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Review of KPERS History for the House Committee on Pensions and Benefits

The Kansas Public Employees Retirement System (known generally as KPERS) administers three statewide plans.The largest plan, usually referred to as the regular KPERS plan, or simply as KPERS, has three principal groupings that include the state, school, and local groups composed of regular state and local public employees; school district, vocational school, and community college employees; Regents classified employees and certain Regents unclassified staff with pre-1962 service; and state correctional officers. A second plan is known as the Kansas Police and Firemen's (KP&F) Retirement System for certain designated state and local public safety employees. A third plan is known as the Kansas Retirement System for Judges that includes the state's judicial system judges and justices. All coverage groups are defined benefit, contributory retirement plans and have as members most public employees in Kansas. Tier 3 of the KPERS plan will become effective for new employees on January 1, 2015, and although called a cash balance plan, is a defined benefit, contributory plan, according to the Internal Revenue Service (IRS). Tier 1 of the KPERS plan is closed to new membership and Tier 2 will close to most new membership on December 31, 2014, except for certain state correctional personnel who will continue to be eligible for membership as new employees who are hired on and after January 1, 2015.

KPERS was created by the 1961 Legislature, with an effective date of January 1, 1962. Membership in the original KPERS retirement plan (now referred to as KPERS Tier 1) was offered only to state and local public employees qualified under the new law and whose participating employers chose to affiliate with KPERS. Another KPERS tier was created in 2007 for state, school, and local public employees becoming members on and after July 1, 2009. The new KPERS Tier 2 has many characteristics of the original plan, but with certain modifications to ensure that employees and employers will share in the total cost of providing benefits.

Most of today's KPERS history will focus on the original first tier of KPERS and that plan for state, school, and local public employees. Most of the legislative concerns recently have focused of the state and school groups, however, since the KPERS local group generally has operated separately since the late 1980s when split off from KPERS state and school groups.

Michael Steiner will provide a longitudinal look at KPERS state and school that previously was requested by Chairperson Johnson to consolidate certain data into one concise informational handout that is being provided to you today in Attachment 1. Following his presentation will be some additional highlights of the KPERS state, school and local groups' history.

Brief Narrative History

School districts generally were not authorized to affiliate with KPERS until the 1970s, but there were three affiliating in 1963 as the first exceptions to the general rule: the Corning Joint Rural High School 6 NP, Corning Joint School District 44 NP, and L'Dora School District 55. Two more school districts affiliated in 1966, the Frontenac Board of Education School District #47 and Frontenac USD #249. Later in 1966, four of the five school districts which had affiliated with KPERS were dissolved by the Legislature effective on July 1, 1966, and only the Frontenac USD #249 maintained KPERS affiliation until the general merger

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into KPERS of the principal school retirement group in 1971. No other school districts became affiliated with KPERS until January 1, 1971, when a general law became effective that brought the Kansas School Retirement System (KSRS) and its individual members into KPERS.

The 1970 Legislature authorized affiliation with KPERS on January 1, 1971, for any public school district, area vocational-technical school, community college, and state agency which employed teachers. Active members became KPERS members and retired KSRS members who were annuitants continued to receive service annuities administered and paid by KPERS.

In 1973 legislation, members of the Legislature were authorized to join KPERS.

In 1961 KPERS legislation, initial employer contributions were statutorily set at 4.35 percent (3.75 percent for retirement benefits and 0.6 percent for death and disability benefits) of total compensation of employees for the first year, with future employer contribution rates to be set by the KPERS Board of Trustees, assisted by an actuary and following statutory guidelines. The KPERS Board of Trustees engaged Martin E. Segal & Company as actuarial consultants.

In 1970, the employer contribution rate for public education employers was set at 5.05 percent from January 1, 1971 to June 30, 1972, with subsequent employer contribution rates to be set by the KPERS Board of Trustees.

During the 1980s, the Legislature reset the actuarial contribution rates for employers on numerous occasions in statutory provisions rather than allowing the actuarial rates to be used. In 1988 legislation, the Legislature established two employer contribution rates, one for combining the state and schools into one group and one for the local units of government. Previously, the state and local employer rate had been combined as the KPERS Non-school group. The amortization period was extended from 15 to 24 years, with employer contribution rates set at 3.1 percent for the state/school group and 2.0 percent for the local employers in FY 1990.

The 1993 Legislature introduced statutory budget caps that would limit the amount of annual increase for employer contributions. The 1993 legislation also provided a 25.0 percent increase in retirement benefits for those who retired on and after July 1, 1993, and an average 15.0 percent increase in retirement benefits for those who retired before July 1, 1993. In order to finance the increased benefits, the Legislature anticipated phasing-in higher employer contributions by originally setting a 0.1 percent annual cap on budget increases. It was anticipated that the budget caps would allow the employer contributions to reach the actuarial rates in about seven years. The gap between the statutory rates and the actuarial rates that began in the FY 1995 budget year has never been closed, and the Legislature has modified repeatedly the statutory annual cap in an effort to close the gap.

The failure of KPERS participating employers to contribute at the actuarial rate since 1993 has contributed to the long-term funding problem. Other problems, such as investment losses, also have contributed to the shortfall in funding.

A more detailed history of KPERS may be found in Attachment 2 which was included in the 2013 Legislative Briefing Book prepared by the Legislative Research Department.

Retirement

U-1
Kansas Public Employees Retirement System and Other State Retirement Plans

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Retirement

U-1 Kansas Public Employees Retirement System and Other State Retirement Plans

KPERS Overview and Brief History of State Retirement Plans

The Kansas Public Employees Retirement System (known generally as KPERS and referenced in this document as the Retirement System) administers three statewide plans. The largest plan, usually referred to as the regular KPERS plan, or simply as KPERS, has three tiers that include state, school, and local groups composed of regular state and local public employees; school district, vocational school, and community college employees; Regents classified employees and certain Regents unclassified staff with pre-1962 service; and state correctional officers. A second plan is known as the Kansas Police and Firemen's (KP&F) Retirement System for certain designated state and local public safety employees. A third plan is known as the Kansas Retirement System for Judges that includes the state's judicial system judges and justices. All coverage groups are defined benefit, contributory retirement plans and have as members most public employees in Kansas. Tier 3 of the KPERS plan becomes effective for new employees on January 1, 2015, and although called cash balance plan, is a defined benefit, contributory plan, according to the Internal Revenue Service (IRS). Tier 1 of the KPERS plan is closed to new membership and Tier 2 will close to most new membership on December 31, 2014, except for certain state correctional personnel who will continue to be eligible for membership as new employees who are hired on and after January 1, 2015.

The primary purpose of the Retirement System is to accumulate sufficient resources in order to pay benefits. Retirement and death benefits paid by the Retirement System are considered off-budget expenses. In FY 2000, the Governor recommended and the Legislature approved making retirement benefit payments non-reportable expenditures. Since the retirement benefit payments represent a substantial amount of money distributed annually to retirees and their beneficiaries, the historical growth in payments is presented for informational purposes. Total benefits paid in FY 2000 exceeded $500.0 million for the first time. Today more than $1.0 billion is paid in annual retirement and death benefits.

The Retirement System also administers several other employee benefit and retirement programs: a public employee death and long-term disability benefits plan; an optional term life insurance program; and a legislative session-only employee's retirement program. The Legislature has assigned other duties to the agency in managing investments of moneys from three state funds: the Kansas Endowment for Youth Fund, the Senior Services Trust Fund, and the Treasurer's Unclaimed Property Fund.

A nine-member Board of Trustees is the governing body for the Retirement System. Four members are appointed by the Governor and confirmed by the Senate. One member is appointed by the President of the Senate. One member is appointed by the Speaker of the House. Two members are elected by System members. One member is the State Treasurer. The Board appoints the Executive Director who administers the agency operations for the Board.

The Retirement System manages assets in excess of $13.4 billion. Annually, the Retirement System pays out more in retirement benefits than it collects in employer and employee contributions. The gap between current expenditures and current revenues is made up with funding from investments and earnings. The financial health of the Retirement System may be measured by its funded ratio, or the relationship between the promised benefits and the resources available to pay those promised benefits. In the most recent actuarial valuation, the funded ratio for the Retirement System was 59.0 percent on December 31, 2011. Using market value for assets, the funded ratio was 55.0 percent. Using market-based data, the unfunded liability was $10.1 billion on December 31, 2011. This is the amount of financing shortfall when comparing the Retirement System assets with promised retirement benefits. The actuarial unfunded liability of $9.2 billion did not reflect all of the recent investment losses.

Brief History of KPERS

The Kansas Public Employees Retirement System (KPERS) was created by the 1961 Legislature, with an effective date of January 1, 1962. Membership in the original KPERS retirement plan (now referred to as KPERS Tier I) was offered to state and local public employees qualified under the new law and whose participating employers chose to affiliate with KPERS. Another KPERS tier was created in 2007 for state, school, and local public employees becoming members on and after July 1, 2009. The new KPERS Tier II has many characteristics of the original plan, but with certain modifications to ensure that employees and employers will share in the total cost of providing benefits. The second KPERS tier is described in the last section of this document.

Most of this history focuses on the original first tier of KPERS and that plan for state, school, and local public employees. Information about other public plans for the judicial branch judges and justices, and for public safety personnel is presented in other sections in this presentation. Another section on defined contribution plans discusses the retirement offering for some Regents unclassified employees and other state employees. The 1961 Legislature, in addition to establishing KPERS, also created the Board of Regents Annuity Assistance Program for another smaller group of state employees, originally administrators and faculty members who were unclassified staff at state universities and colleges.

After the 1961 Legislature established the two retirement plans for state employees, membership in KPERS was granted to all eligible state employees on January 1, 1962, who participated in Social Security and who were not eligible to participate in any other state retirement plan (namely, the Regents annuity program, the state retirement plan for district court judges and Supreme Court justices, a court reporter retirement plan, and two different state law enforcement plans for the Kansas Highway Patrol and Kansas Bureau of Investigation). In addition, local public employees were eligible for original KPERS membership on January 1, 1962, if they participated in Social Security and if the local governing body passed a resolution for affiliation with KPERS. Local governing bodies were defined to include any city, county or township, or any special district and instrumentality of the State of Kansas and of any city, county, or township.

Membership in KPERS totaled 24,278 members on June 30, 1962, after the plan opened on January 1, 1962. State government employees who became KPERS members totaled 16,552 and local government employees whose employers affiliated with KPERS totaled 7,726. A total of 2,437 state and local government employees attained retirement age by June 30, 1962. A 1962 KPERS Annual Report indicated that 1,098 applications for retirement benefits were processed prior to June 30, 1962, since July 1, 1962, was the first date that anyone could retire under the new KPERS plan, and that those retirees received the first retirement benefits the next month.

School districts generally were not authorized to affiliate with KPERS until the 1970s, but there were three affiliating in 1963 as the first exceptions to the general rule: the Corning Joint Rural High School 6 NP, Corning Joint School District 44 NP, and L'Dora School District 55. Two more school districts affiliated in 1966, the Frontenac Board of Education School District #47 and Frontenac USD #249. Later in 1966, four of the five school districts which had affiliated with KPERS were dissolved by the Legislature effective on July 1, 1966, and only the Frontenac USD #249 maintained KPERS affiliation until the general merger into KPERS of the principal school retirement group in 1971. No other school districts became affiliated with KPERS until January 1, 1971, when a general law became effective that brought the old State School Retirement System (SSRS) and its individual members into KPERS.

The 1970 Legislature authorized affiliation with KPERS on January 1, 1971, for any public school district, area vocational-technical school, community college, and state agency which employed teachers. In 1973 legislation, members of the Legislature were authorized to join KPERS. Other public officials and officers not addressed in the original 1961 legislation had been authorized, beginning in 1963, to participate in KPERS as the result of a series of statutory amendments to KSA 74-4910, et seq., that broadened participation to include groups defined as public rather than governmental exclusively. Amendments to KSA 74-4901 also broadened the definition of which governmental officials and officers were eligible for KPERS membership.

In other statutory changes, certain state officials, beginning in 1988, as defined in KSA 74-4911f, were allowed to opt out of KPERS and to participate in a defined contribution plan (the plan originally allowed voluntary participation by all state employees and was known as the Kansas Deferred Compensation Program). The special state officer retirement plan, in which the state pays an 8.0 percent contribution on behalf of the eligible members, allows participants to have individual, self-directed retirement savings accounts. The member may contribute to the account, but no one is required to pay a matching amount after the state pays an 8.0 percent contribution to the account.

Calculation of Retirement Benefits and Eligibility for KPERS

KPERS Tier 1 and Tier 2 retirement benefits are calculated by a formula based on years of credited service multiplied by a statutory percentage for the type of service credit multiplied by final average salary. The original legislation for what is called Tier 1 distinguished between different types of credited service with different values to be used in calculating retirement benefits.

For credited service, two categories were defined in the 1961 KPERS legislation: participating service which was equal to 1.0 percent of defined salary for each year, and prior service which was equal to 0.5 percent of defined salary for each year. In 1965 legislation, the prior service multiplier was raised to 0.75 percent. In 1968 legislation, the prior service multiplier was raised to 1.0 percent, and the participating service multiplier was increased that year to 1.25 percent for all years of service. Participating service was further defined as future continuous employment with a participating employer after affiliation with KPERS and prior service with previous continuous service with a participating employer before affiliation with KPERS.

In 1970 legislation, participating service for school employees was set as the same as for other regular KPERS members which was 1.25 percent at that time. The prior service multiplier for education employees was set at 1.0 percent for years under the SSRS and 0.75 percent for years of school service which were not credited under the SSRS. In 1982 legislation, the participating service credit for state, school and local KPERS members was increased from 1.25 percent to 1.4 percent of final average salary for all participating service credited after July 1, 1982.

In 1993 legislation, the multiplier was raised to 1.75 percent for all years participating service for members who retired on or after July 1, 1993. Three different qualifications for normal retirement were established: age 65; age 62 with 10 years of service; and 85 points (any combination of age plus years of service).

Other Factors Determining Retirement Benefits

In 1961 KPERS legislation, participating service defined salary was capped at a maximum of $10,000 for final average salary during those credited years and prior service defined salary would be capped at $6,000 for prior service average salary during those credited years. Employee contributions also were based on the original 1961 cap of $10,000. In 1967 legislation, the statutory caps for computing employee contributions and final average salary were eliminated. In 1981 legislation, the use of prior service average salary in calculating benefits was eliminated, and final average salary was cited in the new law.

Also in 1961 KPERS legislation, determining the number of years of credited service, whether participating or prior service, a fractional year of six months or more would be counted as one year, and a fractional year of less than six months of credited service would be disregarded. Normal retirement date was defined as the first day of the month coinciding with or following attainment of age 65, and at least six months after the entry date of the employer. Early retirement with actuarial reduction was defined as either the first day of the month following attainment of age 60, or completion of 10 years of credited service, whichever occurred later.

Over the years since 1961, the Legislature authorized various purchases of other types of service credit to be treated as prior or participating service credit for calculating KPERS retirement benefits. The different types of service credit purchases would augment the years of service calculation in determining monthly benefits.

Contribution Rates for KPERS

KPERS Tier 1 and Tier 2 are participatory plans in which both the employee and employer make contributions. In 1961 KPERS legislation, employee contributions were statutorily set at 4.0 percent for the first $10,000 of total annual compensation. The $10,000 cap was eliminated by 1967 legislation. Tier 2 employee contribution rates are set at 6.0 percent by statute beginning July 1, 2009.

In 1961 KPERS legislation, initial employer contributions were statutorily set at 4.35 percent (3.75 percent for retirement benefits and 0.6 percent for death and disability benefits) of total compensation of employees for the first year, with future employer contribution rates to be set by the KPERS Board of Trustees, assisted by an actuary and following statutory guidelines. The KPERS Board of Trustees engaged Martin E. Segal & Company as actuarial consultants.

In 1970, the employer contribution rate for public education employers was set at 5.05 percent from January 1, 1971 to June 30, 1972, with subsequent employer contribution rates to be set by the KPERS Board of Trustees. In 1981 legislation, the Legislature reset the 40-year amortization period for KPERS until December 31, 2022, and accelerated a reduction in the employer contribution rates in FY 1982 to 4.3 percent for state and local units of government (KPERS nonschool), and to 3.3 percent for education units of government (KPERS school).

During the 1980s, the Legislature reset the actuarial contribution rates for employers on numerous occasions in statutory provisions. In 1988 legislation, the Legislature established two employer contribution rates, one for the state and schools and one for the local units of government. Previously, the state and local employer rate had been combined as the KPERS nonschool group. The amortization period for the combined state and school group was extended from 15 to 24 years, with employer contribution rates set at 3.1 percent for the state and 2.0 percent for the local employers in FY 1990.

The 1993 legislation introduced the statutory budget caps that would limit the amount of annual increase for employer contributions. The 1993 legislation provided a 25.0 percent increase in retirement benefits for those who retired on and after July 1, 1993, and an average 15.0 percent increase in retirement benefits for those who retired before July 1, 1993. In order to finance the increased benefits, the Legislature anticipated phasing-in higher employer contributions by originally setting a 0.1 percent annual cap on budget increases. It was anticipated that the budget caps would allow the employer contributions to reach the actuarial rates in about seven years. The gap between the statutory rates and the actuarial rates that began in the FY 1995 budget year has never been closed, and the Legislature has modified the annual cap to its present level of 0.6 percent in an effort to close the gap.

The failure of KPERS participating employers to contribute at the actuarial rate since 1993 has contributed to the long-term funding problem. Other problems, such as investment losses, also have contributed to the shortfall in funding.

Retirement Benefits and Adjustments

The original 1961 KPERS legislation provided for the nonalienation of benefits. The KPERS Act stated that: "No alteration, amendment, or repeal of this act shall affect the then existing rights of members and beneficiaries, but shall be effective only as to rights which would otherwise accrue hereunder as a result of services rendered by an employee after such alteration, amendment, or repeal." This provision is found in KSA 74-4923 and further clarified in that statute by the following statement: "This subsection shall not apply to any alteration or amendment of this act which provides greater benefits to members or beneficiaries, but any increase of benefits shall only be applicable to benefits payable on the first day of the month coinciding with or following the effective date of the alteration or amendment."

The KPERS retirement benefits were exempted in 1961 legislation from all state and local taxation. As noted above, the original enacting legislation, found in KSA 74-4923, declared that "No alteration, amendment, or repeal of this act shall affect the then existing rights of members and beneficiaries, but shall be effective only as to rights which would otherwise accrue hereunder as a result of services rendered by an employee after such alteration, amendment, or repeal." In other words, no taxes shall be assessed and no retroactive reduction of promised benefits may be enacted. Any change in benefits must be prospective, unless it involves a benefit increase which may be retroactive in application, as in the case of increasing the multiplier for all years of service credit.

In 1972 legislation, the Legislature provided for the first cost-of-living adjustment (COLA) to KPERS retirees by increasing benefits by 5.0 percent for anyone who had retired on or before June 30, as provided in the 1972 legislation. Over the years the Legislature provide additional ad hoc post-retirement benefit adjustments for retirees and their beneficiaries. No automatic COLA was authorized until the new KPERS Tier 2 was established in 2007 for future KPERS members as described in the last section of this document.

Special and Shared Funding for KPERS

Special funding was authorized by the Legislature after the school group that had membership in the SSRS was merged into KPERS. In 1972 legislation, the Legislature authorized a transfer of $5.0 million on July 1, 1972, from the State General Fund to KPERS for payment of school annuities, noting in the legislation that authorized subsequent transfers for school service annuities would be amortized over 11 years through annual payments for the SSRS annuities authorized by KSA 72-5501, et seq. In 1973 legislation, the annual transfer was increased to $10.22 million on July 1, 1973, and $10.0 million for subsequent fiscal years. In 1984 legislation, the transfers were cancelled and the remaining obligation for SSRS annuities was added to the KPERS unfunded actuarial liability and that obligation was to be amortized over 27 years through state employer payments.

In 1977 legislation, the Legislature included a preamble to HB 2041 that stated: "Whereas, It is the intent of the Legislature of the State of Kansas that the participating service costs of the Kansas Public Employees Retirement System shall be shared equally by employers and employees; and Whereas, It is also the intent of the Legislature of the State of Kansas that the costs of all benefit increases and other changes in the Kansas Public Employees Retirement System affecting active members shall be shared equally by employers and employees."

Section 1 of HB 2041(Chapter 276 of the 1977 Sessions Laws of Kansas) became KSA 74-4920 without the preamble being included in the statute. The new section addressed only the setting of employer contributions and the amortization period of not to exceed 40 years. The employee contribution rate of 4.0 percent established in the 1961 legislation was never changed by the Legislature until 2007 when Tier 2 members were increased to a 6.0 percent rate to help pay for an automatic COLA. KPERS Tier 1 members remained at the original 4.0 percent level, and even when significant benefit enhancements were approved in 1993, no change was contemplated in the employer contribution rate.

In order to partially address the long-term funding issue, the 2003 Legislature authorized the issuance of up to $500 million in pension obligation bonds for the reduction of the KPERS unfunded actuarial liability. The State of Kansas assumed the responsibility of repaying the principal and interest on the 30-year bonds that were issued in 2004. Annual payments average $36 million per year from the State General Fund for the debt service on the bonds. KPERS invested most of the net bond proceeds totaling approximately $440 million and the balance of the $500 million was used for bond issuance costs and debt service in the first three years of repayments (in order to avoid paying the costs out of the State General Fund).

KPERS Tier 2 and Tier 3

In 2007 legislation, a Tier 2 for KPERS state, school and local employees was established, effective July 1, 2009, and with the existing KPERS members becoming a "frozen" group in Tier 1 that no new members could join. The employee contribution rate for the "frozen" KPERS Tier 1 remained 4.0 percent.

The KPERS Tier 2 for employees hired on or after July 1, 2009, continued the 1.75 percent multiplier; allowed normal retirement at age 65 with five years of service, or at age 60 with at least 30 years of service; provided for early retirement at age 55 with at least ten years of service and an actuarial reduction in benefits; included an automatic, annual 2.0 percent cost-of-living adjustment (COLA) at age 65 and older; and required an employee contribution rate of 6.0 percent.

The 2007 legislation in KSA 74-49,212 stated that "the legislature reserves the right to adjust the employee rate of contribution prescribed in KSA 74-49,210, and amendments thereto, to allow participating employers and employees to share equally any additional contribution rate actuarially required to fund the system."

In 2012 legislation, a Tier 3 for KPERS state, school and local employees was established, effective January 1, 2015, and with the existing KPERS members becoming a "frozen" group in Tier 2 that no new members could join, except for certain state correctional personnel. The employee contribution rate for the "frozen" KPERS Tier 2 remained set at 6.0 percent, but the COLA was eliminated and a new, higher multiplier of 1.85 percent was authorized to be applied retroactively for all years of credited service and for future years of service.

The new KPERS Tier 3 will have the following plan design components:

- Normal retirement age - age 65 and five years of service, or age 60 and 30 years of service;
- Minimum interest crediting rate during active years - 5.25 percent;
- Discretionary Tier 3 dividends - 4.0 percent maximum; modified formula based on KPERS funded ratio for awarding discretionary credits, unless all plans reach an 80 percent funded ratio, and then Board must pay dividends;
- Employee contribution - 6.0 percent;
- Employer service credit - 3.0 percent for less than five years of service; 4.0 percent for at least five, but less than 12 years of service; 5.0 percent year for at least 12 but less than 24 years of service; and 6.0 percent for 24 or more years of service;
- Vesting - five years;
- Termination before vesting - interest would be paid for the first two years if employee contributions are not withdrawn;
- Termination after vesting - option to leave contributions and draw retirement benefits when eligible, or withdraw employee contributions and interest but forfeit all employer credits and service;

- Death prior to retirement - five-year service requirement and if spouse had been named primary beneficiary, provide retirement benefit for spouse when eligible;
- Tier 3 early retirement - age 55 and 10 years of service;
- Default form of retirement distribution - single life with ten-year certain;
- Annuity conversion factor - 6.0 percent;
- Benefits option - partial lump sum paid in any percentage or dollar amount up to 30.0 percent maximum;
- Post retirement benefit - COLA may be self-funded for cost-of-living adjustments;
- Electronic and written statements - KPERS Board shall provide information specified. Certain quarterly reporting would be required;
- Powers reserved to adjust plan design - The Legislature may prospectively change interest credits, employer credits, and annuity interest rates. The Board may prospectively change mortality rates;
- Actuarial cost of any legislation - fiscal impact assessment by KPERS Actuary required before and after any legislative enactments;
- Divorce after retirement - allow a retirant, if divorced after retirement, and if the retirant had named the retirant's ex-spouse as a joint annuitant, to cancel the joint annuitant's benefit option in accordance with a court order;
- If a member becomes disabled while actively working, such member shall be given participating service credit for the entire period of the member's disability. Such member's account shall be credited with both the employee contribution and the employer credit until the earliest of (i) death; (ii) attainment of normal retirement age; or (iii) the date the member is no longer entitled to receive disability benefits;
- A benefit of $4,000 is payable upon a retired member's death; and
- Employer credits and the guaranteed interest crediting are to be reported quarterly.

The 2012 legislation also modified the KPERS Tier 1 plan design components and the participating employer funding requirements for contributions. Several other provisions enhanced supplemental funding for KPERS, first, by providing that 80 percent from sales of state property would be transferred to the KPERS Trust Fund and second, by providing for annual transfers of up to 50 percent of the balance from the Expanded Lottery Act Revenue Fund after other statutory expenses are met.

The KPERS Tier 1 changes included increasing member contributions to 5.0 percent on January 1, 2014, and to 6.0 percent on January 1, 2015, with an increase in multiplier to 1.85 percent for future service only, effective January 1, 2014. An alternative election, if approved by the IRS, would allow Tier 1 members to elect a reduction in their multiplier to 1.4 percent for future service only and retention of the current 4.0 percent employee contribution rate, effective January 1, 2014.

The 2012 legislation also modified the rate of increase in the annual caps on participating employer contributions. The current 0.6 percent cap would increase to 0.9 percent in FY 2014, 1.0 percent in FY

2015, 1.1 percent in FY 2016, and 1.2 percent in subsequent fiscal years until the unfunded actuarial liability of the state and school group reaches an 80 percent funded ratio.

Judicial and Public Safety Retirement Plans

The Kansas Public Employees Retirement System (KPERS) and its Board of Trustees were established by 1961 legislation to provide public employee death and retirement benefits for assisting state and local governmental workers. KPERS is an umbrella organization that often is referred to as the Retirement System since its Board of Trustees administers three different retirement plans: the Kansas Retirement System for Judges, the Kansas Police and Firemen's (KP&F) Retirement System, and the regular KPERS plan. This section focuses on the two plans for judicial and public safety employees.

Prior to the establishment of KPERS in 1961, the Legislature had created four other retirement plans for governmental employees, including two for certain judicial branch state employees and two for public safety (law enforcement) state employees. All four plans eventually merged with KPERS in some manner, either consolidating with KPERS to provide membership for eligible members or transferring the administration of the continuing plans to administration by the KPERS Board of Trustees.

Early Judicial Branch Retirement Plans

The Kansas Retirement System for Judges was established by 1953 legislation to originally include justices of the State Supreme Court and district court judges. The plan was administered by the Kansas Judges Retirement Board. Membership on the board consisted of the Insurance Commissioner, the State Treasurer, the State Auditor, one justice of the State Supreme Court, and one district court judge.

The Retirement System for Official Court Reporters was established by 1955 legislation and the court reporter's retirement plan was administered by the Kansas Judges Retirement Board. The original source of funding for both of these retirement plans was from court fees paid into separate retirement funds that also were authorized by the Legislature. Both retirement plans were established to provide annuities upon retirement by members of each plan.

The Kansas Judges Retirement Board (formerly established by KSA 20-2604) and the Kansas Official Court Reporters Retirement Board (formerly established by KSA 20-2704) were directed to administer two separate retirement plans: one for district court judges and Supreme Court justices, and another one for court reporters. The board members of the Kansas Judges Retirement Board also served as the board members for the Court Reporters retirement plan.

In 1975, both sets of authorizing statutes were repealed and the administration of the two plans was transferred to the KPERS Board of Trustees. When the Retirement System for Judges plan was modified on July 1, 1975, the KPERS Board of Trustees assumed only administrative duties regarding the management of the plan that was continued with substantially the same provisions as prior to the abolition of the old board. Some benefit changes were authorized in the Judges plan by the 1975 Legislature. New court reporters were authorized to become KPERS members and any court reporter who was a member of the prior plan became a KPERS member on July 1, 1975. Retiring members were to be paid their annuities as previously authorized and the KPERS Board administered the payments for the plan's retired members.

Early Public Safety Retirement Plans

The 1947 Legislature established the State Highway Patrol Pension Board and the State Highway Patrol Pension Fund in order to provide for death benefits as well as disability and regular pensions for sworn members of the Highway Patrol and their beneficiaries. The 1947 law referred to the state pension board as having control and general management of the pension fund. Members of the board designated by the law included the Governor, the State Treasurer, and a patrol employee to be elected by other qualified members of the Kansas Highway Patrol. Any service subsequent to the organization of the Kansas Highway Patrol on July 1, 1935, was to be considered as service credit for the board to use in computing benefits.

In 1951, the Legislature created the Kansas Bureau of Investigation Pension Board and the Kansas Bureau of Investigation Pension Fund in order to provide for death benefits as well as disability and regular pensions for sworn agents of the Kansas Bureau of Investigation (KBI) and their beneficiaries. The board was composed of the Attorney General, the State Treasurer, and an agent of the KBI who was to be elected by agents, and it was authorized to perform administrative duties as trustees of the fund.

The 1965 Legislature established the Kansas Police and Firemen's (KP&F) Retirement System to provide for disability and retirement benefits for public safety officers working for state and local agencies whose governing bodies voted to affiliate with KP&F.

In 1968, the Legislature authorized the Kansas Highway Patrol to become a participating employer on July 1 of that year, and all eligible employees became members of the new KP&F plan. The State Highway Patrol Pension Board was abolished and all assets from the State Highway Patrol Pension Fund were transferred to KPERS for administration. Also in 1968, the KBI became a participating employer on July 1 of that year, and all eligible employees became members of the new KP&F plan. The Kansas Bureau of Investigation Pension Board was abolished and all assets from the Kansas Bureau of Investigation Pension Fund were transferred to KPERS for administration.

Current Judicial Retirement Plan

Kansas law requires that all eligible employees must become members. Those eligible employees include justices of the State Supreme Court and Court of Appeals, district court judges, and magistrate judges. Active members contribute 6.0 percent of gross earnings and contributions earn interest annually. If membership occurred before July 1, 1993, contributions earn 8.0 percent interest; or on or after July 1, 1993, contributions earn 4.0 percent interest.

Members automatically earn service credit for the years served in a covered position. Members become "vested" when first elected or appointed. This vesting provides a guaranteed retirement benefit for the rest of the member's life.

The maximum benefit is equal to 70.0 percent of final average salary. Final average salary is an average of the three highest of an individual's last ten years of service. For members who were appointed or elected on or after July 1, 1987, the statutory multiplier is 3.5 percent to a maximum of 70 percent of final average salary. If a member were appointed or elected before July 1, 1987, the statutory multiplier is 5.0 percent up to ten years and 3.5 percent for each additional year, to a maximum of 70.0 percent of final average salary.

Members have basic group life insurance equal to 150.0 percent of annual salary. The State of Kansas pays for the cost of this benefit. The Retirement System also returns all of a member's contributions and interest if someone dies before retiring. Members can name different beneficiaries for this benefit.

If a member dies before retirement, a spouse may be able to choose a monthly benefit for the rest of his or her life, instead of receiving the member's returned contributions and interest. For this benefit to apply, a spouse must have been designated as the sole primary beneficiary.

Current KP&F Retirement Plan

Kansas law requires that all eligible public employees of participating employers must become members, except elected sheriffs. Active members contribute 7.0 percent of gross earnings, and employee contributions earn interest annually. If membership occurred before July 1, 1993, contributions earn 8.0 percent; or on or after July 1, 1993, contributions earn 4.0 percent. A number of state agencies have KP&F members, as do a number of local units of government that have elected to participate in KP&F. The employee contribution rate drops to 2.0 percent after members have 32 years of service credit. The employer contribution rate is set annually as the actuarially required amount.

Members automatically earn service credit for the years worked in a covered position. When enough service credit is earned to become vested, members are guaranteed a monthly retirement benefit for the rest of the member's life. This is called "vesting" the benefit. The KP&F retirement plan includes two tiers of regular members and other special members of local plans that have come under the KPERS Board of Trustees for administration of retirement benefit payments.

- **KP&F Tier I.** Tier I members were employed before July 1, 1989, and did not elect to choose Tier 2 coverage. Tier I members vest with 20 years of service credit.

- **KP&F Tier 2.** All new KP&F members must become Tier 2 members. Tier 2 members vest with 15 years of service credit.

- **Transfer and Brazelton Special Members.** Transfer members are KP&F members who formerly participated in a local retirement plan and who chose to participate in KP&F after their participating employer joined KP&F. Brazelton members participated in a class-action lawsuit in 1980. Because of this, their contribution rate is 0.008 percent, and their retirement benefits are offset by Social Security.

Disability Benefits

There are KP&F disability benefits for active members. Tier I and Tier 2 members are covered by different disability benefits. Members are not eligible for disability benefits if injured while working for any employer other than their KP&F participating employer.

Tier I Service-Connected Disability Benefits

Members receive an annual disability benefit, in on-going monthly payments, based on the highest of 50.0 percent of final average salary, or final average salary multiplied times 2.5 percent multiplied times years of service.

If a member has eligible children, each receives an annual benefit of up to 10.0 percent of the member's final average salary (subject to a maximum) in on-going monthly payments. Children are eligible up to age 18, or age 23, if a full-time student. The maximum family benefit, including children's benefits, is 75.0 percent of the member's final average salary. If a member does not have eligible children, the maximum benefit is 80.0 percent of the member's final average salary.

For Tier I non-service-connected disability, a member will receive an annual benefit to be paid monthly based on the final average salary multiplied by 2.5 percent for each year of service credit. The minimum benefit is 25.0 percent of final average salary and the maximum benefit is 80.0 percent. A member must wait 180 days from the last day actively worked in order to apply for benefits.

Tier 2 Disability Benefits

Disability benefits are the same, whether the disability is service-connected or non-service-connected. Members receive an annual benefit of 50.0 percent of final average salary in on-going monthly payments. There is no waiting period. Members continue receiving service credit until a person is no longer disabled, or until the member is eligible to retire. If a member becomes disabled and already is eligible to retire, the member cannot apply for disability benefits and must retire.

Working While Receiving Disability Benefits

If a disabled member returns to work for any KP&F participating employer, the disability benefits will stop automatically. There is no earnings limit for non-public safety employment if a disabled member goes back to work for a non-participating employer.

Death Benefits for Active Members

KP&F death benefits cover regular Tier I and Tier 2 members, Brazelton, and Transfer members. Benefits are paid automatically to a spouse or eligible children, or both. Children are eligible up to age 18, or age 23, if a full-time student. If a member is unmarried and has no eligible children, the person's beneficiary receives a one-time lump-sum benefit.

Service-Connected Death

A spouse receives an annual benefit of 50.0 percent of final average salary in on-going monthly payments for the rest of his or her life. A member's children, if eligible, also receive an annual benefit of up to 10.0 percent of final average salary. The maximum total benefit is75.0 percent of final average salary. If a member does not have a surviving spouse or eligible children, a beneficiary receives a lump sum equal to the current annual salary.

Non-Service-Connected Death

A spouse receives a lump-sum payment of 100.0 percent of final average salary, plus an annual benefit of final average salary multiplied times 2.5 percent multiplied times the years of service in on-going monthly payments for the rest of his or her life. The maximum annual benefit is 50.0 percent of final average salary. If a member does not have a surviving spouse, any eligible children share the benefit. If a member does not have a surviving spouse or eligible children, a beneficiary receives a lump-sum equal to the current annual salary.

Kansas Defined Contribution Retirement Plans

In addition to the Kansas Public Employees Retirement System (KPERS) and the three defined benefit plans the KPERS Board of Trustees administers for public employees, the State of Kansas also provides three other defined contribution pension plans for certain state employees designated by statute as eligible for membership in such programs.

Defined contribution plans, however, sharply differ and are more like retirement savings accounts. Generally, the employee and the employer make contributions into the individual member's account that is self-directed for investment purposes. The employee bears all of the investment risk during the period of employment, and the final annuity at retirement will be the result of the contributions plus earnings (and losses) over time. There is no obligation on the part of the employer to fund a retirement benefit at a particular level of pay for retirees under a defined contribution plan.

Three defined contribution plans are authorized by statute and all three have been implemented, with all three having active members. Enabling legislation is found for each plan separately in three statutory sections: KSA 74-4925; 74-49b01 et seq.; and 74-4911f.

Regents Plan (KSA 74-4925).

The program was authorized in 1961 for the State Board of Regents to assist faculty and administrators, who are in the unclassified service, by providing a retirement plan under Internal Revenue Code (IRC) section 403(b). The plan generally is referred to as the Regents Mandatory Retirement Plan. Originally, the Regents contributed 5.0 percent of salary and the eligible unclassified staff (typically faculty and administrators) contributed 5.0 percent of salary to an individual retirement account offered by the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF). Members became vested immediately and the account, including the employer contributions, was portable (could be moved if the person took another similar position whether in-state or out-of-state at another institution or eligible post-secondary employer).

During the 1980s, the Legislature increased the contribution rates to 8.5 percent for the employer and 5.5 percent for the employee. The Regents have adjusted the number of vendors offering investment accounts to unclassified members who are eligible to participate. Today, in addition to original vendor, TIAA-CREF, the ING Financial Advisors also provides accounts for Regents faculty and administrators. Previously, the Security Benefit Group of Topeka had a contract with the Regents, but that contract was discontinued.

The Regents retirement program is an individual savings account plan with assets under the control of the member. Investments are self-directed, and there is no guaranteed pension after retirement. All eligible faculty and administrators are required to participate after the first year of employment at a Regents institution, but under some conditions new employees, if they had prior membership in a similar retirement plan, might be able to participate in their first year of employment at a Regents institution. Regent's employees also may participate in the state's voluntary deferred compensation plan described subsequently in the next section.

Other State Plans (KSA 74-49b01, *et seq.*, and 74-4911f).

The second program is authorized under IRC section 457(b) and established by statute. In 1976, the Legislature enacted a voluntary deferred compensation program for state employees. The Director of Personnel Services, subject to approval by the Secretary of Administration, was authorized to establish a tax-deferred employee savings plan. Local units of government also were allowed to participate in the deferred compensation program beginning in 1982. The state originally contracted with Aetna Investment Services to provide a self-funded program for state employee accounts since the statute required the participating members to pay all of the operating costs to administer the plan. Because the state deferred compensation plan offered a voluntary savings account, employees had to sign up to become contributing members.

Until 2001, there was no provision for a match by the employer to encourage more state employee participation in the program. Despite enabling legislation passed in 2001 and the provision currently in statute that would allow a matching employer contribution, the implementation of this matching provision has not taken place.

The contract with the original service provider, Aetna Investment Services, evolved into the current contract with ING Financial Advisors, the firm which acquired the Aetna U.S. operations. In 2008, the program supervision was transferred from the Director of Personnel Services to the KPERS Board of Trustees to administer the plan.

In 1988, the Legislature established a second deferred compensation program under Section 401(a) of the IRS Code for certain state officers who are designated in statute and for whom the state contributes 8.0 percent of salary to the individual's self-directed savings account. This selective program was superimposed on the existing voluntary deferred compensation program to utilize the contract with the service provider for the voluntary state deferred compensation plan. However, under this 1988 plan, the state makes an employer contribution, while no employee matching contribution is required.

The Legislature gradually expanded membership in this plan to include more positions in state government, including Legislative Session-only employees in 1996 as the largest group. Eligible state officers and employees include many appointed members of the executive branch, the Governor and Lieutenant Governor's staff, unclassified staff in the House and Senate leadership offices, and Session-only legislative staff.

Many members of this plan, if eligible and full-time employees initially are offered membership in KPERS, but declined to join KPERS, then they may elect membership in this plan. Some legislators may be members of this plan. They are eligible to join if they are retired from KPERS, and become eligible for membership in this plan if they are members of the Legislature.

Summary – State Defined Contribution Plans.

Since 1961, some Kansas state government employees, originally at Regents institutions, and later at other state agencies, have been able to participate in defined contribution programs, often referred to as deferred compensation plans. Three current plans have active members. The Regents' plan includes mandatory employer assistance (8.5 percent) and employee contributions (5.5 percent); the regular deferred compensation plan allows state employees to make voluntary contributions (subject to federal limitations) and has authorizing language for an employer match that has not been implemented;

and the selective deferred compensation plan has statutory limits as to who may participate and receive employer assistance (8.0 percent).

The Regents plan investments are managed in individual accounts and serviced by two different contractors. No aggregate data are available for these individually directed investments, unlike the state deferred compensation plan which is a unit trust and with reportable participation as well as investment information.

The voluntary and selective deferred compensation plans as of June 30, 2010, included 15,620 members who were state officers and employees from state agencies and Regents institutions. The number of actively participating state officers and employees totaled 8,831 who were either making voluntary contributions or having the state provide assistance in the form of employer contributions on their behalf, if a member were eligible for such assistance payments. Assets for state officers and employees in the unit trust administered by ING Financial Advisors were valued at $446.5 million as of June 30, 2010. No break-down on the number of voluntary and selective members was provided in the annual report from which the above data were derived.

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