KCPR EXPOSES MYTHS, UNTRUTHS AND HALF TRUTHS ABOUT KPERS

Updated March 8, 2021

While we do our best to keep these postings updated, please note the following:

- The dates often used as reference are December 31st of a previous year OR two. This type of date reference will refer to the latest actuarial study.
- This is the reference date often used by KPERS as the "latest official data available".
- If a more specific date is referenced, it indicates calculations are as of that date. (Both may not represent the information on the day the information is read.)
- Finally, while the numbers may change from year to year and day to day, because of the size of KPERS (In excess of 300,000 members and the billions of dollars involved) the percentages typically show little change.

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 meant to have a COLA. While the program was never set up with an automatic benefit increase, over time there have been 16 COLAS and 5 bonuses. (There was a 17th COLA, but it involved such a limited group, it is not included in the 'official' count.)

3. Some KPERS benefactors have received a COLA. There has been no COLA since the one made effective July 1, 1997. (The confusion over the effective date stems from the fact that the statue authorizing this COLA was passed 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. Pensions are set up and approved by the IRS on an investment formula. Additionally, four actions that can alter this plan are follows:
   a. Poor investment strategies.
   b. Corruption on the investment side.
   c. Underfunding of the pension plan.
   d. The fourth is poor investment returns as the result of a sustained downturn in the economy. This is the only portion that the investors have no control over. Therefore, 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 is the result of the underfunding, making the pension 'unsustainable'. Their underfunding would then lead to a "self-fulfilling" prophecy.

7. Many Kansas Legislators thought that the Unfunded Actuarial Liability was something that they really did not need to worry about. In the case of Kansas, the unfunded actuarial liability (UAL) is in fact State debt. 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 pension system so that more investment income is made available.

8. The legislature can do anything they want with KPERS. NOT so, of course. Two main types of statutes govern KPERS.
   a. Contract Law
   b. Pension approval 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 vested.
   c. They opined that there 'might be' a few circumstances whereby employees who had been hired, but not yet gained tenure/vested, might not have to be paid. The indication was that these circumstances would need to be extreme in nature. (We believe this meant that they could not really find a way that these benefits would NOT have to be paid!)
   d. Only the not yet hired had no real legal protection.
   e. Research that public pension systems that have changed policies have not altered the basic pension system.

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 "additional" contribution.) <u>(This action has led to our comments that KPERS School has been underfunded TWICE in the past.)</u>

11. 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 of the employer and employee during the work life of the covered employee plus the investment earning on these contributions.

12. 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 need to be paid off much quicker. The UAL 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 a payment of approximately 110% of the UAL. There is also no 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 potentially get their hands on. "How does approximately $20 Billion grab you?!!!)

e. Finally, because of the requirement of 'full disclosure' 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.

13. Present Funding in Review:

THREE FACTORS THAT HAVE POSITIVELY CONTRIBUTED TO IMPROVED KPERS FUNDING

A. *The legal review that occurred as part of the KPERS Commission of 2011, established the fact that the Unfunded Actuarial Liability (UAL) would have to be paid because it was indeed State Debt.*
    a. Because of contract law states that the benefit must be paid as promised to the employee at his/her time of employment.
    b. It was further indicated that this requirement applied to vested members of the retirement system and those already retired.
    c. KPERS, as any U.S. retirement plan, public or private, must be approved by the IRS. KPERS, as some have suggested on occasion, is <u>not</u> a Ponzi Scheme.

B. *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." Present + **Return of $468.5 Million (Dec. 31, 2020)**
    b. BOND ISSUE # 2. Again in 2015, underfunding became such a concern that the 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. Present + **Return of $279.3 Million (Dec. 31, 2020)**

C. Following the depression of 2008, the funding level reached such a low level that Bond Issue #2 above was finally initiated in 2015.

D. As of March 8, 2021, the Kansas House of Representatives has passed an additional bill proposing an additional $1 Billion Bond Issue on behalf of KPERS. It is now in the hands of the Senate and the Governor to determine if the bill is enacted. If it passes and is signed, a determination will be made to see if the bonds can be sold.

E. *The Legislative Efficiency Report of January 12, 2016, recommended the payment to the KPERS Trust Fund to be the ACTURIAL amount, not the statutory amount. (This study cost $2.6 Million.)*

<u>*Three factors (A, B, &C above) appear to have had significant positive impact in turning the funding around, although a response was not always immediate.*</u> Another 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 employee's contribution (4% to 6%) and employers increase by escalating the employer contribution percentage.

Recent Annual Contributions to the KPERS Trust Fund authorized by the Kansas Legislature are as follows:

A. In 2019 the Actuarial Determined Contribution (ADC) for Legislative contribution $656.1 Million.
    a. The actual Legislative contribution was $858.5 Million. *(+$202.4 Million over the ADC.)*
B. In 2020 that Actuarial Determined Contribution for Legislative contribution was $704.3 Million.
    a. The actual Legislative contribution was $765.3 Million. *(+$61 Million over the ADC.)*
C. According to the KPERS actuary these amounts represent the first time since 1994 (25 years) that the Actuarial Determined Contribution have been met or exceeded.

Realized Outcomes

The bond issues referred to above, plus the record investment returns recorded in calendar year 2019 and 2020, are great contributors to the record Trust Fund Balance listed below.

A. LATEST FINANCIAL FIGURES – January 2021
    a. RETURNS – Calendar Year 2019 - 17%
    b. RETURNS – Calendar Year 2020 - 11.5%
B. January 22, 2021 - <u>Trust Fund Total reached $23.55 Billion – (A RECORD!!)</u>
B. DECEMBER UAL (Unfunded Actuarial Liability) - $9.01 Billion, Down from $10.268 Billion
C. <u>All the above actions have led to a KPERS funding level of 70%.</u>
    Even with the level of funding reached, the KPERS Trust Fund is<u>…" *Not yet in a solid funding position!*" The very minimum funding goal needs to be 80% on the way to 100% funding. Additionally, KPERS has indicated that,</u> "…a lingering legacy unfunded actuarial liability and lower funded ratio means the System will be more vulnerable to adverse investment market conditions for about a decade."
D. <u>Funding Level – at 70% - Breakdown: State/School – 68.10, Local – 73.70, KP&F – 73.50, Judges – 94.70.</u>