

## KPERs STUDY COMMISSION

H.B. 2194 charged the Commission to "particularly study and review the advantages and disadvantages to implementing a defined benefit, defined contribution or hybrid defined benefit/defined contribution retirement benefit plan, or other plan options." This chart contains an abbreviated description of the spectrum of possibilities considered by the Commission.

### NEW HIRES

	Pure DB Plan Column 1  Current DB	Hybrid Plan Column 2 (Use with Column 3A or Column 3B) New Tier in DB – Change Multiplier	Hybrid Plan Column 3A (Use with Column 2) Create Employee Contribution Account as part of DB Plan	Hybrid Plan Column 3B (Use with Column 2) Create Employee Contribution Account as separate account in DB Plan	Cash Balance Column 4  Cash Balance	Pure DC Plan Column 5  DC
	"Pure" Defined Benefit Plan	"Pure" Defined Benefit Component	"Hybrid" DC Component	"Pure" DC Component	Cash Balance / DB Plan	"Pure" Defined Contribution Plan
Plan Design Notes	Retirement 1.85% (Tier 1) / 1.75% (Tier 2) / 1.4% (Alternative Option) x FAS (final average salary) x YOS (years of service)	Reduce multiplier to lower %, e.g., 1.25% or 1.0% x FAS x YOS	At retirement, can be treated as part of defined benefit  Treated as separate account for accounting purposes, but not subject to DC plan requirements  Centrally managed by KPERs, no employee investment direction  Could provide "guaranteed" return pre-retirement or market return pre-retirement  Lump sum or internally provide annuity at retirement/termination	Produces supplemental retirement benefit at retirement/termination  Separate contribution account – subject to DC plan requirements  Employee investment direction – could use internal "funds" for investment options  No internal annuitization	Working years – account balance only. At retirement converts to life time income. Guaranteed interest crediting rate during working years  No true separate contribution account – just accounting entries  Assets pooled and managed by KPERs; no employee investment direction	The employee's benefit is limited to account balance  No multiplier/fixed benefit  100% separate account  Employee investment direction  No internal annuitization
Employer Contribution Rate	____%	____%	____%	____%	____%	____%
Employee Contribution Rate	6%	____%	____%	____%	____%	____%

	Pure DB Plan Column 1  Current DB	Column 2 (Use with Column 3A or Column 3B) New Tier in DB – Change Multiplier	Hybrid Plan		Cash Balance Column 4	Pure DC Plan Column 5  DC
			Column 3A (Use with Column 2)  Create Employee Contribution Account as part of DB Plan	Column 3B (Use with Column 2)  Create Employee Contribution Account as separate account in DB Plan	Cash Balance	
Investment Risk Pre and Post Retirement	Employer – high – bears all risk  Employee – essentially does not bear risk	Employer – high – bears all risk  Employee – essentially does not bear risk	Imposes risk on member as to pre-retirement earning unless there is some guaranteed rate provided  Employer bears the investment risk for annuitization (post retirement risk)	Employer – bears no pre or post retirement investment risk  Employee – high – bears all pre and post investment risk	Employer – some – have guaranteed interest rate risk pre- retirement and has annuitization (post retirement risk)  Employee – low	Removes all employer investment risk pre and post retirement  Employee - high
Longevity Risk	Employer – medium – very predictable  Employee – none	Employer – medium – very predictable  Employee – none	Employer retains longevity risk if annuitized  Employee retains longevity risk if takes lump sum or installment payments	Employer – none  Employee – high	Employer – medium – very predictable  Employee – none	Employer – none  Employee – high
Contribution Risk/Volatility	Employer – high  Employee – some, only if statutory changes	Employer – lesser risk because reducing retirement benefit guarantee  Employee – some, only if statutory changes	Employer – none on this component  Employee – only if statutory changes	Employer – none on this component  Employee – only if statutory changes	Employer – could vary – but could be fixed. Can set guaranteed interest rate low and declare group "dividends" if return favorable  Employee – varies, depending on structure	Employer – none  Employee – only if statutory changes
Inflation Risk Pre and Post Retirement	Employer – pre-retirement high; post retirement – none  Employee – pre-retirement – none; post retirement -- high	Employer – pre-retirement high; post retirement – none  Employee – pre-retirement – none; post retirement -- high	Employer – none  Employee -- high	Employer – none  Employee – high	Employer – none  Employee -- high	Employer – none  Employee – high