

## A KPERS REVIEW September 26, 2016

KCPR (Kansas Coalition of Public Retirees) has been “expounding” on KPERS for a number of years now. Nine plus years actually! During that time we have spoken to many of you face to face and of course our readership has grown. When one becomes so familiar with a topic, there is a tendency to start in the middle of a reader’s knowledge of a subject so we thought we might review some basic funding facts, hopefully in 1, 2, 3 order.

1. KPERS is a defined benefit program. This basically means that when an employee retires, a formula is used to calculate the amount he/she will receive in benefit. The pension provider, in this case the State of Kansas, is responsible for the benefit the existing formula indicates. There is nothing wrong with a properly managed defined benefit program as some would have you think! Properly managed pensions (which KPERS is) that have received contributions in the actuarially recommended amount are not as likely to be in financial trouble, even if they pay a COLA. **DB (defined benefit) Pensions aren’t inherently bad!** An often heard complaint is that all the “risk” is placed on the employer to fulfill the pension promise.
2. The U. S. Social Security Program relies heavily on past and current worker contributions to finance the system. The KPERS program, unlike Social Security, however, finances the system from pre-funded contributions and interest earnings of the employee and the employer during the work life of the covered employee.
3. The above mentioned contribution to any pension fund can be provided by any source. In the case of KPERS, for years the employees contributed 4% of the contribution. In the case of KPERS, the legislature has not contributed the actuarial amount for 22 years.
4. We are all (or will be) Kansas Public Retirees. No one under the KPERS umbrella is presently receiving an annual COLA (Cost of Living Adjustment.) The last COLA was enacted in 1998, authorized for those who retired prior to July 1, 1997. If you retired prior to July 1, 1997, you also received a \$300 bonus in 2007 and if you retired on/or before July 1, 1998, you also received a \$300 bonus in 2008. Of those presently receiving KPERS benefits, **77.4% do not/have not received** any of these enhancements.
5. This under contribution, in the case of Kansas, has led to the UAL (Underfunded Actuarial Liability) which is considered State Debt. There are 1,518 employers that contribute to KPERS: The State of Kansas, 105 Counties, 363 Cities, 61 Townships, 286 School Districts, 122 Libraries, 83 Conservation Districts, 69 Extension Councils, 19 Community Colleges, 25 Educational Cooperatives, 43 Recreation Commissions, 29 Hospitals, 13 Cemetery Districts, 96 KP&F Groups, the Judges and 203 other groups. One of our KCPR members recently expressed his frustration by saying, “You know of all these employers, only one employer has failed to pay the required amount, the State!” **During the entire history of KPERS, the employee has been required to put in his/her entire contribution. The amount requested has only increased, never decreased!**
6. If “Joe Dokes” and “Sally Small” go to work today for KPERS, the actuarial amount required to fund their pension 30 years down the road is called the NORMAL Cost. The UAL comes into play when a pension system is underfunded or when poor investment returns are achieved. Any funds that enter the KPERS Trust Fund, whether their source is a contribution or from investment income, reduce the UAL. Obviously, the only amount anyone can absolutely control is the employee/employer contribution.
7. Over the last 20 years, 57% of the KPERS Trust Fund has been derived from investment returns. Therefore, KPERS does NOT SUFFER FROM POOR INVESTMENT RETURNS!
8. Information from the 12/31/2015 valuation: Looking at KPERS only (excluding KP&F and Judges) information from the 12/31/2015 valuation, the average **annual** benefit is \$13,915, or about \$1,160 per month. There are 88,545 retirees and beneficiaries in the KPERS group. Less than 1,000, or 1.1%, receive more than \$50,000 in annual retirement benefits. About 4,000 retirees and beneficiaries, or 4.7%, receive less than \$1,200 in **annual** retirement benefits. An additional 23,000 receive between \$1,200 and \$6,000 in **annual** retirement benefits, so a total of **30.7% of KPERS retirees and beneficiaries receive less than \$6,000 in annual retirement benefits.** It should be noted that these lower benefit levels would have a higher probability of being

associated with some combination of a smaller number of years of service, part-time employment, or a greater number of years since retirement.

9. Actuarial projections are an acknowledged guess as to what will happen with life span, the economy, wages, inflation, etc. over 30 to 40 years. This is not a "what have you done for me yesterday" type of a projection. The consequences of any adjustment in a pension system can't be determined 6 months, a year, two years or even 5 years down the road. The change in the KPERS system that has made the greatest positive on the UAL and increased the funding level is the increased contribution the legislature has made to the fund! Because of the long term nature of any pension system, no further adjustments are needed. The system needs to be left alone.
10. The revenue problems the State is facing are a real concern as they regard KPERS contributions by the Kansas Legislature. Research indicates that 83% of the State budget is made up of K-12 Funding (The Governor is including KPERS funding in the category), Post-secondary Education and Medicaid. Nothing can really be done about the Medicaid funding, even though the Governor has tried to impact (reduce) this amount with KanCare. That leaves 62.9% in the Educational Categories which are the only large DeceSSIONARY funds in the Kansas Budget. During the campaign, the Governor has "ballyhooed" his educational spending so much that we fear that the pressure will once again fall on the funding of Medicaid and KPERS as a target to reduce State spending.
11. Further cuts in contributions on the part of the State will have great consequences in the years to come. Because of the level of income of many KPERS employees and their tendency to stay in the State when they retire, those who are without a pension or with a minimum pension will likely have to turn to the state for assistance, hence..."You can pay me now or pay me later!"
12. With the power leanings of the State Legislature, we still have grave concern over what will happen to KPERS. The push to do away with a DB type of pension system comes from the ALEC (American Legislative Exchange Council) a secret national group of conservative legislators who believe that "States ought to get out of the pension business." (This is a national "mantra" repeated throughout the United States.) Incidentally, some of our legislative leadership is deeply involved in this organization. We have stated before that the "suits" from the investment companies often outnumber the KCPR representatives in the committee hearing. If a DC (Defined contribution/401K type pension system) were initiated, these companies would stand to make millions if they could get their hands on KPERS dollars to invest.
13. The reason the KP&F and the Judges are more actuarially sound is because of the different rates of contribution. The Judges contribute 6%. The counties and municipalities contribute 21.28%. For KP&F: Employees contribute 7.15%, with counties and municipalities contributing 14.57%, and for State KP&F, the State contributes 14.44%. (State statute mandates that counties and municipalities contribute the actuarial recommended amount for local KP&F and the Judges.)
14. A brief summary of our fears over any attempt to change KPERS to a 401k type of retirement system is as follows:
  - a. No proposal for a 401k system (brought forth in the Kansas Legislature) we have seen speaks to the UAL.
  - b. A 401k type of retirement system is too easy to underfund by both employee and employer. The national employee average is \$42,000 at retirement.
  - c. It is too easy to withdraw or borrow from - - prior to retirement. This is called "leakage."
  - d. Many hidden fees in the accounts themselves – Wall Street has cleaned up on these.
  - e. Tremendously expensive service costs, even if KPERS would be the provider. These can be present in two ways: 1) Individual accounts would be required and need to be maintained and communicated. 2) The accounts would contain 10's or 100's of thousands of dollars, rather than KPERS billions of dollars. (The larger the sum of money invested, the less it costs to invest.)
  - f. The 401k was never designed as a singular retirement vehicle and removal of the traditional pension would make a three legged stool, a two legged stool.
  - g. To properly fund a 401k, double digit contribution is necessary. Most public employees don't have the income to contribute at this level.
  - h. There is no way to know how much money you will have accumulated on the day you choose to retire. (i.e., no defined benefit) The market could have crashed the day before! Many witnessed this in 2008.
  - i. Because of over reliance on the 401k system, some retirement experts are predicting a "Retirement Apocalypse" in the future.