



# **PERFORMANCE AUDIT REPORT**

## **Kansas Police and Firemen's Retirement System**

**A Report to the Legislative Post Audit Committee  
By the Legislative Division of Post Audit  
State of Kansas  
July 1986**

# ***Legislative Post Audit Committee***

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## **PERFORMANCE AUDIT REPORT**

### **Kansas Police and Firemen's Retirement System**

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#### **OBTAINING AUDIT INFORMATION**

This audit was conducted by Ellyn Rullestad, Senior Auditor, and Cindy Denton, Auditor, of the Division's staff. If you need any additional information about the audit's findings, please contact Ms. Rullestad at the Division's offices.

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## **KANSAS POLICE AND FIREMEN'S RETIREMENT SYSTEM**

### **Summary of Legislative Post Audit's Findings**

Legislative concerns have been raised about the costs and benefits of the Kansas Police and Firemen's Retirement System. This audit addresses those concerns.

**How have the membership, contributions, and retirement and disability provisions of the Kansas Police and Firemen's Retirement System changed over time, and how do they compare with other retirement systems?** Membership in the System has grown significantly in the last 10 years. As a result, total contributions made to the System by both employers and employees have also increased, although the contribution rate for individual employers has declined. Total average contributions are about the same as those made by non-school employers and employees in the Kansas Public Employees Retirement System because members of that System are also required to contribute to Social Security. Employers contribute more to the Police and Firemen's Retirement System, while employees contribute more to the Kansas Public Employees Retirement System. The benefits available to members of the Police and Firemen's Retirement System are more generous than those available to members of the Kansas Public Employees Retirement System, but are comparable to the benefits available to members of other state and local public safety personnel retirement plans.

**What are the benefits paid to members of the Kansas Police and Firemen's Retirement System, and how do those benefits compare with other retirements systems?** The average benefits paid to retired members of the Kansas Police and Firemen's Retirement System are about three times as large as the average benefits paid to non-school retirants from the Kansas Public Employees Retirement System. Several factors help account for this difference. Police and firefighters have higher benefit levels, higher salaries, and more years of service. On the other hand, members of the Public Employees Retirement System are also eligible to receive Social Security. In a survey of a sample of recent retirants, 71 percent of the retired police and firefighters said that their pension was inadequate. A total of 62 percent of them have full- or part-time employment.

**What options are there for providing benefits under the Kansas Police and Firemen's Retirement System?** The provisions of the Kansas Police and Firemen's Retirement system are similar to public safety personnel retirement plans in other states and in the four localities in Kansas that maintain their own retirement plans. Any changes made to the System would require changes in the public policy goal of having an experienced but relatively young public safety workforce.



## **KANSAS POLICE AND FIREMEN'S RETIREMENT SYSTEM**

The Legislative Post Audit Committee directed the Legislative Division of Post Audit to conduct a performance audit of the Kansas Police and Firemen's Retirement System. The Kansas Police and Firemen's Retirement System is administered by the Kansas Public Employees Retirement System.

Legislative questions have been raised recently about the costs and the benefits of the System. The audit addresses the following specific questions.

- 1. How have the membership, contributions, and retirement and disability provisions of the Kansas Police and Firemen's Retirement System changed over time, and how do they compare with other retirement systems?**
- 2. What are the benefits paid to members of the Kansas Police and Firemen's Retirement System, and how do those benefits compare with other retirement systems?**
- 3. What options are there for providing benefits under the Kansas Police and Firemen's Retirement System?**

To answer these questions, the auditors interviewed officials of the Kansas Public Employees Retirement System. They reviewed appropriate statutes and rules and regulations, and examined annual reports pertaining to the Kansas Police and Firemen's Retirement System. The auditors also reviewed samples of files of retirees and other beneficiaries and surveyed a sample of retirants. Finally, they collected comparative information on other public and private retirement systems. Throughout the report, the auditors looked at only the non-school group of Kansas Public Employees Retirement System members.

In general, the auditors found that membership in the Kansas Police and Firemen's Retirement System has increased over time. Because there are more members, total contributions to the Retirement System have also increased over time. The benefits available to members of the Kansas Police and Firemen's Retirement System are greater than those available to members of the Kansas Public Employees Retirement System, but are comparable to the benefits available to members of other state and local public safety personnel retirement plans.

Average benefits paid to retirants from the Kansas Police and Firemen's Retirement system are also higher than the benefits paid to retired members of the Kansas Public Employees Retirement System. Several factors, including higher average salaries and more years of service, account for this difference.

Following a brief background discussion of the Kansas Police and Firemen's Retirement System, the remainder of the audit addresses the auditors' findings in each area.

### **Background on the Kansas Police and Firemen's Retirement System**

The Kansas Police and Firemen's Retirement System is administered by the Kansas Public Employees Retirement System. Any political subdivision may elect to participate in this System. In addition to 48 groups of local police, firefighters, sheriffs' deputies, and emergency medical technicians, law enforcement employees of the Kansas Highway Patrol

and the Kansas Bureau of Investigation are also members of the Police and Firemen's Retirement System.

Before 1967, all first- and second-class cities were required by State statute to administer a retirement system for local police and firemen. At the time, 24 cities had individual retirement programs. In 1967, the Kansas Police and Firemen's Retirement System was established, creating a Statewide retirement system for police and firemen. Under this system, a local unit of government could affiliate all of its police and firemen with the State system, or affiliate only newly hired police and firemen with the State system while retaining the old system for all other employees.

By 1974, 14 of the 24 cities with local plans, as well as four other cities, had become participating employers in the Kansas Police and Firemen's Retirement System. These cities also continued to maintain their local plans.

During the 1975 legislative session, legislation was passed setting actuarial standards for funding local police and firemen pension plans. This law was passed in response to concerns about the soundness of the local police and firemen retirement systems. The legislation also mandated that after January 1, 1978, no city could maintain any local police or fire pension plan unless it was in accordance with the minimum funding standards set forth in the statutes.

The effect of the legislation was that most cities merged their local plans with the Kansas Police and Firemen's Retirement System. Although five cities continue to pay some benefits to pensioners or beneficiaries, only four cities continue to maintain local plans.

Legislation was passed during the 1985 session that allowed certain employers whose police and firefighters had been covered under the Kansas Public Employees Retirement System to affiliate with the Kansas Police and Firemen's Retirement System for future service only. New employees would be members of the Kansas Police and Firemen's Retirement System, while old employees would have some benefits from that system and some from the Kansas Public Employees Retirement System.

### **How Has the Kansas Police and Firemen's Retirement System Changed Over Time, and How Does It Compare With Other Retirement Systems?**

To answer this question, the auditors reviewed statutes and rules and regulations relating to the Police and Firemen's Retirement System and to the Kansas Public Employees Retirement System. They also reviewed annual reports prepared by the Kansas Public Employees Retirement System for the non-school group of public employees, and examined a report compiled by the Retirement System's actuaries. This report provides detailed information on the actuarial experience of the System over the past three years.

In general, the auditors found that membership in the Kansas Police and Firemen's Retirement System has increased steadily since its inception in 1967. Much of this increase is the result of legislative change mandating the sound financing of local retirement plans. As membership has increased, total contributions have increased. However, employer contributions as a percentage of covered payroll have decreased in some cases. Benefits have also been enhanced. Generally, the Police and Firemen's Retirement System provides more generous benefits than the Kansas Public Employees Retirement System provides. However, its provisions are comparable to those found in other public safety retirement systems. These findings are discussed in more detail on the following pages.

## Membership in the Kansas Police and Firemen's Retirement System Has Increased Over Time

As of the end of fiscal year 1985, 41 employers were participating in the Kansas Police and Firemen's Retirement System. Beginning in January 1986, an additional nine employers joined the system. Appendix A provides a list of all participating employers.

The number of active members, as well as retirants and beneficiaries, has increased substantially over the past 10 years. The following table shows the increase in the number of members since 1976.

### Growth in Membership in the Kansas Police and Firemen's Retirement System

<u>As of June 30, Fiscal Year...</u>	<u>Active members</u>	<u>Retirants and Beneficiaries</u>
1976	2,075	143
1977	2,282	172
1978	3,013	741
1979	3,171	939
1980	3,574	1,007
1981	3,556	1,059
1982	3,648	1,138
1983	3,672	1,196
1984	3,689	1,241
1985	3,845	1,299
Total change 1976-1985:	1,770	1,156
Percent change 1976-1985:	85.3%	808.4%

Active membership has increased from 2,075 members at the end of fiscal year 1976 to 3,845 members at the end of fiscal year 1985, an increase of just over 85 percent. The number of retirants and beneficiaries also increased during the 10-year period, from 143 in fiscal year 1976 to 1,299 by 1985, an eightfold increase over the time period.

The table also shows the significant increase in active membership and in the number of retirants and beneficiaries beginning in 1978. Many cities became participating employers in the Kansas Police and Firemen's Retirement System at that time, rather than administering their own retirement plans on a fully funded basis, as required by State statute. Many special retirants were picked up at the same time.

**Membership in the Kansas Public Employees Retirement System has grown at a slower rate.** As the following table indicates, the number of active members in that system increased from 37,267 in fiscal year 1976 to 43,817 in fiscal year 1985, an increase of 17.6 percent. Similarly, the number of retirants and beneficiaries increased by nearly 49 percent, from 9,410 to 13,997. Membership in the Kansas Public Employees Retirement System has grown at a slower rate than membership in the Kansas Police and Firemen's Retirement System because few large employers have joined the System in the past 10 years.

**Membership in the Kansas Public  
Employees Retirement System (Non-School)**

<u>As of June 30, Fiscal Year...</u>	<u>Active Members</u>	<u>Retirants and Beneficiaries</u>
1976	37,267	9,410
1977	37,264	10,032
1978	38,094	10,580
1979	38,169	10,693
1980	40,105	11,569
1981	41,756	12,084
1982	42,337	12,689
1983	43,930	13,208
1984	43,392	13,680
1985	43,817	13,997
Total change 1976-1985:	6,550	4,587
Percent change 1976-1985:	17.6%	48.7%

**Total Employer Contributions Have Increased, But  
Individual Employer Contribution Rates Have Decreased**

Employer contribution rates, computed as a percent of covered payroll, are based on an actuarial valuation of the amount needed to pay for current participating service plus an amount that will amortize, over a 40-year period, any unfunded liabilities. The valuation makes assumptions about the average retirement age, the average increase in salaries, termination rates, and the like, in establishing the appropriate employer contribution. When an employer first joins the Kansas Police and Firemen's Retirement System, it is required to contribute 16 percent of covered payroll. After the first year, the Board of Trustees certifies the contribution rate needed based upon recommendations made by the actuary.

The following table shows the total dollar contributions and the average contribution rate for employers participating in both the Kansas Police and Firemen's Retirement System and the Kansas Public Employees Retirement System. Appendix A shows the percent of covered payroll certified for each participating employer in the Kansas Police and Firemen's Retirement System for fiscal years beginning in 1984 through 1987.

<u>Fiscal Year</u>	<u>Employer Contributions to the Retirement Systems</u>			
	<u>KP&amp;F Contri- butions</u>	<u>Avg. Rate</u>	<u>KPERS Contributions (Non-School)</u>	<u>Avg. Rate</u>
1976	\$ 4,049,399	16.40%	\$ 26,097,998	7.4%
1977	4,012,962	17.10	26,196,151	7.3
1978	5,208,058	15.35	25,844,628	6.7
1979	8,430,759	16.10	26,766,144	6.2
1980	12,329,268	26.20	28,900,548	6.2
1981	15,971,143	26.21	32,090,031	5.5
1982	16,332,545	22.39	32,297,333	5.2
1983	17,099,777	23.20	33,383,799	4.8
1984	18,533,071	20.80	33,563,863	4.8
1985	19,335,614	16.30	35,962,709	4.6
Total increase:	\$ 15,286,215		\$ 9,864,711	
Percent increase:	377.5%		37.8%	

As the table shows, the total increase in employer contributions is greater for the Kansas Police and Firemen's Retirement System than for the Kansas Public Employees Retirement System. This is a result of the greater rate of growth in membership in that System. However, in both retirement systems, the average employer contribution rate has declined.

The average employer contribution to the Kansas Police and Firemen's Retirement System was as high as 26.21 percent in fiscal year 1981, but dropped to 16.3 percent by fiscal year 1985. The high rate occurred as employers merged their old systems with the Kansas Police and Firemen's Retirement System. The old systems were not fully-funded and, as a result, significant unfunded liabilities existed. Employers are required to pay for these unfunded liabilities in equal amounts over a 40-year period. The amount that is paid each year for past service liabilities is expressed as a percentage of covered payroll. Thus, when payroll increases because of an increase in the number of employees or in employee salaries, the amount that is amortized declines as a percentage of payroll.

Similarly, the employer contribution to the Kansas Public Employees Retirement System declined to 4.6 percent in fiscal year 1985 from a high of 7.4 percent in fiscal year 1976. These declines occurred for reasons similar to those described above.

Declines in employer contribution rates can also occur when there is a favorable actuarial experience, such as a lower number of disability retirements, a higher-than-expected return on investment, and the like.

**Employee contributions to the Kansas Police and Firemen's Retirement System are also higher than employee contributions to the Kansas Public Employees Retirement System.** By statute, members of the Kansas Police and Firemen's Retirement System contribute seven percent of their gross salary to the pension plan. Members of the Kansas Public Employees Retirement System contribute four percent of gross salary to fund their retirement plan.

**Social Security contributions increase both employer and employee Retirement System costs.** Participating employers in the Kansas Police and Firemen's Retirement System are not required to contribute to Social Security. On average, employers who do not contribute to Social Security contributed an average of 18.4 percent of payroll in fiscal year 1985 to fund their employees' retirement costs, and their employees contributed seven percent of their salaries.

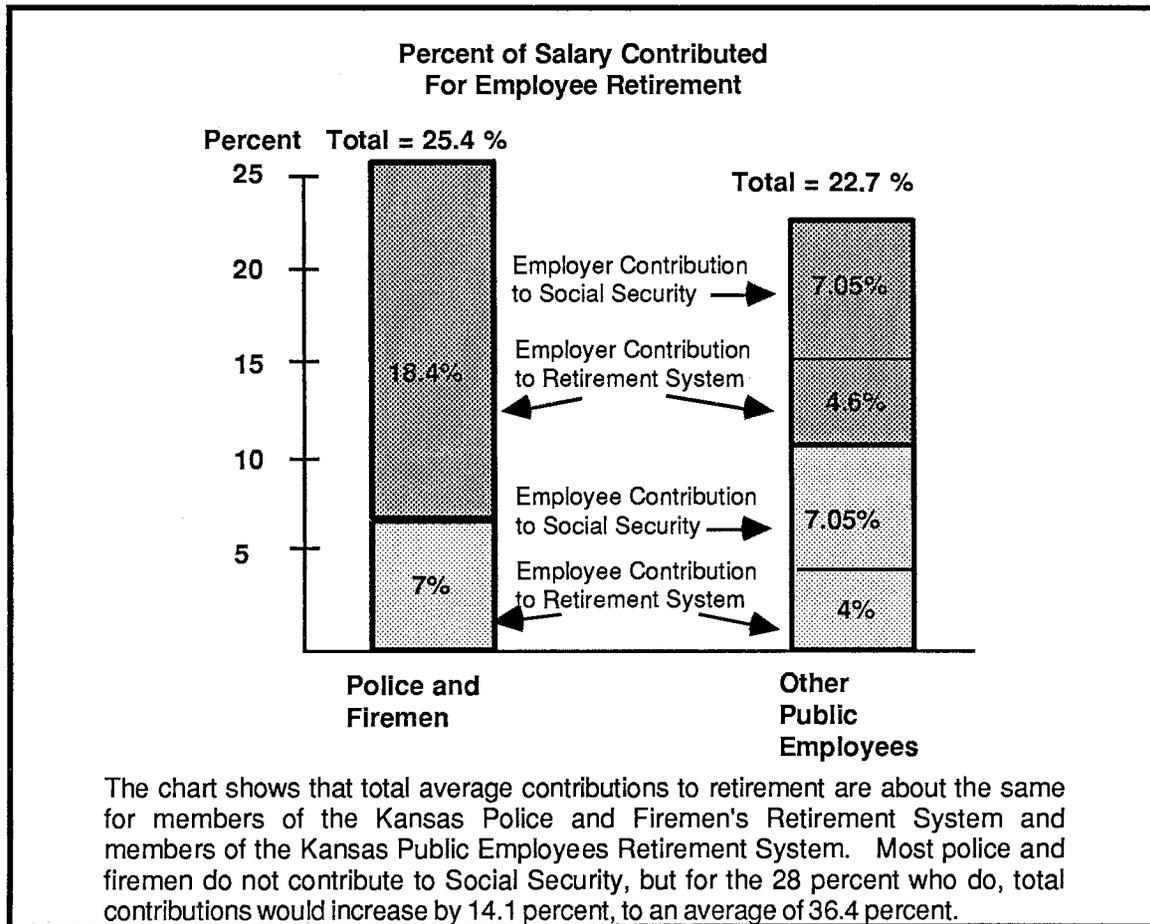
Some police and fire employers do contribute to Social Security, however, of the participating employers in the Kansas Police and Firemen's Retirement System, 21 of the smaller employers, representing 28 percent of the employees, also contributed 7.05 percent to Social Security. These employers' total retirement contribution rate was increased to 22.5 percent of payroll. Their employees contributed an equal percentage of their gross salaries, making their effective contribution rate 14.05 percent. This list of employers in Appendix A indicates which of the participating employers in the Kansas Police and Firemen's Retirement System also contribute to Social Security.

All employers participating in the Kansas Public Employees Retirement System are mandated to contribute to Social Security. Thus, both employer and employee retirement costs are increased by 7.05 percent. Total employer contributions increase to 11.65 percent of covered payroll, and total employee contributions increase to 11.05 percent of their gross salaries.

**When all costs are considered, total average contributions are about the same for both retirement systems.** For those employers and employees in the

Kansas Police and Firemen's Retirement System who do not contribute to Social Security, the total average contribution to the Retirement System is 25.4 percent. The average employer and employee contribution to the Kansas Public Employees Retirement System is 22.7 percent when mandatory Social Security contributions are included.

The difference in total contributions between these two groups is 2.7 percent. The major difference is in who, the employer or employee, does the contributing. Employers contribute more to the Police and Firemen's Retirement System, while employees of the Kansas Public Employees Retirement System contribute more to their retirement. The following chart compares the retirement contributions for both Systems.



For that group of employers in the Police and Firemen's Retirement System who also participate in Social Security, the total average contributions are higher: over 36 percent of covered payroll. However, this group of employers represents only about 28 percent of the police and firemen in the Kansas Police and Firemen's Retirement System.

**The Benefits Provided Under the Kansas Police and Firemen's Retirement System Are More Generous Than Those Provided Under the Kansas Public Employees Retirement System**

Fairly significant differences exist in such areas as retirement age, years to vest, and disability and death benefits. The following table compares the basic benefits for both retirement systems.

## Comparison of Retirement Systems

	KP&F	KPERs - non-school (e)
Employee Contribution	7%	4%
Employer Contribution (avg.)	16.3%	4.6%
Years to Vest	20	10
Normal Retirement	55 w/ 20 yrs.	65 (f)
Social Security Contributions	Not required <sup>(a)</sup>	Required
Benefit Factor <sup>(b)</sup>	2%	1.4% <sup>(c)</sup>
Service-Related Disability Benefits	the annuity = 50% to 75% FAS <sup>(d)</sup> depending on number of dependents	60% of annual salary re- duced by primary Social Security and 1/2 Workers' Compensation
Non-Service-Related Disability Benefits	the annuity = 2% x FAS <sup>(d)</sup> x years of service (with five years)	60% of annual salary reduced by Social Security and Workers' Compensation
Service-Related Death Benefits	the annuity = 50% to 75% FAS <sup>(d)</sup>	Member's contributions, \$50,000 lump sum, 50% FAS <sup>(d)</sup> reduced by Workers' Compensation + life insurance
Non-Service-Related Death Benefits	the annuity = 2% x FAS <sup>(d)</sup> x years of service plus a lump sum of 100% FAS (d) (with five years)	Member's contributions + life insurance

- (a) Social Security contributions depend on the practice of the locality. Appendix A provides a list of employers in the Kansas Police and Firemen's Retirement System and indicates which ones contribute to Social Security. About 28 percent of the members of the Kansas Police and Firemen's Retirement System contribute to Social Security.
- (b) The benefit factor is part of the benefit formula which determines the actual retirement benefit: retirement benefit = benefit factor x final average salary x years of service.
- (c) For persons retiring after July 1, 1988, all benefits will be computed at this rate if the member has 10 years of service. Now, participating service before July 1, 1982, is credited at the rate of 1.25 percent and service after July 1, 1982 is credited at 1.4 percent.
- (d) FAS = final average salary.
- (e) The benefits are the same for the school members of the Kansas Public Employees Retirement System.
- (f) For retirements from July 1, 1986, through July 1, 1988, normal retirement at any age with 40 years of service, and at age 60 with 35 years of service is permitted.

As the table shows, the normal retirement age for members of the Kansas Police and Firemen's Retirement system is 55 years, or 10 years younger than the normal retirement age of 65 years for members of the Kansas Public Employees Retirement System. However, no retirement benefits are provided to police and firemen who terminate their employment before "vesting" in the system with 20 years of service.

The retirement benefit is a function of salary and credited years of service. The retirement annuity for police and firemen is determined by multiplying two percent of the final average salary, the average yearly salary for the highest three of the last five years, times the years of credited service. For members of the Kansas Public Employees Retirement System, the percent of final average salary that is used to compute benefits is 1.4 percent, with some service before July 1, 1982 credited at 1.25 percent.

The table also shows the disability and death benefits provided to employees under both systems. For disability benefits, a primary difference is that police and firemen's benefits are not reduced by Social Security or Workers' Compensation. The disability benefit continues as long as annual medical examinations find that the member is unable to perform the duties of a policeman or fireman. In addition, police and firemen's heart and lung ailments are statutorily presumed to be service-related after five years of service. There are no such presumptions for other public employees. In addition, the Kansas Public Employees Retirement System does not make a distinction between service-related and non-service-related disabilities.

**One reason that the retirement benefits are more generous is that it has been public policy to encourage a youthful public safety workforce.** A 1983 interim legislative study noted that the Kansas Police and Firemen's Retirement System was designed to meet the special needs of public safety employment careers. According to that study, it (the philosophy of retiring from public safety careers at age 55) "is considered in the public interest to have personnel enter and leave such careers at an early age. The greater expense required to support such a retirement benefit system is considered to be a trade-off for a younger career workforce." Based on this policy, incentives such as a generous retirement benefit formula are provided to members of the Police and Firemen's Retirement System to encourage early retirement.

### **Benefits in Four Cities With Their Own Retirement Plans Are Comparable To Those Offered by the Kansas Police and Firemen's System**

Wichita, Great Bend, Overland Park, and Prairie Village have chosen not to participate in the Kansas Police and Firemen's Retirement System, and maintain their own local retirement programs. Wichita and Great Bend have police and firemen retirement plans, while Overland Park and Prairie Village have police retirement plans. Although no overriding reason explains why these cities have decided not to participate in the Kansas Police and Firemen's Retirement System, some of the cities suggested that they prefer to administer their own plan, or felt that their system provided more generous benefits than were provided by the State System.

The following table lists the basic benefits of these four systems, and compares them to the benefits available to members of the Kansas Police and Firemen's Retirement System. As it shows, these four cities have a variety of plans, although the benefits provided to their members are generally comparable to the State-run System.

Most of the local plans are "defined benefit," similar to the Kansas Police and Firemen's Retirement System. This type of plan establishes the benefits that will be paid to its members. However, the Great Bend plan is a "defined contribution" plan. Under Great Bend's plan, no specific benefits are available upon retirement. Rather, the benefit depends on the member's contributions and the investment experience of the contributions.

### Comparison of Four Cities' Retirement Plans With the Kansas Police and Firemen's Plan

	Overland Park	Prairie Village	Great Bend	Wichita	KP&F
Employee Contribution	0%	0%	4.5%	8%	7%
Employer Contributions	17%	16%	4.5%	31.6%	16.3%(a)
Years to Vest	15 yrs.	15 yrs.	6 yrs.	10 yrs.	20 yrs.
Normal Retirement	55 w/ 25 yrs.	55 w/ 25 yrs.	65	55 w/20 yrs.	55 w/20 yrs.
Social Security Contributions	Yes	Yes(b)	Yes	No	Varies
Benefit Factor(c)	2%	2%	defined contribution	2.5%	2%
Service-Related Disability Benefits (a percentage of salary)	60%	60% to a max. of \$1,000/mo.	None	75% injury 50% disease	50% to 75%
Non-Service-Related Disability Benefits (a percentage of salary)	60%	60% to a max. of \$1,000/mo.	None	30% to 50%	2% x FAS (d) x years of service to a max of 50%
Service-Related Death Benefits (a percentage of salary)	4 yrs. salary plus accrued benefits in excess	3 yrs. salary	1 yr. salary plus contributions	50% to 75%	50% to 75%
Non-Service-Related Death Benefits (a percentage of salary)	4 yrs. salary plus accrued benefits in excess	3 yrs. salary	1 yr. salary plus contributions	35% to 50%	2% x FAS(d) x yrs. of service + lump sum 100% FAS(d)

(a) This is the average contribution rate for all participating employers. It includes 11.1 percent for participating service, with the rest reflecting amortization of unfunded prior service liabilities.

(b) This plan is integrated with Social Security.

(c) The benefit factor is part of the benefit formula which determines the actual retirement benefit;  
benefit factor x final average salary x years of service

(d) FAS = final average salary

Most of the local plans allow their police and firemen to retire at a relatively early age, with 20 or 25 years of service. The employer contributions required, with the exception of the Wichita and Great Bend plans, are fairly comparable to those required of participating employers in the Kansas Police and Firemen's Retirement System. On the other hand, employee contributions are somewhat lower in the local plans. The number of years required for vesting ranges from six in Great Bend to a high of 20 for the Kansas Police and Firemen's Retirement System.

Although not shown on the table above, differences in disability provisions also exist among the various plans. Under the Kansas Police and Firemen's Retirement System,

members can retire with full disability if they can no longer function as a police or fireman. By contrast, in Overland Park and Prairie Village, this definition of disability lasts for only two years. After that, the member must be found to be disabled for all types of work before benefits will be continued. In addition, these two plans provide the disability benefits through an insurance policy, rather than through the retirement system itself. This is the same way that disability benefits are provided to members of the Kansas Public Employees Retirement System.

### **The Benefits Provided to Police and Firemen Are Comparable to Those Offered in Other States**

The auditors reviewed the retirement benefits available to public safety personnel in the surrounding states. The table on the next page compares the differences and similarities of these systems. Not all the plans listed are designed for the same types of safety personnel. For example, the Nebraska plan includes highway patrol only. Missouri's plan is for local governmental units and does not include large cities. The Colorado plan includes local police and firemen. The Oklahoma plan only includes police. Iowa's plan includes state-level public safety personnel.

The table shows that the public safety personnel retirement systems in the surrounding states are similar in many ways to the Kansas Police and Firemen's Retirement System. In the plans depicted above, the normal retirement is generally age 55 with 20 to 25 years of service, although normal retirement in Oklahoma is age 50 with 20 years of service. Years to vest range from a low of 5 in the Missouri plan to a high of 20 in both the Nebraska plan and the Kansas Police and Firemen's Retirement System.

The benefit factor is usually two percent per each year of service, and most of the plans replace about 50 percent of pre-retirement income. In Iowa and Missouri, retirants also receive a Social Security pension at age 65 in addition to their retirement system pension. In both the Kansas and Oklahoma systems, the plan replaces about 50 percent of salary and some members also receive a Social Security pension. In addition, all of the plans have some provisions for disability and death benefits.

The main area of difference among the various plans is in the contribution rates. Employer contributions vary, but all are lower than the employer contribution to the Kansas Police and Firemen's Retirement System. In three of the plans, employees contribute eight percent of their salary. In Iowa, employees contribute 3.1 percent, and in Missouri, employees contribute four percent of their salary. Employee contributions to the Kansas Police and Firemen's Retirement System fall between these two extremes.

### **Private Pension Plans Are Similar In Some Aspects To the Kansas Police and Firemen's Retirement System, But Are Dissimilar In Other Aspects**

Like the Kansas Police and Firemen's Retirement System, most private pension plans are defined benefit plans. Contributions, which are related to an employee's salary, are treated as a variable factor. The benefit formula is determined by a combination of years of service, age, and final average salary.

The goal of the private plans is similar to the goal of the Kansas Police and Firemen's Retirement System: providing an employee with a replacement income after retirement. A private pension plan will usually replace about 30 percent of pre-retirement income. When Social Security is added, the retirant will usually receive about 50 percent to 75 percent of pre-retirement income. This level of income replacement is comparable to the

**Comparing Surrounding States' Retirement Systems  
With the Kansas Police and Firemen's Retirement System**

	Colorado	Iowa	Missouri	Nebraska	Oklahoma	KP&F
<b>Employee Contributions</b>	8%	3.1%	4%	8%	8%	7%
<b>Employer Contributions</b>	8%	16%	7% to 9%	8%	10%	16.3%(a)
<b>Years to Vest</b>	10	15	5	20	10	20
<b>Normal Retirement</b>	55 w/ 25 yrs.	55 w/ 22 yrs.	55 w/ 25 yrs.	55 w/ 20 yrs.	50 w/ 20 yrs.	55 w/20 yrs.
<b>Social Security Contributions</b>	No	Yes	Yes	No	Varies	Varies
<b>Benefit Factor (b)</b>	2%	N/A(c)	1% to 1.25%	2.5%	2.5%	2%
<b>Percent of Final Average Salary Replaced At Normal Retirement</b> (does not include Social Security)	50%	50%	25% to 31%	50% (75% max.)	50% (75% max.)	40% (70% max.)
<b>Service-Related Disability Yearly Benefit</b> (a percentage of salary)	40% to 60%	66%	44% approx.	50%	50%	50% to 75%
<b>Non-Service-Related Disability Yearly Benefit</b> (a percentage of salary)	40% to 60%	40% w/ 5 yrs.	retirement benefit with no age reduction	50%	based on years of service	annuity = 2% x FAS(d) x yrs. of service
<b>Service-Related Annual Death Benefit</b> (a percentage of salary)	25% to 50%	50%	Varies with length of service	50%	50%	50% to 75%
<b>Non-Service-Related Annual Death Benefit</b> (a percentage of salary)	25% to 50%	25% or lump sum 40% FAS(d)	Varies with length of service	50%	based on years of service	2% x FAS(d) x yrs of service + lump sum 100% FAS(d)

- (a) This figure represents the average contribution rate for all participating employers and includes a contribution for participating service and unfunded past service liabilities.
- (b) The benefit factor is part of the benefit formula which determines the actual retirement benefit; benefit factor x final average salary x years of service.
- (c) Iowa's retirement benefit is 50 percent of the final average salary.
- (d) FAS = final average salary

maximum level of 70 percent of final average salary that is available to members of the Kansas Police and Firemen's Retirement System.

A number of dissimilarities are also apparent between private pension plans and the Kansas Police and Firemen's Retirement System.

**In 91 percent of the private plans, employers pay the entire cost of the system.** Most often, employees do not contribute to the plan. This is in contrast to the Kansas Police and Firemen's Retirement System, whose covered employees are required to contribute seven percent of their gross salary to the plan.

**Employees of private firms are also required to contribute to Social Security.** In up to one-half of the private pension plans, the amount of benefit that a retirant receives from Social Security has an effect on the level of private pension that the retirant receives. That is, Social Security benefits are integrated with the private pension benefits. In Kansas, 28 percent of the police and firemen contribute to Social Security. With a few exceptions, the pension benefits of those members of the Kansas Police and Firemen's Retirement System who also receive Social Security are not integrated with Social Security. Therefore, the retirant will receive a full pension from the Kansas Police and Firemen's Retirement System and a full pension from Social Security.

**Vesting requirements are less stringent for private pension plans.** Private pension plan members can become vested in their plan in several ways. In most cases, however, employees are eligible for a pension after 10 years of employment. By contrast, members of the Kansas Police and Firemen's Retirement System must work 20 years before becoming eligible for a pension.

**Normal retirement age is higher in most private pension plans.** Generally, the normal retirement age is 60 or 65. This is higher than the normal retirement age of 55 years for members of the Kansas Police and Firemen's Retirement System.

### Conclusion

Although the benefits available to members of the Kansas Police and Firemen's Retirement System are relatively more generous than those available to other public employees, those benefit levels are similar to the benefits provided in the four cities that offer their own retirement plans. The benefits are also generally comparable to the benefits provided by other state public safety personnel retirement systems.

### What Benefits Are Paid to Members of the Kansas Police and Firemen's Retirement System, And How Do Those Benefits Compare With Other Systems?

To answer this question, the auditors reviewed the annual reports from the Kansas Public Employees Retirement System. They also analyzed a sample of files of retired and disabled members of both the Kansas Police and Firemen's Retirement System and the non-school Kansas Public Employees Retirement System. Finally, they surveyed the sample of pensioners to gather information about the adequacy of the benefits provided to the members of both retirement systems.

In general, the auditors found that members of the Kansas Police and Firemen's Retirement System receive substantially higher pensions than those members of the Kansas Public Employee Retirement System. On average, retired police and firemen have more years of service and a higher salary level than retired members of the Kansas Public Employees Retirement System. In addition, the auditors found that retirants from both retirement systems often supplement their pension with other money, predominantly income from full- or part-time employment and Social Security.

**Police and Firemen Receive Substantially Higher Benefits Than Other Public Employees**

Because the benefits available to members of the Kansas Police and Firemen's Retirement System are more generous than those available to members of the Kansas Public Employees Retirement System, it is not surprising that the average benefit paid to police and firemen is also higher. For example, the benefit factor for members of the Kansas Police and Firemen's Retirement System is two percent of final average salary multiplied by number of years of service. The benefit factor for members of the Kansas Public Employees Retirement System is 1.25 percent to 1.4 percent. The following table gives the average monthly benefit for new retirees for fiscal years 1984 and 1985.

**Average Monthly Retirement Benefit - New Retirants**

<u>Fiscal Year</u>	<u>KP&amp;F Benefit</u>	<u>KPERS benefit</u>
1984	\$ 1,063	\$ 306
1985	1,206	309

As the table shows, the monthly benefit for police and firemen retiring under the Kansas Police and Firemen's Retirement System is more than three times the benefit provided to members of the Kansas Public Employees Retirement System. To understand these large differences, the auditors selected a sample of members of both retirement systems who began to receive either regular retirement pensions or disability pensions in fiscal years 1983 through 1985. They reviewed these retirees' files, and sent each of them a survey to gather more detailed information about retirants.

In general, the auditors found that police and firemen's monthly retirement benefit is so much greater than the other group's benefits because police and firemen have an average of eight years more service and nearly twice as much final average salary when they retire. Disabled police and firemen are also considerably younger than their non-school counterparts covered under the Kansas Public Employees Retirement System, and nearly all their disabilities are considered to be service-related. These findings are discussed in the following sections.

**Examples:  
Normal Retirement Experiences**

At the age of 52 a fireman retired with 27 years of service. He receives a monthly benefit of \$964, or 54 percent of his final average salary. This person originally participated in a local plan and joined the Kansas Police and Firemen's Retirement with the added incentive of being able to retire after 25 years of service.

After 25 years of service, at the age of 59, a policeman retired. He receives a monthly benefit of \$1,233, or 50 percent of his final average salary.

A public employee retired, at 65, after 17 years of service. The monthly benefit is \$178 or 21 percent of the final average salary. The employee also receives a pension from Social Security.

Early retirement was taken by a public employee at the age of 63. After 26 years of service, the monthly benefit is \$478, or 30 percent of the final average salary. The employee is also eligible to receive a Social Security pension.

Members of the Kansas Police and Firemen's Retirement System who retire on the basis of service have more years of service and have a higher final average salary than retirants of the Kansas Public Employees Retirement System. The following table compares the sample of Police and Firemen retirants to the sample of Kansas Public Employees retirants.

**Comparison of Retirants' Characteristics**

	<b><u>Kansas Police and Firemen</u></b>	<b><u>Kansas Public Employees (non-school)</u></b>
Average age at retirement	55	64
Average years of service	27	19
Final average salary	\$ 25,204	\$ 14,714
Average monthly pension benefit	\$ 1,103	\$ 277
Number in sample	78	46

As the table shows, police and firemen in the sample retired with an average of 27 years of service. Police and firemen, whose jobs can be more career-oriented, tend to begin their jobs at an earlier age and remain in them for most of their working years. According to Kansas Public Employees Retirement System officials, about 40 percent of the Kansas Police and Firemen's Retirement System's members will vest in that System. By contrast, other public employees in the sample retired with only 19 years of service at age 64. This suggests that many of these employees did not begin their public service work until they were older.

The table also shows that the final average salary for police and firemen is more than \$25,000. This figure is 71 percent higher than the final average salary of \$14,714 for members of the Kansas Public Employees Retirement System. This difference in salaries is explained to some extent by the greater number of years of service for police and firemen. However, even when years of service is held more constant, non-school members of the Kansas Police and Firemen's Retirement System have higher salaries, on average, than members of the Kansas Public Employees Retirement System.

Members of the Kansas Police and Firemen's Retirement System who receive pensions because of disabilities are younger and have higher salaries, on average, than similar retirees of the Kansas Public Employees Retirement System. The table on the facing page illustrates these comparisons.

As the table shows, disabled members of the Kansas Police and Firemen's Retirement System retire at age 45, 12 years younger than disabled members of the Kansas Public Employees Retirement System. Final average salaries were also 66 percent higher for the police and firemen. In addition, the police and firemen have 14 years of service, compared to 10 years of service for members of the Kansas Public Employees Retirement System.

**Comparison of Retirants' Characteristics  
Members Receiving Disability Pensions**

	<u>Kansas Police and Firemen</u>	<u>Kansas Public Employees</u>
Average age at disability	45	57
Average years of service	14	10
Final average salary	\$ 21,327	\$ 12,847
Average monthly benefit	\$ 1,005	\$ 718
Number in sample	45	30

Most police and firemen's disabilities are considered to be service-related. Forty-three of the 45 members retired for a service-related disability. With a service-related disability, the member receives 50 percent of final average salary, regardless of the number of years of service. Additional benefits are paid if there are dependent children. The member can receive a maximum of 75 percent of final average salary as long as the dependent children are under age 18.

The standard of disability differs between the two retirement systems. A Kansas Public Employees Retirement System member who becomes disabled is eligible to receive benefits only as long as he or she is totally unable to do any kind of work. By contrast, the disabled police or fireman only has to show that he or she is unable to perform the duties of a policeman or fireman.

To gain a more complete understanding of the State's retirement systems, the auditors sent a questionnaire to the sample of retirants identified in the accompanying tables. A total of 97 surveys were returned for a response rate of about 51 percent. Appendix B provides a summary of the results of the survey.

**Most of the Pensioners Were Supplementing  
Their Pension With Other Income**

Members of both systems were asked if the pension was adequate to meet their needs. About 71 percent of the retired police and firemen indicated that the pension was not adequate, while about 66 percent of the other employees said their pension was not adequate. Of the 65 members of the Kansas Police and Firemen's Retirement System who

**Examples: Experience of  
Disability Pensioners**

In 1983, a policeman shattered his arm in an automobile accident. This 37-year-old man was disabled and now receives a monthly benefit of \$882, or 60 percent of his final average salary. The 60 percent is a combination of 50 percent for the standard benefit, and an additional 10 percent for a child under 18. He is not covered by Social Security.

A 42-year-old fireman was stricken by a heart attack after 10 years of service. The monthly disability benefit is \$923, or 50 percent of his final average salary. He is not covered by Social Security.

A State employee contracted bone cancer at the age of 40. The employee's monthly benefit is \$852. The monthly benefit is offset by a Social Security benefit of \$595, which leaves the Retirement System responsible for the remaining \$257.

responded to the survey, 41, or 62 percent, had either full-time or part-time employment. Only five received any Social Security benefits. By contrast, of the 32 retirants of the Kansas Public Employees Retirement System who responded to the survey, 27, or 84 percent received Social Security benefits. Only two indicated they were employed.

Several open-ended questions were also asked of the pensioners. Roughly 25 percent of the respondents from both systems said that what they liked best about the system was that the checks were on time and the staff provided good assistance to them when problems arose. Another 28 percent of the Kansas Public Employees Retirement System retirants indicated that they liked the regular, guaranteed monthly income provided by their pension.

When asked what they liked least about their retirement system, 22 percent of the Kansas Public Employees Retirement System respondents said that the benefit was not adequate. About 17 percent of the members of the Kansas Police and Firemen's Retirement System said they disliked the fact that there were not regular cost of living increases. Nearly as many retired police and firemen said that the benefits were not adequate.

The respondents were asked to indicate what changes they would like to see in their retirement system. More than one-third of the members of the Kansas Police and Firemen's Retirement System indicated that they would like to see health insurance coverage made available to retirants. Twenty-eight percent also said they would like to see regular cost of living increases. Fewer changes were suggested by retired Kansas Public Employees Retirement System members. Nineteen percent indicated that they would like to see higher benefit levels, and 12.5 percent said they would like regular cost of living increases.

In sum, the auditors found that members of the Kansas Police and Firemen's Retirement system receive pensions that are about three times as high as the pensions other public employees receive from the Kansas Public Employees Retirement System. At retirement, police and firemen are younger and have higher salaries than other public employees. When they retire on a disability pension, police and firemen are also younger, on average, than other public employees who receive a disability pension. In addition, the standard of disability is different. Members of the Kansas Police and Firemen's Retirement System are considered disabled if they can no longer function as a police or firefighter. This is much less stringent than the standard imposed on members of the Kansas Public Employees Retirement System. Finally, retired members of both Systems supplement their pensions with other income. As many as 62 percent of the police and firemen supplemented their pensions with either full- or part-time employment, while 84 percent of the other public employees received Social Security benefits.

### **What Options Are There For Providing Benefits Under the Kansas Police and Firemen's Retirement System?**

The auditors' review of the Kansas Police and Firemen's Retirement System has shown that its provisions are similar to public safety personnel retirement plans in other states and in the four localities that have their own retirement plans. In general, public safety personnel retirement systems have the following provisions:

- most provide for a normal retirement at age 55 with 20 to 25 years of service
- most have a benefit factor of two percent of salary for each year of service

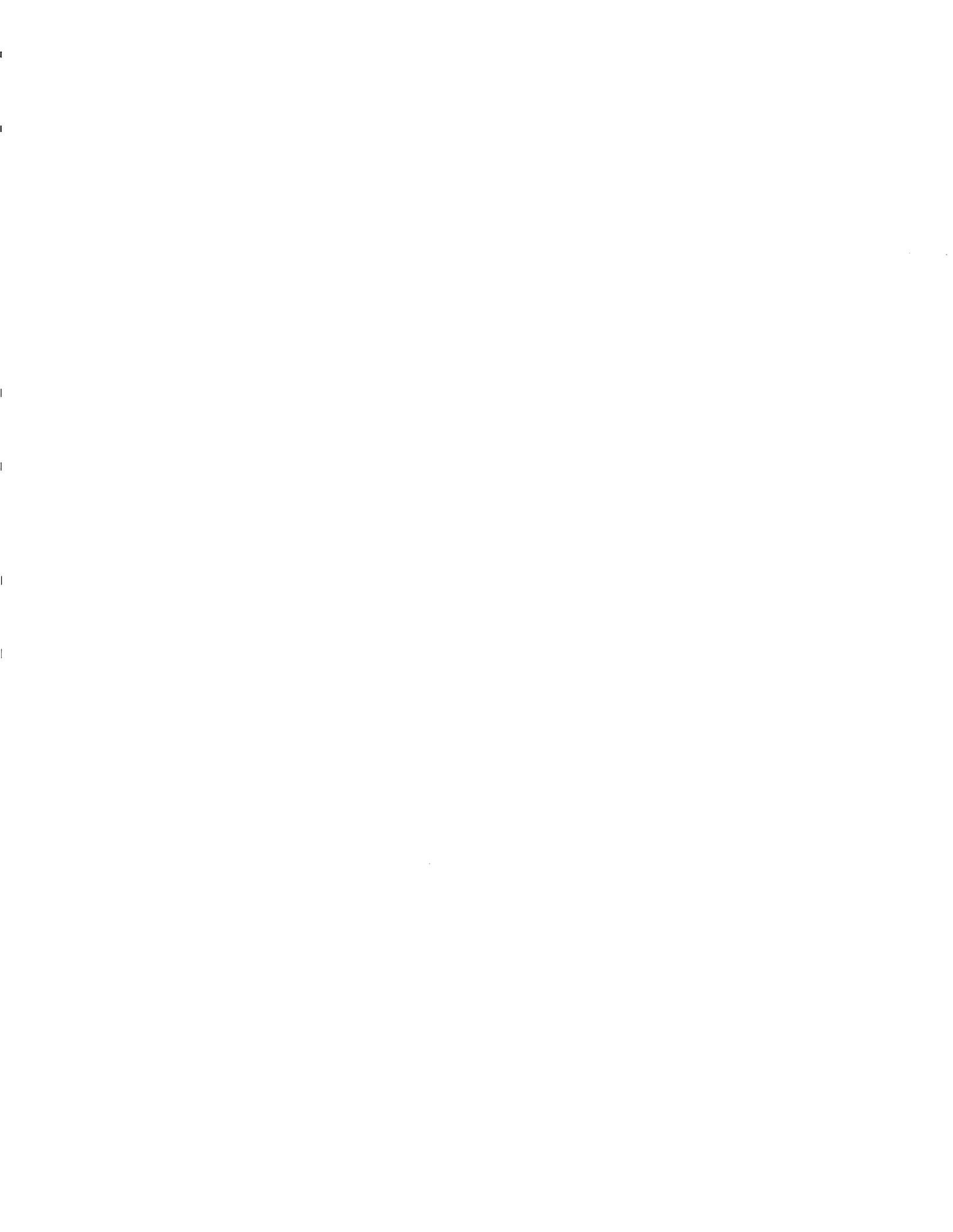
- most replace about 50 percent of pre-retirement income
- most provide a disability pension of 50 percent of final average salary
- the standard of disability is inability to perform duties of police or fireman

Some variations in the public safety plans exist, but the general provisions are similar.

By contrast, the provisions of the Kansas Public Employees Retirement System are much less generous.

- retirement with full benefits is at age 65
- the benefit factor is 1.4 percent of salary for each year of service
- the standard of disability is inability to perform any work

Based on the above analysis, it appears that the Kansas Police and Firemen's Retirement System is comparable to other public safety personnel retirement systems. Kansas' plan is geared toward the public policy goal of having an experienced but relatively young workforce. Changes that are made to the System will require changes in public policy, and would have to be studied to determine their impact on the fiscal health of the System.



## APPENDIX A

### CONTRIBUTIONS TO THE KANSAS POLICE AND FIREMEN'S RETIREMENT SYSTEM

<u>Employer</u>	<u>Fiscal Year</u> <u>1984</u>	<u>Fiscal Year</u> <u>1985</u>	<u>Fiscal Year</u> <u>1986</u>	<u>Fiscal Year</u> <u>1987</u>
Gray Co. Sheriff's Dept.*			11.1%	12.0%
Harvey Co. Sheriff's Dept.*			17.0	17.1
Johnson Co. Fire Dept.*			11.4	12.0
Johnson Co. Fire District #2	16.8%	12.9%	12.7	13.5
Johnson Co. Sheriff's Office	17.4	13.5	13.2	14.1
Reno Co. Fire District #2*			11.1	12.0
Reno Co. Sheriff's Dept.*			11.1	12.0
Riley Co. Law Enforcement Agcy.	14.9	11.1	11.1	12.0
Sedgwick Co. Fire District #1*	16.0	12.2	12.3	13.1
Sedgwick Co. Sheriff's Office *	16.3	12.6	12.7	13.5
Sedgwick Co. EMT*			13.2	14.2
Shawnee Co. Sheriff's Dept.*			16.0	18.9
Sumner Co. Sheriff's Office*	19.3	18.1	16.0	17.0
Arkansas City*	22.4	18.4	17.3	17.7
Atchison*	17.7	13.9	13.7	14.4
Bonner Springs*			11.1	12.0
Chanute*	17.4	13.5	13.1	13.8
Cimarron*			11.1	12.0
Coffeyville	27.5	23.8	23.3	25.6
Concordia*	26.8	22.3	21.5	22.0
Derby*	19.6	14.8	14.6	15.2
Emporia*	21.6	17.3	18.0	18.3
Endora*			11.1	12.0
Fairway*	16.7	12.9	12.5	13.3
Fort Scott	30.7	26.0	25.1	24.4
Herington*	17.7	13.8	13.5	14.5
Hutchinson	29.6	25.3	27.2	28.0
Junction City	17.9	14.0	13.7	14.6
Kansas City	29.5	24.6	23.8	23.3
Lawrence	17.3	13.3	13.5	14.2
Leavenworth	16.5	12.9	12.7	13.5
Leawood*	19.2	14.9	14.7	15.3
Lenexa*	15.8	11.9	11.7	12.5
Manhattan	27.5	22.3	23.3	23.0
Merriam*	17.4	13.4	13.1	13.8
McPherson*	15.7	12.0	11.9	12.8
Mission*			11.1	12.0
Newton Emergency Med.			14.0	14.6
Newton	18.6	14.9	14.1	14.9
Olathe*	15.5	11.6	11.6	12.5

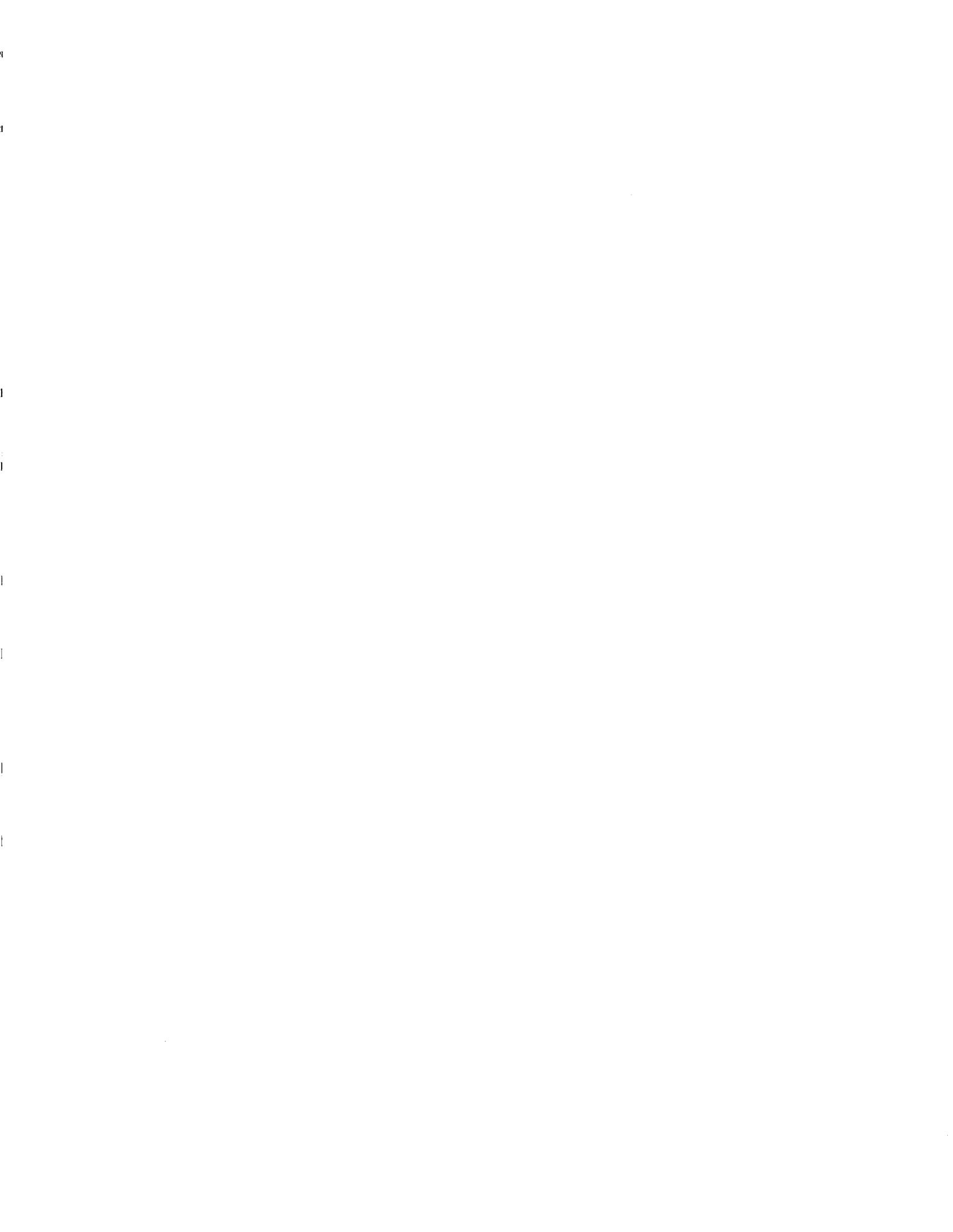
<u>Employer</u>	<u>Fiscal Year 1984</u>	<u>Fiscal Year 1985</u>	<u>Fiscal Year 1986</u>	<u>Fiscal Year 1987</u>
Parsons*	26.0	20.9	20.3	20.6
Pittsburg	25.6	21.3	20.2	21.4
Salina	25.5	20.3	19.9	20.4
Shawnee*	16.8	12.8	12.7	13.3
Topeka	30.5	25.6	27.0	27.1
Wellington*	27.0	22.2	21.1	20.6
Westwood*	14.9	11.2	11.1	12.0
Winfield*	25.5	21.1	21.7	22.5
Kansas Bureau of Invest.	18.5	14.7	14.3	14.9
Kansas Highway Patrol	20.1	16.1	15.9	16.6

\*This denotes an employer who also contributes to Social Security.

## **APPENDIX B**

### **Summary of Survey Results**

The auditors sent a survey to a sample of pensioners who began to receive a retirement or disability pension in fiscal years 1983 through 1985. A total of 112 surveys were sent to members of the Kansas Police and Firemen's Retirement system, and 78 surveys were sent to members of the Kansas Public Employees Retirement System. The auditors received 97 completed surveys, for a response rate of about 51 percent. The appendix summarizes the results of the survey. For the open-ended questions, a response is listed if it was mentioned by more than one person. The first section presents the responses of the members of Kansas Police and Firemen's Retirement System. The second section presents the responses of the members of the Kansas Public Employees Retirement System.



## Summary of Results

### Legislative Division of Post Audit Survey of Retirants Kansas Police and Firemen's Retirement System

This survey is designed to provide information about the adequacy of the retirement and disability benefits provided to retirants by the Kansas Police and Firemen's Retirement System. A prepaid return envelope is provided for your convenience. Please return the completed survey to us by July 2, 1986. If you have any questions, please call Ellyn Rullestad, Senior Auditor, Kansas Legislative Division of Post Audit at (913) 296-3792. Thank you for your assistance.

1. Are the retirement benefits you receive from the Kansas Police and Firemen's Retirement System adequate to meet your needs?

3	(4.6%)	Yes
46	(70.8)	No
13	(20.0)	Most of the time
0	(0.0)	Other (please indicate) _____

2. Is your retirement pension supplemented by income from any of the following:

18	(27.7%)	Full-time employment
23	(34.4)	Part-time employment
5	(7.7)	Social Security pension
2	(3.8)	Another pension
9	(13.9)	Income from other family members
1	(1.5)	Other source (please identify) _____
0	(0.0)	Pension is not supplemented by any other income

3. What do you like best about the Kansas Police and Firemen's Retirement System?

17	(26.2%)	checks are on time
12	(18.5)	the extra, 13th check
10	(15.4)	regular, guaranteed monthly income
10	(15.4)	well-funded, sound system
5	(7.7)	early retirement
3	(4.6)	income (from disability) non-taxable
3	(4.6)	provides some minimum benefits
3	(4.6)	cost-of-living increases are provided
2	(3.1)	widow's benefits

4. What do you like least about the Kansas Police and Firemen's Retirement System?

11	(16.9%)	no cost of living increase given regularly
9	(13.9)	inadequate benefit
8	(12.3)	does not offer health insurance coverage
6	(9.2)	no complaint
5	(7.7)	income is taxable
2	(3.1)	continued requirement for physicals to prove disability
2	(3.1)	treatment of widows
2	(3.1)	cannot claim military time as part of service
2	(3.1)	the connection to Social Security

5. What changes would you like to see in the Kansas Police and Firement's Retirement System?

24	(36.9%)	provision of health insurance
18	(27.7)	regular cost of living increases
8	(12.3)	higher benefit levels
4	(6.2)	provide a spousal benefit without reduction in primary benefits
3	(4.6)	increase benefit for earlier retirants
3	(4.6)	none
2	(3.1)	keep it untaxed, make it nontaxable
2	(3.1)	fewer required physicals

6. Please provide any additional comments you feel are important.

10	(15.4%)	need to have more frequent cost of living increases
9	(13.8)	need better compensation
9	(13.8)	cost of health insurance is very high for retirants
4	(6.2)	disability benefit is inadequate, especially if taxed
4	(6.2)	system is good
2	(3.1)	concern of Legislature for retirant is appreciated

## Summary of Results

### Legislative Division of Post Audit Survey of Pensioners Kansas Public Employees Retirement System

This survey is designed to provide information about the adequacy of the retirement and disability benefits provided to members of the Kansas Public Employees Retirement System. A prepaid return envelope is provided for your convenience. Please return the completed survey to us by July 2, 1986. If you have any questions, please call Elyn Rullestad, Senior Auditor, Kansas Legislative Division of Post Audit at (913) 296-3792. Thank you for your assistance.

1. Are the pension benefits you receive from the Kansas Public Employees Retirement System adequate to meet your needs?

2	(6.25 %)	Yes
21	(65.6)	No
8	(25.0)	Most of the time
1	(3.1)	Other (please indicate) _____

2. Is your pension supplemented by income from any of the following:

0	(0.0%)	Full-time employment
2	(6.25)	Part-time employment
27	(84.4)	Social Security pension
5	(15.6)	Another pension
7	(21.9)	Income from other family members
6	(18.8)	Other source (please identify) _____
0	(0.0)	Pension is not supplemented by any other income

3. What do you like best about the Kansas Public Employees Retirement System?

9	(28.1 %)	regular, guaranteed monthly income
8	(25.0)	checks are on time
4	(12.5)	the extra, 13th check
2	(6.3)	disability provisions
2	(6.3)	early retirement
2	(6.3)	widow's benefits

4. What do you like least about the Kansas Public Employees Retirement System?

7	(21.9%)	inadequate benefit
3	(9.4)	no complaint
2	(6.3)	the connection to Social Security for disability payments

5. What changes would you like to see in the Kansas Public Employees Retirement System?

6	(18.8 %)	higher benefit levels
4	(12.5)	regular cost-of-living increases
3	(9.4)	shorter vesting period

6. Please provide any additional comments you feel are important.

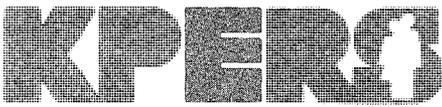
3	(9.4 %)	need better compensation
3	(9.4)	system is overfunded - more should go to retirants
2	(6.3)	system is good



## **APPENDIX C**

### **Agency Response**

A copy of the draft audit report was sent to the Kansas Public Employees Retirement System for its review and comment on July 16, 1986. Its response is included in this Appendix.



**Kansas Public Employees Retirement System**

MARSHALL CROWTHER, Executive Secretary

July 22, 1986



Mr. Meredith C. Williams  
Legislative Post Auditor  
301 Mills Building  
Topeka, Kansas 66612

Dear Mr. Williams:

This is in reply to your letter of July 16, 1986, in which you asked that we review the performance audit report of the Kansas Police and Firemen's Retirement System. The following are our comments and suggestions:

1. In the paragraph following the chart on Page 3, it should be mentioned that the large increase in retirants during that ten year period is due primarily to the special retirants that were picked up when various local plans affiliated with the state's system.
2. The information on Page 3 relating to membership in the Kansas Public Employees Retirement System and the information contained in the tables on Page 4 relate only to the KPERS non-school group (emphasis added). Within KPERS, there are two groups of members, i.e., school employees and non-school employees. The only difference between the two groups is they are valuated separately for actuarial purposes. For your reference, I have enclosed tables for both membership and employer contributions which reflect both the school and non-school portions of KPERS.
3. The last sentence of the first paragraph on Page 4 should be changed to read "after the first year, the KPERS board of trustees certifies the contribution rate needed based upon recommendations of the system's actuary".
4. On Page 5, under the heading "Social Security Contributions Increase Both Employer and Employee Retirement System Costs", you have implied that participating employers under KP&F, who do not contribute to social security, contribute at the rate of 16.3%. I would note that this is simply an average rate of all employers under KP&F, whether they contribute to social security or not. As a result, the next paragraph would not be accurate. Perhaps it would be better to either eliminate this paragraph in its entirety or show what the composite contributions would be for a KP&F agency under social security compared with one that was not. Finally, the third paragraph under that subheading again only reflects the non-school employer.
5. Perhaps it should also be noted that the employer contribution rates for prior service are also higher under KP&F because prior service under KP&F is credited at the same rate in the benefit formula as participating service.

6. The chart at the bottom of Page 6 appears to be out of place. It should follow the comment that states "the following chart compares the retirement contributions for both systems". In addition, that chart should be changed to agree with our previous comments regarding composite rates.
7. On the comparison of retirement systems on Page 7, the normal retirement under KPERS is 65 with no minimum service requirement. In that same table, the employer contribution rate under KPERS should be changed to reflect the school rate as well. Under the heading "Service Related Disability Benefits", the KPERS disability income benefits are reduced by primary social security as well as  $\frac{1}{2}$  of workers' compensation. Under "Service Related Death Benefits for KPERS", the monthly service connected accidental death benefit is reduced by the value of any workers' compensation award and cannot be less than \$100 per month. The life insurance is available only to active employees who are under the age of 70.

On Note C of the chart on Page 7, in computing KPERS retirement benefits, the type of service determines the percentage applied in the formula. Prior service is credited at 1%. Non-credited prior school service is credited at  $\frac{3}{4}$  of 1%. Participating service prior to July 1, 1982, is credited at 1.25% and participating service after July 1, 1982, is credited at 1.4%. Effective July 1, 1988, all participating service will be credited at 1.4% provided the member has at least 10 years of participating service.

Finally, perhaps it should be noted that the retirement act was amended this year to provide for normal retirement at any age with 40 years of service or 35 years of service and at least age 60. These provisions are in effect for retirements from July 1, 1986, through July 1, 1988.

On the KP&F side of the table, it should be noted that non-service connected death and disability benefits require a minimum of five years of credited service.

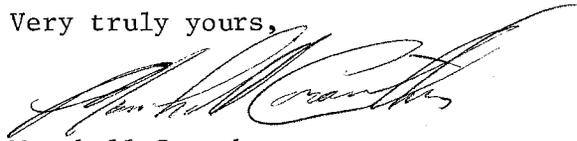
8. The last sentence at the bottom of Page 7 should be changed. A KPERS member can retire at age 65 with any amount of service. It requires a minimum of 10 years of service credit, however, if you retire between the ages of 60 and 65.
9. Another important feature which should be mentioned is that there is portability between all of the systems. Otherwise, service credit earned under another retirement system may be used in determining eligibility for benefits under KP&F. However, only service actually accrued under KP&F is used in any benefit calculation.
10. On the comparison chart on Page 9, the employer contribution rate of 16.3% should be noted as an average of all employer contribution rates. The employer rate for participating service is 11.1% and any percentage above that reflects the amortizing of unfunded prior service liabilities.
11. On that same comparison chart on Page 9, the non-service related disability benefits would be equal to  $2\% \times \text{final average salary} \times \text{years of service}$ , not to exceed 50% of final average salary.
12. On the comparison chart on Page 11, under "Non-service Related Disability Yearly Benefit", the KP&F benefit should say  $2\% \times \text{final average salary} \times$

years of service.

13. On Page 13, in the box entitled "Examples - Normal Retirement Experiences", the statement at the end of the first paragraph is not accurate. The words "regardless of age" should be stricken. There is no provision for normal retirement at any age with 25 years of service. Also, I do not believe a meaningful comparison is possible using simply benefit level amounts. I would note that for the two examples involving public safety employees, the final average salary was \$21,422 and \$29,592. On the other hand, the public employee who retired with 17 years of service had a final average salary of only \$10,171, while the individual who took early retirement would have had a final average salary of approximately \$20,603. Also, there is lack of social security information which further distorts the distance between the benefits.
14. At the top of Page 15, there are two technical corrections. As disabled KPERS members are not retired, I would suggest you change the first line to "average age at disability" and four columns down change the wording to "average monthly benefit."

I trust the above information is helpful; if you have any questions or if I can be of further assistance in any way, please let me know.

Very truly yours,



Marshall Crowther  
Executive Secretary

MC:JLH:djp

Enclosures

Pages 3 & 4 KPERS MEMBERSHIP

	<u>School</u>	
	<u>Active</u>	<u>Retired*</u>
1976	39,136	6,185
1977	41,596	6,963
1978	41,768	7,687
1979	42,570	8,362
1980	41,595	9,074
1981	42,034	9,674
1982	42,071	10,342
1983	41,966	10,843
1984	42,470	11,715
1985	<u>43,262</u>	<u>12,339</u>
Total change 1976-1985:	4,126	6,154
Percent change 1976-1985:	10.5%	99.5%

	<u>Changes</u>	
	<u>Active</u>	<u>Retirants</u>
Combined	87,079	10,741
Combined %	13.4%	68.9%

\*Does not include Kansas School Retirement System retirants.

Page 4 EMPLOYER CONTRIBUTIONS  
School

	<u>Contributions</u>	<u>Rate</u>
1976	\$24,253,966	5.8%
1977	34,422,568	7.9
1978	37,350,000	7.3
1979	33,584,117	6.1
1980	38,139,149	6.3
1981	35,697,616	5.2
1982	34,916,111	4.7
1983	36,107,048	4.5
1984	37,567,379	4.5
1985	40,747,085	4.4