THE KANSAS STORY
HOW POLITICIANS UNDERMINE PENSION FUNDS

In May 2012, Gov. Sam Brownback signed legislation to enact major income tax cuts. In the years since the governor's tax reform was implemented, the state has experienced declining revenues and multiple credit downgrades.

What has happened since?

- Since the tax cuts were implemented, Kansas has fallen behind the regional and national averages in both private sector wage growth and in its share of the U.S. economy.
- The state legislature has had to make deep cuts in spending to account for the lost revenue:
  - State aid to schools was cut, leading to increased class sizes
  - State support for libraries has been cut by over 30%
  - State aid for local health services has been cut by more than 12%
- In 2016, Gov. Brownback skipped a $100 million pension payment to fill a budget hole. That money was due to be repaid plus 8% interest in September 2016 and still has not been paid.

2017 Budget Proposal

Gov. Brownback's 2017 budget proposes not only to never repay the $100 million he owes the pension fund, but he is suggesting the state cap its contributions to the pension fund at 2016 levels. KPERS officials estimate the governor's proposal would add $6.5 billion in unfunded liability to the state's pension system.

Solution

Kansas should fully fund its pension, every year.

Pension funds depend on receiving full contributions from workers and their employers each year. When states skip their contributions to the pension fund, pension systems get into trouble.

In the years between 2012 and 2015 Kansas increased employee and state contributions to the pension fund. As a result, funding levels improved. The governor's current proposal will undo this progress and negatively impact the plan's funded status.

Kansas need look no further than West Virginia to see the consequences of underfunding and then closing a pension plan.

A BETTER EXAMPLE: *WEST VIRGINIA*

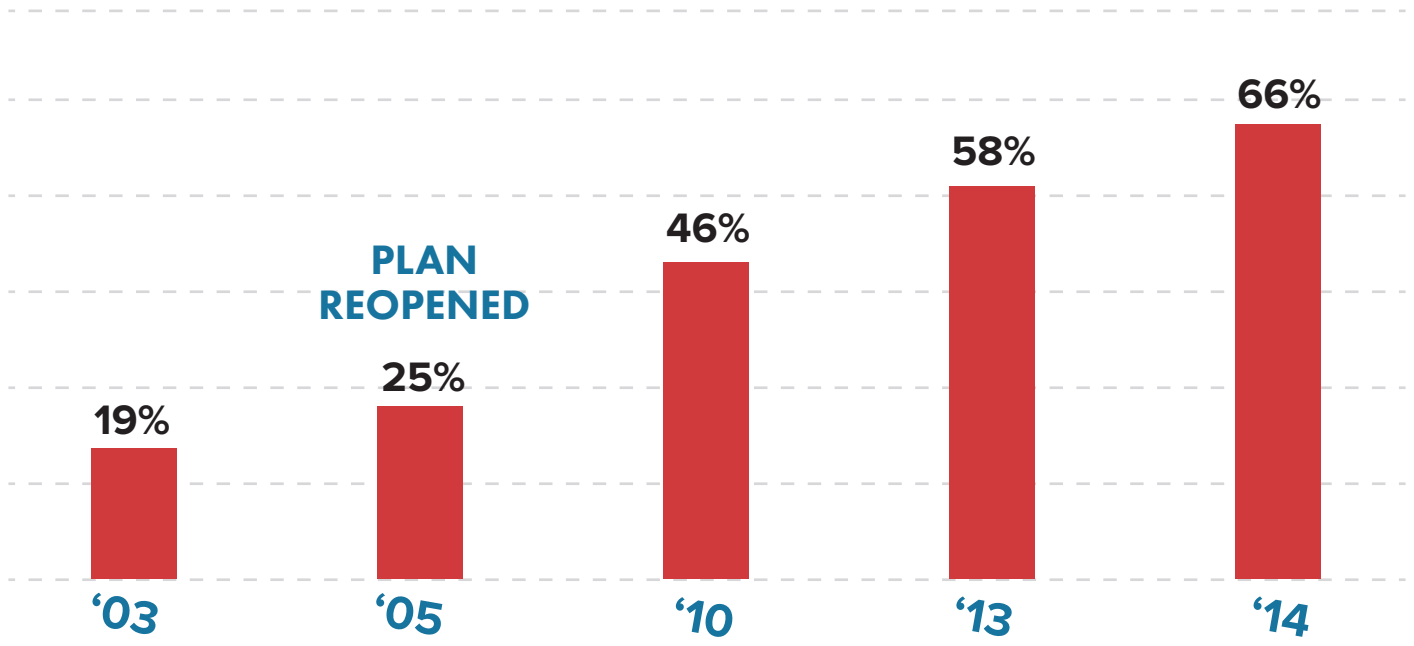
In West Virginia, the state had chronically underfunded the teacher pension system during the 1970s and 1980s. The state closed the teacher pension plan in 1991, but the funding level worsened, so the state reopened the plan in 2005.

Now, with new members paying into the plan, the funded status of the plan continues to improve. As of July 1, 2014, the plan's funding level had improved by 164% since the plan was reopened.

Not only has reopening the pension plan improved its funding level, but it has saved the state money. The state is projected to save $22 million by reopening the teacher pension plan.

The pension plan is also improving its funded status because the state has been making its required contributions. The state must continue making its full annual payments to the pension system so its funded status will continue to strengthen.

TEACHER PENSION PLAN FUNDING LEVELS



West Virginia Comprehensive Consolidated Public Retirement Board Annual Financial Reports
National Institute on Retirement Security *'Case Studies of State Pension Plans that Switched to Defined Contribution Plans'*. February 2015.