



Kansas Public Employees Retirement System

2010 Senate Bill 564

Senate Ways and Means Committee

March 10, 2010

Overview

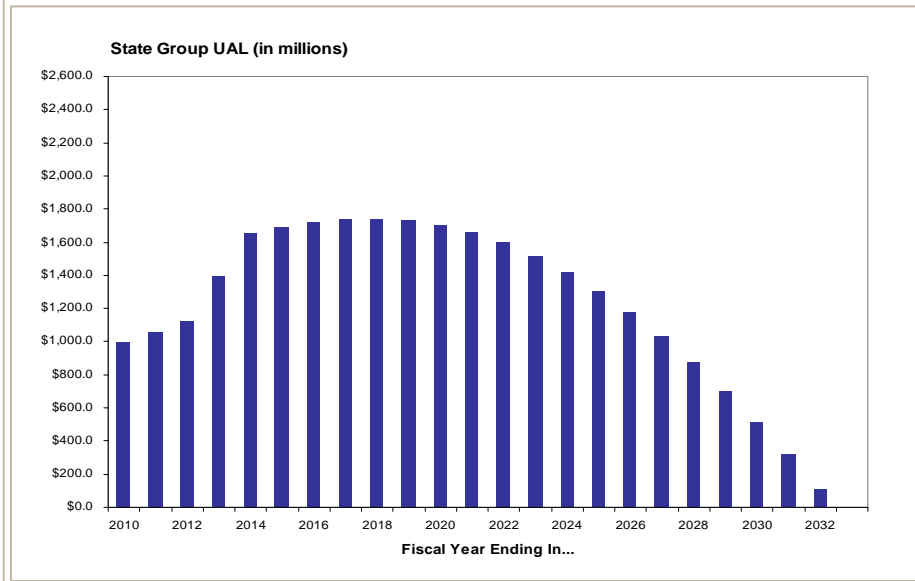
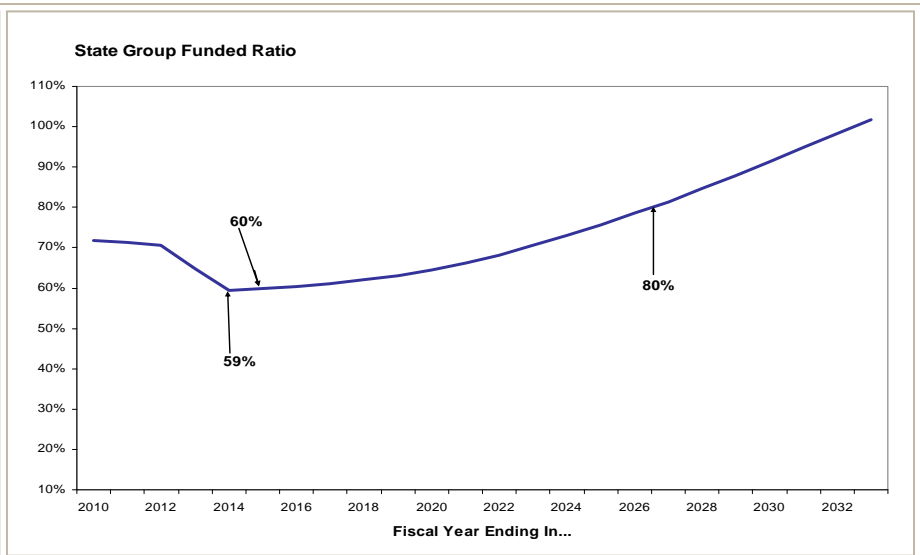
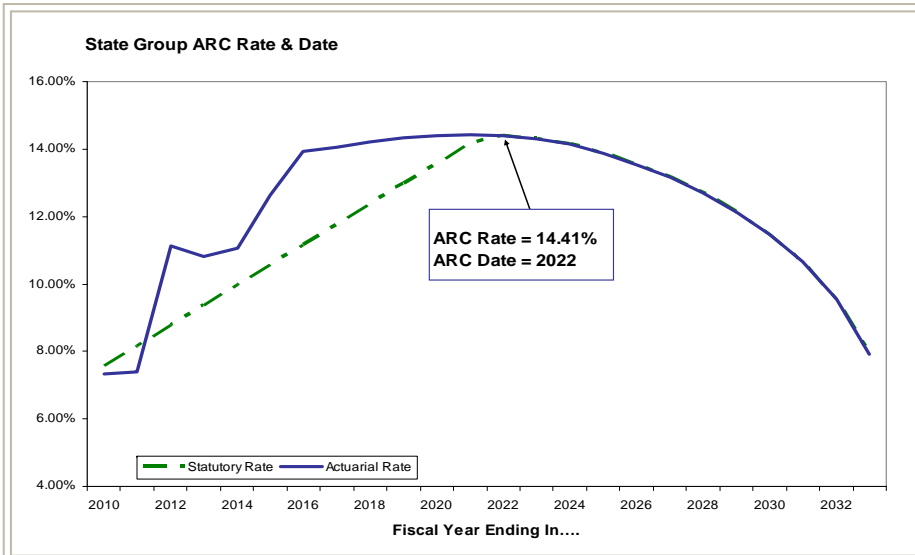
- The unprecedented investment market declines in 2008 had a substantial negative impact on the funding status of the System, reversing forward progress on long-term funding.
- The 12/31/08 actuarial valuation report reflected a significant deterioration in all measures of KPERS' long-term funding status.
 - **Unfunded Actuarial Liability (UAL).** The entire System's UAL increased by \$2.7 billion to \$8.3 billion.
 - The UAL for all three KPERS groups is projected to continue growing for seven to 15 years by 55% (Local) to almost double the current UAL (School).
 - Because the School Group is out of actuarial balance, its remaining UAL at the end of the amortization period in FY 2033 is projected to be \$6.9 billion, compared to a UAL of \$3.9 billion at the end of 2007.
 - **Funded Ratio.**
 - For public plans, a funded ratio of 80% and rising is considered to indicate adequate funding.
 - Funded ratios of 60% or below are considered to reflect severe underfunding requiring prompt remedial action.

Overview (Continued)

- **Funded Ratio (Continued).**
 - The State Group's funded ratio dropped to 72% and is projected to fall to near 60% for six years.
 - The School Group's funded ratio immediately fell to 52%. It is projected to reach 41.7% in FY 2014 and remain at 41 to 43% for another nine years, before finally reaching 60% in FY 2031.
- **Actuarially Required Contribution (ARC) Rate.**
 - The School Group is out of actuarial balance. Although its statutory rate is projected to rise to more than 20% by FY 2033, its ARC rate at that point is expected to approach 40%.
 - The actuarially required contribution (ARC) rates for State and Local Groups are projected to nearly double their current contribution rates.
- Collectively, these measures of KPERS' long-term funded status indicate that its ability to withstand future economic downturns has been compromised.
- The funding problem facing KPERS does not constitute a crisis threatening its short-term viability. Instead, it is KPERS' ability to pay benefits over the long-term that is in jeopardy.

State Group: Baseline Projections

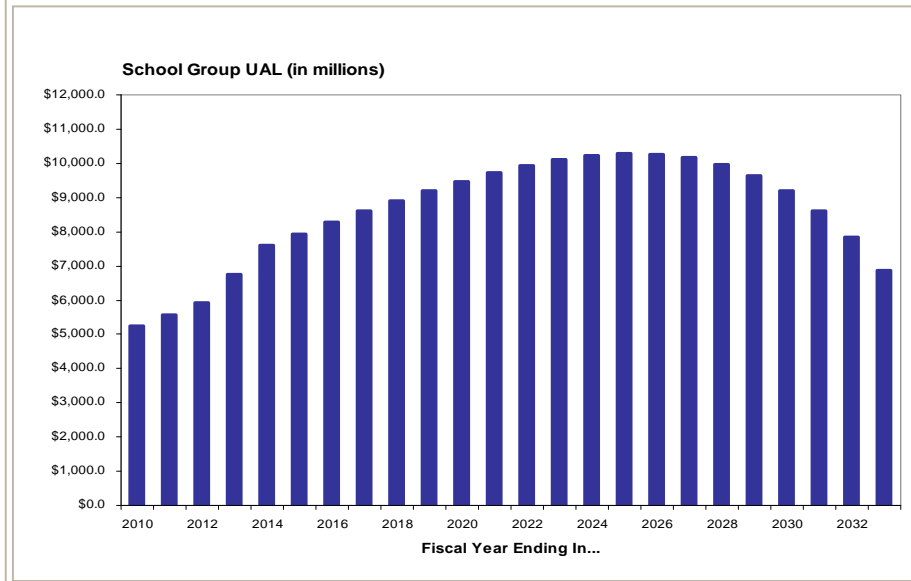
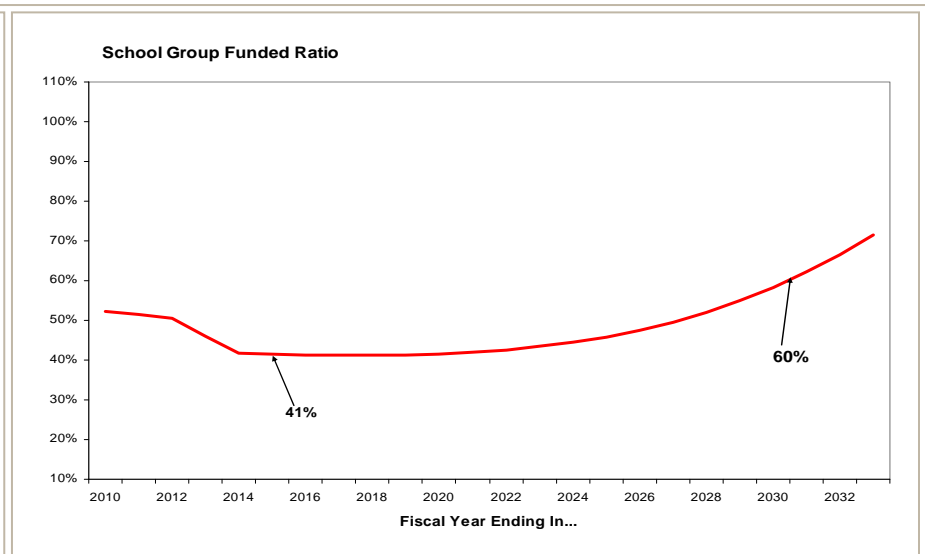
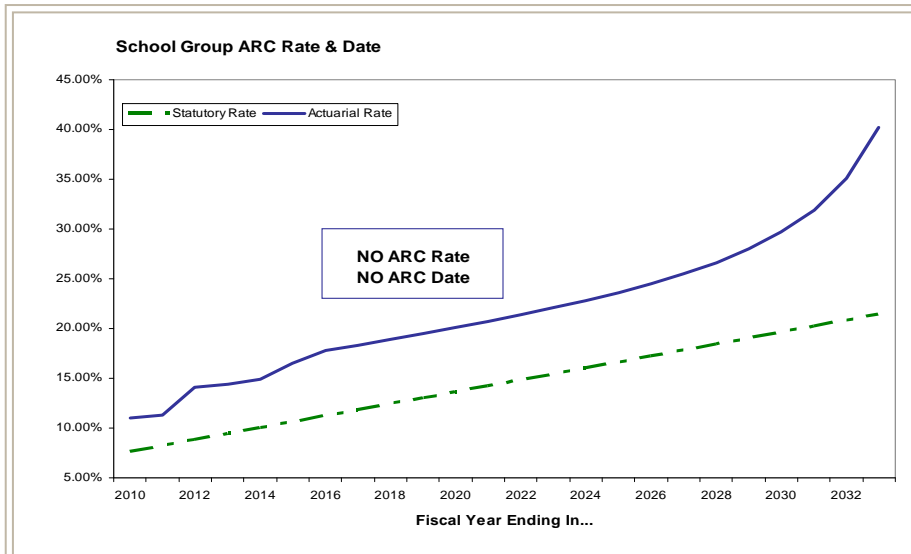
▪No change in the .6% employer rate increase cap. Assumes average annual investment return of 8%.



- The projected ARC rate is nearly double the state/school rate paid by state agencies in FY 2010 (7.57%).
- The funded ratio reaches a low of 59% in FY 2014.
- It remains near 60% for an additional 5 years and only reaches 80% in FY 2027.
- The projected UAL rises by nearly 75% to \$1.74 billion in FY 2018 and does not return to its 2008 level until FY 2027.

School Group: Baseline Projections

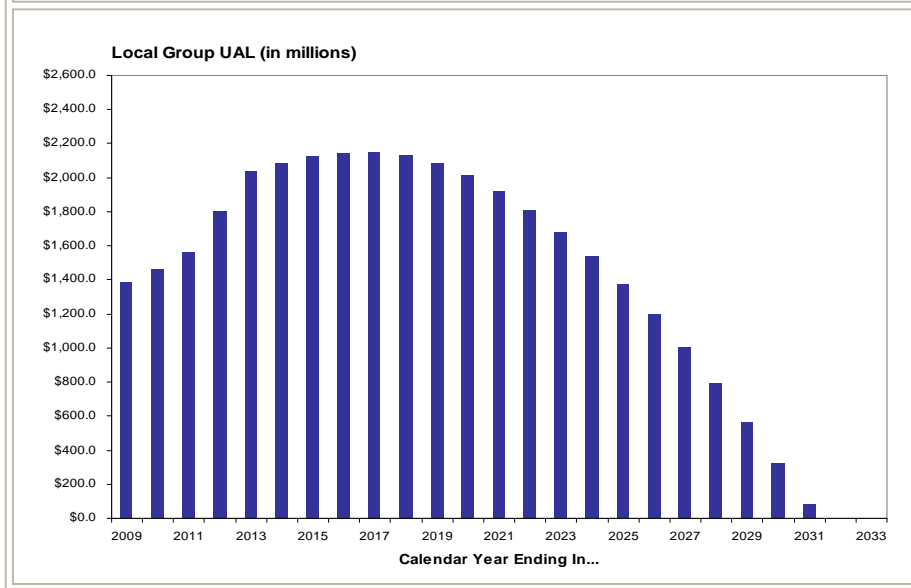
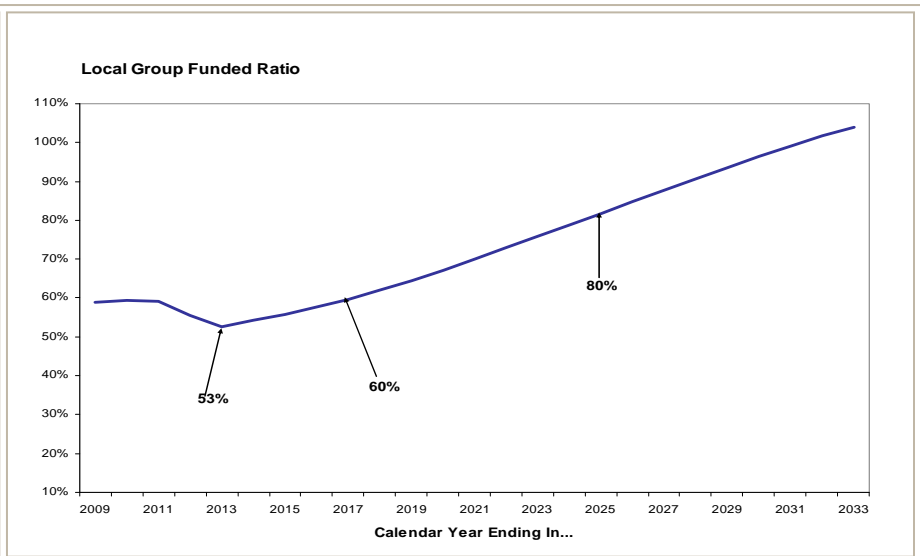
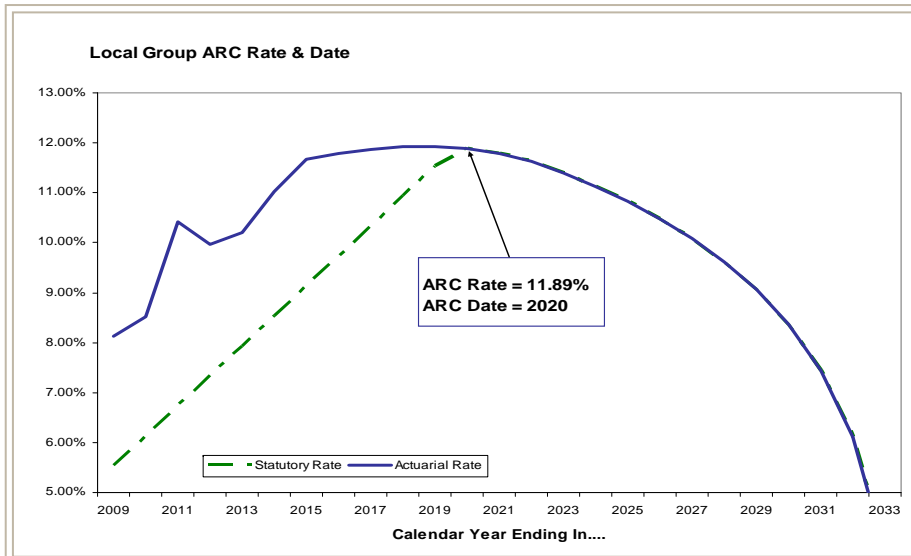
▪ **No change in the .6% employer rate increase cap. Assumes average annual investment return of 8%.**



- The School Group is not in actuarial balance by FY 2033. ARC rates are expected to rise to around 40%, with statutory rates climbing to 20%.
- The funded ratio reaches a low of 41.4% in FY 2014 and remains at 41 to 43% for 10 years.
- The funded ratio does not reach 60% until FY 2031 and only reaches 80% in FY 2035.
- The projected UAL nearly doubles to \$10.3 billion in FY 2025. At the end of the amortization period, the unpaid balance of the UAL is projected to be 80% higher than the UAL prior to 2008.

Local Group: Baseline Projections

▪ **No change in the .6% employer rate increase cap. Assumes average annual investment return of 8%.**



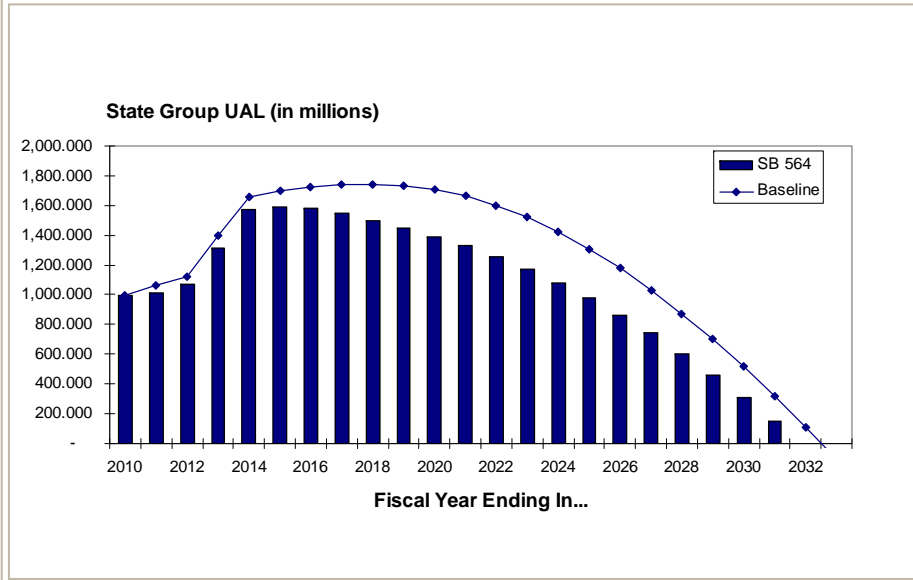
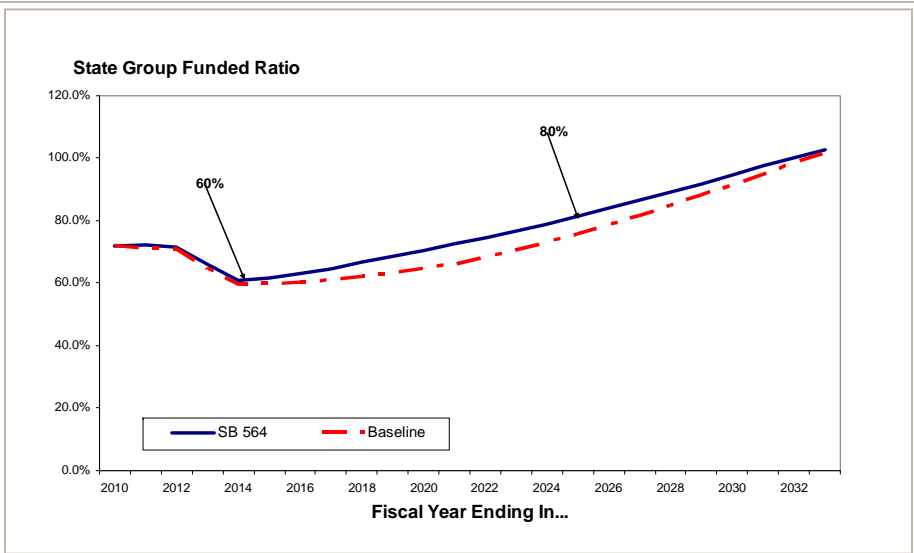
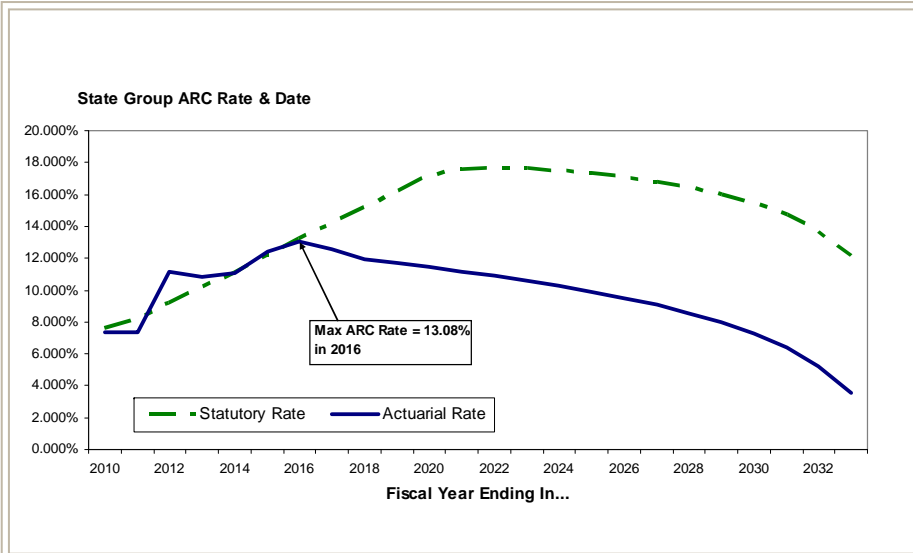
- The Local Group ARC rate is projected to double to 11.89% by CY 2020.
- Its projected funded ratio will fall to 53% by CY 2013, regaining 60% by CY 2017. The funded ratio is projected to reach 80% by CY 2025.
- The UAL is projected to increase by 55.4% to \$2.15 billion by CY 2017 and does not return to its 2008 level until FY 2025.

SB 564

- Throughout the Interim, the Joint Committee Pensions, Investments, and Benefits studied KPERS' long-term funding shortfall and a range of options for improving KPERS' funding status.
- Based on this review, the Joint Committee recommended introduction of SB 564 as an initial step in addressing the shortfall.
- SB 564 has three components:
 - **Increased Employer Contributions.** Raise the cap on employer contribution rate increases from .6% per year to 1.0% per year, beginning in FY 2012.
 - **Increased Employee Contributions.** Increase employee contribution rates for both Tier 1 and Tier 2 by .5% in each of four calendar years, beginning January 1, 2012. By CY 2015, the contribution rate for Tier 1 would be 6.0%, and the contribution rate for Tier 2 would be 8.0%.
 - **Increased Multiplier for Future Service.** Retirement benefits are calculated by multiplying the member's years of service by the final average salary (FAS), times a "multiplier" of 1.75%. Effective with the increase in employee contributions beginning January 1, 2012, SB 564 would raise the multiplier to 1.85% for all future years of service credited to members.
- An analysis of the projected impact of SB 564 on measures of KPERS' funded status and on employer and employee contributions follows.

State Group: Senate Bill 564

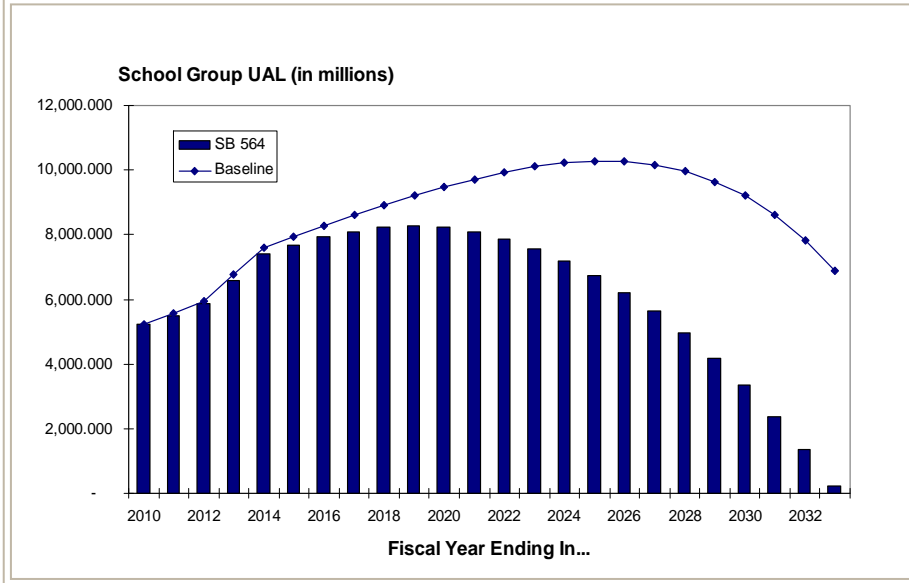
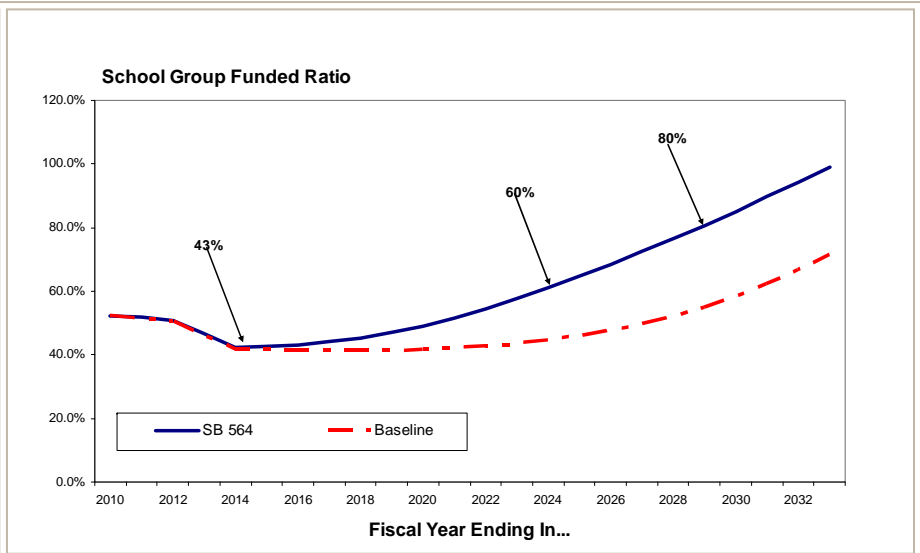
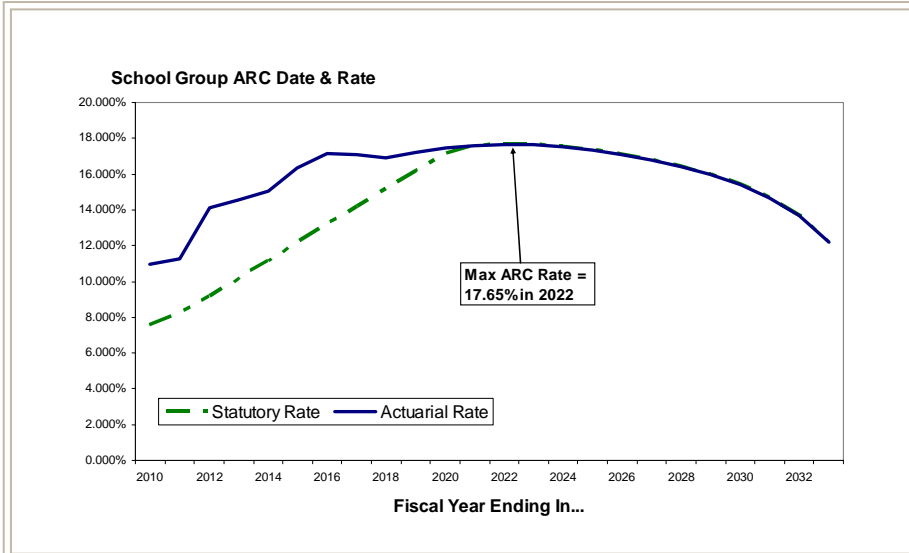
▪ Raise cap on employer rate increases to 1.0% in FY '12. Raise Tiers I & 2 employee rate by 0.5% in each of four years, beginning 1/1/12. Increase Tiers I & 2 multiplier to 1.85% for future service. Assumes average annual investment return of 8%.



- The projected ARC rate rises to a maximum of 13.08% in FY 2016 – six years earlier and 1.33% lower than the Baseline.
- The funded ratio falls to a low of 60.8% in FY 2014.
- The funded ratio reaches 80% in FY 2025, two years earlier than the Baseline.
- The projected UAL peaks at \$1.59 billion in FY 2015 – three years earlier and \$156.9 million less than the Baseline.

School Group: Senate Bill 564

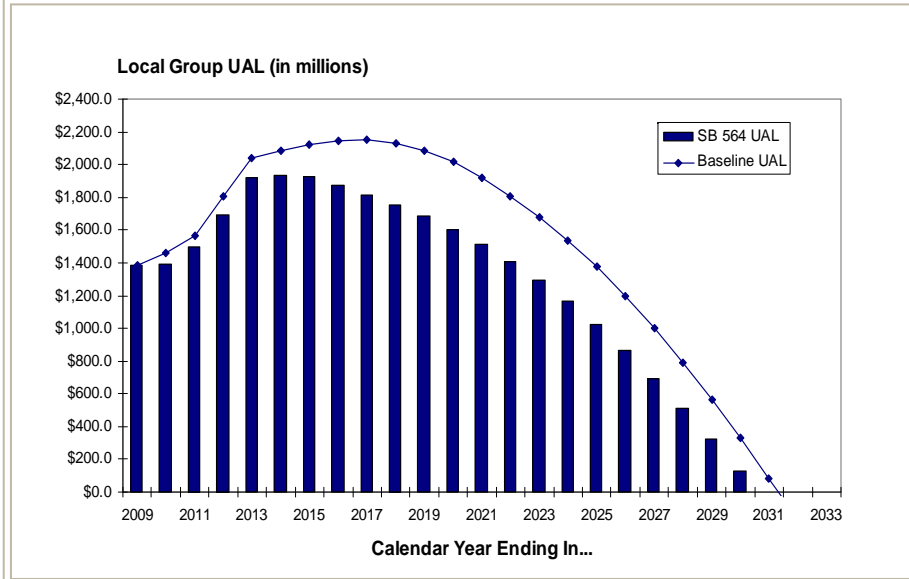
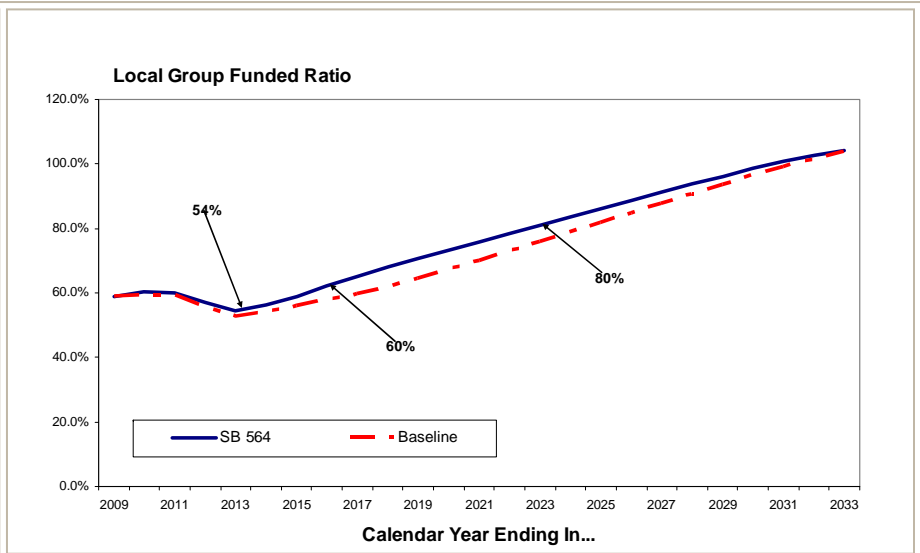
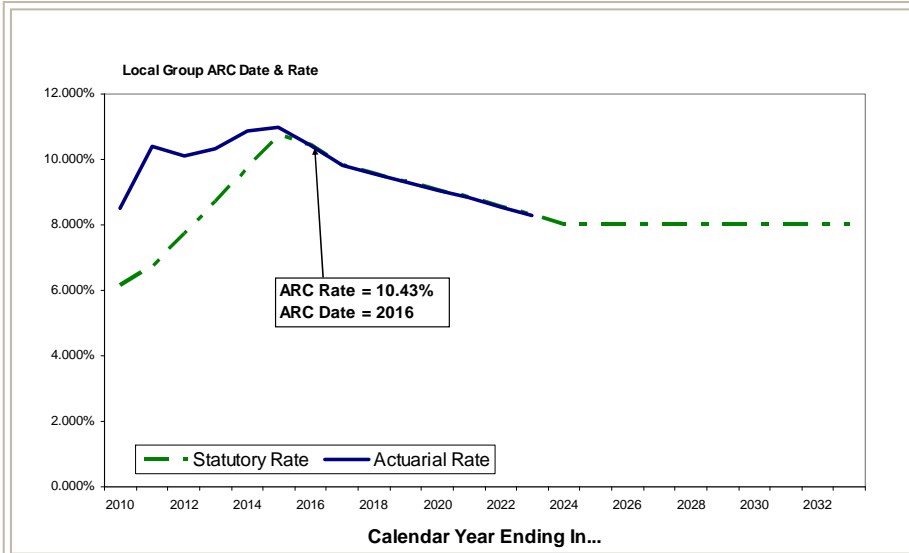
▪ Raise cap on employer rate increases to 1.0% in FY '12. Raise Tiers I & 2 employee rate by 0.5% in each of four years, beginning in 1/1/12. Increase Tiers I & 2 multiplier to 1.85% for future service. Assumes average annual investment return of 8%.



- The projected ARC rate rises to a maximum of 17.65% in FY 2022.
- The funded ratio falls to a low of 42.5% in FY 2014. It remains below 50% for 8 years, compared to 15 years under the Baseline.
- The funded ratio reaches 60% in FY 2024 and 80% in FY 2029. Under Baseline projections, 60% is not reached until FY 2031 and 80% at FY 2035.
- The projected UAL peaks at \$8.27 billion in FY 2019 and is paid off by FY 2033. Under the Baseline, a UAL of \$6.9 billion would remain unpaid in FY 2033.

Local Group: Senate Bill 564

▪ Raise cap on employer rate increases to 1.0% in CY '12. Raise Tiers I & 2 employee rate by 0.5% in each of four years, beginning 1/1/12. Increase Tiers I & 2 multiplier to 1.85% for future service. Assumes average annual investment return of 8%.

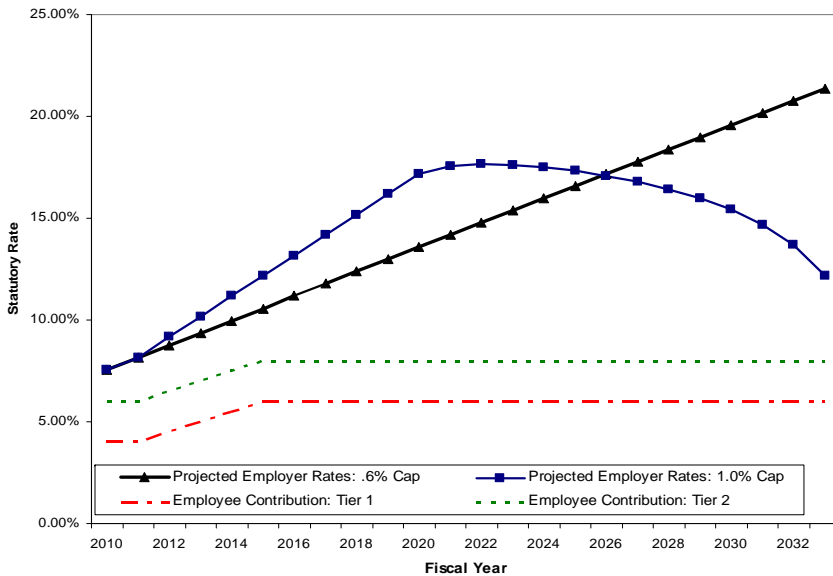


- The projected ARC rate rises to a maximum of 10.43% in CY 2016, which is 1.46% lower and four years earlier than the Baseline.
- The funded ratio falls to a low of 54.3% in CY 2013. It remains below 60% for 4 years, compared to 8 years under the Baseline.
- The funded ratio reaches 80% in CY 2023. Under Baseline projections, 80% is reached in CY 2025.
- The projected UAL peaks at \$1.94 billion in CY 2014. A maximum UAL of \$2.15 billion in CY 2017 is projected under the Baseline.

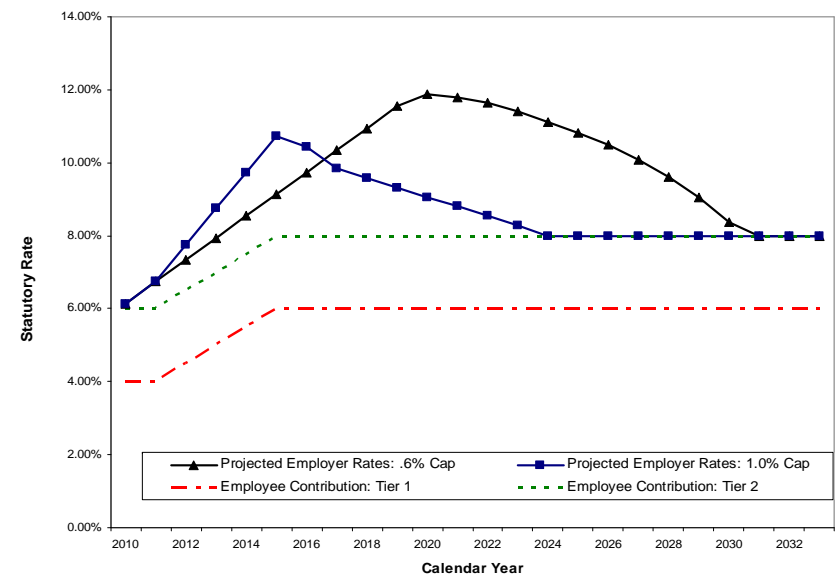
Senate Bill 564 Impact on Contribution Rates

- The following graphs show projected employer contribution rates for the State/School Groups and Local Group under the Baseline and under SB 564.
- The graphs also show the phase-in of the 2% increase in employee contributions under SB 564 for both Tiers 1 and 2.

KPERS State/School Group Contribution Rates:



KPERS Local Group Contribution Rates:



SB 564 Effect on Employer Contributions

SB 564 Estimated Effect on the State and School Group (in Millions)

	<u>0.6% Cap</u>	<u>SB 564</u>	<u>Additional ER Contributions</u>
FY 2012 Increase in Employer Contributions	\$38.13	\$56.91	\$18.78
FY 2012 Total Employer Contributions	\$411.70	\$430.48	\$18.78
FY 2017 Increase in Employer Contributions	\$50.15	\$74.95	\$24.80
FY 2017 Total Employer Contributions	\$636.51	\$766.30	\$129.79
Total Employer Contributions: FY 2010-2033	\$23,977.66	\$22,862.62	(\$1,115.04)

SB 564 Estimated Effect on the Local Group (in millions)

	<u>0.6% Cap</u>	<u>SB 564</u>	<u>Additional ER Contributions</u>
CY 2012 Increase in Employer Contributions	\$14.61	\$21.72	\$7.11
CY 2012 Total Employer Contributions	\$130.53	\$137.64	\$7.11
CY 2017 Increase in Employer Contributions	\$19.37	(\$5.39)	(\$24.76)
CY 2017 Total Employer Contributions	\$217.34	\$206.63	(\$10.71)
Total Employer Contributions: CY 2010-2033	\$5,816.37	\$5,131.32	(\$685.05)

SB 564 Effect on Employee Contributions

SB 564 Estimated Effect on the State and School Employee Group (in Millions)

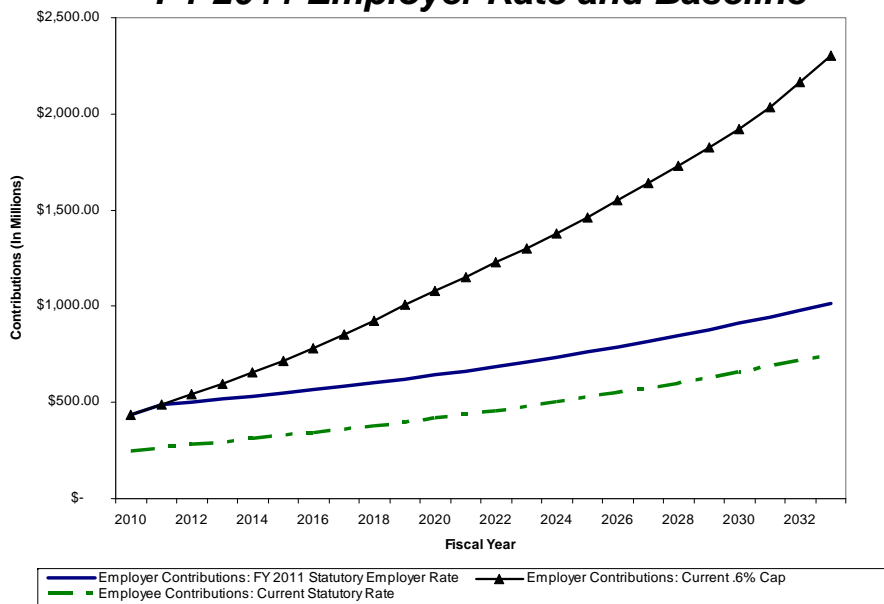
	<u>Current Law</u>	<u>SB 564</u>	<u>Additional EE Contributions</u>
FY 2012 Increase in Employee Contributions	\$10.69	\$22.43	\$11.74
FY 2012 Total Employee Contributions	\$200.17	\$211.91	\$11.74
FY 2017 Increase in Employee Contributions	\$12.16	\$15.33	\$3.17
FY 2017 Total Employee Contributions	\$257.08	\$365.23	\$108.15
Total Employee Contributions: FY 2010-2033	\$7,972.51	\$10,712.52	\$2,740.01

SB 564 Estimated Effect on the Local Employee Group (in millions)

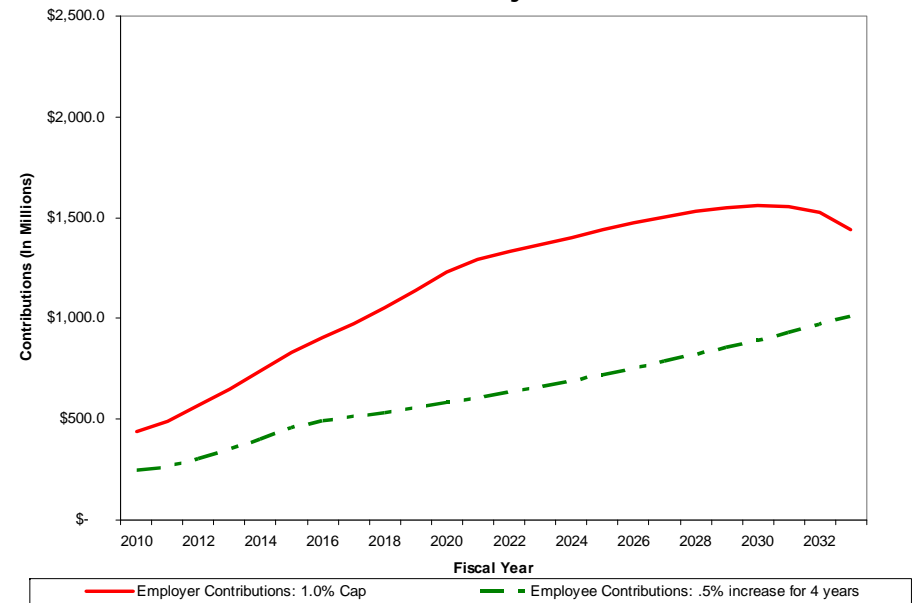
	<u>Current Law</u>	<u>SB 564</u>	<u>Additional EE Contributions</u>
CY 2012 Increase in Employee Contributions	\$4.68	\$13.57	\$8.89
CY 2012 Total Employee Contributions	\$78.53	\$87.42	\$8.89
CY 2017 Increase in Employee Contributions	\$5.01	\$6.40	\$1.39
CY 2017 Total Employee Contributions	\$102.48	\$144.52	\$42.04
Total Employee Contributions: CY 2010-2033	\$3,175.26	\$4,270.71	\$1,095.45

- **Graph 1** shows projected KPERS employer and employee contributions:
 - With no increase in employer contribution rates after FY 2011, to illustrate growth in contributions due to payroll growth alone. (State/School – 8.17% and Local – 6.74%)
 - Under current law – with a .6% cap on employer contribution rate increases and no change in employee rates or benefit formula multiplier.
- **Graph 2** shows projected KPERS employer and employee contributions under SB 564.
- See Appendices A through C for detailed employer and employee contribution projections that are the basis for these graphs.

**Projections Using
FY 2011 Employer Rate and Baseline**



SB 564 Projections



Effect of Increasing Multiplier

- The following table shows the impact of increasing the benefit multiplier factor to 1.85% for all future service, beginning January 1, 2012.

	<u>Years of Service</u>		X	<u>Multiplier</u>		X	<u>Final Average Salary</u>		=	<u>Annual Benefit</u>		
										<u>Subtotal</u>	<u>Total</u>	
Current Law	30		X	1.75%		X	\$40,000		=		\$21,000	
Example 1:	25		X	1.75%		X	\$40,000		=	\$17,500.00	=	\$21,200
	5			1.85%			\$40,000			\$3,700.00		
Example 2:	15		X	1.75%		X	\$40,000		=	\$10,500.00	=	\$21,600
	15			1.85%			\$40,000			\$11,100.00		
Example 3:	5		X	1.75%		X	\$40,000		=	\$3,500.00	=	\$22,000
	25			1.85%			\$40,000			\$18,500.00		



Appendix A

State/School Group

Contributions

**Kansas Public Employees Retirement System
Analysis of Additional Employer Contributions
State and School Groups FY 2010 - 2033**

Fiscal Year	Level FY '11 Employer Rate		Current Cap Increase		SB 564			
	State/School Group Employer Rate	Employer Contributions (in millions)	State/School Group Employer Rate	Employer Contributions (in millions)	State/School Group Employer Rate	Employer Contributions (in millions)	Additional Contributions from FY 2011 Rate (in millions)	Additional Contributions from Current Cap (in millions)
2010	7.57%	\$ 334.2	7.57%	\$ 334.2	7.57%	\$ 334.2	\$ -	\$ -
2011	8.17%	373.6	8.17%	373.6	8.17%	373.6	-	-
2012	8.17%	383.5	8.77%	411.7	9.17%	430.5	46.9	18.8
2013	8.17%	393.9	9.37%	451.8	10.17%	490.4	96.4	38.6
2014	8.17%	404.9	9.97%	494.2	11.17%	553.6	148.7	59.5
2015	8.17%	416.6	10.57%	539.0	12.17%	620.5	204.0	81.6
2016	8.17%	428.9	11.17%	586.4	13.17%	691.3	262.5	105.0
2017	8.17%	441.8	11.77%	636.5	14.17%	766.3	324.5	129.8
2018	8.17%	455.5	12.37%	689.7	15.17%	845.8	390.3	156.1
2019	8.17%	469.9	12.97%	746.0	16.17%	930.1	460.2	184.1
2020	8.17%	485.1	13.57%	805.8	17.17%	1,019.6	534.4	213.8
2021	8.17%	501.2	14.17%	869.2	17.58%	1,078.4	577.2	209.1
2022	8.17%	518.1	14.77%	936.6	17.65%	1,119.4	601.3	182.8
2023	8.17%	535.9	15.37%	1,008.2	17.62%	1,155.6	619.7	147.4
2024	8.17%	554.6	15.97%	1,084.0	17.50%	1,187.9	633.3	103.8
2025	8.17%	574.2	16.57%	1,164.5	17.32%	1,217.3	643.2	52.8
2026	8.17%	594.7	17.17%	1,249.7	17.08%	1,243.1	648.5	(6.6)
2027	8.17%	616.1	17.77%	1,340.1	16.79%	1,266.2	650.1	(73.9)
2028	8.17%	638.5	18.37%	1,435.7	16.43%	1,284.1	645.5	(151.7)
2029	8.17%	662.0	18.97%	1,537.1	15.98%	1,295.0	633.0	(242.1)
2030	8.17%	686.5	19.57%	1,644.3	15.43%	1,296.2	609.8	(348.0)
2031	8.17%	712.0	20.17%	1,757.7	14.70%	1,280.9	568.9	(476.8)
2032	8.17%	738.5	20.77%	1,877.6	13.70%	1,238.6	500.1	(638.9)
2033	8.17%	766.2	21.37%	2,004.2	12.20%	1,144.0	377.8	(860.2)
FY '10-'33		\$ 12,686.5		\$ 23,977.7		\$ 22,862.6	\$ 10,176.2	\$ (1,115.0)

1,683.2



Appendix B Local Group Contributions

**Kansas Public Employees Retirement System
Analysis of Additional Employer Contributions
Local Group FY 2010-2033**

Calendar Year	Level CY '11 Employer Rate		Current Cap Increase		SB 564			
	Local Group Employer Rate	Employer Contributions (in millions)	Local Group Employer Rate	Employer Contributions (in millions)	Local Group Employer Rate	Employer Contributions (in millions)	Additional Contributions from CY 2011 Rate (in millions)	Additional Contributions from Current Cap (in millions)
2010	6.14%	\$ 102.0	6.14%	\$ 102.04	6.14%	\$ 102.0	\$ -	\$ -
2011	6.74%	115.9	6.74%	115.9	6.74%	115.9	-	-
2012 (2)	6.74%	119.9	7.34%	130.5	7.74%	137.6	17.8	7.1
2013	6.74%	123.9	7.94%	146.0	8.74%	160.7	36.8	14.7
2014	6.74%	128.1	8.54%	162.3	9.74%	185.2	57.0	22.8
2015	6.74%	132.5	9.14%	179.7	10.74%	211.1	78.6	31.4
2016	6.74%	137.0	9.74%	198.0	10.43%	212.0	75.0	14.1
2017	6.74%	141.7	10.34%	217.3	9.83%	206.6	65.0	(10.7)
2018	6.74%	146.5	10.94%	237.8	9.58%	208.2	61.6	(29.7)
2019	6.74%	151.5	11.54%	259.5	9.31%	209.3	57.8	(50.2)
2020	6.74%	156.8	11.89%	276.5	9.06%	210.7	54.0	(65.8)
2021	6.74%	162.2	11.79%	283.8	8.82%	212.4	50.1	(71.4)
2022	6.74%	168.0	11.63%	289.9	8.56%	213.3	45.4	(76.5)
2023	6.74%	173.9	11.40%	294.0	8.29%	213.8	39.9	(80.2)
2024	6.74%	180.1	11.12%	297.2	8.00%	213.8	33.7	(83.4)
2025	6.74%	186.7	10.82%	299.7	8.00%	221.6	34.9	(78.2)
2026	6.74%	193.5	10.48%	300.8	8.00%	229.7	36.2	(71.2)
2027	6.74%	200.6	10.08%	300.1	8.00%	238.1	37.5	(61.9)
2028	6.74%	208.1	9.62%	297.0	8.00%	247.0	38.9	(50.0)
2029	6.74%	215.9	9.06%	290.2	8.00%	256.3	40.4	(33.9)
2030	6.74%	224.1	8.36%	278.0	8.00%	265.9	41.9	(12.1)
2031	6.74%	232.6	8.00%	276.0	8.00%	276.0	43.5	-
2032	6.74%	241.4	8.00%	286.5	8.00%	286.5	45.1	-
2033	6.74%	250.6	8.00%	297.5	8.00%	297.5	46.8	-
FY '10-'13		\$ 4,093.5		\$ 5,816.4		\$ 5,131.3	\$ 1,037.8	\$ (685.1)

\$ 90.1



Appendix C Employee Contributions

Kansas Public Employees Retirement System
Analysis of Additional Employee Contributions Under SB 564
Tier 1 and Tier 2 Combined

State's Fiscal Year(1)	Employee Contributions: Current Statutory Rates (in millions)			Employee Contributions: .5% increase for 4 years (in millions)			Additional Contributions (in millions)		
	State/School	Local	Total	State/School	Local	Total	State/School	Local	Total
2010	\$ 178.4	\$ 69.0	\$ 247.4	\$ 178.4	\$ 69.0	\$ 247.4	\$ -	\$ -	\$ -
2011	189.5	73.9	263.3	189.5	73.9	263.3	-	-	-
2012 (2)	200.2	78.5	278.7	211.9	87.4	299.3	11.7	8.9	20.6
2013	210.9	83.2	294.1	247.1	101.6	348.6	36.2	18.4	54.6
2014	221.9	87.9	309.7	283.9	116.4	400.2	62.0	28.5	90.5
2015	233.2	92.6	325.8	322.4	131.9	454.4	89.2	39.3	128.5
2016	244.9	97.5	342.4	349.9	138.1	488.0	105.0	40.7	145.6
2017	257.1	102.5	359.6	365.2	144.5	509.8	108.2	42.0	150.2
2018	269.7	107.7	377.4	381.3	151.1	532.4	111.5	43.5	155.0
2019	283.0	113.0	396.0	398.0	158.0	556.0	115.0	45.0	160.0
2020	296.7	118.5	415.3	415.5	165.1	580.5	118.8	46.5	165.3
2021	311.1	124.3	435.3	433.7	172.4	606.2	122.7	48.1	170.8
2022	326.0	130.2	456.2	452.8	180.1	632.9	126.8	49.8	176.7
2023	341.4	136.4	477.8	472.6	188.0	660.6	131.2	51.6	182.8
2024	357.5	142.8	500.3	493.3	196.3	689.5	135.8	53.5	189.2
2025	374.2	149.5	523.7	514.8	204.9	719.6	140.6	55.4	195.9
2026	391.6	156.4	547.9	537.1	213.8	750.9	145.6	57.4	203.0
2027	409.6	163.5	573.1	560.4	223.1	783.5	150.8	59.5	210.4
2028	428.3	171.0	599.3	584.6	232.7	817.3	156.3	61.8	218.1
2029	447.7	178.7	626.4	609.7	242.8	852.5	162.1	64.1	226.1
2030	467.8	186.7	654.5	635.8	253.2	889.1	168.0	66.5	234.5
2031	488.7	195.1	683.8	663.0	264.1	927.1	174.3	69.0	243.3
2032	510.4	203.7	714.1	691.2	275.4	966.5	180.8	71.6	252.4
2033	532.9	212.7	745.6	720.5	287.1	1,007.6	187.6	74.4	261.9
FY '10-'13	\$ 7,972.5	\$ 3,175.3	\$11,147.8	\$ 10,712.5	\$ 4,270.7	\$ 14,983.2	\$ 2,740.0	\$ 1,095.4	\$3,835.5

(1) Increased employee contributions are proposed to begin on January 1, 2012, of State and School Fiscal Year 2012 and Local Fiscal/Calendar Year 2012. The increase in the benefit formula multiplier is also effective January 1, 2012, for future service only.

(2) For State and School Groups, the proposed employee rate increase is effective for the second half of Fiscal Year 2012. For the Local Group, it is effective for full Fiscal/Calendar Year 2012.