In Kansas, pension fix required open minds, long-term outlook

Cash-balance plan, changes to contribution cap among reforms

by Kansas Sen. Mitch Holmes (Mitch.Holmes@senate.ks.gov)

Like a smoker who is "going to quit tomorrow," or the well-intentioned dieter who will "start tomorrow," politicians find it easy to allow more-urgent funding requests to take priority over the chronic need to fix a pension plan that is seriously out of balance.

This is probably because the pension situation isn't an immediate crisis — it is still 10, 20 or more years from becoming a major meltdown in most cases. For better or worse, most legislatures are preoccupied with taking care of this year's problems. Pensions move like aircraft carriers, not personal watercraft. With any change, it takes a long time to feel the benefit.

Hence, there is little "reward" for politicians who can turn around a slow-moving colossus. The volume of urgent requests presented to the appropriators, along with the lack of any short-term benefit resulting from changing pension courses, combine to make it easy to kick the can down the road.

Pension problems were years in making

Kansas was set up for failure when benefits were enhanced back in the early 1990s but funding was not increased accordingly.

In fact, the employer's contribution was statutorily capped (at a maximum increase of 0.1 percent over the previous year's level) in the same bill that retroactively enhanced benefits. Benefits were enhanced by about 20 percent, and employees' contribution levels remained constant at 4 percent of pay.

By the mid 1990s, the Kansas Legislature recognized the problem of the cap. It was doubled to 0.2 percent for a few years, then doubled again to 0.4 percent. When I entered the Kansas House in 2005, the cap had been 0.6 percent for several years.

By 2007, Kansas had had significant sustained growth in revenues that surpassed projections for several years. But even with new money that was unanticipated, we still could not satisfy all the requests. The executive director for the Kansas Public Employees Retirement System was pleading with us to increase the state's contribution.

The attitude I observed year after year was, "Maybe we can add more next year ..." Of course, 2008 brought that era of revenue growth to a stunning reversal that led to recession bills — as a result, there was no chance of adding more money to KPERS while cutting the budget.

In 2007, a special legislative committee attempted to fix the system. Under its plan, a new tier to future Kansas workers was created, with a higher employee contribution rate and a cost-of-living adjustment built into the formula. The actuaries stated that the policy and the math were in agreement. But at the last minute, an amendment was added to allow for early retirement, completely destroying the math. One important lesson learned from this is that the policy and the math must be in agreement. Feeling generous while ignoring mathematical reality does not make good, sustainable policy.

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Open minds, unexpected pension fix

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