KPERS Update & Funding Status

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Kansas Association of School Business Officials

November 3, 2017

KPERS

KPERS Update & Funding Status

- KPERS overview
- Funding status
- 2017 legislation
- Other KPERS programs

KPERS

Kansas Public Employees Retirement System

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

KPERS Overview

Board of Trustees

Chairperson Lois Cox, CFA, CFP, Manhattan
Vice President for Investments and
Chief Investment Officer,
Kansas State University Foundation
Appointed by the Governor

Vice-Chairperson Kelly Arnold, Wichita
County Clerk, Sedgwick County
Appointed by the Governor

Ernie Claudel, Olathe
Retired teacher
Elected member – school

Shawn Creger, Prairie Village
Financial Advisor, Edward Jones
Appointed by the Speaker of the House

James Cusser CFA, Mission Hills
Wall Street Investment Banker and Mutual Fund Manger;
Adjunct Associate Professor of Political Science,
Johnson County Community College
Appointed by the Governor

Jake LaTurner, Wichita
Kansas State Treasurer
Statutory member

Suresh Ramamurthi, Topeka
Chairman, CBW Bank
Appointed by the President of the Senate

Michael Rogers, Manhattan
Certified Public Accountant
Appointed by the Governor

Ryan Trader, Olathe
Firefighter/Paramedic, City of Olathe
Elected member - non-school

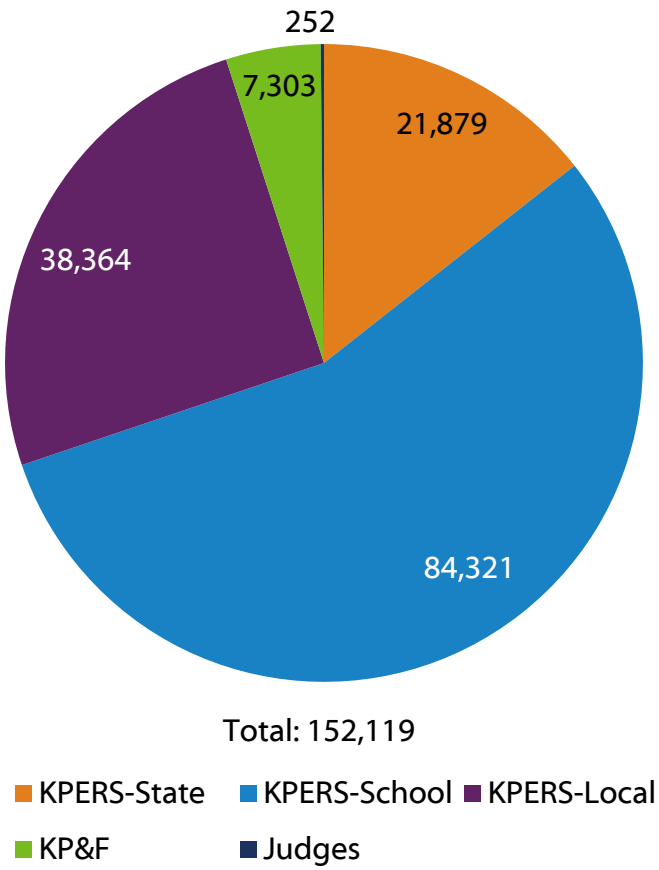
KPERS Overview

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
- Employers and members make contributions
- KPERS invests the money over time
- KPERS pays benefits with contributions + investment earnings - expenses
- KPERS is not like Social Security
  - Social Security utilizes contributions from current employees to pay the benefits of current retirees
  - KPERS benefits are "pre-funded"; current contributions are invested to pay benefits down the road

KPERS Overview

Active Membership on 12/31/2016

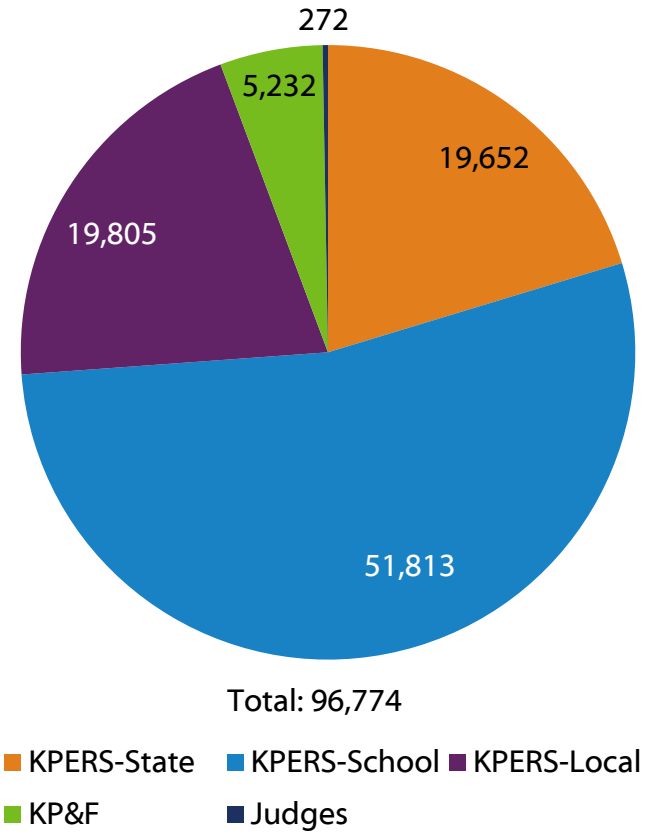


Average Active Members		
	Average Age	Average Service
KPERS-State	46.7	12.2
KPERS-School	45.0	11.3
KPERS-Local	45.4	10.3
KP&F	39.3	11.6
Judges	58.1	11.6

KPERS Overview

Retired Membership on 12/31/2016

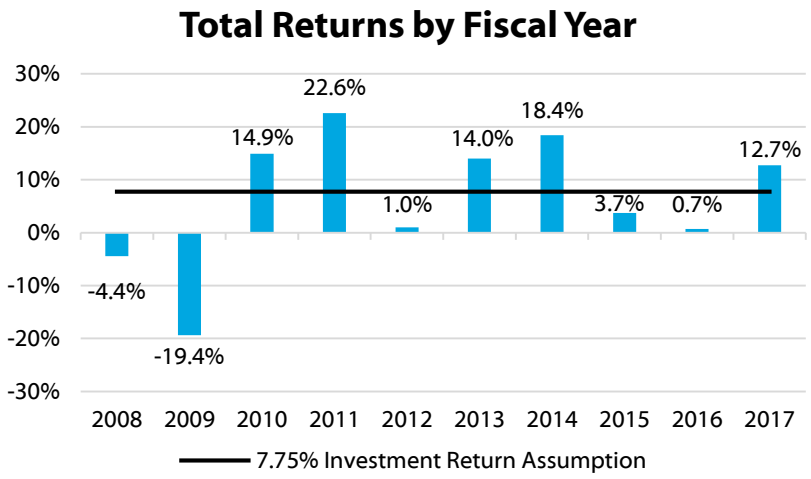
Average Retired Members and Beneficiaries		
	Average Age	Average Benefit
KPERS-State	72.5	$14,058
KPERS-School	72.2	$15,177
KPERS-Local	72.1	$11,737
KP&F	65.4	$32,517
Judges	75.0	$41,442

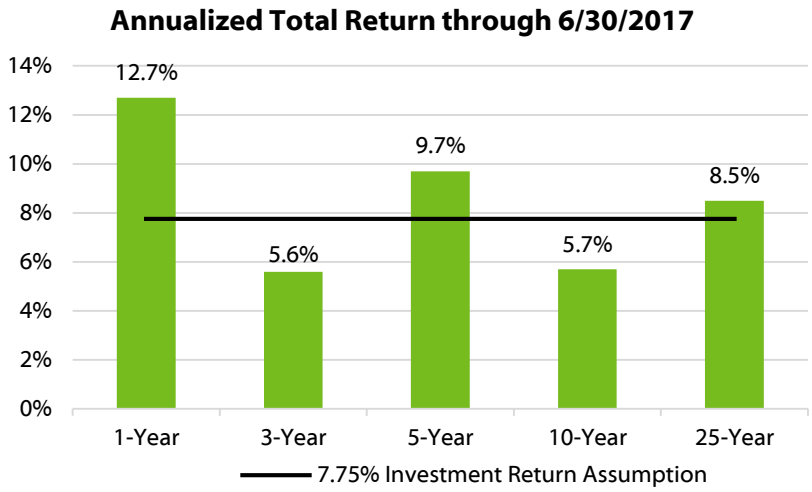


KPERS Overview

Investments

- FY 2017 return: 12.7%*
- 7.75% long-term return assumption
- Earned 8.5% over the last 25 years (as of 6/30/2017)





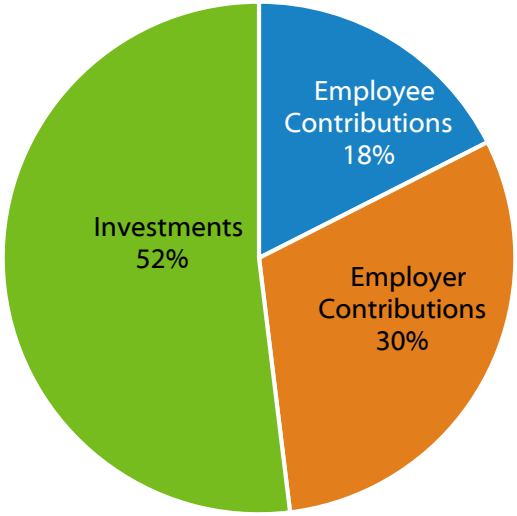
*Gross total return for all assets

KPERS Overview

Contributions

- KPERS Employee Contributions
  - KPERS 1 = 6% of pay
  - KPERS 2 = 6% of pay
  - KPERS 3 = 6% of pay
- KPERS Employer Contributions
  - % of pay set by annual actuarial valuation
  - Statutory cap on annual rate increase
  - State pays for state and school employees
- Total Contributions for FY 2016:
  $1.1 billion

KPERS Revenues by Source
FY 1997 – FY 2016



Funding Status

- Benefits will be here
- Assumption changes
- Contribution rates

KPERS

Status of KPERS

Benefits will be here

- KPERS benefits are structured to be prefunded during each member's career.
- KPERS receives about $1 billion in contributions each year from employees and employers.
- KPERS had over $1 billion in investment income in FY 2017.
- KPERS pays about $1 billion in monthly benefits each year.

Status of KPERS

Benefits will be here

- The fiduciary standard is our guiding principle and driving force.
- As a fiduciary, KPERS serves members by:
  - Holding assets in trust;
  - Growing those assets through investments; and
  - Delivering promised benefits when the time comes.
- Funds can never be removed from a trust fund like KPERS for any reason other than to fund the benefits of members and pay expenses of the System.
- Long-term funding is very important, and KPERS keep funding needs in front of the Legislature.
- However, with over $19 billion in assets today and a well diversified investment portfolio, KPERS is able to pay promised benefits for many years.

KPERS

2016 Valuation

Assumption changes

- During CY 2016, the Board of Trustees adopted a number of changes to actuarial assumptions and method, based on the statutory triennial experience study.
- The Board has a **fiduciary responsibility** to set the actuarial assumptions using their best judgement in light of available information.
- Assumptions are long-term in nature and try to anticipate what will happen over decades, not react to short-term trends.
- Having accurate assumptions is important so that costs aren't too high today or passed on to future generations.

2016 Valuation

Assumption changes

- Based on the recommendation of the Board's consultants, changes were made to both economic assumptions (i.e. inflation, wage growth, investment returns) and demographic assumptions (i.e. mortality, retirement rates)
- The new assumptions are reflected in the 12/31/2016 actuarial valuation.
- The change in assumptions, primarily the lowering of the investment return assumption from 8.0% to 7.75%, increased the unfunded actuarial liability for all groups.

2016 Valuation

Current funding status

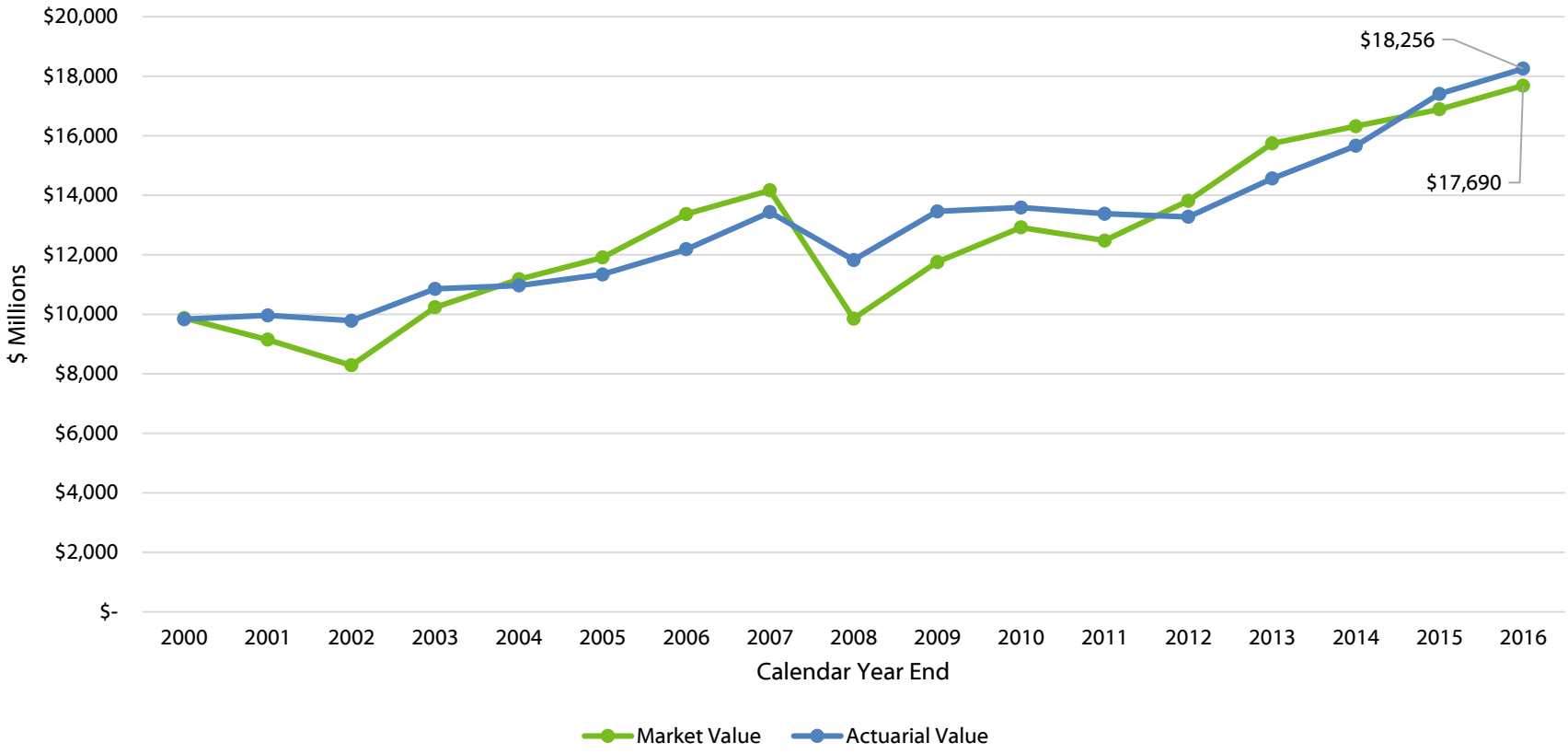
- As a system, KPERS' funded ratio remained stable, but the unfunded actuarial liability increased in the 12/31/2016 funding valuation.

	12/31/2016	12/31/2015
Funded Ratio	67%	67%
Unfunded Actuarial Liability	$9.06 billion	$8.54 billion

- Actuarially required contribution (ARC) rates increased for all groups, primarily due to the change in actuarial assumptions.
- The State/School group statutory employer contribution remains below the actuarial contribution rate.
  - The statutory State/School employer contribution rate is projected to reach the actuarial required contribution rate in FY 2021, if actuarial assumptions are met and statutory contributions are paid as scheduled.

2016 Valuation

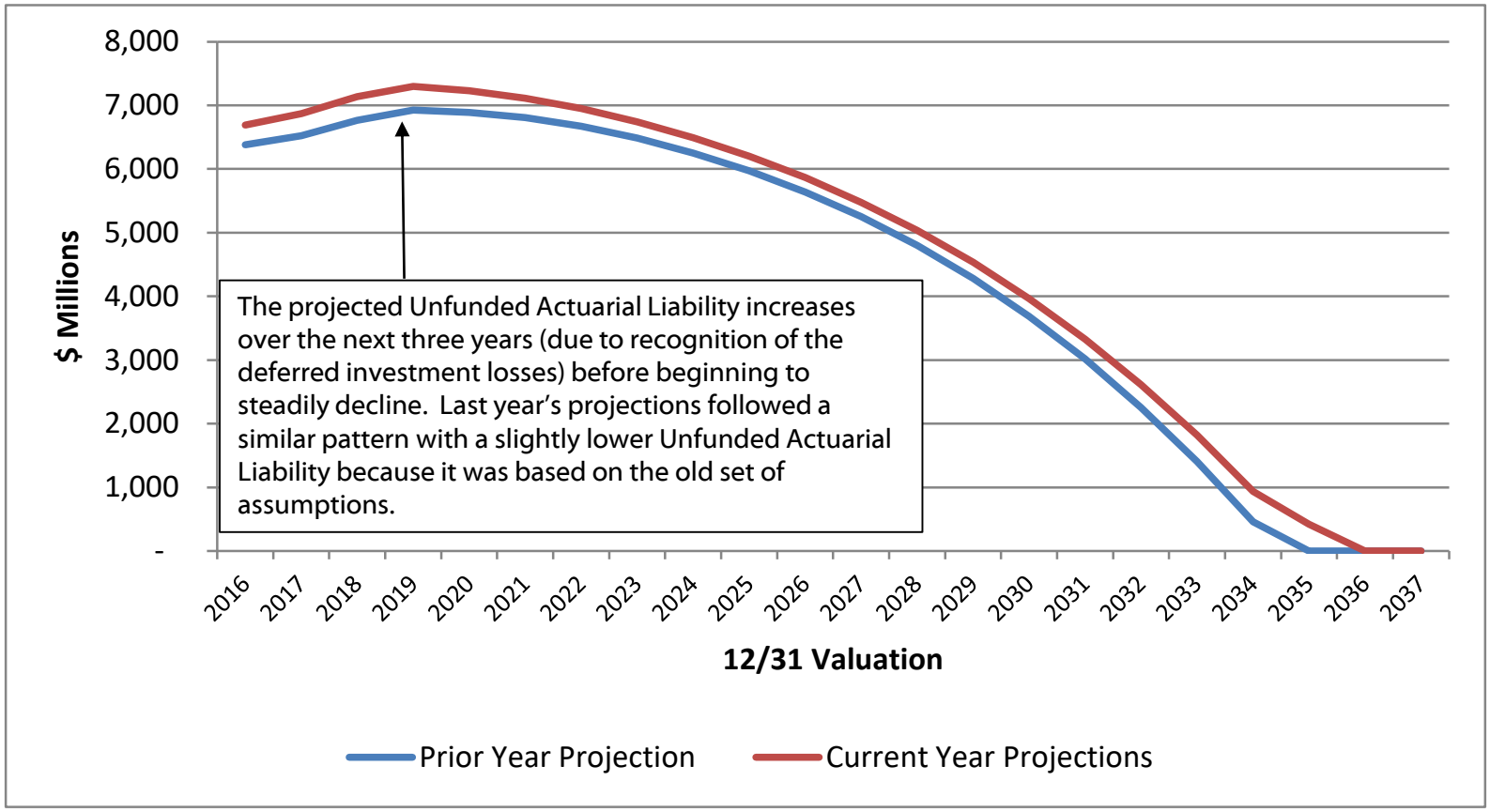
Historical Asset Growth



2016 Valuation

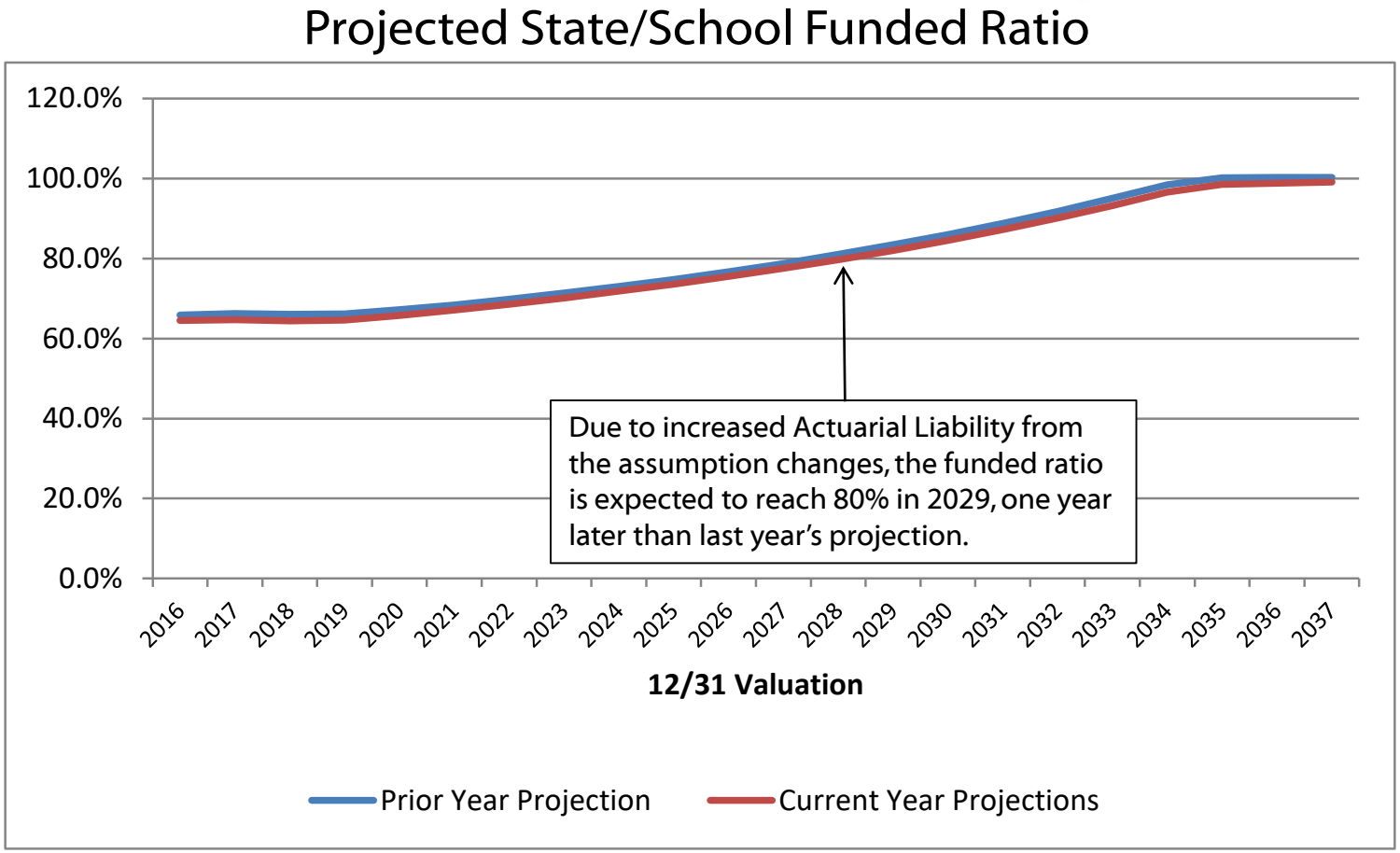
Long-term actuarial funding progress

Projected State/School Unfunded Actuarial Liability (UAL)



2016 Valuation

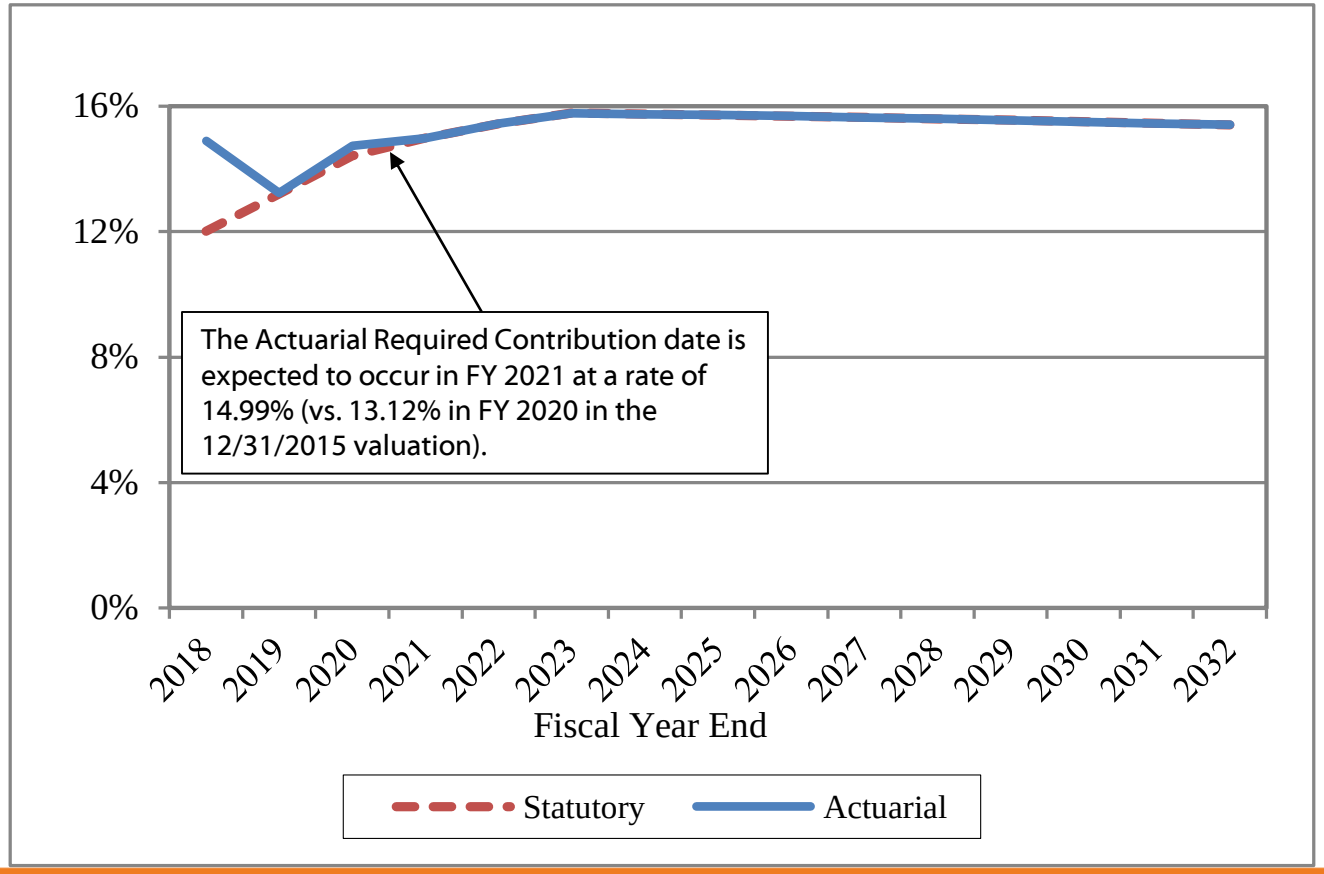
Long-term actuarial funding progress



2016 Valuation

Long-term actuarial funding progress

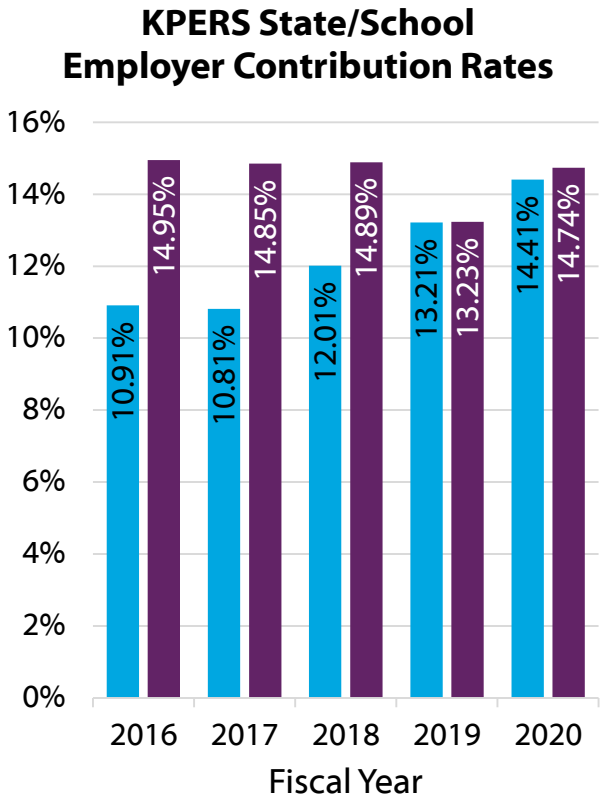
Projected State/School Employer Contribution Rates



2016 Valuation

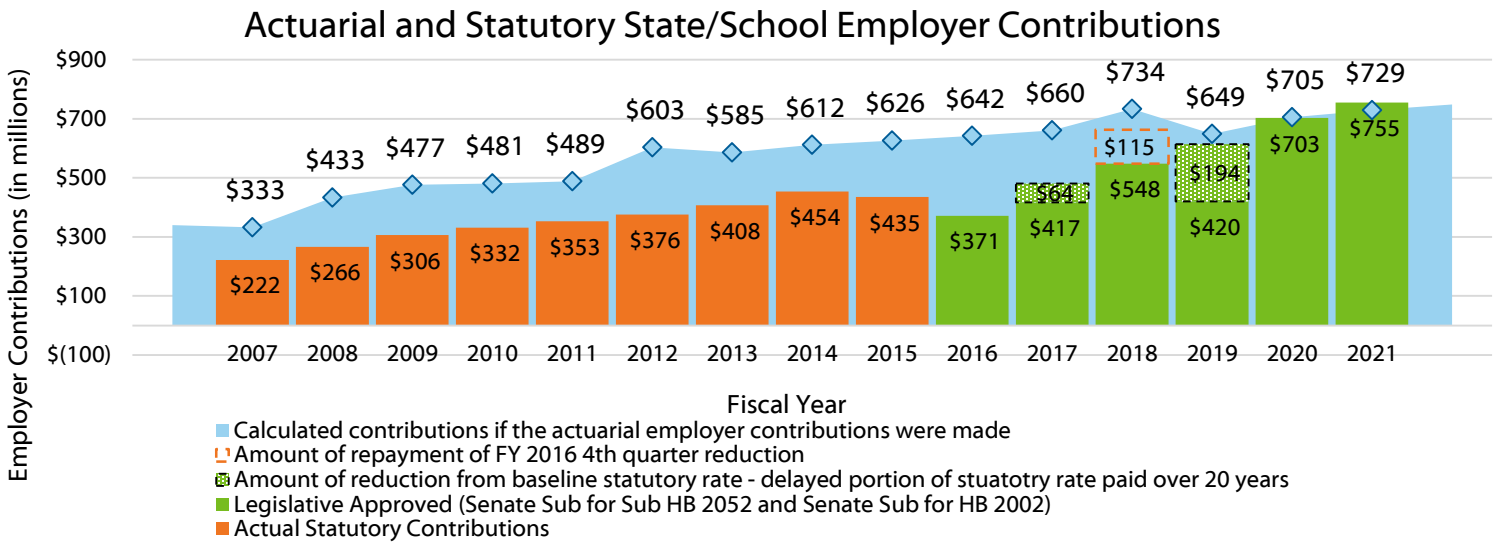
KPERS State/School Employer Contribution Rates

- The statutory State/School employer contribution rate for FY 2018 is 12.01%.
- The employer contribution rate is scheduled to increase to 13.21% for FY 2019, but $194 million of that contribution will be delayed and repaid over 20 years.
- The 12/31/2016 valuation sets the employer contribution rates for FY 2020 for State/School employers, but the rate is capped by statute.
- The State/School statutory employer contribution has been below the actuarial required contribution for 24 years.



2016 Valuation

State/School Contributions



- Over three years (Fiscal Years 2017, 2018, and 2019), the State will pay or promise to pay KPERS $1.63 billion, of which $258 million will be layered or paid over 20-year periods, which totals the statutory amount that is due to KPERS over the three fiscal years.
- Assuming the layering payments are made, this will represent 3 years of the State paying at the statutory rate. The last year that the full statutory rate was paid was Fiscal Year 2014.
- No payment for the delayed $115 million payment from Fiscal Year 2016 in Fiscal Year 2018. That amount has been added to the unfunded actuarial liability.

Working After Retirement

- New Policy for 2018
- What happens during the transition
- Grandfathered positions expiring

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Working After Retirement

New policy for 2018

- Effective January 1, 2018, the Legislature made three primary changes to the existing working after retirement rules:
  1. Retirees have a 180-day waiting period if they retire before age 62 and a 60-day waiting period if they retire at age 62 or later.
  2. No retiree who returns to work has an earnings limitation.
  3. Employers contribute the statutory rate on the first $25,000 in earnings and 30% on all earnings above $25,000 for retirees in covered positions, but no contributions on non-covered positions.

Covered Positions	Non-covered position
Not seasonal or temporary *and* 1,000 or more hours of work per year	Seasonal or temporary *or* Less than 1,000 hours of work per year

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Working After Retirement

Pre-arranged return to work

- The prohibition on pre-arranged return to work for employers and retirees remains in place.
- Pre-arrangements are determined by facts and circumstances indicating that the employer and employee **"reasonably anticipated that further services would be performed after the employee's retirement,"** as stated in an IRS private letter ruling
  - May include written or verbal understanding
- Penalties for prearrangements are:
  - The retiree's benefit will be suspended starting in the month the retiree returned to work and ending six months after the retiree ends employment.
  - Employers are to pay KPERS' costs associated with the prearrangement (i.e. fine or penalties, court costs, administrative costs).

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Working After Retirement

Grandfathered Positions

- The new working after retirement rules eliminate all grandfathering and great-grandfathering on January 1, 2018.
- A retiree who had an earnings limit will no longer have one.
- The new rules are the same whether working for the same or a different employer.
- For covered positions, employer contributions will be required under the new rate structure starting January 1, even if employer contributions were not required in the past.
- Current exemptions remain in place until January 1, 2018.
- Substitute teachers working without a contract are not subject to working after retirement rules.

Other KPERS Programs

- Optional group life insurance
- KPERS 457

KPERS

Optional Group Life Insurance

Additional coverage beyond regular death benefit

- Employers can choose to affiliate for Optional Group Life Insurance.
- Employees choose coverage and pay premiums through payroll deduction.
- Standard Insurance Company (The Standard) is KPERS' basic and optional group life insurance provider.

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Optional Group Life Insurance

Additional coverage beyond regular death benefit

- Most members can get guaranteed coverage amounts during open enrollment, which is each September for affiliated school districts.

What are my options?

Member Coverage

Add up to $50,000	Guaranteed, no health questions ($250,000 guaranteed max)

Need more? Plan max is $400,000. Health questions apply.

Spouse Coverage

Add up to $25,000	Guaranteed, no health questions ($25,000 guaranteed max)

Need more? Plan max is $100,000. Health questions apply.

Child Coverage Options

$10,000 $1/month	$20,000 $2/month

Premium covers all eligible children in your family.

kpers457

a deferred compensation savings plan

Personal Savings

Deferred Compensation Savings Plan

- KPERS 457 is a voluntary savings plan administered by KPERS.
- KPERS 457 can be adopted by local employers, including school districts, as a savings vehicle for employees.
- Employees choose to enroll in the savings program.

Personal Savings

Critical for a Sound Retirement

- Pension benefits are just one part of retirement income.
- KPERS and Social Security are not likely to be enough.
- Personal savings is critical to cover the gap.
- Essential for KPERS 3 members
- By offering your employees the KPERS 457 Plan, you are making a significant contribution to their retirement security.

Personal Savings

KPERS 457 Can Help

- No cost for employers.
- In its fiduciary role, KPERS oversees plan document updates, investment options, the service provider and participant education.
  - Employers offering their own 403(b) or 457 plan are fully responsible for those fiduciary duties
- Competitive cost to employees and high quality investments.
- Free online investment advice.
- Pre-tax or Roth contributions.
- Salary and pension data from KPERS help employees with comprehensive retirement income planning.
- Local, dedicated counselors who are familiar with how KPERS & KPERS 457 fit together are available statewide for on-site individual and group meetings.
- A 457 plan can be offered alongside a 403(b) plan, with separate contribution limits.

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KPERS 401(a)

A new savings option

- The 2016 Legislature authorized the creation of a 401(a) plan for local employers to make contributions to their employees' personal savings.
  - Employer must also adopt the KPERS 457 plan
- Employers may be interested in making contributions to employees' personal savings for a variety of reasons
  - Improve recruitment and retention
  - Improve workforce management
  - Supplement retirement benefits for key groups of employees
- Employer contributions can increase employees' engagement and participation in personal savings
- Benefits of using a 401(a) plan for employer contributions include –
  - Maximizes employers and employees' capacity to contribute due to separate contribution limits
  - Greater plan design flexibility (e.g., eligibility, vesting)
  - Can be structured to encourage employees to reach for certain savings goals or thresholds

KPERS 457

Interested in Learning More?

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KPERS Update & Funding Status

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- Other KPERS programs

KPERS

Questions?

KPERS