MEMORANDUM

To: House Pensions and Benefits Committee

From: Alan D. Conroy, Executive Director ADC.

Date: January 27, 2015

Subject: Committee Request Regarding Death Benefits

As requested at the January 14th meeting of the Pensions and Benefits Committee, additional information about the retiree death benefit is provided below.

Death Benefit History

A $4,000 death benefit is paid to beneficiaries of KPERS retirees. The death benefit has been in statute since the 1982 Legislature created a $750 death benefit for KPERS members. That amount has been adjusted several times over the last 30 years. Those changes are reflected in the following table:

Historical Adjustments to KPERS Death Benefit		
Year	Death Benefit	Effective Date
1982	$ 750	July 1, 1982
1983	$ 1,000	July 1, 1983
1985	$ 1,500	July 1, 1985
1986	$ 2,000	July 1, 1986
1987	$ 2,500	July 1, 1987
1993	$ 4,000	July 1, 1993

The same $4,000 death benefit is paid to beneficiaries of the KP&F and Judges retirement plans.

Unlike the life insurance provided for active KPERS members through the death and disability plan administered by KPERS, the retiree death benefit is provided as a part of the System's pension plans. As a result, the retiree death benefit is subject to federal income taxes.

Cost of Death Benefit

During FY 2014, death benefit payments totaled $9.5 million across the entire KPERS System to the beneficiaries of 2,365 members. These retiree death benefits are pre-funded in the same manner as monthly retirement benefits -- through the actuarial required contribution rate for retirement benefits.

There is not a specific, segregated rate assessed for the death benefit. However, KPERS' consulting actuary, Cavanaugh Macdonald, has provided an analysis of the liabilities associated with the death benefit for each plan and group within the KPERS System, based on the December 31, 2013, valuation. In order to gauge the cost of the death benefit, the analysis compared projected actuarial liabilities with and without the death benefit. This analysis

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indicates that, in the absence of the death benefit, the actuarial liability for KPERS would be reduced by $149.6 million and by $156 million for the System as a whole.* (See Attachment I) This represents less than 0.75% of total actual liabilities.

The analysis also projects the change in the actuarial required rates and its components that would be expected in the absence of the retiree death benefit.* Projected decreases in the actuarial rate range from 0.14% to 0.32%.

I hope that this information is responsive to your request. Please feel free to contact me if you have additional questions or need further information relating to KPERS retiree death benefits or other matters related to KPERS.

*Note: The state retirement system creates a contract between the State and members of the system, which is protected by the Contract Clause of the U.S. Constitution. Therefore, changes that would adversely affect vested member benefits, and in particular, benefits of retirees, may raise legal issues regarding violation of the Contract Clause in the absence of compensating changes of benefit to the members.

Attachment

Cost Study of Elimination of Post-Retirement Death Benefit of $4,000

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		State			School			State/School	
	Current	No death ben	Decrease	Current	No death ben	Decrease	Current	No death ben	Decrease
Actuarial Liability									
Actives	1,728,805,590	1,722,785,161	-0.3%	6,415,714,074	6,399,700,740	-0.2%	8,144,519,664	8,122,485,901	-0.3%
Retirees	2,128,954,381	2,103,013,534	-1.2%	6,155,632,378	6,095,290,771	-1.0%	8,284,586,759	8,198,304,305	-1.0%
Deferreds/Disableds	207,879,979	205,871,490	-1.0%	405,097,872	400,987,813	-1.0%	612,977,851	606,859,303	-1.0%
Non-vested, contingent, etc.	10,337,094	10,337,094	0.0%	25,701,629	25,701,629	0.0%	36,038,723	36,038,723	0.0%
Total	4,075,977,044	4,042,007,279	-0.8%	13,002,145,953	12,921,680,953	-0.6%	17,078,122,997	16,963,688,232	-0.7%
Change in Actuarial Liability		(33,969,765)			(80,465,000)			(114,434,765)	
Normal Cost rate	8.04%	7.99%	-0.6%	8.28%	8.24%	-0.5%	8.22%	8.19%	-0.4%
UAL rate	8.73%	8.46%	-3.1%	13.75%	13.57%	-1.3%	12.63%	12.44%	-1.5%
Total Actuarial Contribution Rate	16.77%	16.45%	-1.9%	22.03%	21.81%	-1.0%	20.85%	20.63%	-1.1%
								14.6300%	
Change in Actuarial Contribution Rate		-0.32%			-0.22%			-0.22%	

	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
		Local			KPF			Judges	
	Current	No death ben	Decrease	Current	No death ben	Decrease	Current	No death ben	Decrease
Actuarial Liability									
Actives	2,476,574,736	2,468,125,471	-0.3%	1,272,695,321	1,271,573,736	-0.1%	77,144,168	77,026,369	-0.2%
Retirees	1,645,653,454	1,621,352,499	-1.5%	1,283,051,172	1,279,065,876	-0.3%	84,889,172	84,585,468	-0.4%
Deferreds/Disableds	237,095,366	234,643,385	-1.0%	134,729,921	133,862,589	-0.6%	0	0	
Non-vested, contingent, etc.	22,330,919	22,330,919	0.0%	16,081,605	16,081,605	0.0%	301,307	298,971	-0.8%
Total	4,381,654,475	4,346,452,274	-0.8%	2,706,558,019	2,700,583,806	-0.2%	162,334,647	161,910,808	-0.3%
Change in Actuarial Liability		(35,202,201)			(5,974,213)			(423,839)	
Normal Cost rate	7.90%	7.85%	-0.6%	14.55%	14.53%	-0.1%	19.62%	19.59%	-0.2%
UAL rate	7.28%	7.12%	-2.2%	13.02%	12.90%	-0.9%	7.51%	7.36%	-2.0%
Total Actuarial Contribution Rate	15.18%	14.97%	-1.4%	27.57%	27.43%	-0.5%	27.13%	26.95%	-0.7%
Change in Actuarial Contribution Rate		-0.21%			-0.14%			-0.18%	

		Decrease in Actuarial Liability	
	Total Actuarial Liability	Dollars	As a Percent
Total KPERS	21,459,777,473	(149,636,966)	-0.70%
Total System	24,328,670,139	(156,035,018)	-0.64%