

## LETTER REGARDING UNDERFUNDING

In way of introduction, I will tell you that I have been 'chasing' KPERS for 12 years working with the OPS-REA (Olathe Public Schools-Retired Employees Association), KARSP (Kansas Association of Retired School Personnel), serving as co-chair of KCPR (Kansas Coalition of Public Retirees), and for the last four years, an elected member of the KPERS Board of Trustees. I speak from this base of knowledge; I do not speak for the KPERS Board. The concern that has been noted over the past 12 years has been the Unfunded Actuarial Liability (UAL). The spike in this calculation was brought to everyone's attention by the 2002 economic down turn.

The status of KPERS has been much discussed and numerous presentations have been made to the public and the legislature. Increased underfunding will put undue pressure on the cash flow of the system. The synopses of these presentations are that there are three items that can put KPERS in jeopardy:

1. The lack of the statute contribution. A long term solution was established in 2012:
  - a. Employee Contribution was increased from 4% to 6%.
  - b. Employer Contribution increases at a prescribed rate over time.
2. Reamortization of the KPERS Trust Fund (This information has become reinforced at a recent public presentation to the KPERS Board.)
3. Economic down turns.

The very good news relating to what has taken place is as follows:

- A. The bond issues have increased the KPERS Trust Fund and the funding ratio while reducing the UAL.
- B. The refusal of either the Senate or the House to consider the reamortization of the KPERS Trust Fund.
- C. The recent unforeseen upturn in the market.

The above actions leave two possible threats to KPERS Financial Health:

1. Economic down turn.
2. The resumption of underfunding. There is local (State) control over only one of these...**underfunding**.
  - a. Additionally, please note that 57% of the KPERS Trust Fund is derived by investment income!
  - b. Higher contribution levels also substantially lessen any impact caused by any economic down turn.

The result of these 'scary' figures following the 2002 economic downturn was the convening of the 'KPERS Commission' of 2011. The resulting legislation established statutory changes resulted in the establishment of several 'solutions' for the financial status of KPERS. The funded level was nearing an area of high concern. The legislation that resulted in the following:

- A. The present KPERS Tier I was discontinued for new hires.
- B. The Tier II system, which was new at the time and provided for a 2% COLA at retirement time, was also discontinued.

- C. The Tier III system, the Cash Balance System, for new hires was established. (Among other consequences, this program will result in less retirement benefits for these employees when they retire.)
- D. The employee contribution was increased 50% from 4% to 6% of one's salary.
- E. The employer contribution was increased on a graduating scale for KPERS and KPERS School to help erase the UAL and increase the funded ratio.
- F. After much study, this funding level was established to remove, over time, the UAL. The funding level was placed at a conservative level.
- G. Any additional underfunding which takes place must be very carefully considered because of two factors:
  - 1. The amount agreed upon was a modest increase over time, pursuing the actuarial level, not at the actuarially recommended level.
  - 2. The long history (23 years) of the legislative tendency to want to reduce the amount of contribution. The legislation of 2012 was designed to end this practice. For the health of the system, this tendency toward underfunding MUST END.

Over the years, with either body language or actual comment, the legislative response has been...this is not our problem, previous legislatures are responsible! For the past two years, the legislature has approved the Governor's underfunding of the Trust Fund, whether by allotment or recalculation. If you are an incumbent, you are in fact responsible, and if you are new to the legislature and you vote to underfund KPERS, you are indeed responsible. The excuse that it will be paid back is a promise that cannot be guaranteed because as a legislator you have but one vote, your own! I urge you to take any further reduction in KPERS contribution, totally off the table. Allowing underfunding to remain an option is an unwise position for some 300,000 Kansan's, which includes many of you, who have been promised and obviously depend on KPERS benefits, now and in the future!!