KPERS STATUS UPDATE

October 2019 (Updated)

KCPR has recently been accused of not "telling the whole story" regarding KPERS. Translated that means: We have not given the legislature and Governor enough credit for what they have done in regards to KPERS. It appears that there is a great concern regarding "losing the KPERS vote" so to speak. We have been telling the entire story over time using "The KCPR Update" as our vehicle, but will gladly retell it once again!! Please know that the story of KPERS is quite long and may not be comfortably read in one setting. This, however, is a factual explanation of what has taken place over the life of KPERS. **We recommend you file this for further reference. We will begin by restating the purpose of KCPR and an explanation of exactly what our position has been.**

A. The group was established with the sole purpose of providing a COLA (Cost of Living Adjustment) for KPERS beneficiaries. In 2007 and 2008 the Legislature did offer KPERS Members, who had been retired 10 years, a $300 bonus both years. **It has been 22 years since the last benefit increase and over 88% of the present benefit recipients have NEVER received a COLA, 86% have never received a bonus.** (As of July 1, 2020 it will be 23 years.)

B. We desire a stable retirement system so that past, present and future members of the KPERS retirement system never have to worry about the KPERS portion of their retirement benefit.

   1. The system needs to be properly funded and left alone! Public retirement systems throughout the country, which are properly funded and not subject to corruption, **are not in** financial trouble. These solvent programs are in no financial trouble whether or not they have a COLA associated with the system! (Obviously KPERS is not subject to poor management which could lead to corruption.) <u>Over the last 20 years, 51% of the KPERS Trust Fund has come from investment returns.</u> (This number is somewhat misleading. Before the recent increase in funding in addition to the 2015 $1 Billion bond issue, the percentage of the dollars in the trust fund has increased greatly. Without these contributions, the percentage of investment returns would be closer to 57%.)

   2. **PRESENT FUNDING:** In 2019 the Senate and House passed SB9 which called for $115 Million to be contributed to KPERS. The Governor signed this bill. After signing the bill, she removed $56 Million ear marked for KPERS from her budget. The Senate put it back in but adjusted the bill amount to $51 Million. The bill containing the $51 Million passed both the House and the Senate. Governor Kelly then vetoed it. Her veto was overridden which means that KPERS will in fact receive the additional $51 Million contribution. [This makes the annual KPERS contribution exceed the actuarial recommended amount in 2020 by $61 Million.] This will make the first time since 1994 that the actuarial amount or more has been contributed to the KPERS Trust Fund by the Legislature. (If you are counting, this is 27 years!)

In Review:

1. Health of KPERS:
   A. Investment cost, $41 per person….
   B. Present Value of KPERS - $20.5 Billion (This amount varies with the market.)
   C. UAL $9.5 Billion, down from $8.9 Billion
   D. Investment income over the last year has lowered the UAL $298 M w/o bond money
   E. Funded ratio has gone from 60% to 65.2%

F. Bonds will cost the general fund $64 M annually (not the KPERS trust fund)
G. Under funding is the primary cause of the UAL!!!!
H. The ratio of the KPERS Normal Cost $1, with UAL $6. This approximation will go down with bond $ and the 2020 Legislative contribution.
I. Normal Cost $100.64 Million, Statutory $485.81 Million, Actuarial $665.71 Million

2. The new KPERS member count is 304,648. (12/31/2018)

A.	Active Members	154,055
B.	Retired Members and Beneficiaries	102,733
C.	Disabled	1,963
D.	Inactive	60,074
E.	Therefore, the New Total of KPERS members is	318,285

F. This figure represents 10% of the state's population. When you include spouses and families, one could argue that the number represented is equal to 20% of the State's population.
G. 54% of the 154,055 active members are KPERS School
H. 53% of the 102,733 retired and beneficiaries are KPERS School

3. **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.) <u>(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?)</u>**

4. 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, "<u>You know of all these employers, only one employer has failed to pay the required amount, the State</u>!" **During the entire history of KPERS, the employee has been required to put in his/her entire contribution. The amount of contribution requested has only increased, never decreased!**

5. Recent year retirement numbers are as follows: 2013; 5,581, 2014; 5,510, 2015; 6,029 , 2016; 5,876 , 2017; 5,668, 2018; 5,534, and 2019; 5,537

6. In 1993 a significant change was placed in effect by the legislature. These changes included the following:
   A. Rule of 85 instituted
   B. The multiplier was changed from 1.4 to 1.75.
   C. A cap on employer contribution by the State was instituted.
   D. This cap began the acceleration of the UAL.
   E. The actuary recently stated that the years of underfunding began in 1994.

7. By 2001 and 2002, the actuarial projections indicated that statutory employer contribution rates and actuarial rates would not converge until 2033. The UAL had risen to $2.579 Billion. The funded ratio was at 82% for State/School and 89% for local groups.

8. In 2003 the legislature gradually raised the statutory cap on annual employer contributions from 0.2% to 0.6%. This change was made in an attempt to correct the mistake made in 5-D above.

9. In 2004 the Legislature approved the first pension obligation bonds for $500 Million of which KPERS received $440 million in net proceeds. At this point the Legislature realized that the increase in the statutory cap was not enough to make up the UAL to a desirable level.

10. ***In 2007 the legislature approved a new lower-cost plan design (KPERS 2) for all hired after 7/1/2009. This included the following:***
    a. ***Later retirement eligibility. (This is always a concern.)***
    b. ***Final average salary move from 3 to 5 years. (This effort tends to reduce the final average cautions and therefore the benefit amount.)***
    c. ***Raised employee contribution from 4% to 6%. (Basically increasing the employee contribution by 50% and reducing the benefit by 50 %.)***
    d. *There was a 2% COLA in this legislation for those who would retire under this plan. (Through further legislation, the COLA promised was and will never be received by anyone.)*
    e. ***These "moves" improved the funded percentage. These changes fell directly on the shoulders of the employees.***

11. *The actuarial valuation of 12/31/2008 detailed a 12%* decline which placed the funded ratio at 59%. The UAL increased from the previous $2.7 Billion to $8.3 Billion. At this time the KPERS School was out of sync with the 2033 actuarial date. This change was due to the economic down turn, and of course the years of underfunding. (Meaning that if there had been more proceeds in the KPERS Trust Fund, the proceeds would not have been so adversely affected.)

12. In 2011 actions were taken by the legislature, but the change was delayed until the KPERS Study Commission was completed. The Study Commission tossed around numerous ideas for change, but the main suggestions were to lower the risk on the employer, and share it with the employees. They also suggested that a way be determined to make the retirement plan less costly, and increase the funding contribution levels. Testimony during the KPERS Commission confirmed that the UAL was in fact State debt.

13. The legislation that enacted, the KPERS 3 (Tier III - Cash Balance) plan, moved the employer risk to a **"shared level"** (between employer and employee). Some legislators also theorized that the new employees would be more attracted to this system. KCPR never agreed with this theory.
    a. Concerns of case law and IRS reaction probably reduced further changes to the system. It was also so determined that **if** the Present DB (defined benefit) system was changed to a DC (defined contribution, 401k type) system that the UAL would soar.

14. The Cash Balance legislation was passed in 2012 (HB2333). The following was to occur:
    a. Statutory contribution rate 2013 was to be 9.37%.
    b. Statutory contribution rate 2014 was to be 10.27%.
    c. Statutory contribution rate 2015 was to be 11.27%.
    d. Statutory contribution rate 2016 was to be 12.37%.
    e. Statutory contribution rate 2017 and later was to be 13.57%.
    f. KPERS School was to receive approximately $40 million a year from the Expanded Lottery Act Revenue Fund (ELARF). (Sadly, this amount was contributed, but the

general fund transfer was reduced by the same amount as the ELARF proceeds, so there was no increase in the net amount.)

g. Because KPERS did not hear from the IRS in time, no election was offered to the KPERS 2 people, so the employee contribution rate was gradually raised to 6% and the multiplier increased from 1.75% to 1.85%.

15. The reason the present funding ratios are so good, aside from the fantastic investment returns in the last two years, is because of the contribution increases mandated in the statute that established the Cash Balance Plan. This statute directed an increase in both employees contribution (4% to 6%) and employers increase by escalating percentage. A significant but (much) less important reason was a reduced future benefit when the folks covered under the Cash Balance Plan retire!

16. Members of KCPR have been "chasing" KPERS for the last 15 years, attending nearly every committee meeting relating directly to KPERS. The original most heard excuse for no COLA was that the KPERS retirement system was never established with a COLA. This excuse has surfaced again as of late. From 1971-1997, the Kansas Legislature and Governor authorized 16 benefit increases and in 2008 & 2009 authorized a onetime $300 bonus each of these years. These benefit increases were authorized presumably because "it was the right thing to do." It has been 20 years since the last benefit increase, and over 70% of the present benefit recipients have NEVER received a COLA, benefit increase or Bonus. This total abandonment of the KPERS retiree has earned Kansas the dubious honor of neglecting its retirees longer than any State with a statewide pension plan.

17. Beginning in 1993 the underfunding of the KPERS system by the legislature and the Governor began. The legislature has increased its contribution to KPERS over the past 19 years (1996-2014). However, we also need to point out that the Legislature and Governor began to withhold (allotment and recalculation) funds to KPERS so that the States contribution to KPERS as the employer has decreased for 2015. There is a possible reduction of $100 million for the 4th quarter of 2016 and the inability to repay in the first quarter of 2017.

18. In 2019 the Senate and House passed SB9 which called for $115 Million to be contributed to KPERS. The Governor signed this bill. After signing the bill, she removed $56 Million ear marked for KPERS from her budget. The Senate put it back in but adjusted the bill amount to $51 Million. The bill containing the $51 Million passed both the House and the Senate. Governor Kelly then vetoed it. Her veto was overridden which means that KPERS will in fact receive the additional $51 Million contribution. [This makes the annual KPERS contribution exceed the actuarial recommended amount in 2020 by $61 Million.] This will make the first time since 1994 that the actuarial amount or more has been contributed to the KPERS Trust Fund by the Legislature. (If you are counting, this is 27 years!)

The **myth** is that KPERS is like Social Security i.e., Contributions from current employees pay benefits of current retirees. The **FACT is that KPERS benefits are pre-funded**. Current contributions are invested to pay benefits down the road. The KPERS Trust Fund is our money! Over the past 20 years (FY 1999 through FY 2018), investments make up 51% of revenues to the Trust Fund. This has been down a few percentage points since FY 2016, when the $1.0 Billion in bonds were sold. The bonds are attributed as employer contributions.

19. KPERS benefits paid to retirees with Kansas addresses are a total of $1.541 Billion. This is 87% of the $1.770 Billion in total benefit payments (disability, death, etc.,) in CY 2018

20. 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).
    BOND ISSUE # 1.
    a. "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.

    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. 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, the projected Best Case Scenario is 40%; Worst Case Scenario is 28%.

21. The greatest fears of KCPR are as follows:
    A. Without a stronger funded ratio, the legislature will never approve a COLA.

    B. The last economic downturn caused the UAL to sky rocket, and we cannot prevent a downturn, but we can insist the legislature live up to its obligations and promises to fully fund the KPERS Trust Fund as they have mandated the other 1,517 State Employers to do. We fear that if anything happens that causes the UAL to rise the Legislature may become irrational. **In the past, the mistakes of the legislature have been born on the backs of the employee, i.e., likely reduced benefits and increased contributions!**

    C. The Cash Balance Plan will effectively supersede what is referred to as Tier II. Since July 1, 2009, new employees will have been contributing 6% and will have a 2% Annual Benefit Adjustment at retirement. Present KPERS Benefits: Present system 50 to 51% of Final **AVERAGE** Salary for an employee working 29 years. Under the Cash Balance, the projected Best Case Scenario is 40%; Worst Case Scenario is 28%. If the plan was changed to a 401k type plan, the benefit would be "unknown"! Additionally, investment risk would transfer to the employee.

    D. The recently completed $2.6 million efficiency study recommended that the KPERS Employer contribution be paid in full…not just the statutory rate but the actuarial rate. This course of action has been recommended multiple times in the past by the research done by various groups and organizations, because it is a less expensive course of action in the long run. KCPR has recommended this course of action for 11 years. Our advice/suggestions have always been offered at no cost!

E. **Benefit Comparison -** All benefits are calculated with 25 years of service and a final average salary of $67,470.00 X's appropriate multiplier.
These figures are estimates, but….they are an "apples to apples" comparison.
KPERS Tier I - $29,855.00
KPERS Tier II - $31,204.88
KP&F Tier I - $42,168.45
KP&F Tier II – $42,168.45
Judges - $47,229.00
KPERS Tier III (Cash Balance) - $23,742.00
The Tier III calculation includes:
A. Retirement credits
B. Employee Contribution
C. No retirement Credits are paid unless you actually retire.

F. KPERS benefits paid to retirees with Kansas addresses are a total of $1.541 Billion. This is 87% of the $1.770 Billion in total benefit payments (disability, death, etc.,) in CY 2018.

G. Under the entire KPERS umbrella, about 1.4% of recipients receive over $50,000 annually in KPERS benefits while 29% receive $6000 ($500 monthly) or less and 4% receive $1200 ($100 monthly) or less. (KPERS benefits are presently equal to approximately 50% of the retiree's final average salary for an employee working 29 years.)

22. **Be aware of the following:**

A. There are still those who are convinced we should have a DC program.
As discussed at length in previous Updates, research tells us that a change to DC would not only be more expensive, but would cause the UAL to soar!

B. There are still those who would like to privatize the retirement system. There are no apparent takers (companies) on this, primarily because of the high UAL.

C. There are those who think they have no obligation to fund KPERS.

D. There is at least one who has stated that he believes KPERS is a Ponzi scheme.

E. This is a political and ideological battle. It is not about money! It would have been cheaper to keep the original KPERS program rather than go to the Cash Value System.

F. We do not know whether the repeated actions of the Legislature are caused by Ignorance, Arrogance, Malice, or that they just plain don't care much about public employees.