KPERS Cash Balance Plan Design
Features Affecting Employer Cost

What Goes Into the Account?

Employee Contributions

Current Design.	**Employee contributes 6% of pay**
Impact of changing:	Ultimate benefit is directly related to employee account balance, and employees always are entitled to the return of their contributions. Therefore, does not directly affect employer cost.

Employer Pay Credits

Current Design: Employee receives "pay credits" based on years of service.

0-4 years of service	3%
5-11 years of service	4%
12-23 years of service	5%
24+	6%

Impact of changing: Reductions in pay credits reduce account balance and ultimate benefit, and therefore, reduce employer cost.

NOTE: As designed, employer contributions are **not equal to pay credits.** One actuarial contribution rate is established for all three KPERS tiers.

Interest Credits

Guaranteed Interest Credit

Current Design:	5.25% per year, credited quarterly based on ending balance for prior quarter.
Impact of changing:	Reductions in interest credit reduce account balance and the ultimate benefit, which in turn can reduce employer cost. The larger the difference between the guaranteed crediting rate and the assumed rate of return, the lower the pre-retirement investment return risk for the employer. These extra returns can be used to help offset future costs to the employer.

Interest Dividends

Current Design:	KPERS Board of Trustees has discretion to provide interest dividends, subject to statutory criteria, which include a maximum interest dividend of 4% and a minimum 10% return for that year.
Impact of changing:	Provides a means to "share" positive investment returns with employees. Impact on cost depends on parameters and constraints established by Legislature and the Board's fiduciary exercise of discretion delegated to it.

House Pensions & Benefits
Date: 2-4-13
Attachment # 1

KPERS

What Balances Are Available to the Member and When?

Vesting

Current Design: Five years

Impact of changing: Longer vesting period reduces the number of members entitled to a benefit (other than return of their own contributions, plus interest credits), which reduces employer costs.

Note: Plan cost is affected to a lesser extent by other plan design features such as the length of time nonvested members receive interest credits following termination, the availability and limits on partial lump sum option payouts at retirement, and benefits available to joint annuitants upon the death of a vested member prior to retirement.

How Is the Account Balance Converted to a Monthly Benefit?

Annuitization Interest Rate

Current Design: 6%

Impact of changing: Decreasing the interest rate assumption used for annuitizing account balances reduces the monthly benefit. Therefore, tends to decrease employer costs and post-retirement investment risk.

Mortality Rate Assumption

Current Design: To be determined by the Board

Impact of changing: The account balance is converted to a monthly benefit based, in part, on this assumption regarding the length of time the benefit will be paid. The more closely the actual longevity of members matches the assumption, the lower the risk that the present value of the benefits actually paid out exceeds the member's account balance at retirement.