Approved: February 8, 2011

MINUTES OF THE HOUSE PENSIONS & BENEFITS COMMITTEE

The meeting was called to order by Chairman Mitch Holmes at 9:09 a.m. on January 19, 2011, in Room 142-S of the Capitol.

All members were present.

Committee staff present:
Gordon Self, Office of the Revisor of Statutes
David Wiese, Office of the Revisor of Statutes
Julian Efird, Kansas Legislative Research Department
Michael Steiner, Kansas Legislative Research Department
Darla Conner, Committee Assistant

Conferees appearing before the Committee:
Glenn Deck, Executive Director of KPERS

Others attending:
See attached list.

Chairman Holmes gave an overview of the agendas for the next three committee meetings. Making note that the time for the meeting on January 31, 2011 may change. Glenn Deck, Executive Director of KPERS gave presentations on KPERS Benefit Overview, (Attachment 1) KPERS Working After Retirement, (Attachment 2) and KPERS Investment Questions. (Attachment 3)

The next meeting is scheduled for January 24, 2011.

The meeting was adjourned at 10:43 a.m.

HOUSE PENSIONS & BENEFITS
COMMITTEE GUEST LIST
DATE: January19, 2011

NAME	REPRESENTING
TERRY FORSYTH	KNEA
HARVEY LUDWICK	KARSP
Dennis Phillips	KSCFF
Ed Redmon	KSCFF
Jane Carter	KOSE
Levi Henry	Sandstone Group LLC
Glenn Deck	KPERS
Faith Loretto	"
Ernie Claudel	KCPR
Nate Lindsey	KCA
Travis Couture-Lovelady	Treasurer's office
Tom Krebs	KASB
Ron Gardner	KCPR

House Pensions & Benefits
Date: 1/19/2011
Attachment # 1

Kansas Public Employees
Retirement System

KPERS Benefit Overview

House Committee on Pensions and Benefits ▪ *January 19, 2011*

KPERS Defined Retirement Benefits

1-2

- Kansas Legislature enacts KPERS' retirement plan design through State statutes, providing for:
  - Membership eligibility.
  - Employee and employer contributions.
  - Service credit.
  - Vesting.
  - Benefit formula.
  - Retirement eligibility.
- A summary of the Plan's design elements follows.

Membership Eligibility

- All employees in "covered positions" with participating employers must become members.
- Membership begins on the first day of employment in the covered position.
- A covered position is one that is covered by Social Security, is not seasonal or temporary (less than six months), and requires at least –
  - For non-school employees – 1,000 hours of work per year.
  - For school employees – 630 hours per year or 3.5 hours per day for at least 180 days.
- Eligible elected officials may choose whether or not to become a member of KPERS.

Service Credit and Vesting

4-1

- Service credit is one of three factors used to calculate the amount of a retirement benefit. Service credit also determines vesting and is one of the criteria used in determining retirement eligibility.
  - Members who have "vested" have enough service credit to earn a retirement benefit, even if they leave covered employment.
    - As of July 1, 2009, members vest when they have five years of service credit.
- Members automatically earn service credit for the years worked in a covered position. This type of service credit is known as "participating service."
  - Service is credited annually by "quarters."
- Kansas law governs other types of service that can be granted or purchased to count toward retirement.
- Granted prior service is time worked for an employer before the employer joined KPERS.
  - Prior service is credited for past unbroken service with that employer. The employer pays for the cost of this service.

Service Credit and Vesting (Continued)

- In certain instances, service is granted for active military duty that interrupts public service.
  - The member must be in a covered position immediately before activation and must return to covered employment within certain timeframes.
  - This service is granted without cost to the member.

Purchase of Service Credit

- Active members may purchase certain other types of service credits.
  - "Year of Service" or partial year of service. (Non-school members who worked in a covered position before July 1, 2009, only became eligible for KPERS membership after completing one year of work. This first year of service can be purchased.)
  - Forfeited KPERS service. (All available forfeited service must be purchased together.)
  - Military service. (Members can purchase a year of service for each year of active military service and one quarter of service for each year of reserve service, up to a maximum of six years of military service credit.)
  - Elected official service.
  - Out-of-state teaching.
  - In-state or out-of-state non-federal public service.
  - Forfeited TIAA-CREF (Board of Regents) service.
  - VISTA and Peace Corps.
  - Waiting period for Regents plan eligibility.
- These types of service credit can be purchased by payroll deduction, a direct rollover or a lump-sum payment. The purchase cost is determined on an actuarial basis.

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Determining Membership in Tier 1 or Tier 2

Beginning July 1, 2009, KPERS has two benefit structures. The details of benefits depend on whether the member is in Tier 1 or Tier 2.

- **Tier 1 members** include:
  - Active members hired before July 1, 2009, who were contributing members on July 1, 2009, or on authorized leave, including military leave.
  - Inactive, **vested** members as of July 1, 2009.
  - Temporarily inactive, non-vested members who were in one of the following **grace periods** as of July 1, 2009:
    - Non-school members – 30 days between employment.
    - School members – May 1 to September 30 to move between school employers.
    - Members who move to a non-covered position with the same employer with no break (3 days).
- **Tier 2 members** include:
  - Those first employed in a covered position on or after July 1, 2009.
  - Members who left employment before vesting in Tier 1, and return to employment on or after July 1, 2009. This does not include members in one of the grace periods above.
  - Former members who withdrew their account and begin a new membership on or after July 1, 2009.

Contributions

1-8

- Each pay period, active members contribute a percentage of their gross earnings.
    - Tier 1 members contribute 4 percent.
    - Tier 2 members contribute 6 percent.
- Contributions are credited with interest at the following rates:
    - Membership date before 7/1/93 – 8%.
    - Membership date on or after 7/1/93 – 4%.
- Contributions are made on a pre-tax basis and deferred from federal income taxes until the member separates from service and either withdraws or retires.
- Contributions must be added back into gross income for state income tax purposes because they are taxed as earnings. However, retirement benefits are not taxable when received.

6-1

Member Account Balances

- Member account balances are important primarily if the member withdraws or dies before retirement.
  - Members who leave employment may withdraw their accumulated contributions and interest. On withdrawal, they forfeit their service credit.
  - If a nonvested member does not withdraw the contributions within five years of terminating employment, the contributions stop earning interest and the service credit is forfeited.
  - Vested members who leave employment and keep their contributions with the Retirement System can apply for retirement benefits when they become eligible.
    - The amount of a vested member's contributions and interest have no bearing on the member's retirement benefits since the benefits are determined by the benefit formula.
- Employer contributions are not credited to member accounts and stay with the Retirement System if the member ends employment and withdraws.
- Kansas law does not permit members to borrow from contributions.

Full Retirement Eligibility

1-10

- The "normal retirement age" is the point at which a member is eligible to receive a retirement benefit without any reductions.
- The member's age and the amount of service credit earned determines the normal retirement age.
  - **Tier 1**
    - Age 65 with at least one year of service credit.
    - Age 62 with at least ten years of service credit.
    - Any age, when age and years of service credit added together equal 85 (85 points.)
  - **Tier 2**
    - Age 65 with at least five years of service credit.
    - Age 60 with at least 30 years of service credit.
- Special retirement eligibility rules apply to certain correctional employees in both Tiers.
- Beginning at age 55 with 10 years of service, members may retire before their normal retirement age, with permanently reduced benefits. (See Appendix A.)

85-Point Retirement Data

- Based on the retired payees as of 12-30-2010 and information reported by our employers, we have an estimated 18,535 KPERS retirees who retired under the "85-Point" rule.
- Of those 18,535 retirees:
  - 1,842 have an out-of-state address listed as their most recent address.
  - 1,884 have returned to work for a KPERS-participating employer.
    - Approximately 850 returned to work for the same employer worked for immediately before retiring.
    - Approximately 1,050 returned to work for a different employer.

Calculation of Benefit

1-12

- The annual benefit amount is calculated with the following formula:

Final Average Salary	X	Years of Service	X	Statutory Multiplier	=	Annual Benefit
Example: *$40,000*	*x*	*30 years*	*x*	*1.75%*	=	*$21,000*

- Service credit includes –
  - The years of service worked in one or more covered positions (participating service).
  - Prior service and certain active military service.
  - Years of service purchased by the member.
- Beginning in 1993, the statutory multiplier increased from 1.4% to 1.75% -- for service both before and after that date.
  - Members receive 1.75% of their final average salary (FAS) for each year of service credit.
  - The same multiplier applies to both Tier 1 and Tier 2.

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Final Average Salary

Tier 1

- The FAS is based on the highest years of pay during the member's career.* The highest years do not have to be continuous.
  - *Membership date on or after July 1, 1993:* FAS is a three-year salary average **excluding** additional compensation.**
  - *Membership date before July 1, 1993, or member was in the initial "year of service" on July 1, 1993:* FAS is the *higher* of:
    - A three-year salary average **excluding** additional compensation.**
    - A four-year salary average **including** additional compensation.**
  - KPERS calculates both options and uses whichever result provides the higher benefit.

Tier 2

- The FAS is an average of the five highest years of salary,* **excluding** additional compensation.**

*Increases in compensation are capped for the years of service used in calculating the FAS. See Appendix B for more details.

**"Additional compensation" or "add-on pay" is compensation for unused sick leave, annual leave, and similar paid leave. Early retirement incentive or severance pay is not included as add-on pay when calculating the FAS. School employees have special guidelines.

Additional Retirement Benefit Features

1-14

Benefit Options

- Retired members receive a monthly retirement benefit for the remainder of their lives. Several retirement payment options are available to add financial flexibility and provide for beneficiaries.
  - Maximum monthly payout option.
  - Joint survivor option.
  - Life-certain option.
  - Partial lump-sum option (PLSO).
- An overview of these options is provided in Appendix C.

Post-retirement Benefit Increases

- In the past, the Legislature has provided a variety of "ad hoc" post-retirement benefit increases, including cost of living adjustments (COLA's), one-time benefit payments, and a "13th check." Further information about these benefit increases and their history is provided in Appendix D.

Death Benefits

- The beneficiaries of retired members receive a $4,000 death benefit.
- If benefits paid out before death are less than the member's contributions plus accrued interest, the beneficiary also receives the member's account balance.

KPERS Death and Disability Plan

- KPERS administers the KPERS Death and Disability Plan, which provides coverage for –
  - All active KPERS members.
  - Non-KPERS members employed at the Board of Regents institutions and other state officials.
- Also provides death benefits to the Judges group.
- Disability coverage provides 60% of member's current annual rate of compensation, minus offsets for workers' compensation benefits, Social Security primary disability or retirement benefits, other disability benefits based on employment, and employment earnings.
- Basic group life insurance coverage is 150% of the current annual salary.
- The basic death and disability benefits are funded solely by employers through a contribution equal to 1% of compensation.
  - The disability benefits are self-insured, and the basic group life insurance coverage is provided through Minnesota Life Insurance Company.
- Optional group life insurance in coverage amounts from $5,000 to $250,000 is made available to members whose employer has elected to offer this benefit.
  - Minnesota Life Insurance Company is the carrier.
  - Premiums are paid by payroll deduction.

Deferred Compensation Plan

1-16

- Along with the defined benefit plans and the death and disability plan, KPERS administers the State's Deferred Compensation Plan.
  - Voluntary 457(b) savings program for State of Kansas employees.
  - 15,545 state participants and $509.4 million in assets as of December 31, 2010.
  - The State's Plan has been adopted by over 240 local public employers, adding another 10,340 participants and $221.0 million in assets as of the same date.
- Participants select their own mix of investments from a range of options available through the Plan.
- KPERS manages and monitors the Plan on behalf of participants, including –
  - Selecting investment options and monitoring their performance.
  - Selecting the service provider and managing contractual services.
- KPERS has contracted with ING to act as the Plan's service provider.
  - ING provides local service, education, investment management, and administration services for the Plan.

Appendix A

Early Retirement Eligibility

1-18

Members may choose to retire before their normal retirement age, but their benefits are permanently reduced.

- **Tier 1**
  - Eligible for reduced benefits beginning at age 55 with ten years of service.
  - The earlier the retirement, the more the benefit is reduced. Benefits are reduced a fixed per cent based on the member's age at retirement –
    - 0.6 percent for each month between age 55 and 60
    - 0.2 percent for each month between age 60 and 62.
  - These reduction factors are set by statute.

If a Tier 1 Member Retires Early...		
Age	**Example**	**Reduction**
62	Full benefit = $1,500/month	0%
60	Reduced benefit = $1,425/month	5%
55	Reduced benefit = $885/month	41%

Early Retirement Eligibility (Continued)

- **Tier 2**
  - Eligible for reduced benefits beginning at age 55 with ten years of service.
  - The reduced benefit is to be determined on an actuarial basis established by the Board.
  - The actuarial reduction is less for members retiring before age 60 if they have at least 30 years of service.

If a Tier 2 Member Retires Early…				
Age	**Example – less than 30 years of service**	**Reduction**	**Example – at least 30 years of service**	**Reduction**
65	Full benefit = $1,500/month	0%	Full benefit = $1,500/month	0%
60	Reduced benefit = $975/month	35%	Full benefit = $1,500/month	0%
55	Reduced benefit = $636/month	57.5%	Reduced benefit = $1,068/month	28.75%

Appendix B

1-20

Final Average Salary Cap

- If a member's salary increases substantially from year to year, a cap may be applied to compensation used to calculate the FAS.
  - For Tier 1, the cap is 15 percent.
  - For Tier 2, the cap is 7.5 percent.
- Generally, the cap applies when salary changes and the position does not.
  - Examples of compensation **not subject to cap:**
    - Accumulated sick leave, vacation leave or annual leave paid to the member, if the membership date is prior to July 1, 1993.
    - Pay increase due to reclassification or reallocation to a higher range or level.
    - Overtime.
  - Examples of compensation **subject to cap:**
    - Part-time members who stay in the same position and whose salary is over the 15% because they work more hours (not overtime hours).
    - Raises, bonuses, and pay for extra duties or teaching extra classes.

Appendix C

1-22

Retirement Options

- Several retirement payment options are available to add financial flexibility and provide for beneficiaries.
  - **Maximum Monthly Payment Option.** Provides the maximum monthly benefit.
    - No continued monthly benefits for a beneficiary after the member's death.
  - **Joint-Survivor Option.** Provides a continuing monthly benefit for a joint survivor after the member's death.
    - The member may choose survivor benefits equal to 50 percent, 75 percent or 100 percent of the member's benefit.
    - Survivor benefits are paid for the rest of the joint survivor's life.
    - If the joint survivor dies before the member, the member's benefit "pops up" to the maximum monthly amount.
    - To provide this continuing benefit, the member's monthly benefit is reduced below the maximum, based on the percent of the benefit the joint survivor receives.
    - The difference between the age of the member and the joint survivor also affects the benefit amount.
      - If the joint survivor is older than the member, the benefit reduction is lower.
    - The joint survivor cannot be changed after retirement begins.

Retirement Options (Continued)

1-24

- **Life-Certain Option.** The member selects a five-, 10-, or 15-year period of guaranteed benefits, beginning with retirement.
  - The member's benefit is guaranteed for life.
  - If the member dies within the guaranteed period of time, the beneficiary receives the same monthly benefit for the rest of the guaranteed period.
  - The member's monthly benefits are reduced.
    - Tier 1 uses fixed percentages to calculate the adjustments based on the length of the guaranteed period.
    - Tier 2 uses actuarial tables and factors to reduce the benefit based on both the length of the guarantee and the member's age at retirement.
  - The beneficiary can be changed at any time.
- **Partial Lump-Sum Option (PLSO).** Members can take part of their retirement benefit in an up-front lump sum at retirement.
  - This lump sum is then combined with one of the other retirement options to provide reduced monthly benefits.
  - The member selects a percent of the actuarial present value of the member's lifetime benefit.
    - For Tier 1 members, the PLSO options are 10, 20, 30, 40 or 50 percent.
    - For Tier 2 members, the PLSO options are 10, 20, or 30 percent.

1-25

Appendix D

Post-Retirement Benefit Increases

1-26

Background

- The KPERS defined benefit program established in 1962 did not include any prefunded, automatic cost-of-living adjustment (COLA) or other postretirement benefit adjustments. This plan design was standard at that time.
- Ad hoc postretirement benefit adjustments started in early 1970s.
  - Sixteen COLAs (percentage increase or dollar amount).
  - Five one-time benefit payments.
  - Annual Retirant Dividend Payment (13th Check).
- Through the early 1990's, most of the COLAs were provided based on actuarial gains, and there was not an employer contribution increase to fund the benefit enhancement.
- A series of Kansas Legislative interim studies over a 20-year period examined automatic COLA options. The 1992 Retirement Study Commission recommended an automatic COLA, which was changed to a 15% one-time COLA in the final 1993 legislation.

1-27

Other States' COLAs

- Approximately 65-75% of statewide public employee pension plans have historically had some form of annual COLA.
- COLA's typically are based on specified standards or criteria, such as –
  - A fixed amount set out in statute.
  - A variable amount based on the CPI or a percent of the CPI.
  - Simple or compound COLA.
- Most states with some type of automatic COLA have had higher employer and employee contributions than Kansas for a number of years.
- Many states with COLA's are reviewing the amount or structure of their COLA's in light of concerns about ongoing affordability.
  - Reducing the percentage increase and/or capping the increase for future and current retirees.
  - Eliminating or modifying investment performance formulas to reflect negative long-term funding impact of skimming short-term investment gains for COLA.

Recent Kansas Postretirement Benefit History

1-28

- **1998** – 3% COLA for all retirees who retired prior to July 1, 1997. Total UAL increase of $108 million. State appropriated $20 million first year. Remainder of UAL was paid off through employer contribution increase for 15 years.
- **2000** – One-time benefit equal to 50% of monthly retirement benefit payment for all retirees who retired prior to July 1, 1999. $18.9 million cost offset by one-time investment litigation settlement revenues.
- **2003** – Annual Retirant Dividend Payment (13th Check) made permanent for retirees who retired prior to July 2, 1987. State issued $24.9 million in bonds to fund UAL increase. Debt service and local share paid through employer contribution increase for 10 years.
- **2007** – $300 one-time payment for all retirees who retired prior to July 1, 1997, with 10 or more years of service. $7 million appropriation from SGF for State share, and local employer share paid through employer contribution increase for 10 years.
- **2008** – $300 one-time payment for all retirees who retired on or before July 1, 1998, with 10 or more years of service. $7 million appropriated from SGF for State share, and local employer share paid through employer contribution increase for 10 years.

House Pensions & Benefits
Date: 1/19/2011
Attachment # 2

Kansas Public Employees
Retirement System

KPERS Working After Retirement

House Committee on Pensions and Benefits ▪ *January 19, 2011*

Working After Retirement

2-2

KPERS members become eligible to receive monthly pension benefits only upon their retirement.

- Retirement benefits are intended to provide KPERS members with a portion of their pre-retirement income.
- The IRS prohibits in-service distributions from qualified plans.
  - An in-service distribution is the payment of a benefit while the member is still active.
- Therefore, the IRS regulates certain aspects of working after retirement permitted by qualified, tax-exempt retirement plans like KPERS.
- Restrictions on receiving benefits while still employed reduce strong economic incentives for members to retire as soon as possible to obtain an income supplement.
- Such an acceleration of retirements would have an adverse impact on KPERS' funding.

2-3

Working After Retirement (Continued)

Since KPERS' inception in 1962, there have been statutory restrictions on retirees returning to work for KPERS-affiliated employers.

- The member must have terminated employment.
    - Retirement occurs on the first day of the month coinciding with or following termination of employment with *any* participating employer not followed by employment with *any* participating employer for a minimum period of time.
        - Prior to 2009, no employment was permitted within the first 30 days following termination of employment.
        - Beginning July 1, 2009, this period was increased to 60 days.
- Basic restrictions on employment following that period of time depend on the nature of the employment and the employer.

Working After Retirement (Continued)

2-4

Non-KPERS Employers.

- Generally, there are no restrictions on members who work for a private sector employer or a public sector employer that does not participate in KPERS.
  - If a retiree returns to work for a KPERS employer as an independent contractor, the relationship is governed by other IRS rules.

Exempt employment with KPERS employers.

- There are long-standing exemptions from restrictions for retirees employed as daily call substitute teachers and legislative staff.
- An exemption was established in 2005 for retired licensed nurses at certain state institutions.
  - The employer must pay the actuarial employer contribution rate (7.39% in FY 2011). The retiree does not pay an employee contribution rate.

Working After Retirement (Continued)

Employment with a different KPERS employer.

- Retirees who return to work for a KPERS employer other than the employer from which they retired have no restrictions on their earnings.
  - Each local unit and each school district is treated as a different KPERS employer.
  - The State of Kansas is a single employer.
- If first employed in this position **before** July 1, 2006, there are **no** employee or employer contributions to KPERS.
- If first employed in this position **on or after** July 1, 2006, there are **no** employee contributions, but the new employer must pay an employer contribution rate to KPERS on these positions (employer's actuarial rate, plus 4%).
  - The fiscal year 2011 employer contribution rates for these positions are:
    - State – 11.39%
    - Schools – 16.48%
    - Local – 12.52%

Working After Retirement (Continued)

2-6

Employment with the same KPERS employer.

- There is a $20,000 annual earnings limitation on the retiree's compensation from the employer.
  - The basic provisions of the earnings limitation on returning to work for the retiree's previous employer were first adopted in their current form in 1988.
  - The retiree has two options when the $20,000 limitation is reached:
    - Stop working and continue to receive benefits.
    - Continue working and suspend retirement benefits until the next calendar year.

Legislative History

There have been a number of legislative studies and statutory changes to working-after-retirement restrictions in the last five years.

2006 House Sub. for SB 270

- Raised the earnings limitation for retirees returning to work for their previous employer from $15,000 to $20,000.
- Required employers hiring a retiree who did not previously work for that employer to pay KPERS the actuarial employer and Tier 1 employee contribution rate.

2008 House Sub. for SB 309

- Removed a June 30, 2008, sunset provision for the earnings limitation exception for state nurse retirees reemployed by certain SRS institutions.
- Expanded the exemption to include state nurse retirees reemployed by state juvenile justice institutions.
- Participating employers pay the actuarial employer contribution rate.

Legislative History (Continued)

2-8

Interim Studies in 2007 and 2008

- During the 2007 Interim, the Legislative Educational Planning Committee (LEPC), the 2010 Commission, and the Joint Committee on Pensions, Investments and Benefits received testimony on the teacher shortage problem in Kansas and the impact of the working-after-retirement restrictions on the shortage.
- During the 2008 Interim, the Joint Committee on Pensions, Investments and Benefits studied a number of different proposals for changes to the working-after-retirement restrictions and particularly focused on the issue of third-party contracting arrangements that circumvented the restrictions.
- The Joint Committee introduced SB 196 in the 2009 Session to apply working-after-retirement provisions to retirees returning to work as contracted employees of third-party companies.

2009 Senate Substitute for HB 2072

SB 196 and various versions of other working-after-retirement legislation were considered by the Senate Ways and Means Committee, the House Select Committee on KPERS, and two conference committees during 2009. The final legislation included the following major provisions:

- **Break in Service.** Extended the 30-day minimum break in service from employment with any KPERS participating employer to 60 days for all KPERS retirees.
- **Licensed School Professional Retirement Date.** Amended school law provisions to allow licensed professionals (teachers, administrators, and certain other professionals, such as social workers and dietitians) to retire before June 30 of a calendar year.
- **Earnings Limit for Licensed School Employees.** For a three-year period (through June 30, 2012), lifted the $20,000 earnings limit for retired licensed professionals returning to work for the same school district from which they retired, if they retired either:
  - Under a normal retirement option (e.g., with 85 points).
  - Under an early retirement option more than 60 days before the effective date of the bill (March 28, 2009).

2009 Senate Substitute for HB 2072 (Continued)

2-10

- **Employer Contribution Rates.** For a three-year period (through June 30, 2012), established a special employer contribution rate for public school employers who employ retired licensed professionals.
  - The rate is the employer actuarial rate plus 8 percent (20.48% in FY 2011 and 22.96% in FY 2012).
  - The employer rate applies to:
    - Retirees returning to work for the same or a different school district.
    - All positions for which a license is required, regardless of the number of hours worked.
  - This employer rate does not apply to retirees employed only as substitute teachers.
  - This employer rate does not apply to retirees who were first employed by a different school district before July 1, 2006.
- **Third-Party Contractors.** Applied working-after-retirement restrictions to retirees who provide licensed professional services to a participating employer through a third-party contractor. Contracts taking effect on or after April 1, 2009, are covered by the bill.
  - Each employer contracting with a third party for licensed professional services must include in the contract a provision requiring the third party to report the retiree's compensation, so that the employer can comply with reporting and employer contribution requirements.

2-11

2009 Senate Substitute for HB 2072 (Continued)

- During the three-year exemption for licensed professionals, retirees returning to work through a third-party contract for the same or a different employer do not have an earnings limitation (if they would otherwise have been eligible for the exemption), but the employer is required to pay the special employer contribution on the retiree's compensation (20.48 % in FY 2011 and 22.96% in FY 2012).
- **Report to Joint Committee.** Requires KPERS to report to the Joint Committee on Pensions, Investments and Benefits on the results of the provisions for licensed school professionals when they expire on June 30, 2012.

Working After Retirement Utilization

2-12

- Employers are required to submit an annual working-after-retirement report in December, with data regarding the number of retirees, by category, who were rehired during any part of that calendar year.
- Therefore, the CY 2009 report reflects data for only the first six months in which HB 2072 was in effect. The CY 2010 data is not yet available.
- During CY 2009, 3,302 KPERS retirees worked for a KPERS employer for some portion of the year, compared to 2,678 in CY 2008 – an increase of 23%.
  - By way of contrast, the number of early and full retirements in CY 2009 increased by 2.4% over CY 2008, and the number of KPERS retirees increased by 3.63%.
- Of the retirees working during CY 2009, 1,774 were hired by the same employer and 1,528 for a different KPERS employer. (See Attachment A for more detail.)
- School Group employers reported 2,546 rehired retirees in CY 2009, which represents 6.9% of all School Group retirees – up from 6.1% in CY 2008. The number of KPERS retirees hired by the State and by Local Group employers in CY 2009 was equivalent to 1.6% of State and 4.2% of Local Group retirees.

2-13

Appendix A

2-14

KPERS Retirees Returning to Work*

	Same Employer	Different Employer Before 07/01/06	Different Employer After 07/01/06	Total
Local	332	64	132	528
School	1,250	364	932	2,546
State	192	16	20	228
	1,774	444	1,084	3,302

*Reflects reemployment at any point in Calendar Year 2009

School Group: Working After Retirement Categories*

Same Employer Licensed Position	427
Same Employer Non-licensed Position	821
Same Employer Third Party - Licensed Position	2
Different Employer Licensed Position	682
Different Employer Non-licensed Position	249
Different Employer Third Party Licensed Position	1
Total	**2,182**

*Excludes retirees rehired by different employer before 7/1/06.

House Pensions & Benefits
Date: 1/19/2011
Attachment # 3

Kansas Public Employees
Retirement System

KPERS Investment Questions

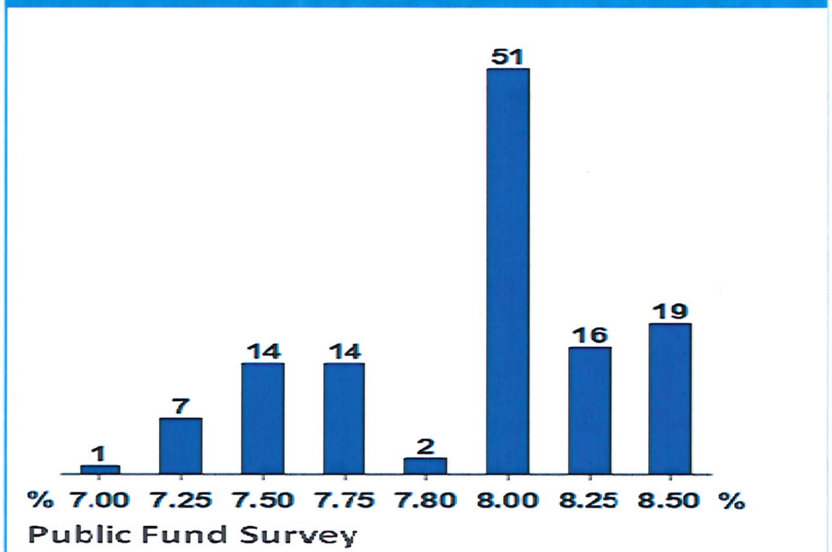
House Committee on Pensions and Benefits ▪ *January 19, 2011*

KPERS' Investment Return Assumption

3-8

- KPERS has used an 8% investment return assumption since 1986. It was last reviewed and affirmed in 2007 – before the market crisis began in 2008.
  - The investment return assumption is net of investment fees and expenses.
  - For FY 2010, KPERS' investment fees and expenses were 0.29% of assets.
- An 8% investment return has been the predominate rate for public pension systems.

Figure 3. Distribution of public pension fund nominal investment return assumptions



NASRA Issue Brief: Public Pension Plan Investment Return Assumptions, March 2010

Setting the Investment Return Assumption

- Because benefits paid by a pension system are accrued and paid out over many decades, the investment return assumption reflects a very long-term investment perspective of 30 years.

- The factors considered in establishing the investment return assumption include –

  - The System's target asset allocation.
  - The System's capital market assumptions.
  - The Board's investment philosophy regarding risk and investment classes.
  - Projected cash flow timing and volatility.

Asset-Liability and Experience Studies

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- KPERS is currently engaged in two studies that impact the investment return assumption – an asset-liability study and an experience study.
- In the triennial asset-liability study, an appropriate asset mix is developed to fund the liabilities.
  - The asset mix is based upon assumptions regarding future expected rates of return and risks posed by various asset classes, as well as KPERS' ability to invest in them.
- The experience study, which is also conducted every three years, evaluates the System's actual experience as compared to its demographic and economic actuarial assumptions.
  - The investment return is a key economic actuarial assumption.
- The Board will establish new or revised actuarial assumptions using the findings of the experience study.
- Based on the asset-liability and experience studies, the Board is likely to reach a decision about the investment return assumption in the spring of 2011.

Investment and Administrative Expenses

- Investment management fees and expenses vary by asset class, ranging from 5.49 to 49.29 bps for FY 2010.
- In total, investment management fees and expenses equaled 0.29% of the portfolio in FY 2010.
- Administrative expenses budgeted for System operations in FY 2011 total $8.84 million or 0.768% of projected FY 2011 benefit payments.

Investment Manager Fees and Expenses
Fiscal year Ended June 30, 2010

	Fees	Basis Points
Domestic Equity	$ 4,343,786	17.73
Global Equity	$ 2,246,253	30.14
International Equity	$ 10,147,327	35.49
Foreign Currency Overlay	$ 2,711,289	6.89
Fixed Income	$ 6,595,265	17.04
Real Estate	$ 3,620,812	49.29
Cash Equivalent	$ 321,897	5.49
Total Investment Management	$ 29,986,629	26.66
Other Fees and Expenses *	$ 2,623,421	
Total Investment Management Fees and Expenses	$ 32,610,050	29.00

*Custodial Bank, Consultants, Legal

Target Portfolio

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KPERS' target portfolio is determined by:

- Triennial asset-liability study.
  - Asset class assumptions based on historical mean-variance analysis.
  - Forward-looking consideration of global economic fundamentals, such as inflation, interest rate expectations, forward earnings and price/earnings multiples.
  - Risk philosophies, i.e. funded ratios and volatility of plan assets.
- Research and identification of appropriate asset class strategies.
- Statutory limitations which cause allocation constraints.
  - Maximum equity exposure of up to 60 percent of the total book value of the fund .
  - Investment in new alternative investments is limited to 1 percent of the total fund's market value as of December 31 of the prior year.

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Expected Return and Standard Deviation

- KPERS' current target asset allocation consists of 55% equity, 14% fixed income, 14% real return, 10% real estate, 6% private equity, and 1% cash.

	US Equity	Intl Equity	Fixed Income	Real Return	KPERS Real Estate	Private Equity	Cash	Total Plan
Allocation Target %	30%	25%	14%	14%	10%	6%	1%	
Arithmetic Return %*	9.25%	9.75%	3.0%	6.1%	9.0%	12.5%	3.0%	8.17%
Compounded Return % **	7.8%	7.75%	2.9%	6.0%	7.8%	9.4%	3.0%	7.4%
Standard Deviation %	17.0%	20.0%	4.5%	5.11%	15.2%	25.0%	2.0%	12.45%

*Expected return in any one year.

**Expected compounded return using 10-year assumption.

Source: Pension Consulting Alliance Asset Class Assumptions, 2010

Variances between Target and Actual Portfolios

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		Domestic Equity	Int'l Equity	Global Equity	Fixed Income	Real Return	Real Estate	Private Equity	Cash
October 2010	Target	28.0%	22.0%	5.0%	14.0%	14.0%	10.0%	6.0%	1.0%
	Actual	29.6%	23.5%	5.3%	18.7%	12.7%	6.1%	3.0%	1.1%
	Variance	1.6%	1.5%	0.3%	4.7%	-1.3%	-3.9%	-3.0%	0.1%

- Overweights in fixed income, domestic equity, and international equity are primarily attributed to constraints on investments in private market strategies (real estate and private equity).
  - Commercial real estate values have come under pressure in recent years, resulting in lower fund values.
  - The System has over $300 million in committed but uncalled capital available for investment into commercial real estate.
  - Annual commitments to private equity funds are constrained by a statutory limitation of 1 percent of total fund assets per year.
  - Private equity has distributed over $400 million in recent years, and an additional $200 million in committed but uncalled capital is available for investment.

International/Global and Emerging Market

- Based on the MSCI All Country World Index, 47% of the market capitalization is domestic equity and 53% of the market capitalization is international equity.
- Currently, the KPERS equity portfolio has a home bias with a target equity allocation of 55% domestic equity and 45% international equity.
- Staff believes that, over the long term, stronger growth opportunities will be available in international markets versus domestic markets.
- International equity target allocations have steadily been increasing over time, with a target allocation of 19% of the total fund on October 31, 2004, increasing to a target allocation of 25% currently.
- Currently, KPERS has an exposure of 7.59% of the total portfolio in emerging market equity and fixed income investments.

	Market Value	% of International Equity	% of Fixed Income	% of Total Fund
EM Equity Exposure	$787,181,414	23.77%	NA	6.28%
EM Debt Exposure	$164,000,000	NA	4.70%	1.31%
Total:	**$951,181,414**	**23.77%**	**4.70%**	**7.59%**

Small and Mid Cap Stocks

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- Small and mid-cap stocks account for 16.35% of KPERS' domestic equity portfolio and 4.85% of the total portfolio.

	Market Value	% of domestic equity	% of total fund
Mid Cap Equity	$176,400,000	4.75%	1.41%
SMID Cap Equity	$268,300,000	7.22%	2.14%
Small Cap Equity	$162,600,000	4.38%	1.30%
Total:	**$607,300,000.00**	**16.35%**	**4.85%**

Fixed Income Portfolio Duration

- Duration is a calculation measuring the price sensitivity of a bond to changes in interest rates while taking into consideration its coupon and maturity.

	Duration	
Date	**Index***	**KPERS Portfolio**
Oct. 2010	4.60	5.07
Oct. 2009	4.44	5.04
Oct. 2008	4.61	5.26

*Barclays Capital Universal Index

Implementing Target Portfolio Changes

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The implementation of target portfolio changes depends on a number of factors:

- **Public Markets:**
  - 3-6 months.
  - Variables:
    - Will RFP be required?
- **Private Markets:**
  - Minimum of a year and potentially longer
  - Variables:
    - Will RFP be required?
    - Market liquidity
    - Statutory constraints