

# KCPERS

Kansas City Police Employees' Retirement Systems

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## RETIREMENT BOARD MEMBERS

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Mr. Troy Schulte  
City Manager  
29<sup>th</sup> Floor, City Hall  
Kansas City, Missouri 64106

February 14, 2012

Dear Mr. Schulte

We appreciate the opportunity to comment on the recommendations of the Pension Task Force and their impact on the Police Retirement System of Kansas City (Police plan) and the Civilian Employees' Retirement System of the Police Department of Kansas City (Civilian Employees' plan).

As the Task Force found, our two plans are well funded because of the conservative nature of the benefit structure, the consistent contributions from our members, and the investment returns from an asset allocation that over time has produced annual returns of 9.5%. The current funded ratios of about 76% are mainly due to volatile investment markets, and difficult economic conditions that have led to total contributions from the City below the amounts recommended by our actuary.

We concur with the City Manager's appointment of a Pension Project team to: 1) do the work of evaluating the proposed changes made by the Task Force; and 2) make recommendations that will help the plans move toward a goal of full funding. The first meeting of the Pension Project team produced positive results and a commitment from all the parties involved to work towards solutions that will ensure the long-term viability and sustainability of the four City funded retirement plans. Our Retirement Board looks forward to working with the City Manager, the other Retirement Boards, and representatives from organized labor to craft plans to get the funding ratios of the retirement systems trending in a positive direction.

While all the recommendations of the Task Force are important, and should be reviewed to determine if they could improve the funding ratios of the retirement systems, there are three recommendations that our board felt should receive additional attention.

- 1) **Increase employee contributions by a minimum of 1% in all four plans.** The Retirement Board encourages the Pension Project team to look closely at equalizing the employee contribution rates across like plans.

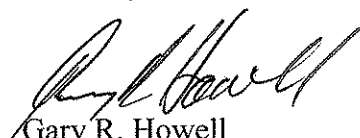
- 2) **Eliminate the current Cost of Living Adjustment policy in all plans and replace it with an “ad hoc” COLA contingent on funded percentages.** The Police plan and Civilian Employees’ plan have operated under an ad hoc COLA policy since the 1970’s. The ad hoc COLA and associated definition of “actuarially sound” is part of the conservative nature of our benefit structure.

We think it is important for the Pension Project team to remember that the retired members of the two public safety plans did not participate in Social Security. Our members are dependent upon their retirement system as their only source for cost of living adjustments that will enable them to keep up with the impact of inflation. We look forward to providing additional information to the Pension Project team about our ad hoc COLA process and the average increase amount, as a percentage of retirement benefits, which our members receive through a simple COLA increase.

- 3) **Reduce the multiplier for future benefit accruals for active members with five or more years of service and reduce the multiplier for actives with less than five years of service and for all new hires.** Our representatives on the Pension Project team were encouraged to hear that the legal issues impacting this recommendation would be fully vetted during the review process. Based on our understanding of current case law, we would not recommend changes to benefits for active members. Similar legal issues led the Missouri General Assembly to craft changes to the Missouri State Employees’ Retirement System that did not impact current employees.

Once again, we appreciate the opportunity to comment on the findings of the Task Force and look forward to working with the City Manager and City Council through our participation in the Pension Project team.

Sincerely,



Gary R. Howell  
Retirement Board Chair