MEMORANDUM

To: House Pensions and Benefits

From: Alan D. Conroy, Executive Director ADC

Date: January 21, 2015

Subject: Committee Requests

At the January 14th meeting of the Pensions and Benefits Committee, several requests for additional information were made. Responses to those requests are included in this memorandum.

KPERS Plan Design Comparison

The System administers three "tiers" within KPERS retirement:

- KPERS 1 – membership prior to July 1, 2009
- KPERS 2 – membership between July 1, 2009 and December 30, 2014
- KPERS 3 – membership on and after January 1, 2015

KPERS 1 and KPERS 2 are traditional defined benefit plan where a member's benefit is calculated using the formula: Years of Service X Final Average Salary X Multiplier. Differences between KPERS 1 and KPERS 2 are generally requirements for normal retirement and final average salary calculations.

KPERS 3 is a cash balance defined benefit plan, which combines aspects of defined benefit and defined contribution plan. Member contributions and retirement pay credits funded by the employer are tracked for each member in a notional account. At retirement, the balance of the member's notional account are converted into a lifetime annuity. Attachment A is a table that compares the plan design of all three KPERS groups.

Death and Disability Moratoriums

The System has managed the death and long-term disability benefit program for active KPERS members and certain other groups of active employees since 1966. This program has been an employer-provided benefit since its inception. For over 20 years, the employer rate was set statutorily at 0.6 percent of payroll. The employer contribution rate was raised to 1.0 percent by the 2005 Legislature, effective in FY 2007.

Due to budget shortfalls, the Governor proposed and the Legislature adopted 27 months of moratoriums on employer contributions to the Death and Disability Fund (Fund) between

KPERS

FY 2000 and 2004. These moratoriums resulted in multi-year budget savings of $100.3 million - $78.5 million for the State and $21.8 million for local governments.

As a result, the Fund's balances were nearly depleted by FY 2004, leading to enactment of a package of plan design and cost containment measures. In conjunction with the increase in the employer contribution rate, these measures stabilized the plan's funding. Fund balances began to grow modestly because actual claims expenses were lower than originally projected when the 1.0 percent rate was established. However, the program effectively shifted from being pre-funded on an actuarial reserve basis to a "pay-as-you-go" program.

Following the economic downturn in 2008, the Legislature again approved moratoriums on employer contributions to the Death and Disability Fund. Between FY 2009 and FY 2013, the Legislature approved 16 months of moratoriums. Attachment B shows the history of the approved moratoriums since FY 2000.

In 2013, the Governor recommended and the Legislature approved a reduction in the contribution rate from 1.0 percent to 0.85 percent for FY 2014 and FY 2015. This approach was simpler and more efficient from an administrative standpoint than periodic moratoriums. The rate is scheduled to return to 1.0 percent starting in FY 2016.

FY 2014 and CY 2014 to Date Investment Returns

As was reported at the January 14th meeting, KPERS had an 18.4% investment return in FY 2014 and a CY 2014 investment return through September 30th of 4.9%. Comparing the difference between those two numbers is difficult because the two time periods are not equal (12 months and 9 months respectively) and any discussion of investment returns is very time sensitive.

For more information, Attachment C shows the quarterly returns for both FY 2014 and CY 2014 through September 30 as calculated by KPERS' custodial bank. In addition, the policy index for those same quarters has been included to show KPERS' investment performance compared to the benchmark.

As you can see in the attachment, there are five quarters reported between the July 2013 and September 2014. The strongest returns were experienced between July and December 2013, which are included in the Fiscal Year total return but not included in the Calendar Year to date return. Also the weakest quarter of the five reported was the third quarter of 2014, which is included in the Calendar Year to date return but not in the Fiscal Year total return. While it is true that the CY 2014 to date return is less than the FY 2014 total return, it is not unusual to see a high level of variance when selecting different time periods for comparison.

Change in Active Membership

The committee requested additional information regarding the change in active membership. Information for the last eight calendar years from 2006 to 2013 was readily available and is compiled in Attachment D.

Generally active membership has grown since 2006, from 149,073 to 155,446. This is an increase of 6,373, or 4.3% over the eight-year period or about 800 new active members per year.

The State/School Group has grown from 106,503 active members to 109,254, an increase of 2,751 members or 2.6 percent. Active membership of the state group has declined by 1007 members, or 4.2 percent, during the period between 2006 and 2013. The School Group increased by 3,373, or 4.1% during the same period.

I would be happy to respond further to any questions the Committee may have.

Attachments