

MINUTES

JOINT COMMITTEE ON PENSIONS, INVESTMENTS, AND BENEFITS

December 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

Member Absent

Senator Ruth Teichman

Staff

Julian Efird, Kansas Legislative Research Department
Michael Steiner, 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

Ron Snell, National Conference of State Legislatures
Glenn Deck, Executive Director, Kansas Public Employees Retirement System
Dale Dennis, Deputy Commissioner, Kansas Department of Education

Others Attending

See attached sheets.

**Thursday, December 2
Morning Session**

The Chairperson welcomed members and guests, and recognized Ron Snell, National Conference of State Legislatures, who outlined retirement legislation enacted by various state legislatures during 2010. He indicated that 21 states enacted significant legislation in 2010. According to Mr. Snell, the legislation enacted was in response to declining fiscal conditions, severe investment losses during the recession, and concerns about the viability of retirement plan benefits (Attachment 1). Noting that legislators are actively engaged in dealing with the crisis in pension funding, he listed several basic policy changes undertaken by various states. The changes include:

- Increase employee contributions (12 states);
- Change the vesting requirements (six states). Five states have increased the vesting time and one state has decreased the vesting time;
- Raise the age and service requirements for retirement (11 states);
- Extend the period for calculation of the final average salary (eight states);
- Reduce the benefit for early retirement (nine states);
- Reduce post-retirement benefit increases, such as cost-of-living adjustments (COLA), an action which Mr. Snell called unprecedented and of uncertain legality (eight states); and
- Restrict a member's return to covered service (nine states).

After noting trends in the list above, Mr. Snell commented on various states' policy innovations, such as the trend to replace the traditional defined benefit plan with a defined contribution plan. He also noted various hybrid permutations in contribution rates, benefits, and tiers, all of which attempt to address unfunded actuarial liabilities (UAL) and actuarial required contribution (ARC) rates.

Mr. Snell responded to members' questions:

- Utah's new retirement plan is available only to new employees;
- Utah's old plan will be funded by whatever percentage is needed to meet the ARC;
- Two states (West Virginia and Nebraska) dropped their defined benefit plan, primarily because employees who were too conservative in their investment choices failed to build an adequate retirement portfolio. Nebraska moved to a cash-balance plan managed as a trust fund with a guaranteed 5.0 percent return;
- Most states dropped the COLAs by 1.0 percent;
- The states raising the retirement age generally have extended the age from 65 to 67; and

- Issuing pension obligation bonds as a means of funding pensions does not appeal to most states.

Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERS), provided an investment update (Attachment 2). He stated that the investment market has been good this year, with a Calendar Year return of 14.9 percent, a Fiscal Year return of 12.7 percent, and an asset market value of \$12.5 billion. He noted the investment rate is 8.0 percent. Mr. Deck also commented on two triennial studies under way (an asset-liability study and an investment-experience study) that will form the basis for any adjustment in investment-return assumptions.

Mr. Deck, in response to a question about the actuarial contract with Milliman, indicated that due to limits on the liability insurance carried by Milliman, KPERS would not renew its actuarial contact with Milliman. Additionally, Patrice Beckham, who serves as KPERS' actuarial consultant, left Milliman to work for Cavanaugh Macdonald. KPERS issued a Request for Proposal (RFP) and the KPERS Board of Trustees selected Cavanaugh Macdonald, which will allow KPERS to retain Patrice Beckham.

Mr. Deck presented KPERS' long-term funding outlook (Attachment 3). He reviewed the legislative efforts introduced during 2010 which sought to address the funding imbalance. The two proposals included:

- HB 2400, which raised the annual increase in the employer contribution cap from 0.6 percent to 1.0 percent; and
- SB 564, which raised the employer contribution cap from 0.6 to 1.0 percent, increased employee contributions—rates for Tier 1 and Tier 2 members would increase by 0.5 percent in each of four calendar years, beginning January 1, 2012. By calendar year 2015, the contribution for Tier 1 employees would reach 6.0 percent and the contribution rate for Tier 2 employees would reach 8.0 percent, and increase the multiplier from 1.75 to 1.85.

Afternoon Session

Dale Dennis, Deputy Commissioner, Kansas Department of Education, commented on two reports from the Department: *The History of Teacher Vacancies and Licensed/Non-Licensed Staff*, and *Unified School Districts' Early Retirement Programs* (Attachments 4 and 5). He noted that, because of cuts in staff due to funding limitations, many teacher vacancies have diminished. In 2010, 844 non-licensed positions and 816 licensed positions were eliminated. It should be noted that math and science and special education positions were not impacted. Deputy Commissioner Dennis noted that district superintendents recommend leaving the working-after-retirement statutes as they are, giving administrators more latitude in filling vacancies. He reported that early retirement programs, which generally enable districts to reduce budgets, are down from a high of 180 to 165. In response to several questions, Mr. Dennis replied that determining the cost of the early-retirement programs is difficult because the Department must make too many unsubstantiated assumptions.

Mr. Deck returned to complete his report on long-term funding for KPERS. Referencing a proposal to issue pension obligation bonds, he offered two options: an up-front employer contribution through a bond issue that matches the present value of a 1.0 percent employee contribution increase, with member contributions raised 1.0 percent in FY 2012 (a \$623 million increase); or an up-front employer contribution matching the value of raising the employer contribution cap to 1.0 percent and increasing employee contribution rates annually by 0.5 percent for four years (an \$864 million increase that reduces the UAL by \$3.8 billion). Commenting on KPERS' funding as a percentage of the state budget, he explained that KPERS' draw on the state budget is 3.0 percent if all funds are included, 6.4 percent if only the State General Fund is considered. He emphasized that legislative action is needed in order to address the UAL.

Mr. Deck commented on a memo from the KPERS' board, which offered two recommendations to the Kansas Legislature (Attachment 6):

- Because KPERS' funded ratio is 56.0 percent and the UAL is \$9.4 billion, time is critical in addressing long-term funding; and
- Clarification is needed regarding contribution rates for death and disability benefits for Regents employees who opt for a phased retirement.

In dealing with the second issue, Mr. Deck said the statute (KSA 75-746(a)) allows for a phased retirement with a reduction in salary; however, the statute is not clear (in the event of death or disability) as to whether a member should receive benefits based on full-salary contributions or on the reduced-salary contributions being made during phased retirement. Draft amendments are included as clarification by either correcting the member's compensation or correcting the member's coverage. In response to a question regarding the number of employees currently in a phased retirement, Mr. Deck replied that several hundred Regents employees are currently in a phased retirement. He agreed that another option could allow a member to pay the difference between the lower and higher compensation rate, although the death-and-disability benefit is funded solely by the state. Laurie McKinnon, KPERS' General Counsel, stated that the Board of Regents prefers a statutory amendment that corrects the member's coverage. Members encouraged KPERS and the Regents to present their legislative proposals during the next Legislative Session.

After discussion, *Representative Schwartz moved and Representative Whitham seconded the motion that the 2011 Legislature consider HB 2400 and SB 564 as starting points in addressing KPERS funding shortfalls. The motion passed.*

The Committee minutes for September 2 were approved. (Motion by Representative Flaherty; seconded by Representative Olson)

The meeting was adjourned at 2:40 p.m. No further meeting was scheduled.

Prepared by Gary Deeter
Edited by Michael Steiner and Julian Efirid

Approved by Committee on:

January 21, 2011

(Date)

JOINT COMMITTEE ON PENSIONS, INVESTMENTS AND BENEFITS

GUEST LIST

DATE: December 2 2010

NAME	REPRESENTING
Faith Loretto	K PERS
Glenn Dock	"
Laurie McKinnon	"
Leland Breedlove	"
KARIN Kingsley	Kansas Coalition of Public Retirees
Jenny Kingster	Kansas Coalition of Public Retirees
RON GARDNER	" " " " "
Bill Laves	" " " " "
John O'Brien	ING
Cindy Delfelder	ING
Fernando Harms	Teamsters Union Local 696
Jeff Hewitt	Teamsters Union Local 696
Steve Steakiewicz	Dept. of Agriculture
Dora Lutgen	Ks Coalition of Public Relations
ROBERT H. VAUGHAN	LEGISLATIVE RETIRED TEACHERS
Paul Boling	" " "
Ben Schmidt	" " "
Sandra Lowery	" " "
DAVID LOWERY	" " "

JOINT COMMITTEE ON PENSIONS, INVESTMENTS AND BENEFITS

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GUEST LIST

DATE: December 2 2010

NAME	REPRESENTING
Betty J. Ludwig	Leavenworth Retired Teachers
Beika Scott	KARSP
Mylene Aloray	KARSPA
Reginald & Steen A	19
Dennis Phillips	KSCFF
Ed Redmon	KSCFF
Ernie Owyler	Coalition
Roger Rabe	KPERS
Ken Meyer	Kennedy Assoc.
Vellu / M	SLS
Jesse Maddox	KDOT
ED Lebaout	KDOT
ERIK SARTORIUS	City of Overland Park
Kevin Fowler	Judicial Branch
Matt Florlag	Carpenters
Linda Hubbard	KCPK
Melissa Wanzmann	KAC
Ed Krump	KACP/KPOA/KSA
Tom Kuh	KASB

State Retirement Legislation in 2010

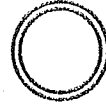


JOINT COMMITTEE ON PENSIONS, INVESTMENTS AND BENEFITS OF THE KANSAS LEGISLATURE

Ron Snell
National Conference of State Legislatures
December 2, 2010

Attachment 1
JC PIB 12-2-10

Overview

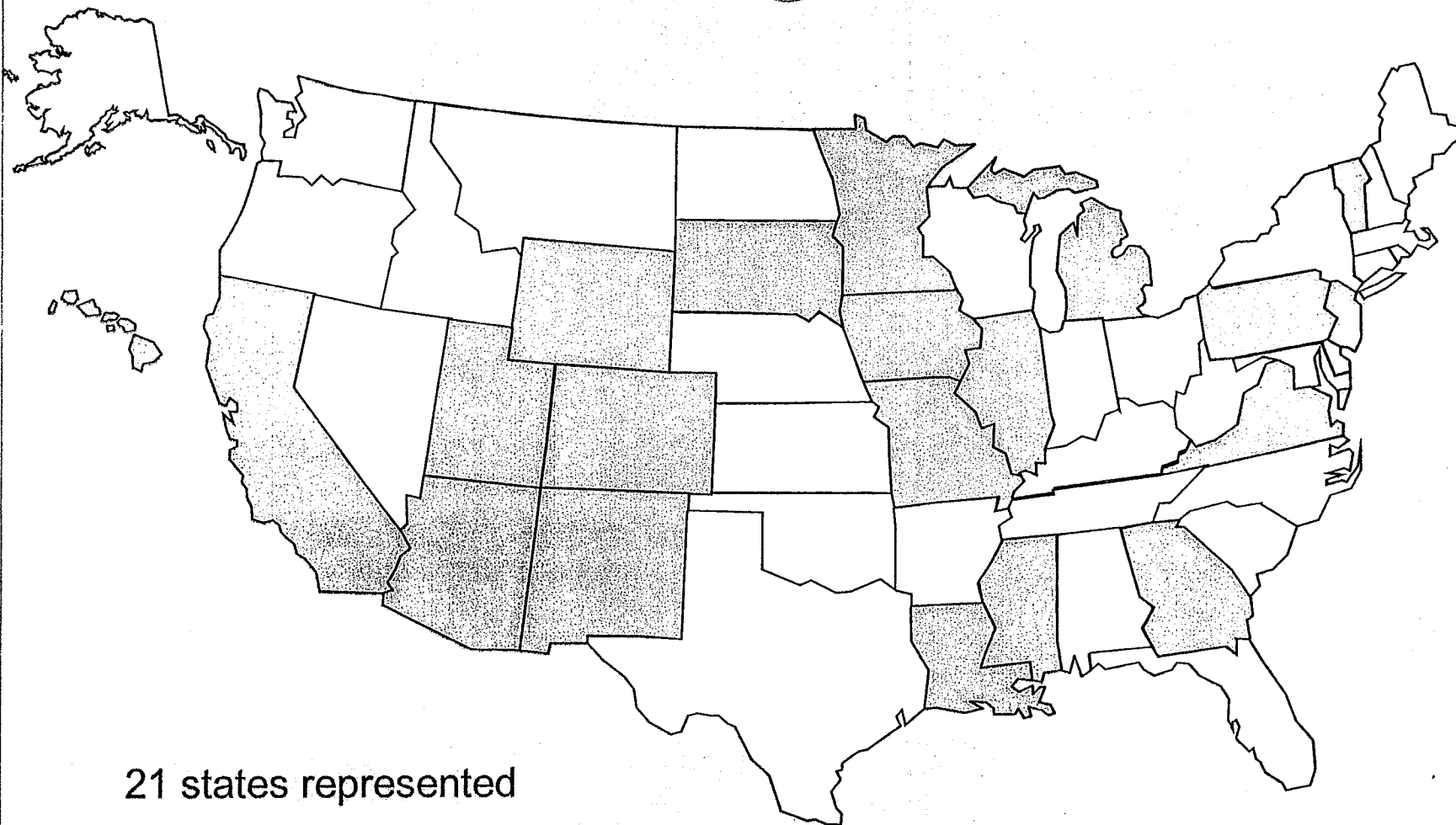
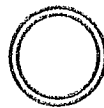


- Twenty-one states enacted significant retirement legislation in 2010, more than in any other year.
- This reflects:
 - Concerns about the viability of retirement plan benefits and funding that date to the 2001 recession.

Severe investment losses in the recent recession.

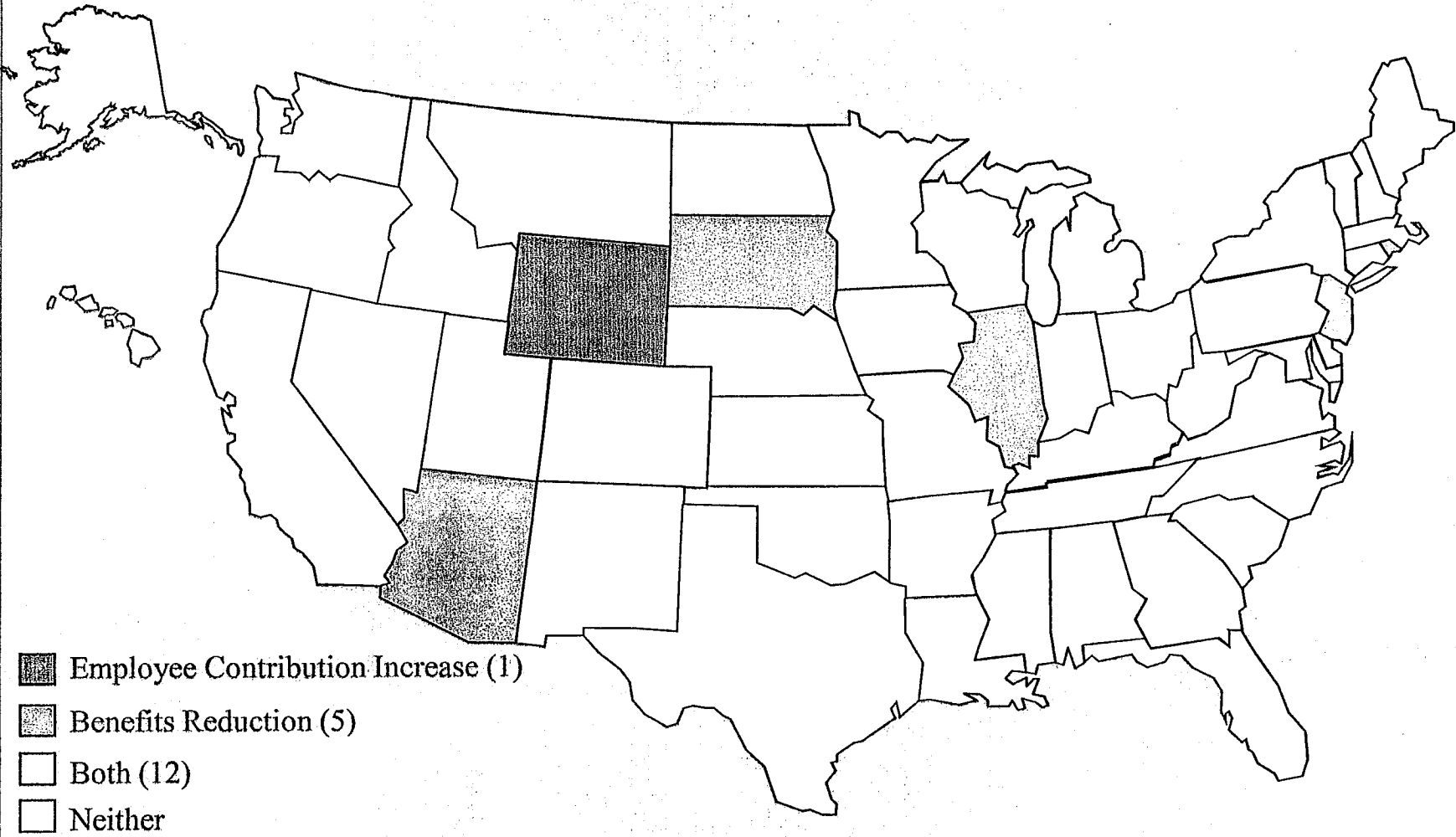
State fiscal conditions.

Major Pensions Legislation in 2010: All Topics



Benefits and Contribution Changes in Statewide Retirement Plans, 2010

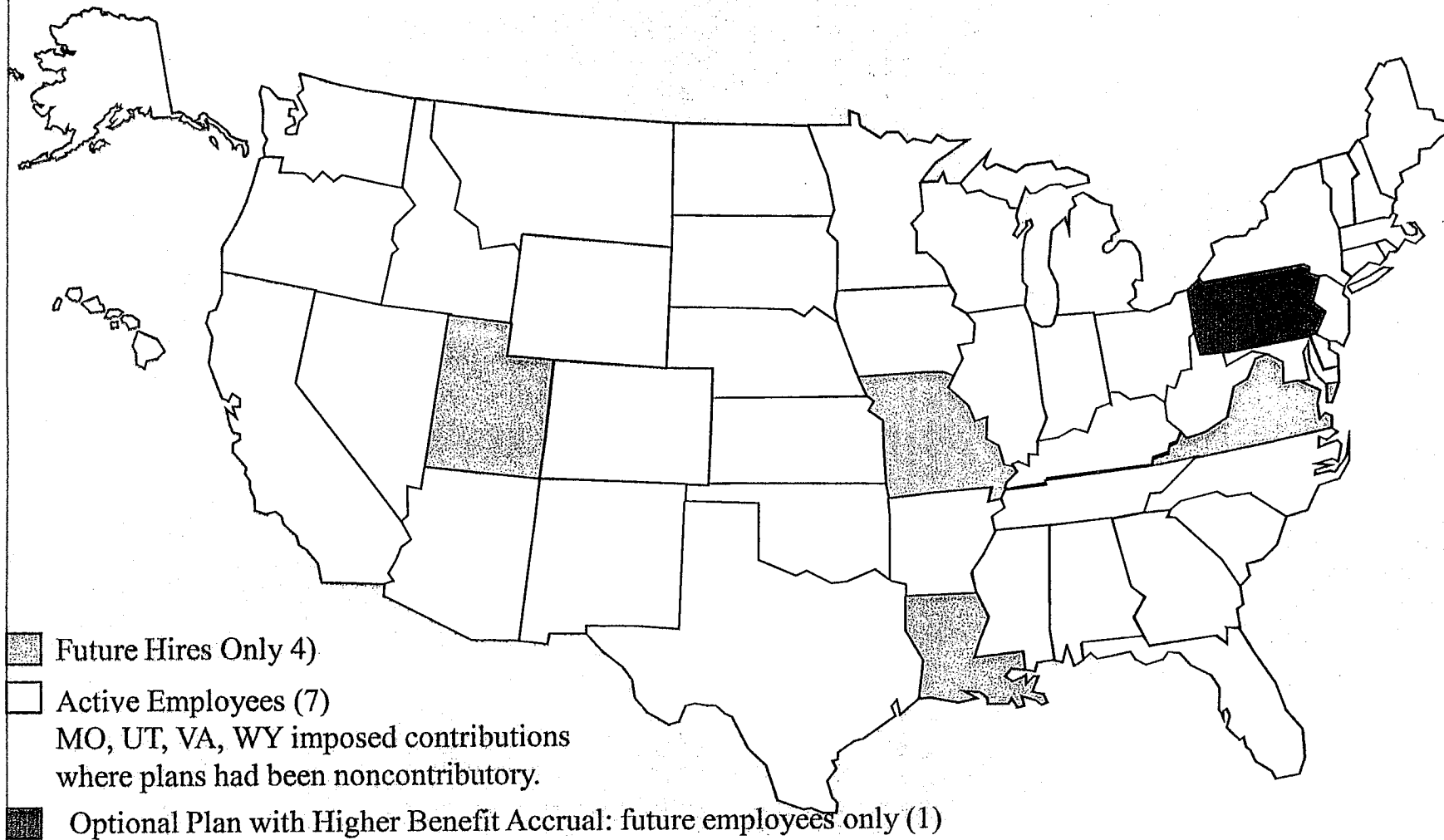
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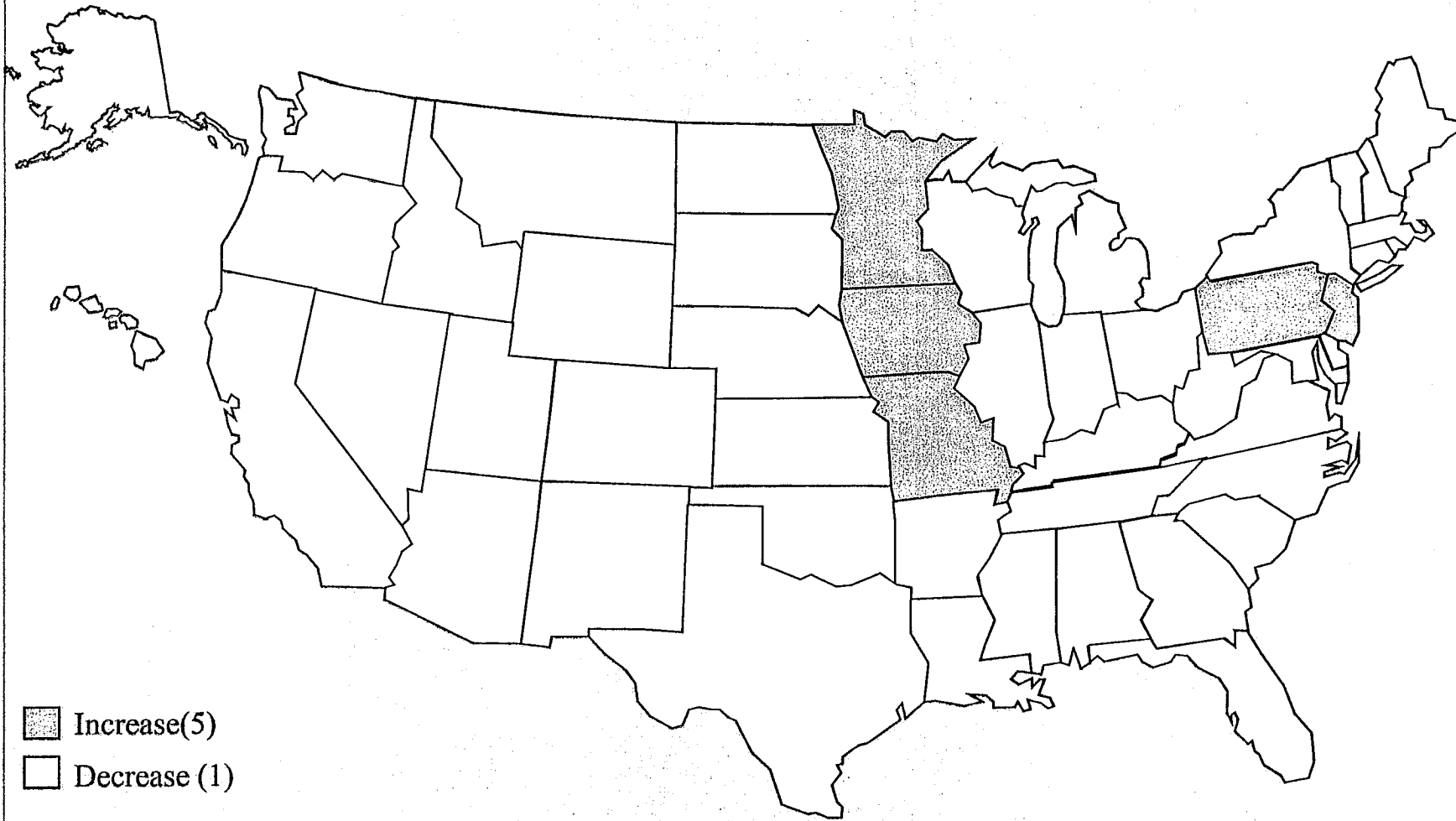
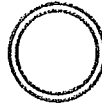
PA: employee contribution increases occur only in optional benefit plans

Increase in Employee Contributions, 2010

9-1

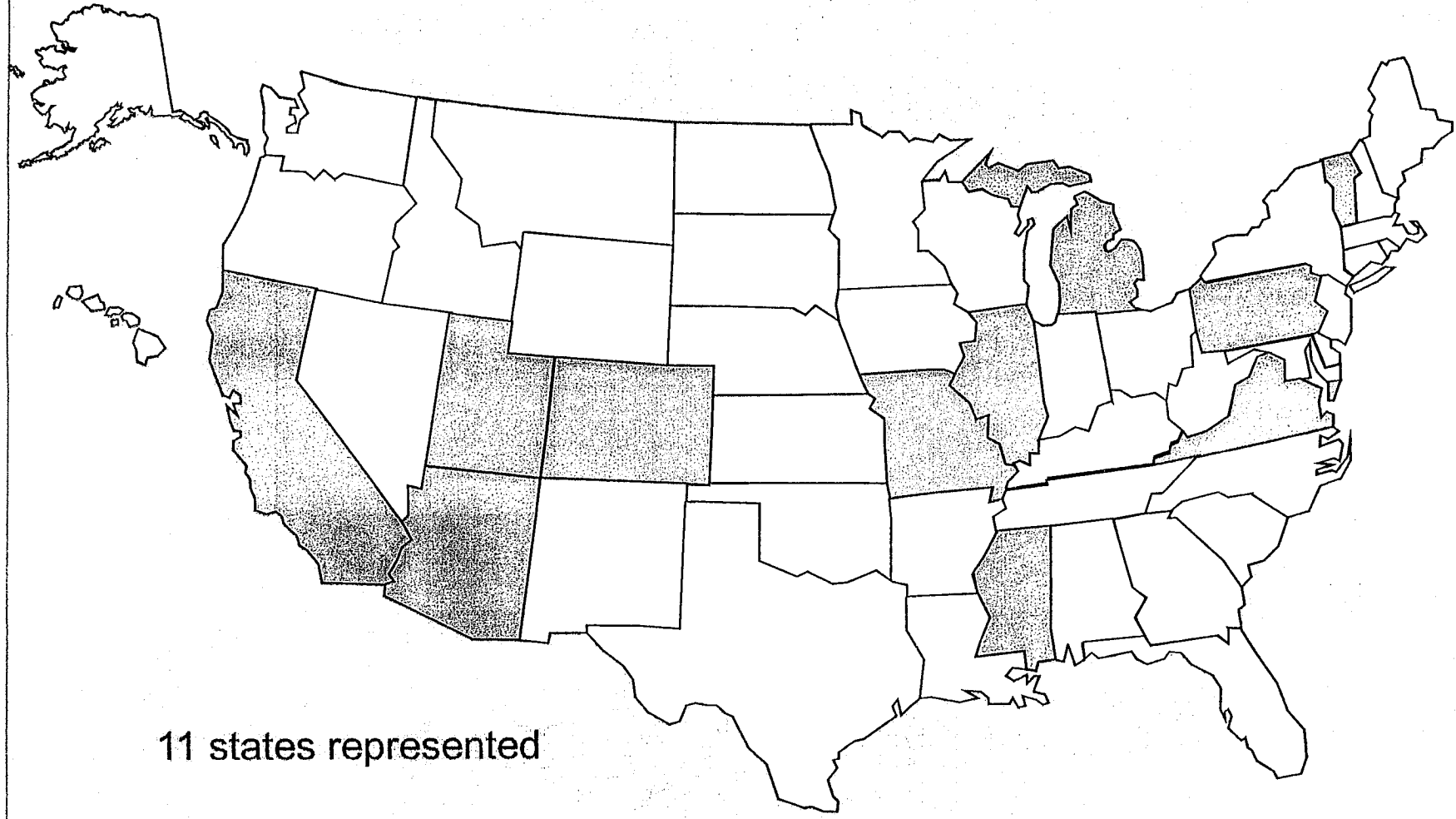


Changes in Vesting Requirements, 2010



■ Increase(5)
□ Decrease (1)

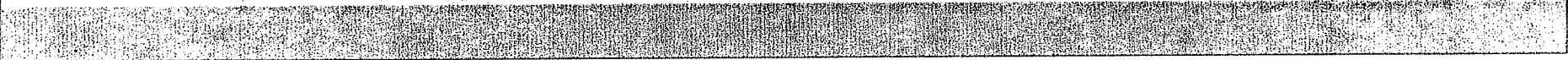
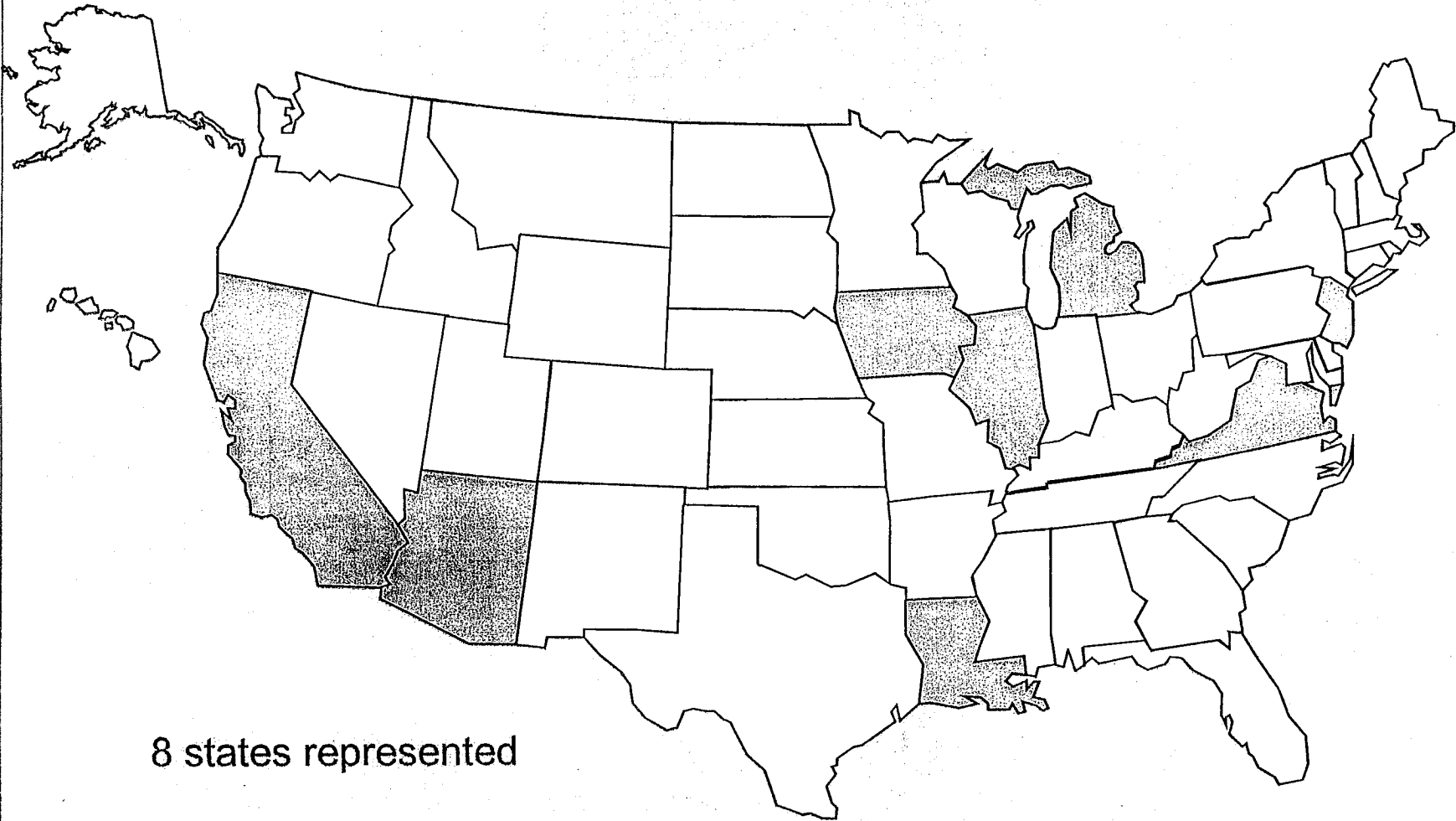
Higher Age & Service Requirement for Normal Retirement, 2010



11 states represented

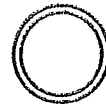
Longer Period for Calculation of Final Average Salary, 2010



6-1



Reduced Benefit For Retirement Before Normal Age, 2010

1-10

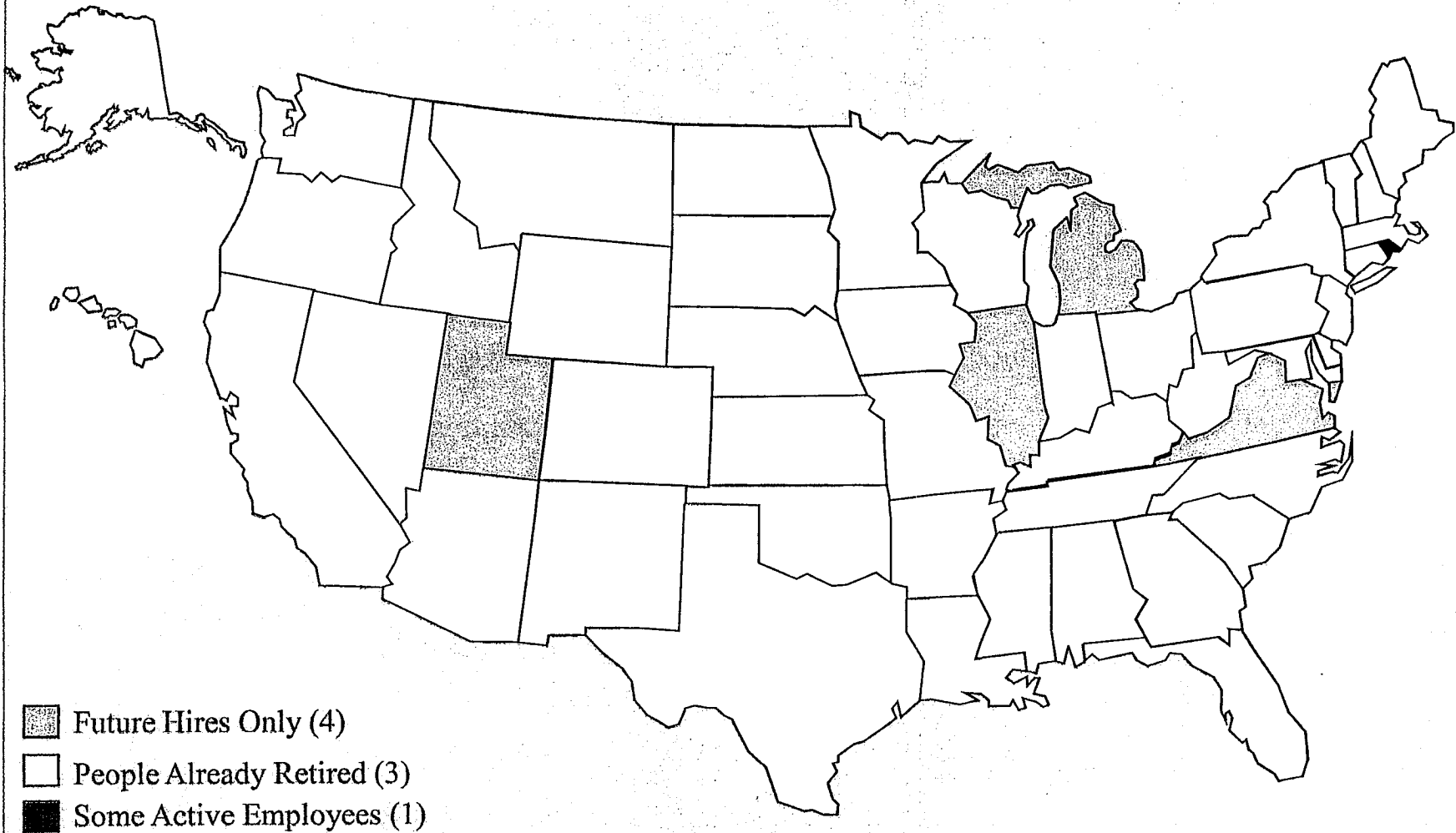
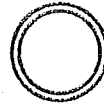





-  Future Hires Only (6)
-  Future Hires and at Least Some Active Employees (3)

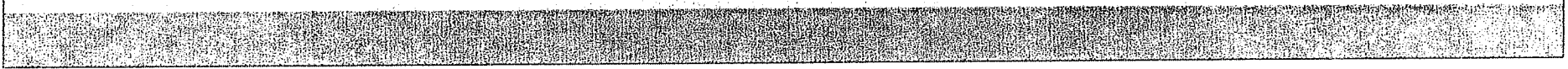


Reduced Post-Retirement Benefit Increase, 2010

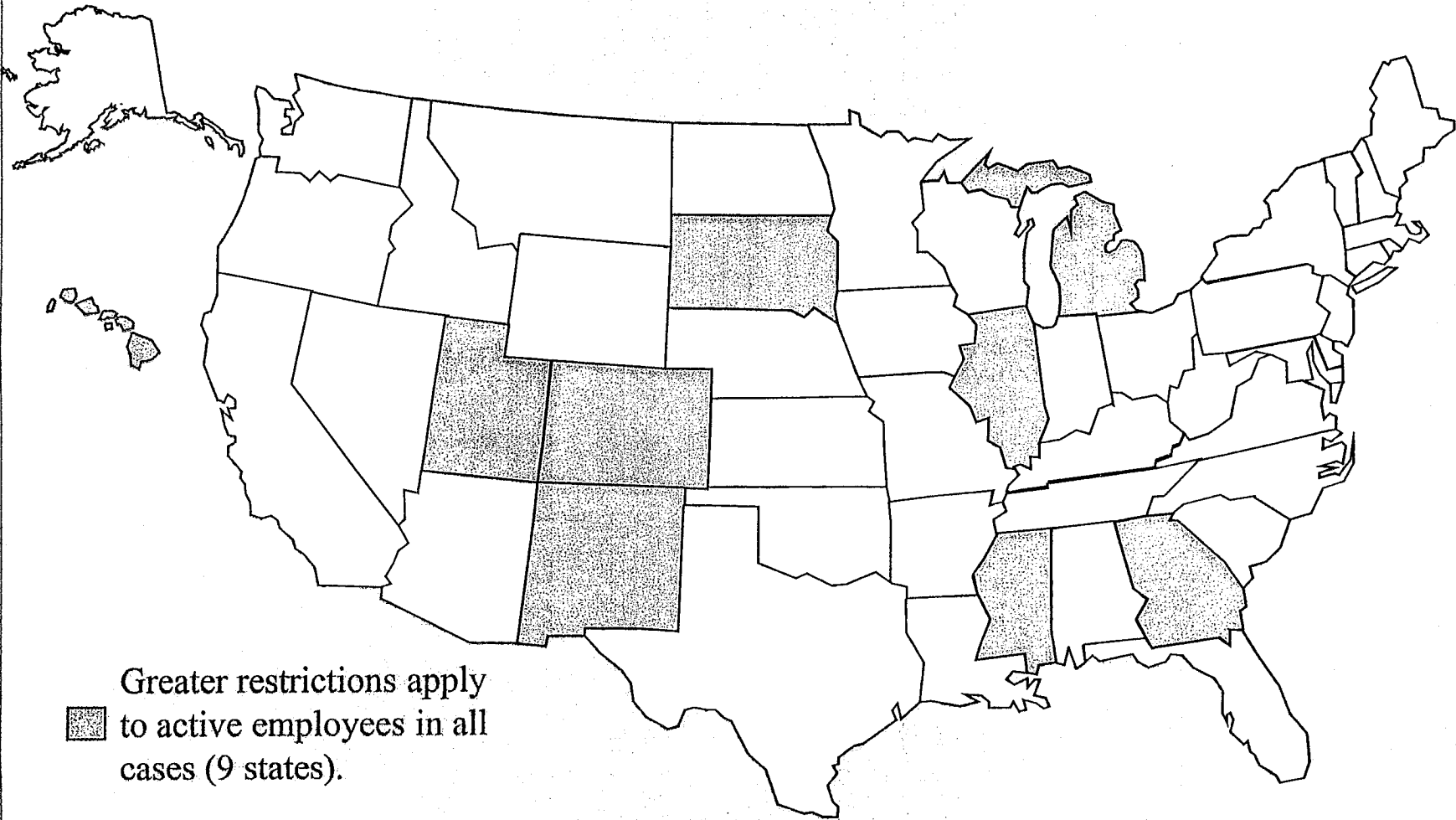
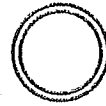
1-1



-  Future Hires Only (4)
-  People Already Retired (3)
-  Some Active Employees (1)



Greater Restrictions on Return to Covered Service, 2010

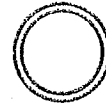


Trends in 2010



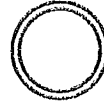
- Reduced benefits for new employees with the same service and compensation.
- Higher employee contributions as a percent of salary.
- More restrictions on retirement before normal age and on retired people returning to covered service.
- Reductions in guaranteed post-retirement increases.
- Purchases of service credit only at full actuarial cost.
- More options among which employees can choose.

Policy Innovations in 2010



- Michigan and Utah replaced DB plans with hybrid plans.
- Utah offers alternatives of DC plan or hybrid plan.
- Utah and Pennsylvania provided for "shared risk" defined benefit plans.
- Pennsylvania offers new employees alternatives of lower contribution rates and lower benefit accrual OR higher contribution/higher benefit accrual.
- Colorado, Minnesota and South Dakota cut COLAs for current beneficiaries.

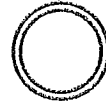
Structural Change in Michigan in 2010



● Michigan School Employees Retirement System

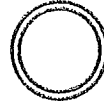
- Includes K-12 teachers statewide.
- Replaces a defined benefit (DB) plan for employees hired after July 1, 2010 with a hybrid plan:
 - A DB with higher age and service requirements and a lower benefit than the former plan. FAS based on 5 years (3 years in the closed plan).
 - Plus an opt-out defined contribution (401k) plan, with an employer match (4-year vesting) to employee contributions. Within limits, school districts may negotiate levels of employee contributions and employer match.
 - No post-retirement COLA for the DB portion.

Structural Change in Utah in 2010



- The Utah Legislature also replaced a traditional defined benefit plan with an alternative structure in 2010.
- It provided choice for employees:
 - A defined contribution plan fully funded by employers with a contribution of 10% of salary or
 - A plan that combines features of a defined contribution and a defined benefit plan.

Structural Change in Utah in 2010



- **The Utah hybrid plan:**

- For DB component, employers will contribute 10% of salary.
- When the 10% is insufficient to meet the actuarially required contribution to meet full funding, employees will make up the difference.
- When the 10% is more than is required to keep the plan actuarially sound, the difference will be deposited in an employee 401(k) account.
- Employees may but are not required to contribute to the 401(k).
- DB benefit available at 65/4; 60/20; 62/10; any age with 35 years of service. Five-year FAS; DB benefit = 1.5% FAS for each year of service (presently 3-year FAS, 2% factor)



- This report is based on NCSL's annual report on state pensions and retirement legislation.
- The 2010 report, covering legislation enacted through November 15, 2010, is available on the NCSL website at

<http://www.ncsl.org/?tabid=20836>

- For further information:
Ron Snell -- ron.snell@ncsl.org
303-856-1534

Attached 2
JCMB 12-2-10



Kansas Public Employees Retirement System

KPERS Investment Update

Joint Committee on Pensions, Investments and Benefits

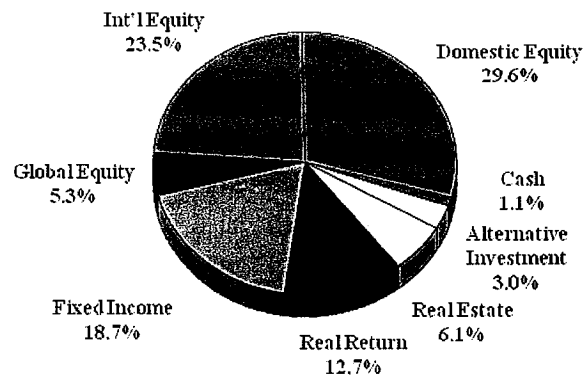
▪ December 2, 2010

Kansas Public Employees Retirement System

FY 2011 Investment Status

2-2

Current Asset Allocation October 31, 2010



Interim Investment Report Unaudited Estimates as of October 31, 2010

Total Assets at Market Value*	\$ 12,533,614,229.66
Total Return Fiscal Year-to-Date	12.7%
Total Return Calendar Year-to-Date	10.3%

Returns by Asset Class:

	Fiscal Year-to Date	Calendar Year-to-Date
Domestic Equity	15.5%	10.3%
International Equity	21.2%	9.1%
Global Equity	19.1%	7.5%
Fixed Income	6.2%	12.9%
Real Return	5.5%	10.5%
Real Estate	7.6%	8.3%
Alternative Investments	7.8%	9.9%
Cash	0.2%	0.4%

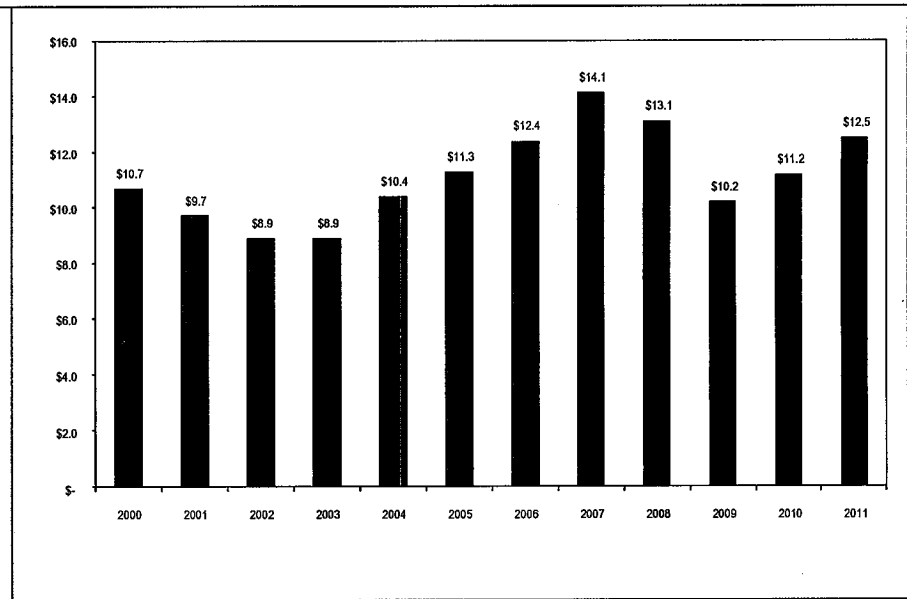
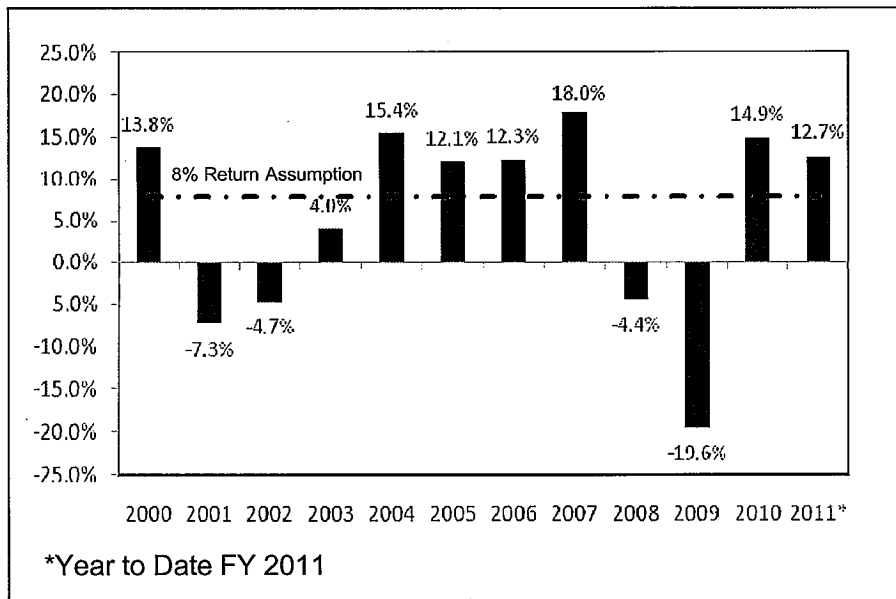
Returns for Representative Indexes

S&P 500 Index	15.5%	7.8%
NASDAQ	19.2%	11.3%
MSCI All Country World ex U.S. Net Index	20.6%	7.2%
MSCI All Country World Index	18.6%	7.8%
Barclays Capital Universal Index	3.4%	8.8%
Barclays U.S. TIPS Index	5.2%	9.8%
Morgan Stanley REIT Index	18.6%	25.3%
FTSE EPRA/NAREIT Developed ex US Index	26.6%	14.5%
Merrill Lynch US Treas 0-1 Year	0.1%	0.4%

KPERS' Investment Return History

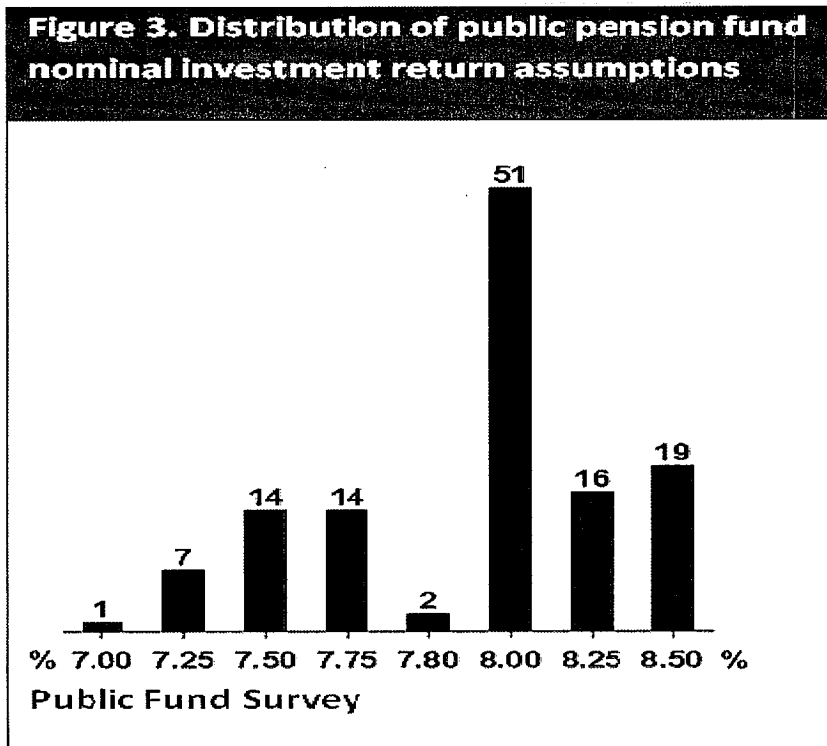
- Investment returns for the last decade have been marked by two recessions and corresponding periods of negative returns.
- KPERS' return of 14.9% for FY 2010 reflected the market's 2009 rebound.
- For FY 2011 through October 31, 2011, KPERS' return is 12.7%, with the Fund's assets totaling \$12.5 billion.

Return History FY 2000 through 10/31/2010 Fund Growth FY 2000 – 10/31/2010 (in billions)



KPERS' Investment Return Assumption

- KPERS has used an 8% investment return assumption since 1986. It was last reviewed and affirmed in 2007 – before the market crisis began in 2008.
- An 8% investment return has been the predominate rate for public pension systems.



NASRA Issue Brief: Public Pension Plan Investment Return Assumptions, March 2010

Investment Assumption (Continued)

- Because benefits paid by a pension system are accrued and paid out over many decades, the investment return assumption reflects a very long-term investment perspective of 30 years.
- The factors considered in establishing the investment return assumption include –
 - The System's target asset allocation.
 - The System's capital market assumptions.
 - The Board's investment philosophy regarding risk and investment classes.
 - Projected cash flow timing and volatility.

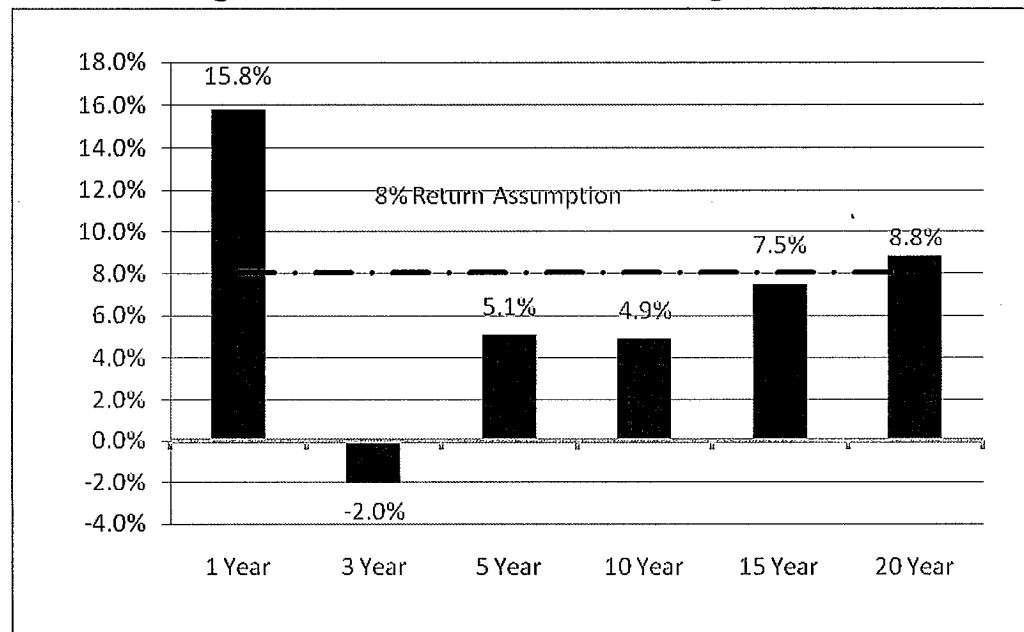
Asset-Liability and Experience Studies

- KPERS is currently engaged in two studies that impact the investment return assumption – an asset-liability study and an experience study.
- In the triennial asset-liability study, an appropriate asset mix is developed to fund the liabilities.
 - The asset mix is 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 experience study, which is also conducted every three years, evaluates the System's actual experience as compared to its actuarial assumptions.
 - Actuarial assumptions include –
 - Demographic factors, such as mortality, disability, turnover, and retirement rates.
 - Economic assumptions, such as investment returns, inflation, and salary increases.
- In combination, these assumptions offer the actuary's best estimate of anticipated future experience.
- Based on the experience study, new or revised assumptions are then established by the Board.

KPERS' Investment Return Experience

- Due to two major bear markets, returns for large institutional investors over the last decade are in the range of 5% -- significantly lower than typical investment return assumptions.
- Like other institutional investors, KPERS' average 10-year return is less than 8%.
- KPERS has exceeded its 8% investment return assumption over the last 20 years.

Average Annual Return through 10/31/10



KPERS' Review

- Many public pension systems are undertaking careful reviews of their investment return assumptions in light of –
 - The last decade's market dislocations.
 - Indications that, over short-to-midterm periods of time, the financial markets may see subdued growth and continued volatility.
- In conjunction with conducting its triennial asset-liability and experience studies, the KPERS Board is carefully reviewing its investment return assumption.
- ▪ The Board is likely to reach a decision about this key assumption in the spring of 2011.
- If it concludes that the investment return assumption should be lowered, there would be a significant impact on contribution rates and measures of the System's funded status, as well as on valuation of the System's liabilities.
- As this review progresses, KPERS will continue to develop estimates of the potential impact of the change on the System's funded status and contribution rates and will provide updated information to the Legislature.

Attachment 3
JCRIB 12-2-10

Kansas Public Employees Retirement System

Long-Term Funding Overview

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

KPERS Long-Term Funding Analysis

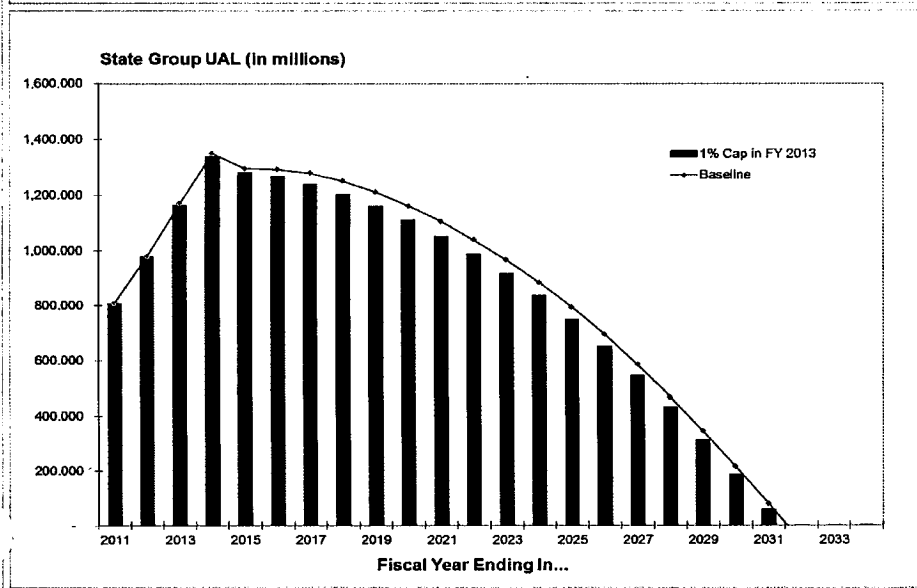
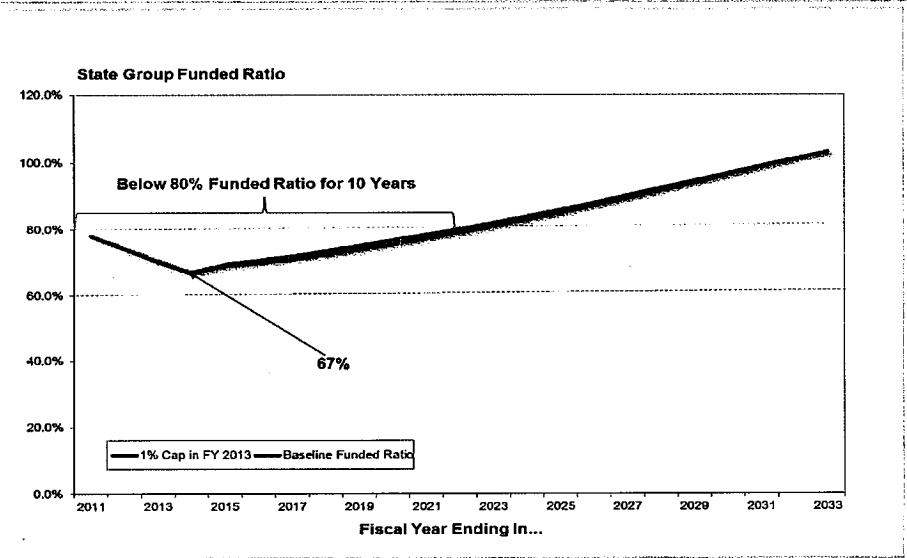
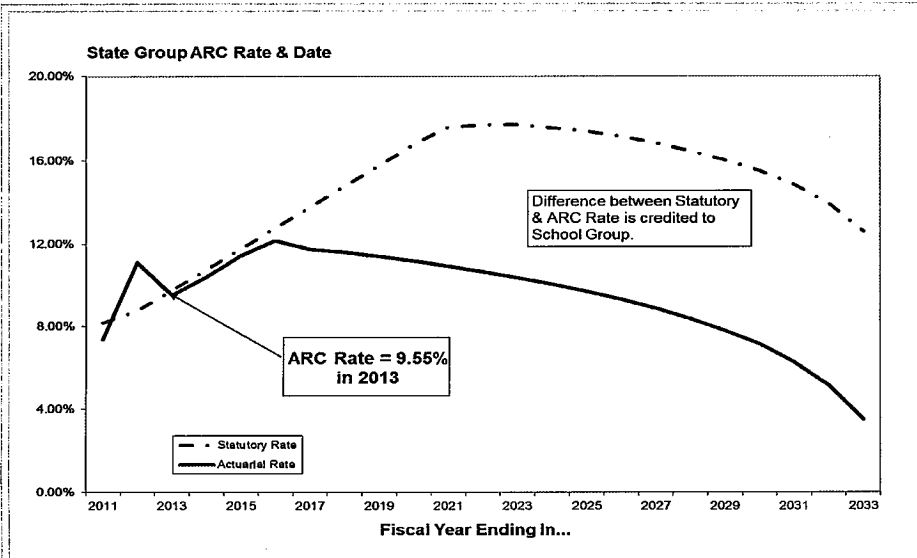
3-2

- During the September meeting of the Joint Committee, a long-term funding presentation focusing on KPERS' current status was presented. Key measures included projections of –
 - Actuarially required contribution (ARC) rates and dates.
 - Funded ratios and unfunded actuarial liabilities.
 - Statutory rates as a percent of ARC rates.
 - Contribution amounts.
- See Appendix A for these baseline measures.
- Using similar funding criteria measures, this presentation will evaluate the impact of two funding options.
- Both options are based on bills considered by the 2010 Legislature.
 - A 1.0 % cap on employer rate increases, effective FY 2013. (*HB 2400, expanded to include all three KPERS Groups.*)
 - A 1% cap on increases in the employer contribution rate; a 2.0% increase in employee contributions, phased in with .5% increases in each of four years; and an increase in the benefit formula multiplier to 1.85% for future service only. (*SB 564, with its effective dates delayed by one year.*)

State Group: Updated HB 2400 Projections

- Raise employer rate increase cap to 1.0%, effective FY 2013. Assumes average annual investment return of 8%.

3-3

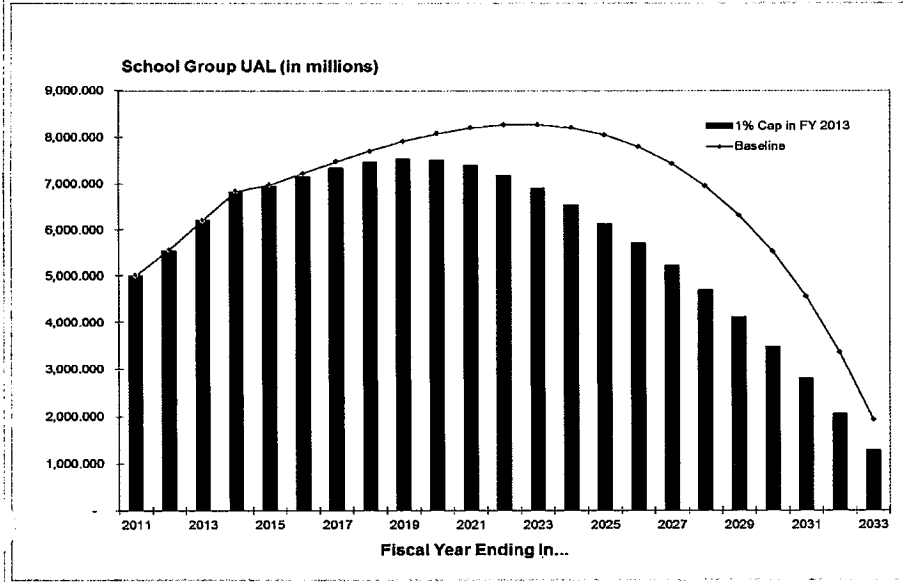
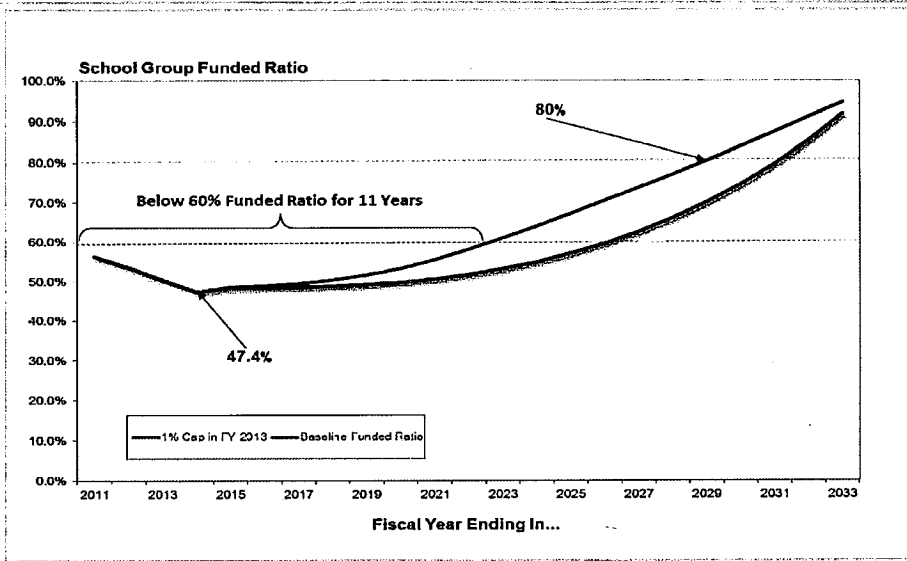
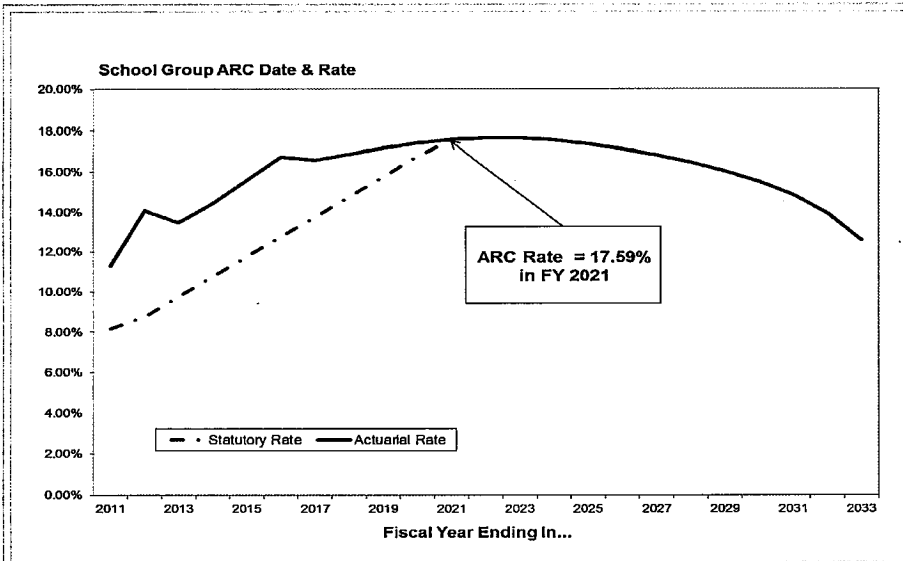


- The projected ARC rate of 9.55% is 2.25% less than the Baseline ARC rate of 11.8%. The ARC date moves up 5 years to FY 2013.
- Funded ratios reach a low of 67% in FY 2014. They are projected to reach 80% in FY 2022.
- The projected UAL rises by 66% to \$1.34 billion in FY 2014.

School Group: Updated HB 2400 Projections

3-4

▪ Raise employer rate increase cap to 1.0%, effective FY 2013. Assumes average annual investment return of 8%.

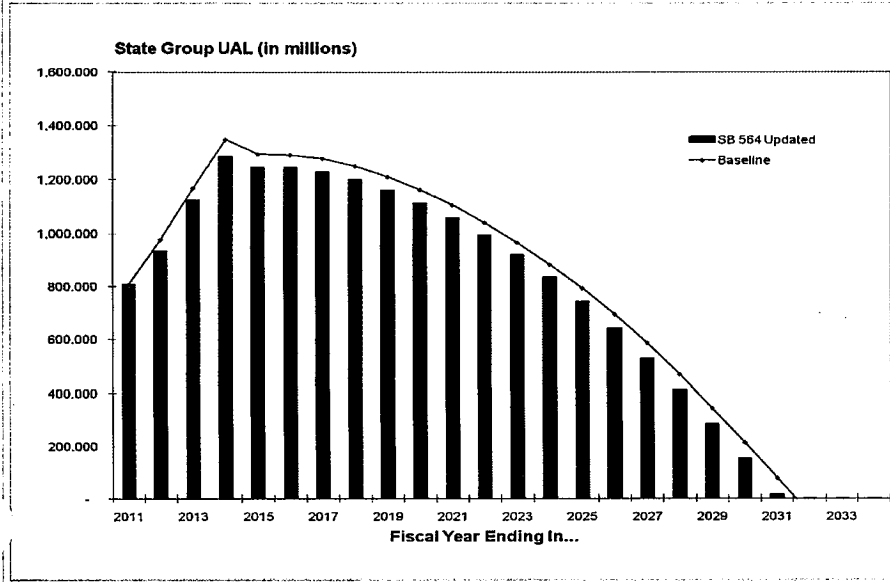
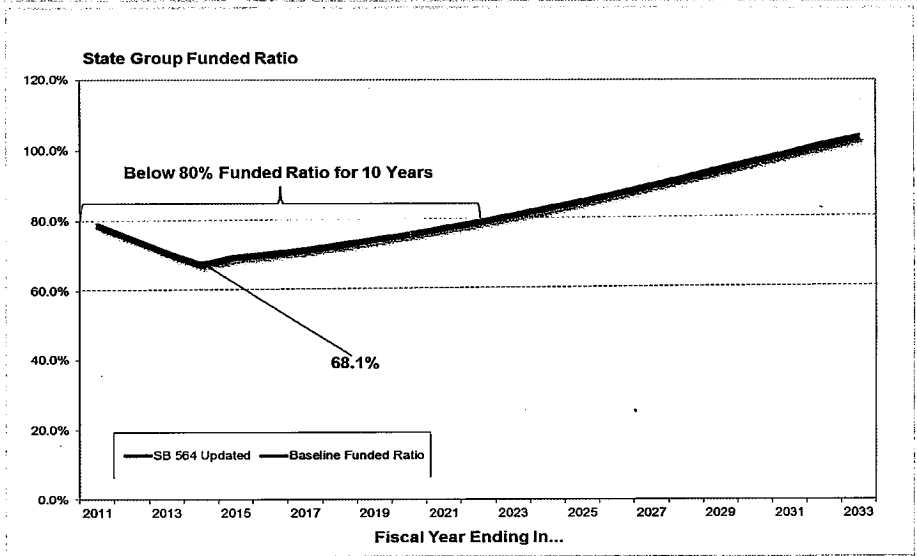
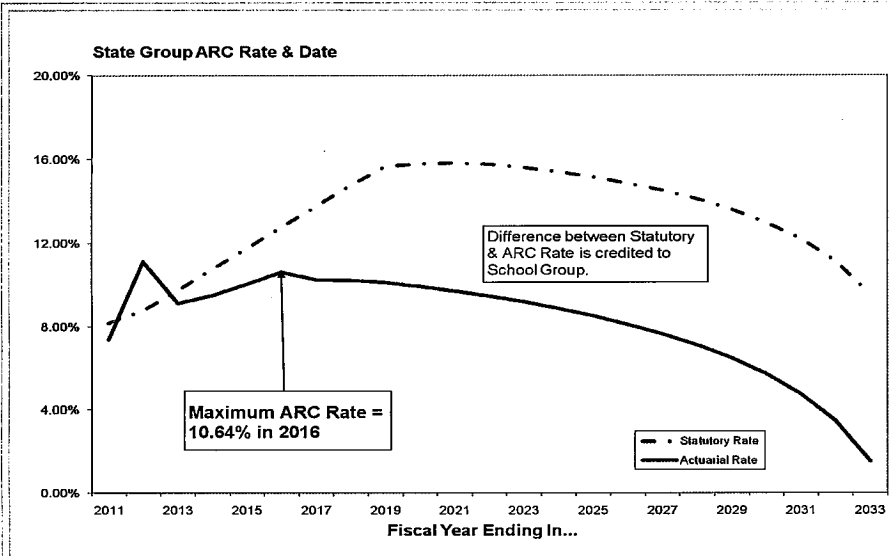


- The School Group is in actuarial balance with an ARC rate of 17.59% in FY 2021. Under the Baseline, the statutory rate reaches 21.37% by FY 2033.
- Funded ratio projections reach a low of 47.1% in FY 2014 and remain below 50% through FY 2017.
- The funded ratio is not projected to reach 60% until FY 2023 or 80% until FY 2029.
- The projected UAL rises 57% to \$7.53 billion in FY 2019.

State Group: Updated SB 564 Projections

- Raise employer rate increase cap to 1.0%, effective FY 2013. Raise employee contribution rate by 2.0% over 4 years and multiplier to 1.85% for future service, effective January 1, 2013. Assumes average annual investment return of 8%.

33

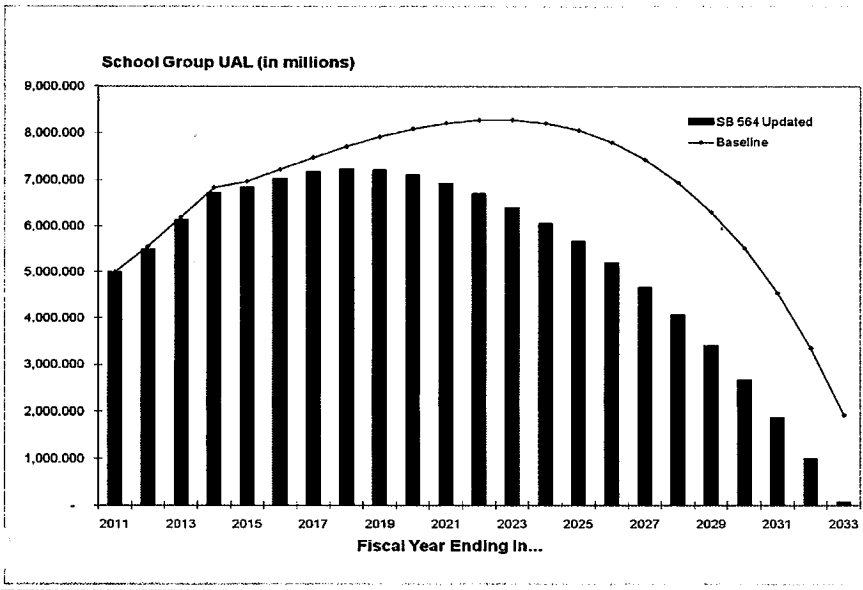
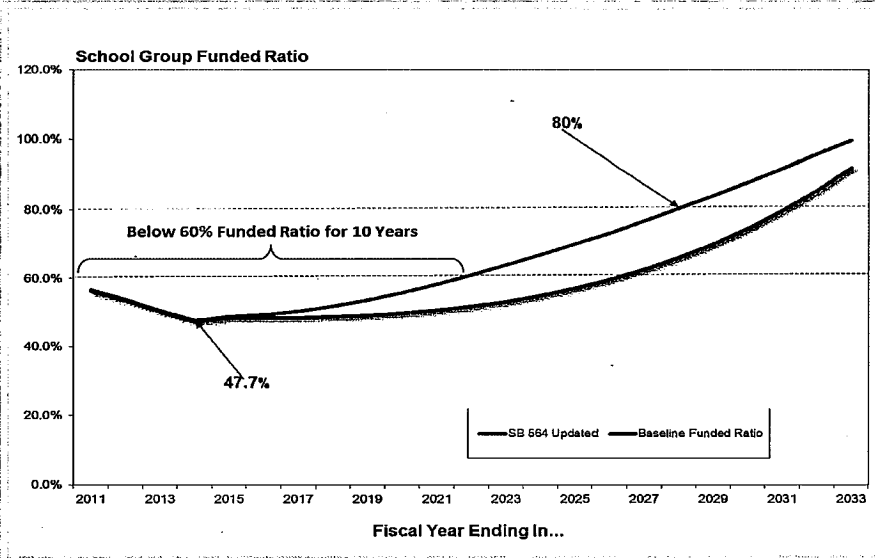
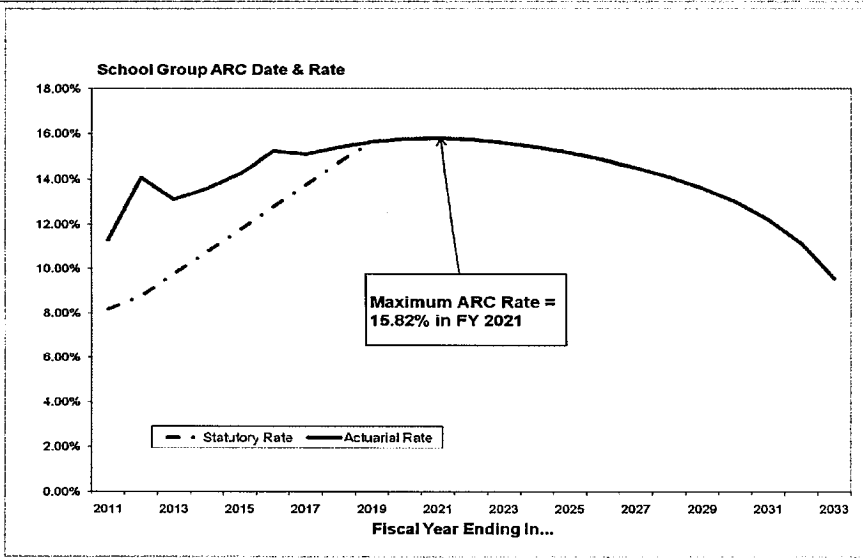


- The projected ARC rate of 9.13% in FY 2013 is 2.67% less than the Baseline ARC rate of 11.8%. The ARC rate continues rising through FY 2016 to a high of 10.64%.
- Funded ratios reach a low of 68.1% in FY 2014. They are projected to reach 80% in FY 2022.
- The projected UAL rises by 60% to \$1.29 billion in FY 2013.

School Group: Updated SB 564 Projections

- Raise employer rate increase cap to 1.0%, effective FY 2013. Raise employee contribution rate by 2.0% over 4 years and multiplier to 1.85% for future service, effective January 1, 2013. Assumes average annual investment return of 8%.

3-6



- The School Group reaches the ARC rate of 15.66% in FY 2019 – two years earlier than under HB 2400. The maximum ARC rate of 15.82% is reached in FY 2021.
- Funded ratio projections reach a low of 47.7% in FY 2014, remaining below 50% through FY 2016.
- The funded ratio is not projected to reach 80% until FY 2028.
- The projected UAL rises 45% to \$7.23 billion in FY 2018.

Employer Contributions

- A fundamental principle of sound funding for a defined benefit plan is to consistently pay the full ARC rate.
- Due to the statutory cap on employer rate increases of .6%, there is a significant gap between the statutory and ARC rates for each of the KPERS Groups.
 - In the current fiscal year, the statutory employer rate for the State/School Group is 72% of its ARC rate (8.17% statutory rate vs. 11.30% actuarial rate).
- Raising the cap on employer contribution rate increases to 1% per year moves KPERS toward the goal of contributing at the ARC rate.
- The State/School statutory rate is projected to reach 100% of ARC within 7 to 9 years under HB 2400 and SB 564 respectively.
- Substantial increases in state funding for KPERS retirement benefits will occur even with the current .6% per year statutory cap on employer rate increases.
 - Because the employer contribution rate is a percent of payroll, contributions automatically increase as the payroll base increases.
 - State funding in FY 2012 will rise by \$37.1 million to \$401.6 million.
 - From FY 2011 to FY 2016, State funding will have increased by 57% to \$571.0 million.

Employer Contributions (Continued)

- Under either HB 2400 or SB 564, the pace at which State contributions grow would accelerate substantially, beginning in FY 2013.
 - State funding in FY 2013 would rise by an additional \$18.8 million to \$459.1 million.
 - By FY 2016, State funding would increase an additional \$81.8 to \$652.8 million.
- However, from FY 2011 through the remainder of the amortization period in FY 2033, total employer contributions under both options would be less than under the Baseline – by \$1.16 billion with HB 2400 and by \$3.53 billion for SB 564.

NB

3-8

Employer Contributions

3-9

<u>Employer Contributions</u>	<u>Baseline</u>	<u>SB 564/HB 2400</u>	<u>Additional Contributions</u>
FY 2013 Increase over Prior FY	\$ 38.76	\$ 57.56	\$ 18.80
FY 2013 Total Contributions	\$ 440.34	\$ 459.14	\$ 18.80
FY 2014 Increase over Prior FY	\$ 41.08	\$ 60.91	\$ 19.83
FY 2014 Total Contributions	\$ 481.42	\$ 520.05	\$ 38.63
FY 2015 Increase over Prior FY	\$ 43.50	\$ 64.46	\$ 20.96
FY 2015 Total Contributions	\$ 524.92	\$ 584.51	\$ 59.59
FY 2016 Increase over Prior FY	\$ 46.08	\$ 68.29	\$ 22.21
FY 2016 Total Contributions	\$ 571.00	\$ 652.80	\$ 81.80
Total Employer Contributions: FY 2011-2033			
SB 564	\$ 23,048.75	\$ 19,517.13	\$ (3,531.62)
HB 2400	\$ 23,048.75	\$ 21,887.03	\$ (1,161.72)

Pension Obligation Bond Options

3-10

At its September meeting, the Committee also requested that KPERS work with the Kansas Development Finance Authority (KDFA) to update projections for two pension obligation bond options modeled during the 2009 Interim.

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

Bond Option 1

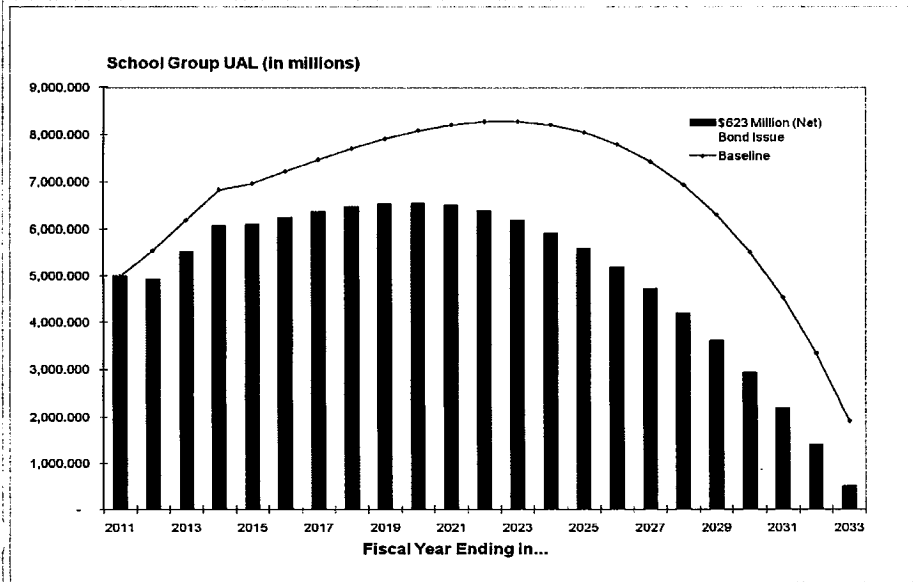
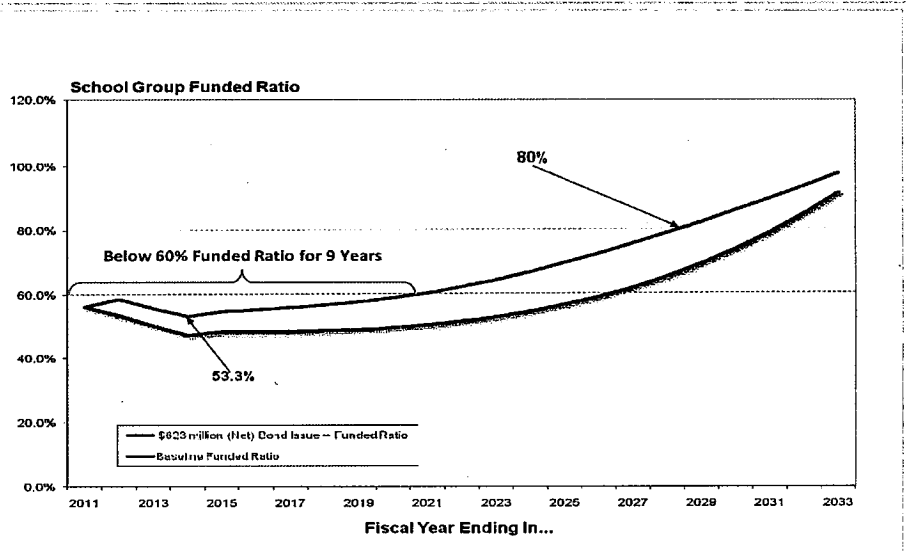
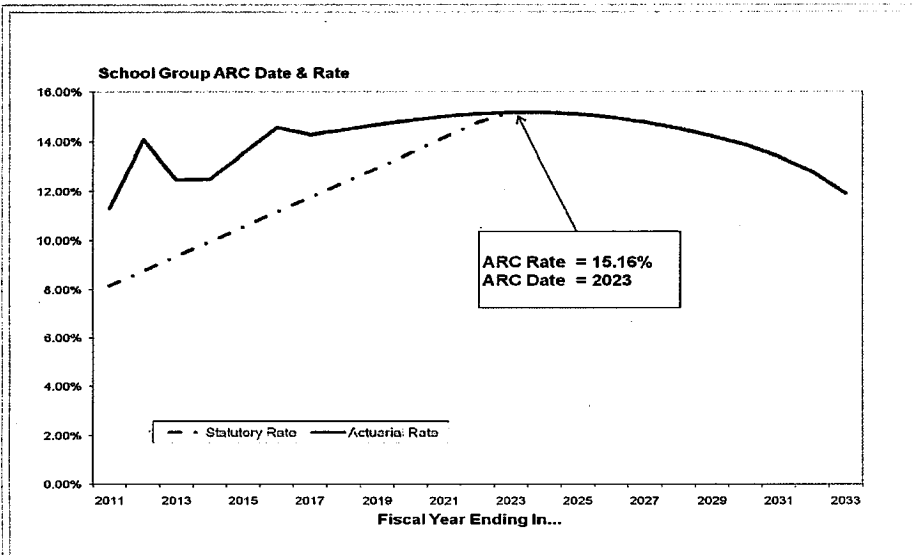
3-11

- The approach in this option is for the State to make an up-front employer contribution that matches the present value of a 1% employee contribution increase.
- Assuming a 1.0% increase in the employee contribution rate for both Tiers 1 and 2, effective 1/1/12 (FY 2012), the net present value of the additional employee contributions through FY 2033 is \$623.0 million.
- In addition to the 1.0% increase in member contributions for Tiers 1 and 2, Option 1 “matches” these employee contributions with a bond issue of \$623.0 million (par amount of \$692.79 million).
- Option 1 is based on the following assumptions.
 - Issuance in 2011.
 - A 22-year amortization period.
 - Phased-in debt service.
- See Appendix B for State contributions and debt service amounts

School Group: Bond Option 1

Issue bonds with proceeds of \$623 million in 2011 with payments phased in beginning FY '14. Raise Tier I & 2 employee rate by 1.0% in FY '12. Assumes average annual investment return of 8%.

3-12



- The projected ARC rate rises to 15.16% in FY 2023. The Baseline does not achieve ARC.
- The funded ratio falls to a low of 53.3% in FY 2014, 5.9% higher than the Baseline.
- The funded ratio reaches 60% in FY 2021 and 80% by FY 2029.
- The projected UAL peaks at \$6.55 billion in FY 2020 – \$1.7 billion less than the Baseline.

Bond Option 2

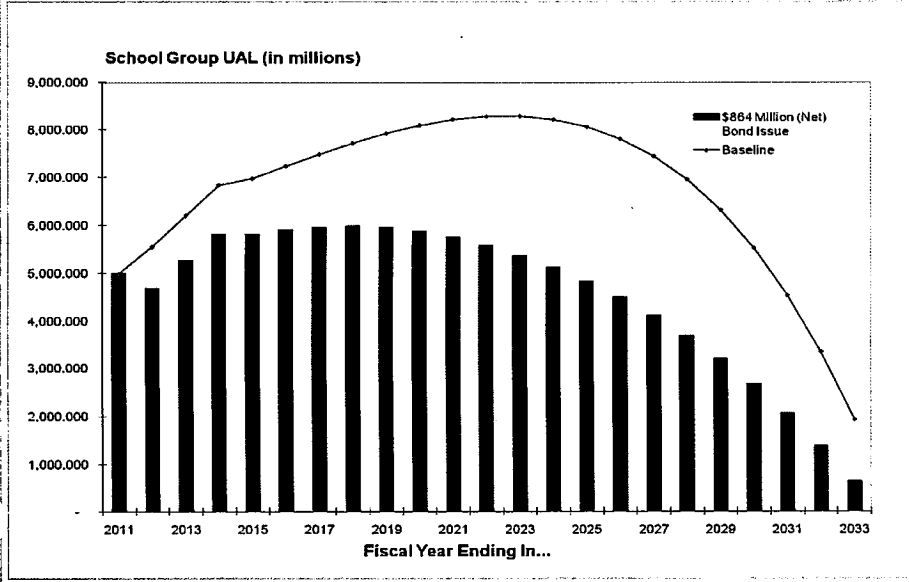
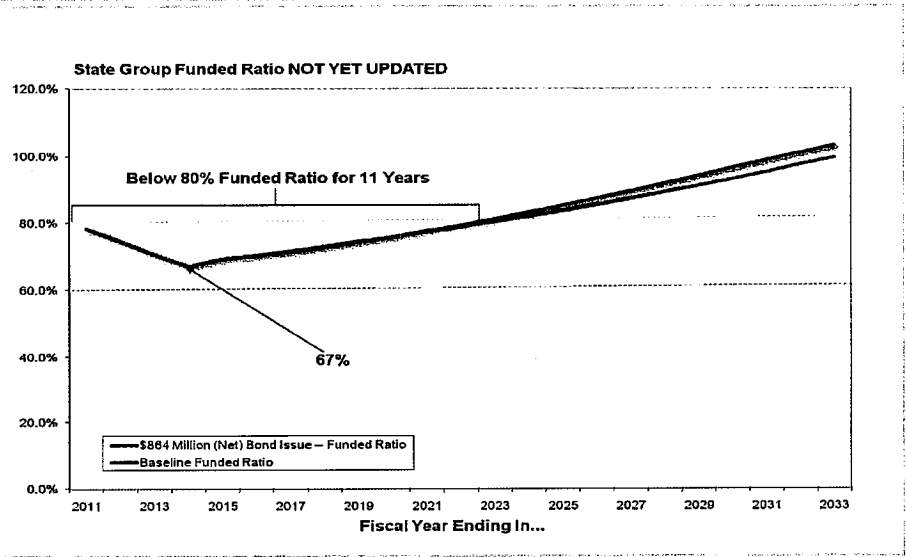
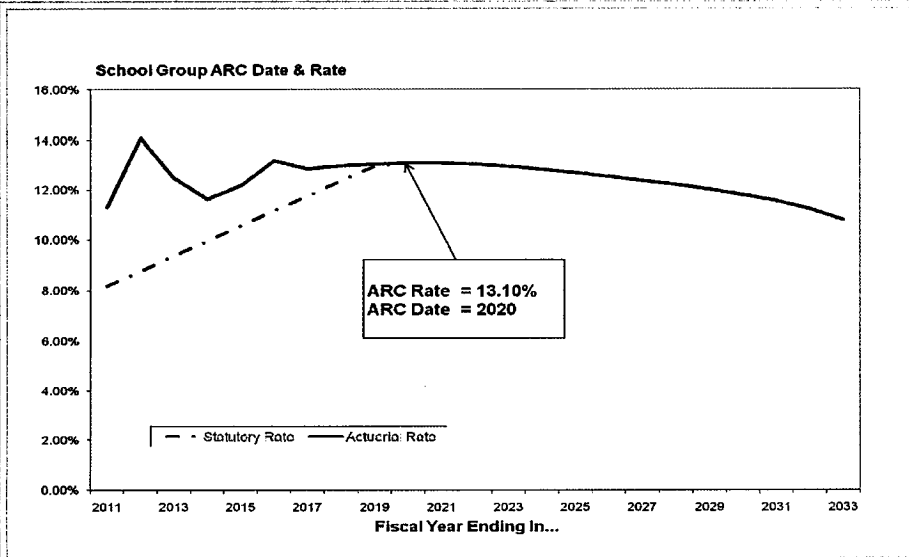
- Bond option 2 substitutes an “up-front” employer contribution matching the Present Value of a 1% cap on employer contributions.
- When compared to the Baseline employer contributions with a .6% cap, a 1% cap beginning in FY 2012 results in additional employer contributions of \$1.53 billion through FY 2025.
- The net present value of that payment stream is equivalent to \$864 million.
- Option 2 replaces the additional employer contribution increases generated by a 1% cap with a bond issue of \$864 million (par amount of \$960.3 million). In addition, it includes an increase in member contributions of .5% for both Tiers 1 and 2 in each of four years, beginning 1/1/2012 (FY 2012).
- Option 2 is based on the following assumptions:
 - Issuance in 2011.
 - A 22-year amortization period.
 - Phased-in debt service.
- See Appendix C for State contributions and debt service amounts

3-13

School Group: Bond Option 2

- Issue bonds with proceeds of \$864 million in 2011 with payments phased in, beginning FY '14. Raise Tier I & 2 employee rate by .05% in each of four years, beginning in FY '12. Assumes average annual investment return of 8%.

3-14



- The projected ARC rate rises to 13.1% in FY 2020 – 2.06% lower and 3 years earlier than Bond Option 1.
- The funded ratio falls to a low of 55.3% in FY 2014.
- The funded ratio reaches 60% in FY 2018 and 80% by FY 2028.
- The projected UAL peaks at \$5.99 billion in FY 2018 -- \$562.2 million less and two years earlier than Bond Option 1.

KPERS' Funding as a Percent of State Budget

3-15

- At the Joint Committees' September meeting, you requested information about the percent of the State's budget that is attributable to pension contributions.
- As set out below, State funding for KPERS' State and School Groups is projected to be 3.0% of total State expenditures and 6.4% of State General Fund expenditures for FY 2011.

		Projected FY 2011 Expenditures	
		(in millions)	
		<u>All Funds</u>	<u>SGF</u>
	State Group	\$ 87.11	\$ 43.56
State Expenditures: KPERS	School Group	\$ 277.36	\$ 277.36
State and School Groups*	<u>Pension Bond Payments</u>	\$ 40.90	\$ 39.49
	Total	\$ 405.37	\$ 360.51
Total State Expenditures		\$ 13,711.60	\$ 5,626.60
KPERS as % of State Expenditure Total		3.0%	6.4%

*Excludes death and disability benefit contributions

Pension Contributions in Other States

3-16

- Information about other State's funding levels for pension benefits was also requested at the September meeting. Comparisons among states are difficult.
 - State-wide plans vary widely with respect to which employee groups are covered.
 - One or more separate plans may cover various combinations of teachers and other school employees, state employees, public safety employees, or local employees.
 - States also vary as to which groups are covered by Social Security.
 - States differ with respect to the source of employer contributions.
 - Among state-administered plans covering local government and school employees, state funding for local unit and school district employer contributions varies widely.
 - The state-administered retirement system in Massachusetts is financed totally at the state level. Florida local units fund almost 80% of their pension costs.*
 - Iowa schools pay the employer portion of IPERS contributions out of general operating funds, which are a combination of State aid and local property taxes.
- For these reasons, only very broad-based, general comparisons between states are available.

"The Impact of Public Pensions on State and Local Budgets," Alicia H. Munnell, Jean-Pierre Aubry, and Laura Quimby. Center for Retirement Research at Boston College, Number 13, October 2010, page 3.

3-17

Contributions in Other States (Continued)

- One study using 2008 U.S. Census Bureau data estimated that nationwide average expenditures for public sector pensions accounted for 3.8% of total state and local direct expenditures.
 - While there is some variation between states, public pension expenditures represented 4% or less of total state and local government direct expenditures in 42 states.

Percent of State and Local Budgets, 2008	Number of States
1-2%	13
3-4%	29
5-6%	6
7-8%	1
9-10%	0
11-12%	1

"The Impact of Public Pensions on State and Local Budgets," Alicia H. Munnell, Jean-Pierre Aubry, and Laura Quimby. Center for Retirement Research at Boston College, Number 13, October 2010, page 3.

- Using 2008 figures from the same U.S. Census Bureau database, Kansas pension expenditures account for approximately 2.5% of total State and local expenditures.

Conclusions

- As noted in the past –
 - Current benefits are safe for a period of time. Assets of more than \$12 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.
- Analyses of funding improvement options such as updated versions of HB 2400 and SB 564 illustrate that increasing contributions (through a higher cap on employer rate increases alone or in combination with higher member contributions) would –
 - Bring the Plan into actuarial balance.
 - Reduce the maximum employer contribution rate and the total employer contributions paid through FY 2033.
 - Modestly improve the funded ratio after 10 to 20 years.
- However, the long-term funding shortfall is of a magnitude that increases in contributions are not likely to result in substantial improvement in KPERS' funded status in the short to mid-term.

3-18

Conclusions (Continued)

- Legislative action is necessary to begin the process of addressing the funding shortfall, with additional employer contributions as a basic element.
 - Consistently contributing at the ARC rate is a fundamental principle of sound funding.
 - HB 2400 and SB 564 move funding closer to that goal. However, contributions would not reach the ARC rate for 7 to 9 years.
- Because the 2010 Legislature did not increase KPERS' funding beyond the current 0.6% statutory increase cap, passing long-term funding legislation in the 2011 session is essential.

3-19

3-20

Appendix A

Key 12/31/09 Valuation Measurements

3-21

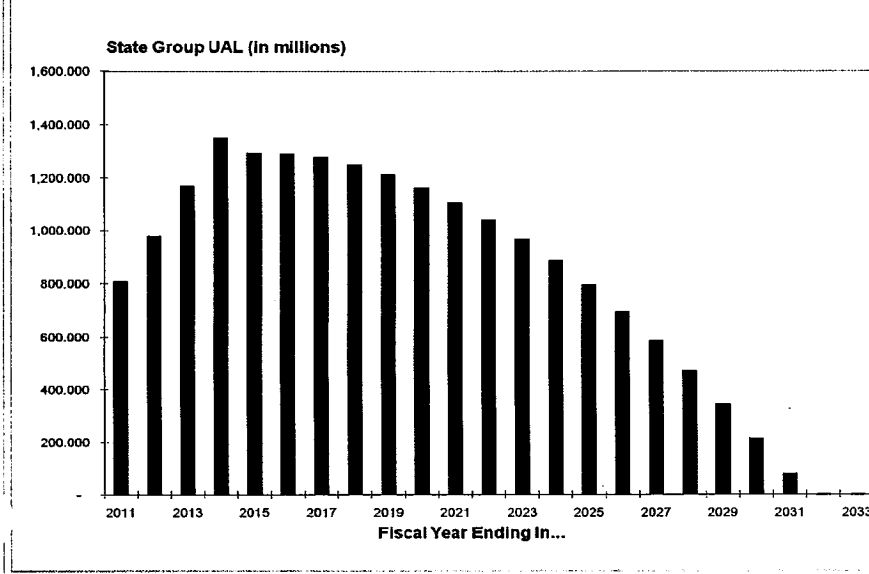
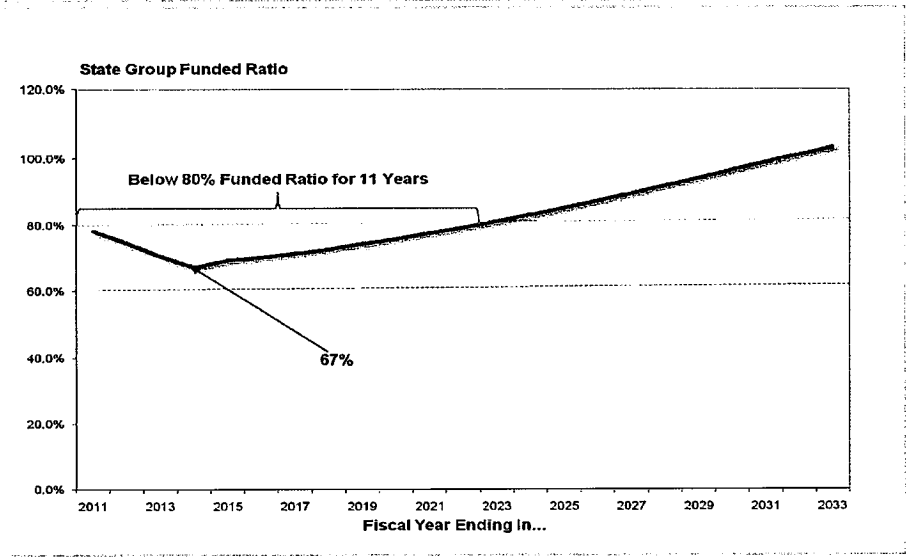
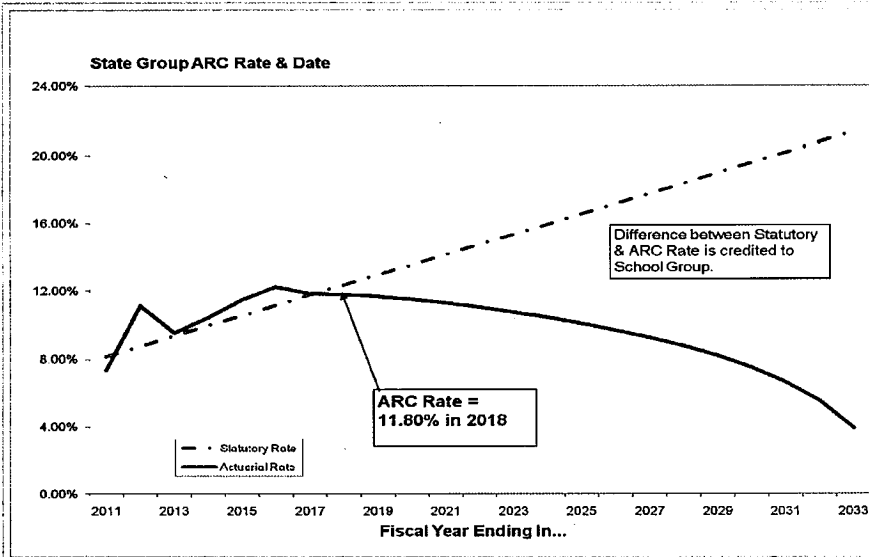
Group	Contribution Rates*		Actuarial Funded Status	
	Actuarial Rate	Statutory Rate	Unfunded Actuarial Liability (in Millions)	Funded Ratio
State	9.55%	9.37%	\$806.2	78%
School	14.69%	9.37%	\$4,998.8	56%
Local	9.44%	7.34%	\$1,315.5	64%
KP&F	16.54%	16.54%	\$530.3	76%
Judges	23.75%	23.75%	\$26.1	82%
System Totals			\$7,676.9	64%

*Effective for fiscal year beginning in 2012. (FY 2013 for State and School Groups, State KP&F employers, and Judges. CY 2012 for Local Group and Local KP&F employers.)

State Group: Baseline Projections

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

3-22

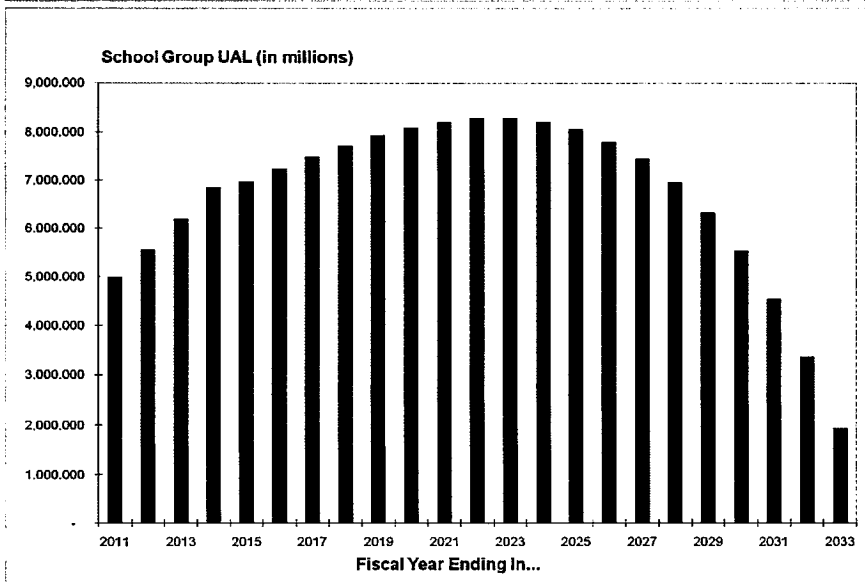
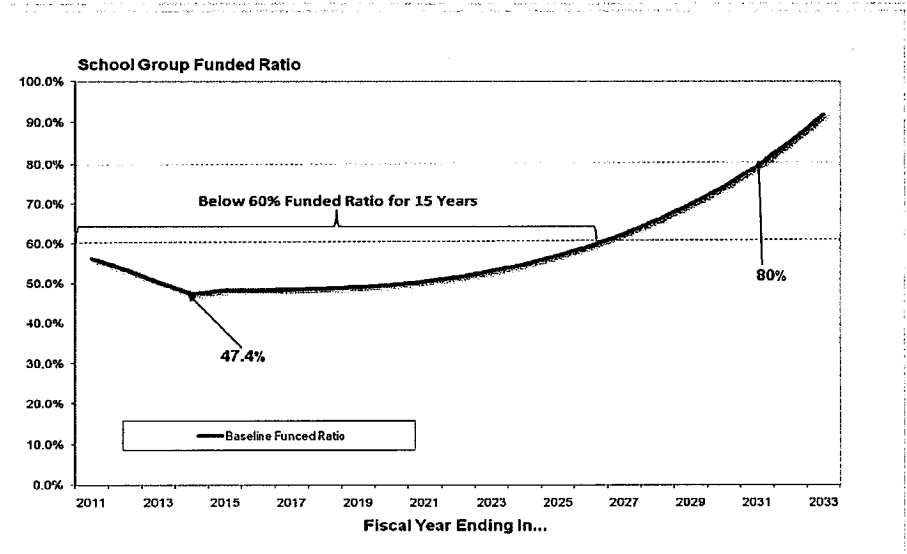
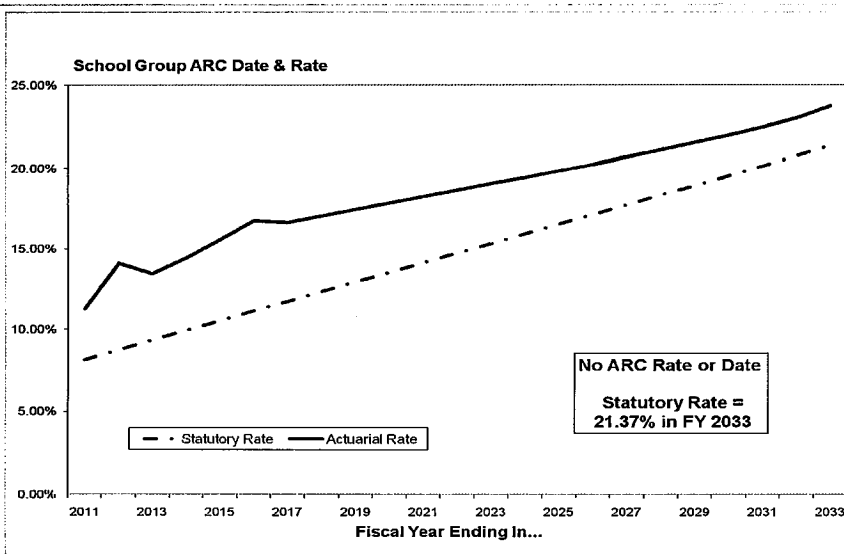


- The projected ARC rate of 11.8% is 44% higher than the State/School rate paid by state agencies in FY 2011 (8.17%).
- Funded ratios reach a low of 67% in FY 2014. They are projected to reach 80% in FY 2023.
- The projected UAL rises by 67% to \$1.35 billion in FY 2014.

School Group: Baseline Projections

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

3-23

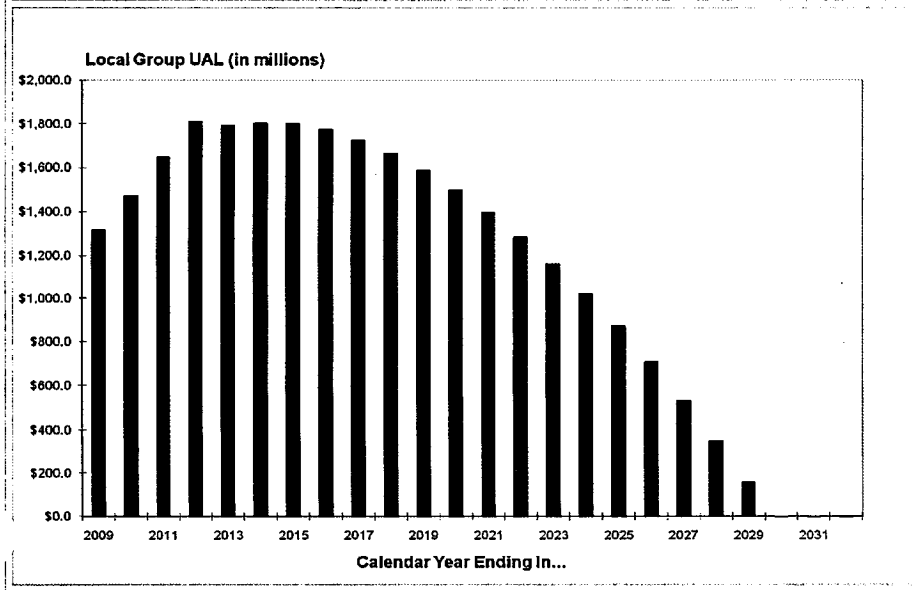
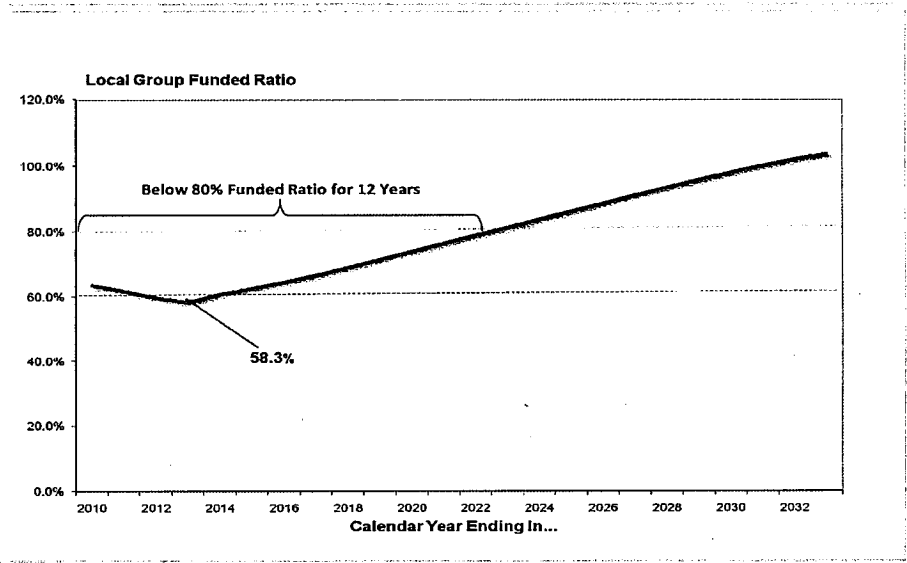
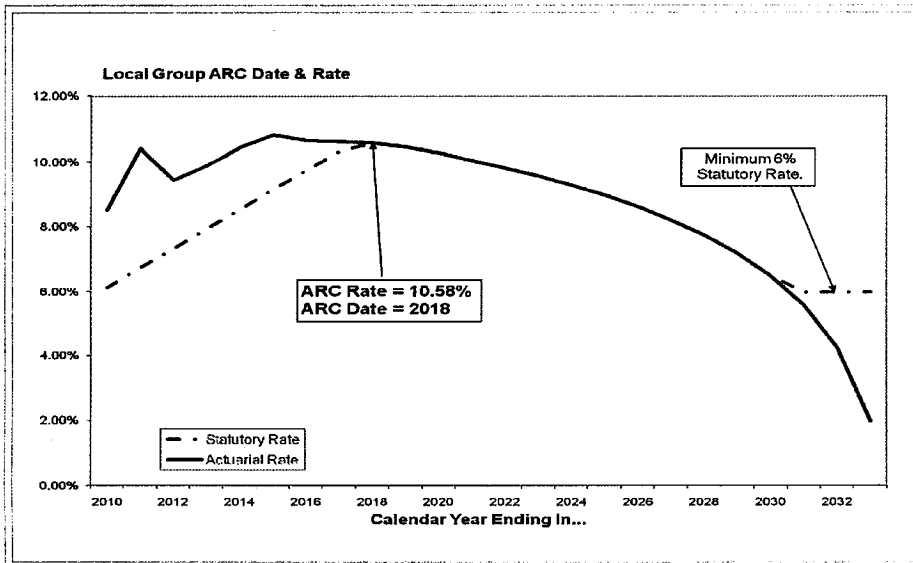


- The School Group is still not in actuarial balance by FY 2033, despite a peak statutory rate of 21.37%.
- Funded ratio projections reach a low of 47% in FY 2014 and remain below 50% until FY 2021.
- The funded ratio is not projected to reach 60% until FY 2027 and only reaches 80% in FY 2032.
- The projected UAL rises 66% to \$8.3 billion in FY 2023.

Local Group: Baseline Projections

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

3-24



- The Local Group ARC rate is projected to rise by 72% to 10.58% in CY 2018.
- The projected funded ratio will fall to 58% by CY 2013, regaining 60% the next year.
- The funded ratio is projected to reach 80% by CY 2023.
- The UAL is projected to increase by 38% to \$1.8 billion in CY 2013.

3-25

Appendix B

Option 1: State Contributions and Debt Service

3-26

Fiscal Year	Baseline*		Option 1: \$623 Million Bond Issue*			Total Increase in Annual State Outlays*
	State/School Current Contributions (0.6% Cap)	Annual Increase in Contributions	Option 1: State/School Contributions (0.6% Cap)	SGF Debt Service Payments	Total State Payment	
2011	\$ 364.47	\$ 34.47	\$ 364.47	\$ -	\$ 364.47	\$ -
2012	\$ 401.58	\$ 37.11	\$ 401.58	\$ -	\$ 401.58	\$ -
2013	\$ 440.34	\$ 38.76	\$ 440.34	\$ -	\$ 440.34	\$ -
2014	\$ 481.42	\$ 41.08	\$ 481.42	\$ 36.35	\$ 517.77	\$ 36.35
2015	\$ 524.92	\$ 43.50	\$ 524.92	\$ 36.35	\$ 561.27	\$ 36.35
2020	\$ 784.83	\$ 58.29	\$ 784.83	\$ 61.95	\$ 846.78	\$ 61.95
2025	\$ 1,135.07	\$ 78.57	\$ 1,046.17	\$ 61.95	\$ 1,108.12	\$ (26.96)
2033	\$ 1,955.35	\$ 123.78	\$ 1,112.15	\$ 61.95	\$ 1,174.10	\$ (781.25)
Total	\$ 23,048.75		\$ 19,393.22	\$ 1,187.83	\$ 20,581.05	\$(2,467.70)

* In millions

3-27

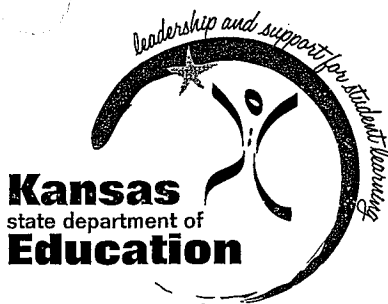
Appendix C

Option 2: State Contributions and Debt Service

3-28

Fiscal Year	Baseline*		Option 2: \$864 Million Bond Issue*			Total Increase in Annual State Outlays*
	State/School Current Contributions (0.6% Cap)	Annual Increase in Contributions	Option 2: State/School Contributions (0.6% Cap)	SGF Debt Service Payments	Total State Payment	
2011	\$ 364.47	\$ 34.47	\$ 364.47	\$ -	\$ 364.47	\$ -
2012	\$ 401.58	\$ 37.11	\$ 401.58	\$ -	\$ 401.58	\$ -
2013	\$ 440.34	\$ 38.76	\$ 440.34	\$ -	\$ 440.34	\$ -
2014	\$ 481.42	\$ 41.08	\$ 481.42	\$ 50.39	\$ 531.80	\$ 50.39
2015	\$ 524.92	\$ 43.50	\$ 524.92	\$ 50.39	\$ 575.31	\$ 50.39
2020	\$ 784.83	\$ 58.29	\$ 768.25	\$ 85.87	\$ 854.12	\$ 69.29
2025	\$ 1,135.07	\$ 78.57	\$ 886.56	\$ 85.87	\$ 972.43	\$ (162.64)
2033	\$ 1,955.35	\$ 123.78	\$ 1,015.16	\$ 85.87	\$ 1,101.04	\$ (854.32)
Total	\$ 23,048.75		\$ 17,569.59	\$ 1,646.45	\$ 19,216.04	\$(3,832.71)

* In millions



Division of Fiscal & Administrative Services

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December 2, 2010

TO: Joint Committee on Pensions, Investments, and Benefits

FROM: Dale M. Dennis, Deputy
Commissioner of Education

SUBJECT: History of Teacher Vacancies and Licensed/Non-Licensed Staff

Attached you will find the following information for Kansas unified school districts for your review. We hope this information will be helpful to you.

- Ten-year history of teacher vacancies
- Ten-year history of licensed personnel
During the current school year, licensed personnel was reduced by 816.3.
- Ten-year history of non-licensed personnel
During the current school year, non-licensed personnel was reduced by 844.0.

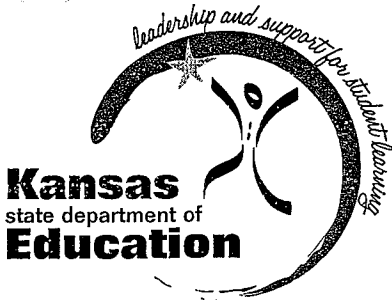
TEACHER VACANCY HISTORY – As of August 1 of Each School Year

4-2

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
ELEMENTARY											
Counseling	8.0	15.3	4.0	6.5	4.5	15.0	15.3	7.7	11.3	2.7	4.0
Music	18.0	19.0	11.2	10.25	8.25	8.4	8.9	7.4	4.0	1.7	2.0
Special Education	73.5	66.4	56.8	50.33	41.0	76.9	55.5	45.5	27.7	12.4	11.0
Other	120.5	85.7	78.0	90.15	64.0	88.1	102.0	47.7	41.0	30.7	27.0
MIDDLE SCHOOL											
Counseling	2.0	3.8	3.0	3.2	3.45	6.25	4.0	6.0	6.5	0	2.0
Business	2.0	1.0	1.0	1.0	1.0	1.6	0	.5	0	0	1.0
Foreign Language	4.8	4.0	4.5	8.0	4.3	1.5	2.0	2.3	4.0	.25	2.0
Math	14.1	7.5	11.0	9.0	6.0	12.0	11.0	10.0	2.0	3.0	4.0
Music	10.6	10.4	7.2	5.75	4.95	3.3	2.1	5.8	5.5	1.1	1.0
Science	11.5	7.5	5.5	4.25	3.25	8.5	4.0	7.0	2.0	.50	5.0
Special Education	31.0	49.7	34.6	27.33	25.5	33.4	40.0	19.0	6.5	5.25	13.5
Technology	3.0	1.3	2.2	2.25	2.0	4.5	4.0	1.5	0	0	0
Other	34.0	28.8	29.6	25.4	9.2	25.5	45.7	18.5	10.0	5.25	13.0
HIGH SCHOOL											
Counseling	1.5	3.9	4.0	2.3	3.55	8.25	4.0	7.7	4.7	.90	3.0
Business	14.0	17.5	7.0	4.5	3.2	4.5	9.3	4.5	1.0	1.5	2.0
Foreign Language	14.3	16.3	14.6	10.79	9.39	10.5	13.0	3.8	11.5	2.75	3.0
Ind. Technology	5.0	10.0	9.0	7.5	3.5	5.5	4.0	7.0	5.0	1.5	0
Vocational		12.5	6.0	7.0	5.14	17.0	9.5	9.0	3.0	2.0	1.0
Math	16.1	19.0	13.5	12.9	10.5	31.0	29.0	28.0	15.5	5.0	1.0
Music	17.7	12.6	10.5	5.5	3.5	2.3	4.5	2.3	3.5	2.2	3.0
Science	NA	NA	NA	NA	NA	NA	15.5	0	7.0	5.5	2.25
Special Education	50.5	58.9	42.5	23.74	31.5	45.2	63.5	40.5	32.0	18.45	13.0
Technology	4.0	3.9	3.3	0.5	6.5	6.0	1.5	2.0	0	0	1.0
Other	74.0	57.4	43.0	32.6	40.35	68.8	48.9	31.9	25.2	1.5	19.63
SUBTOTALS	530.1	512.4	402.0	350.74	294.53	483.4	497.2	315.5	228.9	104.15	134.38
Temporary Positions	175.0	144.2	144.0	75.25	147.70	101.0	116.0	161.0	121.5	51.70	50.63
TOTALS	705.1	656.6	546.0	425.99	442.23	584.4	613.2	476.5	350.4	155.85	185.01

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KANSAS STATE DEPARTMENT OF EDUCATION											
CERTIFIED PERSONNEL HISTORY											
Position	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2010-2011 Inc/Dec
Superintendents	278.0	274.3	271.1	268.7	269.7	267.1	266.2	264.9	263.5	255.6	-7.9
Associate/Assistant Superintendents	101.0	94.7	88.8	83.8	86.4	93.5	91.1	91.0	89.7	91.3	1.6
Administrative Assistants	40.0	40.1	31.8	44.2	40.6	41.5	43.1	62.5	58.4	52.3	-6.1
Principals	1,273.8	1,254.9	1,237.6	1,225.6	1,234.2	1,243.0	1,249.3	1,248.7	1,242.3	1,212.9	-29.4
Assistant Principals	480.5	473.0	471.7	491.7	503.5	518.1	531.8	543.7	529.5	534.0	4.5
Directors/Supervisors of Special Education	113.5	120.5	120.1	120.1	122.8	120.5	123.7	120.8	121.3	105.8	-15.5
Directors/Supervisors of Health	14.3	10.0	12.5	10.0	9.0	9.2	7.0	11.6	8.1	8.0	-0.1
Directors/Supervisors of Vocational Education	23.3	23.2	18.7	15.2	16.2	19.0	19.0	13.9	13.0	11.4	-1.6
Instructional Coordinators/Supervisors	136.4	118.3	118.3	109.7	132.1	162.5	180.4	178.4	175.4	137.1	-38.3
Other Directors/Supervisors	192.4	189.6	195.3	195.2	201.0	203.5	203.6	202.1	202.3	185.7	-16.6
Other Curriculum Specialist	121.0	117.5	101.1	101.5	98.4	133.8	149.9	164.8	149.3	171.8	22.5
Practical Arts/ Vocational Education Teachers	1,093.2	1,113.7	1,122.5	1,144.4	1,234.6	1,219.8	1,268.2	1,282.1	1,266.8	1,271.3	4.5
Special Education Teachers	3,518.8	3,504.6	3,556.0	3,542.6	3,597.9	3,745.6	3,857.6	3,958.2	3,910.3	3,841.4	-68.9
Pre-Kindergarten Teachers	326.3	336.3	373.6	380.4	396.0	404.3	423.1	461.8	490.0	514.8	24.8
Kindergarten Teachers	1,199.4	1,199.6	1,243.9	1,325.7	1,439.8	1,598.7	1,722.2	1,776.2	1,765.3	1,769.2	3.9
Other Teachers	26,380.8	25,952.2	25,715.1	25,743.0	26,068.2	26,523.0	26,851.2	27,130.4	26,689.9	26,074.8	-615.1
Library Media Specialists	974.9	950.1	923.2	924.4	924.6	913.3	912.7	903.1	859.9	809.0	-50.9
School Counselors	1,172.7	1,141.2	1,117.9	1,111.3	1,120.7	1,140.0	1,138.1	1,169.9	1,136.2	1,085.1	-51.1
Clinical/School Psychologists	369.3	341.9	351.9	358.3	384.4	369.5	372.3	387.0	395.3	386.7	-8.6
Nurses	446.0	448.8	441.3	430.0	432.7	451.3	499.5	530.9	556.8	576.6	19.8
Speech Pathologists	518.3	495.8	494.9	530.9	529.8	528.2	541.4	559.7	590.0	601.1	11.1
Audiologists	9.4	8.7	9.6	9.6	10.2	11.0	11.5	12.7	13.5	12.6	-0.9
Social Work Services	276.2	251.0	257.8	273.5	273.4	306.8	353.8	341.1	382.5	353.1	-29.4
Reading Specialists/Teachers	565.5	551.8	597.5	688.5	742.4	859.7	835.4	829.3	862.8	860.0	-2.8
Others	340.1	401.1	354.8	352.8	304.8	344.9	346.5	292.7	293.6	327.8	34.2
Total	39,965.1	39,412.9	39,227.0	39,481.1	40,173.4	41,227.8	41,998.6	42,537.5	42,065.7	41,249.4	-816.3
Total Teachers	33,084.0	32,658.2	32,608.6	32,824.6	33,478.9	34,351.1	34,957.7	35,438.0	34,985.1	34,331.5	-653.6
Note - Totals are in FTE (Full Time Equivalency).											



Division of Fiscal & Administrative Services

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December 2, 2010

TO: Joint Committee on Pensions, Investments, and Benefits

FROM: Dale M. Dennis, Deputy
Commissioner of Education

SUBJECT: USD Early Retirement Programs

K.S.A. 72-5395 provides the following.

"(b) Commencing in the fiscal year that commenced in calendar year 2002 and every three years thereafter, each board that has established an early retirement incentive program shall prepare and submit a report to the State Board of Education related to such early retirement incentive program. Such report shall contain: (1) Three years of budget data of such program, including actual costs, and current year and future years' budget data for three to five years; (2) current costs and benefits of such program and projected costs and benefits of such program for three to five years; (3) current and projected number of participants in such program; and (4) such other information as required by the State Board of Education. The State Board of Education shall design and distribute forms to carry out the provisions of this act to the board of education of each school district that has established an early retirement incentive program. The State Board of Education shall compile and prepare a summary report which shall be submitted to the Joint Committee on Pensions, Investments and Benefits no later than January 1 of the year that follows the end of the fiscal year in which the reporting is required as provided in this subsection."

The State Department of Education has conducted a study requesting the early retirement incentive program information required by law. Attached you will find a summary of the responses received from all 289 Kansas school districts.

Feel free to contact this office if you have questions concerning this report.

DUE October 20, 2010 - EVERY DISTRICT must complete and return this survey to KSDE.

Return signed survey by FAX: 785-296-0459 Attn: Dale Dennis -- OR e-mail (attach file) to: sroot@ksde.org

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USD Early Retirement Program

STATE TOTALS

(X under yes or no) YES NO
 1. Do you have an early retirement program in your district?

165	124
-----	-----

If **NO** is checked, sign below and return to our office. If **YES**, please continue and answer questions 2-10, sign and return.

	Actual 2006-07	Actual 2007-08	Actual 2008-09	Actual 2009-2010	Estimated 2010-2011	Estimated 2011-2012	Estimated 2012-2013	Estimated 2013-2014
2. Cost of Early Retirement Benefits	32,548,419	35,532,498	38,329,824	41,452,554	45,440,719	45,308,907	46,677,120	43,575,212
3. No. of Administrative empl. Rec'ving Benefits	286	300	321	317	331	348	339	330
4. No. of Other Certified empl. Rec'ving Benefits	2,619	2,733	2,832	2,779	3,050	3,204	3,087	2,955
5. No. of Non-Certified empl. Rec'ving Benefits	422	435	468	454	492	535	526	511
6. Potential Cost Savings (if applicable)	13,642,586	14,683,957	13,821,724	15,605,993	15,588,226	15,870,151	15,564,431	5,037,471

7. What benefits are included in your Early Retirement Program plan during 2010-11?

(X under yes or no)	YES	NO	Yearly Amt.
a. Health Insurance	67	93	\$ _____
b. Cash Payment	111	57	\$ _____
c. Other (explain below)	35	78	\$ _____

8. What is the number of employees eligible for your Early Retirement Program with at least 85 points on July 1, 2010?

No. of empl.	
a. Administrative	203
b. Other Certified	1974
c. Non-Certified	520

9. How many employees do you have currently employed that are receiving KPERS retirement payments?

No. of empl.	
a. Administrative	93
b. Other Certified	629
c. Non-Certified	580

10. Briefly describe the benefits of your Early Retirement Program (i.e. number of years of retirement benefits, etc.):

MEMORANDUM

To: Joint Committee on Pensions on Pensions, Investments and Benefits

From: Glenn Deck
KPERS Executive Director *Glenn Deck*

Date: December 2, 2010

Subject: KPERS' Legislative Recommendations

During its November 19, 2010, meeting, the KPERS Board of Trustees approved its 2011 legislative agenda. The agenda consists of two items – measures to improve KPERS' long-term funding and clarification of the death and disability plan's application to Regents members in phased retirement. Both are summarized in more detail below.

Long-term Retirement Funding Improvements

The Board supports responsible legislation that will result in substantial improvement to the KPERS long-term retirement funding status.

The Board and the Joint Committee have continued their review of long-term funding issues during the 2010 Interim. At the September Joint Committee meeting, staff and the actuary presented the updated funded status of the System based on the December 31, 2009, actuarial valuation. Due to strong investment performance during 2009, the 12/31/09 actuarial valuation report shows improvement in the System's funding status. The unfunded actuarial liability (UAL) decreased by \$602 million to \$7.7 billion, and the funded ratio rose to 64%.

Despite this year's modest, short-term improvement in its funded status, the System's fundamental, long-term shortfall remains and will continue to grow. KPERS will continue to absorb the remaining \$1.7 billion in deferred losses from 2008 over the next three years. For this reason –

- The actuarial value of assets remains significantly greater than their market value. On a current market value basis, the funded ratio is 56%, and the UAL is \$9.4 billion.
- Even assuming a yearly 8% investment return, the funded ratio of each group will continue to fall, and their UAL's will rise significantly.

Legislative action is necessary to begin the process of addressing the funding shortfall, with additional employer contributions as a basic element. Consistently contributing at the actuarial required contribution (ARC) rate is a fundamental principle of sound funding. Because the 2010 Legislature did not increase KPERS' funding beyond the current 0.6% statutory increase cap, passing long-term funding legislation in the 2011 session is essential.

 **KPERS**

Attachment 6
JCPIB 12-2-10

Phased Retirement and Death and Disability Benefits

The Board supports legislation to clarify the death and disability contribution rates and benefits for Regents employees in phased retirement.

KPERS recently became aware of a situation where a Kansas Board of Regents Retirement System member who was participating in the Regents phased retirement plan passed away while participating in that program. The member's annual rate of pay was approximately \$60,000, but the employer contributions for death and disability coverage were paid on her salary of approximately \$30,000. This is due to a provision in the phased retirement statute that provides the following:

For each unclassified employee who has entered into a phased-retirement agreement with a state educational institution under this section, the compensation that the employee would have been entitled to receive based upon the employee's percentage appointment immediately preceding entry into phased-retirement shall be utilized for the purposes of calculating all employer provided benefits, including but not limited to, compensation for accumulated sick leave, the insured death benefit and the insured disability benefit under K.S.A. 74-4927, and amendments thereto, final average salary as defined in subsection (17) of K.S.A. 74-4902, and amendments thereto, and retirement plan contributions under subsection (1)(c) of K.S.A. 74-4925, and amendments thereto.

K.S.A. 75-746(a). The statute allows the member to use the compensation the member would have been entitled to receive prior to the member's entry into phased retirement even though contributions are paid on the smaller amount of compensation the member is actually receiving. This means that members who are in phased retirement are keeping their higher level of life insurance coverage, but the employee is not paying the necessary contribution to fund the coverage.

To address this discrepancy, the Retirement Act could be amended in one of two ways: (1) to reflect an employer contribution and payout that are both based on the member's actual compensation in K.S.A. 74-4927(4)(A); or (2) to reflect an employer contribution based on the member's actual coverage in K.S.A. 74-4927a. Draft amendments based on these two options are attached.

Either approach would accomplish the Board's goal of ensuring that employers make the appropriate contributions for the death and disability coverage of employees on phased retirement. However, because these two amendments would affect either the member's benefit level or the employer contribution rate, the Board did not explicitly adopt one policy option over another.

On behalf of the Board, your consideration and introduction of legislation addressing these two issues is respectfully requested. I would be pleased to provide additional information as needed.

Attachments

(1) Amend to Correct the Member's Compensation.

There is hereby created in the state treasury the group insurance reserve fund. Investment income of the fund shall be added or credited to the fund as provided by law.

The cost of the plan of death and long-term disability benefits shall be paid from the group insurance reserve fund, which shall be administered by the board.

Except as otherwise provided by this subsection, for the period commencing July 1, 2005, and ending June 30, 2006, each participating employer shall appropriate and pay to the system in such manner as the board shall prescribe in addition to the employee and employer retirement contributions an amount equal to .8% of the amount of compensation on which the members' contributions to the Kansas public employees retirement system are based for deposit in the group insurance reserve fund.

For the period commencing July 1, 2006, and all periods thereafter, each participating employer shall appropriate and pay to the system in such manner as the board shall prescribe in addition to the employee and employer retirement contributions an amount equal to 1.0% of the amount of compensation on which the members' contributions to the Kansas public employees retirement system are based for deposit in the group insurance reserve fund.

Members of the faculty and other persons, as defined in subsection (1)(a) of K.S.A. 74-4925, and amendments thereto, who are eligible to participate in the retirement plan of the state board of regents as provided in K.S.A. 74-4925, and amendments thereto, and who are currently participating in the phased-retirement program for unclassified employees of state educational institutions under the management of the state board of regents in accordance with the provisions of K.S.A. 76-746 shall receive the insured death benefit authorized under subsection (3) commensurate with the contributions being paid by the participating employer at the time of the member's death.

Notwithstanding the provisions of this subsection, no participating employer shall appropriate and pay to the system any amount provided for by this subsection for deposit in the group insurance reserve fund for the period commencing on March 1, 2009, and ending on November 30, 2009.

K.S.A. 74-4927(4)(A)

(2) Amend to Correct the Member's Coverage

(1) 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 faculty and other persons, as defined in subsection (1)(a) of K.S.A. 74-4925, and amendments thereto, who are eligible to participate in the retirement plan of the state board of regents as provided in K.S.A. 74-4925, and amendments thereto.

(2) Each educational institution under the management of the state board of regents shall pay to the Kansas public employees 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 K.S.A. 74-4927 and amendments thereto, and an amount commensurate to the actual coverage of the insured death benefit for such members as defined in section (1) currently participating in the phased-retirement program for unclassified employees of state educational institutions under the management of the state board of regents in accordance with the provisions of K.S.A. 76-746.

~~Subsection (2) of K.S.A. 74-4932 and amendments thereto shall also apply in determining such contributions and benefits.~~

K.S.A. 74-4927a.