



Kansas Public Employees Retirement System

Long-Term Funding Overview

Joint Committee on Pensions, Investments and Benefits ■

September 2, 2010

Long-Term Funding: 2010 Legislative Activities

- **2009 Interim Studies.** The Joint Committee on Pensions, Investments, and Benefits requested KPERS to model a series of funding solution options, which were presented during three Joint Committee meetings during the 2009 Interim. These options included:
 - Raising the statutory employer contribution rate cap to 1.0% or 2.0% over various time periods (from FY 2011 through FY 2013).
 - Increasing employee contribution rates for Tier 1 only or for both Tier 1 and Tier 2.
 - Increases ranged from 1.0% to 2.0% over various time periods.
 - Changing the statutory multiplier for future service, including –
 - A decrease in the multiplier from 1.75% to 1.5%.
 - In combination with higher employee contributions, an increase to 1.85%.
 - Issuing bonds of \$660 million to \$1.2 billion at par in lieu of raising the statutory cap on employer contribution increases.
 - Combining various employer and employee rate increases and multiplier changes.
 - Creating a new mandatory defined contribution plan for future employees.

Long-Term Funding: 2010 Legislative Activities

- **LTF Record.** At the request of the Joint Committee, KPERS also prepared a comprehensive record covering a report on KPERS' long-term funded status; KPERS' plan design and funding history; and a record of options considered by the Committee.
- **SB 564.** Based on its review of options for improving KPERS' funded status, the Joint Committee recommended introduction of SB 564 as an initial step in addressing the shortfall. This bill would have –
 - **Increased Contributions.** Raised the cap on employer contribution rate increases from 0.6% per year to 1.0% per year, beginning in FY 2012. Increased employee contribution rates for both Tier 1 and Tier 2 by .5% in each of four calendar years (total of 2%), beginning January 1, 2012.
 - **Increased Multiplier for Future Service.** Effective January 1, 2012, raised the benefit formula's multiplier to 1.85% for all future years of service.
- **House Sub for HB 2400.** The House Select Committee on KPERS recommended this substitute bill, which would have raised the maximum increase in employer contributions for the KPERS State and School Groups to 1.0% a year, effective FY 2013.

Long-Term Funding: 2010 Legislative Activities

- **HB 2751.** The House Appropriations Committee introduced a bill to create a Tier 3 KPERS Defined Contribution retirement plan for those hired after June 30, 2012.
 - Employees would contribute 7% of compensation to their retirement account.
 - Employers would contribute 5% to each employee's account, as well as percentages set by the Board for death and disability benefits, a funding rate for the current defined benefit plan, and a rate for plan administration expenses.
- Hearings were held for SB 564 and HB 2400, but neither of the bills passed out of its house of origin.
- No hearing was held on HB 2751. It was introduced a few days before adjournment.
- The final appropriations bill passed by the Legislature included funding for the statutory 0.6% increase in employer contributions during FY 2011.

Long-Term Funding: Next Steps

- Proactive steps to address KPERS' long-term funding shortfall are critical. The price of inaction will continue to grow along with the unfunded actuarial liability.
- KPERS is continuing its long-term funding analysis. Areas of particular focus may include:
 - Updated measurements of the impact of steps to improve long-term funding, beginning with contribution increases.
 - Ways to measure sustainability.
- In addition, KPERS is conducting an asset/liability study and an experience study.
 - Together, they potentially may result in changes to economic assumptions, including the 8% investment return.
 - If the Board approves a lower investment return assumption, the lower rate would result in higher unfunded liabilities and lower funded ratios.
 - KPERS will model the long-term funding impact of any changes that result from these studies.
- As this work is completed, KPERS will share the results with the Joint Committee, along with any recommendations by the Board for legislation. In addition, KPERS will respond to any directions from the Joint Committee regarding additional information or analyses it would like KPERS to present at subsequent meetings.

Long-Term Funding: Conclusions

- Current benefits are safe for a period of time. Assets of more than \$11 billion are available to pay benefits.
- While the 12/31/09 valuation indicates a modest, short-term improvement in KPERS' funding status, the fundamental long-term funding shortfall remains and will continue to grow.
- KPERS' ability to withstand future economic downturns is compromised.
- Last year's strong investment returns do not happen every year. Even with a yearly 8% return, the unfunded liability will continue to increase.
- Investment returns alone cannot fix the funding problem. Employers are still not contributing at the required rate.
- Legislative action is needed to begin the process of addressing the shortfall, with additional employer contributions as a basic element.