



# KPERS Update

Funding, Contributions & Legislation

**PRESENTED BY:**

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Kansas Association of School Business Officials

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# Dependable Benefits. Trusted Partner

KPERS is a fiduciary providing retirement, disability and survivor benefits to our members and their beneficiaries with a 98-member staff.

KPERS administers three statewide, defined benefit plans for public employees.

- Kansas Public Employees Retirement System
- Kansas Police and Firemen's Retirement System
- Kansas Retirement System for Judges

KPERS partners with more than 1,500 state and local government employers.

- State of Kansas
- 286 school districts
- 105 counties
- 425 cities and townships
- Other employers include libraries, hospitals, community colleges and conservation districts





# KPERS Board of Trustees

<b>Kelly Arnold – Wichita Chairperson</b>	County Clerk, Sedgwick County	Appointed by the Governor
<b>Suresh Ramamurthi – Topeka Vice Chairperson</b>	Chairman, CBW Bank	Appointed by the President of the Senate
<b>Ernie Claudel – Olathe</b>	Retired Teacher	Elected Member - School
<b>Shawn Creger – Prairie Village</b>	Financial Advisor, Edward Jones	Appointed by the Speaker of the House
<b>James Cusser, CFA – Mission Hills</b>	Wall Street Investment Banker & Mutual Fund Manager Adjunct Associate Professor, Political Science, JCCC	Appointed by the Governor
<b>Jake LaTurner - Wichita</b>	Kansas State Treasurer	Statutory Member
<b>Michael Rogers - Manhattan</b>	Certified Public Accountant	Appointed by the Governor
<b>Ryan Trader - Olathe</b>	Firefighter/Paramedic, City of Olathe	Elected member – Non-School
<b>James Zakoura – Overland Park</b>	Partner, Smithyman & Zakoura Law Firm	Appointed by the Governor



# Covering Today

Overview and funding

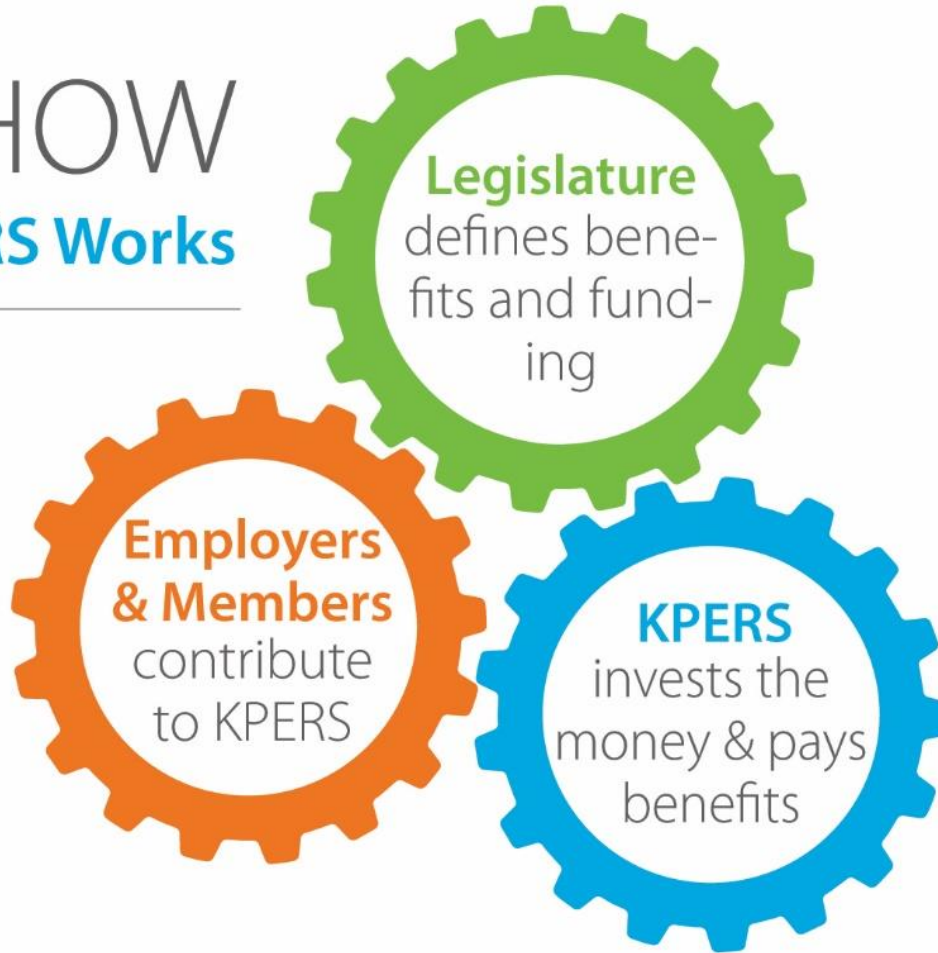
School contributions

Legislative changes



# KPERS Overview

## HOW KPERS Works



- Legislature defines benefits and funding
  - Membership eligibility
  - Vesting
  - Employee and employer contributions
  - Benefit formula
  - Service credit
  - Retirement eligibility
- Actuary estimates how much benefits will cost over time
- Employers and members make contributions to pre-fund benefits



# KPERS Overview

## FY 18 By The Numbers



**\$19 Billion**  
Trust Fund Assets  
highest ever

Assets have  
nearly dou-  
bled in the  
last 18  
years

\$9.8B

2000

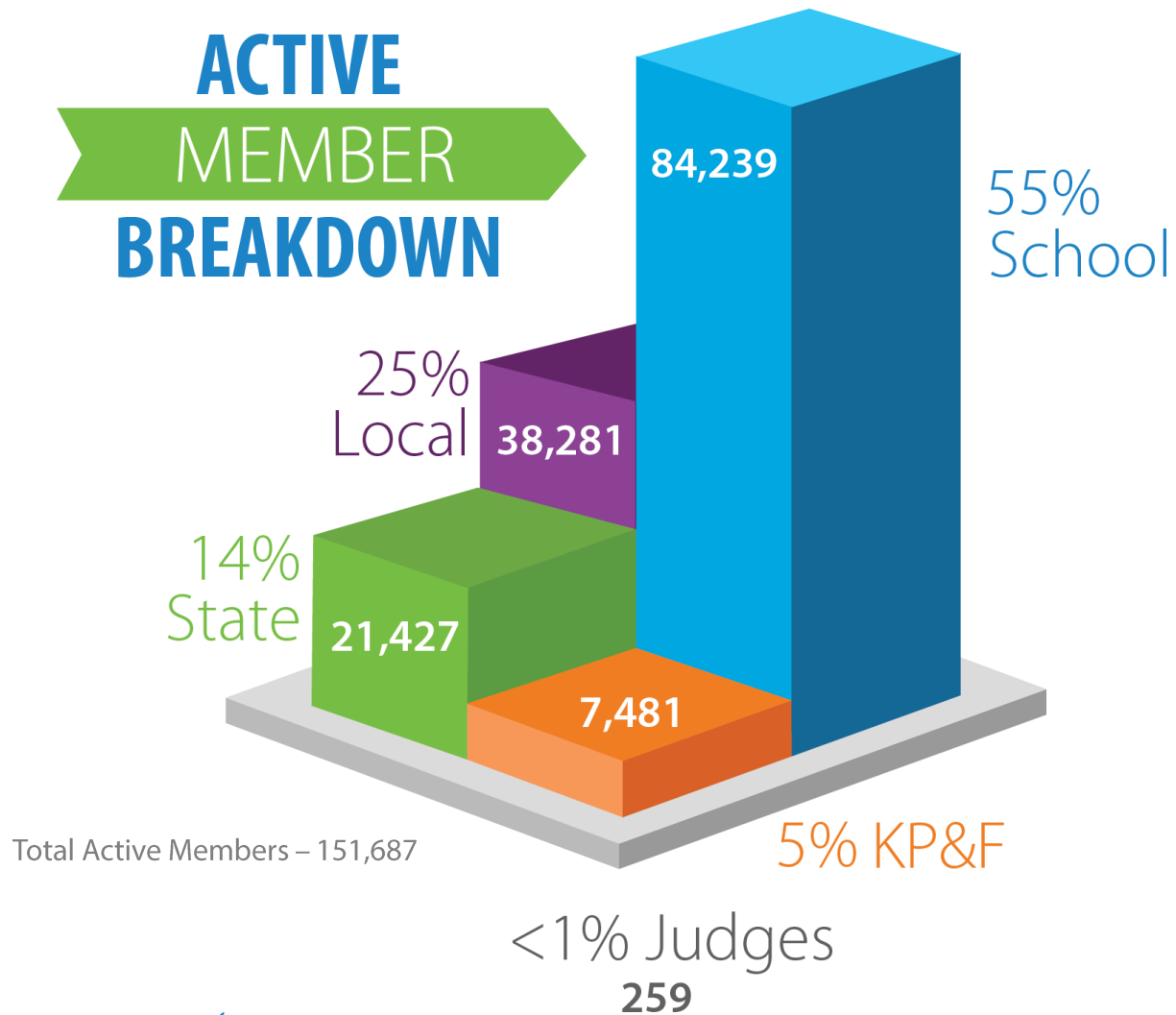
**\$19B**

2018



# Active Membership on 12/31/2017

## ACTIVE MEMBER BREAKDOWN



### Average Active Members

	Average Age	Average Service
KPERS-State	46.7	12.1
KPERS-School	45.0	11.2
KPERS-Local	45.4	10.3
KP&F	39.1	11.3
Judges	58.0	11.4

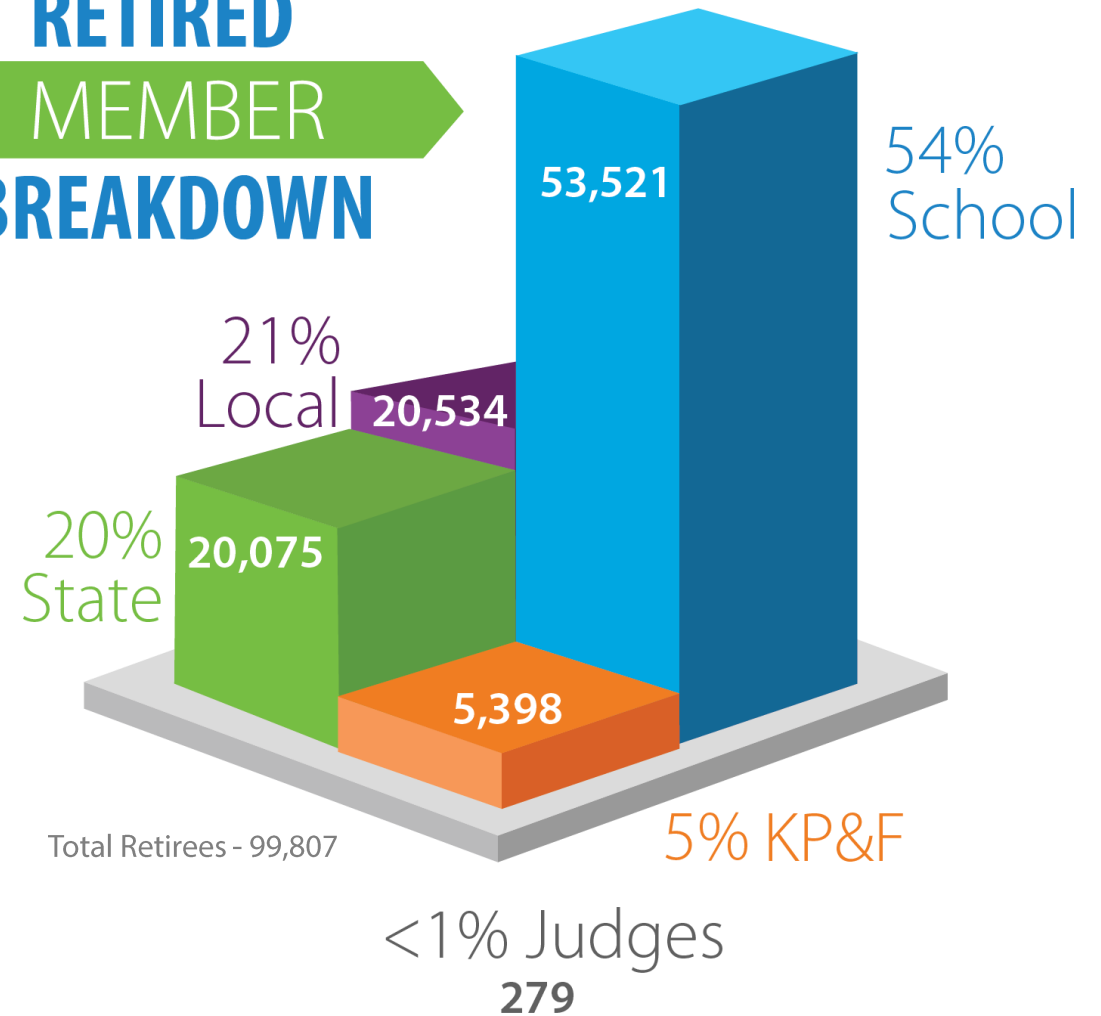


# Retired Membership on 12/31/2017

## Average Retired Members and Beneficiaries

	Average Age	Average Benefit
KPERS-State	72.6	\$14,249
KPERS-School	72.4	\$15,428
KPERS-Local	72.3	\$12,129
KP&F	65.6	\$33,340
Judges	75.1	\$41,964

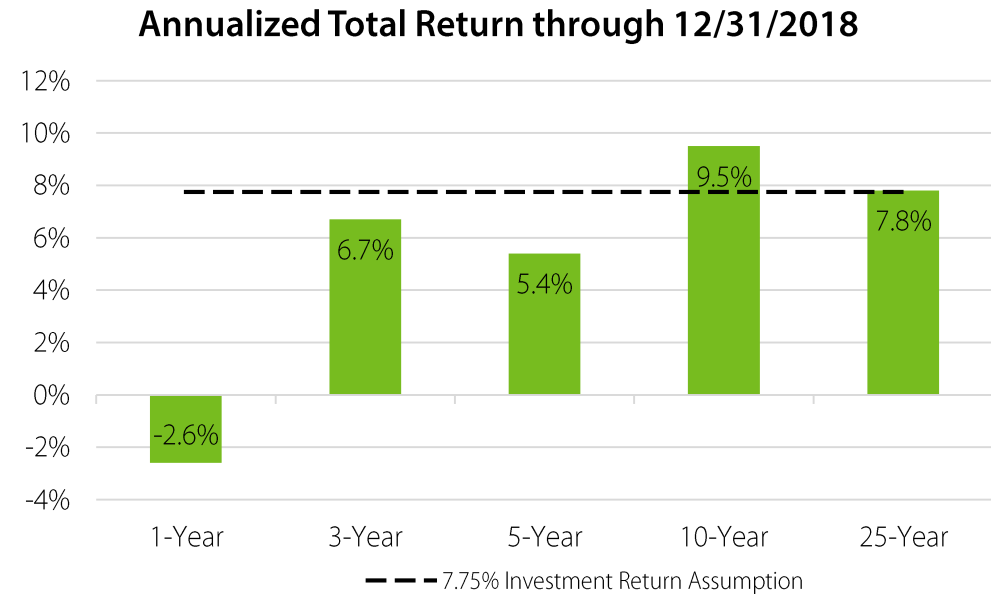
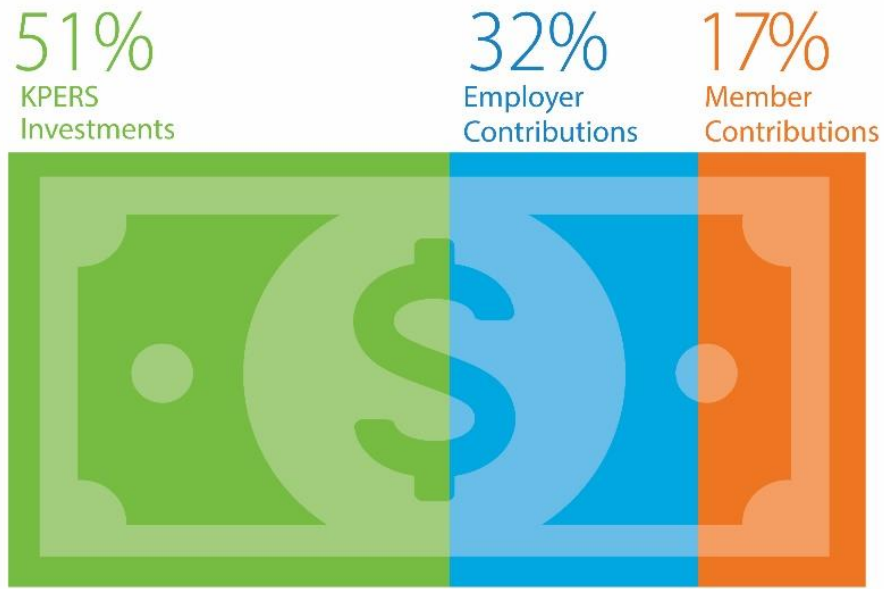
## RETIRED MEMBER BREAKDOWN



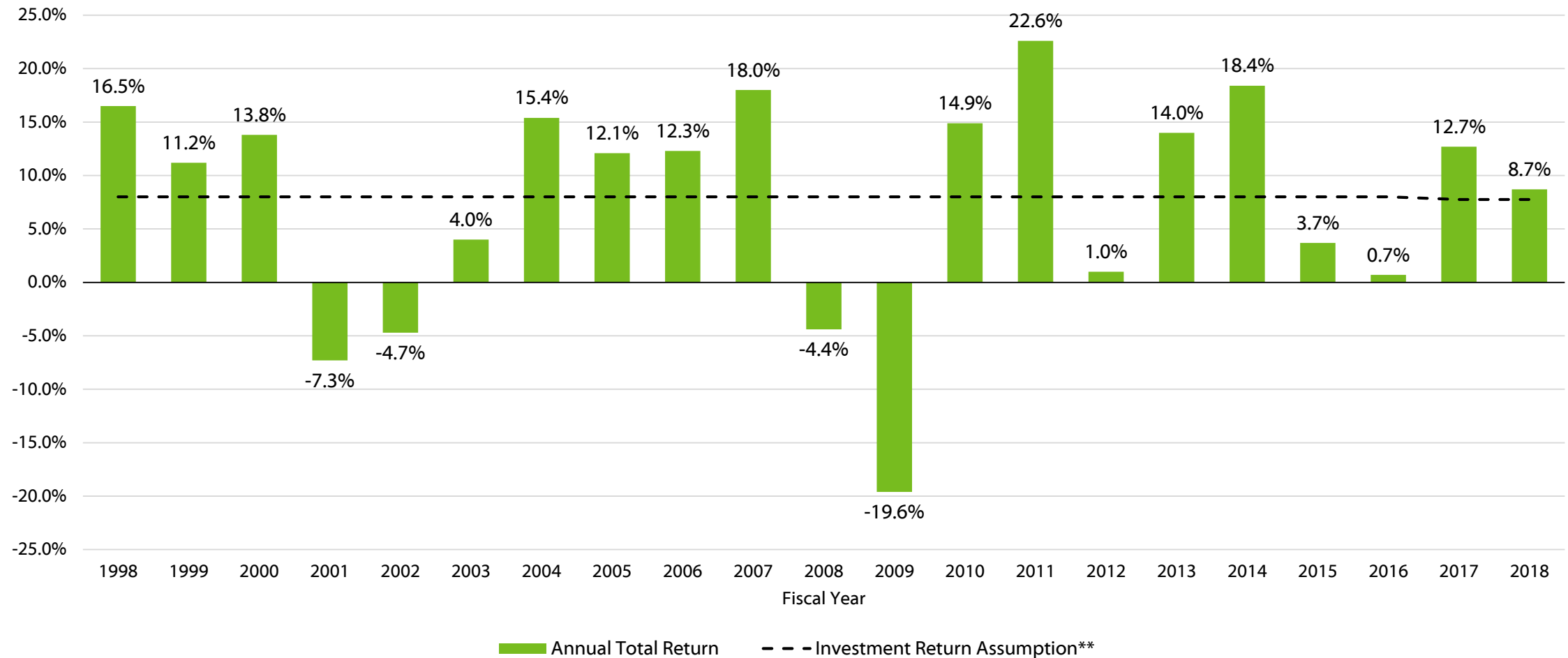


# Investments

- FY 2017 return: 12.7%
- FY 2018 return: 8.7%
- 7.75% long-term return assumption
- Earned 7.8% over the last 25 years through the end of CY 2018 (12/31/2018)
- Over the past 20 years, KPERS investments account for more than half of the income to the Trust Fund



# Historical Fiscal-Year Returns\*



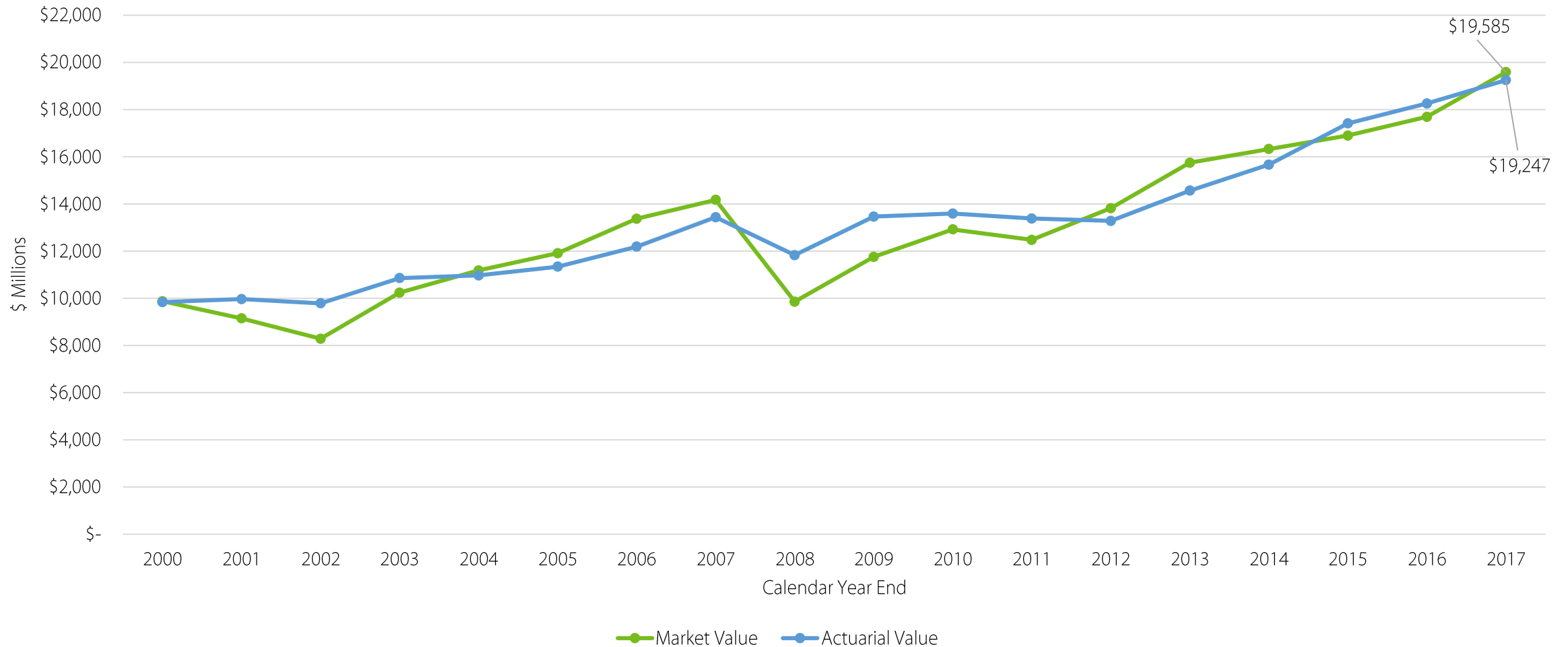
\* Time weighted total return, gross of fees

\*\* The investment return assumption was changed to 7.75%, effective 1/1/2018, as part of the most recent statutory triennial experience study.



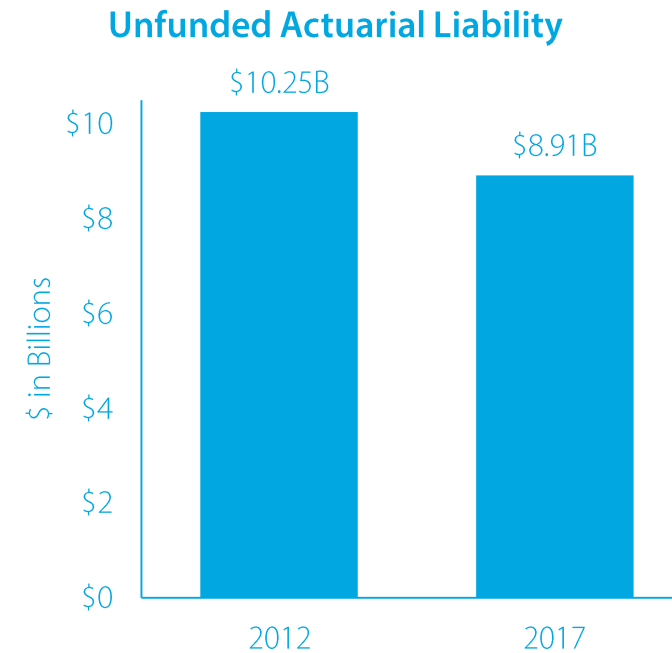
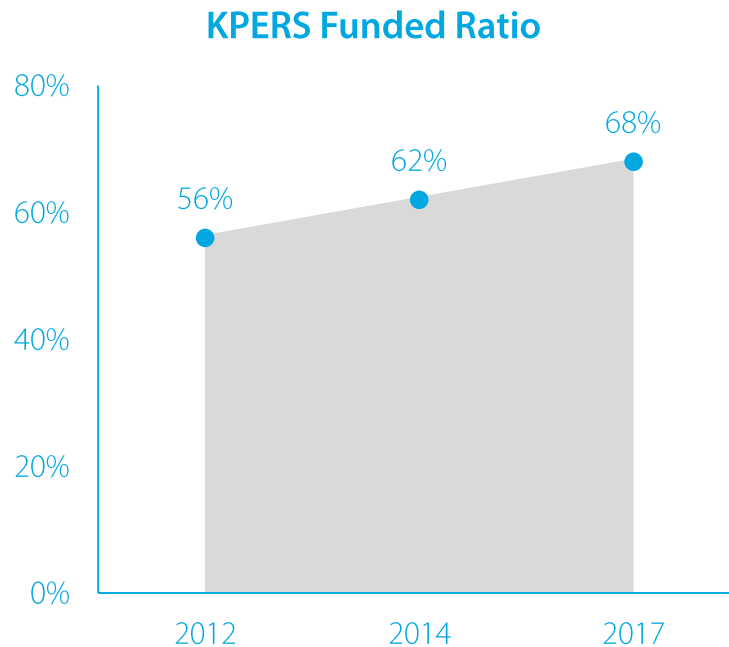
Kansas Association of School Business Officials

# Historical Asset Growth



# Steady Funding Progress

- Generally, KPERS funding is slowly improving and headed in the right direction.
- KPERS is on target to pay off the legacy unfunded liability in 2033.
- The Board of Trustees adopted a more conservative investment return assumption in 2016, moving from 8% to 7.75%. This change caused an increase in the calculation of liabilities, but positive investment returns kept the funded ratio stable.



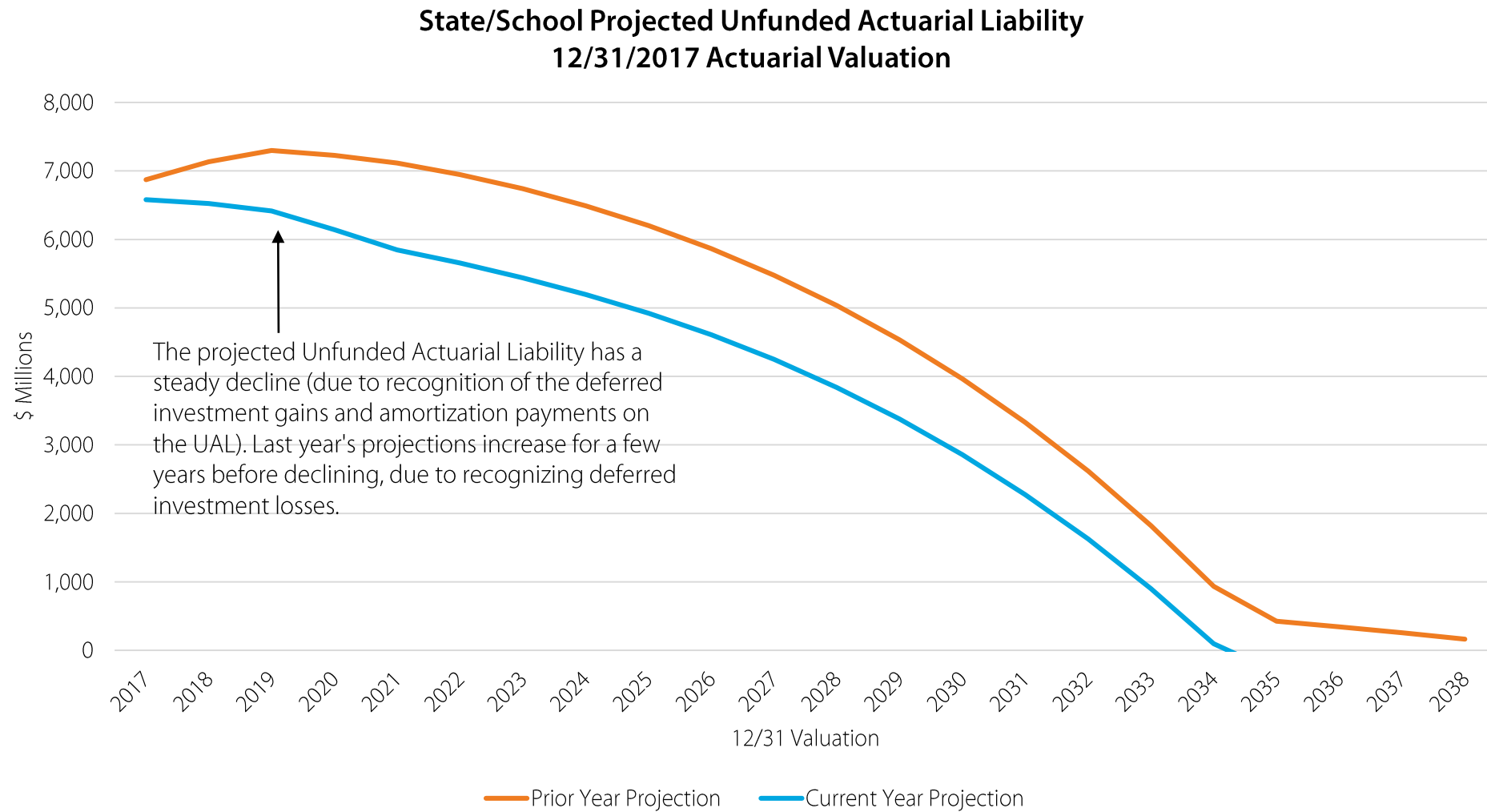
# Funding Projections

- Each year the actuary completes an actuarial funding valuation for the System.
- The annual valuation is snapshot of the System funding and sets the employer contribution rates for future years.
- The annual valuation is based on the calendar year and presented to the Board of Trustees each July (i.e. the 12/31/2018 valuation will be presented in July 2019).

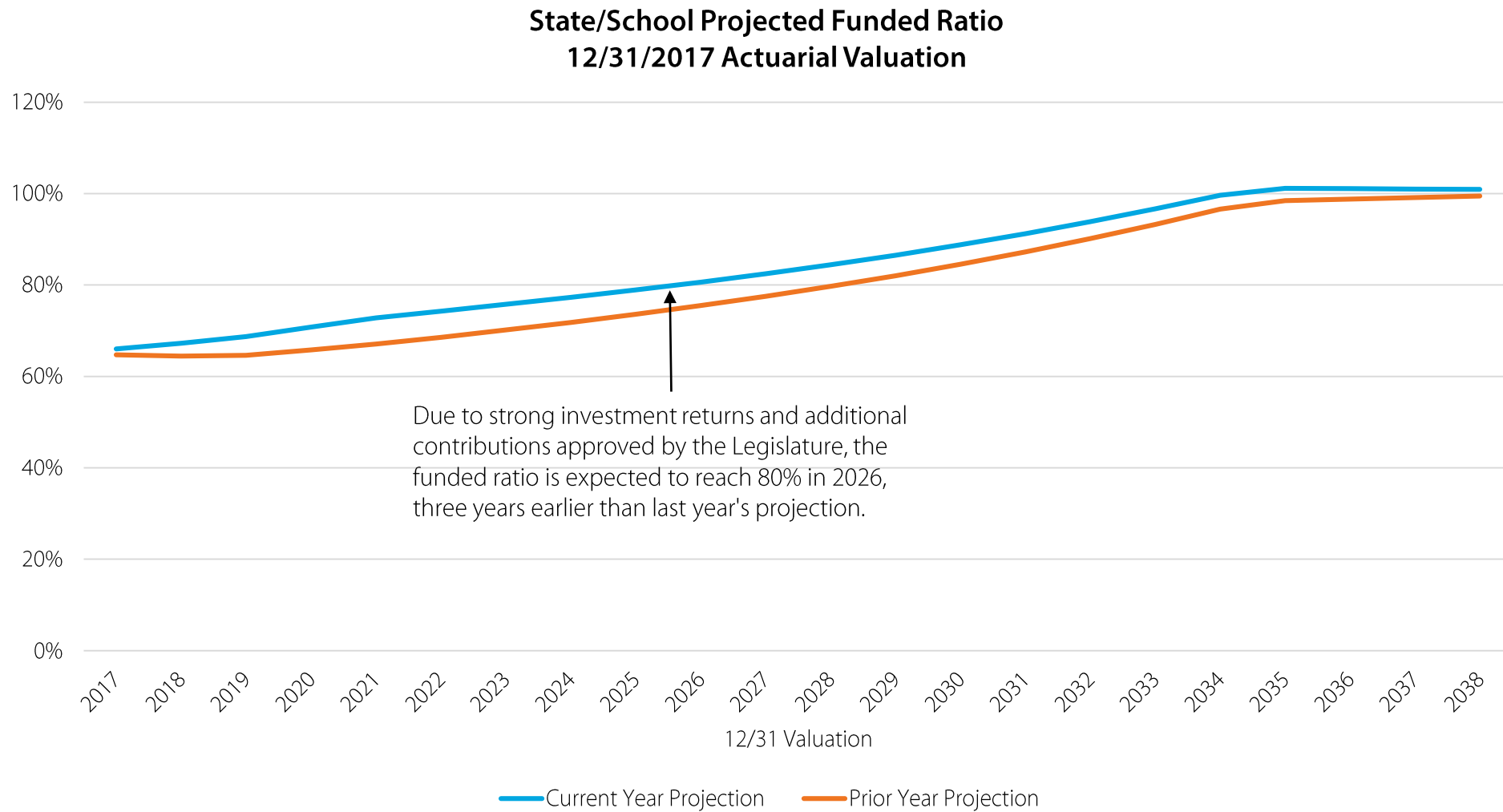




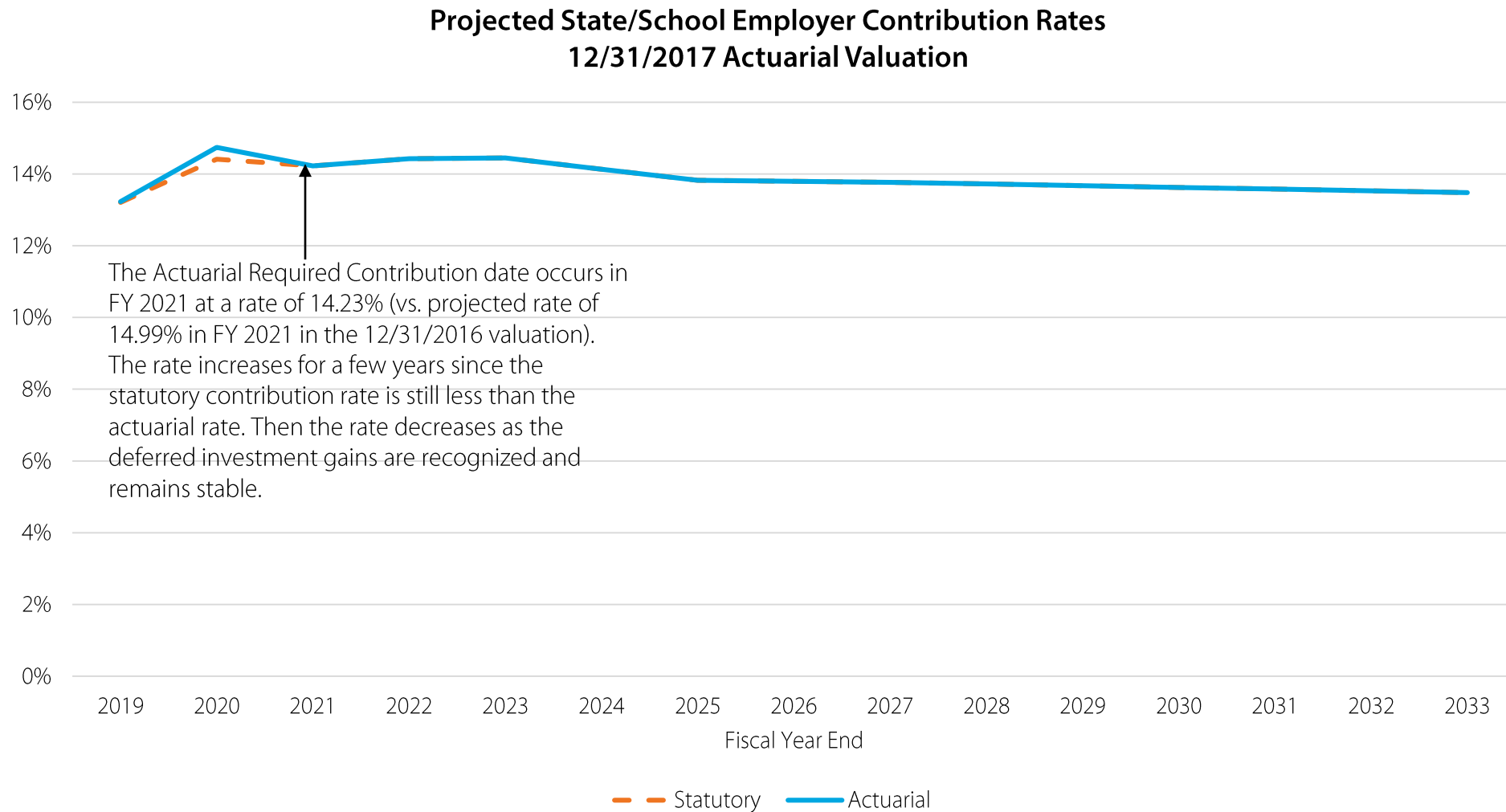
# State/School Unfunded Actuarial Liability (UAL)



# State/School Funded Ratio



# State/School Employer Contribution Rates



# Funding Projections

- The next actuarial valuation will be based on the experience of the system in calendar year 2018.
- Investment returns in 2018 were lower than the assumed rate of return.
  - Investment experience is “smoothed” in over 5 years so the impact on System funding is less than if the full experience was realized in 1 year.
- The annual funding measurement is dependent on the actuarial assumptions used.
  - The Board is reviewing all assumptions in 2019 as part of the triennial experience study.
  - Any changes to actuarial assumptions will impact the funding valuation.
  - KPERS is currently on the higher end of public pension plans with a 7.75% investment return assumption.
  - If the investment return assumption is reduced, total liabilities will increase and overall funding will decline.



# KPERS Funding

## KPERS Funding

Making  
Good  
Progress

KPERS has a long-term funding shortfall. We cannot invest our way out of it.

**Consistent and full employer contributions year after year** will make the most difference in the System's funded status.

Funded Ratio  
**↑12%**  
since 2012

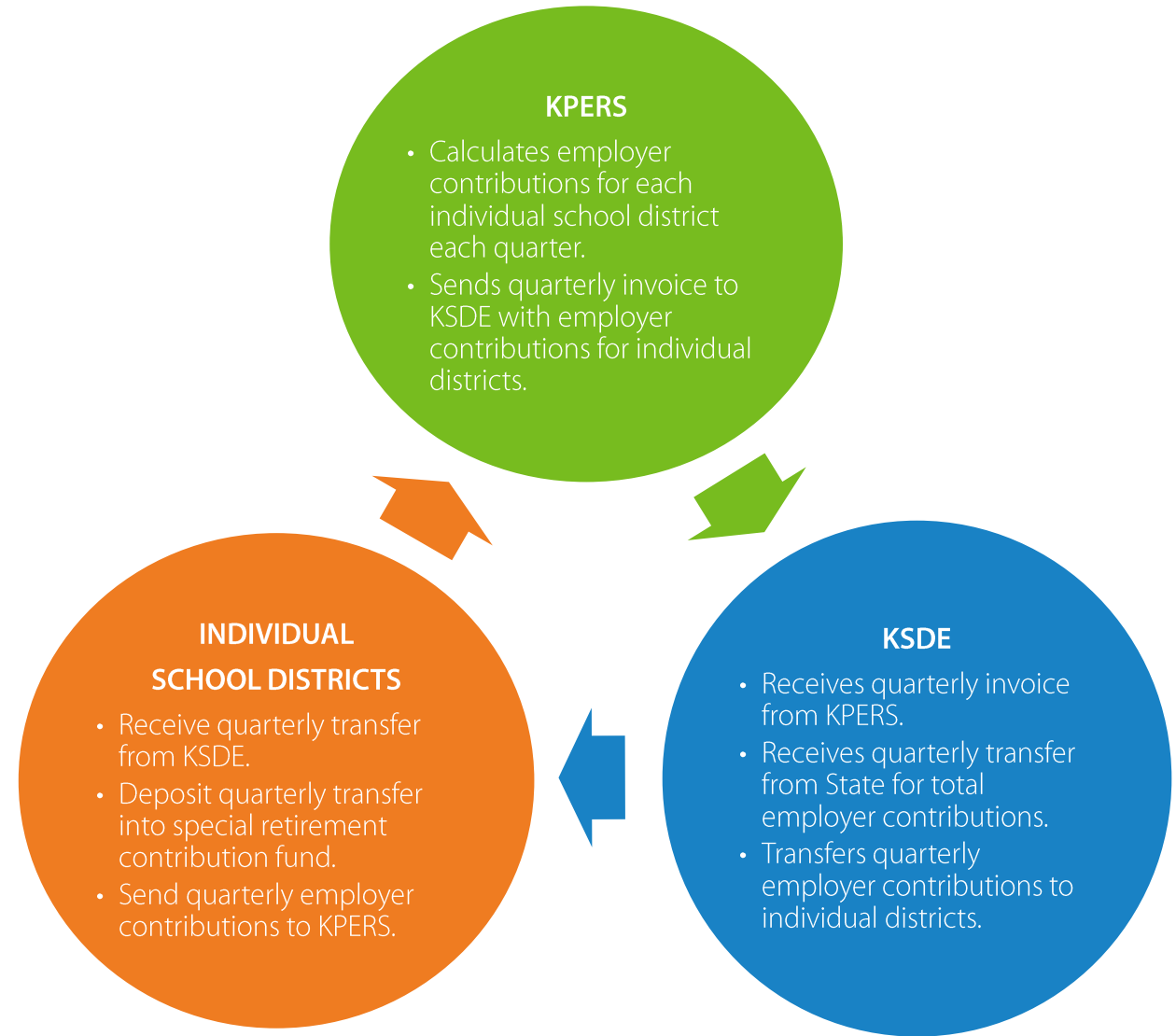
**67%**  
Funded  
in 2017





# Employer Contributions

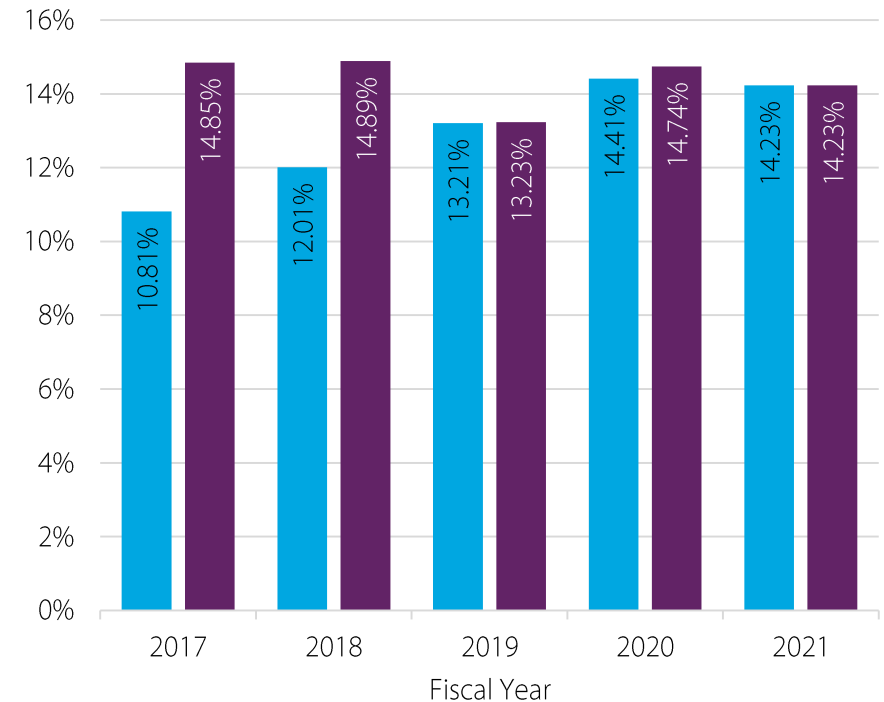
- Employer contribution rates are set by the annual actuarial valuation.
- KPERS works with State Department of Education and Local school districts to make collect quarterly employer contributions.
- KPERS contributions are counted as State aid to local districts.



# KPERS State/School Employer Contribution Rates

- The statutory State/School employer contribution rate for FY 2019 is 13.21%, but \$194 million of that contribution will be delayed and paid over 20 years.
- The employer contribution rate is scheduled to increase to 14.41% for FY 2020.
- The 12/31/2017 valuation sets the employer contribution rates for FY 2021 for State/School employers.
- The State/School statutory employer contribution is scheduled to be equal to the actuarial required rate for the first time in 24 years.

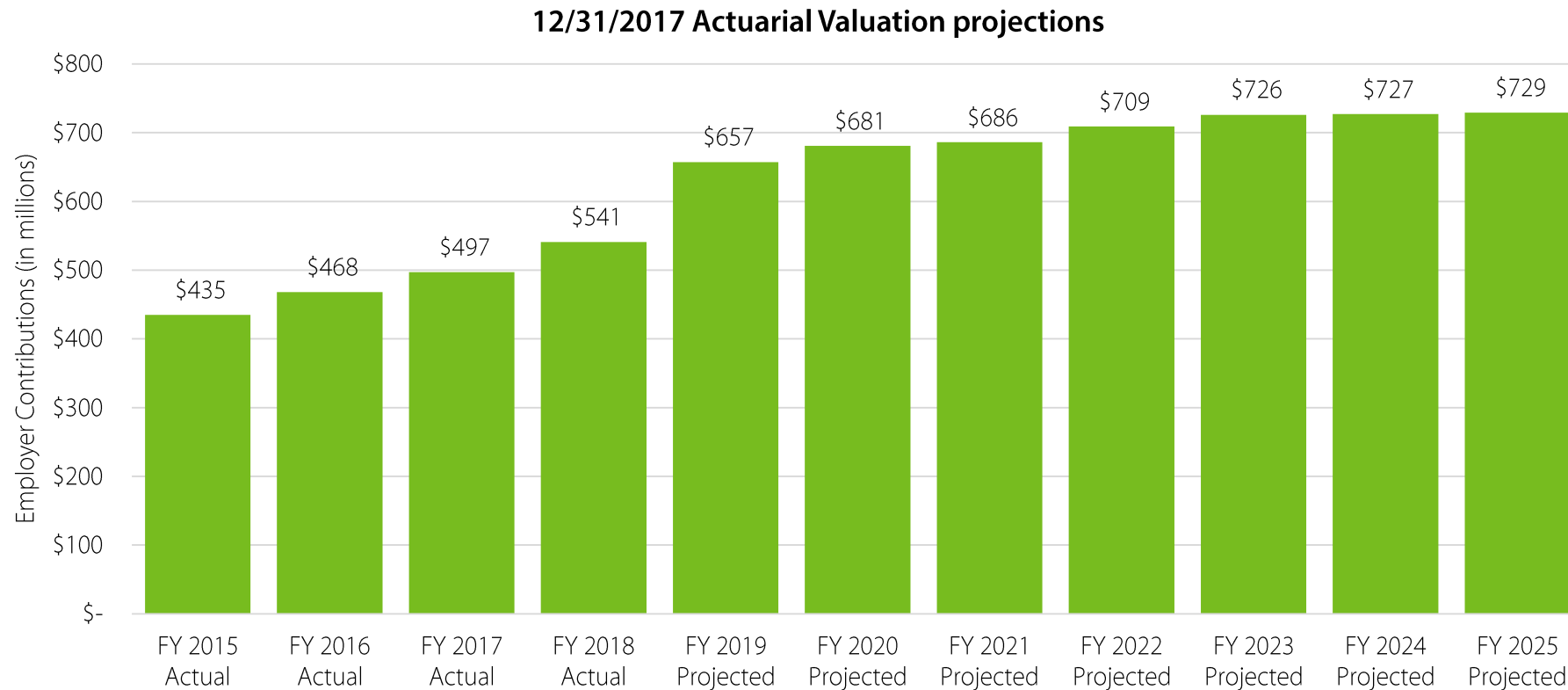
KPERS State/School Employer Contribution Rates\*



\*Does not reflect reductions to the State/School employer contributions of \$94 million in FY 2016, \$64 million in FY 2017 and \$194 million FY 2019 or the additional contributions of \$56 million in FY 2018 and \$253 million in FY 2019.



# Total State Contribution Effort



**Notes:**

1. The first contingent payment was received in full on 6/30/2018. The second contingent payment of up to \$56 million will be made if actual receipts in FY 2019 exceed the April 2019 consensus revenue estimates. **This funding projection assumes both \$56 million payments are made in full.**
2. The delayed payments of \$64 million in FY 2017 and \$194 million in FY 2019 are scheduled to be paid over 20 years on a level dollar amortization.
3. The State/School Employer contribution rate is scheduled to equal the actuarial required contribution rate starting in FY 2021.
4. The \$115 million additional payment passed in SB 9 by the 2019 Legislature is included in FY 2019 employer contributions.



# Legislative Update

\$115 million additional payment

Reamortization discussion

KPERS omnibus legislation:

- Working after retirement change

- KP&F adjustments

- CDDO waiting period

- Administrative language



# \$115 million payment

- The Legislature and Governor approved an additional payment to KPERS of \$115 million in FY 2019.
  - The \$115 million was the approximate cost to repay a \$97 million reduction in contributions made in 2017 plus interest on those contributions.
- The funds were received and deposited into the Trust Fund in late April.
- The actuarial cost projection shows:
  - A decrease of about 0.25% in the actuarial required State/School employer contribution rates starting in FY 2023.
  - A projected increase in the State/School funded ratio of 0.6% in the 12/31/2019 actuarial valuation (70.8% to 71.4%).
  - Long term savings in total State/School employer contributions of almost \$190 million.





# Reamortization discussion

- Currently, 15 years remain on the original 40-year amortization scheduled that was set in 1993 (ending in 2033) on the legacy unfunded actuarial liability.
- The Governor's budget recommendation included a plan to reamortize the KPERS unfunded actuarial liability (UAL) for 30 years starting in 2019 (ending in 2049), effectively adding 16 years to the existing amortization period.
- Like a mortgage on a house, extending the amortization period lowers annual payments in the short term, but increases the overall cost to fund the System.
- The 2019 Legislature held hearings on the topic of reamortization but did not advance a reamortization plan.

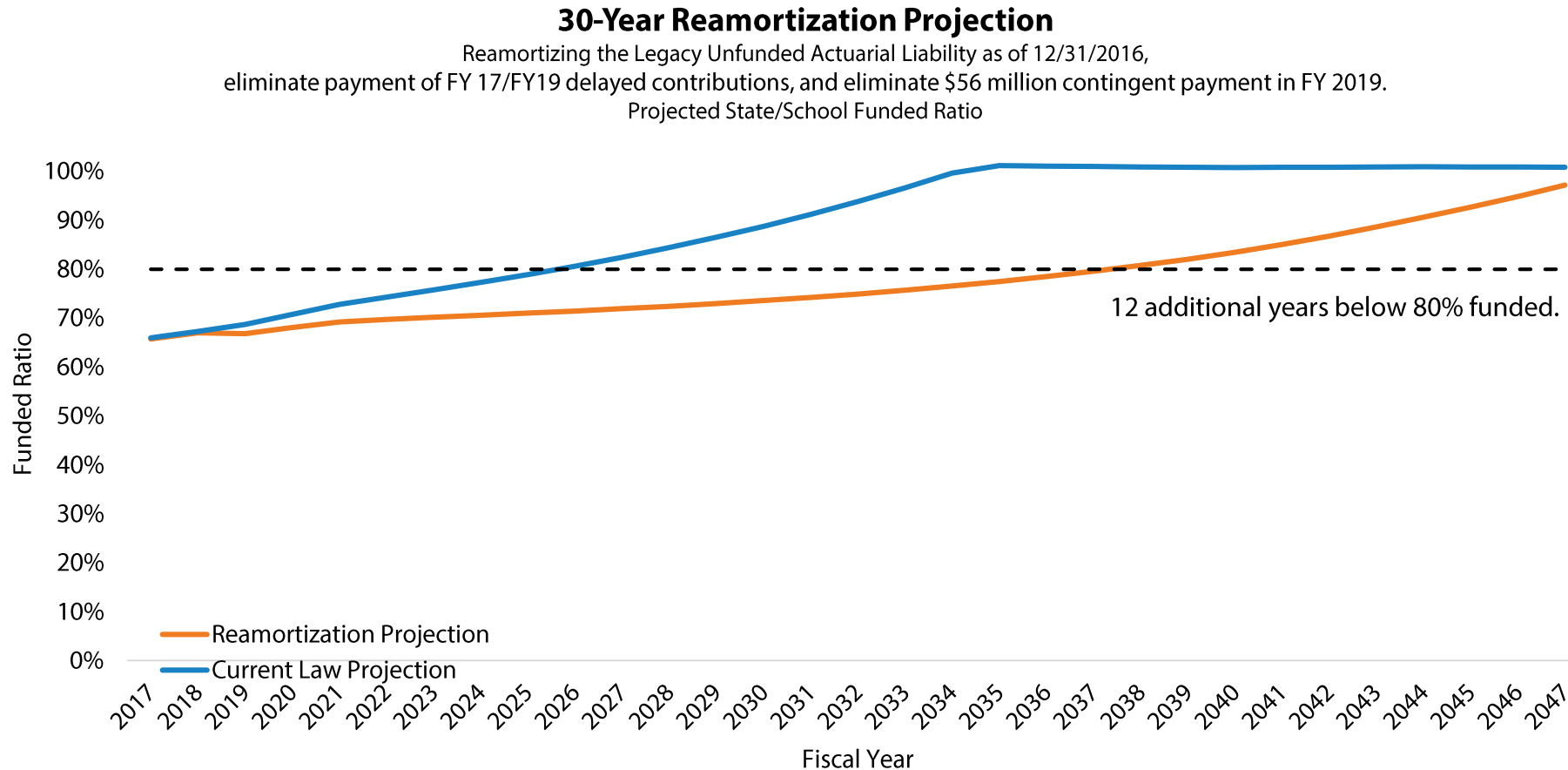


# Reamortization discussion

- Extending the amortization period lowers the actuarial required contributions in the near term, but requires much higher contributions in future years.
- Extending the amortization period to 2049 is projected to:
  - Reduce required State/School employer contributions by about \$770 million in the first five years, but increase total required employer contributions over 30-years by \$7.4 billion (\$13.5 billion under the baseline, \$20.9 billion with re-amortization).
  - Keep KPERS State/School funded ratio below 80% for an additional 12 years (2026 under the baseline, 2038 with re-amortization).
  - Keep the unfunded actuarial liability above \$6 billion until 2036, two year after the unfunded actuarial liability is schedule to be fully paid under current law.



# Reamortization cost projections



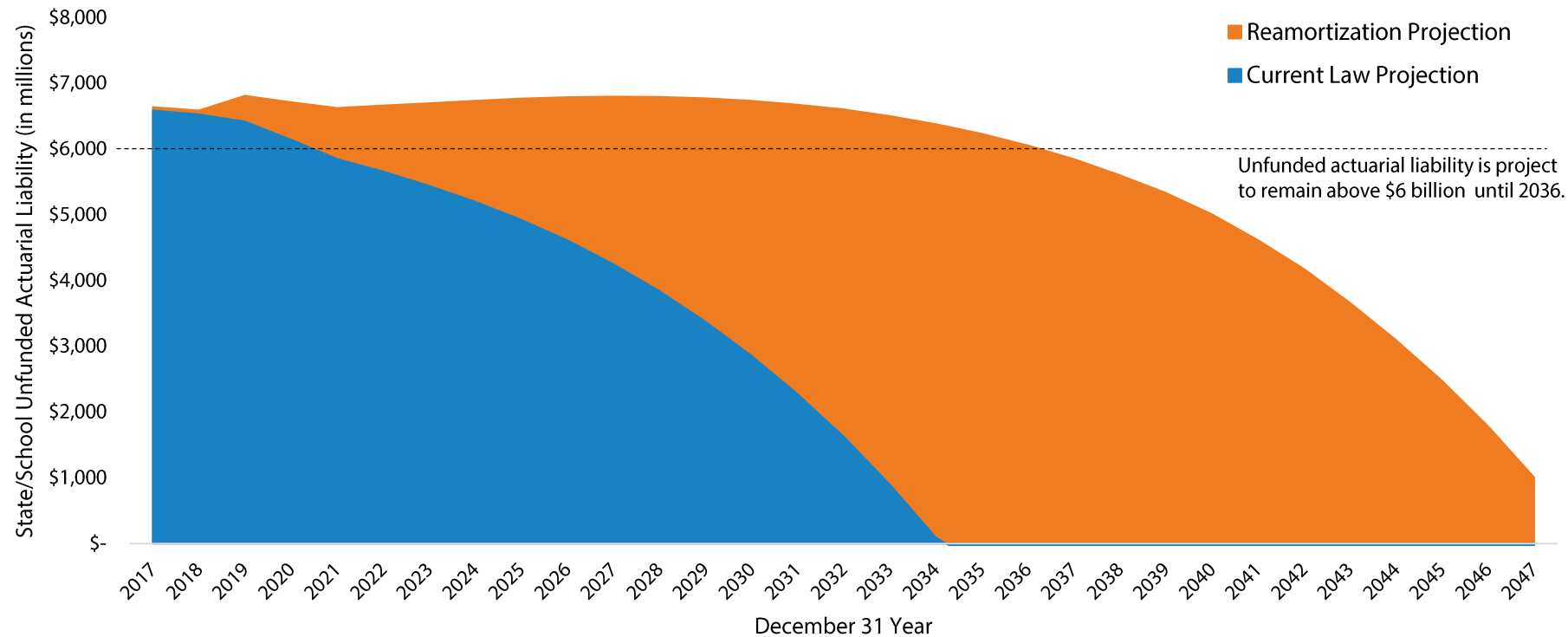
The reamortization projection is based on a 30-year amortization (FY 2020-FY 2050) of the legacy unfunded actuarial liability that existed on 12/31/2016. Changes to the unfunded actuarial liability due to actual experience since 12/31/2015 are given an annual 20-year amortization "layer" based on the amortization method approved by the KPERS Board of Trustees as part of the most recent Triennial Experience Study.



# Reamortization cost projections

## 30-Year Reamortization Projection

Reamortizing the Legacy Unfunded Actuarial Liability as of 12/31/2016,  
eliminate payment of FY 17/FY19 delayed contributions, and eliminate \$56 million contingent payment in FY 2019.  
Projected State/School Unfunded Actuarial



The reamortization projection is based on a 30-year amortization (FY 2020-FY 2050) of the legacy unfunded actuarial liability that existed on 12/31/2016. Changes to the unfunded actuarial liability due to actual experience since 12/31/2015 are given an annual 20-year amortization "layer" based on the amortization method approved by the KPERS Board of Trustees as part of the most recent Triennial Experience Study.



# Amortization policy

- By statute, amortization policy is a delegated duty of the Board of Trustees.
- The current amortization schedule has reached the point where the Board will begin reviewing amortization options as part of their next triennial experience study process, which is scheduled to occur in 2019.
- The Board, with the help of the KPERS' consulting actuary, will review many amortization options.
- The focus of the amortization discussions, from the Board's perspective as fiduciaries to KPERS members, will be on creating a funding policy that:
  - Maintains consistent funding improvement;
  - Minimizes volatility in employer contributions as much as possible; and
  - Ensures reasonable allocation of costs to current and future generations.





# Working after retirement change

- The Legislature added a penalty in 2016 for retirees to return to work before the end of their statutory waiting period.
  - Retirees who were found to have broken the waiting period had their benefits suspended while they continued working and for 6 months after terminating employment with the KPERS employer.
  - At the time, all KPERS members had a 60-day waiting period. Now a member has a 60-day waiting period if they retire at age 62 or later or a 180-day waiting period if they retire before age 62.
- The Legislature made adjustments to working after retirement in 2015, 2016 and 2017, which caused confusion for KPERS members who were at or near retirement.
- The 2019 Legislature delayed the start date of the retiree penalty to July 1, 2019, returned contributions for members who had broken their waiting period and quit upon notification, and set certain limited parameters for waiving the retiree penalty in the future.



# KP&F changes

- The KP&F death and disability plan was changed to include bloodborne pathogens (i.e. hepatitis, HIV) and specific cancers to the definition for service-connected benefits.
- The 2019 Legislature extended the pilot period for the KP&F Deferred Retirement Option Program (DROP) and added the Kansas Bureau of Investigation to the Kansas Highway Patrol as eligible employers.
  - The 2015 Legislature created the Deferred Retirement Option Program (DROP) pilot to study if that plan design could be an effective tool for retaining long tenured staff positions.



# CDDO waiting period

- The 2019 Legislature created a two-year waiting period for “direct support” positions at Community Developmental Disability Organizations (CDDOs).
- There are approximately 18 CDDOs that are KPERS employers.
- Each CDDO will designate if their direct support positions will have the new waiting period, but they will have to opt in for all of the positions or none of the positions.



# Administrative language

- The 2019 Legislature made a minor change to KPERS statutes to allow the KPERS Board of Trustees to negotiate contracts for services outside of State negotiated contracts when it is in the best interest of the Trust Fund.
- This allows the Board of Trustees more flexibility in executing their fiduciary duty to all KPERS members.



# Questions?

