

Issue Brief

Kansas Public Employees Retirement System

KPERS Benefits Changing for *Future* Members

According to the most recent actuarial valuation, KPERS' overall funded ratio was 69 percent with an unfunded actuarial liability of \$5.36 billion as of December 31, 2006. For the last six years, KPERS has worked closely with the Legislature and the Governor's Office to address a funding shortfall and implement a comprehensive long-term funding plan. Key steps have been taken as part of this plan with positive results, including a series of employer contribution rate increases, issuing pension obligation bonds, and making actuarial changes. Plan design modifications for future members represented the remaining component of the long-term funding plan.

In addition to funding considerations, demographic shifts have also set the stage for plan design changes. Generally, KPERS members are living longer in retirement. This means they will receive benefits for a longer period of time. In addition, as the "Baby Boomers" begin to retire, a larger proportion of KPERS members will move into retirement and collect benefits.

New Plan Design Features

Following in-depth examinations of funding and demographic projections, cost estimates and plan design options during the 2006 interim, the Joint Committee on Pensions, Investments and Benefits introduced legislation during the 2007 session to implement an alternative retirement plan for future employees with full support from the KPERS Board of Trustees.

In April 2007, the Kansas Legislature passed and the Governor signed into law a new plan design providing the following benefits for KPERS members **first employed on or after July 1, 2009**:

- First day membership in KPERS
- Five-year vesting
- Normal retirement at age 65 with five years of service, or at age 60 with 30 years of service
- Early retirement at age 55 with 10 years of service
- Increased benefit reductions for early retirement
- Automatic annual 2 percent cost-of-living adjustments beginning at age 65
- Employee contribution rate of 6 percent

Along with plan design modifications for future employees, the legislation provides two enhancements for **current employees**, effective July 1, 2009:

1. Eliminates "year of service" for all non-school members
Those hired between July 1, 2008, and June 30, 2009, will become members on July 1, 2009.
2. Decreases vesting to five years

See page 2 for a brief comparison of the primary features of the current KPERS plan and the new plan for future members.

Current Member Benefits Protected

Except for the membership date change and five-year vesting, the plan design modifications apply only to individuals first employed on or after July 1, 2009.

Benefits for members currently employed by KPERS-participating employers are safe and guaranteed by the State of Kansas. Anyone working now will receive the benefits they have been promised.

Plan Design Cost Savings

Through the end of KPERS' current amortization period in 2033, the new plan design is projected to reduce the State's costs for State and school members by approximately \$2.6 billion and local employer costs by about \$1 billion.

Plan Design Timeline

| | |
|------------------------------|---|
| April 2007 | Legislation passed |
| June – Dec 2007 | IRS compliance review/approval |
| Jan – May 2008 | IRS compliance legislative adjustments |
| June 2008 – June 2009 | Implement information system changes, employer and member communication initiatives, etc. |
| July 1, 2009 | Effective date of new plan |

Plan Comparison

Current

KPERS Current Plan
(employed before July 1, 2009)

Future

KPERS Future Plan^(a)
(employed on or after July 1, 2009)

First-Day Membership

- **State and local** employees must be employed by a participating employer for one year before becoming KPERS members.
- **School** employees become KPERS members on first day of employment.

All employees become KPERS members on first day of employment.

Vesting Period

Years of service required to guarantee eligibility for retirement benefits.

10 years

5 years

Normal Retirement Eligibility

Age and service required to receive unreduced retirement benefits.

- Age 65 with 1 year of service
- Age 62 with 10 years of service
- 85 Point Rule (age plus years of service equal at least 85)

- Age 65 with 5 years of service
- Age 60 with 30 years of service

Early Retirement Eligibility & Subsidies

Age and service required to receive reduced retirement benefits.

- Age 55 with 10 years of service
- All early retirement reductions subsidized meaning reductions are less than full actuarial reductions.

- Age 55 with 10 years of service
- Early retirement reductions subsidized for those with 30 or more years of service.

Defined Benefit Multiplier

1.75%

1.75%

Final Average Salary (FAS)

Definition used in retirement benefit calculation.

Average of three highest years

Average of five highest years

Retirement Benefit Formula

Benefits payable for lifetime.

1.75% x FAS x Years of Service

1.75% x FAS x Years of Service

Cost-of-Living Adjustments (COLAs)

None

2% annual automatic COLA at age 65

Employee Contributions

4%

6%

Employer Contributions

Based on annual actuarial valuation subject to 0.6% statutory cap on annual rate increases.

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^(a) Future plan design changes apply to KPERS members only. They do not apply to members of the Kansas Police and Firemen's Retirement System or the Retirement System for Judges.