



## Funding Status (in millions)

Asset Basis	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
Actuarial Value					
Funded Ratio	71%	59%	64%	62%	59%
UAAL	\$5,552	\$8,279	\$7,677	\$8,264	\$9,228
Market Value					
Funded Ratio	75%	49%	56%	59%	55%
UAAL	\$4,817	\$10,250	\$9,384	\$8,936	\$10,130

Source: KPERS Comprehensive Annual Financial Report, June 30, 2012



## KPERS Was Fully Funded

- ...in the early '90s.
- Legislature increased benefits by about 25%...
- ...and passed set funding level below Actuarially Required Contribution (ARC) level.



## Return Shortfall Implications

- In 2011, KPERS said a half-point reduction in the investment return assumption would add \$1.3 billion to the unfunded liability.
- On that basis, lowering the investment return assumption to 6% would take the UAAL to \$15.3 billion. At 4%, the UAAL is \$20.5 billion.
- In 2011, KPERS said funding the plan at a 6% return would cost \$3.3 billion more between 2013 and 2023.



## Return History

- KPERS assumes 8 percent annual return.
- CalPERS told not to expect more than 4% over the next decade.
- KPERS had 0.8% return in 2011 (calendar).
  - 5 year average– 1.8 percent
  - 10 year average– 6.9 percent
- KPERS says 2012 return at least 14% but still calculating actual rate (per Diana Komarek on Feb. 15).



## Investment Return Risk

- The higher the assumed rate of return, the more risk that must be taken.
- Federal debt / deficit structure increases the likelihood of significant stock market correction.
- KPERS' extremely low funding level could jeopardize solvency of the plan and ability to pay retiree benefits if another 2008-like experience occurs in the next ten years.



## Lifetime Benefit Calculations

	KPERS Tier 1	Police & Fire	Judges
Final Average Salary (1)	\$50,000	\$75,000	\$75,000
Years of Service (2)	35	32	20
Multiplier (3)	<u>1.75%</u>	<u>2.5%</u>	<u>3.5%</u>
Annual Benefit (1) x (2) x (3)	\$30,625	\$60,000	\$52,500
Benefit as % of FAS	61%	80%	70%

Note: The maximum service credit for KP&F retirees is 32 years. Judges with service prior to July 1, 1987 can receive up to ten years' service credit at a 5% multiplier; the calculation in Example 2 is based on 20 years' service at 3.5% and no years' service at 5%. Judges receive a maximum service credit of 20 years at the 3.5% multiplier; regardless, the maximum pension allowed is 70% of FAS. There is no maximum years of service or maximum pension % of FAS for other KPERS retirees.



## Other Benefit Info

- Employee contributions are post-tax.
- Retirees pay no state income tax on pension benefits (except on their own contributions).
- KPERS retirees receive estimated annual income tax of \$52 million.
- Private sector employee retirement benefits are fully taxable.
- KPERS retirees also receive Social Security (except for some P&F members).



## KPI Research Papers

- “A Comprehensive Reform of the Kansas Public Employees Retirement System” by Dr. Barry Poulson, March 2011.
- “Legal Authority to Adjust State Pension Plans” by Ralph Benko, July 2011.
- “Legal Authority to Modify the Kansas Public Employees Retirement System” by John Utz, September 2011.



## KansasOpenGov.org

- All government data
  - KPERS payments to individuals
  - Total payments by plan
- Highest lifetime annual pension: USD 233, Olathe retiree collecting \$170,551.
- Highest lump-sum payout in 2011: City of Shawnee Police & Fire received \$681,981. (Lump-sum recipients also receive reduced annual pensions.)



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