

Approved: February 18, 2011

MINUTES OF THE HOUSE PENSIONS & BENEFITS COMMITTEE

The meeting was called to order by Chairman Mitch Holmes at 9:06 a.m. on January 31, 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:

Utah State Senator Dan Liljenquist
Utah State Senator Curt Bramble

Others attending:

See attached list.

Chairman Holmes introduced the Utah State Senators Dan Liljenquist and Curt Bramble (Attachment 1) who gave a presentation Utah's 2010 Pension Reform Plan.

The next meeting is scheduled for February 7, 2011.

The meeting was adjourned at 10:32 a.m.

**HOUSE PENSIONS & BENEFITS
COMMITTEE GUEST LIST
DATE: January 31, 2011**

NAME	REPRESENTING
TERRY FORSYTH	KWEA
Tom Kuhn	KASB
Jane Carter	KOSE
Levi Henry	Sandstone Group
Dennis Phillips	KSCFF
Ed Redmon	KSCFF
Brian R. Thompson	PEAK
Brendan Yorkley	Budget
Nicole Proulx Aiken	LKM
Ernie Clauchel	KCFR
RON GARDNER	KCFR
Glenn Deek	KPERS
Faith Loretto	"
Jeff Munn	Budget.

Pension Crisis – The 2010 Utah Response

Utah State Retirement Systems
Background and 2010 Reforms
State Senator Dan Liljenquist

January 31, 2011

Kansas Legislature – Topeka, Kansas

Utah Retirement Systems

- Background on Utah's Retirement System

- Impact of the 2008 market crash
- Reform objectives, principles & process
- Reform details
- Lessons learned

Background on Utah Retirement System



Utah has never borrowed money from its pension trust fund



Utah has always paid the full actuary recommended contribution rates



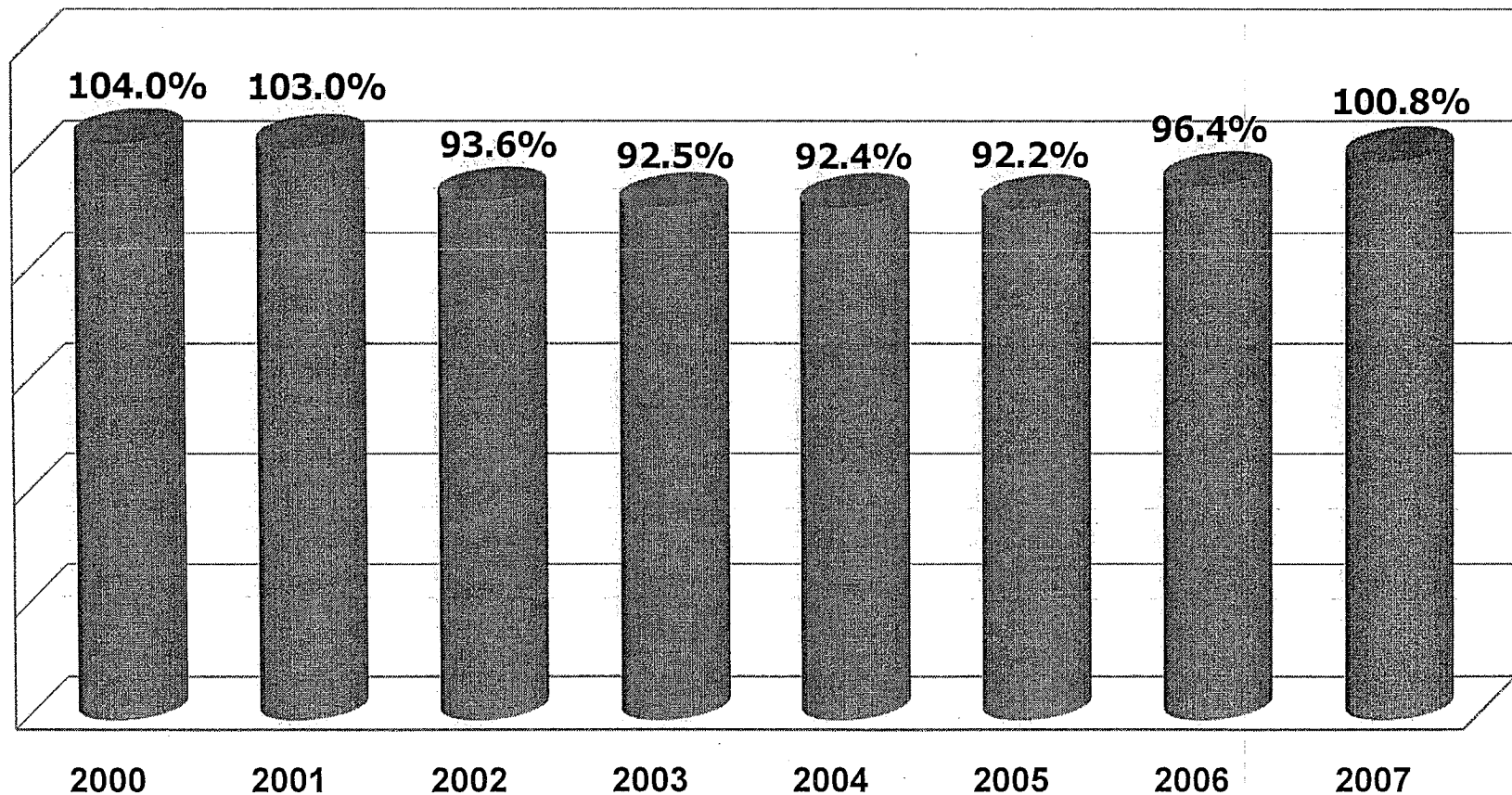
Utah has not increased retirement benefits in over 20 years



Utah's funded ratio averaged 95.1% between 1997 and 2007

Utah's Retirement System was 100% funded in 2007

Utah's Actual Funded Ratio – 2000 to 2007



Utah Retirement Systems

- Background on Utah's Retirement System

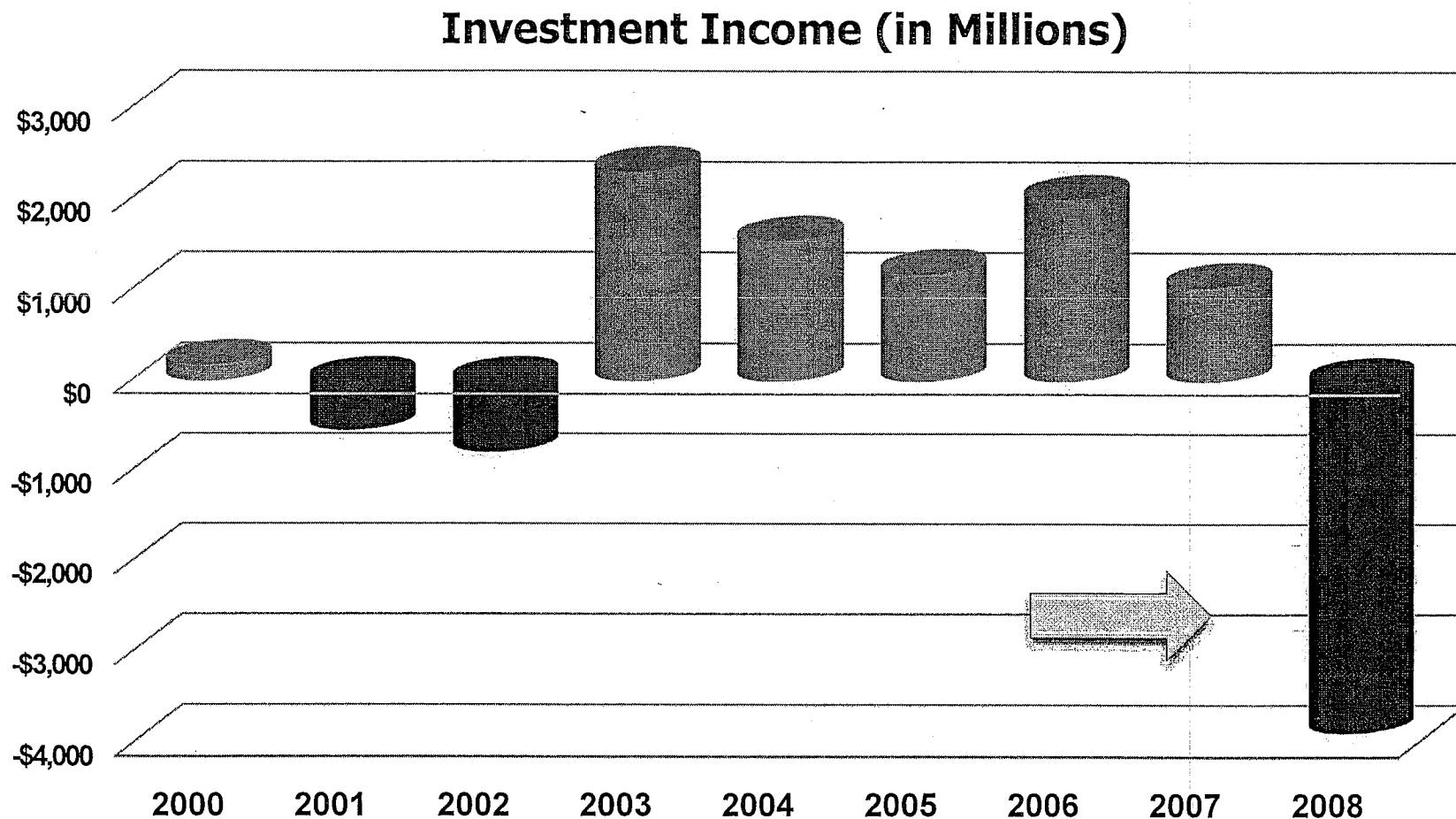
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Utah's pension fund lost 22.3% of its value in 2008



Slide 6

LS2

Ten Year Average

Investment Income = \$472.8 million down from \$923 million two years earlier

Employer Contributions = \$405.2 million up from \$358.8 million two years earlier

LRGC Staff, 6/15/2010

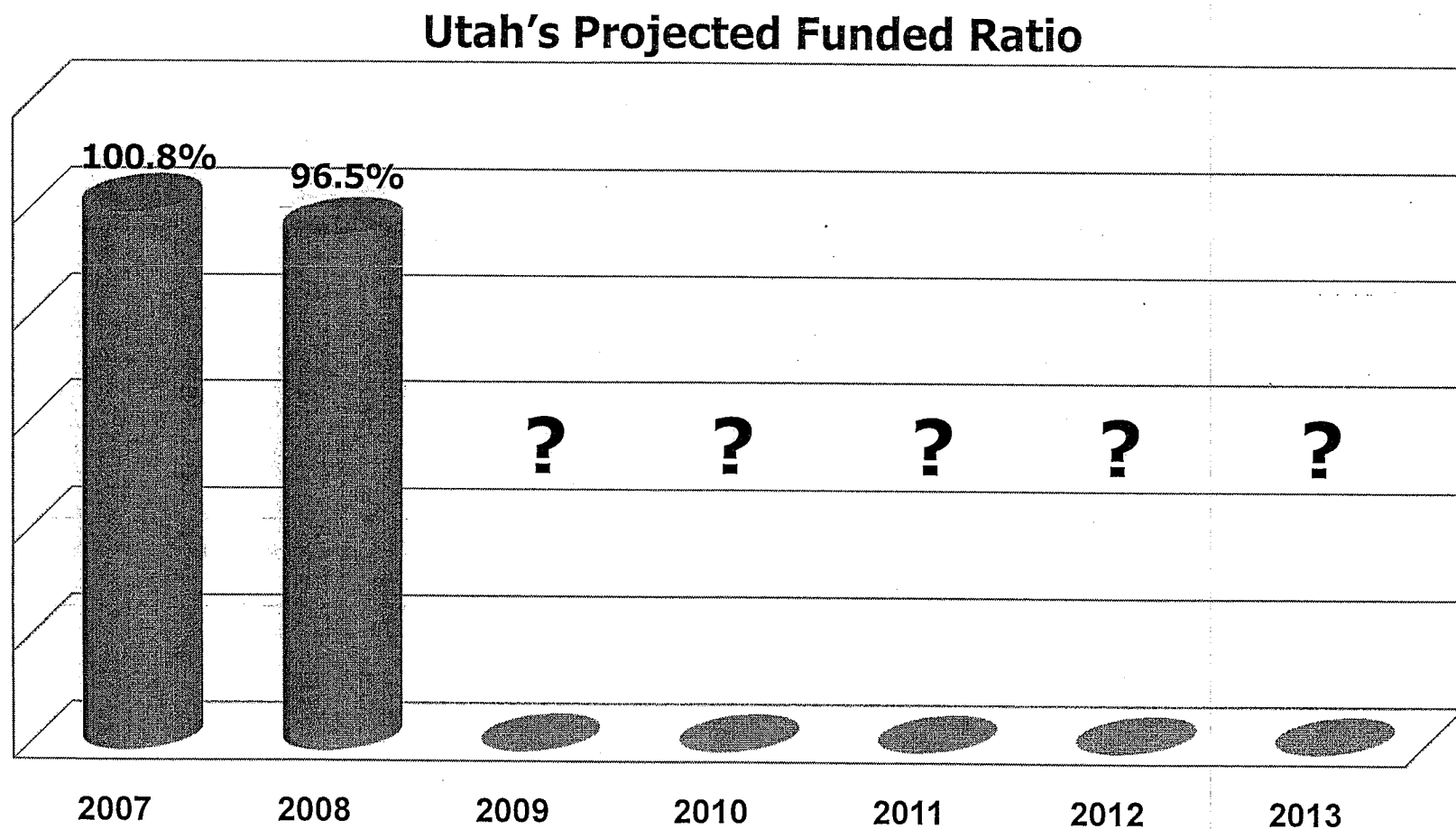
Unanswered questions...

- What impact would the losses have on Utah's budget now and in the future?
- How would the losses impact employer contribution rates?
- How long would it take for the pension system to recover?
- Would the market recover the losses?
- What would happen if Utah had another year like 2008?

The Utah Legislature requested a complete data set from its actuaries

- Forty year actuarial projections, with market returns of 6%, 7%, 7.75%, and 8.5%
- Modeled scenarios included:
 - Standard option (increase contribution rates)
 - Do-Nothing option (freeze contribution rates at existing levels)
 - Delay options (freeze contribution rates for 3 or 5 years and then increase contribution rates)

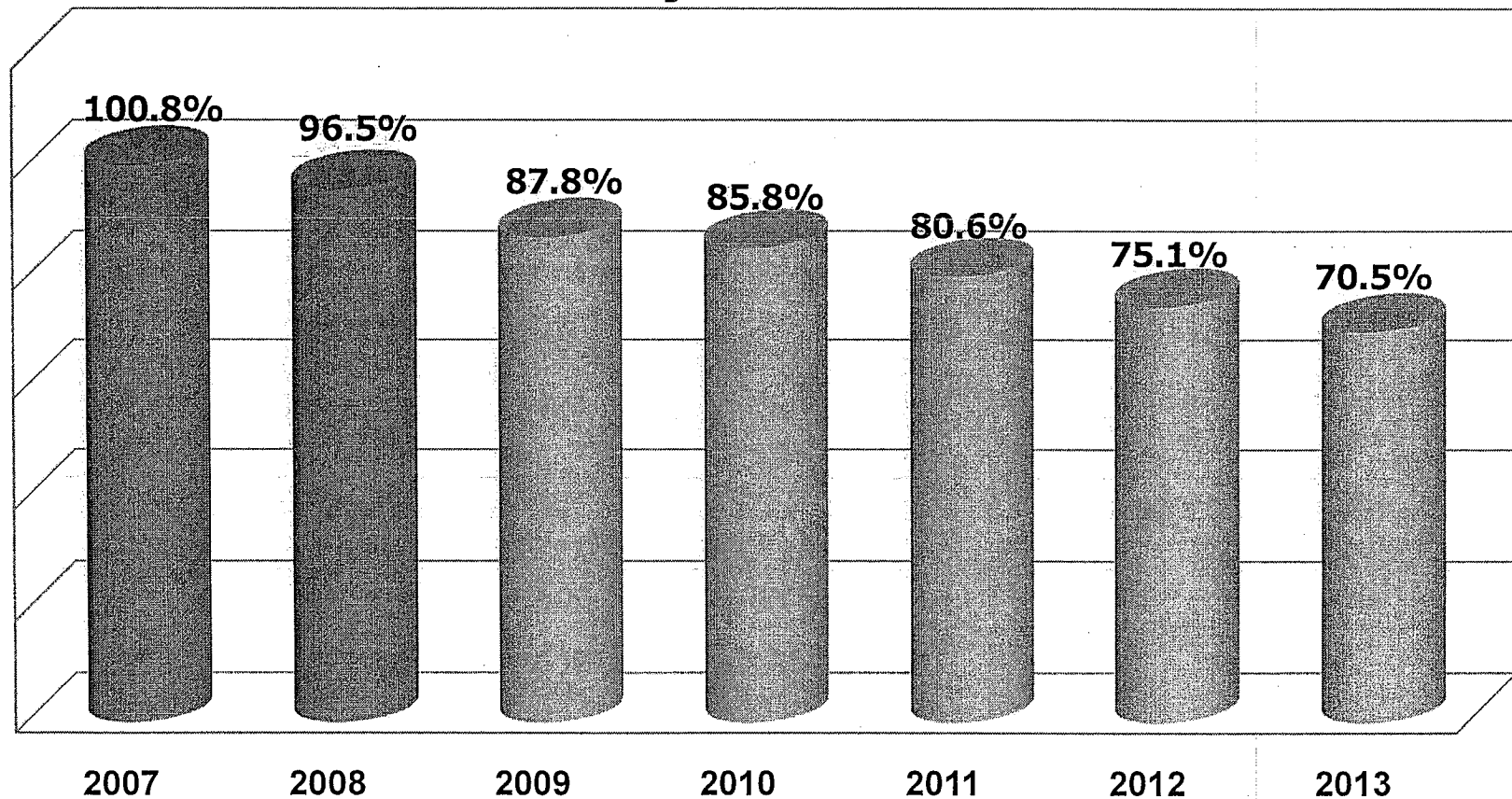
Utah's pension system still appeared to be in excellent shape, however...



Source: Utah Retirement Systems Comprehensive Annual Financial Reports - 2000-2009 - for year ending Dec. 31; and Memo to the Honorable Daniel R. Liljenquist, Senate Chair, from Gabriel Roeder Smith & Company, November 10, 2009₉

The 2008 losses blew a 30% hole in Utah's pension system

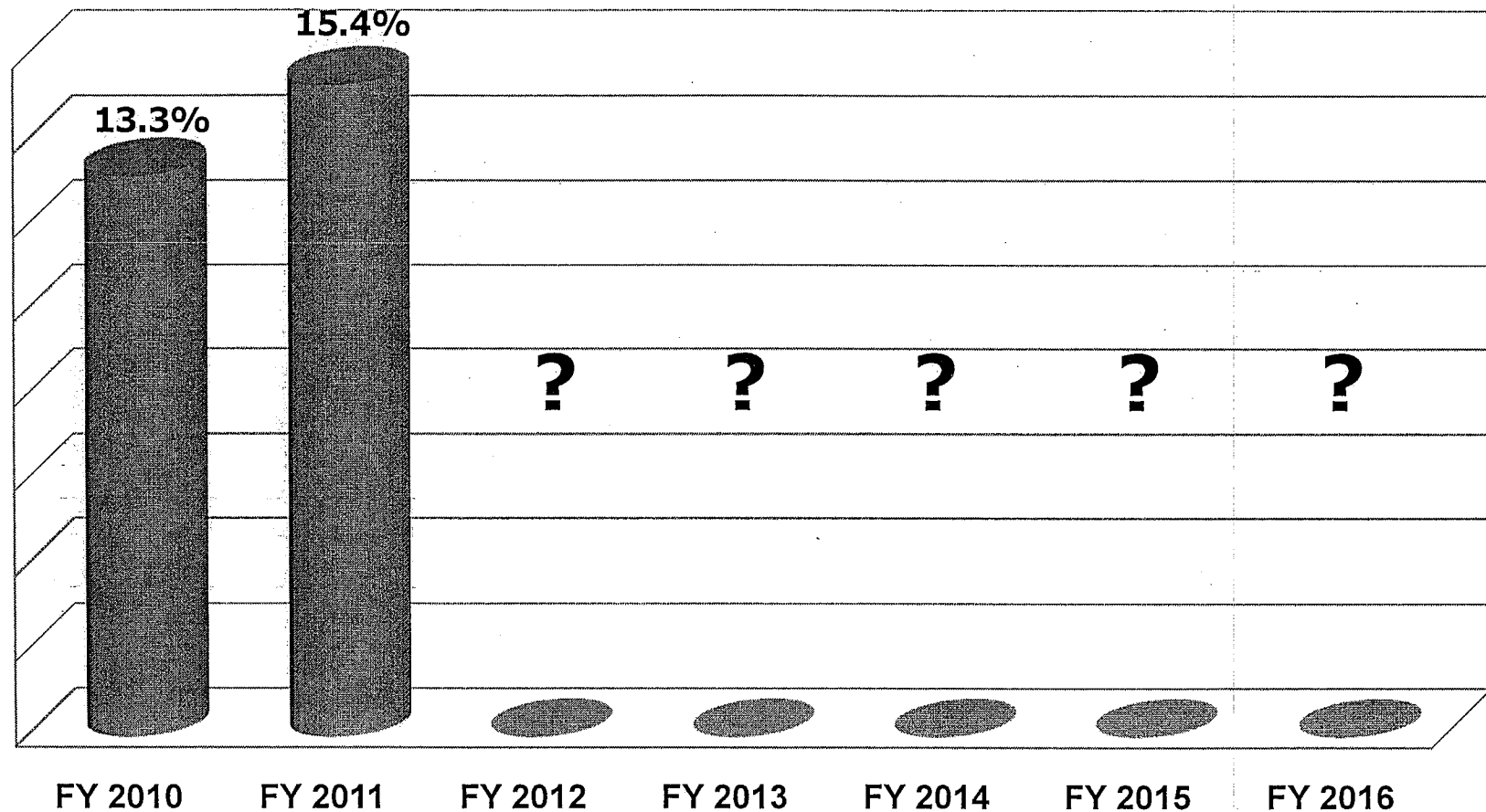
Utah's Projected Funded Ratio



Source: Utah Retirement Systems Comprehensive Annual Financial Reports - 2000-2009 - for year ending Dec. 31; and Memo to the Honorable Daniel R. Liljenquist, Senate Chair, from Gabriel Roeder Smith & Company, November 10, 2009.

Required employer contribution increases in 2008 were manageable, however...

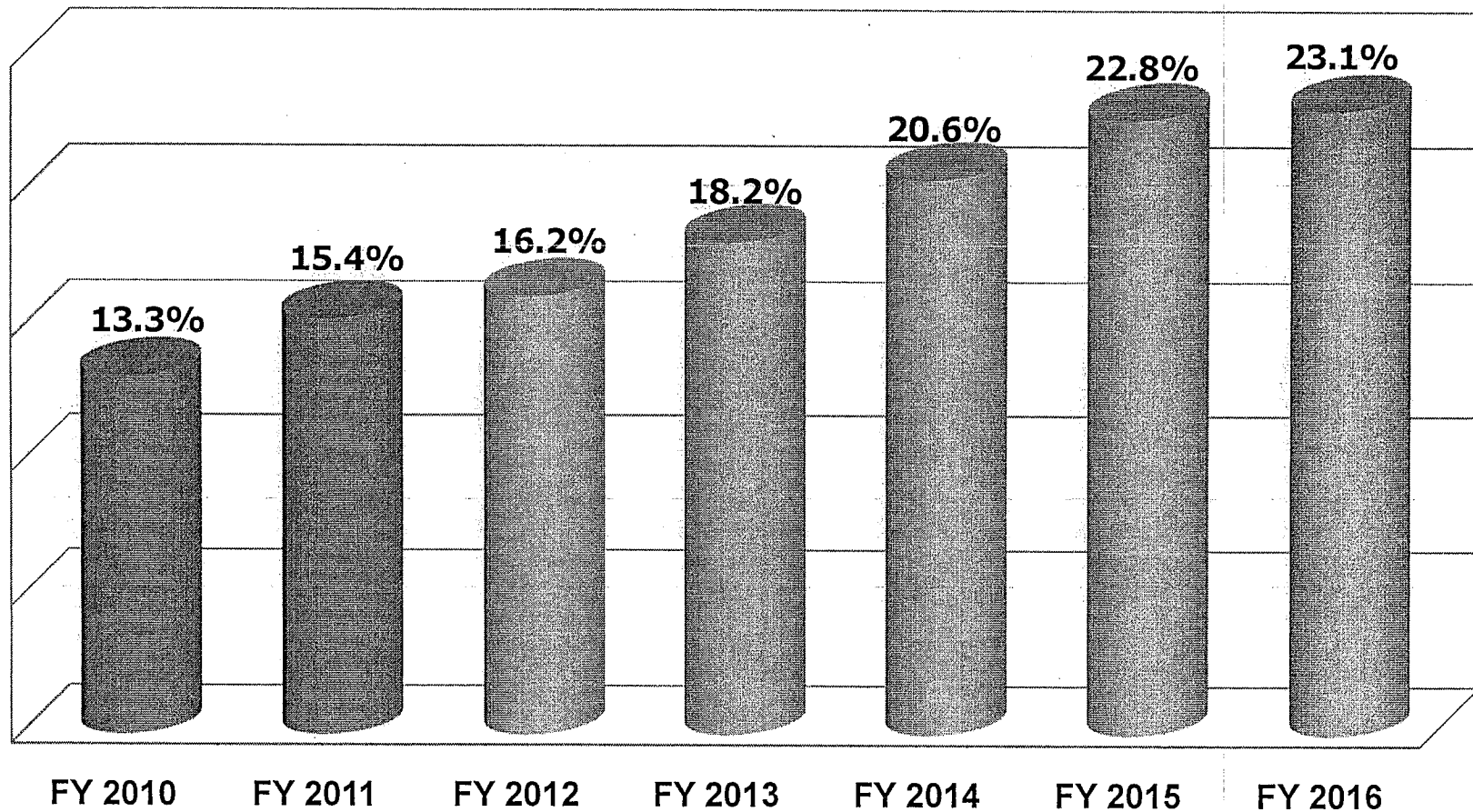
Utah's Projected Employer Contribution Rates



Source: Utah Retirement Systems Comprehensive Annual Financial Reports - 2000-2009 - for year ending Dec. 31; and Memo to the Honorable Daniel R. Liljenquist, Senate Chair, from Gabriel Roeder Smith & Company, November 10, 2009₁₁

Required employer contribution rates will increase by 75%

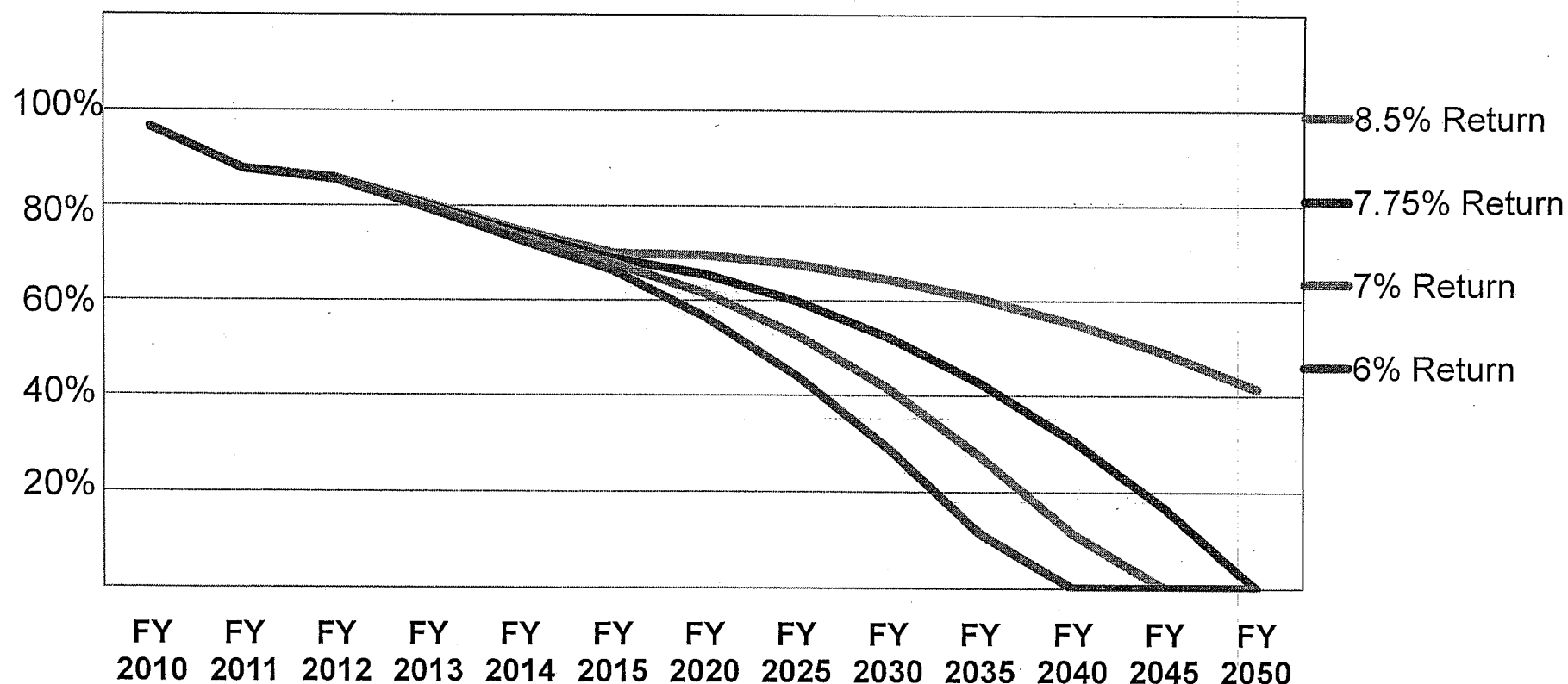
Utah's Projected Employer Contribution Rates



Source: Utah Retirement Systems Comprehensive Annual Financial Reports - 2000-2009 - for year ending Dec. 31; and Memo to the Honorable Daniel R. Liljenquist, Senate Chair, from Gabriel Roeder Smith & Company, November 10, 2009.

Doing nothing leads to bankruptcy

**Utah's Projected Funded Ratio
with Employer Contributions Frozen at 2010 Rates**



Source: Utah Retirement Systems Comprehensive Annual Financial Reports - 2000-2009 - for year ending Dec. 31; and Memo to the Honorable Daniel R. Liljenquist, Senate Chair, from Gabriel Roeder Smith & Company, November 10, 2009₁₃

Brutal reality of the 2008 crash

***Utah will have to commit
~10% of its General Fund
for 25 years to pay for the
2008 Market Crash***

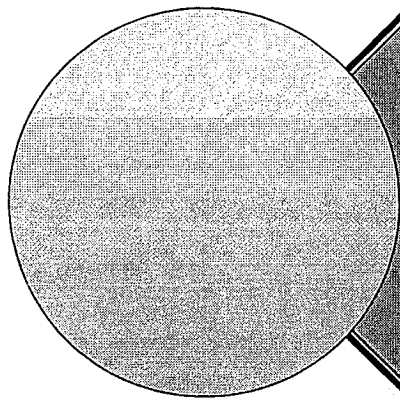
Utah Retirement Systems

- Background on Utah's Retirement System
- Impact of the 2008 market crash
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- Reform details
- Lessons learned

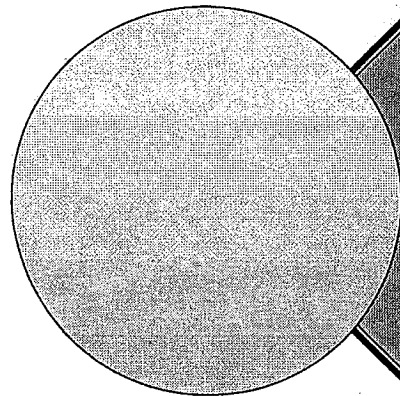
Options considered

- Reduce COLAs for retirees
- Alter the contract with current employees:
 - Increase years of service by up to 5 years
 - Increase final average salary calculation from 3 to 5 years
 - Reduce COLAs
 - Increase vesting years
 - Hard salary cap on pension benefits
- Close all loopholes for abuse (double dipping, etc.)
- Change the retirement system for new employees

Pension reform objectives



Meet 100% of Utah's pension obligations to its current and retired employees



Eliminate Utah's pension related bankruptcy risk

Pension reform principles

Meet Current Pension Obligations

- Pay full actuary recommended contribution rates
- Shore-up the current retirement system by closing incentives for post-retirement reemployment

Eliminate Pension Related Bankruptcy Risk

- Pay off the unfunded liability as quickly as possible
- Create a new system for new employees with:
 - Lower costs, and
 - Predictable employer contributions

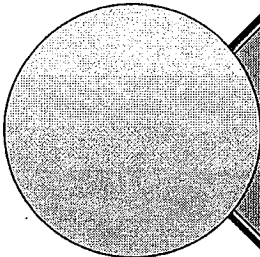
Pension reform process

- Ask the hard questions / demand data
- Be hypothesis driven / avoid ideology
- Involve ALL parties / build partnerships
- Circulate reform proposals broadly
- Be kind, polite and responsive
- Keep moving forward

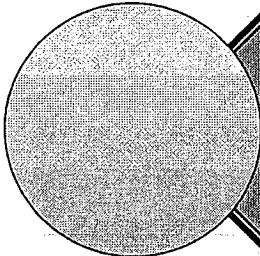
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Utah's New Retirement System



Existing defined benefit programs
closed to new enrollees on
June 30, 2011



Employer contributions to new
retirement program capped by statute



New employees can choose between:
(1) a straight 401(k) plan, or
(2) a hybrid pension / 401(k) plan

Utah's New Retirement System

Defined Contribution 401(k) Plan

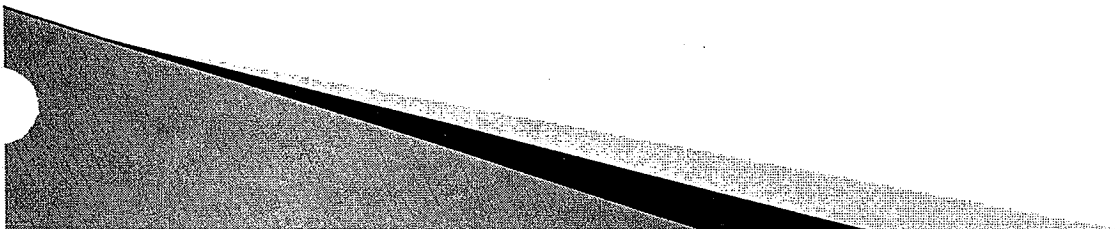
- Employer contribution: • 10% of salary
- Employee contribution: • N/A
- Vesting period: • 4 years
- Restrictions: • No borrowing from plan
- 401(k) plan self-directed with URS investment options

Hybrid Pension / 401(a) Plan

- 10% of salary
- Employee pays all pension related contributions:
 - If $> 10\%$, then automatic payroll deduction
 - If $< 10\%$, then balance goes into 401(k) plan
- 4 years
- No borrowing from plan
- URS manages pension investing; 401(k) portion self-directed with URS investment options

Expected results of Utah's pension reforms

- Combined retirement contribution rates for public employees will peak in 7 years and gradually decline
- Combined retirement systems and statutory restrictions will help prevent "pension creep"
- Each new employee costs will be less than half the cost of old employees (10% vs. 23.1%), freeing up resources to fund the "tail" of the current programs
- Utah will gradually reduce pension related bankruptcy risk until the risk is eliminated



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Lessons learned

- Demand comprehensive, long-term financial modeling from pension actuaries
- Reality is NOT negotiable – let the data do the work
- Stick to your established objectives and negotiate around the details
- Know the details and you will own the issue

