KPERS Update

Overview, Governor's Budget Proposal and Triennial Experience Study

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KPERS

Kansas State University Support Staff Senate

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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 Overview

Board of Trustees

Chairperson Lois Cox, CFA, CFP, Manhattan
Director of Investments,
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

Ron Estes, Wichita
Kansas State Treasurer
Statutory member

Todd Hart, Olathe
Deputy Chief, Olathe Fire Department
Elected member - non-school

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

Michael Rogers, Manhattan
Certified Public Accountant
Appointed by the Governor

Vacant Position
Governor's Appointment

KPERS Overview

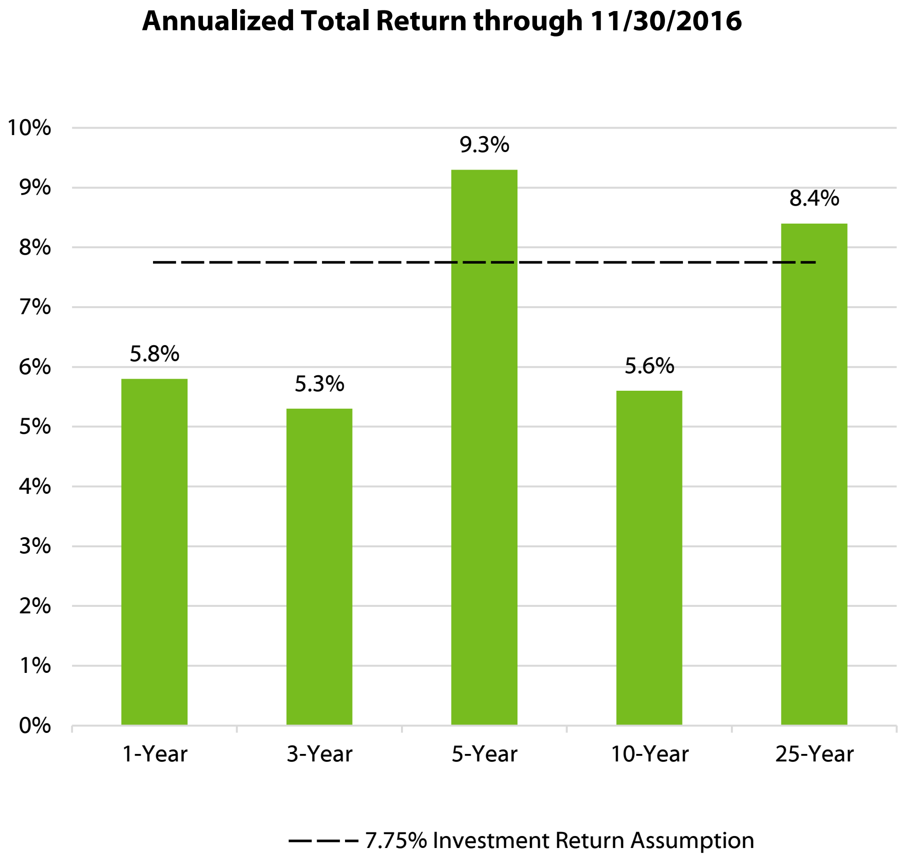
How KPERS Works

- 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

Investments

- 7.75% long-term return assumption
- Calendar year 2016 return through 9/30 totals 7.1%* (not annualized)
- Earned 9.3%* for the trailing 5-year period ending 11/30/2016
- Earned 8.4%* over the last 25 years as of 11/30/2016



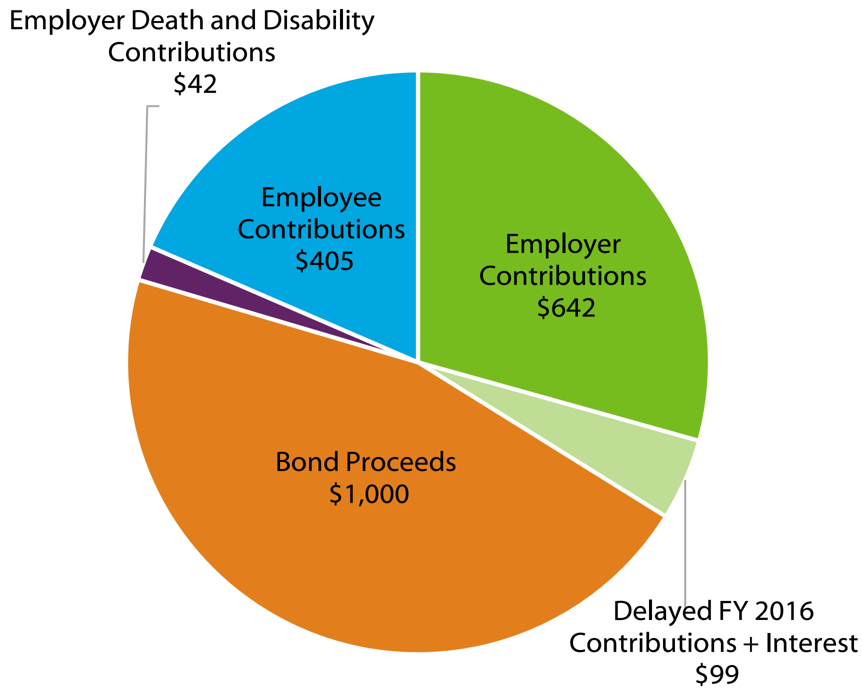
*Gross total return for all assets as of 11/30/2016

KPERS Overview

KPERS Contributions

- KPERS Employees Contribute 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.
- Delayed FY 2016 State/School employer contributions totaling $97.5 million and $1.5 million interest for FY 2016 was counted as long-term receivable.
- $1.0 billion in bond proceeds received in August 2015.
- Total Contributions for FY 2016:
  $2.1 billion

KPERS Contributions by Source
FY 2016
(dollars in millions)



KPERS Overview

KPERS Benefits

- Final average salary x years of service x multiplier (1.85%)*
- Lifetime retirement benefit and $4,000 death benefit for beneficiary of retiree
- After about three years in retirement, most KPERS 1 retirees begin receiving more in total benefits than they paid in contributions (if no lump-sum option)

KPERS paid about **$1.67 billion** in total benefits in FY 2016 (retirement, death benefits, disability benefits, withdrawals)

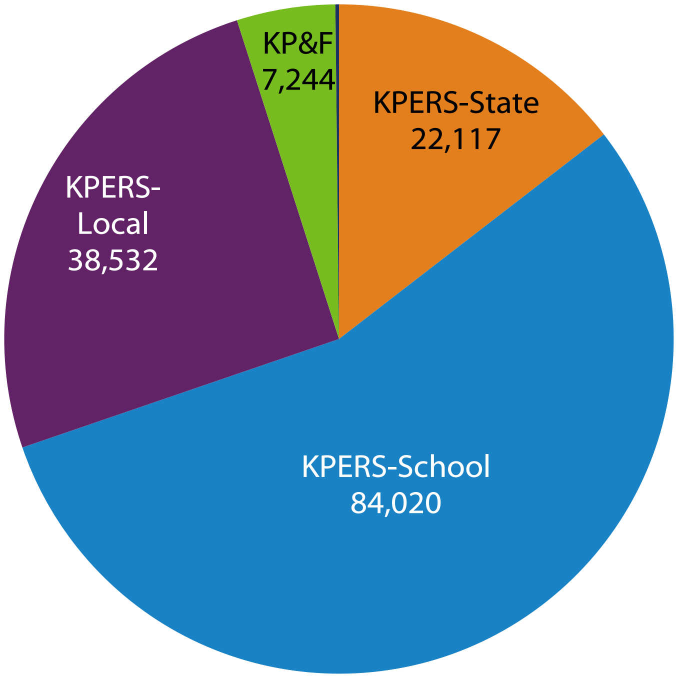
*KPERS 1 multiplier is 1.75% for all service prior to 2014

Average KPERS 1 member	
Final average salary	$40,000
Service	20 years
Benefit	$14,800 a year

Long-term KPERS 1 member	
Final average salary	$40,000
Service	30 years
Benefit	$22,200 a year

KPERS Overview

Active Membership on 12/31/2015



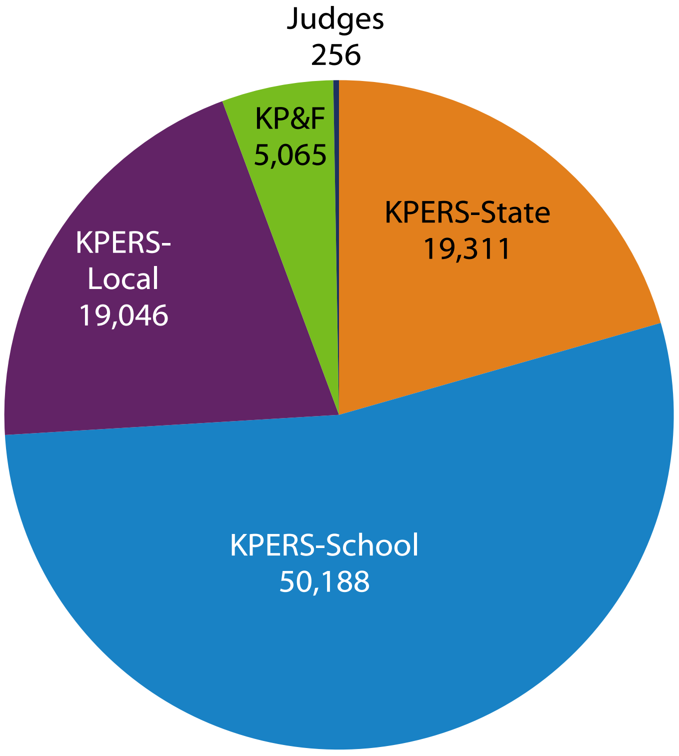
Total: 152,175

Average Active Members		
	Average Age	Average Service
KPERS-State	46.9	12.4
KPERS-School	45.0	11.3
KPERS-Local	45.3	10.2
KP&F	39.5	11.7
Judges	58.4	12.0

KPERS Overview

Retired Membership on 12/31/2015

Average Retired Members and Beneficiaries	Average Age	Average Benefit
KPERS-State	72.4	$13,797
KPERS-School	72.1	$14,932
KPERS-Local	72.1	$11,357
KP&F	65.1	$31,445
Judges	74.7	$40,192



Total: 93,866

2015 Actuarial Valuation

- Continued Improvement
- Funding Status
- Trust Fund Assets

2015 Valuation

Continued improvement

- Generally, KPERS' funding improved on an actuarial basis during calendar year 2015
- Calendar year rate of return on the market value of assets was 0.2%, below the 8% return assumption
- Due to asset smoothing, the rate of return on the actuarial value of assets for the calendar year was 7.6%
- Proceeds from the sale of bonds are reflected in this valuation

2015 Valuation

KPERS Funding Status

- As a system, KPERS' funded ratio and unfunded actuarial liability improved in the most recent valuation

	12/31/2015	12/31/2014
Funded Ratio	67%	62%
Unfunded Actuarial Liability	$8.54 billion	$9.47 billion

- Statutory employer contribution rate increases for State/School Group until it reaches the actuarial required contribution rate, which was projected to happen in FY 2020

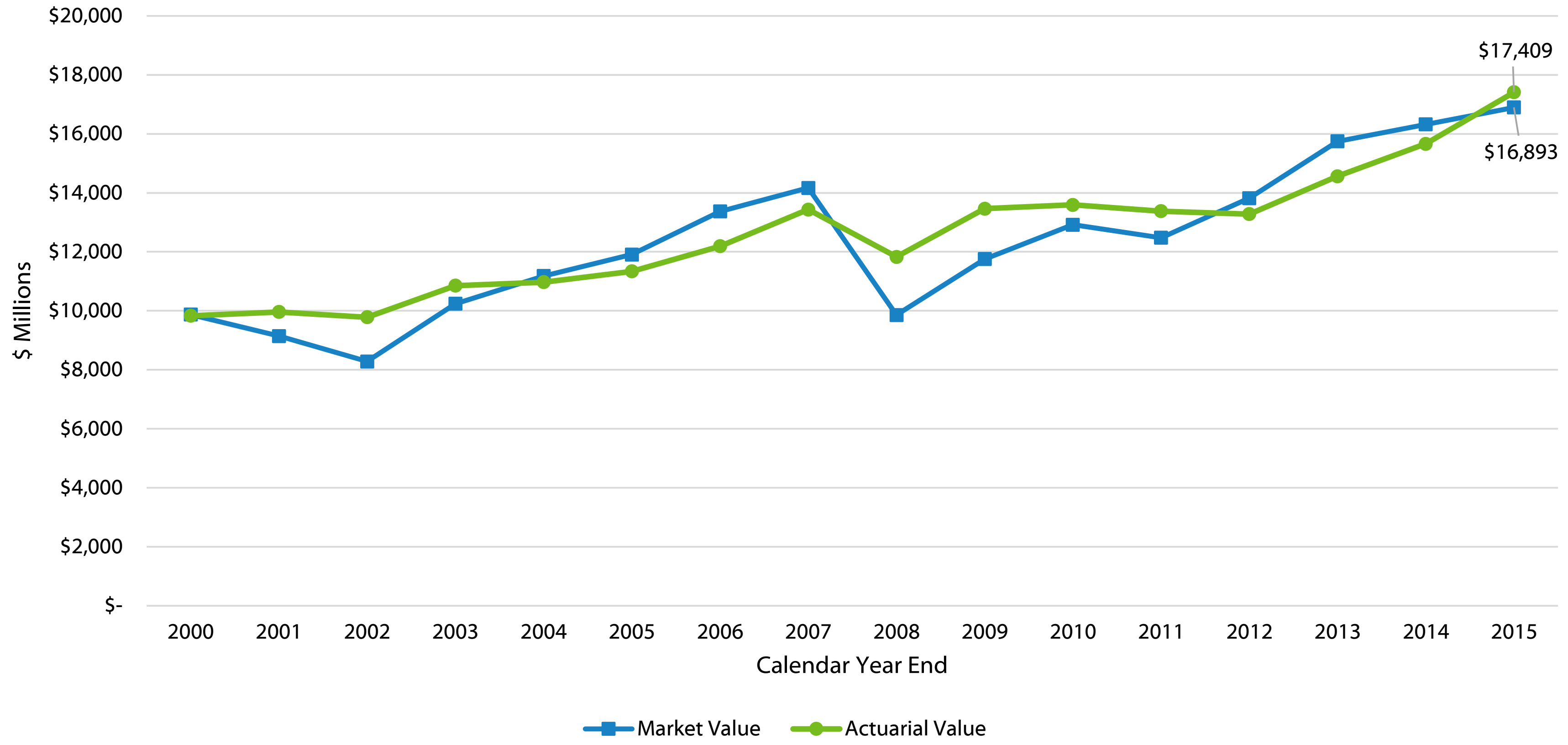
2015 Valuation

Trust Fund Assets

- KPERS Trust Fund has nearly $17 billion on a market value basis, the highest the Trust Fund has ever been.
  - Since the 12/31/2015 valuation, assets have risen above $17 billion.
- Current assets reflect receipt of $1 billion of bond proceeds received in August, 2015.
  - Split $143.4M to State and $856.6M to School.
  - Increased the State/School funded ratio (to 65% from 59% last year) and decreased the unfunded actuarial liability (to $6.3B from $7.2B last year).
- The actuarial value of assets exceeds the market value of assets, which indicates the deferred losses yet to be recognized.

2015 Valuation

Historical asset level



Governor's Recommended Funding

- No Repayment of FY 2016 Contribution Reduction
- Lower Employer Contributions
- Re-amortization
- Long term effects

KPERS

Governor's Recommendation

No repayment of FY 2016 contribution reduction

- $97 million in employer contributions was deferred during the 4th quarter of FY 2016.
- Current statute requires repayment of the contributions plus 8% annual interest by the end of FY 2018.
- The Governor's recommendation eliminates the repayment.
- The result is $97 million in lost contributions and another $18 million in lost interest payments ($115 million total).

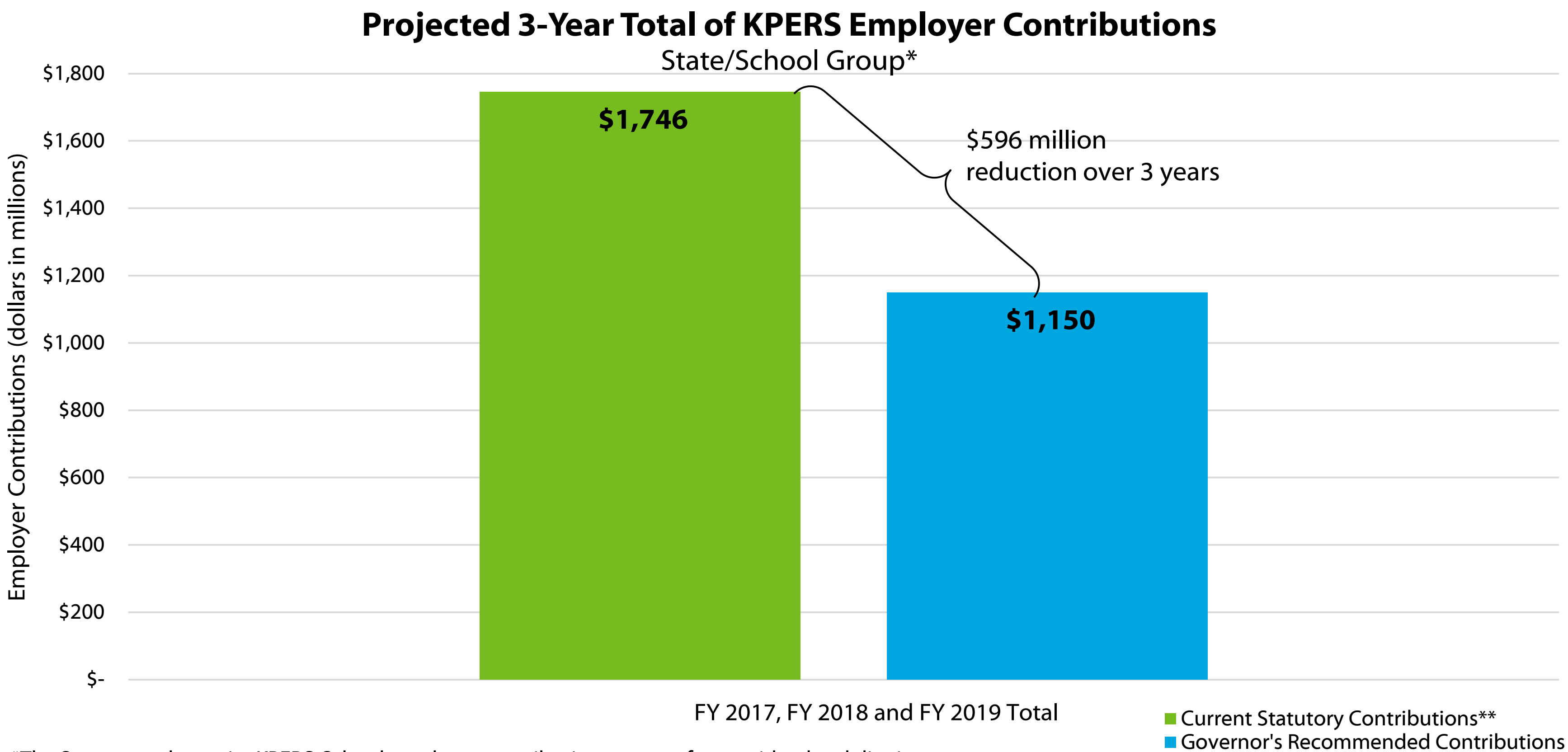
Governor’s Recommendation

Contribution reduction in FYs 2017, 2018 and 2019

- Governor’s recommendation freezes the FY 2016 contribution amount for FY 2017, FY 2018 and FY 2019.
  - The FY 2016 contribution amount was already reduced by nearly $100 million.
    - Equates to losing four quarters, or 1 full year, of contributions over a four-year period.
  - For those years, also suspends 1.2% annual rate increase established by 2012 KPERS reform legislation to address underfunding dating to 1993
  - Does not reflect changes in payroll.
- Reduces employer contributions to KPERS by $596 million over three years (including the $115 million lost due to not repaying the deferred FY 2016 contributions).

Governor's Recommendation

Total reduction over three years

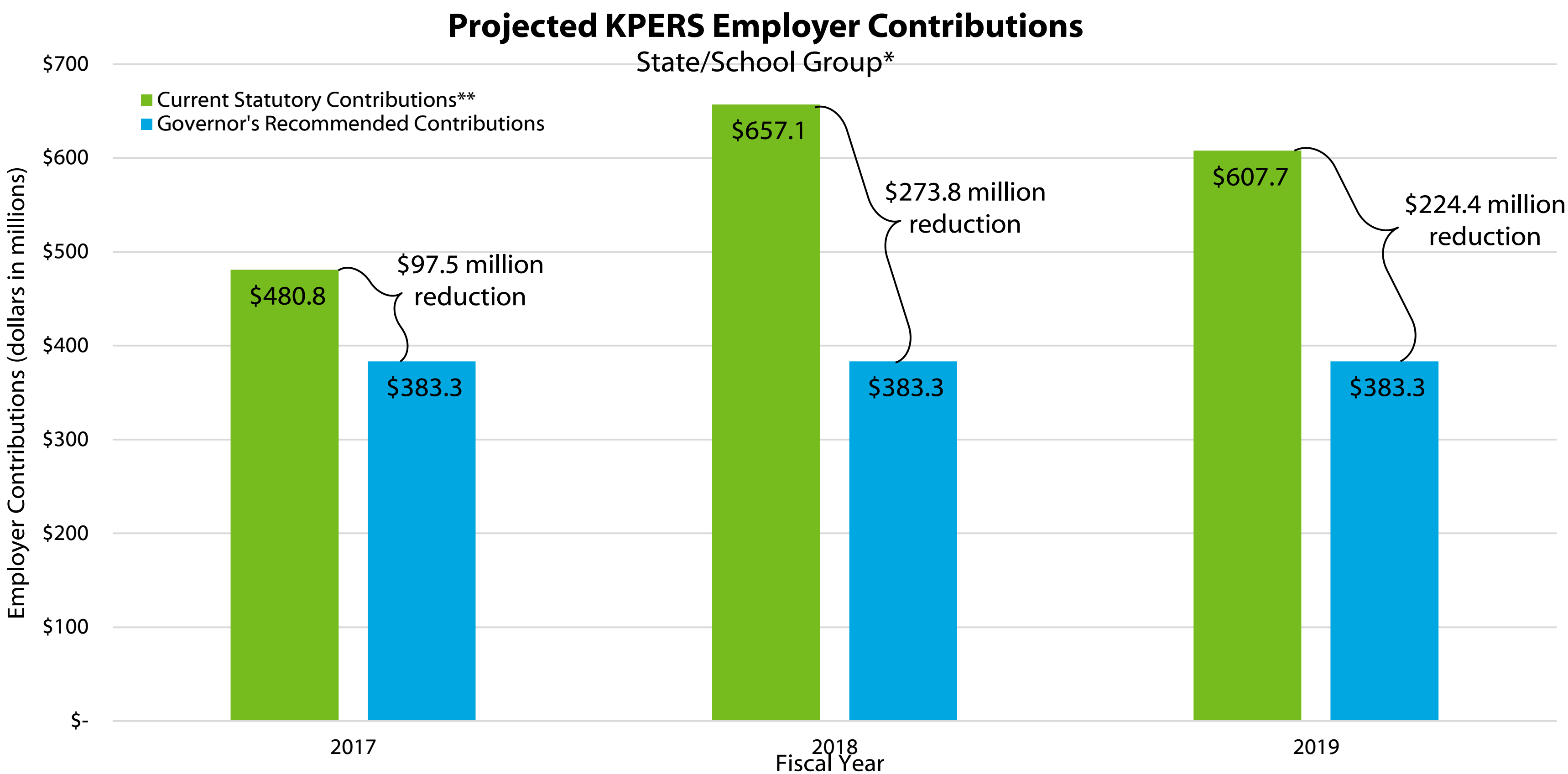


*The State pays the entire KPERS-School employer contribution as part of state aid to local districts.

**Current statutory projection of employer contributions includes $115 in delayed FY 16 employer contributions plus interest scheduled to be paid in FY 2018.

Employer Contributions

Year by year reductions



*The State pays the entire KPERS-School employer contribution as part of state aid to local districts.
**FY 2018 employer contributions include $542 million in employer contributions and $115 in delayed FY 16 employer contributions plus interest.

KPERS

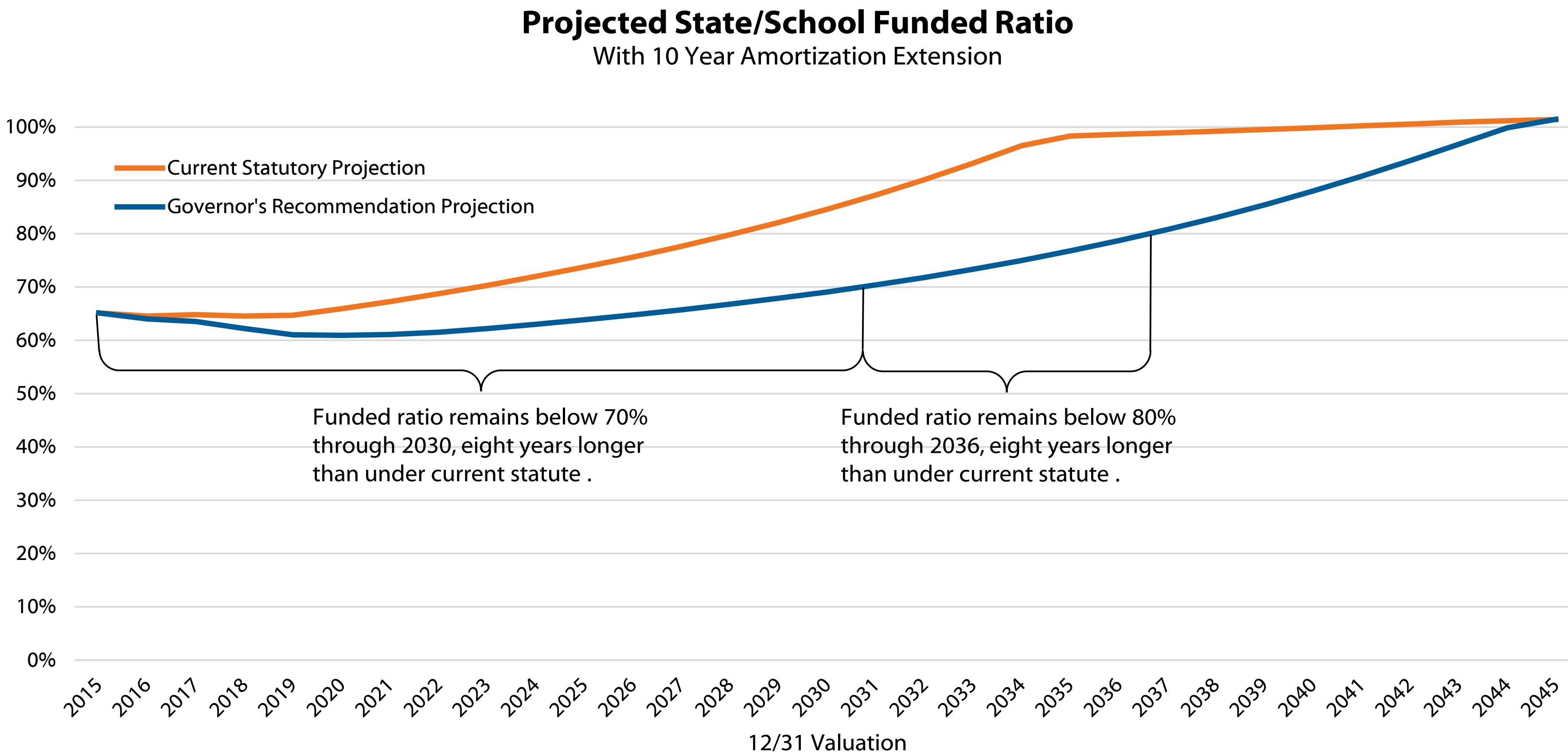
Governor's Recommendation

Adding 10 years to the amortization schedule

- The current 40-year amortization schedule was set in 1993
- Existing unfunded actuarial liability is scheduled to be paid by 2033.
- The Governor's recommendation is to extend the end date by 10 years to 2043.
- Extending the amortization lowers required annual employer contribution rates. However, extending the amortization –
  - Does not impact FY 2017, FY 2018 or FY 2019 State/School employer contribution rates
  - Results in rates of 12% to 13% for an additional 10 years
  - Increases the overall payments for the State/School unfunded liability by $6.5 billion through 2045.
  - Decelerates improvement in the funded ratio, leaving the KPERS State/School group vulnerable to market downturns for many years (in the "cautionary" 60% range through 2030, 8 years longer than current statute)
  - Increases the peak State/School unfunded actuarial liability by $1.3 billion. The unfunded actuarial liability would not be expected to return to 12/31/2015 levels for 20 years.
- By statute, the KPERS Board sets the amortization schedule.
- Legislation is required for the Governor's recommendation to take effect.

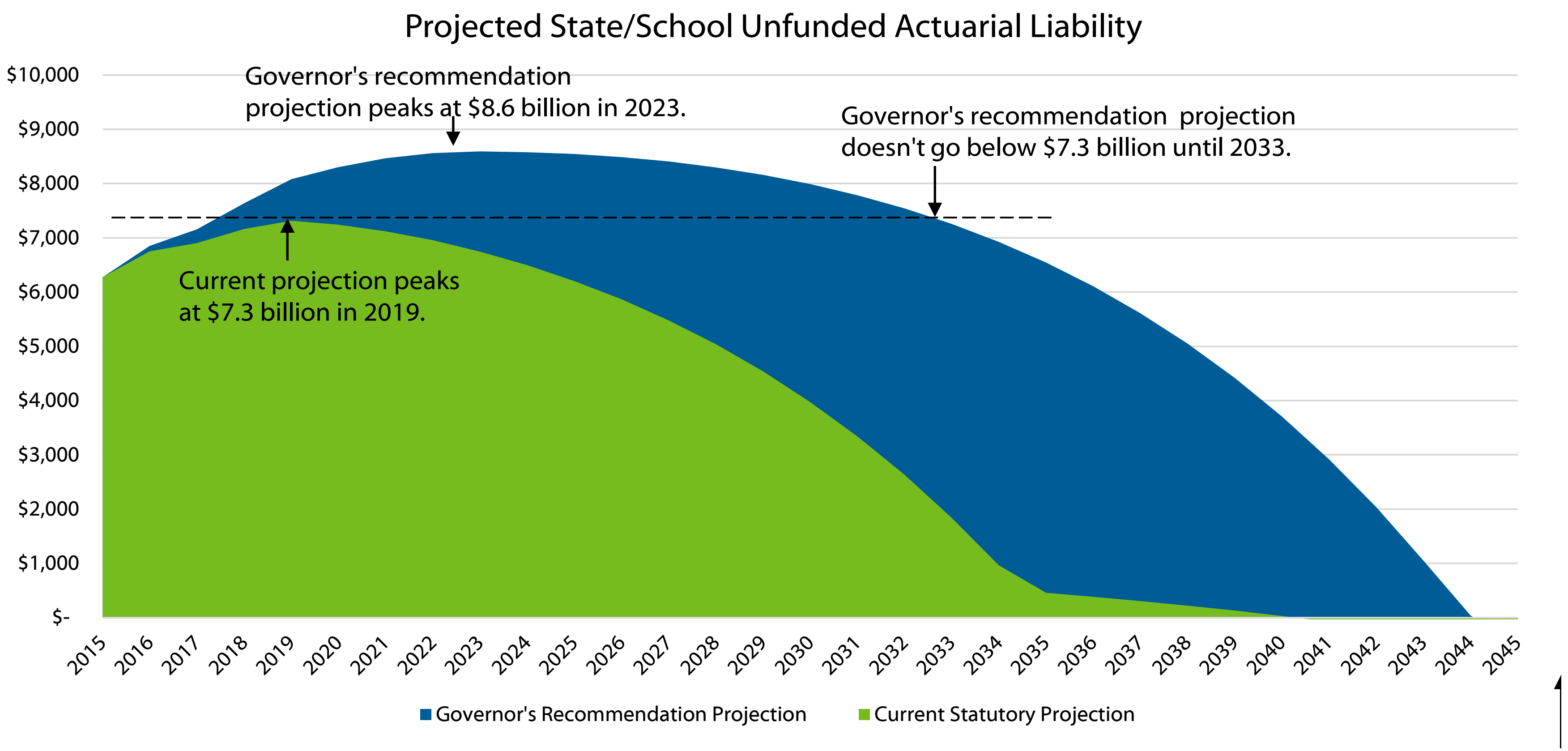
Governor’s Recommendation

Funded ratio projection



Governor's Recommendation

Unfunded actuarial liability

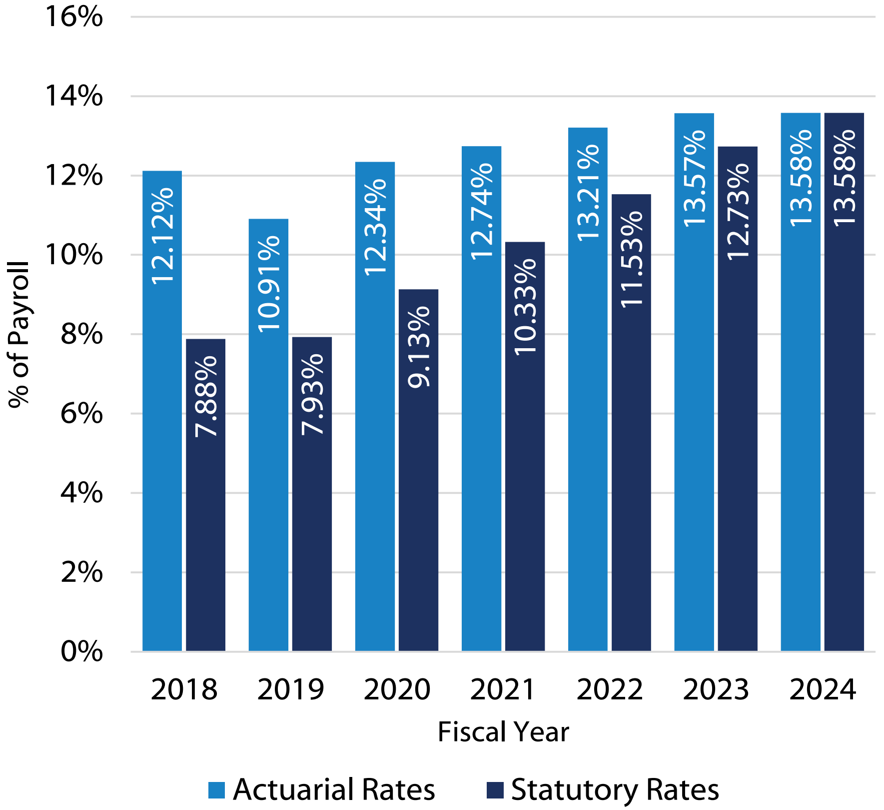


Governor's Recommendation

Employer contributions

- The current State/School statutory employer contribution rate for FY 2018 is 12.01%.
- Freezing contributions at the FY 2016 contribution amount lowers the FY 2018 State/School statutory contribution rate to 7.88%, about a third less than current law.
- Extending the amortization period reduces the actuarial required contribution rate to about 13%. However –
  - After the 3-year freeze, the statutory rate is lower than the actuarial rate until FY 2024
  - Actuarial contribution rates remain around 13% through FY 2044, rather than falling below 2% beginning in FY 2036
- The total cost to pay off the unfunded liability is projected to increase by $6,500,000,000 over the next 30 years.

Governor's Recommendation Projected State/School Employer Contribution Rates



Governor’s Recommendation

Long-term effects

- Effect on Funding
  - The State/School’s employer contribution rate will eventually settle at around 13% through FY 2045.
    - Local employer contribution rates are not affected
  - KPERS’ funded ratio will stay in the 60% “cautionary” range for many more years.
  - The State/School unfunded actuarial liability is projected to peak at $8.6 billion, $1.3 billion higher than the peak unfunded actuarial liability under current law.
  - The reduced contributions being recommended affect the cash flow projection and will require a higher cash allocation to meet cash flow needs.
- Effect on Members
  - Current retirees (and those thinking about retiring) are not affected.
  - Employee contributions are not affected. They are fixed by statute.

Triennial Experience Study

- Review of actuarial assumptions
- Investment return assumption
- Amortization method
- Impact of changing assumptions

Experience Study

Review of actuarial assumptions

- KPERS actuary and Board of Trustees review the actuarial experience of the System every three years as required by law.
- The current review covered calendar years 2012 to 2015.
- All economic and demographic actuarial assumptions were reviewed, as well as actuarial methods and the amortization period.
- Changes to actuarial assumptions will first be reflected in the 12/31/2016 valuation, which will be used for FY 2020 State/School employer contribution rates.
  - The experience study does not change previously certified rates in FY 2017 through FY 2019 – the years in which the Governor's budget proposal would freeze KPERS contributions

Experience Study

Review of actuarial assumptions

- The Board has a **fiduciary responsibility** to set the actuarial assumptions using their best judgement in light of available information.

- The 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.

Experience Study

Investment return assumption

- The current trend among public pension plans is lowering of investment return assumptions.
- For many years the median investment return assumption for public plans was 8%, but is now 7.5%.
- The actuarial inflation assumption, which is a component of the investment return assumption, was reduced from 3.00% to 2.75%.
- Based on the recommendation of KPERS' investment and actuarial consultants and the current environment of public pension plans, the Board voted to lower the long-term investment return assumption from 8% to 7.75%.

Experience Study

Impact of changing assumptions

- The changes **do not impact** benefits for current retirees.
- The changes **do not impact** employee contributions.
- The changes **do not impact** State/School employer contribution rates for FY 2017, FY 2018 or FY 2019.
- The changes **will increase** employer contributions in the future (starting in FY 2020 for State/School employers).
  - The initial increase in the actuarial rate was projected to be less than 1.5%
- The estimated unfunded actuarial liability for the total System increases $565 million, or 6.6%.
- The estimated funded ratio for the total System decreases from 67.1% to 65.7%.
- The 12/31/2016 valuation will reflect both the changes in the actuarial assumptions and the actual experience (investments, demographics, etc.) and the results will differ from the estimates.

kpers457

a deferred compensation savings plan

Personal Savings

Critical for a Sound Retirement

- Pension benefits are just one part of retirement income
- KPERS and Social Security may not be enough
- Personal savings is critical to cover the gap

Personal Savings

Deferred Compensation Savings Plan

- KPERS 457 is a voluntary savings plan administered by KPERS for state employees
  - $660 million in assets saved by 14,321 participants (as of 9/30/2016)
- KPERS 457 also can be adopted by local employers as a savings vehicles for their employees
  - Over 300 local employers offer the plan
  - Additional $291 million in assets saved by 9,327 local participants (as of 9/30/2016)
- Employees choose to enroll in the savings program
- Pre-tax and Roth after-tax contribution options

Personal Savings

KPERS 457 Can Help

- No cost for employers
- In its fiduciary role, KPERS oversees investment options, the service provider and participant education
- Competitive cost to employees
- Free, online investment advice
- Local, dedicated counselors representatives across the state for on-site individual and group meetings

Board Election
2017 Elections

- Two members of the Board of Trustees are elected by KPERS members
- Retired and active members can run for an elected board position
- Candidates had until the end of November 2016 to collect signatures and turn in forms
  - 2 School Group candidates accepted
  - 3 Non-school Group candidates accepted
- Members will vote in April 2017

KPERS

Questions?

KPERS