1993 KPERS Benefit Enhancements and Funding[1]

Benefit Provisions. In 1991, the Kansas Public Employees Retirement Study Commission was established. The Commission's charge was to study the System's benefits and costs, and propose changes and recommendations regarding the long-term policy objectives of the Kansas pension system for public employees.

The Study Commission recommended a comprehensive package of benefit enhancements and funding provisions to the 1993 Legislature. The recommendations included:

- allowing retirement with full benefits when age and years of service equal 85 (called 85 "points" or the Rule of 85);
- increasing the participating service rate from 1.40 to 1.75 percent;
- providing automatic annual COLAs for retired members up to a maximum of 4 percent of original benefits;
- increasing the retired member death benefit to $4,000;
- lowering interest on new employees' contribution accounts to 4 percent;
- extending the amortization period to 35 years from July 1, 1993;
- computing amortization payments to remain level as a percent of payroll; and
- changing the KPERS actuarial funding method to the projected unit credit method (thereby reducing the amount of employer contributions necessary to fund the benefits in the initial years).

Relying on information provided by the Retirement System's consulting actuary at that time (the Segal Company), the Commission projected that the State/school employer contribution rate would need to increase by 1 percent, or $26.7 million per year, and the local rate by 1.1 percent, or $6.8 million per year, to fund the enhancements. To reach these levels, the Commission recommended that employer contribution rates be increased incrementally by 0.1 percent per year, beginning in fiscal year 1996.

The 1993 Legislature adopted the Commission's recommendations with three exceptions:

- The automatic COLA was replaced with a one-time, ad hoc COLA;
- Payments for accumulated leave time were eliminated from the retirement benefit calculation for new members; and
- The amortization period was extended from 35 to 40 years from July 1, 1993.

The final benefit enhancement and funding package is summarized in Appendix A.

---

[1] This information is extracted from a report prepared by KPERS in August 2002 titled "Long-Term Funding Outlook: Part I."

January 30, 2013

House Pensions & Benefits
Date: 1/30/2013
Attachment # 1

KPERS

Attach #1

Funding Provisions and Equilibrium. The Legislature also adopted the Commission's recommendation to increase employer contributions incrementally by 0.1 percent per year, beginning in fiscal year 1996. The 0.1 percent cap was viewed as a prudent way to gradually increase employer contribution rates until they equaled the actuarial rate required to pay off the unfunded actuarial liability over the 40-year period. At that time, actuarial projections indicated that the initial gap between the actual employer contribution rates and the actuarially required rates would decline with each passing year.

The point in time at which the rates are expected to converge is called the equilibrium date. When the 1993 enhancements and funding plan were adopted, the Study Commission and the Legislature expected the employer rates to reach equilibrium in 1999. This projection was based on rough estimates provided by the Segal Company (System's consulting actuary from 1962 through 1993) and did not incorporate the more sophisticated modeling techniques used by the System and its current consulting actuary.

The unfunded actuarial liability for the State/school and local groups grew significantly after the 1993 benefit enhancements and funding provisions were implemented, increasing from approximately $442 million on June 30, 1992 to $667 million on June 30, 1993 to $1.2 billion on June 30, 1994. After the unfunded actuarial liability increased significantly in 1994, it was apparent that the 0.1 percent escalation in employer contribution rates would not effectively reduce the liability over time as originally intended. The Retirement System, with assistance from its consulting actuary, proposed various options to increase the cap on employer contributions. The 1995 Legislature raised the rate cap for State/school members from 0.1 percent to 0.2 percent annually, and for local members, from 0.1 to 0.15 percent annually.

1993 Benefit Enhancements and Funding Provisions
April 1993

	State/School Group		Local Group	
	Rate Change	Annual Cost	Rate Change	Annual Cost
Employer Rates Before Enhancements[a]	**3.3%**	**$88.5 million**	**2.2%**	**$13.6 million**
Add: Benefit Changes				
• Allow retirement with full benefits when age and service equal 85.	0.5%	13.4 million	0.4%	2.5 million
• Increase the participating service factor from 1.4 to 1.75 percent.	3.6%	96.5 million	4.0%	24.7 million
• Provide one-time COLA to retirees.	0.4%	10.7 million	0.3%	1.9 million
• Base retirement benefits on a three-year final average salary excluding additional compensation for accumulated leave.	0.2%	5.4 million	0.2%	1.2 million
• Increase retired member death benefit to $4,000.	0.1%	2.7 million	0.1%	0.6 million
Total Additions	**4.8%**	**$128.7 million**	**5.0%**	**$30.9 million**
Less: Funding Changes				
• Lower interest on new employee contribution accounts to 4 percent.	0.1%	2.7 million	0.1%	0.6 million
• Extend amortization period to 40 years from July 1, 1993.	2.0%	53.6 million	2.4%	14.8 million
• Compute amortization payments to remain level as a percent of payroll (rather than level dollar amount per year).	1.9%	50.9 million	1.6%	9.9 million
• Change funding method to projected unit credit.	0.6%	16.1 million	0.6%	3.7 million
Total Subtractions	**4.6%**	**$123.3 million**	**4.7%**	**$29.0 million**
Projected Final Contributions[a]	**3.5%**	**$93.9 million**	**2.5%**	**$15.5 million**

(a) Rates include 0.6 percent for the contributions for death and disability benefits for active members.

Source: April 5, 1993 legislative report on 1993 Changes in Benefits and Funding Provisions.