

Approved: March 18, 2011

MINUTES OF THE HOUSE PENSIONS & BENEFITS COMMITTEE

The meeting was called to order by Chairman Mitch Holmes at 9:03 a.m. on February 21, 2011, in Room 142-S of the Capitol.

All members were present except:

Representative Louis Ruiz - Excused

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:

Ernie Claudel, Kansas Coalition of Public Retirees

Ron Gardner, Kansas Coalition of Public Retirees

Dr. Harvey Ludwig, Kansas Association of Retired School Personnel

Others attending:

See attached list.

Ernie Claudel, Kansas Coalition of Public Retirees and Ron Gardner, Kansas Coalition of Public Retirees, ([Attachment 1](#)), presented information on the Kansas Coalition of Public Retirees.

Dr. Harvey Ludwig, Kansas Association of Retired School Personnel, ([Attachment 2](#)) presented some solutions on some of the problems facing KPERS.

Discussion followed.

Representative Ron Worley introduced his pages: Abby and Skyler Stuke of Lenexa.

The next meeting is scheduled for March 2, 2011.

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

HOUSE PENSIONS & BENEFITS COMMITTEE GUEST LIST DATE: February 21, 2011

NAME	REPRESENTING
TERRY FORSYTH	KNEA
Ernie Claudel	K CPR
Bill Hayes	K CPR
Virgil Funk	K CPR - KARSP
Ron Gardner	K CPR
Paja Rauthier	Hein Law Firm
Dee King	KARSP
Dianne King	KARSP
Tom King	KARSP
Nicole Prank Aiken	LKM
Danet Broers	KARSP
Cheryl Dief	KARSP
Bella Scott	KARSP
Harley Broers	KARSP
Karin Kingsley	KARSP
Jerry Kingsley	"
Harvey S. Siderzsch	KARSP

**HOUSE PENSIONS & BENEFITS
COMMITTEE GUEST LIST
DATE: February 21, 2011**

NAME	REPRESENTING
Josh Anderson	Peak
Brett Niqui	Peak
Dennis Phillips	KSCFF
Ed Redman	KSCFF
BRIAN R Thompson	PEAK
Andrew Wood	Edward Co. 4-H
Kristen Stiebe	"
Camelle Degee	"
Carly Degee	"
Laurin Wagner	"
Savannah Smith	"
Nicole Brauer	Ford Co. 4-H

Testimony

By

KANSAS COALITION OF PUBLIC RETIREES

Before the House Committee on Pensions and Benefits

February 21, 2011

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

My name is Ernie Claudel and I am here today speaking on behalf of the Kansas Coalition of Public Retirees. We have included information in this packet that not only illustrates the retiree's point of view, but also the perspective gained through our experience.

Even though our name is the Kansas Coalition of Public Retirees we find ourselves being asked to provide information to all KPERS groups. We are all tied together as employees with various areas of expertise because of the structure of the KPERS Retirement System Umbrella. We realize that if we do not speak for the "not yet hired", they have no voice.

Because all employees eventually retire, the entire umbrella has become our concern and the well being of all, our mission. We have been requesting action be taken in regard to KPERS in excess of six years. We have come to realize that this is not a black and white issue. The choices to be made are not etched in stone or dramatically right or wrong. One answer can often be just as "right" as another, but maybe the most important question is: "Does the legislature care about the retirees who have devoted their careers and lives to Kansas?"

The obvious problem facing us all is the UAL (Unfunded Actuarial Liability). The funding solution for the UAL is not changing from a DB plan to a DC plan!

We have heard the present system is unsustainable? What does that mean? No system can be sustained if not funded correctly and properly managed. The intention of the UAL is to pay out the benefits over several decades, not on one day.

We have heard the quote, "We want to get Kansas out of the Pension Business." Our research and experience reveals that if that is the decision, the cost will be on the backs of the retired. Fulfilling the obligation of

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Attachment # 1

funding two systems simultaneously will cost more than "fixing" the present system and the retired will never receive a COLA.

If a DC is established, the present retirees will shoulder the cost. With two systems the employer contribution will need be increased. If the past is any indication, will the legislature adequately fund both programs or will the trust once again be broken. The "not yet hired" run the risk of working 40 years and still not having a decent retirement if a DC system is ever underfunded.

Contained herein are facts, calculations, anecdotes and sources of information from the retiree's point of view.

Basic KPERS Facts

1. No matter what part of the umbrella from which you retired, you are a Kansas Public Retiree.
 - a. All for one/one for all.
 - b. Three groups: Retired, Working, Not Yet Hired
 - c. As of September 2010: 277,000 total, which includes 73,000 retirees, 161,000 active, 43,000 inactive. (School Personnel include 50%+ of retirees and active.)
2. KPERS is made up of the following groups
Law Enforcement Personnel, Firefighters, Judges, All Public School Personnel, State Workers (This includes all college employees who are not professors.), Most county and municipal workers, and Legislators.
3. KPERS History
 - a. Originated in 1962
 - b. Merged with the Kansas Teachers Retirement System in 1971
4. Contribution Record (all figures in percentages)
Date/Legislative Contribution/KPERS Employee Contribution
 - a. 2009 – 6.96% + 4% = 10.96%
 - b. 2010 – 7.75% + 4% = 11.57%
 - c. 2011 – 8.17% + 4% = 12.17%
 - d. 2012 – 8.77%
Proposed Actuarial Amount (these are projected three years ahead)
 - a. 12/31/2006 projection for 2009 was 14.98% (Actual 10.96%)
 - b. 12/31/2007 projection for 2010 was 15.30% (Actual 11.57%)
 - c. 12/31/2008 projection for 2011 was 18.04% (Actuarial 12.17%)
If not charges are made in funding the difference between the contributed and the received are approximately as follows:
 - a. 2009 approximate negative contribution is 4.02%
 - b. 2010 approximate negative contribution is 3.73%
 - c. 2011 approximate negative contribution is 5.87%
Funded Ratio is 64%. Unfunded actuarial liability \$7.7 Billion, Assets \$11.8 Billion.
5. The last COLA was effective July 1, 1997. (There have been a total of 17 Base Raises (COLAs) & 5 Bonuses including \$300 in 2007 & 2008. For the 26 years from 1971 to 1997. In the 13 years between 1998 and 2011, the KPERS retirement check has increased \$ 0.00. In both 2007 and 2008 some retirees received a one time (bonus) payment of \$300.
6. The loss of buying power between 1997 and today - \$1000 then = approximately \$668 today. Consumer Price Index 33.20% of \$668.00.
7. To date less than one half of the present retirees have ever received any type of COLA or Bonus.
8. If a present retiree lives in retirement for 30 years with a 4% inflation rate (which is entirely possible with present day medical advances) a benefit of \$1000 purchasing power will be reduced to approximately \$230. This explains why the Coalition in testimony last year before the Ways and Means Committee

suggested that a COLA might be more helpful for the retired than an increased multiplier.

9. Effective July 1, 2009, new employees will contribute 6% (instead of 4%) and have a 2% COLA at retirement. These are referred to as Tier II adjustments. The Coalition testified in support of this bill because it addressed the COLA issue. (KP&F and the judges have never been addressed.)
10. BOND ISSUE
 - a. "In February, 2004, the State of Kansas issued \$500 million in pension obligation bonds, and KPERS received net proceeds of \$440.2 million in March of 2004. The proceeds have been invested to assist with financing the State and School group's unfunded actuarial liability. The debt service on the bonds will be paid by the State of Kansas in addition to the State's regular employer contribution."
 - b. Following this action the legislature voted to begin funding the UAL at an increased rate of .6% annually. The goal was to reach the actuarial number at some future date. This plan was derailed by economic down turn once again leaving the trust fund in financial stress.
11. According to KPERS information we have available to us at this date, from at least 1998-2003 the employees were still contributing more than the employer. Our guess is that this pattern was repeated much earlier. In 2004 the bond issue listed above created a change in the pattern.
12. Approximate Benefit Expenditure Annually is \$1.1 Billion, Receipts \$765 Million. According to the Kansas Secretary of Treasury and KPERS board member, Dennis McKinney, May 2, 2010, the average monthly benefit for a retiree under KPERS is \$990. If you remove the highest 10 percent and the lowest 10 percent of monthly benefits (take out those who held high rank and those who were of short term employment) the average monthly benefit is \$883.
13. For those under the entire KPERS umbrella there are 1.1% of benefit recipients that receive over \$4000 monthly, while 34% receive \$499 or less and 5% receive \$99 or less.

Two Anecdotal Records Illustrating the Impact of Inflation on KPERS Retirees

Example 1: Some friends of ours, a married couple, retired in 1998 and 1999 respectfully. Being thorough record keepers they provided us with the following: They compared their expenditures of February 2002 with those of February 2008.

1. Natural gas was \$94.90 and in 2008 it was \$150.97, a 60% increase.
2. The electric bill increased from \$66.72 to \$79.19, a 20% increase.
3. Medicare health care increased from \$54.00 to \$96.40 an 80% increase.
4. BCBS supplement increased from \$135.00 to \$153.00, a 13% increase.
5. Dental insurance increased from \$25.00 to \$35.00, a 40% increase.
6. Gasoline increased from \$1.50 per gallon to \$3.10, a 101% increase.
7. Home property taxes increased from \$1804.00 annually to \$2102.00, a 17% increase.
8. These are contrasted with a KPERS increase of \$0.00, a 0% increase.

Example 2: We also have a fire fighter who is a member of our steering committee. He received his first KPERS check when he retired in 1979, in the amount of \$700.00. There was until 1997, considerable COLA adjustments. (17 base raises and 4 bonuses.) For the 26 years from 1971 to 1998, our retiree's benefit increased from \$700.00 to \$1640.00 per month. In the 8 years between 1998 and 2008, the KPERS retirement check has increased \$ 0.00. In both 2007 and 2008 this retiree received a one time (bonus) payment of \$300.

Compounded Loss of Buying Power

Years	NO COLA Compounded 4% Inflationary Loss \$1,000.00	1% Annual COLA Compounded 3% Inflationary Loss \$1,000.00	2 % Annual COLA Compounded 2% Inflationary Loss \$1,000.00	3% Annual COLA Compounded 1% Inflationary Loss \$1,000.00
	<u>40.00</u>	<u>30.00</u>	<u>20.00</u>	<u>10.00</u>
1	\$960.00	\$970.00	\$980.00	\$990.00
	<u>38.40</u>	<u>29.10</u>	<u>19.60</u>	<u>9.90</u>
2	921.60	940.90	960.40	980.10
	<u>36.86</u>	<u>28.23</u>	<u>19.21</u>	<u>9.80</u>
3	884.74	912.67	920.99	970.30
	<u>35.39</u>	<u>27.38</u>	<u>18.42</u>	<u>9.70</u>
4	849.35	885.29	902.57	960.60
	<u>33.97</u>	<u>26.56</u>	<u>18.05</u>	<u>9.61</u>
5	815.38	858.73	884.52	950.99
	<u>32.62</u>	<u>25.76</u>	<u>17.69</u>	<u>9.51</u>
6	783	832.97	866.83	941.48
	<u>31.32</u>	<u>24.99</u>	<u>17.34</u>	<u>9.41</u>
7	751.68	807.98	849.49	932.07
	<u>30.07</u>	<u>24.24</u>	<u>16.98</u>	<u>9.32</u>
8	721.61	783.74	832.51	922.75
	<u>28.86</u>	<u>23.51</u>	<u>16.65</u>	<u>9.23</u>
9	692.75	760.23	815.86	913.52
	<u>27.71</u>	<u>22.81</u>	<u>16.32</u>	<u>9.14</u>
10	\$665.04	\$737.42	\$799.54	\$904.38
	Represents loss of \$334.96 per \$1000 In 10 Years	Represents loss of \$262.58 per \$1000 In 10 Years	Represents loss of \$200.46 per \$1000 In 10 Years	Represents loss of \$95.62 per \$1000 In 10 Years

The accepted 30 year average inflation rate is 4%.

9-1

6-1

KANSAS



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Retirement Security
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Pensionomics:

Measuring the Economic Impact of State and Local Pension Plans

Key Findings

Benefits paid by state and local pension plans support a significant amount of economic activity in the state of Kansas.

Pension benefits received by retirees are spent in the local community. This spending ripples through the economy, as one person's spending becomes another person's income, creating a *multiplier effect*.

Expenditures stemming from state and local pensions supported...

- 9,020 jobs that paid \$471.7 million in wages and salaries
- \$1.3 billion in total economic output
- \$171.8 million in federal, state, and local tax revenues

... in the state of Kansas.

Each dollar paid out in pension benefits supported \$1.34 in total economic activity in Kansas.

Each dollar "invested" by Kansas taxpayers in these plans supported \$5.74 in total economic activity in the state.

Overview

Expenditures made by retirees of state and local government provide a steady economic stimulus to Kansas communities and the state economy. In 2006, 65,415 residents of Kansas received a total of \$929.76 million in pension benefits from state and local pension plans, with \$873.02 million paid from plans within the state and the remainder originating from plans in other states.

The average pension benefit received was \$1,184 per month or \$14,213 per year. These modest benefits provide retired teachers, public safety personnel and others who served the public during their working careers income to meet basic needs in retirement.

Impact on Jobs and Incomes

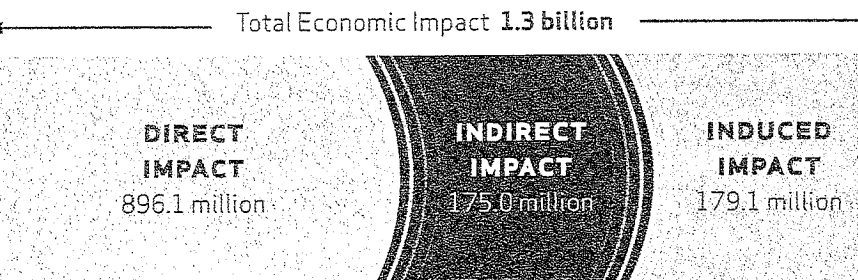
Retiree expenditures stemming from state and local pension plan benefits supported 9,020 jobs in the state. The total income to state residents supported by pension expenditures was \$471.7 million.

Of this, the greatest share, \$247.5 million, was comprised of employee compensation (wages and salaries). Proprietors' income (self-employment income) represented \$38.6 million, and other property income (including payments from interest, rent, royalties, profits and dividends) totaled \$185.6 million.

Economic Impact

State and local pension funds in Kansas and other states paid a total of \$929.76 million in benefits to Kansas residents in 2006. Retirees' expenditures from these benefits supported a total of \$1.3 billion in total economic output in the state, and \$526.2 million in value added in the state.

\$896.1 million in direct economic impacts were supported by retirees' expenditures on goods and services from businesses in the state. An additional \$175.0 million in indirect economic impact resulted when these businesses purchased additional goods and services, generating additional income in the local economy. \$179.1 million in induced impacts occurred when employees hired by businesses as a result of the direct and indirect impacts made expenditures, supporting even more additional income.



Economic Multipliers

Taxpayer Contribution Factor*



\$1.00

contributed by Kansas taxpayers
to state and local pensions



\$5.74

total economic activity

Each \$1 in taxpayer contributions to Kansas's state and local pension plans supported \$5.74 in total output in the state. This reflects the fact that taxpayer contributions are a minor source of financing for retirement benefits - investment earnings and employee contributions finance the lion's share.

Pension Benefit Multiplier



\$1.00

pension benefits paid to
retirees in Kansas



\$1.34

total economic activity

Each \$1 in state and local pension benefits paid to Kansas residents ultimately supported \$1.34 in total output in the state. This "multiplier" incorporates the direct, indirect, and induced impacts of retiree spending, as it ripples through the state economy.

* Caution should be used in interpreting this number, because the Census data used reflect the taxable status of contributions only; because employee contributions may be reported as taxpayer contributions, the multiplier here may be underestimated.

Impact on Tax Revenues

State and local pension payments made to Kansas residents supported a total of \$171.8 million in revenue to federal, state and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled \$33.7 million. Taxes attributable to direct, indirect and induced expenditures accounted for \$138.2 million in tax revenue.

Federal Tax	109.1 million
State/Local Tax	62.5 million
Other Corporate Taxes	0.2 million
Total	\$171.8 million

Economic Impacts by Industry Sector

The economic impact of state and local pension benefits was broadly felt across various industry sectors in the state. The ten industry sectors with the largest employment impacts are presented in the table below.

Industry	Employment Impact (# Jobs)	Value Added Impact (\$ millions)	Income Impact (\$ millions)	Output Impact (\$ millions)
Health Care and Social Assistance	2,116	\$93.6	\$92.5	\$157.8
Retail Trade	2,044	74.4	58.6	115.9
Accommodation and Food Services	944	21.8	19.4	46.2
Other Services (Except Public Administration)	749	17.7	16.5	35.2
Real Estate and Rental and Leasing	481	39.2	32.6	58.1
Finance and Insurance	468	40.8	39.2	77.8
Wholesale Trade	338	36.7	28.7	54.5
Administrative and Waste Services*	306	10.0	18.6	16.5
Professional, Scientific, and Technical Services	288	14.9	14.6	29.4
Arts, Entertainment, and Recreation	240	3.8	3.4	8.0

* The North American Industry Classification System classifies this industry as Administrative and Support and Waste Management and Remediation Services.

Excellent Sources of Information regarding public pensions:

Kansas Coalition of Public Retirees

www.ksretirees.org

Chairman

Dennis Phillips

785-286-2929

djpiaff83@yahoo.com

Vice-Chair

Ernie Claudel

913-481-6923

eclaudel1@comcast.net

Utah Retirement System

www.urs.org

Scroll down the left hand side and click on DB vs. DC Plans

We suggest you pull up questions (the final selection and look at it first.

Center of Budget and Policy Priorities

www.cbpp.org – This is an organization trying to dispel the myths around pensions and government funding.

National Institute of Retirement Security

www.nirsonline.org – This organization attempts to explain all the positives & truths regarding public pensions.

(We know that this is a source which KPERS uses as well.)

SOLUTIONS

A. Focus on the problem.

"KPERS currently has sufficient assets to pay benefits for years. However, without changes to address its funded status, KPERS eventually may have insufficient assets to pay all promised benefits." (P. 7, KPERS January 24, 2011 report to the House Committee on Pensions, and Benefits)

B. Therefore, consider solutions that will move toward the reduction of the unfunded actuarial liability.

1. As quickly as possible replenish funds to KPERS that were not paid by previous legislatures.

It is established record that Kansas (the employer) has underfunded the KPERS trust fund for years. It is time to replenish the funds that were not paid by previous legislatures.

a. With the present low bond interest rate, a bond issue would quickly put the money back in KPERS that previous legislatures underfunded.

b. A major question would be how large an issue?

c. Mr. Glenn Deck, Executive Director of KPERS presented at the December 2, 2010 meeting of the Joint Committee on Pensions, Investments and Benefits, two Bond options; one for 623 million and one for 864 million, both with an amortization period of 22 years.

2. Treat all State retirement funds equally and without regard to persons. While the Legislature was underfunding the KPERS trust fund, it was funding the Regents Retirement Plan at 8.5%. This fund was established in 1961 so there are at least 40 years of comparison. Calculate what payment the State would have made to KPERS at 8.5% per year. Subtract what was paid and add each years difference. This would equalize the funding between the two funds and give a bond issue figure.

3. Pass SB 49. (SB 564)

"The State/School Statutory rate is projected to reach 100% of ARC within 7-9 years under HB 2400 and SB 564 respectively." P. 7, December 2, 2010 Joint Committee on Pensions, Investments, and Benefits.

4. Revisit the original intent of 2007 Kansas Expanded Lottery Act. During the 2007 session of the Legislature, the Kansas Expanded Lottery Act was contained in HB 2055. On page 9, it sets out how the state would distribute the lottery gaming facility revenues.

"25% to Kansas gaming revenue property tax relief fund,

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Attachment # 2

"25% to Kansas regents institution deferred facility maintenance trust fund,

"25% to Kansas retirant obligation fund, and

"25% to the State General Fund.

25% of ELARF monies should be added to the states support of the KPERS trust fund.

5. Ask Questions.

This projected future shortfall (UAL) is based on assumptions.

It has been noted that reducing the 8% rate of investment return would increase the UAL. However, wouldn't decreasing the "general wage increase of 4%" decrease the UAL?

I will repeat the UAL is based on assumptions. In addition to the rate of investment return and general wage increase, you might want to ask questions about the rates of mortality, rates of termination, retirement rates, rates of disability, etc.

Another example might be: The KPERS Net Asset Value for 2006 was \$12.4 Billion. The KPERS Net Asset Value for 2010 was \$12.5 Billion. Does the funded ratio reflect this slight growth in asset?

6. Lastly, advocate for retirees.

As you consider your funding priorities for 2011, a little hardship adjustment would be appreciated for those who have been retired for several years.

I will share a proposal with an estimated 1 year cost of approximately 6 million of SGF monies. The long-term affect of paying an increase of 6 million over the life of those retired is estimated at 75 million.

Presented to: House Committee on Pensions, and Benefits, Feb. 21, 2011 by Dr. Harvey Ludwick

The Proposal

The following is an effort to distribute, fairly and equitably, a "hardship adjustment to retirees monthly benefits" to help off-set some of the loss of buying power retirees have experienced over the past 14 years.

Rationale

- The last monthly benefit increase for retirees was for those who retired prior to July 1, 1997; 14 years ago.
- Since 1997, due to inflation, retirees have lost over 35% of their buying power.
- Past legislatures have recognized the need to increase the monthly benefit amount. During the first 26 years of KPERS, retirees received 17 periodic cost of living adjustments. That is an average of one adjustment every 1.5 years. In the last 14 years there has been no adjustment.
- During other recessions, i.e., 1982 and 1987, cost of living increases were given by the legislature.

Bill

New Section 1. (a) Beginning July 1, 2011 as specified in subsection (b), the retirement benefit, pension or annuity payments to each such retirant shall be increased by a cost-of-living adjustment in the amount as provided in subsection (b).

(b) Beginning on July 1, 2011, for those retirants whose date of retirement is:

- A. on or before July 1, 2006, shall increase .5%
- B. on or before July 1, 2001, shall increase 1.0%
- C. on or before July 1, 1996, shall increase 1.5%
- D. on or before July 1, 1991, shall increase 2.0%