KCPR HAS HELPED REPLACE MYTHS, UNTRUTHS AND HALF TRUTHS WITH FACTS

1. KPERS has made poor investments. This was easily dispelled. For anyone to suggest this in the first place only exposed an ignorance of the system.

2. KPERS Retirees and Beneficiaries were never met to have a COLA. While the program was never set up with an automatic benefit increase, over time there have been 17 COLAS and 2 bonuses.

3. Some KPERS benefactors receive a COLA. There has been no COLA since the one made effective in 1998.

4. The problem with the KPERS system is caused by too many "Fat Cats" draining the system of its assets. Not true, less than 1,000, or 1.1%, receive more than $50,000 in annual retirement benefits. The latest average retirement amount stands at $1,282.00 monthly.

5. Pensions are unsustainable. The anti-public employee crowd continues to parade this concept. This idea is flawed for two basic reasons. Pension are set up and approved by the IRS on an investment formula. The only four circumstances can alter this plan.
   a. Poor investment strategies
   b. Corruption on the investment side.
   c. Underfunding of the pension plan.
   d. Obviously KPERS has not been involved in a or b.
   e. The fourth is poor investment returns as the result of a sustained down turn in the economy. This is the only portion that the investors have no control over. This is why it is so important that pension funds be totally funded. This allows the fund to maximize investments when 'times' are good!!

6. The causal factors for nearly all underfunded pension systems are underfunding. The anti-pension crowd has often used the strategy of underfunding and then loudly complained that the unfunded actuarial liability which in the result of the underfunding makes the pension 'unstainable'. Their underfunding would then become a "self-fulfilling" prophecy.

7. Many Kansas Legislators thought that the Unfunded Actuarial Liability was something that they really didn't need to worry about. In the case of Kansas, <u>the unfunded actuarial liability (UAL) is in fact State debt.</u> In fact KPERS benefits will indeed have to be paid!! The cheapest way to do that, since over 50% of the KPERS Trust Fund comes from investment returns, is to properly fund the pensions system so that more investment income is made available.

8. The legislature can do anything they want with the KPERS. NOT so, of course. Two main types of statutes governor KPERS.
   a. Contract Law
   b. Pension approval approved by the IRS.

9. The legal revelations of the KPERS Commission of 2011 were as follows: (Incidentally, these opinions were presented by KOCH brother attorneys.)
   a. Benefit payments to the retired and their beneficiaries are required.

b. Benefit payments will also be required payment to all present KPERS employees who are presently tenured.
c. They opined that there 'might be' a few circumstances where by employees who had been hired, but not yet gained tenure might not have to be paid. The indication that these circumstances would need to be extreme in nature. (We believe this meant that they couldn't really find a way that these benefits would NOT have to be paid!)
d. Only the not yet hired had no real legal protection.

10. It often seems to be implied that Teachers (Educators) did something wrong. That is why KPERS School is the most underfunded group under the KPERS umbrella. KPERS originated in 1962 and merged with the Kansas Teacher's Retirement System in 1971. (The statutes require that any organization joining KPERS must be fully funded. The legislature made the decision to join the two programs, and subsequently contributed an additional $10 million a year to fully fund the Kansas Teacher's Retirement System portion of KPERS from 1971-1982, at which time they stopped the "extra" contribution.) (This action has led to our comments that KPERS School has been underfunded two times in the past and now is another underfunding about to begin?)

11. KPERS is not a Ponzi scheme. KPERS is an authorized 401a retirement plan approved by the IRS.

12. KPERS is NOT like Social Security: 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.

13. While not a myth, there was great hope by the conservatives in the legislature during the early Brownback years, that the Pension System could/should be replaced by 401k type defined contribution (DC) plan or the pension system should be privatized.
    a. These actions would have considerably increased cost to the employer.
    b. It would be required that the UAL would be need to be paid off much quicker. It could no longer be amortized over a long period of time.
    c. Privatization, if approved by the company, which was the only firm to 'sort of offer' (Since they had never privatized a public pension system.) would immediately require an immediate payment of approximately 110% of the UAL. There is also not evidence that a public pension has ever been privatized.
    d. There would be increased investment cost to the individual. Under a DC plan, each members holding would have to be held individually so the investment cost saving provided by the huge KPERS Trust Fund balances would go away. (It should be noted that the reason investment companies, during this time, were always 'hanging around' is because of all the money they could get their hands on. "How does approximately $20 Billion grab you?!!!)
    e. Finally, because of the requirement of 'full disclosure' required in the investment world, law makers would not be able to operate without transparency as they

moved the DC idea forward and 'the truth' as noted above would not be very palatable mainly because of the tremendously increased costs.

14. The underfunding has become such a concern, that two times the legislature and Governor have authorized a bond issue to address the UAL (Unfunded Actuarial Liability).
    a. BOND ISSUE # 1: "In February, 2004, the State of Kansas issued $500 million in pension obligation bonds, and KPERS received net proceeds of $440.2 million in March of 2004. The proceeds have been invested to assist with financing the State and School group's unfunded actuarial liability. The debt service on the bonds will be paid by the State of Kansas in addition to the State's regular employer contribution."
    b. Following this action, the legislature voted to begin funding the UAL at an increased rate of .6% annually. The goal was to reach the actuarial number at some future date. This plan was derailed by the economic down turn, once again leaving the trust fund in financial stress.
    c. BOND ISSUE # 2: The 2015 Legislature approved the issue of $1 Billion in revenue bonds. The cost of the bonds is required to be paid by the General Fund, not the KPERS Trust Fund. (The approximate cost is $64 Million annually.) Since July 1, 2009, new employees have been contributing 6% and will have a 2% Annual Benefit Adjustment at retirement.
    d. This second bond issue was/is controversial in two ways.
        1. Those who did not favor it thought it too much of a 'gamble' overtime, because in order for it to be the best for the State, the investment income must exceed, over 30 years, the bond cost.
        2. The saddest part may be the fact that Governor Brownback tried to play politics with the issue of bonding, when proposed in 2014. He tried very hard to find a way to get his hands on the money to fund the revenue shortage. Therefore the proposal failed. If it would have passed with the 2015 parameters, the cost of the bonds to the State would have been even less, almost assuring that investments would have exceeded costs over time.

15. Present KPERS Benefits: Present system (KPERS I or Tier I), 50 to 51% of Final AVERAGE Salary for an employee working 29 years. Under the Cash Balance (Tier III), the latest projected Best Case Scenario is 40%; Worst Case Scenario is 28%. Using the new assumed investment of 7.75%, the benefit estimate will go down ever further. As a friend likes to say, "Future retirees will be receiving half the benefit while contributing 50% more in contribution (6% instead of 4%)."