

# Kansas Coalition of Public Retirees



## **Testimony to the Joint Committee on Pensions, Investments and Benefits Regarding KPERS Tier III and Cost of Living Adjustment**

November 20, 2024

Chairperson Longbine and Vice Chair Hoheisel and members of the Committee:

*As an elected member of the KPERS Board of Trustees, the positions expressed in this testimony represent my views and/or the views of KCPR and KARSP. They do not in any way represent the views of the KPERS Board of Trustees, nor do I speak for them.*

My name is Ernie Claudel, and I am here today in my capacity as Lobbyist for KCPR (Kansas Coalition of Public Retirees) and KARSP (Kansas Association of Retired School Personnel) to speak regarding a benefit increase for KPERS retirees and some comments on KPERS Tier III.

Thank you so much for letting us comment on these subjects once again. I will present some ideas and observations on Tier III and a benefit increase for the KPERS retired and beneficiaries.

First a quick review of the cause of the present Unfunded Actuarial Liability. I heard a legislator remark that they did not know where that came from.

1. When the original Kansas Teachers Retirement System was rolled into KPERS by the Kansas Legislature it was not fully funded. (K.S.A. 74-4934)
2. Beginning in 1994 because of Statute K.S.A. 74-4920(8), the annual actuarial calculated contribution was not used, but the Statutory Rate established by the above statute was used. This led to 25 years of underfunding. This action caused an annual less than the actuarial contribution amount in addition to the loss of investment revenue that would have been realized by investing the proper amount.
3. The result was so great that even with \$3.328 Billion in excess contributions, in addition to employer contribution of the actuarial calculated amount for 6 years, the UAL still rests at \$9.68 Billion. (These attempts to pay down the UAL began in 2004 and continued through 2022.)
4. It is my thought that underfunding has begun once again but in a totally different way and reason.
  - A. Legislative opinion is that the present Tier III is not sufficient for the members under this system. This has also been confirmed with research by the Legislative Audit Committee as reported February 7, 2024.
    - a. A bit of history on 'fixing' Tier III. During the 2024 legislative session it was proposed that teachers in Tier III be moved to Tier II because of the concern about teacher shortages. It is my understanding that this proposal was defeated

- as being an unfair solution. I have attached an updated numerical explanation why this was a good decision.
- B. Suggestions are plentiful for the answer. These include a Thrift Plan, improving Tier III by moving the Tier III members to Tier II, etc. These ideas are all about changing the pension plan for a better one. I want to submit the following:
    - a. While it is true that public employees prefer a Defined Benefit System like KPERS Tier I and Tier II because they know what their final benefit will be, the present problem is not necessarily whether Tier III or any pension plan is the problem. The problem is the insufficient employer contribution rate!
  - C. All of this brings me to the following conclusion:
    - a. It has been confirmed by opinion and research that Tier III is not a sufficient retirement program for KPERS members under this pension plan. Therefore, since more employer contribution is the answer, until Tier III is fixed in some way, a third underfunding pattern is in process. This era of underfunding will not end until a final 'fix' for the KPERS members is reached.
    - b. The above information is the point when I believe that fixing Tier III is connected to a benefit increase for the KPERS Retired and their beneficiaries.
  5. At this point I would like to comment on a benefit increase for the KPERS retired and their beneficiaries.
    - A. You all know I have been working on this for a long time. The common explanations by legislators for not acting on our long-standing request have been:
      - a. We know you need one, but we can't afford one.
      - b. It is illegal for KPERS to be given a COLA. I believe that one has been extinguished.
      - c. The KPERS Board should not have lowered the expected return amount.
      - d. The causes for underfunding did not take place when we were serving.
      - e. The KPERS Board should not have re-amortized certain portions of the debt when the expected return rate was lowered.
      - f. The Trust Fund must be funded at 80% or we can't discuss a benefit increase.
  6. The length of time without a permanent benefit increase in the word of one of our Steering Committee members has reached the 'Travesty Level.'
    - A. It has been 27 years since the last permanent benefit increase has been passed.
    - B. Prior to that legislation, according to KPERS, there had been 16 permanent benefit increases and 5 bonuses. (See Attachment on this subject.)
    - C. According to Federal Government statistics, what \$100.00 would buy in 1998, \$198.00 is needed today. I have also attached a comparison annual benefit increase comparing Social Security to KPERS.
    - D. Last year KPERS lost 3800 souls.
    - E. The present contribution calls for the UAL to be paid off in 2039. That is 15 years hence. Most, if not all the present retirees, will not be alive by then.
  7. KARSP, KCPR, and related groups have been working on a permanent benefit increase since 2004. The original Tier II was passed with a COLA effective July 1, 2009. Legislation following the 2011 KPERS Commission, the COLA contained in Tier II was

removed. It should be noted that there are 5 individuals who happened to retire under the original Tier II and who do receive a COLA.

8. A benefit increase discussion.
  - A. Reasonable, workable plans are difficult when the first answer is, 'We don't want to discuss it!'
  - B. Not being willing to give up! I am trying to develop a plan with a price tag that at least would simulate discussion.
    - a. One of the concerns that arises when the concept of benefit increases are discussed is the concern about those KPERS retirees of some age. The age numbers are attached. I have asked for calculations on the cost of increasing the of those Retirees 85 years of age and older to keep the probable cost of a permanent base raise for these individuals. See attachment relating to retirees ages.
    - b. In addition, we suggest a non-compounding 1% COLA, on their benefit after 5 years of retirement. (On those 85 and older, the COLA would be calculated on the present benefit.) [Research suggests that with a pension system that a 1, 1.5, or 2.0% annual COLA is a satisfactory compensation. I chose 1% to keep the cost down.]
    - c. We would hope that this permanent benefit increase for the Tier I and II retirees and their beneficiaries can be passed.
    - d. The total number of KPERS, KP&F and Judges retirees and beneficiaries as of 12/31/2023 is 116,007. *Of that total approximately 107,000 retirees and beneficiaries (about 92%) have never received a cost-of-living adjustment to their benefit.*

In conclusion:

We ask that a permanent benefit increase be granted to the KPERS retirees and their beneficiaries. It is our opinion that to avoid further needs attention and fix the concerns about recruitment and retention of employees, that both a 'fix' for Tier III and a permanent benefit adjustment together are the preferred solution. Once again thanks for your time, interest, and consideration.

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# Kansas Coalition of Public Retirees



Since my election to the KPERS Board of Trustees I have a new disclaimer that I must include in these updates from now on: "The views expressed in this update represent my views and/or the views of the Coalition. They do not in any way represent the views of KPERS Board of Trustees nor do I speak for them." (Ernie Claudel)

*2<sup>nd</sup> disclaimer: Please note that these numbers are from the last actuarial validation and can literally change daily. The percentage of Tier III active members to KPERS is 51.1%. For the purpose of this document 50% was used to determine these calculations.*

Bills that originated in both the House and Senate during the 2024 legislative session, which purposed moving just the 'Teachers in KPERS School' to Tier II from Tier III would result in the following if they became law.

**Presently**, here are the Numbers: Of the 145,378 active KPERS members, 79,900 of which 51.9% are in Tier III (KPERS III).

- A. PLEASE NOTE: In all these calculations 50% is used not 51.9%.
- B. There are two large groups of employees involved in KPERS and KPERS School.
  - a. State and Local KPERS employees' number 58,230. [None of these in Tier III would be included in the present proposal.]
  - b. KPERS School employees' number 87,149. Of these 43,955 are not certified. (The terminology used by the State Department of Ed is 'licensed'. [Yes, both groups are nearly equal.]
  - c. The estimated total number of active State and Local KPERS employees who are in Tier III is 32,897. (Not KPERS School) None of these are included in the proposal.
  - d. Of KPERS School, the estimate number in Tier III is 46,969. Of this number approximately 23,485 KPERS School that are not certified (licensed).
  - e. Of the approximate certified (licensed) employees 21,826. Because of the way the original bills terminology, the proposal to move teachers to Tier II DOES NOT INCLUDE 5,672 licensed staff without 'teacher' in their title as well as 2,968 of those with administrator or supervisor titles. [None of these in Tier III would be included in the present proposal.]

***C. Therefore, under the wording (terminology used in the 2024 proposed bills), the conservative estimate would be that only 17,506 of the 79,866 of those enrolled in Tier III serving KPERS and KPERS School would qualify to be moved to Tier II.***

Based on December 31, 2023 KPERS Actuarial Valuation and the 2023-2024 Department of Education Licensed Personnel Report

Testimony by Ernie Claudel to Joint Committee on Pensions, Investments and Benefits 11/20/24

**Kansas Public Employees Retirement System  
History of Post-Retirement Benefit Adjustments**

**A. Permanent, Ad Hoc Cost-of-Living Adjustments (COLA)**

<u>Year</u>	<u>Percentage Increase</u>	<u>Eligibility-Retiree Prior to Date</u>
1972	5%	July 1, 1971
1973	<b>% Increase</b>	<b>Retired In</b> 1973
	32%	1962-1963
	28	1964-1965
	22	1966-1967
	15	1968
	9	1969
	2	1970
1978	Percentage increase as follows:	January 1, 1977
	<b>% Increase</b>	<b>Retired Prior to</b>
	7.34%	January 1, 1973
	5.5	1973
	4.4	1974
	2.2	1975
	1.1	1976
1982	10% (payable through 1987)	July 1, 1981
1984	Made 10% increase established in 1982 permanent	July 1, 1981
1985	5%	July 1, 1984
1986	3%	January 1, 1985
1987	2%	January 1, 1986
1988	3%	January 1, 1987
1989	4%	July 1, 1988
1990	4%	July 1, 1989
1991	Higher of 1% or \$10 per month	July 1, 1990
1992	\$15 per month increase	July 1, 1991
1993	Higher of 5% or \$10 per month for retirees with less than 15 years of service. Higher of 15% or \$50 per month to maximum of \$200 per month for retirees with 15 or more years of service.	July 1, 1993
1994	Higher of 1.5% or combination of \$.50 per month for each year of service and each year of retirement	July 1, 1993
1998	3%	July 1, 1997

## **B. One-Time Benefit Payments**

<b>Year</b>	<b>Description</b>
1976	One-time additional payment equal to 5% of total annual benefit, subject to a minimum of \$20 and maximum of \$200, for members who retired prior to January 1, 1975.
1977	One-time additional payment equal to 5% of total annual benefit, subject to a minimum of \$20 and maximum of \$200, for members who retired prior to January 1, 1975.
2000	One-time benefit paid in September equal to 50% of the monthly retirement benefit payment to members who retired prior to July 1, 1999.
2007	One-time benefit of \$300 paid by October 1 <sup>st</sup> to members who retired prior to July 1, 1997, with 10 or more years of service and disability recipients who had been receiving benefits since July 1, 1997.
2008	One-time benefit of \$300 paid by October 1 <sup>st</sup> to members who retired prior to July 1, 1998, with 10 or more years of service and disability recipients who had been receiving benefits since July 1, 1998.

## **C. Permanent Annual Retirant Dividend Payment**

Starting in 1980, an extra monthly benefit (“13<sup>th</sup> Check”) was paid to all members who retired prior to July 1, 1980. This check was conditional and based on a formula involving investment income. From 1981-1987, a new class of retirants was added each year to this group. In 1987, the group was closed so that it applied only to persons who retired prior to July 2, 1987. Because of negative investment returns that put this check in jeopardy, the Legislature issued bonds in 2003 providing funding that made this benefit permanent for the closed group. All members who retired prior to July 2, 1987, receive an extra one-month’s benefit in September each year.

**History of Inflation-Social Security COLA-KPERS COLA**

<b>YEAR</b>	<b>Inflation %</b>	<b>Soc. Sec. COLA % Year Effective</b>	<b>KPERS COLA % Year Effective</b>
1997	5.9	2.9	0.0
1998	1.6	2.1	3.0
1999	2.7	1.3	0.0
2000	3.4	2.5	0.0
2001	1.6	3.5	0.0
2002	2.4	2.6	0.0
2003	1.9	1.4	0.0
2004	3.3	2.1	0.0
2005	3.4	2.7	0.0
2006	2.5	4.1	0.0
2007	4.1	3.3	0.0
2008	0.1	2.3	0.0
2009	2.7	5.8	0.0
2010	1.5	0.0	0.0
2011	3.0	0.0	0.0
2012	1.7	3.6	0.0
2013	1.5	1.7	0.0
2014	0.8	1.5	0.0
2015	0.7	1.7	0.0
2016	2.1	0.0	0.0
2017	2.1	0.3	0.0
2018	1.9	2.0	0.0
2019	2.3	2.8	0.0
2020	1.4	1.6	0.0
2021	7.0	1.3	0.0
2022	6.5	5.9	0.0
2023	3.4	8.7	0.0
2024		3.2	0.0
2025		2.5	0.0
<b>TOTAL %</b>	<b>71.5</b>	<b>73.4</b>	<b>3.0</b>

Prepared by Ken Kennedy, KPERS School Retired  
Oct. 19, 2024

<b>Benefit Amount</b>	<b>Number of Retirees and Beneficiaries age 80 or Older As of 12/31/2023 KPERs, KP&amp;F and Judges</b>	<b>Number of Retirees and Beneficiaries age 85 or Older As of 12/31/2023 KPERs, KP&amp;F and Judges</b>	<b>Number of Retirees and Beneficiaries age 90 or Older As of 12/31/2023 KPERs, KP&amp;F and Judges</b>
Less than \$25,000	20,540	9,716	3,250
\$25,000-\$50,000	2,265	757	165
\$50,000-\$75,000	138	39	10
\$75,000-\$100,000	22	5	3
\$100,000+	6	1	0
<b>Total</b>	<b>22,971</b>	<b>10,518</b>	<b>3,698</b>

Based on data supplied by KPERS November 2024