Approved: March 2, 2011
Date

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairperson Carolyn McGinn at 10:30 a.m. on January 18, 2011, in Room 548-S of the Capitol.

Senators Schmidt and Emler excused

Committee staff present:
Jill Wolters, Office of the Revisor of Statutes
Daniel Yoza, Office of the Revisor of Statutes
David Wiese, Office of the Revisor of Statutes
Alan Conroy, Director, Legislative Research Department
J. G. Scott, Chief Fiscal Analyst, Legislative Research Department
Aaron Klaassen, Senior Fiscal Analyst, Legislative Research Department
Dorothy Hughes, Fiscal Analyst, Legislative Research Department
Brea Short, Intern, Senator McGinn's Office
Jan Lunn, Committee Assistant
Josh Lewis, Chief of Staff

Conferees appearing before the Committee:
Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERS)

Others attending:
See attached list.

Kansas Public Employees Retirement System (KPERS) Overview

Mr. Deck indicated the KPERS system partners with state and local government employers to provide retirement, disability and survivor benefits to members and beneficiaries. KPERS administers three statewide, defined benefit plans for public employees: public employees (state, local, and school), police and fire, as well as judges (Attachment 1).

Mr. Deck outlined plan basics, membership, contributions and benefits, assets, and investment returns. He provided a historical perspective on long-term funding and addressed previous funding actions. The key finding in the 12/31/09 valuation measurement indicates the funded ratio per group is:

- 78% for the state employee group
- 56% for the school employee group
- 64% for the local employee group
- 76% for the fire and police employee group
- 82% for the judges employee group

A funding ratio of 80% and rising is generally considered adequate funding for a public sector defined benefit plan. A plan with a funded ratio of 60% or below can be considered at significant risk and in need of remedial action to stabilize funding. Mr. Deck emphasized the significance of the unfunded actuarial liability (UAL) in the School Group with no projected change in employer contributions and an annual investment return of 8 percent. The total system actuarial funded status is 64%.

Senator McGinn asked what drove benefit plan enhancements in 1993. Mr. Deck explained many surrounding states' benefit plans included eligibility under the "85-point rule (when the sum of a member's age and years of service credit equals 85). In addition, there was an increase in the retirement formula factor and a 15 percent (one-time) cost-of-living (COLA) increase for retirees. He added that the funding plan mechanisms implemented have resulted in the issues seen today.

Senator Taddiken inquired what actuarial required contribution rate (ARC) is currently paid. Mr. Deck responded that the current rate is 8.17 percent for FY 2011.

Responding to questions from Senator Kelly, Mr. Deck explained the actuarial cost methodology used involves "smoothing or averaging" over a 5-year period. The purpose is to stabilize the employer contribution rate. Therefore, investment gains or losses change annually based on these calculations. Current market valuation basis compares liabilities to the current market value of the fund instead of the "smoothed or averaged" value.

Senator Lee inquired about the impact on the fund if interest rates begin to significantly increase. Mr. Deck indicated if that were to happen bond prices would likely decrease resulting in a compressed bond portfolio. Senator Lee wanted to know why the School Group is so much more out of actuarial balance than the others. Mr. Deck explained there were several factors involved: a.) the School Group came into KPERS without assets and b.) the systematic under-contribution rate in the last sixteen years.

Senator Teichman asked if all groups were combined, when actuarial balance would be achieved. Mr. Deck responded that it would be difficult to combine all the funds, but if the State, Local, and School Groups were combined, actuarial balance would be achieved in approximately 2031-2032.

Senator Huntington requested more information regarding the statutory cap. Mr. Deck reported a statutory cap of 0.1 percent was placed on annual increases to employer contribution rates in 1993; this decision was based on the concern relative to the benefit cost of the plan and the calculated contribution rate.

Mr. Deck described various funding solution options that were presented to the Joint Committee on Pensions, Investments and Benefits during the 2009 Interim. He outlined **SB 564** and **House Sub for HB 2400**; both bills had hearings (2010 Session) but neither passed out of its house of origin. **HB 2751** was introduced several days prior to adjournment during the 2010 Session; no action/hearing was taken on this bill. The Joint Committee again reviewed long-term funding issues during the 2010 Interim; they recommended updating and reintroducing **SB 564** and **HB 2400.** Committee members heard a brief synopsis of other states' responses to long-term funding.

Senator Teichman questioned why this potential legislation would not substantially improve KPERS' funded ratio for a number of years. Mr. Deck responded that while contributions are important in the long-term, the funded ratio is not raised immediately. The only way to raise the funded ratio quickly is through a bond issue or very strong investments.

Senator Kelly requested clarification on **HB 2751**; Mr. Deck indicated this bill would create a Tier 3 for future employees. Under **HB 2751**, Senator Kelly inquired whether calculations were made. Mr. Deck responded that fiscal notes were created for this bill, but he would furnish that information at a later time.

Mr. Deck indicated that while **HB 2751** created a Tier 3 KPERS defined contribution retirement plan for employees hired after June 30, 2012, it did not ramp up contributions. If a policy choice were to be made, legislation should address the unfunded liability by increasing the employer/employee contribution rates as well.

Senator Lee inquired whether it would be possible to commingle funds. Mr. Deck responded that it is impossible to commingle these funds; Internal Revenue Service (IRS) rules and regulations are followed in administering these funds. Mr. Deck discussed legal ramifications for revising or changing plan rules.

Senator Huntington asked what the cap would need to be for employer contributions to achieve actuarial balance. Mr. Deck explained that to be in actuarial balance would be the ideal; the shortest span of time between the statutory and ARC rates meeting is most desirable. Senator Huntington questioned whether revising the vesting period would be valuable to consider. Mr. Deck indicated that revision of the vesting period would not impact the issue significantly.

Mr. Deck further elaborated on the effect of COLAs. When funding problems began in the mid-90's, the decision was made not to award automatic COLAs to retirees. In the KPERS' materials, emphasis has been placed on saving through other investment avenues.

Senator Masterson asked whether there is a plan to offer current employees an opportunity to "buy-out" their KPERs benefits and move it into a Tier 3 system. Mr. Deck indicated those types of projections had not been performed at this time, but a letter ruling from the IRS would be required.

Senator Taddiken questioned whether the Legislature had set a different contribution rate for various funds. Mr. Deck responded that a different statutory contribution rate is possible for different funds.

Senator Vratil asked if COLA calculations have been made the last several years; Mr. Deck replied that COLA calculations are routinely done. If an annual COLA of 3 percent were awarded, it would raise the UAL several billion dollars.

In summary, Mr. Deck indicated current benefits are safe for a period of time, ability to withstand future economic downturns is compromised, investment returns alone cannot correct the problem, legislative action is necessary to address the funding shortfall, and passing long-term funding legislation in 2011 is essential.

The meeting was adjourned at 12:02 p.m.

SENATE WAYS AND MEANS COMMITTEE
TUESDAY, JANUARY 18, 2011
GUEST LIST

NAME	AFFILIATION
Rob Mealy	Kearney + Assoc.
Tom Krebs	KASB
David Clark	Intern
Glenn Deck	KPERS
Jane Carter	KOSE
Terry Forsythe	KNEA
Dennis Phillips	KSCFF
Ed Redmon	KSCFF
Gene Meyer	Kansas Reporter
Bill Brady	CS
Bernie Koch	KEPC
Larry R Baer	LKM
Stephanie Buxton	Judicial Branch
Paul Johnson	Ks Rural Center
Paje Routhier	Hein Law Firm
Erik Sartorius	City of Overland Park
RJ Wilson	KOSE
Harry S. Lidewin	KARSA
[illegible]	D.D. Council
Danielle Onions	Intern
Cody Denton	DoB

enate Ways and Means Committee
ate: 01/18/11
ttachment: 1

Kansas Public Employees
Retirement System

KPERS Long-Term Funding

Senate Ways & Means Committee

January 18, 2011

1-8

KPERS OVERVIEW

KPERS' mission is to provide retirement, disability and survivor benefits to our members and their beneficiaries.

Administer three statewide, defined benefit plans for public employees.

- Kansas Public Employees Retirement System
- Kansas Police & Firemen's Retirement System
- Kansas Retirement System for Judges

Partner with 1,499 state and local government employers.

- State of Kansas
- 293 school districts
- 105 counties
- 474 cities & townships
- Other employers include libraries, hospitals, community colleges & conservation districts

Governed by a nine-member Board of Trustees.

- 88-member staff.

1-8

Plan Basics

Kansas Legislature enacts KPERS' retirement plan design in State statutes, providing for:

- membership eligibility
- employee and employer contributions
- service credit
- vesting
- benefit formula
- retirement eligibility

Defined Benefit Formula

- Final Average Salary X Years of Service X Statutory Multiplier = Annual Benefit

Example: *$40,000 x 30 years x 1.75% = $21,000*

Retirement Funding

- Contributions + Investments - Expenses = Benefits

Assumed actuarial rate = 8%

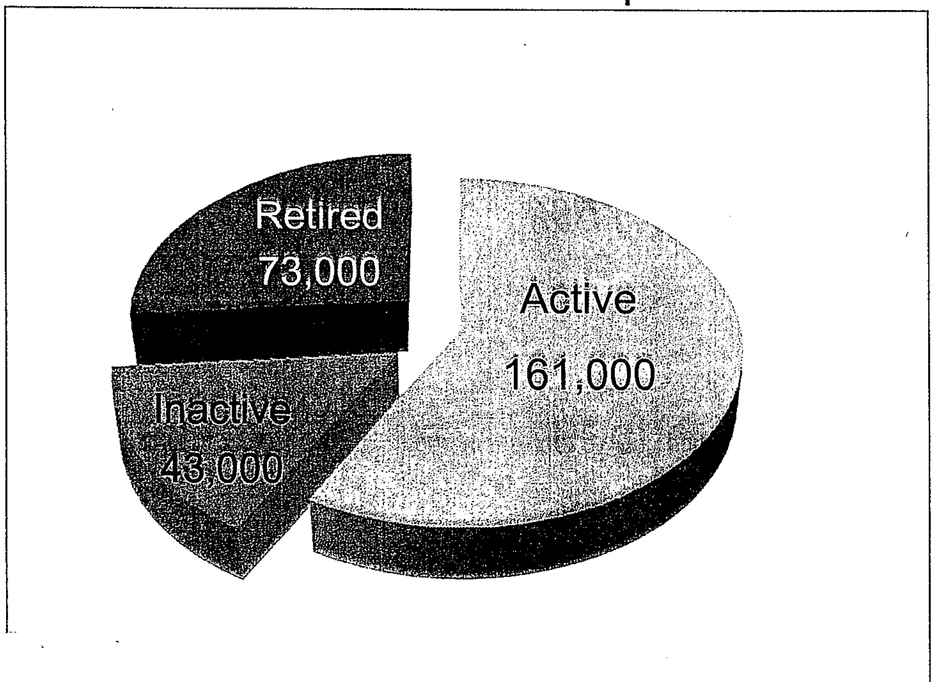
Employees = Statutory rate of 4% (Tier I) or 6% (Tier II)

Employers = Changes annually based on actuarial calculations

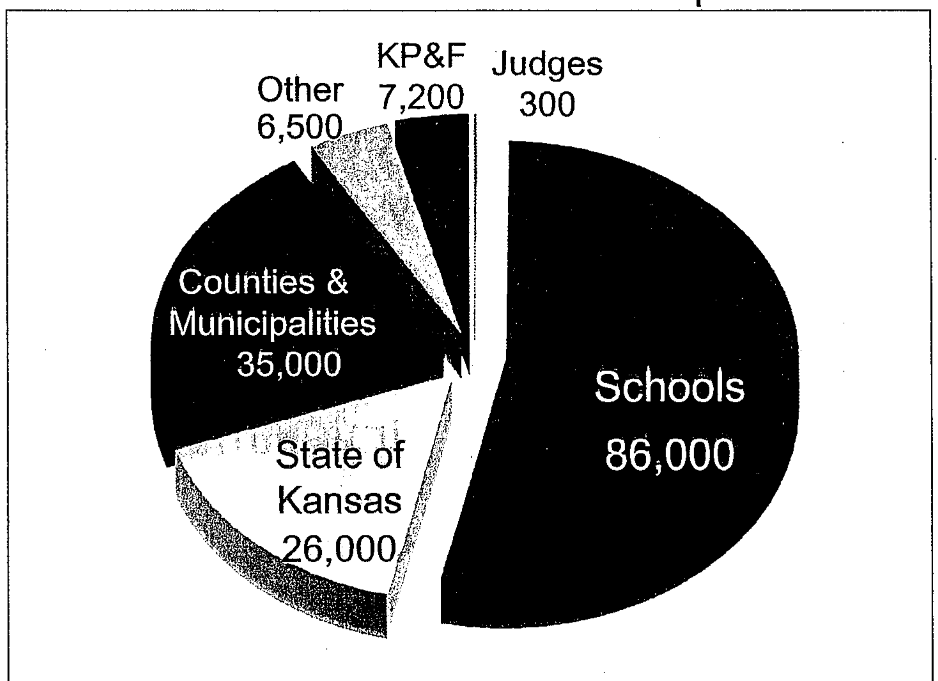
Membership

- Serves 277,000 members.
- State of Kansas is largest participating employer.
- More than half of active members employed by school districts.

Total Membership



Active Membership

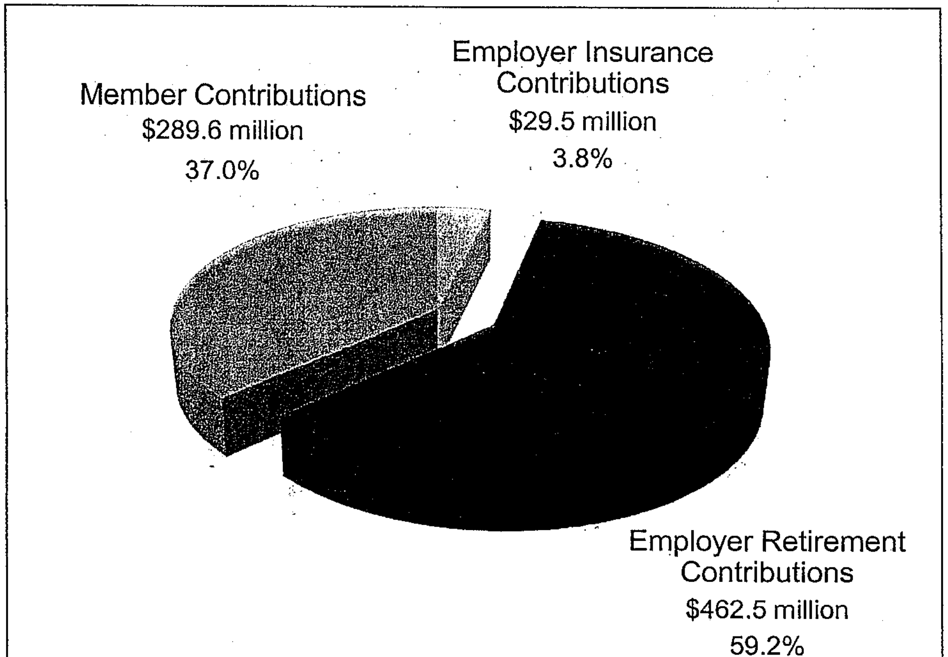


Contributions and Benefits

KPERS' total contributions for FY 2010 were over **$782 million** with benefit payments over **$1.16 billion**.

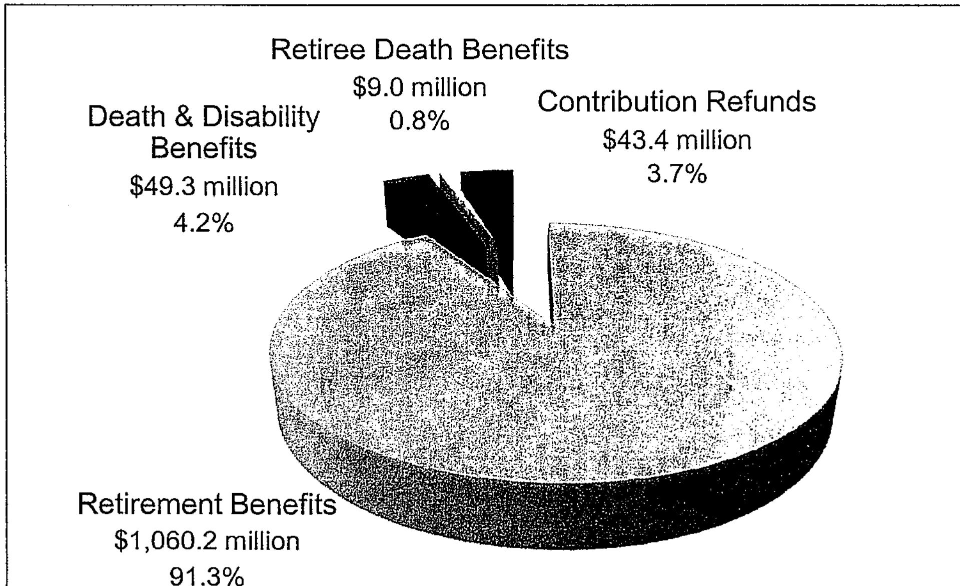
- The State pays employer contributions for state and school employees.
- Approximately 85% to 90% of benefits remain in Kansas.

FY 2010 Contributions



FY 2010 Contributions = $782 million

FY 2010 Benefits

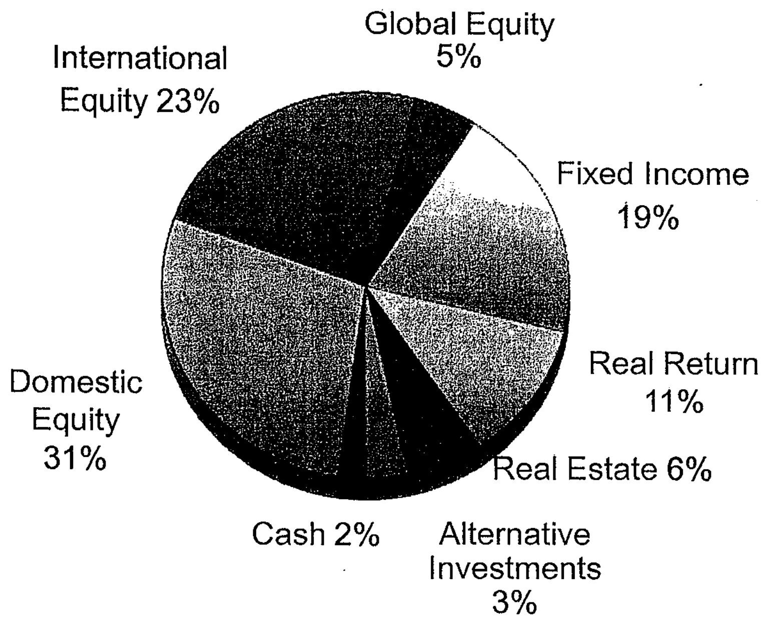


FY 2010 Benefits = $1,162 million

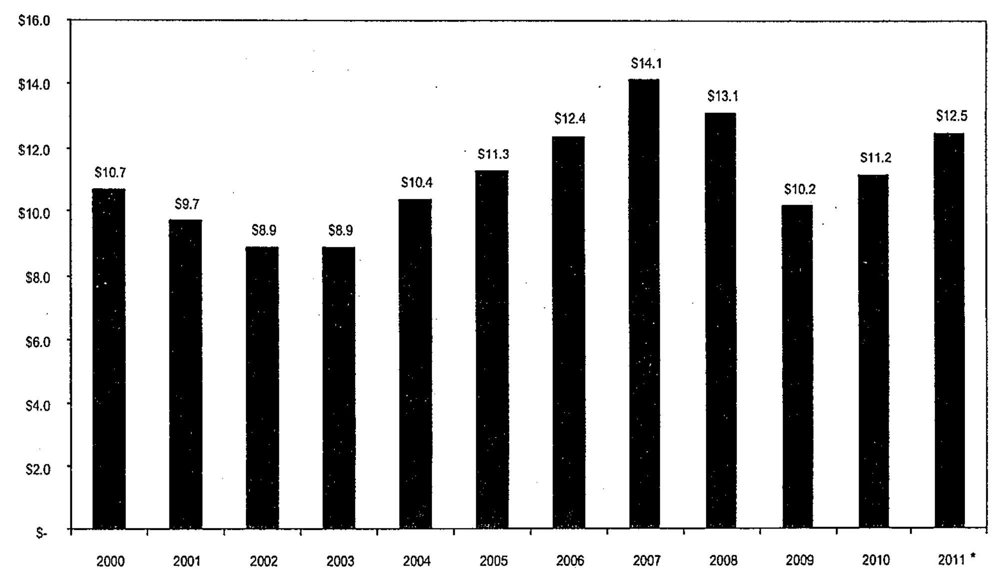
Assets

KPERS manages the investment of $12.5 billion in trust fund assets in the U.S. and international markets.

Asset Allocation as of 10/31/2010



Fund Growth FY 2000 – 10/31/2010 (in billions)



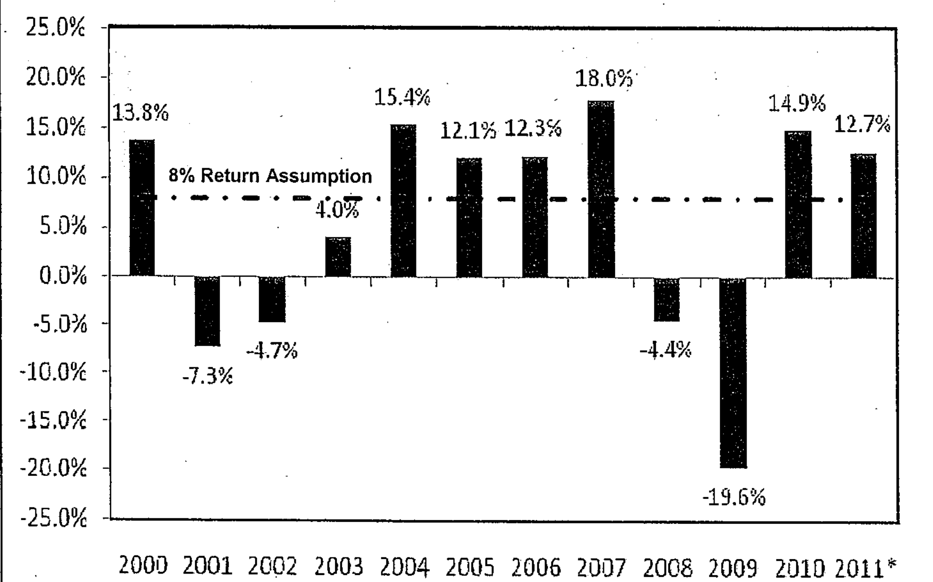
***Preliminary Year to Date FY 2011**

1-7

Investment Returns

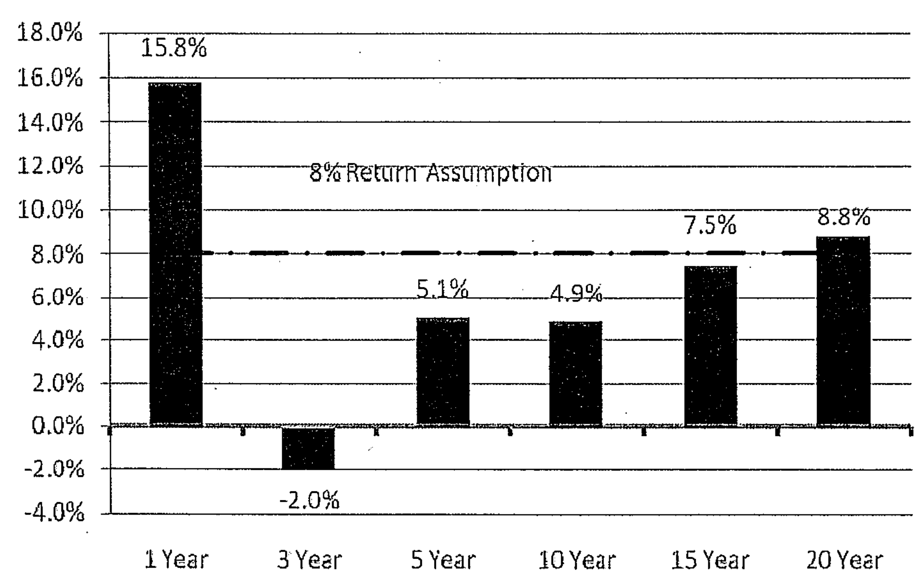
- Due to unprecedented market declines, KPERS' investment returns for FY 2009 were -19.6%.
- KPERS' returns for FY 2010 reflect the market's rebound since March 2009.
  - KPERS' FY 2010 return = 14.9%
  - Preliminary return for FY 2011 through October 31, 2010 = 12.7%.

Return History FY 2000 through 10/31/2010



***Year to Date FY 2011**

Average Annual Return through 10/31/10



1-8

Historical Perspective on Long-Term Funding

- Over KPERS' 49-year history, the Legislature passed laws providing various benefit enhancements to KPERS members.
- The KPERS enhancements were common plan design features in most state defined benefit plans.
- A significant benefit enhancement package passed in 1993, including:
  - Full retirement eligibility under the "85-point rule" (when the sum of a member's age and years of service credit equals 85) or at age 62 with 10 years of service.
  - An increase in the retirement formula factor from 1.4% to 1.75% for both previous and future service.
  - A 15% cost-of-living increase for retirees.
- To fund the enhancements, changes to actuarial methods were made, lowering employer contributions in initial years, but shifting the enhancements' costs into the future. In addition, a statutory cap of 0.1% was placed on annual increases to employer contribution rates.
- Although it did not become fully apparent for several years, these changes, along with subsequent experience losses and other factors adversely affecting liabilities, contributed to long-term funding issues that emerged in 2001-2002.

9

Previous Actions to Address Funding Status

- By 2001 and 2002, actuarial projections indicated the KPERS retirement plan was not in actuarial balance.
- Following the 2001 actuarial valuation results, KPERS worked with the Legislature to develop a comprehensive, long-term funding plan to address the shortfall and bring the Plan into actuarial balance.
  - 2003 legislation raised statutory caps on employer contribution rate increases from 0.2% annually to 0.4% in FY 2006; 0.5% in FY 2007; and 0.6% in FY 2008 and subsequent years.
  - State issued $500 million in pension obligation bonds in 2004. The debt service payments on these bonds, which are paid from the State General Fund, are approximately $36 million annually.
  - 2007 legislation established a new plan design for employees hired on or after July 1, 2009, which increased retirement eligibility ages and employee contributions.
- These actions, along with strong investment returns in the 2004-2007 period, significantly improved the projected funding status of the System.

Key 2009 Valuation Results

- The unprecedented investment market declines in 2008 had a substantial negative impact on the funding status of the System, reversing forward progress on long-term funding.
- The 12/31/08 actuarial valuation report reflected a 12% decline in the System's funded ratio to 59% and a $2.7 billion increase in the unfunded actuarial liability (UAL) to $8.3 billion.
- Due to strong investment performance during 2009, the 12/31/09 actuarial valuation report shows modest improvement in the System's funding status. The UAL decreased by $602 million to $7.7 billion, and the funded ratio rose to 64%.
- Despite this year's modest, short-term improvement in its funded status, the System's fundamental, long-term shortfall remains and will continue to grow.
  - KPERS will continue to absorb the remaining $1.7 billion in deferred losses from 2008 over the next three years. For this reason –
    - The actuarial value of assets remains significantly greater than their market value. On a current market value basis, the funded ratio is 56%, and the UAL is $9.4 billion.
    - Even assuming a yearly 8% investment return, the funded ratio of each group will continue to fall, and their UAL's will rise significantly.

1-11

Key 2009 Valuation Results (Continued)

- A key measurement of KPERS' long-term funding status is its funded ratio.
  - A funded ratio of 80% and rising is generally considered to indicate adequate funding for a public sector defined benefit plan.
  - A plan with a funded ratio of 60% or below can be considered at significant risk and in need of prompt remedial action to stabilize its funding.
- At a 56% funded ratio, the School Group's funded status is the weakest of the three KPERS groups.

Key 12/31/09 Valuation Measurements

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.)

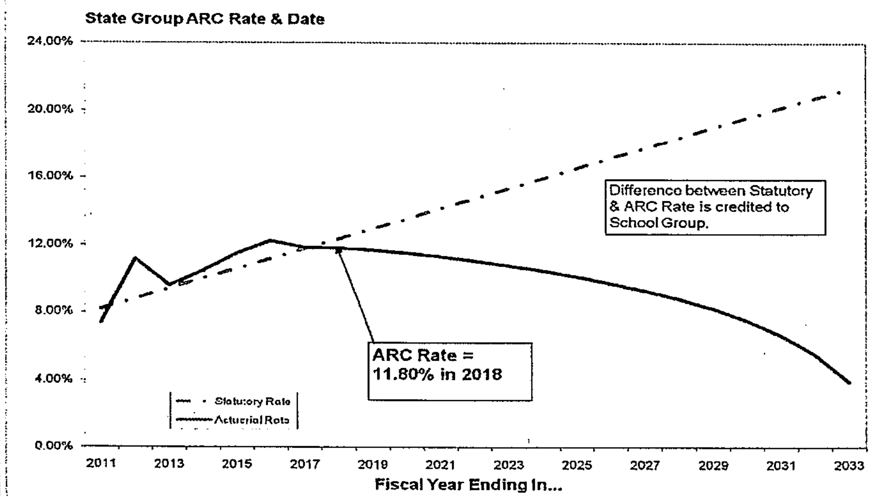
1-13

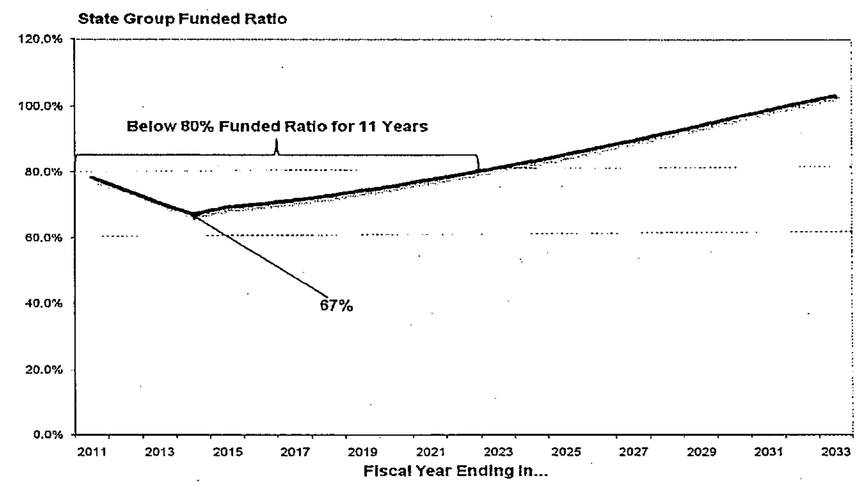
Projections of Long-Term Funded Status

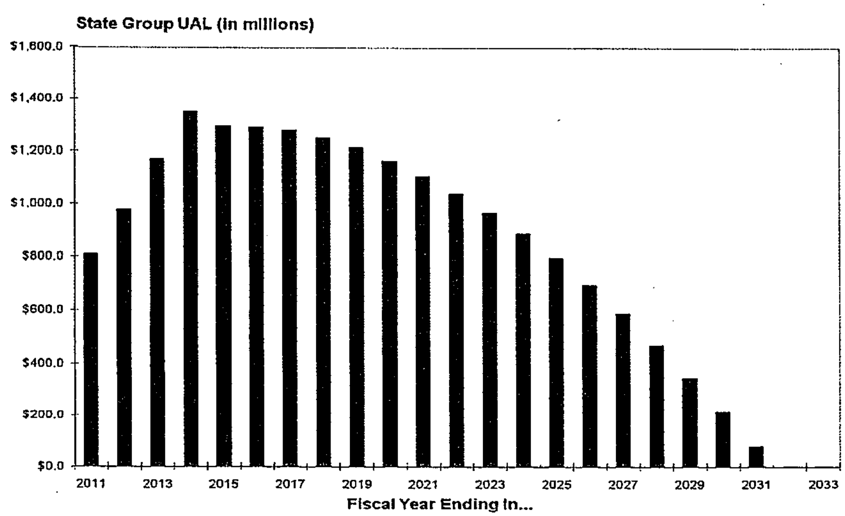
- In addition to the snapshot of KPERS' current status provided by the valuation, KPERS' actuary is able to model future trends in the System's long-term funding status, using the valuation's data.
- Projected actuarially required contribution (ARC) rates, statutory rates, funded ratios, and unfunded liability for each KPERS group through FY 2033 are set out on the following pages.
- These projections indicate that, in the absence of additional funding or plan design changes –
  - The UAL will continue rising significantly for all KPERS groups.
  - The School Group is out of actuarial balance, which means that the statutory rate will not equal the ARC rate before the end of the amortization period in FY 2033.
  - The School Group's funded ratio is projected to remain below 60% funded for 15 years.
- Therefore, without additional steps to address the shortfall, the School Group's funded status, in particular, is highly vulnerable to market downturns for a protracted period of time.

State Group: Baseline Projections

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



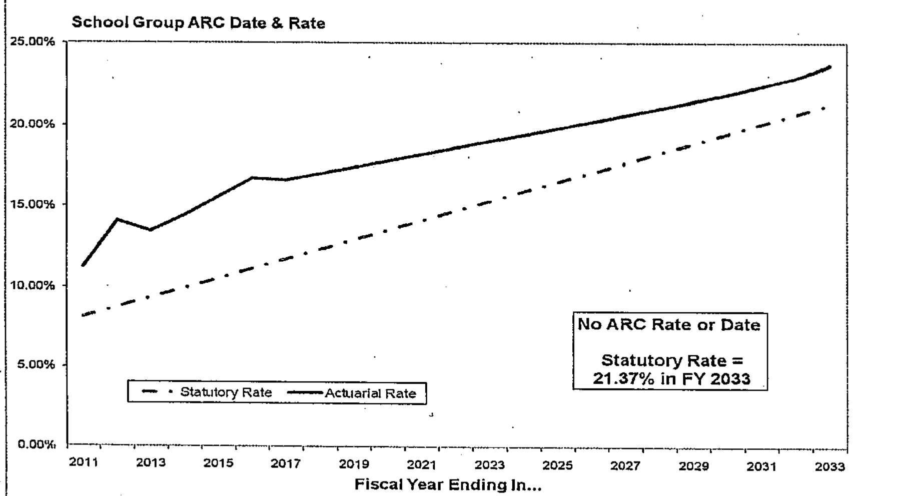


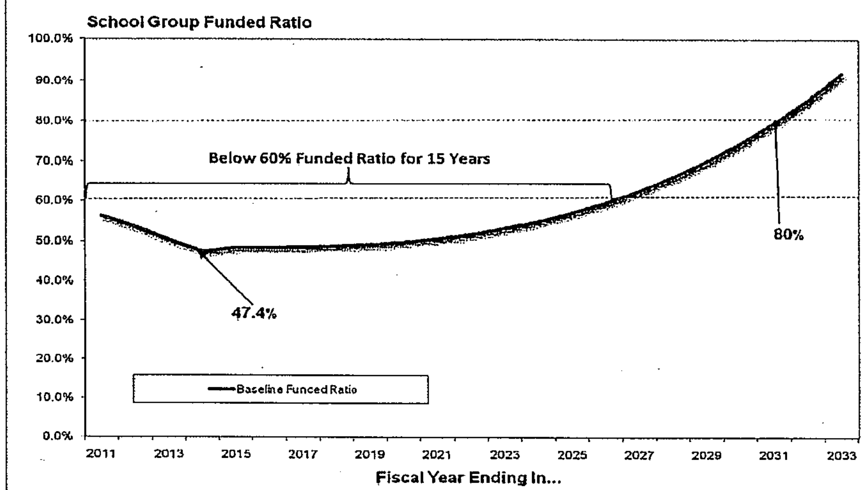


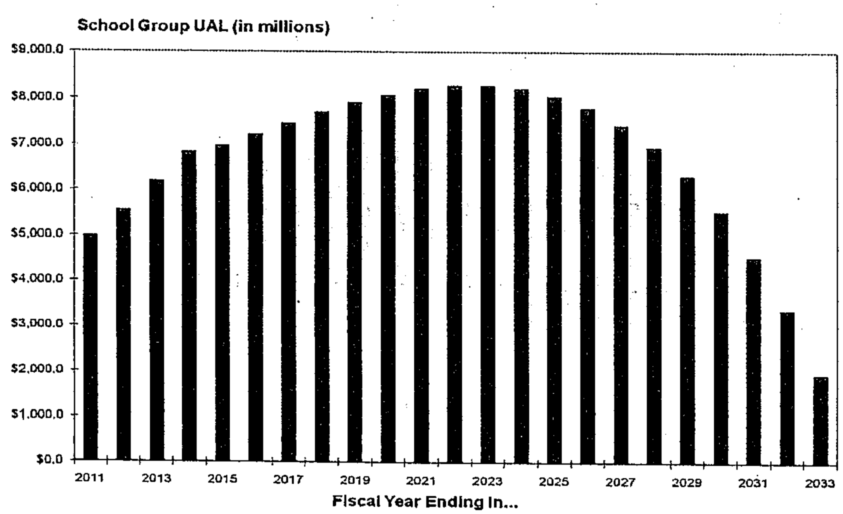
- The projected ARC rate of 11.8% is 44% higher than the State/School rate paid by state agencies in FY 2011 (8.17%).
- Funded ratios reach a low of 67% in FY 2014. They are projected to reach 80% in FY 2023.
- The projected UAL rises by 67% to $1.35 billion in FY 2014.

School Group: Baseline Projections

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





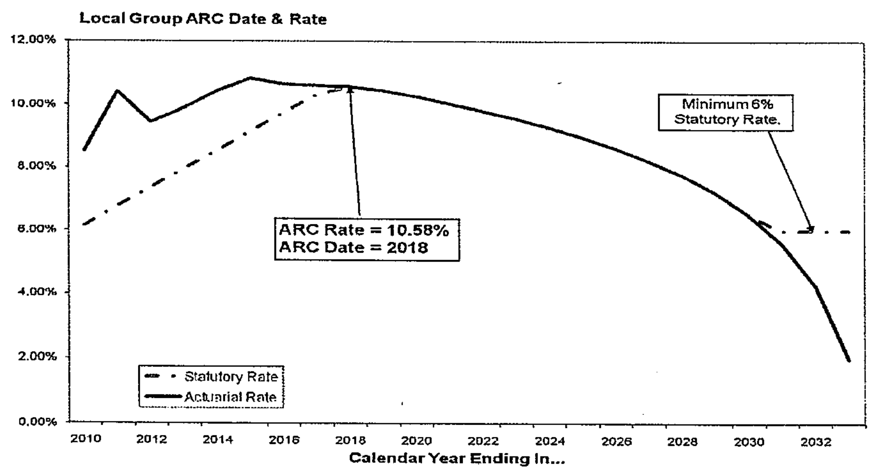


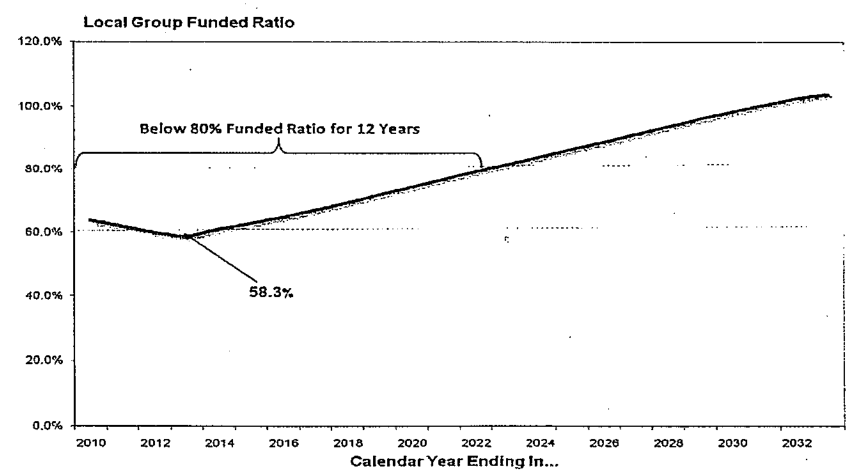
- The School Group is still not in actuarial balance by FY 2033, despite a peak statutory rate of 21.37%.
- Funded ratio projections reach a low of 47% in FY 2014 and remain below 50% until FY 2021.
- The funded ratio is not projected to reach 60% until FY 2027 and only reaches 80% in FY 2032.
- The projected UAL rises 66% to $8.3 billion in FY 2023.

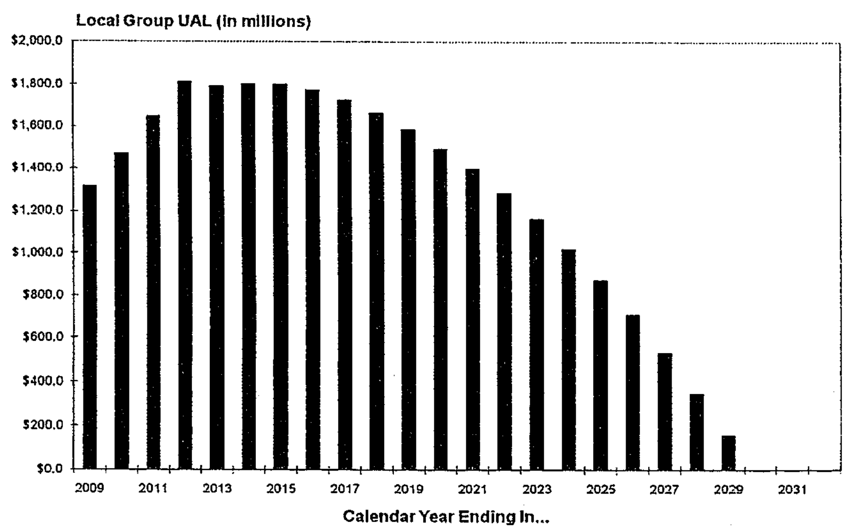
1-15

Local Group: Baseline Projections

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







- The Local Group ARC rate is projected to rise by 72% to 10.58% in CY 2018.
- The projected funded ratio will fall to 58% by CY 2013, regaining 60% the next year.
- The funded ratio is projected to reach 80% by CY 2023.
- The UAL is projected to increase by 38% to $1.8 billion in CY 2013.

Employer Contributions

- A fundamental principle of sound funding for a defined benefit plan is to consistently pay the full ARC rate.

- Due to the statutory cap on employer rate increases of .6%, there is a significant gap between the statutory and ARC rates for each of the KPERS Groups.

    - In the current fiscal year, the statutory employer rate for the State/School Group is 72% of its ARC rate (8.17% statutory rate vs. 11.30% actuarial rate).

    - The State/School statutory rate is not projected to reach 100% of ARC before the end of the amortization period in FY 2033.

- Raising the cap on employer contribution rate increases to 1% per year moves KPERS closer to the goal of contributing at the ARC rate.

    - With a 1% cap beginning in FY 2013, the State/School statutory rate is projected to reach 100% of ARC within 9 years.

Employer Contributions (Continued)

- Substantial increases in state funding for KPERS retirement benefits will occur even with the current .6% per year statutory cap on employer rate increases.
  - Because the employer contribution rate is a percent of payroll, contributions automatically increase as the payroll base increases.
  - State funding in FY 2012 will rise by $37.1 million to $401.6 million.
  - From FY 2011 to FY 2016, State funding will have increased by 57% to $571.0 million.
- If the .6% cap on employer rate increases was raised to 1.0% beginning FY 2013, the pace at which State contributions grow would accelerate substantially.
  - 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 million to $652.8 million.
  - However, from FY 2011 through the remainder of the amortization period in FY 2033, total employer contributions would be less than under the Baseline – by $1.16 billion.

1-19

Employer Contributions (Continued)

Employer Contributions	Baseline	1% Cap *	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	$ 23,048.75	$ 21,887.03	$ (1,161.72)

*Effective FY 2013

1-20

Legal Issues

- Kansas state retirement systems are contracts between the State and members that are protected by the Contract Clause of the U.S. Constitution.
- Kansas law states that amendments to the Retirement Act may not affect existing rights of members and beneficiaries, but are effective only as to rights that would otherwise accrue with service performed after the statutory change.
- Kansas courts have found that:
  - Changes in benefits for current members are permitted only in limited circumstances and on a case-by-case basis.
  - Changes that result in disadvantages to employees must be accompanied by comparable new advantages.
  - Unilateral alteration of the employees' contractual interests may be allowed if reasonable to keep the system flexible while maintaining its integrity.
  - In order for the Court to allow changes to improve the actuarial soundness of the plan and consider it an advantage to the members, the Court must find evidence that the employer would not be able to meet its obligations in the future.

Funding Solution Options

KPERS modeled a series of funding solution options that were presented to the Joint Committee on Pensions, Investments and Benefits during the 2009 Interim. These options included:

- Increases to the statutory employer contribution rate cap.
- Increases in employee contribution rates.
- Changes in the statutory multiplier for future service.
- Bond issues in lieu of the statutory employer contribution cap increase.
- Various combinations of employer and employee rate increases and multiplier changes.
- Creating a new mandatory defined contribution plan for future employees.

2010 Legislative Activity

- **SB 564.** Based on its review of options for improving KPERS' funded status, the Joint Committee recommended introduction of SB 564 as an initial step in addressing the shortfall. This bill would have –
  - **Increased Contributions.** Raised the cap on employer contribution rate increases from .6% per year to 1.0% per year, beginning in FY 2012. Beginning January 1, 2012, increased employee contribution rates for both Tier 1 and Tier 2 by .5% in each of four calendar years, for a total increase of 2%.
  - **Increased Multiplier for Future Service.** Effective January 1, 2012, raised the benefit formula's multiplier to 1.85% for all future years of service credited to members.
- **House Sub for HB 2400.** The House Select Committee on KPERS recommended this substitute bill, which would have raised the maximum increase in employer contributions for the KPERS State and School Groups to 1.0% a year, effective FY 2013.
- While bills such as these provide essential funding increases, they would not substantially improve KPERS' funded ratio for a number of years.
- Addressing KPERS' long-term funding problems will be an ongoing process, even with additional employer and employee contributions.

1-22

2010 Legislative Activity (Continued)

- **HB 2751.** The House Appropriations Committee introduced a bill which would have created a Tier 3 KPERS defined contribution retirement plan for those hired after June 30, 2012.
  - Employees would contribute 7% of compensation to their retirement account.
  - Employers would contribute 5% to each employee account, as well as percentages set by the Board for death and disability plan benefits, a funding rate for the current defined benefit plan and a rate for plan administration expenses.
- Hearings were held for SB 564 and HB 2400, but neither of the bills passed out of its house of origin.
- No hearing was held on HB 2751, as it was introduced a few days before adjournment.
- The Joint Committee has reviewed long-term funding issues during the 2010 Interim.
- At its December 2, 2010, meeting, the Joint Committee recommended that HB 2400 and SB 564 be updated and reintroduced during the 2011 Session.

Other States' Long-Term Funding Responses

- The majority of other state retirement systems are facing long-term funding issues similar to those confronting Kansas.
- The National Conference of State Legislatures reported that, as of December 2, 2010, a number of states changed contributions, plan design or plan type for one or more of their state-administered pension systems.
- Many of these changes bring benefit levels more in line with plan design changes made in 2007 for Tier 2 KPERS members.
  - **Contribution Increases.**
    - Increased employer contributions: California, Iowa, Minnesota, and Wyoming.
    - Increased employee contributions for one or more state-level plans: California, Colorado (through funds otherwise available for pay increases), Iowa, Louisiana, Minnesota, Mississippi, Missouri, Vermont, Virginia, and Wyoming.
    - There is a wide variation in legal limitations on changes to employee contributions among these and other state-level pension systems.
    - At least one state (Mississippi) explicitly added benefit enhancements to help offset employee contribution increases.

1-24

Other States' Responses (Continued)

- **Plan Design Changes.**
  - Narrowed eligibility for membership for future employees: New Jersey.
  - Increased the time required to vest:
    - Future members: Minnesota to five years. Missouri and Pennsylvania to 10.
    - Active members: Iowa (nonvested members as of 7/1/2012 only).
  - Increased normal retirement age (NRA):
    - Future members: Arizona, California, Illinois, Michigan, Mississippi, Missouri, Pennsylvania, Utah, Virginia.
    - Active members: Colorado and Vermont (phased in).
  - Changed the multiplier in their benefit formula:
    - Future members: California, New Jersey, Louisiana, Pennsylvania (two multiplier options, with different employee contribution rates), and Utah.
    - Active members: Vermont (higher multiplier for future service of certain members, based on years of service and number of years before NRA).
  - Increased the amount of time included in calculating the final average salary (FAS):
    - Future members: Arizona, California, Illinois, Louisiana, Michigan, New Jersey, Utah, and Virginia.
    - Active members: Iowa (Phased in).

Other States' Responses (Continued)

- Placed new limits on "spiking" of the FAS:
  - Future members: Louisiana.
  - Active members: Colorado and Vermont.
- Eliminated, reduced, or added restrictions to cost of living adjustments (COLA's):
  - Future members: Illinois, Michigan, Virginia, and Utah.
  - Active members: Rhode Island.
  - Current retirees: Colorado, Minnesota, and South Dakota. Litigation has been filed in each of these states.

- **Hybrid Plan Designs**
  - Established a hybrid plan for new members with a DB component, plus a defined contribution (DC) component: Michigan (Public School Employees) and Utah.
    - Michigan. The DB component has a higher NRA (age 60 with 10 years of service) and a five-year period for calculating the FAS. The DC Component automatically enrolls members with a 2% contribution and a 1% employer match (with options to negotiate higher employer contributions up to 3%).
    - Utah. Members choose either a hybrid plan or a new DC plan. The hybrid caps combined employer contributions to the DB and DC components at 10% of pay. Members are responsible for any required DB contributions over 10%.

1-26

1-27

Conclusions

- Current benefits are safe for a period of time. Assets of more than $12 billion are available to pay benefits.
- While the 12/31/09 valuation indicates a modest, short-term improvement in KPERS' funding status, the fundamental, long-term funding shortfall remains and will continue to grow.
- KPERS' ability to withstand future economic downturns is compromised.
- Investment returns alone cannot fix the funding problem. Last year's strong investment returns do not happen every year. Employers are still not contributing at the required actuarial rate.
- Legislative action is necessary to begin the process of addressing the funding shortfall, with additional employer contributions as a basic element.
- 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.