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MEMORANDUM

To: House Pensions and Benefits

From: Alan D. Conroy, Executive Director

Date: January 21, 2015

Subject: Committee Requests

At the January 14th meeting of the Pensions and Benefits Committee, several requests for additional information were made. Responses to those requests are included in this memorandum.

KPERS Plan Design Comparison

The System administers three "tiers" within KPERS retirement:

- KPERS 1 – membership prior to July 1, 2009
- KPERS 2 – membership between July 1, 2009 and December 30, 2014
- KPERS 3 – membership on and after January 1, 2015

KPERS 1 and KPERS 2 are traditional defined benefit plan where a member's benefit is calculated using the formula: Years of Service X Final Average Salary X Multiplier. Differences between KPERS 1 and KPERS 2 are generally requirements for normal retirement and final average salary calculations.

KPERS 3 is a cash balance defined benefit plan, which combines aspects of defined benefit and defined contribution plan. Member contributions and retirement pay credits funded by the employer are tracked for each member in a notional account. At retirement, the balance of the member's notional account are converted into a lifetime annuity. Attachment A is a table that compares the plan design of all three KPERS groups.

Death and Disability Moratoriums

The System has managed the death and long-term disability benefit program for active KPERS members and certain other groups of active employees since 1966. This program has been an employer-provided benefit since its inception. For over 20 years, the employer rate was set statutorily at 0.6 percent of payroll. The employer contribution rate was raised to 1.0 percent by the 2005 Legislature, effective in FY 2007.

Due to budget shortfalls, the Governor proposed and the Legislature adopted 27 months of moratoriums on employer contributions to the Death and Disability Fund (Fund) between

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FY 2000 and 2004. These moratoriums resulted in multi-year budget savings of $100.3 million - $78.5 million for the State and $21.8 million for local governments.

As a result, the Fund's balances were nearly depleted by FY 2004, leading to enactment of a package of plan design and cost containment measures. In conjunction with the increase in the employer contribution rate, these measures stabilized the plan's funding. Fund balances began to grow modestly because actual claims expenses were lower than originally projected when the 1.0 percent rate was established. However, the program effectively shifted from being pre-funded on an actuarial reserve basis to a "pay-as-you-go" program.

Following the economic downturn in 2008, the Legislature again approved moratoriums on employer contributions to the Death and Disability Fund. Between FY 2009 and FY 2013, the Legislature approved 16 months of moratoriums. Attachment B shows the history of the approved moratoriums since FY 2000.

In 2013, the Governor recommended and the Legislature approved a reduction in the contribution rate from 1.0 percent to 0.85 percent for FY 2014 and FY 2015. This approach was simpler and more efficient from an administrative standpoint than periodic moratoriums. The rate is scheduled to return to 1.0 percent starting in FY 2016.

FY 2014 and CY 2014 to Date Investment Returns

As was reported at the January 14th meeting, KPERS had an 18.4% investment return in FY 2014 and a CY 2014 investment return through September 30th of 4.9%. Comparing the difference between those two numbers is difficult because the two time periods are not equal (12 months and 9 months respectively) and any discussion of investment returns is very time sensitive.

For more information, Attachment C shows the quarterly returns for both FY 2014 and CY 2014 through September 30 as calculated by KPERS' custodial bank. In addition, the policy index for those same quarters has been included to show KPERS' investment performance compared to the benchmark.

As you can see in the attachment, there are five quarters reported between the July 2013 and September 2014. The strongest returns were experienced between July and December 2013, which are included in the Fiscal Year total return but not included in the Calendar Year to date return. Also the weakest quarter of the five reported was the third quarter of 2014, which is included in the Calendar Year to date return but not in the Fiscal Year total return. While it is true that the CY 2014 to date return is less than the FY 2014 total return, it is not unusual to see a high level of variance when selecting different time periods for comparison.

Change in Active Membership

The committee requested additional information regarding the change in active membership. Information for the last eight calendar years from 2006 to 2013 was readily available and is compiled in Attachment D.

Generally active membership has grown since 2006, from 149,073 to 155,446. This is an increase of 6,373, or 4.3% over the eight-year period or about 800 new active members per year.

The State/School Group has grown from 106,503 active members to 109,254, an increase of 2,751 members or 2.6 percent. Active membership of the state group has declined by 1007 members, or 4.2 percent, during the period between 2006 and 2013. The School Group increased by 3,373, or 4.1% during the same period.

I would be happy to respond further to any questions the Committee may have.

Attachments

Retirement System Plan Comparison

	KPERS 1	KPERS 2	KPERS 3 (Cash Balance Plan)	KP&F	Judges
Who's included	New employees hired before July 1, 2009 Inactive members vested before July 1, 2009	New employees hired July 1, 2009, through December 31, 2014 Inactive members not vested on July 1, 2009, and return to employment through December 31, 2014 Former members who withdrew their accounts and begin employment on or after July 1, 2009, through December 31, 2014 Correctional Officers continue in KPERS 2, even after January 1, 2015	New employees starting January 1, 2015, and after Inactive KPERS 1 and KPERS 2 members who are not vested and return to work January 2015, and after Correctional Officers are not included, will continue in KPERS 2	**Tier I** - employed before July 1, 1989, and did not choose Tier II coverage **Tier II** - employed on or after July 1, 1989, or before July 1, 1989, and chose Tier II coverage.	Kansas Supreme Court justices, Kansas Court of Appeals and District Court judges, including district magistrate judges
Employee contributions	**4%** before 2014 **5%** 2014 **6%** 2015 and after Credited to employee's contribution account Employee can withdraw if leave employment	**6%** Credited to employee's contribution account Employee can withdraw if leave employment	**6%** Credited to employee's contribution account Employee can withdraw if leave employment	**7.15%**	**6%** **Drops to 2% when:** • age 65 and 20 years of service • enough service to receive the max benefit (70% final average salary)
Retirement credits	n/a	n/a	Employee earns retirement credits quarterly based on years of service: 1-4 yrs = **3%** of pay 5-11 yrs = **4%** 12-23 yrs = **5%** 24+ yrs = **6%** Retirement credits represent dollars instead of years of service Retirement credits are tracked in employee account and only available at retirement	n/a	n/a

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Retirement System Plan Comparison

	KPERS 1	KPERS 2	KPERS 3 (Cash Balance Plan)	KP&F	Judges
Employer contributions	Employers make employer contributions based on the certified KPERS employer rate for each year. Contributions are a percentage of total KPERS-covered payroll, regardless of coverage group. Same rate for KPERS 1, KPERS 2 and KPERS 3 payroll. Employer contributions are deposited in the KPERS trust, not credited to any particular member account.	Employers make employer contributions based on the certified KPERS employer rate for each year. Contributions are a percentage of total KPERS-covered payroll, regardless of coverage group. Same rate for KPERS 1, KPERS 2 and KPERS 3 payroll. Employer contributions are deposited in the KPERS trust, not credited to any particular member account.	Employers make employer contributions based on the certified KPERS employer rate for each year. Contributions are a percentage of total KPERS-covered payroll, regardless of coverage group. Same rate for KPERS 1, KPERS 2 and KPERS 3 payroll. Employer contributions are deposited in the KPERS trust, not credited to any particular member account.	Employers make employer contributions based on the certified KP&F employer rate for each year. Contributions are a percentage of total KP&F-covered payroll, regardless of coverage group. Same rate for all KP&F payroll. Employer contributions are deposited in the KPERS trust, not credited to any particular member account.	Employers make employer contributions based on the certified Judges employer rate for each year. Contributions are a percentage of total Judges-covered payroll, regardless of coverage group. Same rate for all judicial payroll. Employer contributions are deposited in the KPERS trust, not credited to any particular member account.
Investments	KPERS directs investments as part of the KPERS trust	KPERS directs investments as part of the KPERS trust	KPERS directs investments as part of the KPERS trust	KPERS directs investments as part of the KPERS trust	KPERS directs investments as part of the KPERS trust
Interest	Membership before July 1, 1993 – **8%** Membership on or after July 1, 1993 – **4%** Credited annually each June 30	**4%** Credited annually each June 30	**Guaranteed: 4%** interest credited quarterly on employee's contribution account and the dollar value of the retirement credits **Possible/Optional**: Additional interest (**0-4%**) based on a formula of KPERS investment returns and funding	Membership before July 1, 1993 – **8%** Membership on or after July 1, 1993 – **4%** Credited annually each June 30	Membership before July 1, 1993 – **8%** Membership on or after July 1, 1993 – **4%** Credited annually each June 30
Vesting (when benefits guaranteed)	5 years	5 years Exception - Inactive Members	5 years	Tier I, 20 years Tier II, 15 years	When elected or appointed
Leaving employment before retirement	Employees can withdraw employee contributions and interest Vested members can leave employee contributions and receive a benefit at retirement age	Employees can withdraw employee contributions and interest Vested members can leave employee contributions and receive a benefit at retirement age	Employees can withdraw employee contributions, **but forfeit retirement credits** Vested members can leave employee contributions and receive a benefit at retirement age	Employees can withdraw employee contributions and interest Vested members can leave employee contributions and receive a benefit at retirement age	Employees can withdraw employee contributions and interest Vested members can leave employee contributions and receive a benefit at retirement age

Retirement System Plan Comparison

	KPERS 1	KPERS 2	KPERS 3 (Cash Balance Plan)	KP&F	Judges
Retirement age	**Full eligibility** • Age 65 with 1 year of service • Age 62 with 10 years • Any age when: age + service = 85 **Early eligibility, reduced** • Age 55 with 10 years • KPERS 1 early reduction factors apply **Correctional Group A full eligibility** • Age 55 and employed in Group A position for 3 years immediately before retirement • Any age when: age + service = 85 **Correctional Group B full eligibility** • Age 60 and employed in Group B position for 3 years immediately before retirement • Any age when: age + service = 85 **Correctional Group A early eligibility, reduced** • Age 50 with 10 years and employed in Group A position for 3 years immediately before retirement **Correctional Group B early eligibility, reduced** • Age 55 with 10 years and employed in Group B position for 3 years immediately before retirement	**Full eligibility** • Age 65 with 5 years of service • Age 60 with 30 years **Early eligibility, reduced** • Age 55 with 10 years • KPERS 2 early reduction factors apply **Correctional Group A full eligibility** • Age 55 with 10 years and employed in Group A position for 3 years immediately before retirement **Correctional Group B full eligibility** • Age 60 with 10 years and employed in Group B position for 3 years immediately before retirement **Correctional Group A early eligibility, reduced** • Age 50 with 10 years and employed in Group A position for 3 years immediately before retirement **Correctional Group B early eligibility, reduced** • Age 55 with 10 years and employed in Group B position for 3 years immediately before retirement	**Full eligibility** • Age 65 with 5 years of service • Age 60 with 30 years **Early eligibility, reduced** • Age 55 with 10 years	**Full eligibility, Tier I** • Age 55 with 20 years of service • Any age with 32 years **Tier I Transfer Members** • Age 50 with 25 years **Tier II (incl. Transfer Members)** • Age 50 with 25 years • Age 55 with 20 years • Age 60 with 15 years **Early eligibility, reduced** • Age 50 with 20 years	**Full eligibility** • Age 65 with 1 year of service • Age 62 with 10 years • Any age when: age + service = 85 **Early eligibility, reduced** • Age 55 with 10 years

Retirement System Plan Comparison

	KPERS 1	KPERS 2	KPERS 3 (Cash Balance Plan)	KP&F	Judges
Retirement benefit	Guaranteed lifetime benefit with survivor options Benefit based on statutory benefit formula: Final average salary x multiplier* x years of service Partial-lump sum option 10%, 20%, 30%, 40%, 50% No automatic cost-of-living increase $4,000 retiree death benefit **statutory multiplier: 1.75% for service before January 1, 2014; 1.85% for service January 1, 2014, and after*	Guaranteed lifetime benefit with survivor options Benefit based on statutory benefit formula: Final average salary x multiplier* x years of service Partial-lump sum option 10%, 20%, 30% No automatic cost-of-living increase $4,000 retiree death benefit **statutory multiplier: 1.85% for all service*	Guaranteed lifetime benefit with survivor options Annuity benefit based on account balance at retirement Partial-lump sum option up to 30% with full retirement (not early) Can use part of account balance to fund a cost-of-living increase $4,000 retiree death benefit	Guaranteed lifetime benefit with survivor options Benefit based on statutory benefit formula: Final average salary x multiplier* x years of service Max benefit = 90% of FAS Partial-lump sum option 10%, 20%, 30%, 40%, 50% No automatic cost-of-living increase $4,000 retiree death benefit **statutory multiplier: 2.5%*	Guaranteed lifetime benefit with survivor options Benefit based on statutory benefit formula: Final average salary x multiplier* x years of service Max benefit = 70% of FAS Partial-lump sum option 10%, 20%, 30%, 40%, 50% No automatic cost-of-living increase $4,000 retiree death benefit **membership date January 1, 1987 and after has 3.5% statutory multiplier for all years of service; membership date before January 1, 1987 has 5% statutory multiplier for up to 10 years, then 3.5% for additional service over ten years*
Final average salary	**Membership before July 1, 1993** • 3-year salary average without additional pay (e.g. unused sick leave or vacation • or 4-year salary average with additional pay **Membership on or after July 1, 1993** • 3-year salary average without additional pay 15% salary cap	5-year salary average without additional pay 7.5% salary cap	n/a	**Membership before July 1, 1993** average of 3 highest of last 5 years of service, with additional pay **Membership on or after July 1, 1993** average of 3 highest of last 5 years of service without additional pay	**3 or more years of service** average of the 3 highest of 10 years of service **Less than 3 years of service** average annual salary during time as a judge **Less than 1 year of service** monthly salary at retirement multiplied by 12

Attachment B

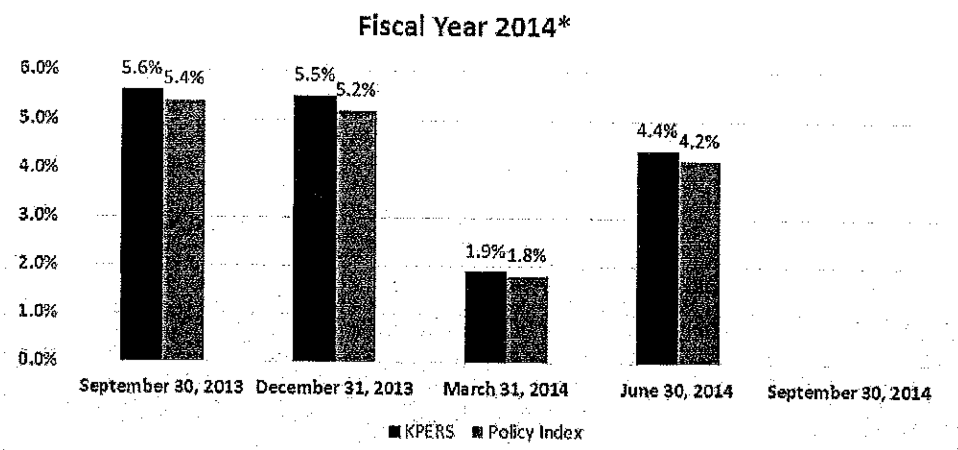
Historical Moratoriums on Employer Contributions
Death and Disability Fund

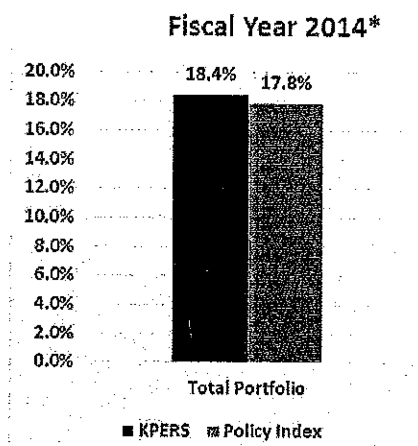
Year	Length of Moratorium
2000	3 Months
2001	12 Months
2002	6 Months
2003	6 Months
2009	4 Months
2010	3 Months
2011	3 Months
2012	3 Months
2013	3 Months

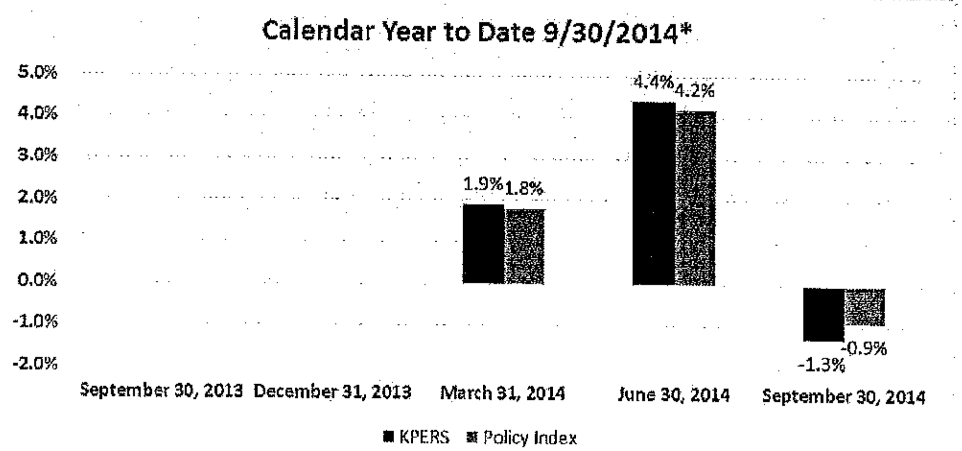
Attachment C

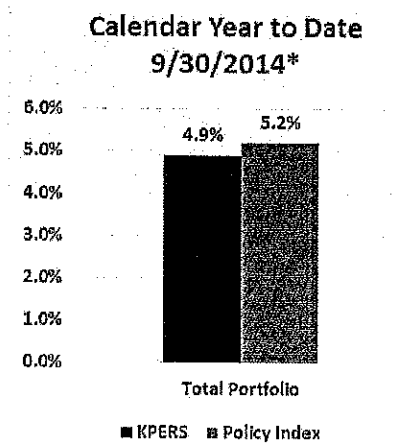
Kansas Public Employees Retirement System Investment Performance

FY 2014 and CYTD 2014









* Total Return of Total Assets. Returns for periods less than 1 Year are not annualized

KPERS

January 21, 2015

Active Membership Changes by Group
CY 2006 - CY 2013

	State	School	Local	KP&F	Judges	Total
Starting Count (12/31/2006)	24,124	82,379	35,544	6,772	254	149,073
New actives	19,712	76,663	40,335	4,104	99	140,913
Nonvested Terminations	5,548	31,179	14,025	1,443	-	52,195
Elected Refund	4,341	10,634	8,979	790	4	24,748
Vested Terminations	4,158	13,260	7,256	503	12	25,189
Total Withdrawals	14,047	55,073	30,260	2,736	16	102,132
Deaths	322	629	464	56	7	1,478
Disabilities	588	807	539	184	-	2,118
Retirements	5,676	16,471	5,608	980	81	28,816
Other/Transfer	(86)	(310)	80	304	16	4
Ending Count (12/31/2013)	23,117	85,752	39,088	7,224	265	155,446
Change	(1,007)	3,373	3,544	452	11	6,373
% Change	-4.2%	4.1%	10.0%	6.7%	4.3%	4.3%

Active Membership Changes by Year
CY 2006 - CY 2013

	2006	2007	2008	2009	2010	2011	2012	2013	Aggregate 2006-2013
Starting Count	149,073	151,449	153,804	156,073	160,831	157,919	155,054	156,053	149,073
Additions									
New Active Members									
State	2,169	2,316	2,282	3,623	2,478	2,099	2,472	2,273	19,712
School	11,094	11,013	10,601	7,071	7,974	8,717	10,298	9,895	76,663
Local	4,086	4,077	4,078	8,482	4,530	4,768	5,090	5,224	40,335
KP&F	639	527	453	298	514	535	574	564	4,104
Judges	10	11	7	17	3	12	15	24	99
Total New Actives	17,998	17,944	17,421	19,491	15,499	16,131	18,449	17,980	140,913
Total Additions	**17,998**	**17,944**	**17,421**	**19,491**	**15,499**	**16,131**	**18,449**	**17,980**	**140,913**
Subtractions									
Withdrawals									
State	1,671	1,492	1,271	1,313	1,978	2,171	2,044	2,107	14,047
School	7,043	7,028	6,918	6,736	7,091	6,621	6,661	6,975	55,073
Local	3,431	3,062	2,950	2,716	4,676	4,576	4,398	4,451	30,260
KP&F	359	309	308	315	356	396	376	317	2,736
Judges	2	2	-	4	3	2	2	1	16
Total Withdrawals	12,506	11,893	11,447	11,084	14,104	13,766	13,481	13,851	102,132
Deaths									
State	21	22	36	32	67	52	45	47	322
School	62	65	54	54	119	101	95	79	629
Local	50	35	45	45	61	71	79	78	464
KP&F	9	6	8	8	6	9	9	1	56
Judges	-	-	-	-	-	1	4	2	7
Total Deaths	142	128	143	139	253	234	232	207	1,478
Retirements/Disability									
State	628	634	613	605	789	1,691	494	810	6,264
School	1,973	1,964	1,960	1,984	2,409	2,229	2,268	2,491	17,278
Local	626	670	618	703	845	852	818	1,015	6,147
KP&F	116	109	118	152	155	176	145	193	1,164
Judges	5	10	8	18	2	9	12	17	81
Total Retirements	3,348	3,387	3,317	3,462	4,200	4,957	3,737	4,526	30,934
Total Subtractions	**15,996**	**15,408**	**14,907**	**14,685**	**18,557**	**18,957**	**17,450**	**18,584**	**134,544**
Other/Transfer	374	(181)	(245)	(48)	146	(39)	-	(3)	4
Ending Count	**151,449**	**153,804**	**156,073**	**160,831**	**157,919**	**155,054**	**156,053**	**155,446**	**155,446**
Change	2,376	2,355	2,269	4,758	(2,912)	(2,865)	999	(607)	6,373
Percent Change	1.6%	1.6%	1.5%	3.0%	-1.8%	-1.8%	0.6%	-0.4%	4.3%