 percent for the employee contribution until the member is no longer entitled to an insured disability benefit, up to a maximum of five years. The contributions would be based on the member's compensation at the time the member became disabled. Beneficiaries would be designated as provided in existing regulations for the DB plan and receive the member's vested account balance after the member's death.

Administration

HB 2751 would authorize the KPERS Board to contract for plan administration, consulting, investment, educational, recordkeeping or other services for the plan. The contracts would be awarded using a competitive proposal process, except that the Board may negotiate a contract with the current third party administrator for the state 457 plan for a period not to exceed five years.

A separate account for paying plan administrative expenses may be established within the DC plan. Administrative expenses could be funded through a combination of assessments of fees on DC plan member accounts, negotiated vendor reimbursements, the administrative expense rate paid by employers on active member compensation, and forfeited employer contributions from non-vested members and earnings on those contributions. HB 2751 would authorize the expenditure of forfeited employer contributions for the Plan's start up expenses. The Board would be authorized to establish reasonable and necessary policies to administer the plan without the adoption of regulations.

HB 2751 would establish a member contribution rate of 7.0 percent to the member's mandatory contribution account. Current rates for Tier 1 and Tier 2 members are 4.0 percent and 6.0 percent respectively.

The fiscal effect of HB 2751 on participating employers would consist of several elements, including employer contributions to the DC accounts of Tier 3 members, the plan funding rate, and the death and disability benefits rate. In addition, the Board would have authority to establish an administrative expense rate as a source of funding for start-up or ongoing administrative expenses.

Employer contributions to Tier 3 members are referred to as an "employer DC account contribution" in HB 2751 and would be set at 5.0 percent of members' compensation. The "plan funding rate" provides a means to take into account the effect of HB 2751 on the existing DB plan. There are two primary respects in which the addition of the DC plan would affect the funded status and contribution levels of the DB plan. By closing Tiers 1 and 2 to new members, the membership of the existing DB plan is capped, and the payroll base for those two tiers will begin to decline, with a corresponding decline in both employer and member contributions. With a diminishing payroll base, both components of the actuarially required contribution (ARC) rate (the normal cost (NC) rate and the rate required to amortize the unfunded actuarial liability (UAL) rate) will climb, resulting in increasing ARC rates. Because there is a statutory 0.6 percent cap on annual employer contribution increases to the DB plan, the difference between the ARC rate and statutory rate would grow, leading to increases in the DB plan's UAL and decreasing funded ratios.

In order to avoid this adverse impact on the funding of the existing DB plan, HB 2751 would provide for payment of the additional "plan funding rate" on the payroll of Tier 3 to offset the loss of funding for the NC and UAL components of the DB plan contributions.

Detailed projections of the DC Account Contribution and the Plan Funding rates are not available at this time, as KPERS indicates that more extensive actuarial modeling is be needed. A very preliminary, high-level estimate of the DC employer rates for the State/School Group is illustrated below, along with the statutory rates for the existing KPERS DB plan.

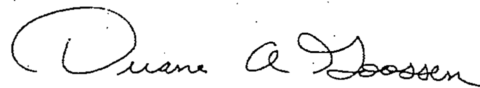
	Tiers 1 and 2 (DB Plan)	Tier 3 – (DC Plan)		
Fiscal Year	State/School Statutory Rate	DC Account Contribution	Plan Funding Rate	Total Employer Rate
2011	8.17%	n/a	n/a	n/a
2012	8.77%	n/a	n/a	n/a
2013	9.37%	5.00%	4.59%	9.59%
2014	9.97%	5.00%	5.32%	10.32%
2015	10.57%	5.00%	6.03%	11.03%
2016	11.17%	5.00%	6.68%	11.68%
2017	11.77%	5.00%	7.31%	12.31%
2018	12.37%	5.00%	7.95%	12.95%
2019	12.97%	5.00%	8.59%	13.59%
2020	13.57%	5.00%	9.24%	14.24%
2033	21.37%	5.00%	17.83%	22.83%

These projected estimates of employer rates are based on a set of "baseline" assumptions about the existing Tier 1 and Tier 2 DB plan, including no change in current law establishing a .6% cap on employer contribution increases, no change in employee contribution rates, no change in benefits, achieving an 8.0 percent average annual return for KPERS investments, and having a payroll annual growth of 4.0 percent.

Implementation of HB 2751 would require significant administrative resources and, over time, would result in substantive changes to KPERS' operational functions and processes. Administrative and implementation issues that would require further review and evaluation include the following: drafting and adopting a DC Plan Document, policies, and guidelines relating to Plan features, limitations, and eligibility; establishing processes for determining, assessing, transmitting, recording, and maintaining employee contributions and accounts, employer contributions to DC accounts, the plan funding rate, death and disability benefits, and administrative expenses; evaluating the effect of the DC plan on KPERS' information technology systems and modifying them as needed; and providing adequate communication and education to employers and new Tier 3 members about the DC Plan and its administration.

Costs associated with these administrative issues are expected to include extensive changes to information technology systems, additional contractual costs for legal counsel and consultants, as well as some additional operating expenses. It is not possible to provide estimates of these costs without further analysis by KPERS. However, it is understood that implementation costs in other states with DC plans (optional or mandatory) typically have required some source of start-up funding in addition to their ongoing operational budgets. Because KPERS' operating expenses are funded through the defined benefit plan's trust, there are limitations on uses of those funds. HB 2751 provides options for repaying these start-up costs as well as for funding ongoing administration of the Plan, including the administrative expense rate, employer contributions forfeited by members who separate prior to vesting, fees on DC plan member accounts, and negotiated vendor reimbursements. Any fiscal effect associated with HB 2751 is not reflected in *The FY 2011 Governor's Budget Report*.

Sincerely,



Duane A. Goossen
Director of the Budget

cc: Faith Loretto, KPERS

Session of 2010

HOUSE BILL No. 2751

By Committee on Appropriations

5-7

9 AN ACT concerning retirement and pensions; enacting the Kansas pub-
10 lic employees retirement system defined contribution act; providing
11 terms, conditions and requirements related thereto; relating to plan
12 document, membership, benefits and contributions; death and disa-
13 bility benefits.
14
15 *Be it enacted by the Legislature of the State of Kansas:*
16 Section 1. (a) The provisions of sections 1 through 18, and amend-
17 ments thereto, shall be known and may be cited as the Kansas public
18 employees retirement system defined contribution act, and shall be ef-
19 fective on and after July 1, 2012.
20 (b) This act applies to any individual who is: (1) First hired on and
21 after July 1, 2012, by a participating employer and who would otherwise
22 qualify for membership in the Kansas public employees retirement sys-
23 tem, K.S.A. 74-4901 et seq., and amendments thereto; and (2) an inactive
24 non-vested member of the Kansas public employees retirement system
25 on June 30, 2012, and who returns to employment with a participating
26 employer on and after July 1, 2012, and who would otherwise qualify for
27 membership in the Kansas public employees retirement system, K.S.A.
28 74-4901 et seq., and amendments thereto. The individuals described in
29 this subsection are required to become members of the defined contri-
30 bution plan established under section 3, and amendments thereto.
31 (c) This act does not apply to members of the Kansas police and
32 firemen's retirement system, K.S.A. 74-4951 et seq., and amendments
33 thereto, and the retirement system for judges, K.S.A. 20-2601 et seq.,
34 and amendments thereto.
35 Sec. 2. Unless the context requires otherwise, terms that are used in
36 this act have the meanings set forth for them in K.S.A. 74-4902, and
37 amendments thereto, and the following definitions apply:
38 (a) "Act" means the provisions of section 1 et seq., and amendments
39 thereto;
40 (b) "active DC plan member" means a DC plan member who is ac-
41 tively employed by a participating employer;
42 (c) "defined benefit plan" means the defined benefit plan for the
43 Kansas public employees retirement system for KPERS;

1 (d) "DC plan member" means an individual who is required by sec-
2 tion 1, and amendments thereto, to be a member of the defined contri-
3 bution plan, and any individual who elects to transfer to the defined con-
4 tribution plan under section 8, and amendments thereto. The term also
5 includes any survivor or beneficiary of a DC plan member, who has a
6 retirement account in the defined contribution plan;
7 (e) "optional retirement program" means the retirement plan estab-
8 lished by the state board of regents under K.S.A. 74-4925, and amend-
9 ments thereto; and
10 (f) "plan" or "defined contribution plan" means the defined contri-
11 bution retirement plan established by section 3, and amendments thereto.
12 Sec. 3. (a) The board shall establish within the Kansas public em-
13 ployees retirement system a separate defined contribution plan in ac-
14 cordance with the provisions of this act. The plan must be established as
15 a pension plan for the exclusive benefit of members and their benefici-
16 aries and as a "qualified governmental plan" pursuant to sections 401(a)
17 and 414(d) of the federal internal revenue code and its implementing
18 regulations. Retirement accounts must be established for each DC plan
19 member. Assets of the plan must be held in trust. The plan is established
20 in addition to any retirement, pension, deferred compensation or other
21 benefit plan administered by the state or a political subdivision.
22 (b) The board may contract for plan administration and use a com-
23 petitive proposal process when contracting for consulting, educational,
24 investment, recordkeeping or other services for the plan.
25 Sec. 4. (a) The board has the powers and shall perform the duties
26 regarding the defined contribution plan as provided in K.S.A. 74-4909,
27 and amendments thereto, as applicable. The board may also exercise the
28 powers and shall perform the duties provided in this act.
29 (b) The board shall adopt a plan document and reasonable and nec-
30 essary policies and procedures, without the need for corresponding rules
31 and regulations.
32 (c) The board may negotiate a contract with the third party admin-
33 istrator currently selected for the Kansas public employees deferred com-
34 pensation plan for the initial administration of the defined contribution
35 plan for a period not to exceed five years. Thereafter, the contract for
36 administration of the defined contribution plan shall be awarded through
37 a competitive proposal process.
38 Sec. 5. (a) The board may establish an account within the defined
39 contribution plan for paying the plan's administrative expenses.
40 (b) The board may:
41 (1) Assess fees on DC plan member accounts to pay the reasonable
42 administrative costs of the plan; and
43 (2) negotiate with a vendor or vendors for vendor reimbursement of

1 board administrative expenses for the plan.
2 (c) All fees assessed must be fully disclosed to members and treated
3 as public information.
4 (d) Costs for the board to secure investment advice, recordkeeping,
5 contract oversight, educational materials for members, performance eval-
6 uations and other appropriate information and services, are included as
7 part of the administrative expenses of the plan.
8 Sec. 6. The statutory provisions governing the defined contribution
9 plan are subject to amendment by the legislature. The board has the
10 power to amend the plan document, policies and procedures, consistent
11 with the statutory provisions governing the defined contribution plan at
12 the time of the amendment.
13 Sec. 7. (a) This section shall not be implemented until the board has
14 obtained approval from the federal internal revenue service. The board
15 may implement the remainder of this act prior to implementation of this
16 section. This section is severable from the remainder of this act and shall
17 be repealed if the federal internal revenue service refuses to grant such
18 approval or issues an adverse decision.
19 (b) Except as otherwise provided in this act, an active member of the
20 defined benefit plan of the system on July 1, 2012, may elect to become
21 a member of the defined contribution plan by making an election within
22 a 90-day period established by the board.
23 (c) (1) Elections made pursuant to this section shall be made on a
24 form and in a manner prescribed by the board.
25 (2) A defined benefit plan member failing to make an election pre-
26 scribed by this section remains a member of the defined benefit plan.
27 (3) An election under this section, including the default election pur-
28 suant to subsection (c)(2), is a one-time irrevocable election.
29 (4) A member who makes an election to transfer to the defined con-
30 tribution plan shall have such member's employee account balance as of
31 the date of the transfer directly transferred to the defined contribution
32 plan.
33 (5) A member who makes an election to transfer to the defined con-
34 tribution plan shall have no rights of any nature in the defined benefit
35 plan after the transfer.
36 (d) A member in either the defined benefit plan or the defined con-
37 tribution plan who becomes inactive after an election under this section
38 and who returns to active membership remains in the plan previously
39 elected.
40 (e) A system member may not simultaneously be a member of the
41 defined benefit plan and the defined contribution plan and shall be a
42 member of either the defined benefit plan or the defined contribution
43 plan. A period of service may not be credited in more than one retirement

1 plan within the system.
2 (f) A member of the defined benefit plan who is subject to a domestic
3 relations order or an execution or income-withholding order may not
4 transfer to the defined contribution plan unless the order is modified to
5 apply under the defined contribution plan.
6 (g) (1) A member of the defined benefit plan who is purchasing serv-
7 ice credit through installment payments, either made directly to the board
8 or pursuant to a payroll deduction agreement, may not transfer mem-
9 bership to the defined contribution plan unless the member first com-
10 pletes the contract for purchase of service credit.
11 (2) A member who files an election to transfer membership may
12 make a lump-sum payment for up to the balance of the service credit
13 remaining to be purchased prior to transferring, subject to the limitations
14 of section 415 of the federal internal revenue code. The lump-sum pay-
15 ment, unless made by a rollover, shall be made with after-tax dollars.
16 (3) If a member who files an election to transfer membership fails to
17 complete the contract for purchase of service credit by the end of the
18 member's 90-day election window, the board shall terminate the service
19 purchase contract and credit the member with the prorated amount of
20 service credit purchased under the contract.
21 Sec. 8. (a) If a member actively covered by the defined benefit plan
22 on July 1, 2012, is employed by the state board of regents and has pre-
23 viously chosen under K.S.A. 74-4911, and amendments thereto, to be a
24 member of the defined benefit plan that member shall not be eligible to
25 elect the defined contribution plan pursuant to this section.
26 (b) If a member who is employed by the state board of regents and
27 who is covered by the defined benefit plan on July 1, 2010, elects to
28 remain in the defined benefit plan under section 7, and amendments
29 thereto, and subsequently becomes eligible to make a choice between the
30 defined benefit plan and the optional retirement plan under K.S.A. 74-
31 4911, and amendments thereto, the member may only elect to remain in
32 the defined benefit plan.
33 (c) If a member who is employed by the state board of regents who
34 is covered by the defined contribution plan becomes eligible to make a
35 choice between the defined contribution plan and the optional retirement
36 plan under K.S.A. 74-4911, and amendments thereto, the member may
37 elect to remain in the defined contribution plan or become a member of
38 the optional retirement plan.
39 (d) Elections made pursuant to this section must be made on a form
40 prescribed by the board and must be made within 90 days of the date of
41 employment.
42 (e) An election under this section is a one-time irrevocable election.
43 (f) A member in either the defined contribution plan or the optional

1 retirement program who becomes inactive after an election under this
2 section and who returns to active membership remains in the plan pre-
3 viously elected.
4 (g) A regents employee in a position covered under the system may
5 not simultaneously be a member of more than one retirement plan under
6 this act, but must be a member of the defined benefit plan, the defined
7 contribution plan, or the optional retirement program. The same period
8 of service may not be credited in more than one retirement system or
9 plan.
10 (h) An election to become a member of the optional retirement pro-
11 gram pursuant to this section is a waiver of all rights and benefits under
12 the Kansas public employees retirement system.
13 Sec. 9. The board shall accept the rollover of contributions and the
14 income on those contributions from another eligible retirement plan to
15 the member's rollover account only to the extent allowed under applicable
16 federal law.
17 Sec. 10. (a) A DC plan member's mandatory contribution account
18 includes the DC plan member's contributions and the income on those
19 contributions and is vested from the date that the employee becomes a
20 member of the plan.
21 (b) A DC plan member's employer contribution account includes the
22 employer's contributions and the income on those contributions and is
23 vested only when the member has a total of three years of participating
24 service in the defined contribution plan.
25 (c) A DC plan member's rollover account includes the member's roll-
26 overs of contributions made pursuant to section 10, and amendments
27 thereto, and income on those contributions and are vested from the date
28 that the contribution is credited to the account.
29 (d) If the DC plan member's employer contribution account is not
30 vested upon termination of plan membership, as provided in this section,
31 the employer contributions and income are forfeited as provided in sec-
32 tion 11, and amendments thereto.
33 Sec. 11. (a) An active DC plan member shall contribute 7% of com-
34 pensation to the defined contribution plan. These contributions shall be
35 picked up by the employer via a salary reduction as provided in section
36 414(h)(2) of the federal internal revenue code.
37 (b) A DC plan member may not make voluntary contributions to the
38 defined contribution plan.
39 (c) Subject to adjustment by the board as provided in section 12, and
40 amendments thereto, an active DC plan member's employer shall con-
41 tribute the following:
42 (1) Five percent of compensation to the active DC plan member's
43 employer contribution account;

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(2) a percentage of compensation, determined by the board under section 12, and amendments thereto, to the defined benefit plan as the plan funding rate as described in section 12, and amendments thereto;

(3) a percentage of compensation, determined by the board, must be allocated to the administrative account established by section 5, and amendments thereto; and

(4) a percentage of compensation, determined by the board, must be allocated to the death and long-term disability plan under K.S.A. 74-4927, and amendments thereto.

(d) Forfeitures of employer contributions and investment income on the employer contributions may not be used to increase a DC plan member's retirement account. The board shall allocate the forfeitures under section 10, and amendments thereto, to meet the plan's administrative expenses, including startup expenses.

Sec. 12. (a) The board shall periodically review the sufficiency of the plan funding rate and shall adjust the amount of contributions under section 11, and amendments thereto, as specified in this section. The board shall collect and maintain the data necessary to comply with this section. The plan funding rate set in section 11, and amendments thereto, must be adjusted as provided in this section and the plan document to actuarially fund the defined benefit plan's unfunded liabilities and the change in the normal cost contribution rate that is the result of the DC plan member participation in the defined contribution plan.

(b) If the board determines that the plan funding rate should be increased or decreased, the plan funding rate under section 11, and amendments thereto, must be increased or decreased accordingly.

Sec. 13. (a) The investment alternatives under the defined contribution plan may be the same as the investment alternatives under the Kansas public employees deferred compensation plan.

(b) The board shall from time to time review the suitability and management of investment alternatives and may change the alternatives to be offered. The board shall notify affected DC plan members of potential changes before any changes become effective.

(c) The board shall establish a default investment option for any DC plan member who does not have an effective investment direction. The board may utilize a balanced fund as the default investment fund.

(d) Assets within each member's accounts must be invested as directed by the member. However, the non-vested portion of the DC plan member's employer contribution account shall be invested in the board's default investment fund.

Sec. 14. Except as provided in section 18, and amendments thereto, any time after termination of service, a DC plan member or the DC plan member's beneficiary may terminate plan membership by filing a written

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application with the board and removing the DC plan member's vested account balance from the plan through any combination of the following payout options, each of which is subject to the provisions of the plan document and the federal internal revenue code and the applicable regulations of the internal revenue service:

(a) A direct rollover to an eligible retirement plan;

(b) a regular rollover to an eligible retirement plan;

(c) a lump-sum distribution of the DC plan member's vested account balance; or

(d) an optional form of distribution offered by the board under section 15, and amendments thereto.

Sec. 15. (a) Subject to the provisions of the plan document, a DC plan member, after termination of service, may leave the DC plan member's vested account balance in the plan, and the DC plan member is eligible for a distribution as provided in this section.

(b) After termination of service and upon filing a written application with the board, a DC plan member may select any distribution option provided by the plan document.

(c) A DC plan member who is less than 70 1/2 years of age who returns to service may not continue to receive a distribution under this section while actively employed in a covered position.

(d) The plan document shall provide that distributions must comply with the minimum distribution requirements established in the federal internal revenue code and applicable under K.S.A. 74-49,123, and amendments thereto.

(e) The plan document may specify minimum account balances for purposes of allowing benefit payment options and rollovers in accordance with federal law.

Sec. 16. A DC plan member's beneficiary must be determined as provided in the defined benefit plan regulations. Upon filing a written application with the board after the death of a DC plan member, the DC plan member's beneficiary is entitled to the DC plan member's vested account balance.

Sec. 17. Before termination of service, a DC plan member may not receive a refund of any portion of the DC plan member's vested account balance.

Sec. 18. (a) For the purposes of providing the "insured death benefit" and "insured disability benefit" as prescribed in K.S.A. 74-4927, and amendments thereto, the term "member" as used in K.S.A. 74-4927, and amendments thereto, shall include those members of the Kansas public employees retirement system's defined contribution plan as defined in section 2, and amendments thereto.

(b) Each participating employer shall pay to the Kansas public em-

ployees retirement system in such manner as the board of trustees shall prescribe each payroll period an amount sufficient to pay the employer's contribution to the group insurance reserve as provided in subsection (c)(4) of section 11, and amendments thereto.

(c) Except as otherwise provided, in the event that a DC plan member as defined in section 2, and amendments thereto, becomes eligible for and begins to receive the insured disability benefit prescribed in K.S.A. 74-4927, and amendments thereto, the member's participating employer shall continue to make the contributions on behalf of such individual to the retirement plan as required under subsection (c)(1) of section 11, and amendments thereto, and shall also contribute to the retirement plan an amount equal to the individual's contribution required under subsection (a) of section 11, and amendments thereto, if the DC plan member is permanently and totally disabled as defined in section 72(m) of the federal internal revenue code. Commencing on and after July 1, 2012, such contributions shall cease at the earlier of: (1) The date that the individual is no longer entitled to an insured disability benefit under K.S.A. 74-4927, and amendments thereto; or (2) the date that is five years after the date the individual becomes eligible for and begins to receive the insured disability benefit prescribed in K.S.A. 74-4927, and amendments thereto. For purposes of applying this subsection, compensation under section 11, and amendments thereto, means the individual's compensation at the time the individual became disabled as defined under the insured disability program prescribed in K.S.A. 74-4927, and amendments thereto.

Sec. 19. This act shall take effect and be in force from and after its publication in the statute book.

Kansas Public Employees
Retirement System

KPERS Working After Retirement Update

Joint Committee on Pensions, Investments and Benefits ▪ *September 2, 2010*

Legislative History

KPERS working after retirement restrictions are provided in Kansas statutes and are subject to IRS regulations because KPERS is a qualified, tax-exempt retirement plan.

Since KPERS' inception in 1962, there have been statutory restrictions on retirees returning to work for KPERS-affiliated employers. The earnings limitation on returning to work for the retiree's previous employer was first adopted in its current form in 1988.

Recent statutory changes include:

2006 House Sub. for SB 270

- Raised the earnings limitation for retirees returning to work for their previous employer from $15,000 to $20,000.
- Required employers hiring a retiree who did not previously work for that employer to pay KPERS the actuarial employer and employee contribution rate.

2008 House Sub. for SB 309

- Removed the June 30, 2008, sunset provision for the earnings limitation exception for state nurse retirees reemployed by certain SRS institutions.

Legislative History (Continued)

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- Expanded the exemption to include state nurse retirees reemployed by state juvenile justice institutions.
- Participating employers pay the actuarial employer contribution rate.
- The Joint Committee introduced SB 196 in the 2009 Session, to apply the same working-after-retirement provisions to employees returning to work either as individuals or as contracted employees of third-party entities.
- The 2009 legislature ultimately passed 2009 Senate Substitute for HB 2072, which incorporated SB 196 and made a number of additional changes to working-after-retirement restrictions.

2009 Senate Substitute for HB 2072

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The final legislation included the following major provisions:

- **Break in Service.** Extended the minimum break in service from any employment with any KPERS participating employer from 30 days to 60 days for all KPERS retirees.
- **Licensed School Professional Retirement Date.** Amended school law provisions to allow licensed professionals (teachers, administrators, and certain other professionals, such as social workers and dietitians) to retire before June 30 of a calendar year.
- **Earnings Limit for Licensed School Employees.** Lifted the $20,000 earnings limit for retired licensed professionals returning to work for the same school district from which they retired, for a three-year period (through June 30, 2012), if they retired either:
  - Under a normal retirement option (e.g., with 85 points)
  - Under an early retirement option more than 60 days before the effective date of the bill (March 28, 2009).
- **Employer Contribution Rates.** Established a special employer contribution rate for public school employers who employ retired licensed professionals, for a three-year period (through June 30, 2012).
  - The rate is the employer actuarial rate plus 8 percent (20.48% in FY 2011).

2009 Senate Substitute for HB 2072 (Continued)

- The employer rate applies to:
  - Retirees returning to work for the same or a different school district.
  - All positions for which a license is required, regardless of the number of hours worked.
- This employer rate does not apply to retirees employed only as substitute teachers.
- This employer rate does not apply to retirees who were first employed by a different school district before July 1, 2006.

- **Third-Party Contractors.** Applies working-after-retirement restrictions to retirees who provide licensed professional services to a participating employer through a third-party contractor. Contracts that are effective on or after April 1, 2009, are covered by the bill.
  - Each employer contracting with a third party for licensed professional services must include in the contract a provision requiring the third party to report the retiree's compensation, so that the employer can comply with reporting and employer contribution requirements.

2009 Senate Substitute for HB 2072 (Continued)

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- During the three-year exemption for licensed professionals, retirees returning to work through a third-party contract for the same or a different employer would not have an earnings limitation (if they would otherwise have been eligible for the exemption), but the employer would be required to pay the special employer contribution on the retiree's compensation (20.48% in FY 2011).
- **Report to Joint Committee.** Requires KPERS to report to the Joint Committee on Pensions, Investments and Benefits on the results of the provisions for licensed school professionals when they expire on June 30, 2012.

Working After Retirement Utilization

- Employers are required to submit an annual working-after-retirement report in December, with data regarding the number of retirees, by category, who were rehired during any part of that calendar year.
- Therefore, the CY 2009 report reflects data for only the first six months in which HB 2072 was in effect.
- During CY 2009, 3,302 KPERS retirees worked for a KPERS employer for some portion of the year, compared to 2,678 in CY 2008 – an increase of 23%.
  - By way of contrast, the number of early and full retirements in CY 2009 increased by 2.4% over CY 2008, and the number of KPERS retirees increased by 3.63%.
- Of the retirees working during CY 2009, 1,774 were hired by the same employer and 1,528 for a different KPERS employer. (See Attachment A for more detail.)
- School Group employers reported 2,546 rehired retirees in CY 2009, which represents 6.9% of all School Group retirees – up from 6.1% in CY 2008. The number of KPERS retirees hired by the State and by Local Group employers in CY 2009 was equivalent to 1.6% of State and 4.2% of Local Group retirees.

Appendix A

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KPERS Retirees Returning to Work*

	Same Employer	Different Employer Before 07/01/06	Different Employer After 07/01/06	Total
Local	332	64	132	528
School	1,250	364	932	2,546
State	192	16	20	228
	1,774	444	1,084	3,302

*Reflects reemployment at any point in Calendar Year 2009

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School Group: Working After Retirement Categories*

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Category	Count
Same Employer Licensed Position	427
Same Employer Non-licensed Position	821
Same Employer Third Party - Licensed Position	2
Different Employer Licensed Position	682
Different Employer Non-licensed Position	249
Different Employer Third Party Licensed Position	1
Total	**2,182**

*Excludes retirees rehired by different employer before 7/1/06.

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September 2, 2010

To: Joint Committee on Pensions, Investments, and Benefits

From: Julian Efird, Principal Analyst

Re: Committee Summary and Future Agenda Items

The reporting you heard today has offered some encouragement regarding the KPERS long-term funding, as Pat Beckham pointed out in her review of the December 31, 2009, actuarial valuation. As the Principal and Consulting Actuary for KPERS, she works closely with Kansas, as well as other states where she has state retirement systems as clients. The bottom line, according to her report, is a warning of continued "concern for long term funding given current funded levels and projected employer contributions," especially regarding the KPERS School Group.

Glenn Deck discussed the Kansas proposed legislation that does not carry over to the 2011 Legislature but would have addressed some of the long-term funding issues, either directly through contribution increases or indirectly by making changes in the retirement system itself. New bills will have to be drafted for the next legislative session if these proposals are to be reconsidered in 2011.

Other States' Actions

Kansas is not unique in its problems regarding long-term funding for pensions. The majority of other state retirement systems is confronting much the same problem, and the legislatures in those states are reacting with a variety of bills and legislation. Ron Snell, the National Conference of State Legislatures, is the principal chronicler of what other states are doing in regard to pension legislation. He published a preliminary report on July 19, 2010, about pensions and retirement plan enactments by the 2010 state legislatures, that will be updated as additional states complete their legislative sessions and special sessions. Ron Snell will attend the Committee's December 2, 2010, meeting in Topeka and will brief the Committee on the latest developments in other states regarding pension matters, especially long-term funding and action taken to address the problem.

The July 19, 2010, installment of his publication noted that two areas had considerable attention in 2010 legislation: contribution changes and benefit adjustments. Ten states reported both benefit and contribution changes were enacted in 2010 (Vermont, Virginia, Michigan, Mississippi, Louisiana, Missouri, Iowa, Minnesota, Colorado, and Utah). Five states had benefit reductions approved (Rhode Island, New Jersey, Illinois, South Dakota, and Arizona) and one state had an employee contribution increase approved (Wyoming). As a result of the recently enacted benefit changes, a number of lawsuits have been filed challenging the legislation in at least three states: Colorado, Minnesota, and New Jersey.

A copy of the July 19, 2010, publication is enclosed for your reference.

LJE/jl

Enclosure

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Attachment 6
JCPIB 9-2-10

PENSIONS AND RETIREMENT PLAN ENACTMENTS IN 2010 STATE LEGISLATURE

July 19, 2010

Ronald K. Snell

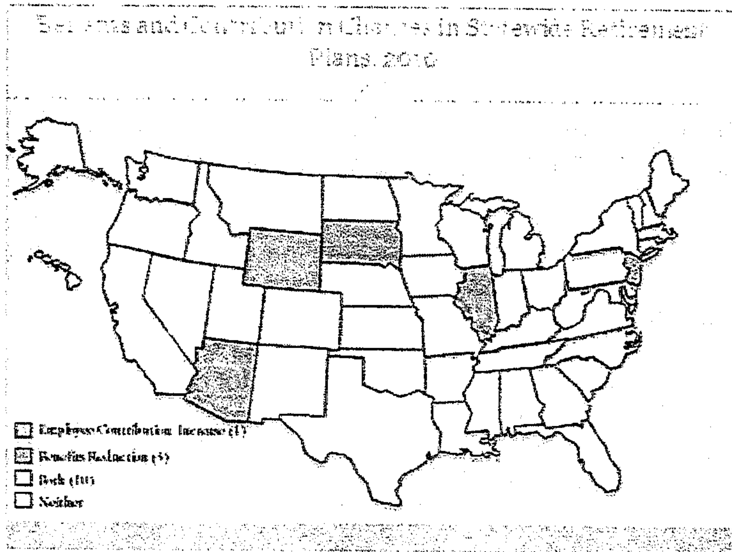
PDF Version

About This Report

This report summarizes selected state pensions and retirement legislation enacted from January 2010 through the date of publication. Its goal is to help researchers and policy makers know how other states have addressed issues that could arise in any state. In keeping with that goal, the report excludes most clean-up legislation, cost-of-living adjustments, administrative procedures and technical amendments. This report is organized according to the topics that legislatures addressed in 2010, listed at the end of this introduction.

Bills summarized below have been enacted into law unless there is a specific indication to the contrary. Not all legislation had been chaptered at the time this report was compiled. Some legislatures remain in session at the time of publication.

The sources of this report are StateNet searches of current and enacted legislation, retirement systems' websites, state legislatures' reports of enacted legislation, and information provided by legislative and retirement system staff. I am indebted to the many legislative staff who write and share summaries of their legislatures' acts, the many retirement system staff throughout the United States who have posted legislative summaries on their web sites, and the staff of legislatures and retirement systems who have taken time to identify and explain legislation and its context to me.



LIST OF TOPICS

Contribution Rates and Funding Issues	Governance and Investment Policy
Cost of Living Adjustments	Health Coverage
Defined Benefit Plan Changes	Legislative Process
Defined Contribution & Hybrid Plans	Military Service

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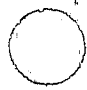
Divestme...	Re-employment after Retirement
Early Ret... ...ent Incentives	Return of Contributions
Elected Officials Retirement Program	Social Security
Ethics, Forfeiture of Benefits, Privacy	Studies



Contribution Rates and Funding Issues

California. On June 16, 2010, the Board of Administration of the California Public Employee Retirement System (CalPERS) approved a proposal to increase state government contributions to the retirement fund in the fiscal year beginning July 1, 2010. The State contribution is projected by CalPERS staff to be approximately $600 million more than the State contribution of $3.3 billion in the current fiscal year. School districts will pay an additional $108 million to cover retirements of non-teaching personnel.

CalPERS reports that the State Legislative Analyst's Office (LAO) estimates the actual contribution may be as low as $481 million based on more recent projections of lower payroll growth. According to the LAO analysis, the estimated increase to the State general fund budget will be $184 million; the rest of the increase will be paid with non-general-fund revenues generated by self-funded agencies – commonly referred to as special fund agencies.

The total contribution increase is caused by two key factors:

- $299 million in additional contributions to adjust for a recent demographic study that found CalPERS retirees living longer and workers retiring slightly earlier.
- $217 million in additional contributions to compensate for investment losses during the recent economic recession. The value of the CalPERS pension fund dropped by 24 percent in the 12 months that ended June 30, 2009.

CalPERS adjusts employer contribution rates every year based on whether the pension fund experiences actuarial gains or losses. Typically, the biggest factor affecting gains or losses is investment performance. Given the severe financial market downturn of the past two years, a rate increase was necessary to maintain proper funding of the pension fund.

Source: CalPERS press release June 16, 2010

Colorado. Chapter 65, Laws of 2010 (SB 146), increases the employee contribution rates to the Public Employee Retirement Association for state employees, troopers and judges for fiscal year 2011 by 2.5 percentage points and decreases the employer contribution by the same amount. For example, the state employee contribution rate changes from 8% to 10.5% of salary, while the employer rate goes from 10.15% to 7.65%. Contribution rates for local government members and teachers are not affected.

Florida. HB 5607 (vetoed) amends employers' contribution rates for the Florida Retirement System for fiscal years 2011 and 2012. FRS requires no employee contributions. For the regular class, the contribution rate for FY 2011 increases from 8.695 to 9.76%, and remains at 9.76% for FY2012. Changes for the special classes of membership are close to that increase. However, the act also levies additional employer increases in FY 2010 to amortize UAALs. These range from an additional 1.74% for the general class to 18.76% for the elected officers' class and 21.73% for the class of county elected officers.

Illinois. Public Act 96-0889 (SB 1946) sets contribution amounts from the Chicago Board of Education to the Chicago Teachers Retirement System at $187 million for FY 2011, $192 million for FY 2012 and $196 million for FY 2013, which provides budget relief for the school district of roughly $400 million a year for each of the three years. The bill also extends the period in which the retirement system if scheduled to reach 90% of funding from 2045 to 2059.

Iowa. House File 2518 (signed by governor, April 23, 2010) will increase contribution rates for employees and employers for the Peace Officers Retirement System (PORS) and the Iowa Public Employees Retirement System (IPERS).

For PORS, the 2010 contribution rates are 21.00% for the employer and 9.35% for the employee. The employer contribution rate by previous law would rise to 27% in FY 2013. This act will increase the employee contribution by 0.5% a year for to 11.35% in FY 2013 and will increase the employer's rate by 2% a year to 37% or the normal cost, whichever is less, in FY 2018. The act also calls for an annual general fund contribution (in addition to the employers' contributions) of $5,000,000 until the fund reaches a funding ratio of at least 85%.

For regular members of IPERS – most members other than public safety officers, EMT members and jailers – under existing law on July 1, 2011 contributions will increase to a total of 11.95%, with members paying 4.7% of salary and employers paying 7.25%. This act increases the total contribution to 13.45% on that date, and allows IPERS to increase or decrease the rate by one percentage point a year for regular members. Employees will continue to pay about 40% of

the total; employers, 60%.

Louisian : 992 of 2010 (HB 1337) generally makes changes to the organizational structures, requirements contributions and benefit provisions of the four state retirement systems: the State Employees' Retirement System (LASERS), the Teachers' Retirement System (TRSL), the School Employees' Retirement System (LSERS), and the State Police Pension and Retirement System (LSPRS), for persons whose first employment making them eligible for membership in any state retirement system occurs on or after Jan. 1, 2011.

The consolidation of smaller plans into broader plans provides for contribution changes for some employees, both increases and decreases, but for the great majority of covered employees—general state employees and teachers statewide—the employee contribution remains at 8% of salary. For the School Employees Retirement System, the contribution rate will increase from 7.5% of salary to 8%. The employment categories that will be grouped in the hazardous duty provisions of LASERS currently have contribution rates ranging from 8% to 9.5%; all in the future will be at the 9.5% rate. The contribution rate for the Judges' Plan will increase from 11.5% to 13%. Future members of the State Police retirement system will also contribute 9.5% under Act 992, up from 8.5%.

Minnesota. Chapter 359, Laws of 2010 (Senate File 2918 and House File 3281), provided for contribution increases for various Minnesota state and local government retirement plans. Provisions include:

- State Patrol Retirement Plan: employer contribution increased by 2 percent of salary; employee contribution increased by 3 percent of salary.
- Public Employee Retirement Association (PERA) General Employee Plan: employer contribution increased from 6 percent to 6.25 percent; employee contribution from 6 percent to 6.25 percent.
- PERA Police and Fire Plan: employer contribution increased from 14.1 percent to 14.4 percent; employee contribution increased from 9.4 percent to 9.6 percent.
- The automatic PERA-General contribution adjustment provision enacted in 2006 is modified to cover larger potential contribution increases in the event of large contribution deficiencies.
- Teachers Retirement Association (TRA): Employing unit contribution rates will increase 0.5 percent a year for four years beginning July 1, 2011; member contribution rates (currently 5.5 percent) will increase 0.5 percent each July 1 for four years beginning on July 1, 2011.
- After July 1, 2015, if the TRA actuarial valuation indicates a contribution rate deficiency (i.e., total support as a percentage of covered salary compared to total financial requirements expressed as a percentage of covered salary) of at least 0.5 percent of covered payroll, with the approval of (or inaction by) the Legislative Commission on Pensions and Retirement, the member contribution rate will increase by 0.25 percent of covered salary and the employer contribution rate will increase by 0.25 percent of covered salary, with the downward adjustment if there is a contribution sufficiency.
- Duluth Teachers Retirement Fund Association (DTRFA): employer contribution rate is increased from 5.79 percent to 6.79 percent; member rate from 5.5 percent to 6.5 percent, both in two annual steps.
- The St. Paul Teachers Retirement Fund Association (SPTRFA) basic program member contribution rate is increased from 8.0 percent to 9.0 percent and the coordinated program member contribution is increased from 5.5 percent to 6.5 percent in four annual steps. The basic program employer contribution is increased from 8.0 percent to 9.0 percent, and the coordinated program employer contribution is increased from 4.5 percent to 5.5 percent in four steps.

Mississippi. Chapter 1, laws of the First Special Session of 2010 (HB 1), increases the employee contribution rate for the Public Employees Retirement System from 7.25 percent of salary to 9 percent (as passed by both houses April 23, 2010). Effective July 1, 2010 to July 1, 2012. HB 1 includes two benefit enhancements intended to offset the bearing of the rate increase on employees.

The first enhancement provides that members of PERS will receive an additional one-half day of leave toward retirement for each full year of membership service accrued after June 30, 2010 (e.g., a member who accrues 30 years of membership service after June 30, 2010, will receive 15 days of leave toward retirement service credit that will be added to any other leave that has been certified to PERS for service credit).

The second enhancement provides an additional benefit option, a 75 percent joint and survivor annuity, to members of PERS who retire on or after January 1, 2011.

Missouri. HB 1 of the First Extraordinary Session of 2010, transmitted to the governor on July 14, 2010, enacted new contributory tiers for those who become members of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS), the Missouri State Employees' Retirement System and the retirement plan for judges. Those hired after January 1, 2011, will make a pre-tax employee contribution of 4 percent of salary. Until this legislation, Missouri plans were non-contributory.

New Jersey. Public Law 1 of 2010 (SB 2) provides that beginning on July 1, 2011, the state is to make in full the annual employer's contribution, as computed by the actuaries, to all state retirement systems. The state would be in compliance

with this r[illegible]irement provided it makes a payment, to each state-administered retirement system or fund, of at [illegible]st 1/7th of [illegible]ll contribution, as computed by the actuaries, in the fiscal year commencing July 1, 2011 and ma[illegible] payment in each subsequent fiscal year that increases by at least an additional 1/7th until payment of the full contribution is made in the eighth fiscal year and thereafter.

The budget enacted on June 29, 2010, for FY 2011 provides that the state will not make its scheduled contribution to the state retirement funds for FY 2011. According to the Office   Full funding of these contributions would total $3.1 billion in FY 2011.

Source: Office of Legislative Services, *Analysis of the New Jersey Budget: Interdepartmental Accounts*, p. 6.

New Mexico. Chapter 67, laws of the 2010 regular session (SB 91), delays until FY 2012 the 0.75% contributions increase previously scheduled for the Educational Retirement Fund. The increase would have cost school districts and charter schools throughout the state about $12 million in FY 2012, and would have cost institutions of higher education about $7 million, for a total of $19 million.

[In 2005, legislation was enacted to increase the employer and employee contributions to the fund in order to restore solvency to the fund. The employer contribution was set to increase by 5.25 % over seven years (a 0.75 % increase per year) to increase the employer's contribution from 8.65% in FY 2005 to 13.9% in FY 2012. The act leaves intact the requirement for a 0.75% increase in the employer contribution in FY2012, bringing the total contribution to 13.15%. The act will take full effect in FY 2013 (13.9%). The employee contribution increases included a 0.30% increase over a four-year period (a 0.075% increase per year), which resulted in 7.9 % by FY 2009.] The act will take full effect in FY 2013.

Rhode Island. Public Law No. 2010-23 (HB 7397, the budget bill), Article 6,removes a statutory obligation to make certain payments to the state retirement system for state employees and for teachers.

Vermont. Act 74 of 2010 (HB 764) increases the employee contribution rate for all members of the Teachers Retirement System from 3.54% of compensation to 5%. The legislation requires the state to fund the full actuarial requirement annually, after taking into account the changes made by HB 764 in terms of reduced costs as well as increased employee contributions.

Vermont. Act 139 of 2010 (HB 778) increases member contribution rates for the Vermont Municipal Retirement System for FY 2011 for group C members from 9% to 9.5%.

Virginia. In the budget bill, item 469, paragraph H and following provides that approximately $504 million that would have been paid to the Virginia Retirement System (VRS) as employer contributions for the biennium will instead be retained in the general fund. Payments will be made to retirement funds and other post-employment benefit funds to cover the normal costs of the members of those funds. The deferred amount will be paid to VRS over a period of 10 years beginning in the 2012-2014 biennium. The repayment will include interest at the VRS assumed rate of amortization.

Chapter 737, Laws of 2010 (HB 1189/SB 232), modifies for new employees the defined benefit retirement plans administered by the Virginia Retirement System ("VRS"), as follows:

- Requires employees to contribute five percent of creditable compensation (only local employers would be allowed to pick up this contribution);

Wyoming. Chapter 85, laws of 2010 (Senate File 72, effective September 1, 2010), provides for an employee contribution to the state retirement plan. The new contribution requirement affects current and future employees. The act changes the contribution requirement for all state and local government employees, excluding public safety and EMT employees. The bill increases the employee contribution from 5.57% to 7% of salary. For state employees, the agency will continue to pay the 5.57%, but the employee must pay the additional 1.43% unless the legislature enacts specific legislation authorizing payment of the 1.43%. Other entities participating in the system are authorized to pay any of the additional increase. The employer contribution is increased from 5.68% to 7.12% of salary. The bill appropriates funds to pay the increased employer contributions required of state agencies, the university, and community colleges. It also contains a school foundation program appropriation to pay the increased employer contribution required of school districts.

Cost-of-living Adjustments

Colorado. Chapter 2, Laws of 2010 (SB 1), reduces PERA's commitment to post-retirement cost of living adjustments.

- Reduces the COLA to the lesser of 2% or inflation for 2010, and requires the inflation calculation to be based on periods in 2009, resulting in a 0% COLA;
- Limits the COLA to 2% in 2011 and future years, unless PERA experiences a negative investment return, in which case

the COLA will be calculated as the lesser of the inflation from the preceding 3 years or 2 percent;

- Provide[illegible] COLA adjustments to be made with the July benefit, and requires those that retire after January [illegible]11, to recei[illegible]benefits for at least 12 months before receiving a COLA adjustment; and
- Sets rules for adjusting the COLA based on PERA's actuarial funded ratio.

Suit has been filed challenging the reduction in benefits as a violation of contract.

Illinois. Public Act 96-0889 (SB 1946) affects most statewide pension plans. The bill's provisions include the Chicago Teachers' Pension Fund, Metropolitan Water Reclamation District, Cook County employees, Chicago municipal employees, Cook County Forest Preserve, Chicago Park District, Judges Retirement System, General Assembly Retirement System, State Employees Retirement System, Illinois Municipal Retirement Fund, Teachers Retirement System, Chicago laborers, and the State Universities Retirement System. Excluded from the bill are the Chicago Transit Authority, Chicago fire or police, downstate and suburban fire and police plans, and those covered by the sheriff's formula in the Illinois Municipal Retirement Fund. Provisions apply to those who become members of plans on or after January 1, 2011.

Post-retirement increases will be available one year after a beneficiary begins receiving benefits or reaches the age of 67, whichever is later. The increase will be 3% or 50% of CPI, whichever is less, but not less than zero. The increases will apply only to the base annuity, and will not be compounded. Current law provides an annual 3% increase for SERS and TRS, compounded. For members of the General Assembly plan and judges, the annual post-retirement increase will be at full CPI.

Maryland. Chapters 56 and 57, Laws of 2010 (SB 317 and HB 775), require that retirement allowances for most Maryland State Retirement and Pension System (MSRPS) retirees not be subject to COLAs in fiscal 2011 if the average change in the CPI-U from 2008 to 2009 is negative. If COLAs are not applied in fiscal 2011, then fiscal 2012 retirement allowances must be reduced by the difference between fiscal 2010 allowances and the allowances that would have been paid in fiscal 2011 if COLAs had been applied. The acts do not apply to retirees of the Legislative Pension Plan or the Judges' Retirement System, whose benefits are linked to the salaries of active legislators and judges, respectively. The Acts also require the MSRPS Board of Trustees to study options for addressing future situations in which the CPI-U is negative and report its findings and recommendations to the General Assembly.

Michigan. Act 75 of 2010 (SB 1227) provides that all newly hired school employees after July 1, 2010 will be enrolled in a hybrid defined benefit and defined contribution system. The hybrid plan eliminates cost of living adjustments to pension allowances.

Minnesota. Chapter 359, Laws of 2010 (Senate File 2918 and House File 3281), provided for post-retirement increase rate reductions or suspensions. Generally speaking, for state-administered plans, post-retirement increases are reduced from existing rates until plans attain a 90% funding ratio, based on the market value of assets as a percentage of the AAL. For example, for Minnesota State Retirement Plan general employees, legislators, constitutional officers and some others, the rate is reduced from 2.5% to 2 % and for the State Patrol Plan from 2.5% to 1.5%. For Public Employee Retirement Association members other than Police & Fire, the rate is reduced from 2.5% to 1%. For the Teachers Retirement Association, the post-retirement increase is suspended for 2011 and 2012, to be followed by 2% increases until the plan is 90% funded. The bill also requires a retiree or beneficiary of any State Retirement or Teachers Retirement Association plan to have been retired at least six months before qualifying for an initial post-retirement adjustment.

For further details, see the bill summary of the Legislative Commission on Pensions and Retirement.

Legal challenges have been filed.

Rhode Island. Public Law 23 of 2010 (HB 7397(the budget bill), Article 6, reduces post-retirement benefit increases for state employees, teachers, justices and judges who are ineligible for retirement as of the date of enactment. The legislation limits post-retirement cost of living adjustments for such future retirees to the first $35,000 of retirement benefits, with that base to be increased annually by the CPI-U or 3%, whichever is less.

South Dakota. Chapter 20, Laws of 2010 (SB 20), makes various cost-saving changes affecting post-retirement increases. The bill:

- Removes COLAs for retirees in the first year of retirement.
- Reduces refunds of employer contributions to people who withdraw from the system after July 1 2010. Current law provides a 75% refund to non-vested members and 100% to vested members; the percentages are reduced, respectively to 50% and 85%.
- Pins the annual improvement factor (COLA), currently 3.1%, to 2.1% for one year, and thereafter pins it to the market value funded ratio for the system.

1. If the ratio is 100% or more, the COLA remains at 3.1%
2. If the ratio is 90% to 99.9%, the COLA will be indexed to the CPI with a maximum of 2.8% and a minimum of

2.1%

3. ...e ratio is 80% to 89.9%, the COLA will be indexed to the CPI with a maximum of 2.4% and a mi... ...m of 2.1%

4. If the ratio is less than 80% the COLA will be 2.1%

According to the Pierre *Capitol Journal* , June 16, 2010, retirees have filed a challenge to the law on the grounds of a violation of contract.

Virginia. Chapter 737, Laws of 2010 (HB 1189/SB 232), for those hired or rehired after July 1, 2010, reduces the portion of the increase in the Consumer Price Index used for determining annual retirement allowance supplements ("COLA") from three percent plus one-half of the next four percent to two percent plus one-half of the next eight percent.

Defined Benefit Plan Changes

Arizona. Chapter 50, Laws of 2010, (HB 2389), makes numerous changes to retirement provisions for the Arizona State Retirement system, affecting employees who join the system on or after July 1, 2011. The changes are in response to calculations from ASRA that present provisions will require a 0.5% annual increases in contributions for each of the next five years. The act:

- Modifies the average monthly compensation used in a retiring member's retirement benefit calculation from the average of the highest consecutive 36 months in the last 120 months to the average of the highest consecutive 60 months in the last 120 months.
- Changes the provision permitting normal retirement under the rule of 80 to normal retirement under the rule of 85. Eliminates employer contribution refunds for a member hired on or after July 1, 2011 except for a member who was terminated due to an employer reduction in force or position elimination in which case the member will receive the current refund vesting schedule.
- Reclassifies early retirement for members joining after July 1, 2011 to require a 3% decrease in benefits for each point or fraction of a point less than 85 but equal to or greater than 82 points.

Colorado. Chapter 2, Laws of 2010 (SB 1), makes numerous changes in the provisions of the retirement benefits the Public Employee Retirement Association (PERA) offers teachers and state and local government employees. The bill modifies contributions to and benefits paid from the Public Employees' Retirement Association (PERA). Among other things, it changes the amounts to be contributed by both employers and employees, places a cap on cost of living adjustments for retirees, modifies benefit calculations and eligibility, and creates new contributions and guidelines for working retirees. The act:

- Creates higher age and service requirements for members' normal retirement. For members with less than five years of service credit as of January 1, 2011, normal retirement will be under the Rule of 85. Those who begin employment on or after that date but before January 1, 2017, retirement will be under the Rule of 88 with a minimum age of 58. For those who begin employment on or after January 1, 2017, normal retirement will be under the Rule of 90 with a minimum age of 60.
- Increases employer contributions in PERA's state, school and Denver Public Schools divisions, but not in the local government and judicial divisions.
- Increases employee contributions through a mechanism of diverting funds that otherwise would be used for increases in salary and wages for current employees in state and school divisions of PERA. This is applicable to all active members of the affected divisions of PERA.
- Imposes an 8% cap on the amount of salary increases from one year to the next that will be counted toward the calculation of highest average salary. This applies to vested members who will not be eligible for retirement on January 1, 2011 and to nonvested members.
- Revises reduction factors for early retirement to reflect an actuarial reduction. This applies to vested members who will not be eligible for retirement on January 1, 2011 and to nonvested members. PERA advises that the change will mean a reduction in benefits for most who are affected by it.
- Specifies conditions for receiving the 50% employer matching contribution for members who receive a refund of their PERA account. The condition is five years of service, and it applies to members who are vested but not eligible for retirement on January 1, 2011, unless they have five years of service credit, and applies to non-vested members.
- Requires PERA to provide written notice to current and inactive members about the possibility of a future actuarial necessity, and that the General Assembly can modify the benefits allowed to members in the defined benefit plan.
- Requires a retiree who returns to work for a PERA employer to make a contribution to PERA equal to the member contribution, and specifies that working retiree contributions are not credited to the retiree's member contribution account (applicable to present and future retirees);

- Specifies conditions where increases in work limits are allowed for certain retirees; prevents working retirees who suspend their retirement benefit and return to work for a PERA employer from adding to their service credit, requires that each period of service for a PERA employer following retirement be calculated as a separate benefit segment under the benefit structure in place at the time of retirement.

The bill also requires PERA to calculate the actuarial funding status of PERA as a whole prior to calculating the funding status of a division separately, and submit a report concerning the plan's funding status to the General Assembly on January 1, 2016, and every 5 years thereafter.

Illinois. Public Act 96-0889 (SB 1946) affects most statewide pension plans. The bill's provisions include the Chicago Teachers' Pension Fund, Metropolitan Water Reclamation District, Cook County employees, Chicago municipal employees, Cook County Forest Preserve, Chicago Park District, Judges Retirement System, General Assembly Retirement System, State Employees Retirement System, Illinois Municipal Retirement Fund, Teachers Retirement System, Chicago laborers, and the State Universities Retirement System. Excluded from the bill are the Chicago Transit Authority, Chicago fire or police, downstate and suburban fire and police plans, and those covered by the sheriff's formula in the Illinois Municipal Retirement Fund. Provisions apply to those who become members of plans on or after January 1, 2011.

No changes are made to benefits of those who are currently members of any state or local system. No changes are made in current or future employee contributions.

The legislation sets normal retirement age at 67 with 10 years of service. For members of the General Assembly plan and for judges, the service requirement is eight years. An "Alternative Plan" that applies to state police, firefighters, and certain prison system employees allows retirement at 60/20. Current requirements vary by plan. In State Employees (SERS) requirements are 60 with 8 years of service or the Rule of 85. In the teachers' plan (TRS) requirements are 62/5/ 60/10/ 55/35. [A legislative staff summary points out that currently almost one-third of state workers are covered by the existing Alternative Plan, which allows retirement as early as age 50.]

- Early retirement benefits are available at age 62 with 10 years of service with a reduction in the benefit of ½ of 1% for each month the person is under age 65.
- The legislation provides that final average salary (FAS) will be the average of the highest consecutive 96 months of the last 120 (that is, the highest eight years of the last 10). Currently for SERS and TRS FAS is the four highest consecutive of the last 10.
- FAS cannot exceed $106,800, to be annually increased by the lesser of 3% or 50% of CPI. For members of the General Assembly plan and judges, the annual adjustment will be CPI [A legislative staff summary points out that the indexed salary limit is currently $245,000.]
- The benefit formula was not changed otherwise.
- Post-retirement increases will be available one year after a beneficiary begins receiving benefits or reaches the age of 67, whichever is later. The increase will be 3% or 50% of CPI, whichever is less, but not less than zero. The increases will apply only to the base annuity, and will not be compounded. Current law provides an annual 3% increase for SERS and TRS, compounded. For members of the General Assembly plan and judges, the annual post-retirement increase will be at full CPI.
- The maximum benefit for members of the General Assembly plan and judges is capped at 60% of FAS in the legislation. Current law provides a cap of 85% of FAS for those members.
- Survivors' benefits are set at 66 2/3% of a deceased member's benefit. Under current law, survivor's benefits range from 50% to 65%, except for police and fire members, whose survivors' benefit is 100% of the deceased member's benefit.

Sources: Senate Republican Staff analysis; SB 1946.

Iowa. House File 2518 (signed by governor April 23, 2010) revises various provisions of the Iowa Public Employees Retirement System (IPERS) as well as increasing contribution rates (see above).

Sections 19, 21, 22, and 30 – The bill makes the following changes effective July 1, 2012:

- Increases the vesting requirement from four years to seven years; changes vesting regardless of years of service from employment at age 55 to age 65. Affects all employees who are not vested by 7/1/2012.
- Calculates retirement benefits using a member's high five years of salary instead of the current three years. This provision affects members who are vested before July 1, 2012. The act provides as a transitional calculation that such members' FAS will be the higher of a three-year average based on service before July 1, 2012, and the average of the member's five highest years of service.
- Implements a 6% per year reduction in retirement benefits for each year the member receives a retirement allowance before age 65 when a member retires prior to normal retirement age. The added reduction will apply only to service earned after July 1, 2012. The current reduction of 0.25% per month, or 3% per year, calculated not to age 65 but to

the norm' retirement age for that employee, which could be as early as 55.

Source: I...s, Proposed IPERS Changes, March 19, 2010

Louisiana. Act 992 of 2010 (HB 1337) generally makes changes to the organizational structures, requirements for contributions and benefit provisions of the four state retirement systems: the State Employees' Retirement System (LASERS), the Teachers' Retirement System (TRSL), the School Employees' Retirement System (LSERS), and the State Police Pension and Retirement System (LSPRS), for persons whose first employment making them eligible for membership in any state retirement system occurs on or after Jan. 1, 2011.

Under existing law, LASERS includes a variety of plans for hazardous-duty and non-hazardous duty employees, and TRSL includes three plans for various public school employees. HB 1337 consolidates the provisions of the LASERS plans into one hazardous-duty plan and one non-hazardous duty plan. It moves some employees whose current jobs involve hazardous duty from the category of general employees to the category of hazardous duty. The bill also consolidates the provisions of the three TRSL plans into one set of provisions. In all cases the consolidations affect employees first eligible for membership in a state plan on or after January 1, 2011.

Along with the structural consolidation, the changes conform contribution and benefit provisions for classes of employees that in the past have had differing provisions. The following discussion reports some of the changes made by HB 1337, but because of the number of affected systems and plans, it is not possible to provide a full discussion here. The bill text, summaries, and actuarial studies are available on the website of the Louisiana Legislature. Search for HB 1337. On the page for HB 1337, "notes" refers to actuarial analyses, and "digest" refers to bill summaries.

- Employee contribution rates. The consolidation of smaller plans into broader plans provides for contribution changes for some employees, both increases and decreases, but for the great majority of covered employees—general state employees and teachers statewide—the employee contribution remains at 8% of salary. See above for the effect on other employees.
- Final average compensation. Currently, final average compensation is calculated on a base of a person's three or five highest consecutive years, depending on system and plan. For all state system members hired after January 1, 2011, the base will be the five highest consecutive years. That is presently the rule for general state employees and LSERS members. It will be extended to teachers statewide, hazardous duty personnel, and other categories now at three years. A 15% anti-spiking cap will apply to all new members.
- Age and service requirements for normal retirement. For some employee categories, present requirements have been relaxed. The legislation simplifies the range of options, which vary substantially among classes of employees. All employees in non-hazardous occupations will be eligible for normal retirement at age 60 with five years of service, or for an actuarially reduced benefit at any age with 20 years of service. The current rule for normal retirement for state employees hired on or after July 1, 2006, is age 60 with 10 years of service; the new rule (of 60/5 or 20/any age, actuarially reduced) will be applied to those current employees hired on or after July 1, 2006, allowing them to attain deferred vested status five years sooner than under existing law.
- The current rule for normal retirement for general state employees is age 60 with 10 years of service; the new rule will apply to current employees. Teachers currently have the 60/5 provision as one of several options including 55/25 and any age with 30 years of service. Those two options have been eliminated. Judges also have had a variety of options that have been simplified to the 60/5 rule or an actuarially-reduced benefit after 20 years of service with no age restriction. The new options for hazardous-duty personal will be any age with 25 years of service, 55/12 or an actuarially-reduced benefit with 20 years of service.
- Benefit accrual rates. Present law provides a 2.5% annual accrual rate (multiplier) for most members of the four state systems other than judges and hazardous-duty employees, whose rate generally has been 3.33%. Some general employees have been at 3.5% and some hazardous employees, who were outside the hazardous-duty systems, were at 2.5%. HB 1337 provides a 2.5% rate for all non-hazardous duty personnel hired after January 1, 2011, and a 3.33% rate for all hazardous-duty personnel. For judges, the factor remains 3.5% per year of service as a judge.
- The legislation also makes extensive changes to disability retirement and to the programs of survivors' benefits.

Michigan. Act 75 of 2010 (SB 1227) makes numerous changes affecting the Michigan Public School Employees' Retirement System (MPSERS). The legislation:

- Creates an early retirement incentive for members who meet certain eligibility requirements and who retire before September 1, 2010 (see below under Early Retirement Incentives for details).
- Enrolls all newly hired school employees after July 1, 2010 in a hybrid pension and defined contribution system (see below under Defined Contribution & Hybrid Plans for details).
- Requires all MPSERS members to contribute 3 percent of compensation in the irrevocable trust that is expected to be created in HB 4073, the Public Employee Retirement Health Care Funding Act, to pay for retirement health care benefits for retirees and their eligible dependents. Employees who earn less than $18,000 would have to contribute 1.5% for FY 2010-11 but would contribute 3.0% in subsequent years.

- Restricts benefits for retired members who return to covered service (see below under Re-employment After Retirer[illegible]or details)

The benefits changes are expected to yield a savings of $3.1 billion over 10 years, net of the retiree health care and benefits costs of the early retirement incentive package. The savings would be local and would be experienced by the employers in MPSERS, which include public school districts, intermediate school districts, participating universities, community colleges, public school academies, and certain libraries.

Minnesota. Chapter 359, Laws of 2010 (Senate File 2918 and House File 3281), enacts numerous changes in Minnesota state retirement plans. Provisions include:

- Increasing contribution rates for a number of state and local government plans. See above, "Contribution Rates and Funding Issues'" for details.
- Providing for post-retirement increase rate reductions or suspensions. See above, "Cost of Living Adjustments," for details. [According to the Minneapolis-St. Paul *Star-Tribune*, May 17, 2010, retired public employees immediately filed suit to overturn this provision on the grounds of breach of a contract.]
- Decreasing the compound interest during the deferred period on deferred retirement annuities. For the Minnesota State Retirement System (MSRS), the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA), the current rates are 3% before age 55 and 5% after age 54 for people hired before 2005 or 2006 (date varies by plan), and 2.5% at any age for people hired since. Rates are reduced, varying by plan, to 2%, 1% or none. Details are available.
- Increasing the vesting requirements for newly enrolled members:
  • MSRS general plan and State Patrol Plan: increases from three years to five years of credited service for people hired after June 30, 2010. For MSRA Correctional Plan, from three years to 10 years, with partial vesting after five years.
  • PERA general plan: vesting increases from three years to five years of credited service for people hired after June 30, 2010. For PERA police and fire and for PERA-Correctional, vesting is shifted from three-year cliff vesting to gradual vesting—50% with five years to service to 100% vesting with 10 years of service.
  • Duluth Teachers Plan: increases from three years to five years of credited service for people hired after June 30, 2010.
- Increasing the early retirement reduction factor. The amount a retirement annuity is reduced upon early retirement for each year that a person is short of normal retirement age is increased from 1.2% to 2.4% for members of the State Patrol Retirement Plan newly hired after June 30, 2010, and from 2.4% to 5% for members of MSRS-Correctional if employed before July 1, 2010, and retiring after June 30, 2015, or if employed after June 30, 2010.
- Eliminating the 6 percent interest earned on the escrow accounts of reemployed retirees who exceed PERA's earning limits beginning January 1, 2011
- Transfer the administration of the Minneapolis Employees Retirement Fund to PERA. MERF members, Minneapolis and other MERF employers, and the state would remain responsible for all funding of the plan.

Source: Minnesota Legislative Commission on Pensions and Retirement

Mississippi. Chapter 389, Laws of 2010 (SB 3078), increases the service requirement for normal retirement in the Public Employee Retirement System from 30 to 33 years, for those who enter the system on or after July 1, 2011.

Missouri. HB 1 of the First Extraordinary Session of 2010, transmitted to the governor on July 14, 2010, enacted new contributory tiers for those who become members of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS), the Missouri State Employees' Retirement System and the retirement plan for judges on or after January 1, 2011. The employee contribution will be 4% of salary on a pre-tax basis. It is applicable to all the categories of employees mentioned below.

- To be eligible for normal retirement under this plan, employees will be required to reach age 67 and have at least 10 years of service or reach age 55 with the sum of the member's age and service equaling at least 90 (previously 62 with five years of service or the Rule of 80 with a minimum age of 48).
- Uniformed members of the Highway Patrol will be required to reach age 60 or reach age 55 with 10 years credited service. (previously age 60 or the Rule of 80 with a minimum age of 48). The mandatory retirement age for uniformed members is age 60.
- Members of the General Assembly will be eligible for normal retirement at age 62 after having served in three biennial assemblies, or the Rule of 90 with a minimum age of 55 (previously 55 after having served in three biennial assemblies, or the Rule of 80 with a minimum age of 50).
- Elected officials will be eligible for normal retirement at age 62 with one term of office or the Rule of 90 with a minimum age of 55 (previously age 55 after having served one term of office, or the Rule of 80 with a minimum age of 50).
- Employees, except for uniformed members of the highway patrol, are eligible for early retirement at age sixty-two with ten years of service.

- Employ[illegible] must work for the state for ten years to vest (previous law: five years).
- Memb[illegible]l not be able to purchase credit in the retirement plan for their past non-federal full-time public employment, their military service, or transfer credit from other public retirement plans.
- The employee contribution rate, the benefits under the year 2000 plan, and any other provision of the year 2000 plan may be altered, amended, increased, decreased, or repealed, but such change will only apply to service or interest credits after the effective date of the change.
- Employees under this plan shall not be eligible for the Backdrop option, which provides a lump sum payment at retirement for those working at least two years beyond normal retirement eligibility.

The plan for judges was changed in comparable ways.

- Judges hired for the first time after January 1, 2011, will be required to reach age 67 and have at least 12 years of service or reach age 62 and have 20 years of service before they are eligible for normal retirement (previously 62/12, or 60/15, or 55/20). Mandatory retirement for judges, per the Constitution, is age 70.
- Early retirement with reduced benefits will be available to judges at age 67 with less than 12 years or service, or age 62 with less than 20 years of service (previously 60 <15 and 62<12).
- Judges will not be able to purchase credit in the retirement plan for their past non-federal full-time public employment or their military service.
- Judges under this plan who continue to work after their normal retirement date will not have cost-of-living increases added to their retirement compensation for the period of time between their eligibility for retirement and their actual retirement date.
- When a retired judge under this plan dies, their beneficiary will not receive an amount equal to fifty percent of the judge's retirement compensation. Instead, judges will make a choice at retirement among the benefit payment options, that includes options for the amount received by the beneficiary.
- The employee contribution rate, the benefits under the judicial retirement plan, and any other provision of the judicial retirement plan may be altered, amended, increased, decreased, or repealed, but such change will only apply to service or interest credits after the effective date of the change.
- This act prohibits a retired judge who becomes employed after January 1, 2011, as an employee eligible to participate in the MOSERS retirement plan, from receiving their judicial retirement benefits while they are employed. Any judge who serves as a judge while he or she is receiving their judicial retirement is prohibited from receiving their judicial retirement while serving as a judge. A judge who serves as a senior judge or senior commissioner while receiving judicial retirement will continue to receive judicial retirement and additional credit and salary for their service.

New Jersey. Public Law 1 of 2010 (SB 2) made numerous changes to the state-administered retirement systems concerning eligibility, the retirement allowance formula, the definition of compensation, the positions eligible for service credit, the non-forfeitable right to a pension, the enrollment waiver, the prosecutor's part of the Public Employees' Retirement System (PERS), special retirement under the Police and Firemen's Retirement System (PFRS) and employer contributions to the pension systems.

Specifically, the bill provides that:

1) New members in the Teachers' Pension and Annuity Fund (TPAF) and the PERS will be eligible only if their hours of work are 35 or more per week for State employees and 32 or more per week for political subdivision employees. Persons not eligible for TPAF or PERS because the hours of work are fewer than required may be eligible for enrollment in the Defined Contribution Retirement Program (DCRP). The membership compensation threshold for the DCRP is increased to $5,000 from $1,500.

2) The multiplier for retirement calculation purposes, other than for veterans' and disability benefits, for new PERS and TPAF members will be changed from 1/55 to 1/60, the pre-2001 level.

3) Maximum compensation upon which contributions will be made for PFRS and State Police Retirement System (SPRS) purposes for new police officers, firefighters, and State Police officers who become members of those systems will be the amount of base salary equivalent to the annual maximum wage contribution base for Social Security, pursuant to the Federal Insurance Contributions Act, with a member becoming a participant of the DCRP with regard to any amount over the maximum. [This change was previously enacted for other plans.]

4) The retirement allowance for a new member of the TPAF or PERS will be calculated using the average annual compensation for the highest five years of service (increased from the three highest years of service), and for a new member of the PFRS and SPRS will be calculated using the average annual compensation for the three highest years of service as opposed to compensation in the final year of service.

5) A person will be eligible for membership in the PERS or TPAF based upon only one position of several that may be held concurrently. The retirement system will designate the position providing the highest compensation as the basis for membership, contributions, and pensions calculations.

6) New members of the TPAF, the Judicial Retirement System (JRS), the Prison Officers' Pension Fund, the PERS, the Consolidated Police and Firemen's Pension Fund, the PFRS, and the SPRS will not have a non-forfeitable right to receive benefits upon the attainment of five years of service credit.

7) The state, beginning July 1, 2011, is to make in full the annual employer's contribution, as computed by the actuaries, to the TPAF, the JRS, the Prison Officers' Pension Fund, the PERS, the Consolidated Police and Firemen's Pension Fund, the PFRS, and the SPRS. The State would be in compliance with this requirement provided the State makes a payment, to each State-administered retirement system or fund, of at least 1/7th of the full contribution, as computed by the actuaries, in the State fiscal year commencing July 1, 2011 and makes a payment in each subsequent fiscal year that increases by at least an additional 1/7th until payment of the full contribution is made in the eighth fiscal year and thereafter.

The cumulative state and local savings from FY 2013 to FY 2026 are projected to total $1.6 billion and $1.16 billion, respectively, excluding the provision requiring phasing-in of full actuarial contributions. The Department of the Treasury indicates that the provision of this bill requiring the State to make its full annual pension contribution, phased-in over seven years, will result in a payment by the State of at least $540.3 million in FY 2012, $1.156 billion in FY 2013, and $1.884 billion in FY 2014. The State's full contributions for these fiscal years are estimated to be $3.477 billion for FY 2012, $3.705 billion in FY 2013, and $3.923 billion in FY 2014.

The final version of the bill omitted a provision passed by the Senate that would have allowed new employees covered by any of the state systems or a person already enrolled but with less than 10 years of service credit, to choose either to be enrolled in the relevant retirement system, enrolled in the defined contribution plan, or to withdraw entirely from enrollment in any State-administered retirement system.

Vermont. Act 74 of 2010 (HB 764) changes retirement provisions for the Teachers Retirement System. For current members who are more than five years away from eligibility for normal retirement (less than 25 years of service or less than age 57), normal retirement will be 65 or rule of 90 (combination of years of service and age), instead of 62 years old or with 30 years of service at any age. Early retirement will stay at 55, but the reduction will be an actuarial calculation instead of a percentage reduction. Employees more than five years from normal retirement eligibility will be eligible for a maximum benefit of 60% AFC, instead of the current 50% AFC, with a higher (2%, instead of 1.67%) multiplier upon completion of 20 years of service. Employees within five years of normal retirement eligibility will be eligible for a maximum benefit up to 53.34% of AFC instead of current 50% maximum, using the 1.67% multiplier, in recognition of years earned after July 1, 2010.

The bill also increases the employee contribution rate for all members of the Teachers Retirement System from 3.54% of compensation to 5%. The legislation requires the state to fund the full actuarial requirement annually, after taking into account the changes made by HB 764 in terms of reduced costs as well as increased employee contributions.

The bill caps compensation growth for the purposes of calculating FAS at 10% per year for the period of FAS determination.

Source: Office of the State Treasurer, Vermont

Virginia. Chapter 737, Laws of 2010 (HB 1189/SB 232), modifies for new employees the defined benefit retirement plans administered by the Virginia Retirement System ("VRS"), as follows:

- Requires employees to contribute five percent of creditable compensation (only local employers would be allowed to pick up this contribution);
- Increases the number of months used to calculate average final compensation from 36 to 60;
- Increases the cost, and decreases the time in which employees may purchase certain prior service credits, and;
- Reduces the portion of the increase in the Consumer Price Index used for determining annual retirement allowance supplements ("COLA") from three percent plus one-half of the next four percent to two percent plus one-half of the next eight percent;
- Decreases the Commonwealth's contribution for employees in institutions of higher education participating in an optional retirement plans from 10.4 percent to 8.5 percent of creditable compensation. However, institutions of higher education may provide an additional contribution up to 0.4 percent each year at their own cost. New employees of institutions of higher education would also be required to contribute 5 percent of salary;
- For new state and local employees covered under the main defined benefit plan, (i.e. excluding the separate plans for state and local law enforcement employees and judges), the bill changes the requirements for unreduced early retirement benefits from the Rule of 80 to the Rule of 90 or a person's normal retirement age for federal social security with five years of service.
- Allows reduced early retirement to be taken only by those persons who have attained the age of 60 with at least five years of creditable service;
- For judges appointed or elected to an original term commencing on or after July 1, 2010, service as a judge would be

multiplied by the weighted years of service factor of (i) 1.5 if the person was less than 45 at the time of such original term, (ii) 2.0 if the person was at least 45 but less than 55 at the time of such original term, and (iii) 2.5 if the person was at least 55 at the time of such original term.

Chapter 758, Laws of 2010 (HB 892), requires a member of the Virginia Retirement System to be vested before being eligible to withdraw that portion of his accumulated contributions made by his employer on his behalf subsequent to July 1, 2010.

Defined Contribution & Hybrid Plans

Michigan. Act 75 of 2010 (SB 1227) provides that all newly hired school employees after July 1, 2010 will be enrolled in a hybrid defined benefit and defined contribution system. The hybrid plan increases age and service requirements for its defined benefit portion in comparison to the existing two defined benefit plans for school employees, and adds an optional defined contribution plan open to all members in this tier.

The provisions are:

- Increase final average compensation period from 3 years to 5 years, which will decrease the final average compensation for most employees.
- Increase the minimum retirement age to 60 with 10 years of service (currently minimum age for Basic plan is 55 and the MIP plan has no minimum age with 30 years of service).
- Prohibit the purchase of service credit to meet service requirements.
- Eliminate cost of living adjustments to pension allowances.
- Provide a defined contribution benefit (Tier 2) with a 50% employer match on a maximum employee contribution of 2% of salary, for a maximum employer contribution of 1%. An employee would automatically be enrolled with the maximum contribution of 2% unless the employee expressly chooses not to contribute, or to contribute a smaller amount.
- An employee would also be allowed to contribute additional funds without the match and subject to Department of Technology, Management, and Budget [rules] and the Internal Revenue Code.
- The employee would vest in the employer match as follows: 50% after 2 years of service, 75% after 3 years of service, and 100% after 4 years of service.
- In addition, individual employers could negotiate higher contributions up to a maximum of a 50% employer match on an additional employee contribution of 4% of salary, for a total maximum employer contribution of 3%. Additional employer contributions and matches would be subject to negotiations for both employees in the new hybrid plan as well as those in the Basic Plan and the current Member Investment Plan.
- Provides for a regular interest rate for the Hybrid of between 0% and 7%, and assumes a rate of return of 7%.
- Would allow other entities that receive direct or indirect funding from the School Aid Fund to opt into the new hybrid system.

A summary and fiscal impact study of Senate Bill 1227 of 2010, are available.

Utah. Chapter 266, laws of 2010 (SB 63), §25, closes the existing defined benefit plans of the Utah State Retirement System and replaces them with the New Public Employees' Tier II Contributory Retirement Plans, which includes alternative plans: a defined contribution plan and a hybrid plan. Employees hired on or after July 1, 2011, may choose to join one of the two. Those failing to make a choice will become members of the hybrid plan, except for legislators and governors, who may join only the defined contribution plan.

The defined contribution plan will provide individual employee accounts to which employers will contribute 10% of employee compensation for public employees, legislators and the governor. The contribution rate will be 12% for public safety and firefighter members. Employees are not required to contribute but may do so, either to the same DC plan or to any other DC plan the employer offers. Employee contributions are immediately vested. Employer contributions will be vested after four years' covered employment. Employees may direct the investment of their contributions and the investment of employer contributions after those are vested.

The hybrid plan (§29) will include a defined benefit and a defined contribution component.

- For the DB component, employers will pay up to 10 percentage points of an employee's compensation toward the amount that is required to keep the plan actuarially sound. (The 2010 employer contribution rate for the existing non-contributory plan is 14.22%.) The employee will contribute any additional amount required to make up the actuarial requirement. In the event this is required, it will be the only mandatory contributory element in the two plans. The member contribution is vested and nonforfeitable in case of the employee's departure from covered service without taking a retirement benefit, will be held in an individual account for the member or the member's beneficiary, and will

earn interest.

- Emplo[illegible] will also make contribution necessary to amortize existing liabilities of the Tier I retirement plan.
- Benefi[illegible] provided under the DB plan may not be increased until all the plans created in the bill reach 100% of their actuarial funding requirement.
- For the DC component, employers will contribute 10% of employee compensation less the amount the employer contributes to the DB component. The employer contribution will be deposited in a 401(k) plan to which the member may choose, but is not required, to make additional contributions. Employer contributions will vest after four years' membership in the plan; employee contributions vest immediately. The member may direct the investment of his or her contributions immediately, and those of the employer after they are vested.
- Eligibility for the DB benefit is at age 65 with four years of service, 60/20, 62/10, or any age with 35 years of service. The plan provides an option for the purchase of five years of service credit immediately before retirement.
- The benefit formula for people who retire at 65 or who have 35 years of service will be 1.5% of final average salary (FAS) times years of service. FAS will be the average of the highest five years (as opposed to the highest three years in the old non-contributory plan).
- An actuarial reduction will apply for those who retire between age 60 and 65, unless they have 35 years of service. An annual cost-of-living increase applies: CPI to an annual maximum of 2.5%. Amounts of CPI greater than 2.5% will be accumulated and applied to the COLA in years when the CPI is less than 2.5%.

Comparable new plans are created for firefighters and public safety officers, with a higher employer contribution and earlier retirement ages for the defined benefit portion of the hybrid plan. Employers are required to provide disability coverage for professional and voluntary firefighters and public safety officers.

An actuarial study is available. (6/15/10)

Divestment

Pennsylvania. Act 44 of 2010 (SB 928) provides for divestiture by the State Treasurer, the State Employees' Retirement System and the Public School Employees' Retirement System of investments in companies doing business in Iran and Sudan. Includes power production activities. Relates to property or assets, employees or facilities, goods or services, distribution agreements, credit or loans, purchasing bonds or commercial paper issued by, investing in or having equity ties to or with Iran, Sudan or any company domiciled in Iran or Sudan.

Early Retirement Incentives

Iowa. Senate File 2062, signed by the governor on February 10, enacted an early retirement incentive program for executive branch employees and authorizes similar programs for legislative council staff and judicial branch employees if those agencies agree. Employees who are 55 years of age or older and who have 10 years of service have until June 24, 2010, to accept the incentive. The incentive includes health insurance and monetary benefits for five years. 2,700 employees are estimated to be eligible for the program, and an early estimate is that between 1,200 and 1,300 will accept it.

The incentive includes payment over five years of an amount consisting of the value of the employee's accrued but unused vacation leave plus $1,000 for each year of state employment service up to 25, paid at the rate of 20 percent of the total per year. The state will also cover state health insurance costs for five years. Employees agree to leave state employment by June 24 and to waive any future employment in state government other than as an elected official. Employers are prohibited from offering temporary, part-time or permanent employment or contractual service contracts to anyone who accepts this early retirement incentive, and from filing vacancies thus created without approval from the Department of Management. Annual reports are required.

Savings were estimated at $57.4 million in FY 2011 by the legislative Fiscal Services Division.

Michigan. Act 75 of 2010 (SB 1227) makes numerous changes affecting the Michigan Public School Employees' Retirement System (MPSERS). Provisions include establishment of an early retirement incentive for members who meet certain eligibility requirements and who retire before September 1, 2010.

Currently MPSERS employees have to be age 55 and have 30 years of service to be eligible to retire in the Basic plan or may retire with 30 years with no minimum age requirement under the Member Investment Plan (MIP). [The Basic Plan is a noncontributory DB plan closed to new members on December 31, 1986. The MIP is a contributory DB plan in which new members of MPSERS have been enrolled since January 1, 1987, and which now includes the majority of MPSERS members.]

The bill would allow employees to be eligible if they had a combined age and years of service totaling 80 for employees

who retire before September 1, 2010. Retirees would have to apply before June 11, 2010 and would have until June 11, 2010 to withdraw their application. In addition, for members who retire by September 1, 2010 the bill would provide a 1.6% multiplier in the pension formula for an employee who is eligible to retire under current eligibility and a 1.55% multiplier for members who qualify under the 80 and out. Currently a member's pension calculation equals their final average compensation (FAC) multiplied by their years of service multiplied by 1.5%. The bill would cap the final average compensation to which the additional multiplier was applied at $90,000.

The bill would allow a superintendent or chief administrator to provide an extension to allow an employee to remain until September 1, 2011. Each reporting unit would be allowed to grant 1 extension. Another 2,500 extensions would be available statewide to be distributed on a pro rata basis by the Office of Retirement Services. The bill would require that the additional costs to the pension system created by the increased multiplier and the early out be amortized over a 5-year period.

June 28, 2010. *Flint Journal*, Flint, Michigan — The state today released the final number of school employees who decided to retire this summer, taking advantage of pension incentives the Governor passed in May. The Office of Retirement Services counted 17,063 who filed.The number falls short of what the state originally hoped, but officials still estimate savings of $515 million as a result.

The state initially estimated $670 million in savings if half of the 55,000 eligible veteran employees had chosen to retire. "The number of school retirements is more than triple what we typically see in a given summer," said Governor Jennifer Granholm in a statement.

Minnesota. Chapter 337, Laws of 2010 (Senate File 1481) authorizes early retirement incentive programs for the retirement plans covering state and local employees and teachers in Minnesota, including the Minneapolis employee plan and the Duluth and St. Paul teachers' plans. Plans are listed in Minn.Stat. 356.30 subdiv. 3.

The incentive may be offered by any appointing authority whose employees are covered by one of the listed plans. Elected officials are not eligible. Eligibility requirements are 15 years of allowable service, existing eligibility for an immediate annuity or benefit from the plan that the applicant belongs to, and the lack of any existing benefit or pension from one of the listed plans. The incentive is extension of the employee's health and dental insurance (including coverage for dependents if the applicant had dependent coverage before retirement) for 24 months after retirement. Applicants must accept the offer by December 31, 2010, and retire by June 30, 2011. An individual who receives an incentive payment under these provisions may not be reemployed or hired as a consultant by any agency or entity that participates in the State Employee Group Insurance Program for a period of three years after termination of service.

New York. Chapter 45, Laws of 2010 (SB 6972), provides a temporary retirement incentive for certain public employees. The act eliminates the early retirement reductions for Tier 2, 3, and 4 members of the New York State and Local Employees' Retirement System and the State Teachers' Retirement System who retire within their employer's 90-day open election period, which cannot extend beyond December 31, 2010. Participants must be at least age 55 with at least 25 years of service; currently 30 years of service are required for normal retirement.

Chapter 105, Laws of 2010 (AB 11144), provides a broader temporary early retirement incentive program for members of the New York State and Local Employees' Retirement System, the State Teachers' Retirement System, the New York City Teachers' Retirement System, the NYC Board of Education, and the NYC Employees' Retirement System. It offers two different plans for targeted employees. One plan allows participating employers to provide eligible employees an incentive of 1/12 of a year additional service for each year of accrued service credit to a maximum of three additional years. Eligibility is limited to members who are at least 50 years of age with 10 years of service credit; participants who are less than 55 years of age will have benefits reduced by 5% for each year they are under the age of 55. The second plan allows Tier 2, 3 and 4 members of the plans to choose early retirement without a reduced benefit with 25 years of service instead of 30 years of service; the minimum age of 55 remains a criterion as in existing law.

Employers have some discretion as to the length of the window in which employees may choose to take early retirement, but the window has to be between 30 and 90 days in length and cannot extend beyond August 31, 2010. No employee may take advantage of both options. Employers are to pay the cost of the retirement incentive over five years beginning in fiscal year 2012.

Oklahoma. Chapters 179 and 186, Laws of 2010 (HB 2363 and SB 1442 respectively), created an employee buy-out or early retirement incentive program for state employees eligible for unreduced retirement. The incentive included a subsidy for health insurance costs for 18 months, longevity pay, and $5,000 in cash. Officials believe that the state could save $67.6 million the first year and nearly $89 million the second year.

Elected Officials Retirement Programs

Illinois. Public Act 96-0889 (SB 1946) amends retirement policy for legislators who take office after January 1, 2011, as well as for all other state government employees. The legislation sets normal retirement age for legislators at 67 with

eight years of service, bases FAS on the highest eight of the last 10 years of service (presently the highest four of the last 10); cap at $106,800 annually adjusted by CPI (currently $245,000); and provides an annual adjustmen % or CPI, which er is less, compounded. Legislators' benefit is capped 60% of FAS (currently, 85%). The legislation also provides that the benefit will be earned at the rate of 3% of salary for each year of service (currently 5%) so that a legislator would reach the maximum allowable benefit after 20 years of service.

Source: Senate Republican staff analysis.

Missouri. HB 1 of the First Extraordinary Session of 2010, transmitted to the governor on July 14, 2010, amended provisions of the retirement plans for members of the General Assembly and for other elected officials in the state who enter the plan on or after January 1, 2011. The legislation provided for member contributions of 4% of salary on a pretax basis. The plans previously were non-contributory. For such members of the General Assembly, normal retirement will be at age 62 with service in three biennial assemblies or the Rule of 90 with a minimum age of 55 (previously 55/3 assemblies or the Rule of 80 with a minimum age of 50. For elected officials, normal retirement will be at age 62 after one term of office or the Rule of 90 with a minimum age of 55 (previously 55/1 term or the Rule of 80 with a minimum age of 50).

Oklahoma. Chapter 435, Laws of 2010 (SB 1889) amended the plan for state and local elected officials, which includes legislators and the governor, affecting people elected to office after November 1, 2010. Under existing law, people elected to office may choose a retirement plan from a menu of six choices that differ in the required contribution from the officer's salary and the percent factor that will eventually be applied to the person's final average compensation to calculate a benefit. This legislation removes the four middle choices and leaves only the highest (10% contribution and a 4% factor) and the lowest (4.5% contribution and a 1.9% factor) because few people elected the intermediate choices.

Utah. Chapter 266, laws of 2010 (SB 63, §17), closes existing state retirement plans to a governor or legislators elected on or after July 1, 2011, and limits their retirement eligibility to the Tier II defined contribution plan created in that legislation. They are not eligible to join the hybrid plan created in the bill. §66 provides a choice of retirement plans to the lieutenant governor and the other constitutional officers.

Ethics, Forfeiture of Benefits, Privacy

Louisiana. Act 634 of 2010 (SB 13) provides for garnishment of pension contributions or benefits under certain circumstances. Any pension, retirement allowance, or benefit, or any refund of accumulated contributions payable to any member, former member, or retiree under the provisions of any public pension or retirement system, plan, or fund shall be subject to garnishment to pay any court-ordered restitution or fine, or any costs of incarceration, probation, or parole, imposed on such member, former member, or retiree as a result of a conviction of or a plea of guilty or nolo contendere to the commission of a felony for misconduct associated with such person's service as an elected official or public employee for which credit in the system, plan, or fund was earned or accrued, the commission of which felony occurred on or after July 1, 2010. The act provides protection for community-property interests.

Tennessee. Chapter 914, Laws of 2010 (SB 2205/H2349), provides that no member or former member of the general assembly may elect to retain state employees' health group insurance if that person is convicted of a felony arising out of that person's official capacity as a member of the general assembly. If the spouse or dependent children of the member or former member are otherwise eligible to participate in the state employees' health group insurance plan but for the conviction, then the coverage shall continue to be available provided the monthly contributions are made. The forfeiture of benefits can be reversed if a conviction is overturned or if the person is granted a pardon.

Governance and Investment Policy

Kentucky. Act 127, Laws of 2010 (HB 146), requires that two of the three members appointed by the Governor to the Kentucky Retirement Systems board of trustees possess 10 years of investment experience and defines what that means. It establishes a five-member investment committee for the Kentucky Retirement Systems comprised of the two gubernatorial appointees with investment experience and three trustees appointed by the board chair and limits the amount of assets managed by a single external investment manager to no more than 15 percent of the systems' portfolio.

Minnesota. Chapter 359, Laws of 2010 (Senate File 2918 and House File 3281), provided for the administrative consolidation of the Minneapolis Employees Retirement Fund (MERF) with the Public Employee Retirement Association —General Plan, effective June 30, 2010. This measure did not make PERA responsible for funding MERF; funding provisions (Minneapolis, MERF employers, the state, and members remain responsible for funding) but it provides for an eventual full merger of the systems.

The act also extended the amortization date for MSRS-General from 2020 to 2030.

Missouri. HB 1 of the First Extraordinary Session of 2010, transmitted to the governor on July 14, 2010, which creates

new contributory tiers for certain state retirement systems, provides that

The employee contribution rate, the benefits provided under the year 2000 plan to members covered under this section, and any other provision of the year 2000 plan with regard to members covered under this section may be altered, amended, increased, decreased, or repealed, but only with respect to services rendered by the member after the effective date of such alteration, amendment, increase, decrease, or repeal, or, with respect to interest credits, for periods of time after the effective date of such alteration, amendment, increase, decrease, or repeal.

New Mexico. Chapter 60, Laws of 2010 (HB 231) amends the *Educational Retirement Act* to authorize the disclosure to the public of Education Retirement Board (ERB) members' or retired members' pension amounts.

Oregon. Chapter 1, Laws of 2010 (SB 897, vetoed and overridden), provides that one member of the Public Employees Retirement Board must be either a public employee who is in an appropriate bargaining unit or a retired member of the system who retired from a position in the unit.

Vermont. Act 24 (HB 431) changes the name of the state employees' postemployment benefits pension trust fund to the state employees' postemployment benefits trust fund a trust fund (omitting the word *pension*) and provides new language stating that " it shall be impossible at any time prior to the satisfaction of all liabilities, with respect to employees and their beneficiaries, for any part of the corpus or income of the fund to be used for, or diverted to, purposes other than the payment of retiree postemployment benefits to members and their beneficiaries and reasonable expenses of administering the fund and related benefit plans."

Health Coverage

Connecticut. The 2009 State Employees Bargaining Agent Coalition Agreement implemented a new requirement for funding retiree health benefits. Beginning July 1, 2009, all new employees who are eligible for State-paid health insurance are required to contribute 3 % of their compensation to offset the cost of providing retiree health benefits. Effective July 1, 2010, all health-care eligible employees who have less than five years of actual State service as of that date will be required to contribute 3 % of compensation to the Retiree Health Fund until they have completed 10 years of service or otherwise qualify for retiree health coverage.

Kentucky. Act 159 of 2010 (HB 540) provides a new advance-funding basis for retiree health benefits for members of the Kentucky Teachers Retirement System. The final version of the bill was approved unanimously in both chambers of the General Assembly. The act replaces current pay-as-you-so funding which has required subsidies of more than $560 million from the teachers' retirement fund since 2004. The state will repay this amount and interest.

Currently, active employees of KTRS contribute 0.75% of salary for retiree health insurance, except for those hired after June 30, 2008, who contribute 1.75%. Those contributions will continue. This act adds additional contributions.

Effective July 1, 2010, most members of KTRS will contribute an additional 0. 25% of salary to a medical insurance fund. The contribution will gradually increase to 3% in the course of six years. Retired members will participate by paying either the Medicare Part B premium if they are eligible for Medicare, or by paying the medical insurance fund the equivalent amount if they are under age 65. Those over age 65 are already paying the Medicare Part B premium and will experience no change. Retirees under age 65 will begin paying the equivalent on July 1, 2010 at an initial levy of 1/3 of the premium or, for the last six months of 2010, $37 a month. The amount will increase to 100% of the premium on July 1, 2012. These contributions will be deducted from pension payments.

Employers will pay an additional contribution equal to that paid by active members.

The act created a new trust fund for the purpose of advance funding future retiree medical benefits. This enactment was in separate legislation: Act 164 of 2010 (HB 545).

Effective July 1, 2010, the state will pay the net cost of medical insurance for new retirees who are not Medicare eligible.

The act is intended, in part, to encourage teachers to retire before age 65, though its provision of medical insurance to such retirees. The goal of this policy is to reduce overall salary costs to districts by allowing them to replace long-tenured teachers with lower-paid starting teachers.

Source: Kentucky Teachers' Retirement System

Michigan. Act 75 of 2010 (SB 1227) makes numerous changes affecting the Michigan Public School Employees' Retirement System (MPSERS). The legislation requires all MPSERS members to contribute 3 percent of compensation in the irrevocable trust that is expected to be created in HB 4073, the Public Employee Retirement Health Care Funding Act, to pay for retirement health care benefits for retirees and their eligible dependents. Employees who earn less than $18,000 would have to contribute 1.5% for FY 2010-11 but would contribute 3.0% in subsequent years.

Public Act 77 of 2010 (HB 4073) creates irrevocable trusts for the purpose of holding, investing, and distributing assets for certain postemployment health care benefits; sets forth certain rights that public employees have in retirement health

care benefits under certain circumstances; provides for the establishment and amendment of certain irrevocable trusts agreeme

A legal challenge has been filed against the requirement of a additional contribution on the grounds of violation of contract.

New Hampshire. Chapter 104, Laws of 2010 (HB 1668), requires that group II state employees have 20 years of creditable service with the state in order to receive state paid medical and surgical benefits for retired state employees.

SJR 2 (adopted by both chambers) endorses the establishment of a statewide retiree medical trust for public employee health care reimbursement benefits after retirement. The resolution is available on the General Court website and the recommendations of the New Hampshire Commission to Propose a Retiree Health Care Benefits Funding Model, which led to the resolution, are available at the Commission.

Michigan. Act 77 of 2010 (HB 4073) creates irrevocable trusts for the purpose of holding, investing, and distributing assets to be used for postemployment health care benefits for each state retirement fund.

New Jersey. Public Law 2 of 2010 (SB 3) changes the State Health Benefits Program (SHBP) and the School Employees' Health Benefits Program (SEHBP) concerning eligibility, cost sharing, choice of a plan, the application of benefit changes, the waiver of coverage and multiple coverage under the plans.

Specifically, the bill provides that after the expiration of any applicable binding collective negotiations agreement, active employees of the state, local governments, and boards of education will contribute 1.5 percent of base salary toward the cost of health care coverage under the SHBP and the SEHBP. Employees of the state, local governments, and boards of education who become members of a State or locally-administered retirement system on or after the bill's effective date will be required to pay in retirement 1.5 percent of their pension benefit toward the cost of health care coverage under the SHBP and the SEHBP. This amount will be in addition to any other amount that maybe required through the collective negotiations process for employees with a majority representative for collective negotiations and, for those without such a representative, through the application of the terms of a collective negotiations agreement upon them.

After the bill's effective date, enrollment in the SHBP will be limited to a person who:

- is a full-time appointive or elective officer of the State or local government whose hours of work are fixed at 35 or more per week, a full-time employee of the State, or a full-time employee of an employer other than the State whose hours of work are fixed by the governing body at not less than 25 per week; or
- An appointive or elective officer, an employee of the State, or an employee of an employer other than the State who has or is eligible for health benefits coverage in SHBP on that effective date and continuously thereafter. The bill similarly limits enrollment in the SEHBP to persons employed full-time whose hours of work are fixed by the governing body at not less than 25 per week.

The governments whose employees are affected by the changes are expected to save $314 million in FY 2011, $324 million in FY 2012, and $333 million in FY 2013.

Rhode Island. The *Providence Journal* reported on April 16, 2010, that U.S. District Court Judge William E. Smith has upheld the state's reduction of health-care benefits for state employees who retire early.

Rhode Island Council 94 of the American Federation of State, County and Municipal Employees had sued to block implementation of the law on state-subsidized health-care benefits, a law that Judge Smith described as an attempt by the state amid a fiscal crisis in 2008 "to tighten its belt" by reducing the amount it spends on those benefits.

Smith rejected claims by the union that the reduction in benefits violated employee rights under the contract clauses of the Rhode Island and U.S. Constitutions. Contrary to the union claims, he said, no enforceable contract exists for retiree health benefits under the state's past practice regarding retirees, the negotiated collective-bargaining agreement between Council 94 and the state, state statute or common law.

Texas. The Texas Employee Retirement System has approved retiree health insurance cost increases effective September 1, 2010, by vote of the board in May, 2010. The board reports that the changes were designed to encourage low-cost options, such as seeing primary care physicians instead of specialists, and using generic drugs instead of name brands and that the changes targeted the most costly areas of the plan-hospitalization, name brand drugs, and high-tech radiology .

Source: Employee Retirement System of Texas. June 8, 2010

Vermont. Act 74 of 2010 (HB 764) changes state subsidies and eligibility requirements related to retirees' health care.

1) For new hires and those with less than 10 years of service:

- 1 to 14 years: No subsidized coverage
- 15 years: 60% Single

- 20 years   70% Single
- 25 years   80% Single or spousal

2) Current actives with more than 10 years of service:

- 80% single coverage - same as now
- 25 years: 80% single or spousal coverage

However:

- Those with more than 30 years of service will have to work another 5 years to be eligible for spousal coverage.
- Those with 25 to 30 years of service will have to work a total of 35 years.
- Those with 15 to 24 years of service will have to work 10 more years.
- Those with 10 to 15 year of service will be eligible upon 25 years of service.

Source: Office of the State Treasurer, Vermont

Legislative Process

Louisiana. HB 229, a joint resolution, submits a constitutional amendment to the voters that would provide that a two-thirds majority of each chamber would be required to enact any benefit provision for members of public retirement plans that would carry an actuarial cost.

Military Service

Delaware. Chapter 167, Laws of 2010 (SB 135) protects the retirement benefits of state troopers who take military leave prior to retirement; assures that the employee will not realize a reduction in pension benefits because of a reduction in state salary during a period of time that might fall in the highest three years of earnings.

Re-employment After Retirement

Colorado. Chapter 2, Laws of 2010 (SB 1), requires a retiree who returns to work for a PERA employer to make a contribution to PERA equal to the member contribution, and specifies that working retiree contributions are not credited to the retiree's member contribution account, ;

Georgia. Act 455, Laws of 2010 (HB 916), provides that if a retiring employee has not reached normal retirement age on the date of retirement and returns to any paid service, his or her application for retirement shall be nullified; provides that certain service as an independent contractor shall not result in a suspension of retirement benefits.

Act 457,Laws of 2010 (HB 969), provides that retired teachers who have reached normal retirement age have two options if they return to a position that ordinarily would require membership in the teachers' retirement system:

- Contribute to the system, in which event the member's retirement benefit will cease and the retired member will reestablish active membership in this retirement system. The member will have the same creditable service that the member possessed at the time of retirement and will accumulate additional creditable service so long as such active membership continues. Upon cessation of such service, the retired member, after proper notification to the board, will receive a retirement benefit based on the member's total accrued service reduced by any amounts already received; or
- Not contribute to the system, in which event the member's retirement benefit shall not cease, and no additional benefits will accrue.

It will be the employer's responsibility to see that teachers who return to covered service follow the rules specified above although the teacher has a responsibility to notify the employer of his or her retirement status before accepting a position.

Hawaii. Act 179, Laws of 2010 (HB 2533), provides that retirees of the Hawaii Retirement System may not be rehired by the state or a county government unless they are re-enrolled in the retirement system, with exceptions. Those who are rehired without being re-enrolled, when identified, are required to reimburse the system the amount of benefits received, make the employee contributions they would have owed with 8% annual interest, and contribute to the system for the administrative costs it bore in the matter, if the employee is found to have been at fault. Employers of such employees are to make the foregone employer contributions to the system with 8% interest, and contribute to the system for its administrative expenses, if the employer is found to have been at fault.

Exceptions to the above provisions exist for elected officials, jurors and precinct officials, certain part-time or te[illegible]rary employe[illegible] d people who were not employed by state or county for 12 months and then return to a position [illegible]ified as a labo[illegible] [illegible]rtage or difficult-to-fill position. Teachers may return after 12 months to a position the Department of Education or a charter school has identified as difficult to fill, if no agreement had previously been made between employer and employee that the person would be asked to return. In both sets of circumstances, employers are to make employer contributions to the Hawaii Retirement System, but those who return do not earn service credit or additional benefits for the service.

Illinois. Public Act 96-0889 (SB 1946) covers most statewide retirement plans including the state employees' plan (SERS) and the state teachers' plan (TRS). For employees entering the plans on or after January 1, 2011, it provides that annuities will be suspended for a person who returns to service covered by the systems included in the act. The legislation says the benefit will be recalculated "if appropriate," without explaining under what circumstances re-calculation would be appropriate. See, for example, in Section 1 of the legislation, 40 ILCS 5/1-160 (h).

Maryland. Chapter 698, Laws of 2010 (HB 774 /SB 498), increases the maximum average final compensation from $10,000 to $25,000 that retirees of the Employees Retirement and Pension System must have at the time of retirement in order to be exempt from a reemployment earnings limitation.

Michigan. Act 75 of 2010 (SB 1227) provides that retirees who retire after July 1, 2010 and work directly for a MPSERS reporting unit, may maintain pension and health benefits if they earn less than 1/3 of their final average compensation. If they earn more than 1/3 of their final average compensation, their pension and health care benefits would be suspended until the employment ends.

For those retirees who retire after July 1, 2010 and afterward perform core services for a MPSERS reporting unit but who are employed independently or by a third party, the bill would suspend their pension and health care benefits.

Mississippi. Chapter 546, Laws of 2010 (HB 957), provides that no one who is being paid a retirement allowance or a pension after retirement can be employed or paid for any service by the State of Mississippi, including services as an employee, contract worker, contractual employee or independent contractor, until the retired person has been retired for 90 consecutive days from the effective date of retirement. Thereafter the person may be reemployed while being paid a retirement allowance. Employers are to make the full employer contribution for the person who is re-employed. People who return to covered employment while receiving a retirement benefit are not eligible to earn additional service credit while so employed.

New Mexico. Chapter 18, Laws of 2010 (SB 207), amends the return-to-work (RTW) program in the Public Employees Retirement Act. The bill does not affect members of the Education Retirement Board plan. For retirees returning to a PERA-affiliated employer on or after July 1, 2010, the following conditions will apply:

- The period before a retired person can return to covered employment is extended from 90 days to 12 months, during which the return-to-work (RTW) employee cannot act as an independent contractor for the employer from which the employee retired.
- The retiree then has two options:

  1. Suspend the pension, choose not to contribute to PERA and not earn service credit for the period of reemployment; or

  2. Suspend the pension, rejoin PERA, accrue additional service credit and be eligible to have the pension recalculated when the period of employment ends.

RTW employees in the program as of July 1, 2010, will be subject to current provisions. Currently, RTW employees wait out 90 days, do not suspend pension, and the employer pays both the employee and employer contributions (or the actuarial cost as determined by PERA). However, the bill would require RTW employees to pick up the employee contribution as of the effective date, leading to savings for employers.

The bill deletes the exemptions for an appointed chief of police or undersheriff but retains the exemptions for a retired member who works for the legislature during the legislative session and for a retiree who is an elected official. Exempted employees do not suspend their pensions for the duration of employment or term of office.

PERA explained in *La Voz* in March 2010:

An unintended consequence of double dipping recently began to impact the financial solvency of the program. Double dipping was encouraging employees to retire earlier than they would have otherwise. There was no incentive for a retiree to work until he or she reached their pension maximum when the opportunity to receive a pension and a salary was available by retiring and returning to work. The practice of employees retiring when they were first eligible resulted in the employee paying into PERA for a shorter period of time, receiving a pension sooner and being eligible for a 3% Cost-of-Living Adjustment (COLA) sooner. PERA's latest experience study indicated that the return-to-work program was no longer cost neutral to the fund and that PERA contributions would need to be increased in the future if the trend

continued

South D[illegible]a. Chapter 23, Laws of 2010 (SB 18), provides that retirement benefits will be cancelled for any [illegible] member who returns to covered service within three months of retirement. The retiree must repay any benefits received in the period, or accept an offsetting actuarial reduction in eventual retirement benefits.

For those who return to covered employment after three months, retirement benefits shall be reduced by 15% and the member forfeits annual increases during the period of re-employment. Employee and employer contributions will be made during the period of re-employment. The employee contributions will be deposited in a deferred contribution retirement account. The employer contributions will be made to the Retirement System without any credit to the member, and the member cannot earn additional service credit during the period of re-employment.

Utah. Chapter 263, laws of 2010 (SB43), provides that after July 1, 2010 a retired person who returns to employment with any employer covered by the Utah Retirement System (URS) within one year of retirement is returned to active service, the employee's retirement benefit is cancelled, and the employee can earn additional service credit. Anyone who returns to any covered employment after a one-year separation may choose to continue to receive a retirement benefit and forfeit accumulation of any additional retirement credit (though the employer must pay an amortization rate to URS) or may choose to cancel his or her retirement benefit and earn additional service credit for the period of re-employment. Two years' service is required to earn additional credit. The benefit will be recalculated when the employee finally retires.

Previous law allowed return to covered employment after six months but the six-month requirement was waived for work that was less than 20 hours a week or was with a different agency than the one from which the person retired. A retiree is also prohibited from part-time and contractual work during the separation period.

Return of Contributions

Virginia. Chapter 758, Laws of 2010 (HB 892), limits the return of contributions to an employee who voluntarily leaves public employment to the member's contribution, unless the employee is a vested member of the Virginia Retirement System (vesting requirement is five years). The law does not affect employer contributions made before July 1, 2010. Previous law allows the return of employer contributions as well as employee contributions. Employer contributions will be returned under the new law in the case of death or involuntary separation for other than cause.

Social Security

California. Resolution Chapter 103 (AJR 10) requests the President and Congress to enact the Social Security Fairness Act of 2009, which would repeal the Government Pension Offset and the Windfall Elimination Provisions from the Social Security Act.

Illinois. HR 927 urges the U.S. Congress to pass the Social Security Fairness Act of 2009 or other legislation that eliminates both the Government Pension Offset and the Windfall Elimination Provision.

Louisiana. HCR 224 and SCR 6 memorialize Congress to eliminate or reduce the Social Security reductions known as the Government Pension Offset and the Windfall Elimination Provision.

Studies

Connecticut. Executive Order 38 (February 2010) established a State Post-Employment Benefits Commission whose members, to be appointed by the governor, consist of representatives of the Office of the Treasurer, Office of the Comptroller, the Office of Policy and Management, the Office of Labor Relations, the State Employees Bargaining Agent Coalition, certified public accountants, certified actuaries, and members of the business community. By July 1, 2010, the commission is to identify the amount and extent of unfunded liabilities for pensions and other post-employment benefits; compare and evaluate the advantages and disadvantages of various approaches for addressing unfunded pension liabilities and post-employment benefits; and propose a short and long term plan or plans for addressing unfunded pension liabilities and post-employment benefits.

Minnesota. Chapter 359, Laws of 2010 (Senate File 2918 and House File 3281), calls for two studies:

The State Auditor is directed to convene a study group to review the investment authority and fiduciary provisions for large and small retirement plans, with recommendations due by January 15, 2011, and the executive directors of MSRS, PERA, and TRA are directed to study defined contribution retirement coverage and other alternatives to the current defined benefit plans and to report to the Commission by June 1, 2011.

Puerto Rico. Executive Order 10 of 2010 establishes the Commission for the Reform of the Retirement Systems of the

Government of Puerto Rico.

Virginia.) directs the Senate Committee on Finance to study the investment portfolio managed by the Vi Retirement System. In conducting its study, the committee shall examine how the Virginia Retirement System selects firms to manage its investment portfolio and determine if more minority-owned firms should be used to help the Virginia Retirement System manage its investment portfolio.

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Benefits and Contribution Changes in Statewide Retirement Plans, 2010