

KCPR PROVIDED KPERS TALKING POINTS

KPERS Make Up

KPERS is made up of the following groups: Law Enforcement Personnel, Firefighters, Judges, all Public School Personnel, State Workers (this includes all college employees who are not professors), correction officers, most County and Municipal workers, and Legislators. KPERS originated in 1962 and merged with the Kansas Teachers Retirement System in 1971. As an employee of each entity, KPERS membership is mandatory.

KPERS total participants, as of December 31, 2016, includes approximately 304,648. This includes 152,119 active members, 96,774 retired or beneficiaries, 55,755 inactive and 2,255 disabled. Of the retired, approximately 62% are female, while 38% are male. Of the beneficiaries, approximately 83% are female, while 17% are male.

Pension Rationale for Public Employees

It should be noted that the oft stated reason for public pensions was to help recruit talented employees to the public sector when they would be presented greater income possibilities in the private sector. Once employed, the second component of this rationale was to retain these talented and now experienced employees in the public sector.

Regarding a lack of COLA

From 1971-1997, the Kansas Legislature and the Governor authorized 17 COLAs 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" because the legislature was trying to maintain a value added position to the KPERS benefit. It has been 20 years since the last benefit increase.

78,290 out of 96,263 retirees and beneficiaries have never received a post-retirement benefit adjustment. That is equal to **81%** of retirees and beneficiaries who have never received a post-retirement benefit adjustment.

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.

Since the last COLA was enacted in 1997 and implemented in 1998, the following has occurred in the CPI (Consumer Price Index):

1. The CPI for all items has increased by 47.2 percent from 1998-2016.
2. The CPI for Medical Care has increased by 91.5 percent from 1998-2016.
3. It should also be noted that the present annual average monthly KPERS Benefit, provided by KPERS, is \$1,271.42. (\$15,257.04 annually)

Pensions are Earned Benefits.

KPERS is not like Social Security

- A. In KPERS, contributions from both employee and employer over time are invested to achieve pension security. Presently, investment income is responsible for approximately 57% of the KPERS Trust Fund.
- B. Pensions properly funded and adequately managed, whether they contain a COLA or not, are not poor investments.
- C. 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!"

- D. **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!**

Funding Status of KPERS

Underfunding causes a series of problems.

- A. The pension plan is **not** being properly funded, so underfunding leads to an Unfunded Actuarial Liability (UAL). In other words, even though the actuarial assumption for the investment return has historically been met or exceeded (the System has experienced an 8.4% average annualized investment return during the twenty-five years ending 9/30/17), underfunding the System means that the asset base on which those returns are achieved is not high enough (because of the years of underfunding), which affects the UAL.
- B. Recently, uncertainty has been introduced into the State's funding of statutorily required employer contributions. Since the Retirement System is a mature defined benefit plan in a negative cash flow situation, reduced or delayed State employer contributions have caused the System to hold a larger allocation in cash equivalents, which is the asset class with the lowest expected rate of return. If this situation persists or worsens, it could lead to a lower expected rate of return on the System's entire investment portfolio, which would have an adverse impact on the UAL.
- C. One of the huge advantages of a pension system is that the more money that is available for investment, the lower the investment fees become as a percentage of total assets. This difference is extremely significant, and it is one of the main reasons for reduced fees compared to private investments.

KPERS is an approved Pension.

Pensions are primarily governed by two factors: 1) IRS pensions regulations and 2) contract law. The 2011 KPERS Commission evaluated these factors as they related to our pension system. The legal opinions offered were that the State is responsible for the payments to all presently retired and their beneficiaries. The State is also most certainly responsible for all those vested when they retired. The 'new hires' were the only ones who would not fall under the initial contract (Tier I). This is how the legislature was able to change the Tier III Retirement Plan, which we know as the 'Cash Balance' system. (Koch Brothers attorneys offered these opinions.)

Pensions are governed by actuarial computations.

These amounts are referred to as Actuarial Required Contributions (ACR). These amounts are determined by formula so the amount of money needed to fund the pension plan is known.

- A. The Kansas Legislature has been underfunding KPERS for at least 23 years.
- B. Legislation in 2012 established a 'pay off' strategy. A scheduled rate of payment was established and enacted. Again, this was a scheduled payment, not the ACR!
- C. **Therefore, the present plan of funding KPERS is actually underfunding the underfunded plan!**
- D. As a partial example, between the years 2007-2011, KPERS was underfunded a total amount of \$774 Million.
- E. Following the 2012 legislative plan to "fix" KPERS (2012-2019), the underfunding has/is planned to continue in the amount of \$837 Million.
- F. Therefore, just from 2007-2019 an additional \$1.6 Billion is planned to be underfunded.

- G. **The Unfunded Actuarial Liability (UAL), following the 2012 legislation, was scheduled to be amortized in 2033. There are rumblings that the amount should be amortized until 2043 (Ten more years.) This action alone would increase the UAL an additional \$4.9 Billion.**
- H. **The present UAL stands at \$9.06 Billion.**

The following three quotes regarding KPERS funding are significant:

- A. "Your benefits are secure, your children's are not!" Rep. Steve Johnson, 2017 Rally in Support of KPERS, February 6th, Kansas Capitol, Topeka, Kansas.
- B. "But it is consistent and full employer contributions over time will make the most difference in the Retirement System's long-term soundness and sustainability." Alan Conroy, summer 2017 *Vested Interest*.
- C. Recommendation #1 – Make Required Contributions to KPERS as Specified under Current Law. Alvarez and Marshal Efficiency Report, January 2016. This efficiency study was funded by the Kansas Legislature.

Regarding KPERS 'SCHOOL'

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.)

- A. Therefore, 'KPERS School' has been underfunded at least twice. This is why the present level of funding percentage for KPERS School is lower than other divisions of the KPERS.
- B. Note that regular KPERS and KPERS School are and always have been funded by the legislature. Even today this is the case! Governor Brownback devised a method of accounting where by the KPERS School contribution was sent to the schools, and then the schools are immediately required to return it so that it looks like more money was being spent on the schools.

Pensions are a Good Deal for Public Employees, Employers and Taxpayers Alike

One advantage often not considered is the facts that, especially in small communities, pension income to the beneficiaries helps provide an economic base during economic hard times as the benefits are stable and come regularly.

According to NIRS (National Institute on Retirement Security), between 1992 & 2014, the KPERS Trust Fund was funded in the following percentages: 27.09% Employer (taxpayer) Contributions, 17.27% Employee Contributions and 55.64% Investment Earnings.

Pensions are Efficient

Pension plans are actuarially set up so that the correct amount of money is contributed to the fund to adequately fund the desired outcome. The average approximate desired interest income is designed to accumulate approximately 60% of the fund over time. If the pension plan is adequately managed, FUNDED AT THE ACTUARIAL REQUIRED RATE and free of corruption, even with a COLA, the pension system will be funded adequately to fund the planned benefit.

A myth that has been perpetrated is that if a system has a COLA attached, this will place the given pension system in jeopardy. This is not so! If a COLA is included in the actuarial calculation, then the system will be properly funded to provide for the desired benefit.

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In the case of KPERS, an actuarial sound contribution would have to be designed and funded to pay for such a COLA. This action is required by existing State Statute.

Teachers are Dedicated Professionals and Deserve Our Support

Studies by NIRS indicate that nationally 87% of Americans say pensions are a good tool to recruit teachers, police, and firefighters. The public overwhelmingly supports (82%) Defined Benefit Pensions for teachers.

Pensions Boost State and Local Economies

NIRS (National Institute on Retirement Security) 2016 Calculations indicate that expenditures from all KPERS pension benefits supported:

- A. In KANSAS, KPERS benefits annually provide \$0.9 Billion in direct economic impact with an additional \$663.1 Million in additional goods and services.
- B. To put these employment impacts in perspective, in 2014 KANSAS'S unemployment rate was 4.6%. The fact that KPERS pension expenditures support 14,294 jobs is significant, as it represents 0.74 percentage points of the KANSAS labor force.
- C. In KANSAS, these 14,294 jobs are providing \$627.1 Million in income.
- D. In KANSAS, KPERS benefits provide \$202.5 Million in Federal tax revenue and \$189.9 Million in State/Local Tax for a total of \$385.3 Million.
- E. Taxpayer investment factor in Kansas is \$1.00 turns into \$5.03.

Regarding Tier III – The Cash Balance Pension System

First please note - The legislation that was implemented to establish Tier III also closed Tier II to new members (except for correction officers) and modified its benefits for those who were already in Tier II. Tier II had established a 2% COLA (At Retirement) for 'New Hires' who were hired while Tier II was in effect. The legislation referred to above, which established Tier III, also eliminated Tier II, except in the case of the correction officers. They allowed existing Tier II members to stay in Tier II, but they no longer have a COLA.

Under Tier III, as of January 1, 2015, all KPERS employees, with the exception of KP&F, Judges, and Correction Officers, are now enrolled in the Cash Balance system upon their hiring. (The only group that has a choice in whether or not to become a KPERS member are the legislators, statewide elected officials, and some staff members of elected officials.) The retirement age is the same as KPERS II members (those who joined between July 2009 and January 2015), which is age 55 with 10 years of service for early (reduced) retirement, 60 years of age with 30 years of service or 65 years of age with 5 years of service.

Under the Tier I KPERS Pension Plan, the calculated annual retirement benefit for a 30-year employee is between 52.5 and 55.5% of the employee's final average salary (depending on the number of years of service before and after January 1, 2014). When the Tier III plan was first implemented, the estimated retirement benefit changed from an absolute calculated benefit amount based on a formula, to annuitization of account balances at retirement. Benefit estimates based on expected interest credits vs the minimum guaranteed interest credits, initially were between 43% and 34% of the employee's final average salary. The following year the legislature adjusted some of the inner workings of the plan and the percentages fell to 40% and 28%. The actuary has informed KPERS that since the estimated investment return has been reduced to 8% to 7.75%, that the next estimated benefit will be reduced even farther.

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