Approved: February18, 2011

MINUTES OF THE HOUSE PENSIONS & BENEFITS COMMITTEE

The meeting was called to order by Chairman Mitch Holmes at 9:01 a.m. on January 26, 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:
Senator Steve Morris
Glenn Deck, Executive Director of KPERS

Others attending:
See attached list.

Chairman Holmes introduced Senator Steve Morris. He gave a briefing on the recommendations of the report of the Joint Committee on Pensions, Investments, & Benefits.

Glenn Deck, Executive Director of KPERS, (Attachment 1), gave a presentation on the impact of the Joint Committee's Recommended Bills. He also compared KPERS benefits and funded status to other states (Attachment 2).

Julian Efird of the Legislative Research Department, (Attachment 3) gave a presentation on other States Pension Legislation.

The next meeting is scheduled for January 31, 2011.

The meeting was adjourned at 10:16 a.m.

HOUSE PENSIONS & BENEFITS COMMITTEE GUEST LIST
DATE: January 26, 2011

NAME	REPRESENTING
Dave Kingsley	Gray Panthers
Levi Henry	Sandstone Group LLC
Dennis Phillips	KSCFF
Ed Redmon	KSCFF
Ron Gardner	KCPR
Jane Carter	KOSE
Glenn Deck	KPERS
Faith Loretto	KPERS
Nate Lindsey	Kearney & Assoc.
Nicole Proulx Aiken	League of KS Municipalities
Travis Louthan-Lovelady	State Treasurer's office
Brian R Thompson	PEAK
John Faber	PEAK
TERRY FORSYTH	KNEA
Tom [illegible]	KASB
Linda Hubbard	Ks Coalition of Public Retirees

HOUSE PENSIONS & BENEFITS COMMITTEE GUEST LIST
DATE: January 26, 2011

NAME	REPRESENTING
Ron Garches	GDA

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House Pensions & Benefits
Date: 1/26/2011
Attachment # 1

Kansas Public Employees Retirement System

2010 KPERS Legislation Update

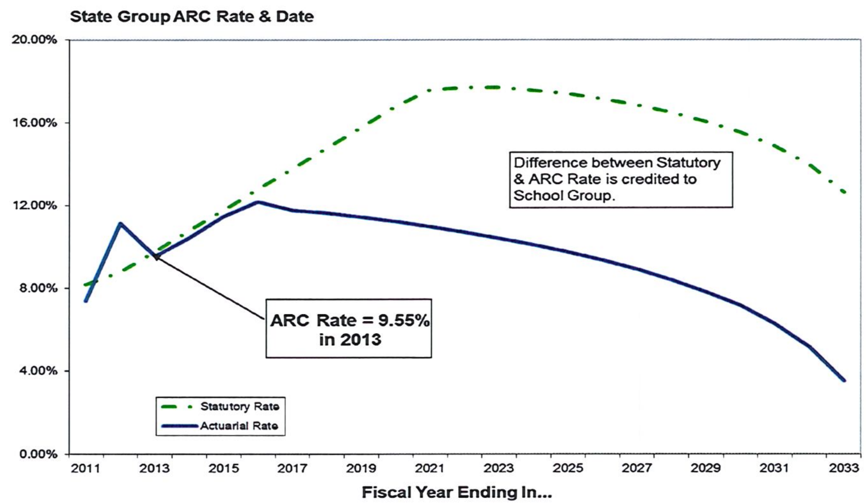
House Committee on Pensions and Benefits ▪ *January 26, 2011*

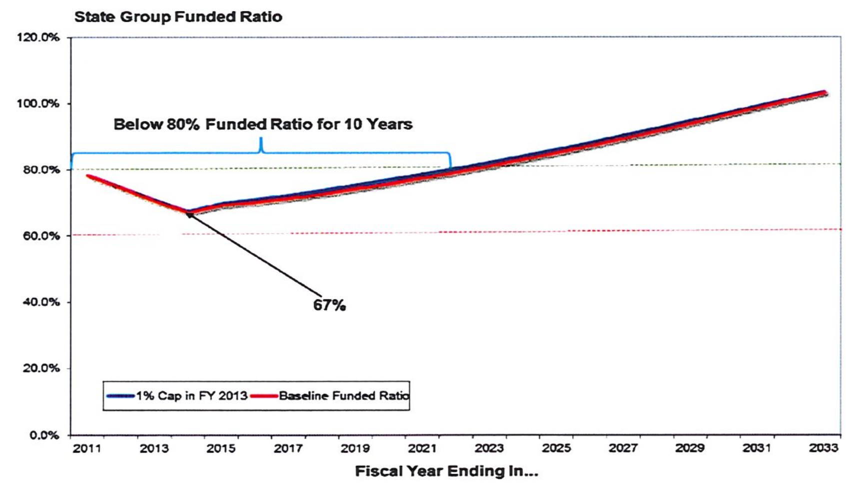
Joint Committee Interim Recommendations

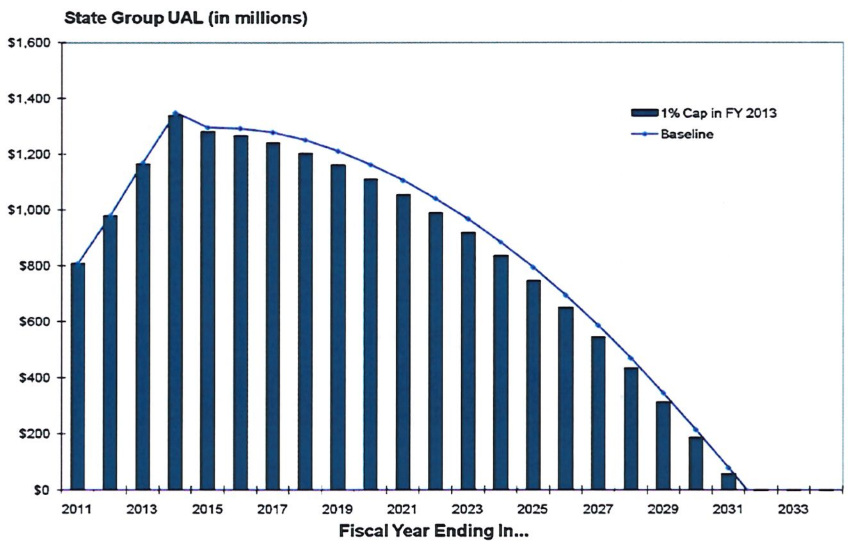
- During the 2010 Interim, the Joint Committee on Pensions, Investments, and Benefits reviewed two bills considered during the previous Session –
  - House Substitute for HB 2400.
  - SB 564.
- Both bills focused on steps to address KPERS' long-term funding shortfall.
- The Joint Committee was provided with updated projections of the impact of each bill on the actuarially required contribution (ARC) rate and date, funded ratio, and unfunded actuarial liability (UAL) for the State and School Groups.
  - A 1.0 % cap on employer rate increases, effective FY 2013. *(HB 2400, expanded to include all three KPERS Groups.)*
  - A 1% cap on increases in the employer contribution rate; a 2.0% increase in employee contributions, phased in with .5% increases in each of four years; and an increase in the benefit formula multiplier to 1.85% for future service only. *(SB 564, with its effective dates delayed by one year to FY 2013.)*
  - To compare their impact to Baseline measures, see Appendix A.
- Following its review, the Joint Committee voted to reintroduce both bills.
- 2011 SB 49, which is the updated version of SB 564, was introduced on Monday, January 24th.

State Group: Updated HB 2400 Projections

- **Raise employer rate increase cap to 1.0%, effective FY 2013. Assumes average annual investment return of 8%.**



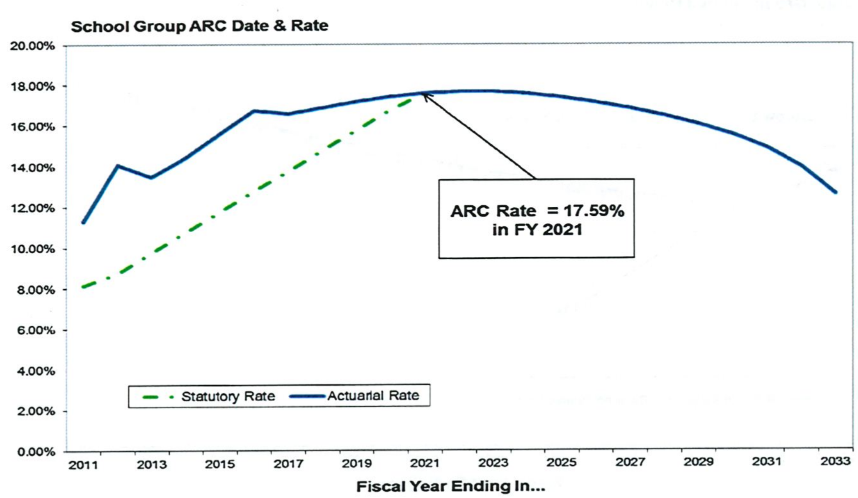


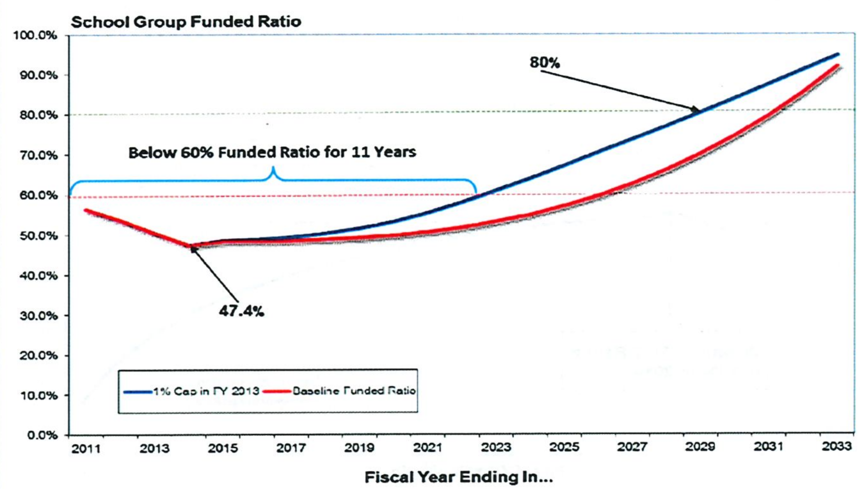


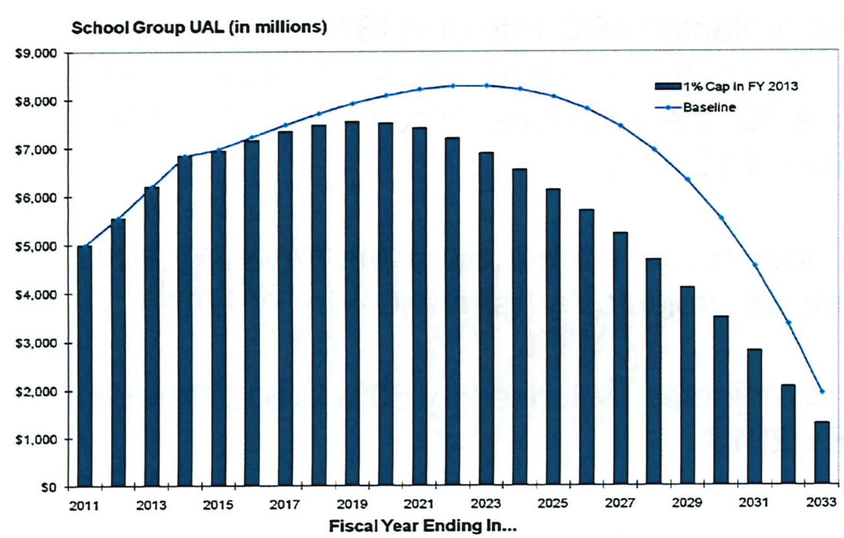
- The projected ARC rate of 9.55% is 2.25% less than the Baseline ARC rate of 11.8%. The ARC date moves up 5 years to FY 2013.
- Funded ratios reach a low of 67% in FY 2014. They are projected to reach 80% in FY 2022.
- The projected UAL rises by 66% to $1.34 billion in FY 2014.

School Group: Updated HB 2400 Projections

▪**Raise employer rate increase cap to 1.0%, effective FY 2013. Assumes average annual investment return of 8%.**







▪The School Group is in actuarial balance with an ARC rate of 17.59% in FY 2021. Under the Baseline, the statutory rate reaches 21.37% by FY 2033.

▪Funded ratio projections reach a low of 47.1% in FY 2014 and remain below 50% through FY 2017.

▪The funded ratio is not projected to reach 60% until FY 2023 or 80% until FY 2029.

▪The projected UAL rises 57% to $7.53 billion in FY 2019.

State Group: Updated SB 564 Projections

- **Raise employer rate increase cap to 1.0%, effective FY 2013. Raise employee contribution rate by 2.0% over 4 years and multiplier to 1.85% for future service, effective January 1, 2013. Assumes average annual investment return of 8%.**

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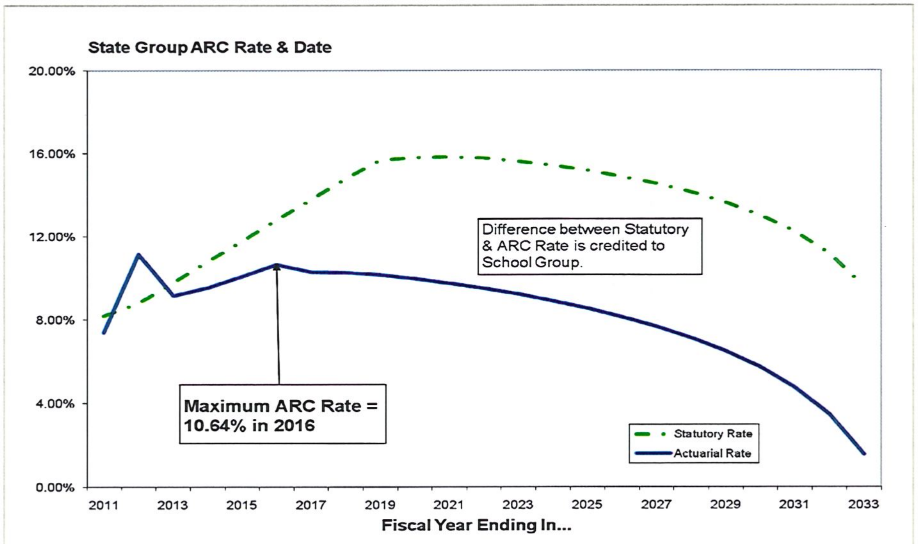
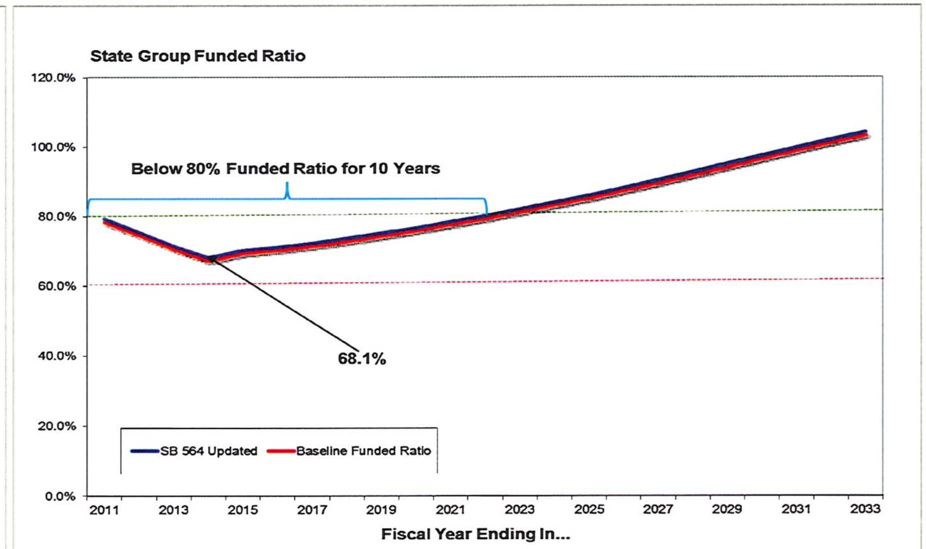
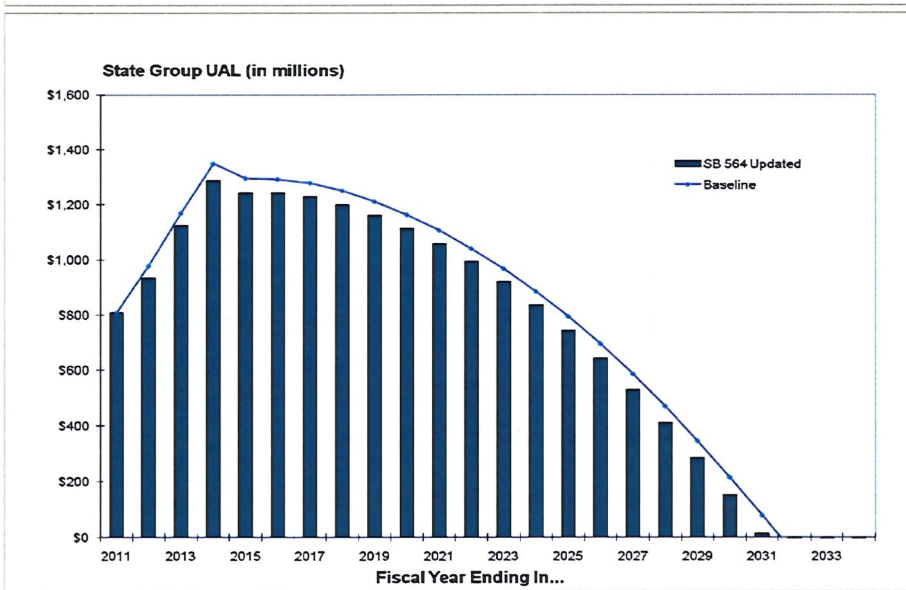


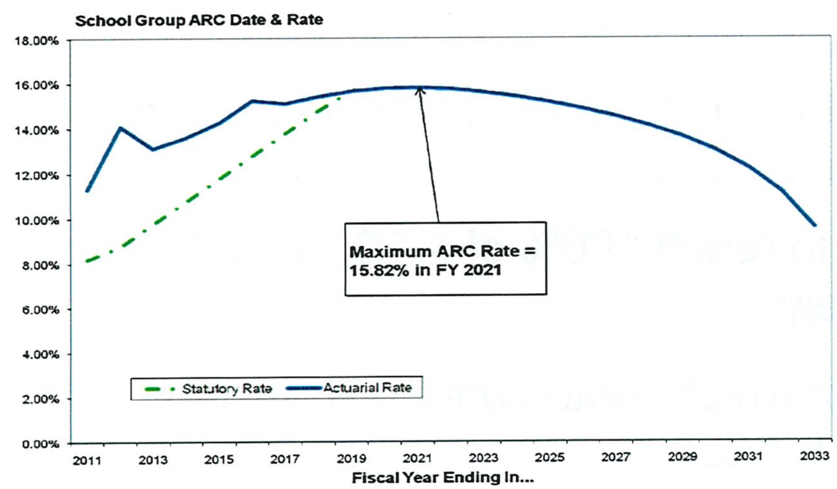


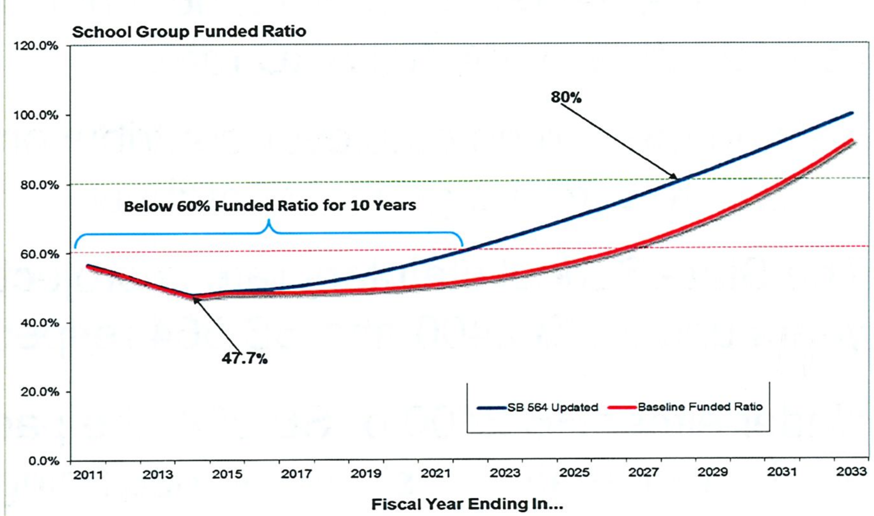


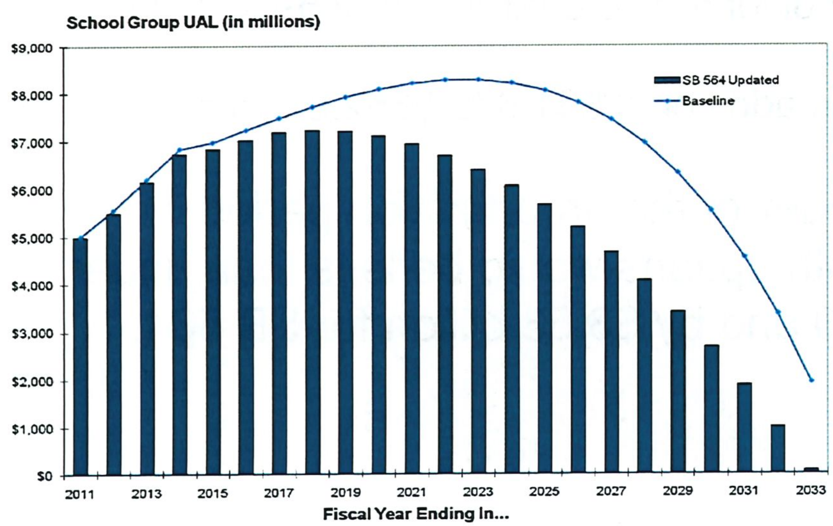
- The projected ARC rate of 9.13% in FY 2013 is 2.67% less than the Baseline ARC rate of 11.8%. The ARC rate continues rising through FY 2016 to a high of 10.64%.
- Funded ratios reach a low of 68.1% in FY 2014. They are projected to reach 80% in FY 2022.
- The projected UAL rises by 60% to $1.29 billion in FY 2013.

School Group: Updated SB 564 Projections

- **Raise employer rate increase cap to 1.0%, effective FY 2013. Raise employee contribution rate by 2.0% over 4 years and multiplier to 1.85% for future service, effective January 1, 2013. Assumes average annual investment return of 8%.**







- The School Group reaches the ARC rate of 15.66% in FY 2019 – two years earlier than under HB 2400. The maximum ARC rate of 15.82% is reached in FY 2021.
- Funded ratio projections reach a low of 47.7% in FY 2014, remaining below 50% through FY 2016.
- The funded ratio is not projected to reach 80% until FY 2028.
- The projected UAL rises 45% to $7.23 billion in FY 2018.

Employer Contributions

1-7

- A fundamental principle of sound funding for a defined benefit plan is to consistently pay the full ARC rate.
- Raising the cap on employer contribution rate increases to 1% per year moves KPERS toward the goal of contributing at the ARC rate.
- The State/School statutory rate is projected to reach 100% of ARC within 7 to 9 years under HB 2400 and SB 564 respectively.
- Under either HB 2400 or SB 564, the pace at which State contributions grow would accelerate substantially, beginning in FY 2013.
    - State funding in FY 2013 would rise by an additional $18.8 million to $459.1 million.
    - By FY 2016, State funding would increase an additional $81.8 to $652.8 million.
- However, from FY 2011 through the remainder of the amortization period in FY 2033, total employer contributions under both options would be less than under the Baseline – by $1.16 billion with HB 2400 and by $3.53 billion for SB 564.

Employer Contributions

Employer Contributions	Baseline	SB 564/HB 2400	Additional Contributions
FY 2013 Increase over Prior FY	$ 38.76	$ 57.56	$ 18.80
FY 2013 Total Contributions	$ 440.34	$ 459.14	$ 18.80
FY 2014 Increase over Prior FY	$ 41.08	$ 60.91	$ 19.83
FY 2014 Total Contributions	$ 481.42	$ 520.05	$ 38.63
FY 2015 Increase over Prior FY	$ 43.50	$ 64.46	$ 20.96
FY 2015 Total Contributions	$ 524.92	$ 584.51	$ 59.59
FY 2016 Increase over Prior FY	$ 46.08	$ 68.29	$ 22.21
FY 2016 Total Contributions	$ 571.00	$ 652.80	$ 81.80
Total Employer Contributions: FY 2011-2033			
SB 564	$ 23,048.75	$ 19,517.13	$ (3,531.62)
HB 2400	$ 23,048.75	$ 21,887.03	$ (1,161.72)

Conclusions

6-1

- Increases in contributions, such as a higher cap on employer rate increases alone (HB 2400) or in combination with higher member contributions (SB 564), would –
  - Bring the Plan into actuarial balance.
  - Reduce the maximum employer contribution rate and the total employer contributions paid through FY 2033.
  - Modestly improve the funded ratio after 10 to 20 years.
- However, the long-term funding shortfall is of a magnitude that increases in contributions are not likely to result in substantial improvement in KPERS' funded status in the short to mid-term.
- Legislative action is necessary to begin the process of addressing the funding shortfall, with additional employer contributions as a basic element.
  - Consistently contributing at the ARC rate is a fundamental principle of sound funding.
  - Legislation such as HB 2400 and SB 564 moves funding closer to that goal. However, contributions would not reach the ARC rate for 7 to 9 years.
- Because the 2010 Legislature did not increase KPERS' funding beyond the current 0.6% statutory increase cap, passing long-term funding legislation in the 2011 session is essential.

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Appendix A

Key 12/31/09 Valuation Measurements

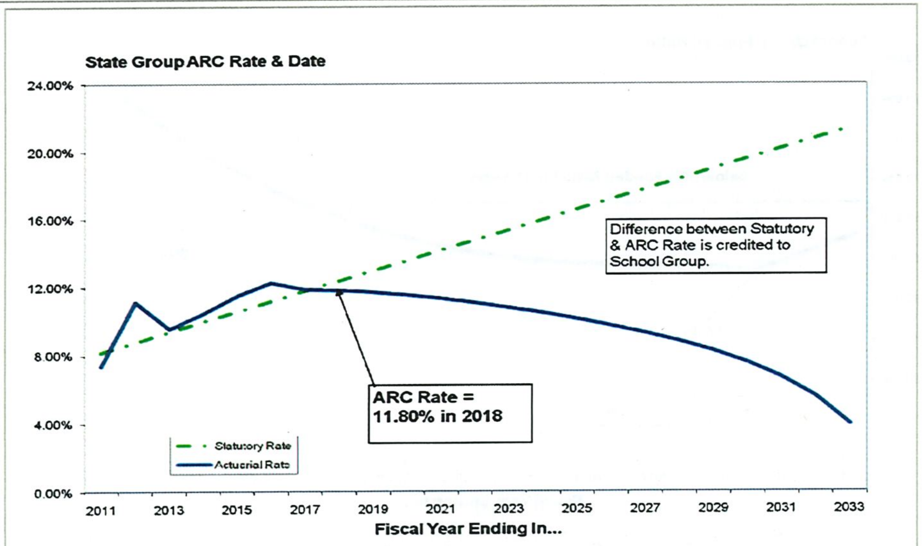
11-7

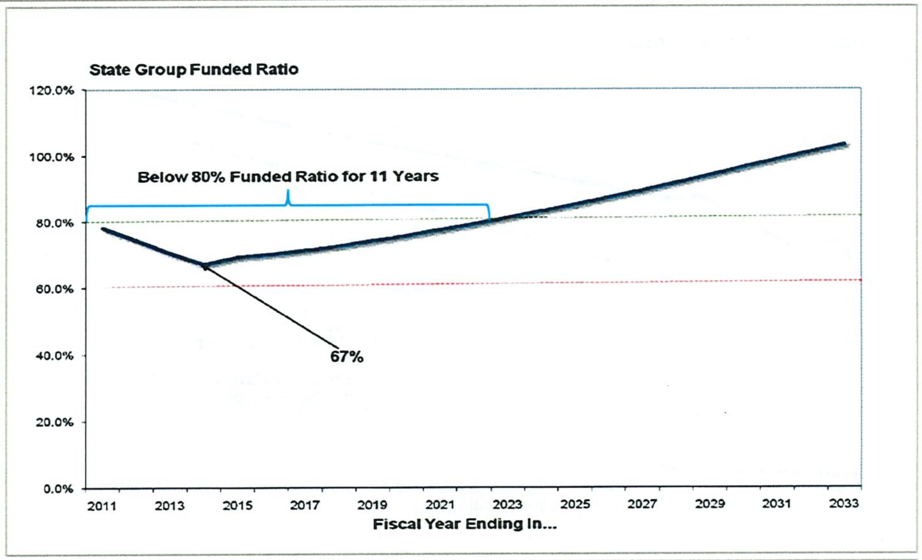
Group	Contribution Rates*		Actuarial Funded Status	
	Actuarial Rate	Statutory Rate	Unfunded Actuarial Liability (in Millions)	Funded Ratio
State	9.55%	9.37%	$806.2	78%
School	14.69%	9.37%	$4,998.8	56%
Local	9.44%	7.34%	$1,315.5	64%
KP&F	16.54%	16.54%	$530.3	76%
Judges	23.75%	23.75%	$26.1	82%
System Totals			$7,676.9	64%

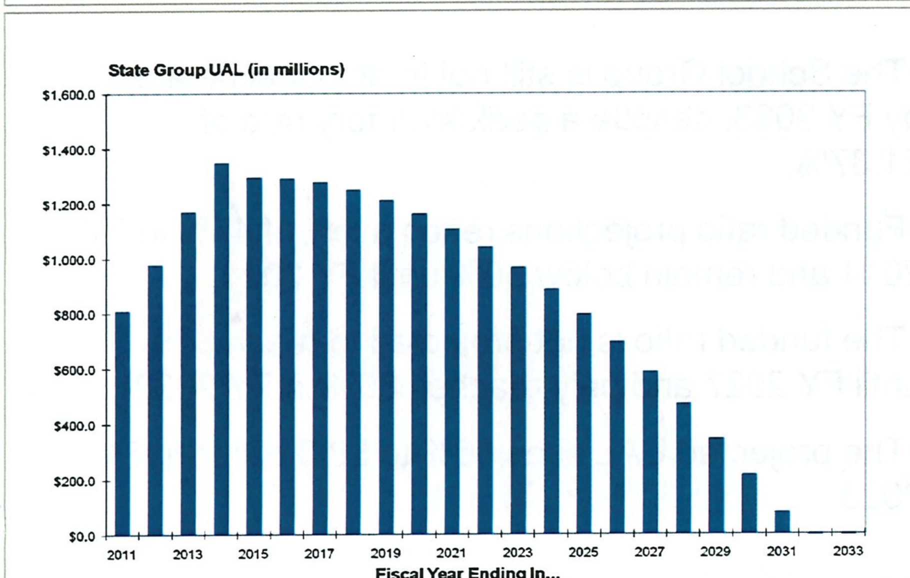
*Effective for fiscal year beginning in 2012. (FY 2013 for State and School Groups, State KP&F employers, and Judges. CY 2012 for Local Group and Local KP&F employers.)

State Group: Baseline Projections

- No change in the .6% employer rate increase cap. Assumes average annual investment return of 8%.







- The projected ARC rate of 11.8% is 44% higher than the State/School rate paid by state agencies in FY 2011 (8.17%).
- Funded ratios reach a low of 67% in FY 2014. They are projected to reach 80% in FY 2023.
- The projected UAL rises by 67% to $1.35 billion in FY 2014.

School Group: Baseline Projections

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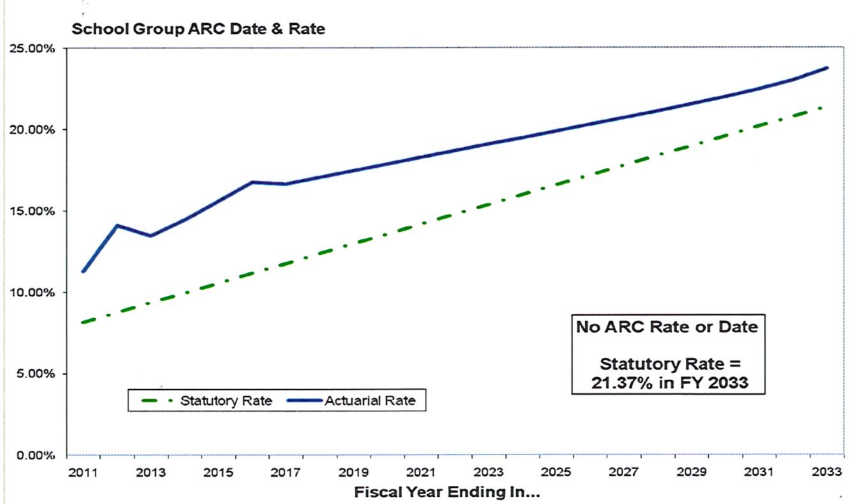
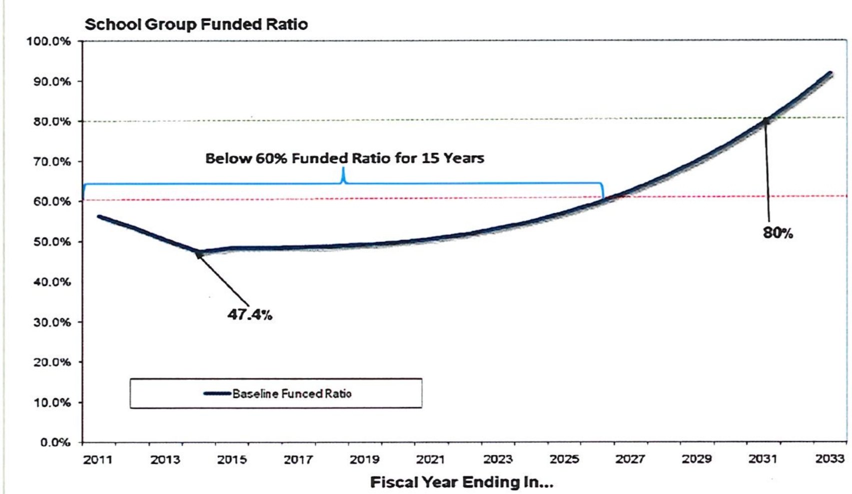
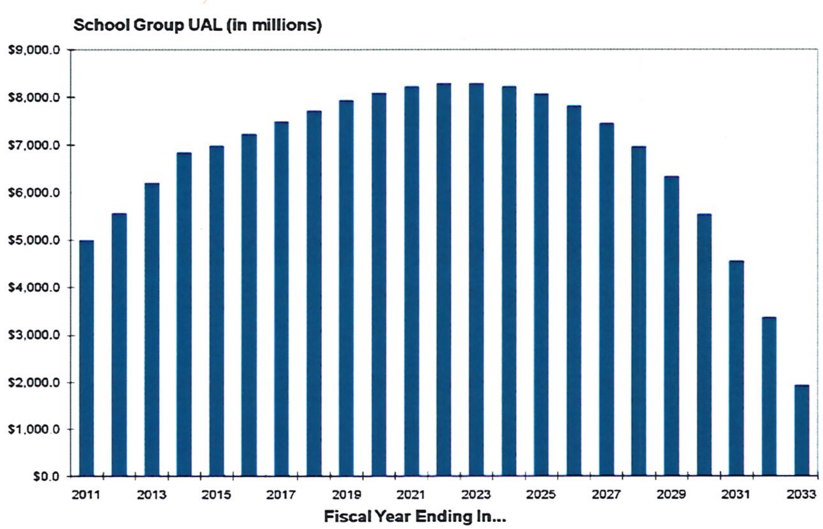
▪No change in the .6% employer rate increase cap. Assumes average annual investment return of 8%.







▪The School Group is still not in actuarial balance by FY 2033, despite a peak statutory rate of 21.37%.

▪Funded ratio projections reach a low of 47% in FY 2014 and remain below 50% until FY 2021.

▪The funded ratio is not projected to reach 60% until FY 2027 and only reaches 80% in FY 2032.

▪The projected UAL rises 66% to $8.3 billion in FY 2023.

House Pensions & Benefits
Date: 1/26/2011
Attachment # 2

Comparison of KPERS Benefits and Funded Status With Other States

A basic understanding of the plan design elements and funded status of public employee retirement systems in other states can provide context and perspective on KPERS' long-term funding shortfall and potential steps to address its underfunding. However, there are a number of factors that make such comparisons challenging.

- State-wide pension systems vary in the scope of their participating employers and members. In some states, separate systems have been established for state, school, or local employees, while in others, one or more of these groups are covered under the same retirement system. In some instances, law enforcement and public safety employees are included with other employees in a state system.
- There are a number of state systems whose members are not covered by Social Security. Therefore, both their benefit and contribution structures tend to be higher than systems whose members will receive Social Security benefits as another source of retirement income.
- While there are certain common elements in most defined benefit plans, there are a wide range of variations, exceptions, and multiple tier structures that are unique to each system.
- Because fiscal years and actuarial valuation periods are not uniform, comparisons of benefits, contributions, and funded status are not readily matched to the same time periods.
- States differ with respect to the source of employer contributions. In particular, among state-administered plans covering local government and school employees, state funding for local unit and school district employer contributions varies widely.

For these reasons, the comparisons with other states on key plan design and funding elements provided below are broad based and general. Because KPERS' staff does not independently develop a comprehensive database of plan design and funding measurements for other state retirement systems, the source of these comparisons are published reports from three external sources:

- Plan design features:
  - "2008 Comparative Study of Major Public Employee Retirement Systems." Wisconsin Legislative Council. December 2009 (Revised May 2010.)
- Funding status:
  - "Illinois Leads Underfunded U.S. Pensions." Bloomberg.
  - "The Trillion Dollar Gap: Underfunded State Retirement Systems and the Roads to Reform." The Pew Center on the States, February 2010.

January 26, 2011
(Revised 1/27/11)

KPERS

PLAN DESIGN ELEMENTS

For about 20 years, the Wisconsin Legislative Council has published a biennial report comparing significant features of major state and local public employee retirement systems in the United States. The 2008 report includes data for 87 public employee retirement systems covering approximately 12 million active employees and 6 million retirees and beneficiaries. Selected excerpts of 2008 data from the report for a number of basic plan design elements are provided below, along with comparisons to KPERS' plan design for Tier 1 and Tier 2.

In general, these comparisons indicate that KPERS's plan design is well within moderate, mainstream public employee retirement plan design. It should also be remembered that this 2008 data reflects a period of time when the recession and market downturn were gathering intensity. Recent plan design changes in response to the adverse effects of the downturn are not reflected in this data, but will be reviewed separately by Legislative Research staff.

CATEGORIES OF EMPLOYEES INCLUDED IN PLANS

Membership and coverage for the 87 plans are categorized as follows:

Plan Coverage	Number of Plans
State employees only	13
Teachers only	27
Local employees only	10
State and local employees	14
State employees and teachers	3
State employees, local employees, and teachers*	20

***Includes KPERS.**

SOCIAL SECURITY COVERAGE

In 70 of the 87 plans, participants are also covered under the federal Social Security program. Of the 17 public employee retirement systems included in this report that do not provide Social Security coverage, 10 represent pension plans covering teachers only. The decision on whether to participate in the Social Security program was at one time elective, rather than mandatory, for public employers. However, for those employers who elect coverage, future participation is mandatory.

[KPERS members are all covered by Social Security.]

2-3

NORMAL RETIREMENT

"Normal retirement" refers to the age, number of years of service, or both, that a person must attain in order to qualify for full retirement benefits without an actuarial reduction in his or her annuity for early retirement. Most plans in this report have adopted multiple combinations of age and service under which a person may qualify for normal retirement. [...].

Some retirement plans integrate normal retirement with the age under which a person is entitled to receive retirement benefits under the Social Security system. Age 65 is the age at which a person is entitled to receive full Social Security benefits, but this age is scheduled to increase to 66 and then to 67 over time.

Age 62 is the earliest age at which a person can receive Social Security retirement benefits, although the amount of the benefits are reduced to reflect the longer payout period. [...] 84 of the 87 plans allow normal retirement at age 62 or earlier, for persons with many years of service. [...] 57 of the 87 plans permit normal retirement at age 62 or earlier, with 10 or less years of service. Only two of the plans in this report restrict normal retirement to persons who are at least 65. [...].

Many of the plans in this report have adopted "**X years and out**" provisions, which allow employees to retire at any age (or at a minimum age) with normal retirement benefits after "X" years of service. The most common provision is 30 years of service combined with a minimum age of 55. The following table shows the number of plans that, in 2008, had in effect X years and out provisions [...]:

Rule	Number of Plans
35 years of service/age 55 or older	8 plans
30 years of service/age 55 or older	29 plans
28 years of service/age 55 or older	4 plans
27 years of service/age 55 or older	3 plans
25 years of service/age 55 or older	11 plans
20 years of service/age 55 or older	8 plans
TOTAL	**63 plans**

KPERS

Tier 1:

- Age 65 with at least 1 year of service
- Age 62 with at least 10 years of service

Tier 2:

- Age 65 with five years of service
- Age 60 with at least 30 years of service

In addition to the "X years and out" provisions, some plans have adopted "**Rule of Y**" provisions under which a person can retire with normal retirement benefits when that person's number of years of service, plus his or her age, equals a specified number. The following table shows the number of plans that, in 2008, had Rule of Y [...]:

Rule	Number of Plans
Rule of 90	4 plans
Rule of 88	1 plan
Rule of 85	9 plans
Rule of 80	7 plans
Rule of 75	2 plans
TOTAL	**23 plans**

KPERS

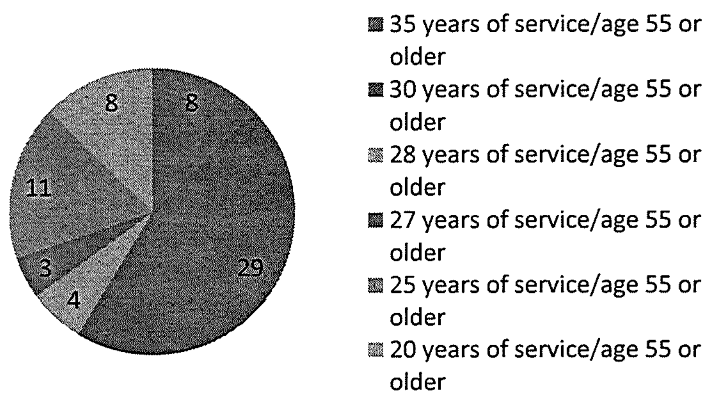
Tier 1:

- Rule of 85 points

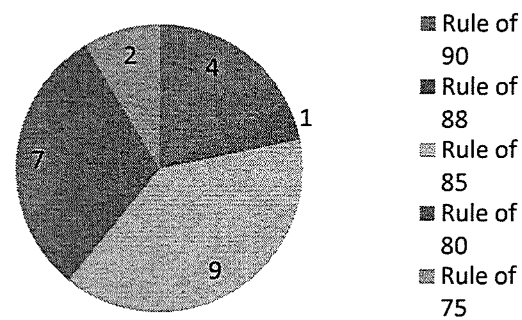
Tier 2:

- No "point" rule

Retirement Eligibility:
Number of Plans with "X Years and Out" Rules



Retirement Eligibility:
Number of Plans with "Rule of Y" Plans

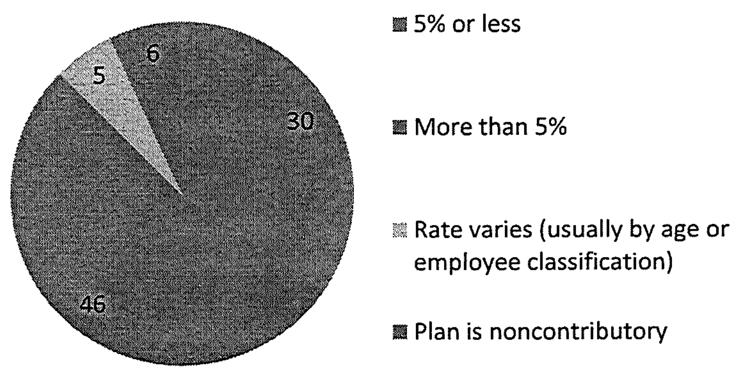


EMPLOYEE CONTRIBUTIONS

Large private sector corporations that provide defined benefit pension plans frequently do not require employee contributions to the primary plan, but frequently also provide supplemental profit-sharing or savings plans that allow employees to contribute to the plan and receive an employer "match" to some or all of the contribution. Conversely, most public employee pension plans at least nominally require employees to contribute a certain percentage of their salary to the plan, although some public employee pension plans provide for employer "pick-up" of the employee contribution. In addition, secondary savings plans for public employees, such as Section 457 deferred compensation plans, are funded totally from employee contributions with no employer match. [...].

Employee Contribution Rates	Number of Plans
5% or less	30 plans
More than 5%	46 plans
Rate varies (usually by age or employee classification)	5 plans
Plan is noncontributory	6 plans
TOTAL	**87 plans**

KPERS	
Tier 1:	4%
Tier 2:	6%

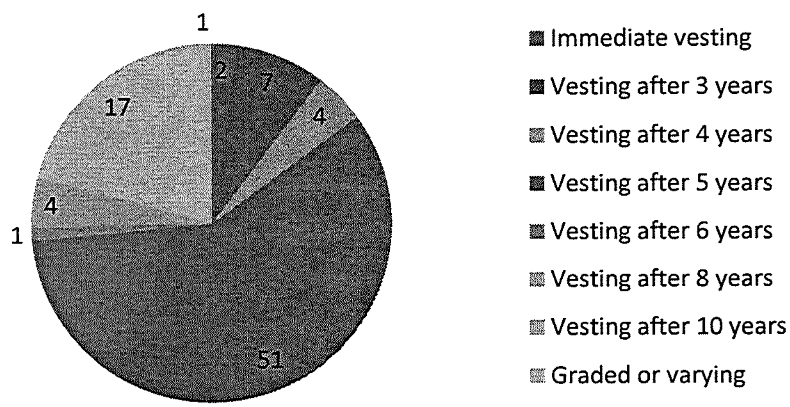


VESTING

The term "vesting" refers to an employee's right, after satisfying some minimum service requirement, to receive some pension benefits regardless of whether the employee remains in a job covered by the pension plan. [...]. In 2008, a total of 64 plans, or 73.6% of the 87 plans in the report, require five or less years of service to vest. [...].

Vesting Rule	Number of Plans
Immediate vesting	2 plans
Vesting after 3 years	7 plans
Vesting after 4 years	4 plans
Vesting after 5 years	51 plans
Vesting after 6 years	1 plan
Vesting after 8 years	4 plans
Vesting after 10 years	17 plans
Graded or varying	1 plan
TOTAL	**87 plans**

KPERS	
Tier 1:	Five years
Tier 2:	Five years



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Benefit Formula "Multiplier"

[...]The retirement benefit formulas in effect for 2008 for each of the plans [...] are those used to calculate the benefits of general employees and teachers and may not apply to other categories of employees. For example, elected officials and employees who are classified as "protective employees" generally have higher formula benefit multipliers and earlier normal retirement dates.

In addition, many of the plans in the report have different "tiers" of formula benefits that apply to employees depending upon when they were hired. [...] an attempt was made to present the data for each plan that is applicable to the largest category of employees and to employees who newly entered public service.

[...] 83 of the 87 plans in the report are "defined benefit plans" in which an employee's retirement benefits are generally calculated by multiplying the employee's number of years of service times a "formula multiplier" and multiplying the product of this calculation by the employee's final average salary.

Years of Service x Formula Multiplier x Final Average Salary = Retirement Annuity

In effect, the formula multiplier is the percentage of the final average salary that an employee earns as a retirement annuity for each year of service.

[...] two of the 87 plans in the report are "money purchase" plans in which an employee's retirement benefits are calculated by the amount of money in the employee's retirement account. Some of the defined benefit plans in the report also include "money purchase" elements. The other two plans are defined contribution plans where the value of contributions plus interest equals the retirement benefit.

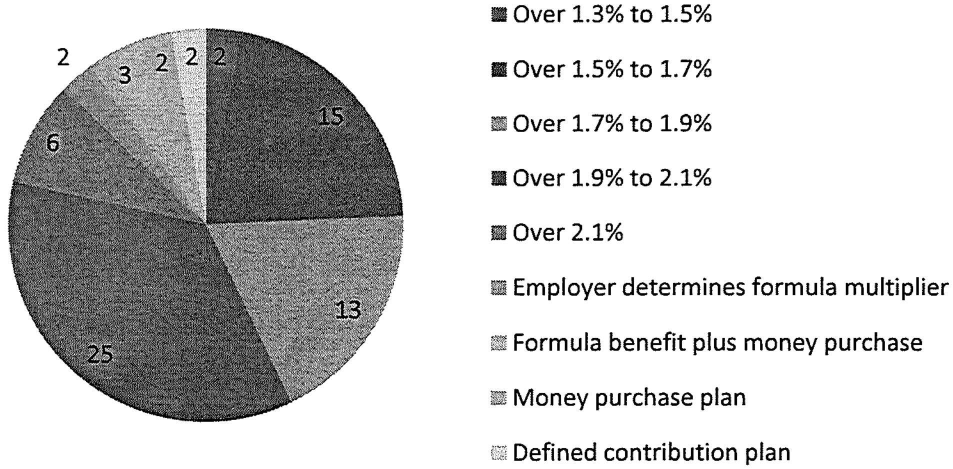
Employees of 17 of the 87 plans are not covered by Social Security. The plans in which employees are not covered by Social Security frequently have a higher formula multiplier to compensate for the lack of Social Security coverage. The 17 plans in which employees are not covered by Social Security have formula multipliers ranging between 2% and 3.3% for each year of service. The average formula multiplier for these 17 plans is approximately 2.3% for each year of service.

Seventy of the 87 plans in this report are "coordinated" with the Social Security system, meaning that employees earn Social Security benefits for their employment. There are a wide range of formula multipliers in effect for these 70 plans, which sometimes vary by number of years of service, by date of employment, or by age at retirement. For 2008, the average formula multiplier for the coordinated plans that are not money purchase plans, defined contribution plans, or plans in which the employer determines the formula multiplier is approximately 1.94%. This number may be somewhat misleadingly low because a number of plans increase their multiplier rates following a certain number of years of service; generally 15, 25, or 30 years. [...].

Benefit Formula "Multiplier" (Continued)

Formula Multiplier	Number of Plans
1.1% to 1.3%	0 plans
Over 1.3% to 1.5%	2 plans
Over 1.5% to 1.7%	15 plans
Over 1.7% to 1.9%	13 plans
Over 1.9% to 2.1%	25 plans
Over 2.1%	6 plans
Employer determines formula multiplier	2 plans
Formula benefit plus money purchase	3 plans
Money purchase plan	2 plans
Defined contribution plan	2 plans
TOTAL	**70 plans**

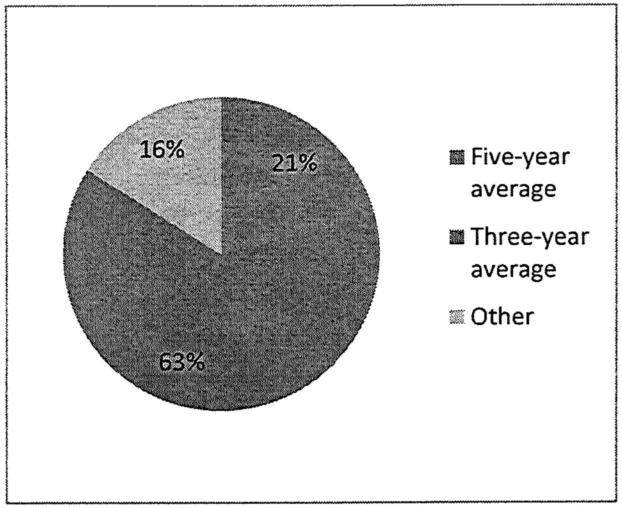
KPERS	
Tier 1:	Multiplier of 1.75%.
Tier 2:	Multiplier of 1.75%



FINAL AVERAGE SALARY

Defined benefit plans base the amount of a retirement annuity on the employee's "final average salary." The final average salary is generally the employee's highest earnings over a specified number of years or months, which are sometimes required to be consecutive years or months. Generally, an employee's highest salary will be the amount of salary he or she earned immediately prior to retirement.

[...]The most common method is to use a three-year average, which may be required to be consecutive years or may be required to be years that fall within a given period. (For example, the three highest years within a 10-year period.) Fifty-five of the 87 plans in the report use a three-year final average salary. The next most prevalent calculation of final average salary is a five-year period--18 of the 87 plans used a five-year period in 2008. [...].



KPERS

Tier 1

- The final average salary (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.

**"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.

COMPARISON OF FUNDED STATUS

As noted previously, variations among states with respect to multiple factors that affect funding status make precise comparisons difficult.

- Because fiscal years and actuarial valuation periods are not uniform, comparisons of benefits, contributions, and funded status are not readily matched to the same time periods. A majority of systems use a fiscal year-end date of June 30 for their valuations, while a smaller number, such as Kansas, base their valuations on data as of December 31st of each year. As a result, the 12/31/2008 valuation for Kansas reflected much of the market's precipitous downturn in the fall of 2008. Other states that used a 6/30/2008 valuation date would have captured significant gains following the market's low point in March, which moderated the investment losses between their 6/30/2008 and 6/30/2009 valuations.
- Public pension systems use a range of actuarial and asset valuation methods that drive calculations of actuarial assets, actuarial liabilities, and therefore, the funded status.
  - Actuarial methods such as entry-age normal (EAN) and projected unit credit (PUC).
  - Amortization periods
    - Open periods
    - Closed periods of various lengths
  - Investment return assumptions
  - Asset valuation methods, including smoothing over differing periods of time.

Therefore, absolute rankings of funded status among states are not likely to be as reliable as more general groupings and comparisons.

With that in mind, the following data compares the funding ratio of state public pension plans from two sources. The more recent, by Bloomberg, sets out the funded ratio for 46 of the 50 states, plus the District of Columbia and Puerto Rico in FY 2007, 2008, and 2009 (as reported through August 20, 2010). Because the data spans periods just before, during, and after the market downturn, it provides an interesting snapshot of the impact of major investment losses on plans that were well-funded and those that were weaker going into the recession. As might be expected, the funded ratios of those plans that were well-funded prior to 2008 have not declined to the vulnerable levels that chronically underfunded plans are now facing. The following table highlights Kansas' funded ratio and Bloomberg's calculation of median funded ratios for all plans in each of those three years. The full Bloomberg table is provided on the following page.

Fiscal Year	Median Funded Ratio: All States	Kansas' Funded Ratio	Kansas' Ranking
2007	84.0%	70.8%	11th lowest
2008	81.6%	58.8%	4th lowest
2009	76.1%	63.7%	7th lowest

	State	FY 2009	FY 2008	FY 2007
1	Illinois	50.6%	54.3%	62.6%
2	Oklahoma	56.1	59.3	60.8
3	Kentucky	58.2	63.8	67.8
4	New Hampshire	58.5	68.0	NA
5	Louisiana	60.0	69.6	70.4
6	Rhode Island	61.1	56.4	53.7
7	Kansas	63.7	58.8	70.8
8	West Virginia	63.7	67.6	54.9
9	Massachusetts	63.8	80.5	77.0
10	Maryland	64.2	77.8	76.2
11	New Jersey	66.1	72.6	76.0
12	Ohio	66.7	80.9	80.9
13	Mississippi	67.3	72.8	73.5
14	Indiana	68.7	66.6	70.2
15	South Carolina	70.1	71.1	71.0
16	Nevada	72.5	76.2	77.2
17	Maine	72.6	79.7	79.7
18	Vermont	72.8	87.8	92.8
19	Idaho	73.5	92.7	104.5
20	Alabama	74.1	76.9	80.6
21	Alaska	75.7	74.1	74.1
22	Montana	75.9	85.0	85.1
23	New Mexico	76.2	74.8	82.1
24	Minnesota	77.1	81.4	84.2
25	Missouri	77.9	77.6	NA
26	Oregon	80.2	112.2	104.6
27	Arkansas	80.3	87.2	87.2

Cont.	State	FY 2009	FY 2008	FY 2007
28	Iowa	80.9	88.7	89.8
29	Arizona	81.8	83.0	83.8
30	North Dakota	83.4	87.0	87.2
31	Virginia	83.5	81.8	80.2
32	Michigan	83.6	88.3	85.8
33	Utah	84.1	100.8	96.3
34	Texas	84.1	90.7	90.1
35	California	85.4	90.9	87.6
36	Florida	87.1	105.4	105.7
37	Nebraska	87.9	92.0	91.8
38	Wyoming	88.8	79.3	94.5
39	Georgia	91.4	94.4	96.1
40	South Dakota	91.7	97.5	97.5
41	Washington	93.9	92.9	NA
42	Delaware	94.3	98.3	98.6
43	Pennsylvania	96.1	89.0	97.1
44	North Carolina	99.3	103.4	104.5
45	District of Columbia	102.4	104.4	NA
46	New York	107.4	105.9	104.3
-	Puerto Rico	NA	24.8	16.0
-	Connecticut	NA	61.6	58.5
-	Hawaii	NA	68.8	67.5
-	Colorado	NA	68.6	73.8
-	Tennessee	NA	95.1	98.7
-	Wisconsin	NA	99.7	99.6
	MEDIAN	**76.1**	**81.6**	**84.0**

METHODOLOGY: To rank the municipal pension funding levels for the 50 U.S. states, Puerto Rico and Washington, D.C., the Bloomberg Municipal Data Team and the Municipal Fundamentals Team collected and supplemented data from *The Comprehensive Annual Financial Reports*, a set of government financial statements. Data is for individual states' respective fiscal year ends, current as of August 20, 2010. Percentages were calculated by dividing the fair value of plan assets by the projected benefit obligation. Where specific data was missing in the consolidated reported totals, the pension funds were contacted directly. States and individual pension funds that did not disclose sufficient data to warrant an accurate accounting are noted as "Not Available" in the ranking.

SOURCE: Bloomberg AS OF: Aug. 20, 2010

*Medians are net of states missing data: Colorado, Connecticut, Hawaii, Missouri, New Hampshire, Tennessee, Washington, Wisconsin, District of Columbia and Puerto Rico

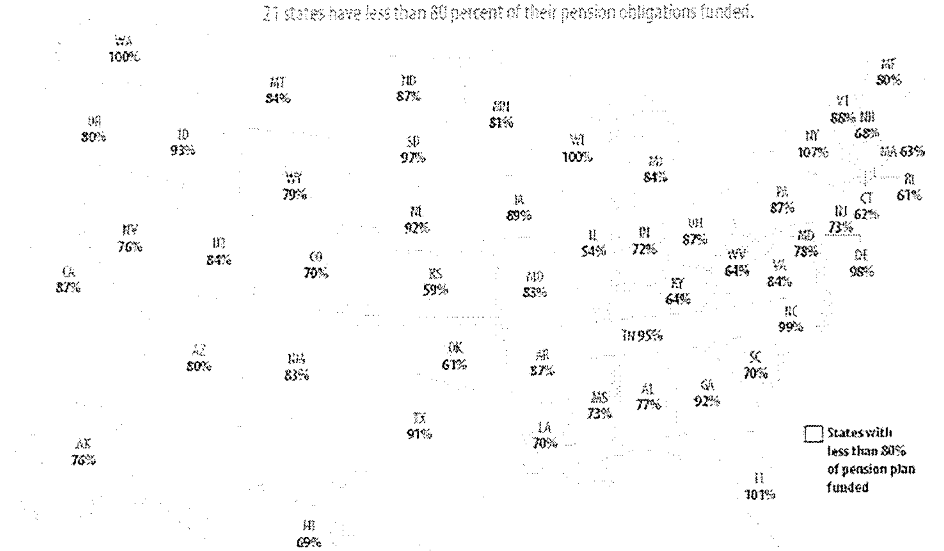
In February of 2010, the Pew Center on the States issued a report on underfunding of state retirement systems and recommended reforms. This report, titled "The Trillion Dollar Gap," was widely reported in the press, including its assessment that only the public pensions for State of Illinois were more severely underfunded than KPERS. Another key point of comparison emphasized by the Pew report was the practice of consistently paying the actuarially required contribution. Kansas was listed as having the fifth lowest percent of the required contribution rate actually paid.

THE BILL COMING DUE

Exhibit 8

LAGGARDS IN STATE PENSION FUNDING

21 states have less than 80 percent of their pension obligations funded.

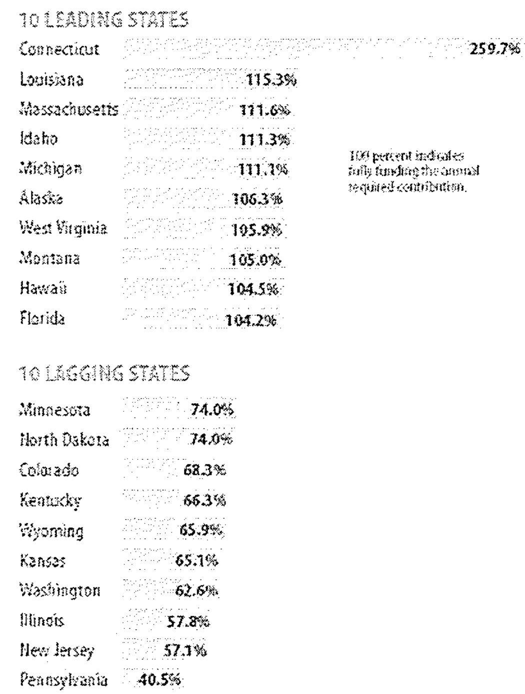


SOURCE: Pew Center on the States, 2010

Exhibit 11

PAYING THE BILL, OR NOT

The 10 states that most recently paid the highest percentage of their annual required contribution for pension plans—and the 10 states that paid the lowest percentage.



SOURCE: Pew Center on the States, 2010.

Roads to Reform:

Changes to Public Sector Retirement Benefits Across States

States are grappling with the rising cost of public-sector employee pensions and retiree health care benefits. Many have taken steps to address them; in the first 10 months of this year, 19 states took action to reduce their pension liabilities, either through reducing benefits or increasing employee contributions, and more may do so in the remaining months and in 2011 legislative sessions. In 2009, 11 states made similar changes and eight did so in 2008. States as varied as New Hampshire and Kentucky, New Jersey and South Carolina have also made changes to how they structure and pay for retiree health benefits in an attempt to better manage their related long-term liabilities. All these states have acknowledged that the costs they face for these benefits have diverged from what they have been willing or able to pay and have started to take the steps to bring them back in line.

As the Pew Center on the States found in its February 2010 report, The Trillion Dollar Gap, states face a significant gap between the retirement promises they have made to employees and the money they have put aside to pay that bill. In fiscal year 2008 states and participating localities fell short by $452 billion for pension liabilities and $555 billion for retiree health care and other benefits—making the total shortfall more than $1 trillion. Pew found that in both good times and bad states ignored their retirement obligations—effectively kicking the can down the road.

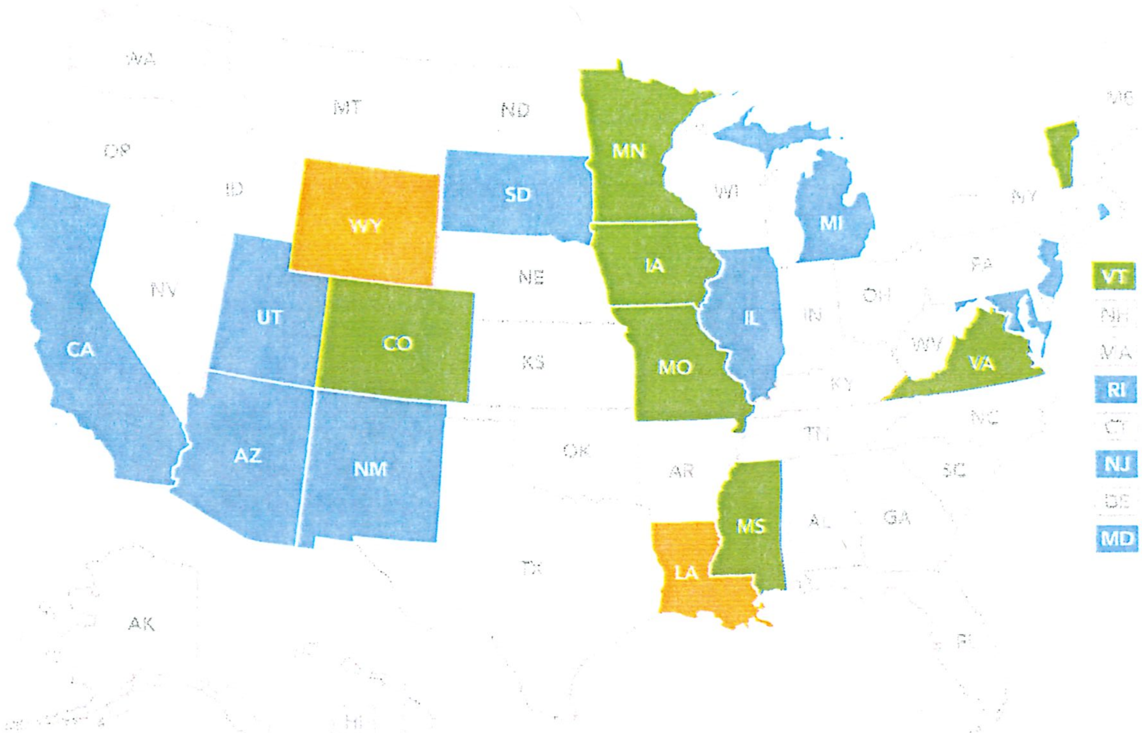
It took years for states to get into their current pension predicament and it will take years for reforms and fiscal discipline to get them out. In January, newly elected governors and legislators from both parties will take office having promised to improve how their states will handle these bills coming due. These proposals range from drastic overhauls, such as switching from defined benefit to defined contribution plans, to more incremental changes such as increasing employee contribution rates, raising the retirement age and changing benefit calculations. In addition, many of the states that fell short on contributions to their retirement systems will need to show discipline in paying their annual bill as their budgets continue to recover.

Learn more about the most recent changes enacted by states in the map that follows. You can also read more about this topic through The Trillion Dollar Gap report and related fact sheets, and reporting for Stateline.org, part of the Pew Center on the States.

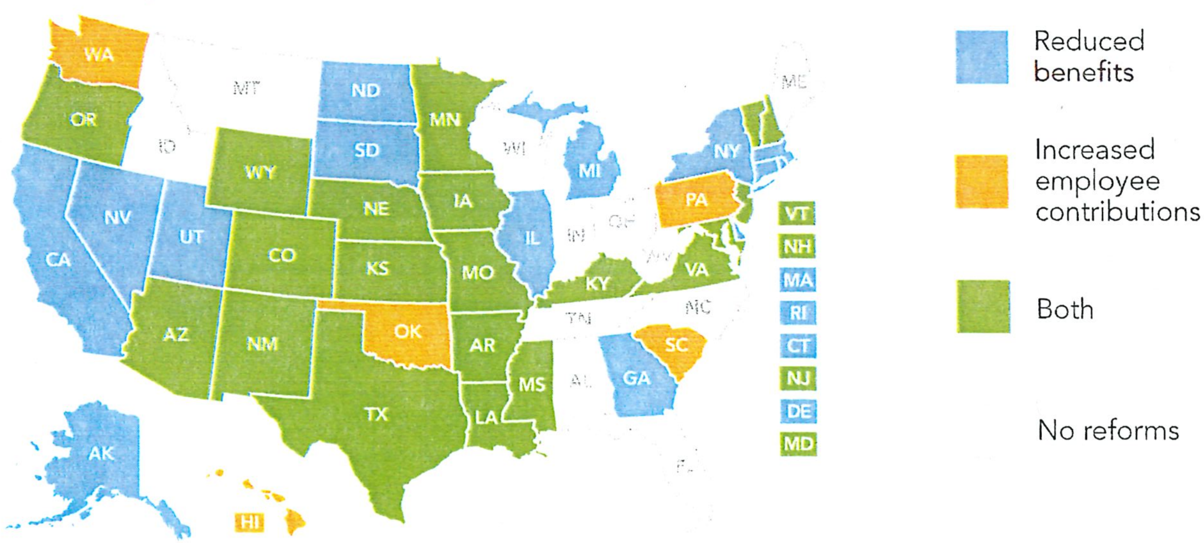
House Pensions & Benefits
Date: 1/26/2011
Attachment # 3

State Pension Reforms

State pension reforms: 2010



State pension reforms: 2001 to 2010



The information presented here is based on the data collected by the National Conference of State Legislatures, which has tracked retirement reform legislation since 1999.

Key Developments in State Retirement Systems

Alabama, confronting projections that its public pension system will need an increase of as much as $1 billion a year by 2019, will consider reform proposals in 2011. In 2007, voters approved setting up irrevocable trusts to handle post-employment health benefits for public employees.

Alaska put all its new employees in a defined contribution plan in 2005. Bitterness lingers over the switch, made worse by the double-digit investment losses in individual portfolios in 2008. Lawmakers are asked by employees to consider repealing the change almost every year. In 2008, Alaska authorized the sale of up to $5 billion in pension obligation bonds by state and local governments to fund public pension liabilities.

Arizona has lengthened the average monthly compensation used in calculating a retiring employee's pension benefit, increased employee and employer contributions and created a voluntary, supplemental defined contribution plan.

Arkansas created a new defined benefit plan in 2005 in which employees contributed part of their salary for the first time. That improved cash flow, although the funding status of the public pension system fell from 90 percent in 2008 to 78 percent in 2009 because of the Wall Street financial collapse. Twice since 2001, Arkansas increased the multiplier used to calculate benefits.

California, with the largest public pension system in the U.S., enacted cost-cutting reforms in 2010 intended to roll back retirement benefit increases enacted in 1999. The changes include higher contributions for current employees, raising the retirement age for most employees from 55 to 60 and eliminating pension spiking, the practice of employees inflating their final salary to receive a larger pension check.

Colorado enacted some of the nation's most extensive public pension reforms in 2010, nearly all for newly hired workers. Lawmakers increased employer and employee contributions and raised the minimum retirement age from 55 to 60 for future employees. They also capped cost-of-living adjustments for current and future retirees at 2 percent, down from 3.5 percent, and froze them for a year. A group of retirees filed a lawsuit challenging the cost-of-living reduction, saying it violated U.S. and state constitutional protections against reducing benefits to existing pension plans. The Colorado case, which is similar to legal challenges filed by retirees in Minnesota and South Dakota, is being watched nationally because if the states prevail, other legislatures may seek to trim or suspend cost-of-living adjustments.

Connecticut's largest bill is the $34 billion in unfunded public pensions and retiree health care, which is driving momentum to enact reforms. In 2007, the state sold $2 billion in pension obligation bonds to help close a $7 billion unfunded liability in the state teacher retirement system.

Delaware has not enacted significant reforms because of the relatively strong shape of its public pension system. The state increased benefits in 2000 and 2001 because the system was overfunded.

Florida has consistently funded its required pension plan contributions and has mandated that pension surpluses of less than 5 percent of total liabilities will be reserved to pay for unexpected losses in the system, a policy that has helped the state maintain a traditional defined benefit pension plan.

Georgia moved to a hybrid retirement system in 2008, offering new hires both a defined benefit plan that provides about half of the payout of the existing plan and a defined contribution plan with a mandatory 1 percent employee contribution and employer match. Employees may opt out of the 401(k)-style plan after 90 days.

Hawaii's public pension plan's funding level dropped between 2000 and 2006 largely because the state diverted employer contributions to help balance the state budget. Hawaii has passed some recent reforms. In 2010, the Legislature banned retirees from being rehired by the state or a county government unless they re-enroll in the state retirement system. In 2007, Hawaii restricted benefit enhancements or reductions in retirement age if there was an unfunded liability between 2008 and 2011. In 2006, Hawaii instituted a new plan that offered more generous benefits in exchange for increased employee contributions.

Idaho has not enacted significant public pension reform in recent years. In 2001, the state implemented a gain-sharing program in which excess investment earnings are channeled back to current employees and retirees in a defined contribution plan account.

Illinois took steps in 2010 to shore up the worst-funded public pension plan in the nation by raising the retirement age for new employees from 60 to 67, the highest of any state, and capping the salary on which public pensions are figured. To address ethical questions, Illinois ended double dipping, the practice of receiving a public pension and a second salary from a public entity. The state also put in place a number of protections to ensure

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that pension trustees, employees and consultants are barred from benefitting from investment transactions. In 2009, Illinois authorized issuing almost $3.5 billion in pension obligation bonds to cover state pension contributions and is considering issuing additional debt to pay future bills.

Indiana has not enacted significant reforms despite funding only 70 percent of its total pension bill—well below the 80 percent benchmark preferred by pension system analysts. Most of the gap is due to underfunding of the state teacher retirement plan. In 2007, Indiana established a retirement medical benefit account to pay expenses after retirement, with annual contributions based on the age of the participant.

Iowa increased employee contribution rates and changed the way benefits are calculated, basing them on an employee's highest five earning years instead of the current three years.

Kansas lawmakers, facing a gap of $7.7 billion between assets and liabilities in their public pension system, will consider pension reform in 2011, four years after revamping the state's entire system. In 2007, lawmakers voted to increase employee contributions, change the formula for calculating final average salary and tighten age and service requirements.

Kentucky lawmakers approved a series of reforms in 2008 affecting new hires. Salaries are now calculated at the final five years of pay, not the highest five years of service. The legislature also implemented a graduated tier system for new employees that lowers retirement benefits. Kentucky teachers also began paying higher retiree health care contributions in 2010. Despite the reforms, the state still faces serious long-term pension troubles because of its past failure to make its full required payments each year.

Louisiana has increased employee contributions, cut cost-of-living adjustments and set the final average compensation for new employees at the highest five consecutive years.

Maine's public pension benefit payments will exceed $800 million a year by 2020, an unsustainable course that has prompted lawmakers to consider overhauling the system in 2011. One option is a defined contribution plan. Lawmakers also are considering a plan to shift state employees into Social Security; the state is one of six in which employees do not participate in the federal program.

Maryland shortchanged its public pension plan by trimming annual payments beginning in 2003. The Legislature will consider reforms in 2011. Maryland gave state employees and teachers an option of increased pension benefits in 2006 if the employees agreed to higher contributions.

Massachusetts lawmakers in 2009 tightened loopholes that allowed some retirees to exploit the system and unfairly boost their public pensions. Among the loopholes closed was the so-called "one day, one year" provision that allowed elected officials to claim a year of service for working one day in a calendar year. The law also removed a provision that allowed elected officials to claim a termination allowance based on losing an election. It also struck provisions allowing some officials to establish pension credit for service in positions that have no compensation.

Michigan, which in 1997 became the first state to scrap its defined benefit plan for new employees, expanded the program in 2010 to include newly hired K-12 teachers. They now will be offered a combination defined benefit and defined contribution plan. Employees hired before 1997 are still in the defined benefit plan.

Minnesota approved higher contributions from workers and employers, reduced the rate of the cost-of-living adjustment and froze it in 2010 and 2011 for current and future retirees. A group of retirees filed a lawsuit challenging the cost-of-living reduction, saying it violated U.S. and state constitutional protections against reducing benefits to existing pension plans. The Minnesota case, which is similar to legal challenges filed by retirees in Colorado and South Dakota, is being watched nationally because if the states prevail, other legislatures may seek to trim or suspend cost-of-living adjustments.

Mississippi changed vesting and service requirements for newly hired employees and increased employee contributions to the state pension system in 2010.

Missouri joined Illinois in 2010 in pegging the standard retirement age for newly hired state workers at 67, the nation's highest. Another big change: New employees will be required to contribute to their pension plans for the first time. They will need to work twice as long until they are vested, enabling them to access their benefits. The plan is estimated to save the state $660 million over the next decade.

Montana lawmakers will consider proposals in 2011 to raise the retirement age from 60 to 65, boost employee and employer contributions, increase an employee's highest average compensation from three years to five years and phase in a lower multiplier formula to set benefits. The state twice increased employer contributions to the retirement system, in 2007 and 2009.

Nebraska instituted a cash balance plan in 2003 for new workers. Designed as an alternative to the defined contribution

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plan that the state set up in the 1960s, the cash balance system requires employees and state agencies to chip in contributions that the state invests for the benefit of retirees. Like a defined contribution plan, employees receive a payout from their account upon retiring. The big difference is that Nebraska has cut dramatically the risk to employees by guaranteeing a 5 percent annual investment return.

Nevada ended a 15-year stalemate on pension reform in 2009 by increasing the retirement age from 60 to 62 for new hires and reducing the cost-of-living adjustment and the formula used to calculate final benefits. But state officials say more changes will be needed to keep up with growing costs.

New Hampshire set an example in 2010 on public employee retirement health care reform. Under the bipartisan plan approved by the Legislature, government workers would have the chance to make tax-free contributions from their paychecks to accounts managed by their unions. The employees' money would be pooled together and invested. And both the investment returns and the monthly distributions paid to retirees for health care expenses such as insurance premiums, doctor co-pays and prescription drugs would be tax-free. Unions still need to ratify the plan.

New Jersey increased public retirement benefits in 2001 and lowered the retirement age to 55 but then did not fully fund its annually required pension contribution. The federal Securities and Exchange Commission charged New Jersey in 2010 with fraud by claiming to municipal bond investors that it had the money to finance the benefit increases when it did not. The SEC, in settling the unprecedented case, said New Jersey officials were aware of the pension underfunding. Governor Chris Christie has made pension reform a priority, signing legislation in 2010 that reduced benefits for newly hired employees. Christie skipped the annually required pension payment but said he wants to repeal the 2001 benefit increase, raise the retirement age from 55 to 60 and increase employee health care contributions.

New Mexico moved in 2010 to prevent government workers from retiring with a monthly pension check and going back on the state payroll in another job 90 days later. They now must wait a year after retiring to return to a government job. Their pension checks would cease as long as they keep working. State officials also hiked current employee contributions to the pension fund in 2009, which unionized employees challenged in court, but those will end in June 2011. The 2009 reforms also included a new retirement plan for state and municipal employees with higher age and service requirements for benefits, and disincentives to retire before age 60.

New York lawmakers in 2009 raised the retirement age from 55 to 62 for new hires, increased the minimum number of years of service required to draw a pension from five years to 10 years and capped the amount of overtime used in calculating benefits. Teachers have a separate benefit structure.

North Carolina, with a public pension system funded above 90 percent, has not enacted major reforms but a commission is studying the future of the state retirement system. One of its recommendations: giving current and future employees a choice between a defined benefit plan and a defined contribution plan.

North Dakota, which is otherwise in the good financial condition, is facing projections showing that its public pension system may run out of money in 30 years. The 2011 Legislature will consider raising employee and employer contributions and proposals to create a 401(k)-style plan. In 2007, North Dakota created a new tier in its teachers' pension plan with changes in service and age requirements and a benefit calculation based on a five-year average of salary instead of three years.

Ohio lawmakers will consider pension reforms in 2011. Among them are increasing contributions, changing the benefit formula, reducing the cost-of-living adjustment and boosting the years of service required for retirement. The changes would affect new employees.

In 2004, Ohio reformed its pension governance systems by changing the membership of its pension boards, requiring an ethics policy and mandating continuing education for members.

Oklahoma increased retirement benefits in the 1980s and 1990s but state officials did not fully meet actuarially required pension contributions while the liability was building up. Pension reform will be a priority of lawmakers in the 2011 session. On the table is a change to a defined contribution, 401(k)-style plan for new hires. In 2007, the state increased employer contributions to its teachers plan and in 2004 hiked state agency contributions to its public employees' pension plan.

Oregon in 2003 shifted to a hybrid pension plan for new employees that provides less in benefits than employees hired before them receive. State officials also doubled employers' contribution rates beginning in 2011.

Pennsylvania was perhaps the most generous of the 11 states that boosted public pension benefits in 2001 when it increased benefits 25 percent for state employees and teachers, with ensuing cost-of-living adjustments for retirees. The state had been counting on strong investment returns to finance the benefit expansion but the 2008 Wall Street financial crisis dealt a serious blow—28 percent—to the pension fund. Because

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state officials had spread out the cost of the benefit increases, Pennsylvania is expecting a big jump in employee contribution rates in the coming years. Lawmakers are weighing proposals to fix the spike in rates.

Rhode Island raised the age of retirement from 60 to 62 for new hires, provided a somewhat smaller benefit as a percent of final salary, reduced future annual benefit increases, and tightened eligibility for disability benefits in 2010. The minimum retirement age for current workers will depend on their length of service.

South Carolina in 2005 increased employer and employee contribution rates and set a 1 percent a year cost-of-living adjustment, one of the main cost drivers of the unfunded liability. In 2008, the cost-of-living adjustment was increased up to 2 percent each year if certain conditions were met, including that the plan funding ratio not drop that year as a result of the cost-of-living increase.

South Dakota, one of the last states to increase benefits before the Wall Street financial crisis in 2008, retreated in 2010 by removing the cost-of-living adjustment for retirees in the first year they leave state employment and reducing the percentage of the increase. A retiree challenged the state's action in court, alleging the state broke its contract. The South Dakota case, which is similar to legal challenges filed by retirees in Minnesota and Colorado, is being watched nationally because if the states prevail, other legislatures may seek to trim or suspend cost-of-living adjustments. South Dakota also increased benefits in 2002.

Tennessee has not enacted substantial public pension reform in recent years. In 2007, the state changed the age and service requirements for public safety officers.

Texas increased the age and service requirements for public employees, provided a smaller benefit as a percent of final salary and reduced the benefit available to those who take early retirement. The Legislature will consider increasing the state's share of the cost of the pension system in 2011.

Utah, facing a crisis in its pension fund after the 2008 Wall Street crash, replaced its traditional defined benefit plan in 2010 with one that offers newly hired employees a choice between a defined contribution plan or an arrangement that combines features of a defined benefit and defined contribution plan.

Vermont officials reached an agreement on a teacher pension plan in 2010 that bucked a trend away from defined benefit plans. The accord between the Legislature, the state treasurer and Vermont's largest public employee union will result in most teachers working additional years and making higher contributions to the pension fund but receiving a larger pension check on retirement. The savings will help plug the state's budget gap.

Virginia is requiring new employees to pay into the state pension fund for the first time and trimmed the cost-of-living adjustment for future retirees. To balance the state budget, Governor Robert McDonnell deferred the state's public pension payment until 2013—with interest.

Washington has had a pattern of sweetening public pension benefits since 1998, allowing retirees to receive an additional benefit when investment returns exceed 10 percent a year for four years. The state tried to suspend the program because of its rising pension costs but a superior court judge upheld the program. If the ruling stands upon appeal, a state actuary says the pension program could require $150 million or more from the general fund. Washington reduced employee and employer contributions in 2001 because of strong investment performance. In 2004, the Legislature established a minimum monthly benefit of $1,000 for certain retirees and increased that minimum benefit by 3 percent annually. And in 2006, the state increased benefits for members who had been retired for 25 years or more.

West Virginia's teachers retirement plan was a defined contribution system between 1991 and 2005, when officials closed it to new members because members were experiencing such small investment growth that they said they would be poorly prepared for retirement. The teachers had a choice of moving to the defined benefit plan or staying in the defined contribution plan. In 2006, West Virginia made a $718 million contribution to their retirement plans to address unfunded liabilities. The contribution was needed because in 2005 voters rejected a plan to sell up to $5.5 billion in pension bonds.

Wisconsin, which has one of the best funded public pension systems in the country, replaced its standard cost-of-living increase with a dividend that is paid to retirees if investment returns are positive. The state issued $729 million in pension bonds in 2003 and at that time became the first state to issue bonds for non-pension benefits as well, about $600 million.

Wyoming has started asking current and future state workers to contribute to their retirement; before 2010 the state paid the cost. The state and employees also will contribute a higher percentage share of pension costs.

The Pew Center on the States is a division of The Pew Charitable Trusts that identifies and advances effective solutions to critical issues facing states. Pew is a nonprofit organization that applies a rigorous, analytical approach to improve public policy, inform the public and stimulate civic life.

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