KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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January 19, 2012

To: House Committee on Pensions and Benefits

From: Julian Efird, Principal Analyst

Re: KPERS Study Commission's Recommendations

The KPERS Study Commission recommended legislation that would create a new KPERS retirement plan for certain state, school, and local government employees on July 1, 2013, with implementation set for January 1, 2014. Coordination of the current death and long-term disability benefits plan with the new KPERS plan would be incorporated into this legislation. The new retirement plan design is a two-part hybrid plan that would include a service-based annuity account and an employee-directed contribution account.

The legislation would close the current KPERS plans for Tier 1 and Tier 2 members (in the state, school and local groups) who would continue to be covered by the provisions of the current KPERS plans. Vesting for Tier 1 and Tier 2 KPERS members requires five years of service credit. All non-vested KPERS members, and all eligible new employees, beginning January 1, 2014, would become members of Tier 3 in the new retirement plan. Non-vested members would have their employee KPERS contributions, plus accrued interest, transferred to the new KPERS plan. Members would have a one-time election to allocate how much of the money transferred would be deposited into each account option for the new KPERS plan. The only exception for vested KPERS members would apply to legislators, all of whom would be transferred to the new KPERS plan. All legislators who are KPERS members would become members of the new KPERS plan on January 1, 2014, whether they are vested or non-vested members. Any legislator's benefits accrued under the current KPERS plans would transfer to the new KPERS plan. All new legislators would become members of the new KPERS plan.

- The Commission recommended eliminating service credit purchases on or after July 1, 2013, by members of Tier 1 and Tier 2 in the current KPERS plans.

- The Commission recommended repealing the annual statutory cap on participating employer contributions for the current KPERS plans in order to increase payments to the actuarial required contribution (ARC). Under provisions of 2011 Senate Sub. for HB 2194, on July 1, 2012, the current 0.6 percent cap on annual employer contribution increases in payments was scheduled to begin increasing in stages to a 1.2 percent cap by FY 2016.

- The Commission recommended consideration of bonding a portion of the KPERS unfunded actuarial liability (UAL), or alternatively bonding all of the KPERS UAL, for the current KPERS plans (Tier 1 and Tier 2), including the state, school, and local groups. The December 31, 2010, actuarial valuation report

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estimated the KPERS UAL to be $0.9 billion for the state group, $5.3 billion for the school group, and $1.4 billion for the local group. The cumulative KPERS plan unfunded actuarial liability for the state, school, and local groups was $7.6 billion, or $0.7 billion less than the December 31, 2010, total estimate of $8.3 billion. The total UAL included the three KPERS groups plus two other plans (including the judicial, police, and fire groups).

- The Commission recommended removing the 32-year cap on the maximum number of years of service credit that can be earned by Kansas Police and Fireman's (KP&F) Retirement System members.

- The Commission recommended eliminating double-dipping.

- The Commission recommended standardizing all state retirement plans, including the Regents plan, and making state tax treatment consistent for different state retirement plans.

- The Commission recommended preventing spiking in the calculation of final average salary (FAS) when determining retirement benefits.

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January 20, 2012

To: House Committee on Pensions and Benefits

From: Julian Efird, Principal Analyst

Re: KPERS Study Commission's Recommendations for New KPERS Plan Design

The Kansas Public Employees Retirement System (KPERS) Study Commission recommended a new retirement plan design primarily for new hires and non-vested members beginning on January 1, 2014. The new KPERS plan would become Tier 3 if enacted. The new KPERS plan is a two-part retirement plan design with an annuity contribution component paid by the employer and an employee-directed contribution component paid by the employee. There would be mandatory contribution rates for both the employee and employer.

- The employee contribution rate would be fixed at 6.0 percent of compensation, with all employee payments going to the defined contribution account of the plan.

- The employer contribution would be service-based and would increase annually on a graduated scale from 1.0 percent initially to a maximum 5.0 percent of compensation after eight years of service. There would be an annual increase of 0.5 percent in the employer contribution rate for each year of service completed. All of the employer contributions would be deposited in the annuity contribution account.

- The annuity contribution component of the new KPERS plan would make investments that would mirror the investments held by the KPERS fund, with no employee direction as to investment choices for the employer contributions.

- The employee-directed contribution component is a type of defined contribution account which would be self-directed by the employee, with numerous qualifying investment options, including one option to closely mirror the KPERS total portfolio. The latter option would be used if the employee does not self-direct investments.

- Earnings would be based upon investment performance for both components of the plan. No amount of earnings would be guaranteed for either account in the new KPERS plan, though no overall investment losses would accrue to the annuity contribution account as part of the plan design.

- Benefit distributions would be subject to federal retirement guidelines for each part of the new plan. For the defined contribution component, distributions would occur through a lump-sum payment or other legally permitted schedules of payments. The annuity contribution component would provide distributions through a lifetime annuity payment, based upon the Pension Benefits Guarantee Corporation's annuity rate, the account's cash balance upon retirement, the retiree's age, and other factors as prescribed in the plan design document and permitted by federal law.

LJE/db