Attachment 2
HPB 1/30/13

House Pensions & Bene
Date: 1/30/2013
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Long-Term Funding Response

The Legislature took action to address long-term funding issues

- Gradually raised statutory cap of 0.2% on employer rate increases (2003)
  - Reached 0.6% in FY 2008
- Issued $500 million in pension obligation bonds (2004)
- Created new plan design for future employees (2007)

	Tier 1	Tier 2 (Effective 7/1/2009)
Employee contributions	4%	6%
Full retirement age	• 85 "points" (age + service) • 65 with 1 year service • 62 with 10 years service	• 65 with 5 years service • 60 with 30 years service
Final average salary	3 years No final payouts (e.g., vacation or sick leave) if hired 7/1/93 or later	5 years No final payouts

- These actions, plus strong investment returns from 2004-2007, improved projected funded status significantly
- Plan remained vulnerable to market downturns

Impact of 2008 Crisis

- Unprecedented investment market declines in 2008
- Substantial negative impact on KPERS' long-term funded status
- In the 12/31/08 actuarial valuation report for the entire System
  - 12% decline in funded ratio to 59%
  - $2.7 billion increase in UAL to $8.3 billion
  - Actuarial value of assets significantly greater than the market value
    - About $2 billion in deferred losses (averaged in over next four years)
    - On a current market value basis, a funded ratio of 49% and a UAL of $10.3 billion
- Statutory and actuarial contribution rates for school employers no longer projected to converge

Legislative Response: 2008-2011

- Multiple legislative committees requested options for a KPERS funding solution over the following three years
- During 2011 Session, both chambers passed bills with additional employer contributions and changes for active members
  - House also voted to establish a defined contribution (DC) plan for future employees
- Compromise in conference committee resulted passage of HB 2194
  - Delayed employer and current employee changes until an interim KPERS Study Commission could make recommendations
- Study Commission met throughout summer/fall 2011

Legislative Response: 2011-2012

- Study Commission recommended a hybrid cash balance/ defined contribution plan
  - Employer contributions funded a cash balance plan with pay credits based on years of service
  - Employee contributions funded a defined contribution plan
  - Required employer contributions to rise to actuarially required rate immediately
  - Included increases in current member contributions or reductions in future benefits
- When the Study Commission bills did not receive favorable action, the Legislature renewed review of multiple options
  - Increased focus on a cash balance element as new plan design foundation for future members
    - Cash balance plan only (House Committee bill)
    - Member election of cash balance or defined contribution plan (House floor)
    - Variation on Study Commission hybrid plan (Senate floor)
- Compromise
  - Raise cap on employer contribution increases (1.2% annually by FY '17)
  - Higher contributions or lower benefits for active members
  - Cash balance plan for new members (effective 1/1/2015)