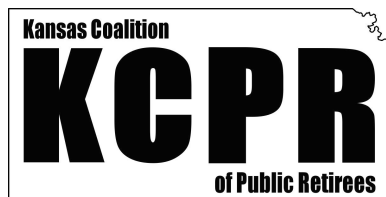


Kansas Coalition of Public Retirees

A coalition of 39 KPERS retiree groups

“Working to improve the KPERS System”

Recommendations for the 2012 Kansas Legislative Session



————— **Prepared by the Kansas Coalition of Public Retirees** —————

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January 11, 2012

Greetings,

The Kansas Coalition of Public Retirees (KCPR) was formed in 2004 to call attention to a serious issue. For 26 years the Kansas Legislature granted periodic cost of living adjustments for KPERS recipients. However, in the past 13 years, no such adjustment has been made. During that same period of time, the cost of living (as measured by the Consumer Price Index, CPI) has risen by approximately 38 percent. This coalition strongly requests that the Kansas Legislature give serious consideration for a *hardship adjustment* and a permanent annual modification tied to the Consumer Price Index for the 73,000 retired KPERS members.

The attached report contains information regarding this serious disparity. An Executive Summary highlights information in the report as well as data supporting our request and reference materials. Members of the Coalition will be visiting with all members of the legislature during the upcoming session to answer questions.

On behalf of all KPERS retirees, we appreciate the support of the Legislature in this request.

Sincerely,

Dennis Phillips, Chair
Kansas Coalition of Public Retirees

Ernie Claudel, Vice-Chair
Kansas Coalition of Public Retirees

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Kansas Coalition of Public Retirees

Mission Statement

“To encourage the Kansas Legislature and Executive Branch to provide regular adjustments to KPERS pensions so that the buying power of those pensions is not diminished.”

Officers for 2012

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Executive Summary

INTRODUCTION

During recent Kansas Legislative sessions, attempts have been made to pass Cost-Of-Living adjustment (COLA) increases for retirees of the Kansas Public Employees Retirement System (KPERS). A group of 18 professional associations representing a broad range of KPERS membership, formed the Kansas Coalition of Public Retirees. While interested in all components of the KPERS retirement system, the Coalition overwhelmingly agreed that securing periodic adjustment in the level of retirement benefits would be the most beneficial to all KPERS retirees. The initial group of 18 associations has now grown to 39 organizations. Coalition membership consists of retirees formerly employed by State, Local and School units of government. This brief report is prepared by members of the Coalition of Public Retirees.

INSIDE THIS REPORT

KPERS Benefits are in need of an increase. The general KPERS retired population desperately needs an upward adjustment in benefits. Even the most casual observer would agree that the cost of goods and services continues to rise and therefore periodic adjustment in retirement benefits is necessary. The KPERS retirement system needs adequate review to increase benefits when necessary.

Inflation hits hard at purchasing power. The level of inflation in the United States is usually measured by change in the Consumer Price Index, CPI. The level of change in the CPI differs from year-to-year but has increased steadily since 1998, the year of the last KPERS benefit adjustment. In fact the CPI index has grown by more than 38 percent since 1998. The significant growth in CPI translates into a dramatic loss of purchasing power by the KPERS retiree. Comprehensive CPI tables are included in this document as well as a means to calculate loss in purchasing power.

Historical KPERS increases have been eliminated. During the long history of the KPERS program, several benefit adjustments have been made which recognize the effects of inflation and the need to adjust benefits accordingly. Some adjustments have taken the form of a cost-of-living while others offered a bonus. A complete history of these adjustments is contained in the report.

KPERS retirees represent a powerful economic force in the Kansas economy. Individuals covered by the KPERS retirement system (working and retired) have a significant impact on the Kansas economy. This paper examines the size of the KPERS workforce, the KPERS payroll and the effect of additional payments on the Kansas economy.

Legislature Creates KPERS Study Commission. Recognizing that KPERS faces significant long-term funding issues, the 2011 session of the Kansas legislature passed Senate substitute for HB 2194 which creates a KPERS Study Commission. This commission was mandated to examine and analyze the retirement system and make recommendations for improvements or modifications to the full 2012 legislature. A discussion of this development is included in this report.

CONCLUSION

The Kansas Coalition of Public Retirees believes an upward adjustment in benefits is long overdue and is desperately needed by the KPERS retiree. The membership believes a compelling case for an increase is contained in this paper. The Coalition also strongly supports continuation of the current Defined Benefit form of benefit calculation.

Members of the Kansas Coalition of Public Retirees

AARP (American Association of Retired Persons)
Association of Department of Education Employees
Association of Retired City of Topeka Employees
Association of Retired Highway Employees
Association of Retired Insurance Department Employees
Association of Retired KPERS Employees
Fraternal Order of Police (Topeka Chapter)
HERO (Health and Environment Retirees Organization)
Johnson County Association of Retired School Personnel (JCARSP)
KAEOP (Kansas Association of Educational Office Professionals)
Kansas Association of Chief's of Police
Kansas Association of Community Colleges
Kansas Association of Counties
Kansas Association of District Court Clerks & Administrators
Kansas Association of School Boards
Kansas City, KS Retired Fire & Police
Kansas Correctional Officers Association
Kansas Counties and District Attorneys Association
Kansas Department of Labor Retirees
Kansas District Judges Association
Kansas District Magistrate Judges Association
Kansas Fire Service Alliance
Kansas Peace Officer's Association
Kansas Retiree's/Kansas Retired
Kansas Sheriff's Association
Kansas State Fraternal Order of Police
Kansas State High School Activities Association
Kansas State Troopers Association
KAPE (Kansas Association of Public Employees)
KARSP (Kansas Association of Retired School Personnel)
KNEA
KNEA Retired
KOSE (Kansas Organization of State Employees)
KSCFF (Kansas State Counsel of Fire Fighters)
Leavenworth Area Retired School Personnel
Olathe District Schools Retired Employees Association
SEAK (State Employees Association of Kansas)
United Teachers of Wichita
USA of KS (United School Administrators)

Coalition Recommendations for a Benefit Increase

Last cost of living adjustment (COLA):

During the 1998 Legislature a three percent COLA was granted to those who retired prior to July 1, 1997. The increase recognized the long term career public servant with 25 years or more of service under the old School retirement system (KSRS). Since that date, the consumer price index has risen appreciably, and the purchasing power of the retiree dollars has decreased significantly. Thus, the group is recommending a permanent annual benefit increase to recover some of the lost purchasing power.

Recommended COLA:

The coalition believes that a three percent permanent annual across the board increase is appropriate and feels it can be financed. The increase would include the retirees of the Kansas Public Employees Retirement System (KPERS), the Kansas Police and Fire system (KP&F), the retirement system for Judges and the KSRS (Kansas School Retirement System).

A three percent COLA (Cost of Living Adjustment) is a modest increase when you consider cost of living increases, inflation, health care costs, health insurance premiums and increased costs to everyday living over the past years. The Coalition has included Consumer Price Index (CPI) information in this report that indicates during the time period 1998 to 2011, the index increased by approximately 38 percent.

Permanent COLA:

The coalition further recommends a permanent COLA affixed to the consumer price index in the future. Consideration was given to such a plan by the Senate in the 1970's and it should be revisited. As the situation presently exists, if a retiree lives 30 years in retirement, the retiree will experience a significant loss in buying power due to inflation.

KPER's Unfunded Actuarial Liability

One of the explanations put forth for the KPERS unfunded actuarial liability (UAL) is that a major contributing factor has been the 1.75 multiplier, instituted prior to 1994 and used since that date, and the 85 point rule. Both of these were endorsed by a previous actuary whose advice is now alleged to be questionable. If this advice was questionable, why has nothing been changed during the seventeen years since 1994?

What is the origin of that 1.75 multiplier? According to KPERS, from 1988 to 1993 or 94 (depending on the year that the legislator's term ended) only legislators received a statutory multiplier of 2.0. While the legislators were using the multiplier of 2.0, other public employees were required to use the multiplier of 1.0. KPERS confirms that the multiplier of 2.0 was instituted because a large number of legislators were going to retire, and they voted themselves a "bit of icing on the cake!" When public pressure was applied, the next "sitting legislature" reduced the legislative multiplier to 1.75 and raised the other state employees to 1.75.

The excuse that a "previous" actuary may or may not have been correct on his assumptions (at that time), 1994 was 17 years ago, and there has been adequate time to correct any error(s) in contribution rates, multiplier rates and the 85 point rule! It should also be noted that former Kansas State Treasurer Dennis McKinney's press release last year stated that the actuarial required amount (ARC) had not been paid for 17 years, using the 1994 date as a basis for his comments.

It is clear that the UAL was exacerbated by past legislatures' inaction on meeting their fiduciary obligation to adequately fund the system at the ARC. While this is the major factor in the UAL, it is not the sole reason. Down-turns in returns on investments and some past flawed investment strategies have also had a negative effect. But employees have always, as a condition of employment, paid the amount set by the legislators. It therefore does not seem reasonable to ask the employees to increase their contributions while the employer reduces theirs.

As one of the commissioners on the KPERS Study Commission put it: "The employees have done everything they were asked, the KPERS investments have been handled exceptionally well, the problem is that the fund has been short funded on the employer side and some poor decisions have been made along the way."

U.S. Consumer Price Index - All Urban Consumers All Items
1982-1984 = 100

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Annual Avg.
1991	134.6	134.8	135.0	135.2	135.6	136.0	136.2	136.6	137.2	137.4	137.8	137.9	136.2
1992	138.1	138.6	139.3	139.5	139.7	140.2	140.5	140.9	141.3	141.8	142.0	141.9	140.3
1993	142.6	143.1	143.6	144.0	144.2	144.4	144.4	144.8	145.1	145.7	145.8	145.8	144.5
1994	146.2	146.7	147.2	147.4	147.5	148.0	148.4	149.0	149.4	149.5	149.7	149.7	148.2
1995	150.3	150.9	151.4	151.9	152.2	152.5	152.5	152.9	153.2	153.7	153.6	153.5	152.4
1996	154.4	154.9	155.7	156.3	156.6	156.7	157.0	157.3	157.8	158.3	158.6	158.6	156.9
1997	159.1	159.6	160.0	160.2	160.1	160.3	160.5	160.8	161.2	161.6	161.5	161.3	160.5
1998	161.6	161.9	162.2	162.5	162.8	163.0	163.2	163.4	163.6	164.0	164.0	163.9	163.0
1999	164.3	164.5	165.0	166.2	166.2	166.2	166.7	167.1	167.9	168.2	168.3	168.3	166.6
2000	168.8	169.8	171.2	171.3	171.5	172.4	172.8	172.8	173.7	174.0	174.1	174.0	172.2
2001	175.1	175.8	176.2	176.9	177.7	178.0	177.5	177.5	178.3	177.7	177.4	176.7	177.1
2002	177.1	177.8	178.8	179.8	179.8	179.9	180.1	180.7	181.0	181.3	181.3	180.9	179.9
2003	181.7	183.1	184.2	183.8	183.5	183.7	183.9	184.6	185.2	185.0	184.5	184.3	184.0
2004	185.2	186.2	187.4	188.0	189.1	189.7	189.4	189.5	189.9	190.9	191.0	190.3	188.9
2005	190.7	191.8	193.3	194.6	194.4	194.5	195.4	196.4	198.8	199.2	197.6	196.8	195.3
2006	198.3	198.7	199.8	201.5	202.5	202.9	203.5	203.9	202.9	201.8	201.5	201.8	201.6
2007	202.4	203.5	205.4	206.7	207.9	208.4	208.3	207.9	208.5	208.9	210.2	210.0	207.3
2008	211.080	211.693	213.528	214.823	216.632	218.815	219.964	219.086	218.783	216.573	212.425	210.288	215.303
2009	211.143	212.193	212.709	213.240	213.856	215.693	215.351	215.834	215.969	216.177	216.330	215.949	214.537
2010	216.687	216.741	217.631	218.009	218.178	217.965	218.011	218.312	218.439	218.711	218.803	219.179	218.056
2011	220.223	221.309	223.467	224.906	225.964	225.722	225.922	226.545	226.889	226.421	226.230		

To calculate the percentage change in CPI since your retirement, divide the figure from the year and month of the most recent CPI by the figure from the year and month of your retirement.

Example:

Percent change in CPI from Oct. 2011 (**226.230**);

Divided by month of retirement Dec. 1998 (**163.900**);

Equals change of 1.38029 (rounded to **38.03%**).

The CPI has increased 38.03% since retirement

$$226.230 \div 163.900 = 1.38029$$

(rounded to **38.03%**)

The Impact of KPERS Retirees on the Kansas Economy (2010)

KPERS and the Kansas Economy

“One in every 6 working Kansans is employed by State or Local Government.”

KPERS Public Employment represents a significant economic force in the Kansas Economy. State and Local Government employment (CY 2010) represents more than 17 percent of statewide total employment (public and private). Law enforcement personnel, firefighters, judges, school teachers, State workers and most county and municipal workers are employed to insure the safety of our citizens and administer a wide variety of programs. Most of these workers are covered by the KPERS retirement program. The table below illustrates the size of the State and local workforce

Kansas Employment Annual Average Non-farm Jobs CY 2010

Total Kansas Employment (public and private)	1,323,000	100.0% a/
Government Employment (state and local only)	234,000	17.7%
State	53,200	
Local	180,800	

a/ Source: Kansas Department of Labor, Labor Market Information Services website.
<https://klic.dol.ks.gov/>

The KPERS Retirement Population 2010, Key Facts

“KPERS recipients are the largest single block of retired workers (and voters) in Kansas.”

A significant number of working Kansans are covered by KPERS.

Number of KPERS Retirees (Calendar Year 2010)	73,164	b/
Amount of KPERS payments (SFY 2010)	\$1,069,165,206	b/

b/ Source: “KPERS Annual Report 2010.” pp 119 and 124
<http://www.kpers.org/annualreport2010.pdf>

Estimated Kansas Taxes Paid by KPERS Retirees (SFY 2010)

“KPERS Retirees Pay Millions in State Sales and other Taxes each year”

Estimated average Kansas sales tax rate	7%
KPERS benefit payments for SFY 2010	\$1,069,165,206 b/
Amount of sales tax CY 2010 (.07 times \$1,069,165,206)	\$74,842,000 (est.)
A 3.0% increase would bring retiree payments to	\$1,101,240,000 (est.)
Then: sales tax would rise to approximately	\$77,087,000 (est.)
An increase of:	\$2.2 M

b/ Source: “KPERS Annual Report 2010.” pp 119 and 124
<http://www.kpers.org/annualreport2010.pdf>

HISTORY OF BENEFITS

HISTORY OF KPERS BENEFIT INCREASES (1972-2011)

2011 No benefit increase	1996 No Benefit Increase. Effective 8-20-1996 \$4,000 death benefit became taxable.
2010 No benefit increase	1995 No Benefit Increase.
2009 No benefit increase	1994 An increase of the higher of either 1.5%; or a combination of \$.50 for each year of service and \$50 for each year of retirement. Applies to those who retired before July 1, 1993.
2008 \$300 one-time payment for all retirees who retired on or before July 1, 1998, with 10 or more years of service	1993 Increase of 5% or \$10, whichever is greater, to retired members with fewer than 15 years of service. Increase of 15% or \$50, whichever is greater, to a maximum of \$200, to retired members with 15 or more years of credited service. Retired death benefit increased to \$4,000 from \$2,500.
2007 \$300 one-time payment for all retirees who retired prior to July 1, 1997, with 10 or more years of service	1992 Increase of \$15 for those who retired prior to July 1, 1991 (included disability recipients)
2003 Annual Retirant Dividend Payment (13 th Check) made permanent for retirees who retired prior to July 2, 1987	1991 Increase of 1% or \$10, whichever is greater, for those who retired prior to July 1, 1990 (Included disability recipients)
2001 KSRS recipients with 20 years service will have their benefit increased to \$500 effective July 1, 2001 (Approximately 66 Members). Retired members may name funeral homes as a beneficiary for the \$4,000 death benefit.	1990 Increase of 4% for those who retired prior to July 1, 1989.
2000 One-time benefit to be paid in September equal to 50% of the retirement benefit payment to those who retired prior to July 1, 1999. Any federal withholding will be ½ of the taxable amount of the full benefit amount.	1989 Increase of 4% to those who retired prior to July 1, 1988.
1998 Increase of 3% for those who retired prior to July 1, 1997. Increase of \$100 to those who retired prior to Jan. 1, 1971 who have at least 25 years of service, and 3% will be added to this. Disability recipients also receive the 3% increase.	1988 Increase of 3% to those who retired prior to January 1, 1987
1997 No Benefit Increase.	

1987 Increase of 2% to those who retired prior to January 1, 1986. Death benefit increased from \$2,000 to \$2,500 for deaths after July 1, 1987

1986 Increase of 3% to those who retired prior to January 1, 1985. Retired death benefit increases to \$2,000 for those who died after July 1, 1986.

1985 Increase of 5% to those who retired prior to July 1, 1984. Death benefit increased from \$1,000 to \$1,500 for those who died after July 1, 1985

1984 Increase of 10% to those who retired prior to July 1, 1981. Made permanent the 10% increase established in 1982.

1983 BMs-10% increase to retired members who retired prior to July 1, 1981, and a 50% increase in the savings annuity portion. Death benefit increased to \$1,000 for deaths after July 1, 1983.

1982 Increase of 10% to those who retired prior to July 1, 1981, payable through 1987. July 1, 1982 pop-up option was established. If a spouse died prior to the 7-1-82 date, there is no pop-up

1981 No Benefit Change.

1980 Thirteenth check increase equal to regular monthly benefit for those who retired prior to 1987 – July 1, 1980, and before July 1 in each subsequent year, to be paid annually through 1987

1979 No Benefit Change

1978 Permanent increase for all who retired prior to January 1, 1977, as follows:
Those who retired prior to January 1, 1973 – 7.34%

1973 - 5.5%
1974 - 4.4%
1975 - 2.2%
1976 - 1.1%

1977 Same provision as the 1976 legislation.

1976 Thirteenth check – one-time additional payment for those retired prior to January 1, 1975, equal to 5% of total annual retirement benefit. In no event shall the additional benefit be less than \$20 or more than \$200.

1975 No Benefit Change.

1974 No Benefit Change.

1973 **Legislation: HB 1566**
Benefits increased:
32% for those who retired in 1962-1963
28% for those who retired in 1964-1965
22% for those who retired in 1966-1967
15% for those who retired in 1968
9% for those who retired in 1969
2% for those who retired in 1970

1973 **Legislation: HB 1566**
Highway Patrol & KBI retired members
Benefits increased:
50% for those who retired before 1962
32% for those who retired in 1962-1963
28% for those who retired in 1964-1965
22% for those who retired in 1966-1967
15% for those who retired in 1968
9% for those who retired in 1969
2% for those who retired in 1970

HISTORY OF BENEFITS Cont.

1973 **Legislation: HB 1566**
KSRS retired members.

Rate increased to \$6.50 for each year of service credit with at least 9.5 years of service credit and a maximum of 35 years of service credit.

1972 Increase of 5% for members who retired before July 1, 1971

Public Retirement Systems in the Other States

This discussion centers on public employee retirement plans in other states. Because most states recognize that inflation reduces purchasing power, the overwhelming majority of states provide some means to adjust retirement benefits to take account of inflation. Some plans provide automatic increases based on a fixed percentage or tied to changes in the Consumer Price Index, CPI. Other state plans base adjustments on excess earnings or some combination of these factors. Some increases are ad hoc and periodic.

The National Association of State Retirement Administrators provided the following information in their 2008 report about the many and varied plans.

<u>Retirement Plan Provision</u>	<u>Number</u>	<u>Percent</u>
<u>Total</u>	<u>87</u>	<u>100.0%</u>
Adjustments indexed to CPI	35	40.2%
Automatic percentage increase	26	29.9%
Based on investment performance or	5	5.7%
Ad Hoc increase	19	21.8%
No Increase	2	2.3%

The KPERS Study Commission

During the 2011 Kansas legislative session much discussion centered on the financial health of the KPERS system. Several legislative hearings were held and a good deal of testimony was presented detailing the current financial solvency of KPERS. Many opinions were offered about the future of the Kansas retirement system. At present KPERS is a *defined benefit plan*, meaning that retirement benefits are earned by recipients based on a specific formula. That formula takes into account length of service, earnings and a KPERS multiplier. Both the employer and the employee contribute to this plan and the proceeds are held in the KPERS trust fund.

For many years (since 1962) the system has worked well and approximately 230,000 current employees of State, municipal and school organizations as well as 74,000 retirees look to KPERS as the principal source of retirement income and security. In recent years earnings from the fund have been reduced and consequently key measures of financial solvency used to evaluate KPERS have diminished. This is a result of several factors including the failure by past legislatures to fully fund the employer portion of the plan, a recessionary economy, and unfunded additional benefits. Despite this, the fund remains solvent and no KPERS participant or retiree should be concerned about receiving earned benefit entitlement.

Several legislators expressed concern with the long-term financial sustainability of KPERS and Senate substitute for HB 2194 was passed by the 2011 session of the Kansas Legislature. Senate substitute for HB 2194, among other things, formed a KPERS Study Commission to examine and evaluate the current system. It also required the Commission to present a formal report to the Kansas Legislature by January 6, 2012 with recommendations for system improvement.

Senate substitute for HB 2194 mandates that 13 members will make-up the Study Commission. The members were appointed as follows:

Four members of the Legislature. One member each was appointed by the President of the Senate, the Minority Leader of the Senate, the Speaker of the House, and the Minority leader of the House.

Four at-large members. One member each was appointed by the President of the Senate, the Minority Leader of the Senate, the Speaker of the House, and the Minority leader of the House.

Five members appointed by the Governor. One of these members was required to be a licensed and practicing attorney.

In addition, four Kansas staff members served as ex-officio, non-voting members. These included, Executive Director of KPERS, Director of the Budget, the Revisor of Statutes, and the Director of Legislative Research.

The KPERS Study Commission was authorized to meet 10 times.



Kansas Coalition of Public Retirees
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