

SB 564

Testimony for the Senate Committee on Ways and Means

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Chairperson Emler and Members of the Committee:

Thank you for this opportunity to provide testimony in support of SB 564, which addresses the long-term funding shortfall facing the Kansas Public Employees Retirement System (KPERS).

SB 564, as introduced by the Joint Committee on Pensions, Investments, and Benefits, has three components:

Increased Employer Contributions. Raises the cap on employer contribution rate increases from .6% per year to 1.0% per year, beginning in FY 2012.

Increased Employee Contributions. Increases employee contribution rates for both Tier 1 and Tier 2 by 2% over four years, beginning January 1, 2012.

Increased Multiplier for Future Service. Beginning January 1, 2012, raises the benefits formula multiplier to 1.85% for all future years of service credited to members.

More detailed information about measures of current KPERS' funded status and the projected impact of SB 564 is attached.

Background

The investment losses of 2008 had a substantial negative impact on the funding status of the Retirement System as a whole and reversed previous forward progress on long-term funding. All measures of KPERS' funded status deteriorated significantly, as reported in the December 31, 2008, Actuarial Valuation. KPERS' current funding structure is not projected to generate enough contributions to pay off its unfunded actuarial liability (UAL) in the amortization period, leaving a balance of \$6.9 billion in FY 2033. Even assuming an 8% investment return over the next four years, KPERS' UAL and actuarially required contribution (ARC) rates are expected to rise significantly and its funded ratios to decline further as the remaining losses from 2008 are "smoothed" into actuarial valuations over the next four years.

UAL. Looking at the System as a whole, the System's UAL increased by \$2.7 billion or 49% to \$8.3 billion.

ARC Rates. ARC rates for each KPERS group are projected to continue growing substantially. The School Group is out of actuarial balance, and the State Group's ARC rate of 14.41% at its ARC date (FY 2022) will be nearly double the statutory state/school rate paid by state agencies in FY 2010 (7.57%).

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. The State'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% in FY 2014 and remain at 41 to 43% for another nine years, before finally reaching 60% in FY 2031.

The Joint Committee on Pensions, Investments and Benefits studied KPERS' long-term funding challenges during the 2009 Interim and were presented with a range of potential funding options to address them, including a number of basic funding solution options and multiple variations. The options involved the following elements:

- increasing the statutory employer contribution rate cap
- increasing employee contribution rates
- adjusting the statutory multiplier for future service
- issuing bonds
- creating a new mandatory defined contribution plan for future employees.

Following its review of the options, the Joint Committee introduced SB 564.

Conclusions

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. KPERS' ability to withstand future economic downturns has been compromised. With any of the funding options considered by the Joint Committee, including SB 564, substantial progress in the short to mid-term may be limited, and KPERS' funding status will remain tenuous for an extended period of time.

Efforts to address the long-term funding shortfall will need to be part of an ongoing process for a number of years. Legislative action is needed to start that process as quickly as possible, in order to begin establishing a more sound foundation for KPERS' long-term financial health. SB 564 provides a good first step. It is consistent with the position of the KPERS Board of Trustees supporting legislation this session that would result in substantial improvement to KPERS' long-term funding projections. For these reasons, I would urge the Committee to work toward enactment of legislation such as SB 564.

I would be glad to respond to any questions you might have.