



Retirement in focus: *Will a change in KPERS for future employees hurt me?*

You may believe that a change from the current defined benefit KPERS plan to a defined contribution plan for future employees won't hurt you. But the truth is, it could do terrible damage to your retirement.

There is a common misconception that the KPERS benefit for current employees is somehow guaranteed – that a change for future employees won't hurt you.

If the legislature were to put all new employees into a defined contribution or 401(k) type plan, these employees would not be paying into the defined benefit plan. A defined contribution plan is like a tax-deferred savings. You get out at the end whatever you and your employer contributed during your working years. So think about this:

- The KPERS defined benefit plan for current retirees is paid for by a combination of the contributions they made while working + employer contributions + investment earnings + the contributions of currently working people. The contributions teachers and state employees are making right now as they work are being used to create investments for your future and to pay the benefits of current retirees.
- If all new employees came in under a defined contribution or 401(k) plan, their investments would be essentially personal investments and not used to contribute to benefit payments to current or future defined benefit members.
- This means that each person who retires will be replaced by someone who is not paying into the defined benefit system.
- In order to guarantee the defined benefit retirement system for all persons in the current system, the state would have to radically increase contributions to the defined benefit system. If not, the unfunded liability would grow until it became impossible to meet the monthly benefit payments.
- Every year, contributions to the defined benefit plan would decline while more people in that system retired and began taking benefits. With so many school employees close to retirement, at some point the liability will become so great that there would not be enough money in the system to make the benefit payments.

Of course, you can count on the Kansas legislature to take care of you!

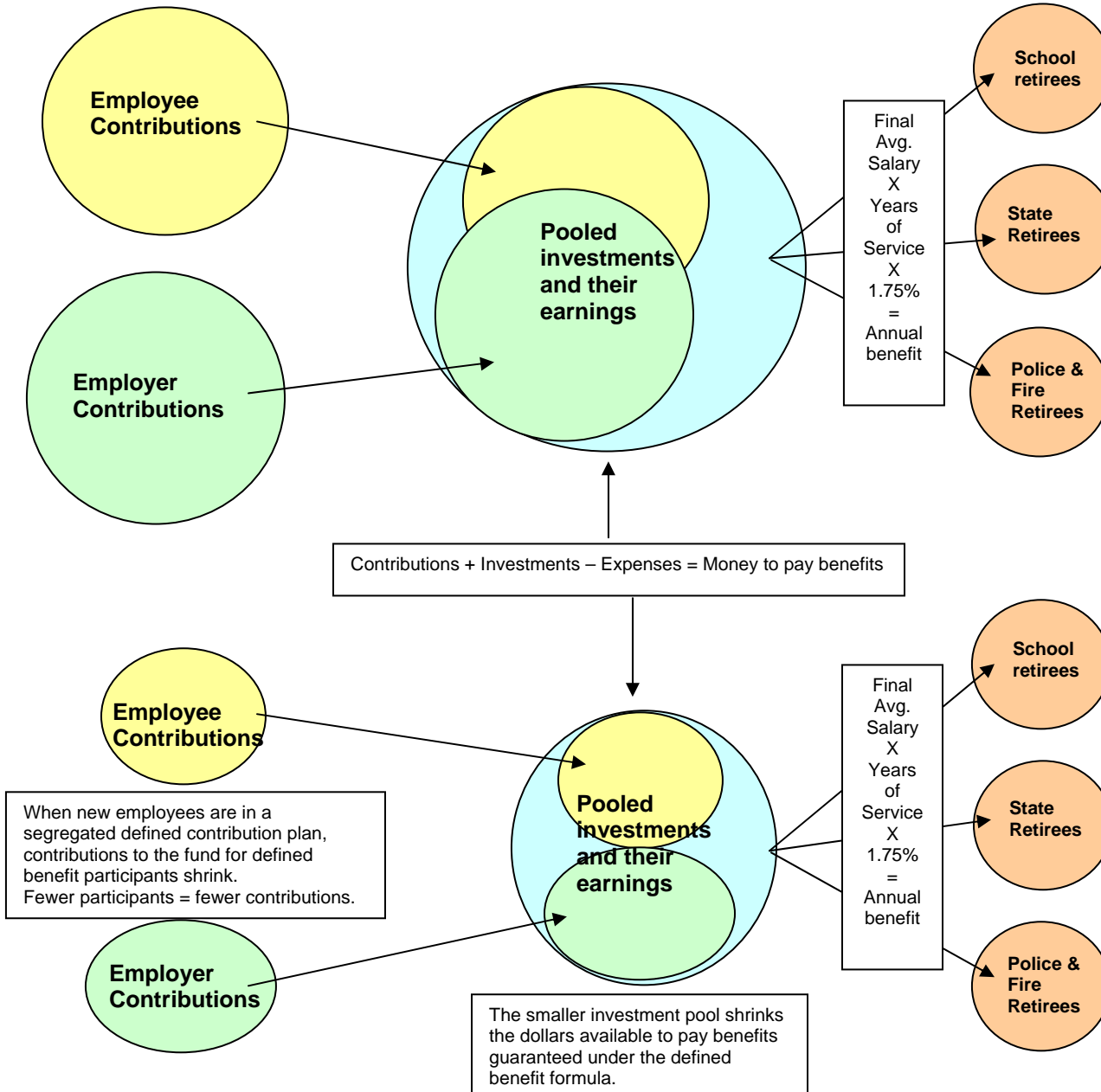
There is a way out of this hypothetical bankruptcy. The Kansas legislature could increase state contributions to KPERS until the last of the defined benefit retirees – current and future – passes away.

This would be counting on protection from the same body that has repeatedly suspended employer contributions to KPERS when it benefited them or allowed them to cut another corporate tax.

Well, sure, but we can sue them, right?

Yes, if the legislature failed to fund the benefit for all defined benefit participants, a lawsuit would be a strong possibility. But unfortunately lawsuits take years to get resolved. In the meantime thousands of Kansas retirees would be harmed.

It would be better to convince a majority of legislators to support school and state employees and then vote out those that turn their back on the people who serve the citizens of Kansas.



Current KPERS Defined Benefit System

Under the current defined benefit (DB) system, contributions are pooled and invested. The combination of pooled contributions and investment earnings yields enough funds to provide a guaranteed retired benefit to current and future retirees.

Retirees drawing benefits are replaced by active employees making contributions.

Active employees are partially funding the current retiree benefit and depending on future active employees to partially fund their own retirement benefit later.

A move to a defined contribution KPERS System for new employees

If the state moved to a defined contribution (DC) system for new employees, the contributions to be pooled for the defined benefit participants would shrink annually as active DB participants retire and are replaced by DC participants whose contributions must be segregated from the current system.

Retirees drawing benefits are replaced by active employees who *do not* make contributions to the plan.

Without a major investment by the legislature, a point would eventually be reached where there was not enough money in the investment pool to pay the benefits once guaranteed to retirees.