MEMORANDUM

To: Representative Jim Howell, Vice Chairperson
House Pensions and Benefits Committee

From: Alan D. Conroy, Executive Director

Date: January 23, 2013

Subject: Comparison of State Retirement Programs

During the House Pensions and Benefits Committee meeting on January 16, you requested information comparing KPERS to other states' retirement plans. Attachment A provides the requested information. Additional background about state retirement plans is included below.

Across the country, the defined benefit retirement plan is commonly employed by states for public employees. However, none of the retirement plans run by the states are exactly alike. In order to give some points of comparison on state retirement plans, the table included as attachment 1 was compiled using the most recent comprehensive annual financial report (CAFR) available for each state. The numbers in the table reflect the KPERS plan and the most similar equivalent in the other states. Kansas Police and Fire and the Judges' Retirement System, which are much smaller and more specialized plans, were excluded from this comparison.

The included states were chosen on one of two criteria: proximity to Kansas or similarity of retirement plan. Only Missouri and Oklahoma were chosen solely on their proximity to Kansas. While both states do offer a defined benefit retirement plan to state employees, neither states' plan is structured like KPERS. The Missouri equivalent of KPERS includes judges and some law enforcement officers, unlike the separate retirement plans available to those groups in Kansas. Oklahoma has separate retirement plans for teachers and other public employees, which differs from Kansas where state, local, and teachers are all combined into a single system. The Oklahoma teachers' retirement system is reflected in the table.
The remaining eight states all employ a retirement plan that encompasses state employees, teachers, and local units of government. Colorado state employees are not affiliated with Social Security so the benefit structure for the Colorado retirement system is more generous than other states with similar programs. However, the members of all other systems shown are covered by Social Security.

A few key points:

- All eleven of the states included in the comparison utilize an assumed rate of return between 7.0 percent and 8.0 percent;
- While Kansas currently has differences in the employee contribution rate for Tier 1 and Tier 2, 2012 HB 2333 contains provisions for Tier 1 members to elect either:
    - an ultimate 6.0 percent contribution rate with a 1.85 multiplier for future years of service (the current Tier 2 levels); or
    - the current 4.0 percent contribution rate but with a reduced multiplier of 1.4 for future years of service;

KPERS

- The funded ratio generally gives a more readily comparable measure of a plan's funding than the market value of assets and the unfunded actuarial liability (UAL). The membership size of the program, among other factors, will affect the plan's assets and UAL, while the funding ratio is not affected by the total number of members;
- Employer contribution rates only reflect the amount contributed for retirement. Several states include retirement health care contributions or death and disability contributions from the employer, but those are excluded from the rate in the table; and
- The benefit calculation is essentially the same for all states: Final average salary (FAS) x multiplier x years of service. Systems calculate their final average salary under different rules, but it generally consists of the 3 or 4 highest years of salary.

<u>Attachments</u>

- Attachment A shows a comparison of eleven states' public retirement plans.

I would be glad to respond to any other questions you may have about Kansas' retirement plans and how those plans compare to other states upon request.

Attachments

Comparison of State Retirements Plans

State	Members: Active	Members: Inactive	Members: Retirees/ Beneficiaries	Employer Contribution	Employee Contribution	Benefit Multiplier[1]	UAL (in billions)	Funded Ratio	Market Value of Assets (in billions)	Assumed Rate of Return
Arizona	214,346	204,203	112,306	9.87%	10.50%	Up to 19 Years 2.10 20-24 Years 2.15 25-29 Years 2.20 30 + Years 2.30	$ 9.1	75.5%	$ 26.4	8.0%
Colorado[2]	107,872	165,547	185,841	State 12.25% School 14.75% Local 13.70%	State 10.50% School 8.00% Local 8.00%	Up to 10 Years 4.00 11-15 Years 1.66 16-20 Years 1.50 21 + Years 2.50	$ 22.8	60.0%	$ 34.1	8.0%
Idaho	65,270	10,823	37,150	6.23%	10.39%	2.00	$ 2.0	84.7%	$ 11.6	7.0%
Iowa	164,200	68,950	101,948	5.95%	8.93%	Up to 30 Years 2.00 Each Additional Year 1.00	$ 5.9	79.9%	$ 23.2	7.5%
Kansas[3]	147,647	14,605	76,464	State/School 9.77% Local 8.34%	Tier 1 4.00% Tier 2 6.00%	Tier 1 1.75 Tier 2 1.85	$ 8.5	57.7%	$ 10.8	8.0%
Mississippi	162,311	131,141	217,970	12.93%	9.00%	Up to 30 Years 2.00 Each Additional Year 2.50	$ 34.5	58.0%	$ 19.8	8.0%
Missouri	51,332	18,034	37,308	4.00%	13.97%	1.60	$ 2.9	73.2%	$ 7.6	8.0%
Oklahoma	88,085	7,725	50,829	K-12/Comm. Colleges 9.50% Universities 8.55%	7.00%	2.00	$ 7.6	56.7%	$ 10.2	8.0%
Oregon	169,781	42,286	119,346	6.00%	State/Local 15.05% School 18.81%	1.67	$ 11.0	82.0%	$ 53.7	8.0%
South Carolina	187,611	158,086	122,326	6.50%	9.39%	1.82	$ 12.4	67.4%	$ 21.5	7.5%
Virginia	330,147	36,287	158,266	5.00%	10.40%	1.65	$ 22.6	69.9%	$ 50.3	8.0%

[1] The benefit calculation is essentially the same for all states: Final average salary (FAS) x multiplier x years of service. FAS is calculated differently between programs but is generally the 3 or 4 highest years of salary. In states where there are several multipliers, the multiplier always applies to the specified block of service years and not previous or future years (i.e. a 30-year employee in Colorado would calculate benefits thusly: [(10 years x 4.0 x FAS)+(5 years x 1.66 x FAS)+(5 years x 1.5 x FAS)+(10 years x 2.5 x FAS)]

[2] Colorado is not affiliated with Social Security.

[3] Numbers for Kansas reflect the 12/31/2011 valuation report and include only the KPERS plan. Kansas Police and Fire and the Judges Retirement System are excluded.