



# Kansas Public Employees Retirement System

Long-Term Funding Overview

*KPERS Board of Trustees*

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*July 16, 2010*

# Long-Term Funding: 2009 Interim Activities

- The Joint Committee on Pensions, Investments, and Benefits met three times during the 2009 Interim regarding KPERS issues.
- Based the 12/31/2008 valuation and preliminary discussion, the Joint Committee requested KPERS to model a series of funding solution options.
  - Increases to the statutory employer contribution rate cap.
  - Increases in employee contribution rates.
  - Changes in the statutory multiplier for future service.
  - Bond issues in lieu of the statutory employer contribution cap increase.
  - Various combinations of employer and employee rate increases and multiplier changes.
  - Creating a new mandatory defined contribution plan for future employees.
- 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.
  - A record of options considered by the Committee.

# Long-Term Funding: 2010 Legislative Activities

- **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 a total of 2% over four calendar years, 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 and a funding rate for the current defined benefit plan.
- 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

- 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.
- 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.
- Because the 2010 Legislature did not increase KPERS' funding beyond the current 0.6% statutory increase, passing long-term funding legislation in the 2011 session is essential.
- Proactive steps are critical. The price of inaction will continue to grow along with the UAL.

# Long-Term Funding: Next Steps (Continued)

- Work plan to lay the foundation for a legislative proposal by the Board to the 2011 Legislature:
  - **August:** Using the new 12/31/09 valuation data, continue analysis of KPERs' long-term funding. Areas of particular focus may include:
    - Ways to measure sustainability
    - Factors impacting funding status:
      - Potential changes in economic assumptions, including the 8% investment return.
      - Potential changes in GASB accounting standards.
    - Steps to improve long-term funding, beginning with contribution increases.
  - **September/October:** Present the further long-term funding analyses for consideration and discussion at Board meetings.
  - **November:** By the Board's November meeting, complete any additional modeling or analysis necessary to enable the Board to take action on a proposed legislative agenda.
  - **As Joint Committee meetings are scheduled:** Present the 12/31/09 valuation, along with an overview of the ongoing long-term funding analysis, asset allocation study, experience study, and GASB's preliminary views.