KPERS Update

System Overview, Valuation and Working After Retirement

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House Pensions and Benefits Committee

KPERS

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Topics

- KPERS Overview
- Valuation Overview
- Working After Retirement

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 97-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
- 424 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

Christopher Long, Mission Hills
President, Palmer Square Capital
Appointed by the Governor

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

Michael Rogers, Manhattan
Certified Public Accountant
Appointed by the Governor

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

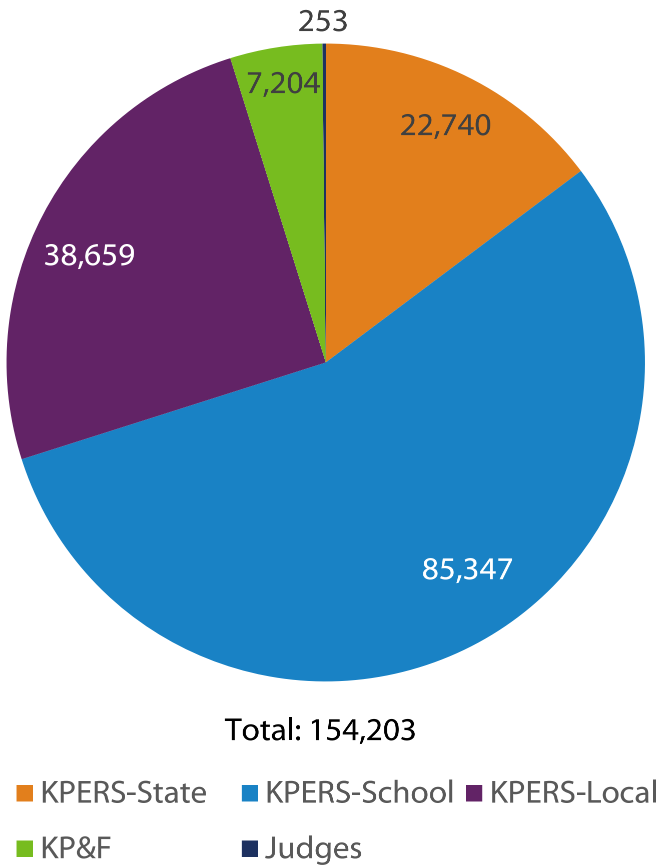
All in a Day's Work

Fiscal Year 2015 by the numbers

- About 1,000,000 retirement benefit payments totaling almost $1.45 billion
- $18.4 million in life insurance benefits
- $23 million in benefits to 2,600 disabled employees
- 5,825 pension inceptions
- 27,700 member enrollments and transfers
- 47,000 beneficiary designations processed
- 10,000 members withdrew their contributions ($57.2 million)
- 109,500 incoming calls (average wait time of 9 seconds)
- 16,650 e-mail requests

KPERS Overview

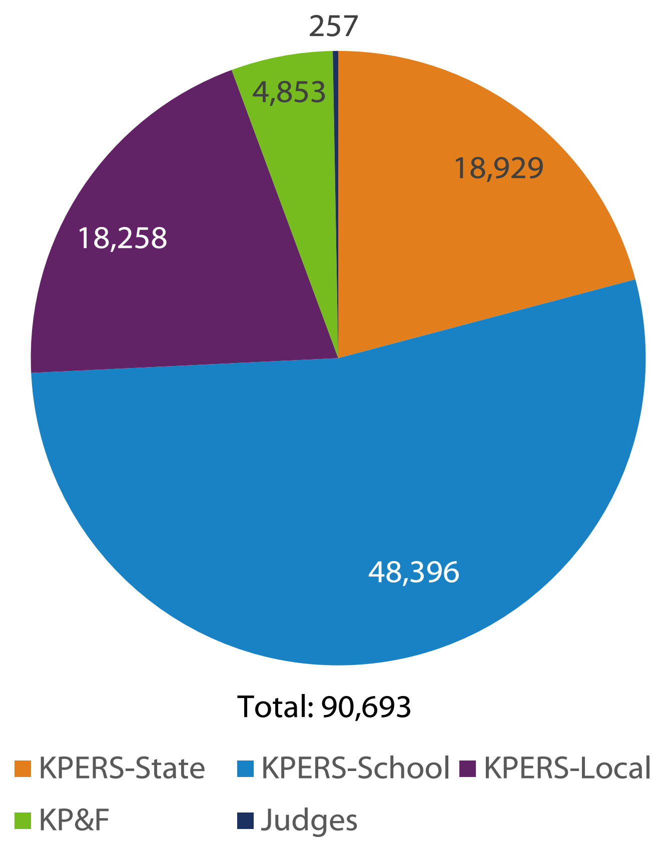
Active Membership on 12/31/2014



Average Active Members		
	Average Age	Average Service
KPERS-State	46.9	12.4
KPERS-School	45.0	11.3
KPERS-Local	45.4	10.2
KP&F	39.7	11.9
Judges	58.2	11.9

KPERS Overview

Retired Membership on 12/31/2014



Average Retired Members		
	Average Age	Average Benefit
KPERS-State	72.5	$13,513
KPERS-School	72.1	$14,610
KPERS-Local	72.2	$10,964
KP&F	65.1	$30,387
Judges	74.3	$40,370

2014 Actuarial Valuation

- Key Results
- Funding Projections

Key Valuation Results

Funded status of system as of 12/31/2014

- Funded status improved for all groups
- Unfunded actuarial liability decreased by $298 million to $9.468 billion due to an actuarial gain on both assets and liabilities
- Funded ratio increased from 59.9% to 62.3%
- The valuation does not include the bond proceeds that were received in August 2015, however the actuarial projections do include the bond proceeds

Key Valuation Results

Investment returns

- Investment return on market value basis in 2014 was 6.5%
- Market gains and losses are “smoothed” (averaged) over five years
- Deferred gains from prior years due to smoothing
- Result – 10.6% return on actuarial (smoothed) value of assets
- Assets’ market value exceeds actuarial value by 4%

Key Valuation Results

Actuarial vs. statutory employer contribution rates

	December 31, 2014[1]		
	Actuarial[2]	Statutory	Difference
State	9.62%	12.01%	2.39%[3]
School	16.38%	12.01%	(4.37%)
State/School	14.89%	12.01%	(2.88%)
Local	8.46%	8.46%	0.00%
KP&F	19.03%	19.03%	0.00%
Judges	15.89%	15.89%	0.00%

1. Rates apply in fiscal years **beginning** in 2017 (FY 2018 for State/School; CY 2017 for Local)
2. Actuarial required contribution rates for the 12/31/2014 valuation do not include the bond proceeds
3. As provided in statute, the contribution above the State actuarial required contribution rate will be used to fund the School Group

Funding Projections

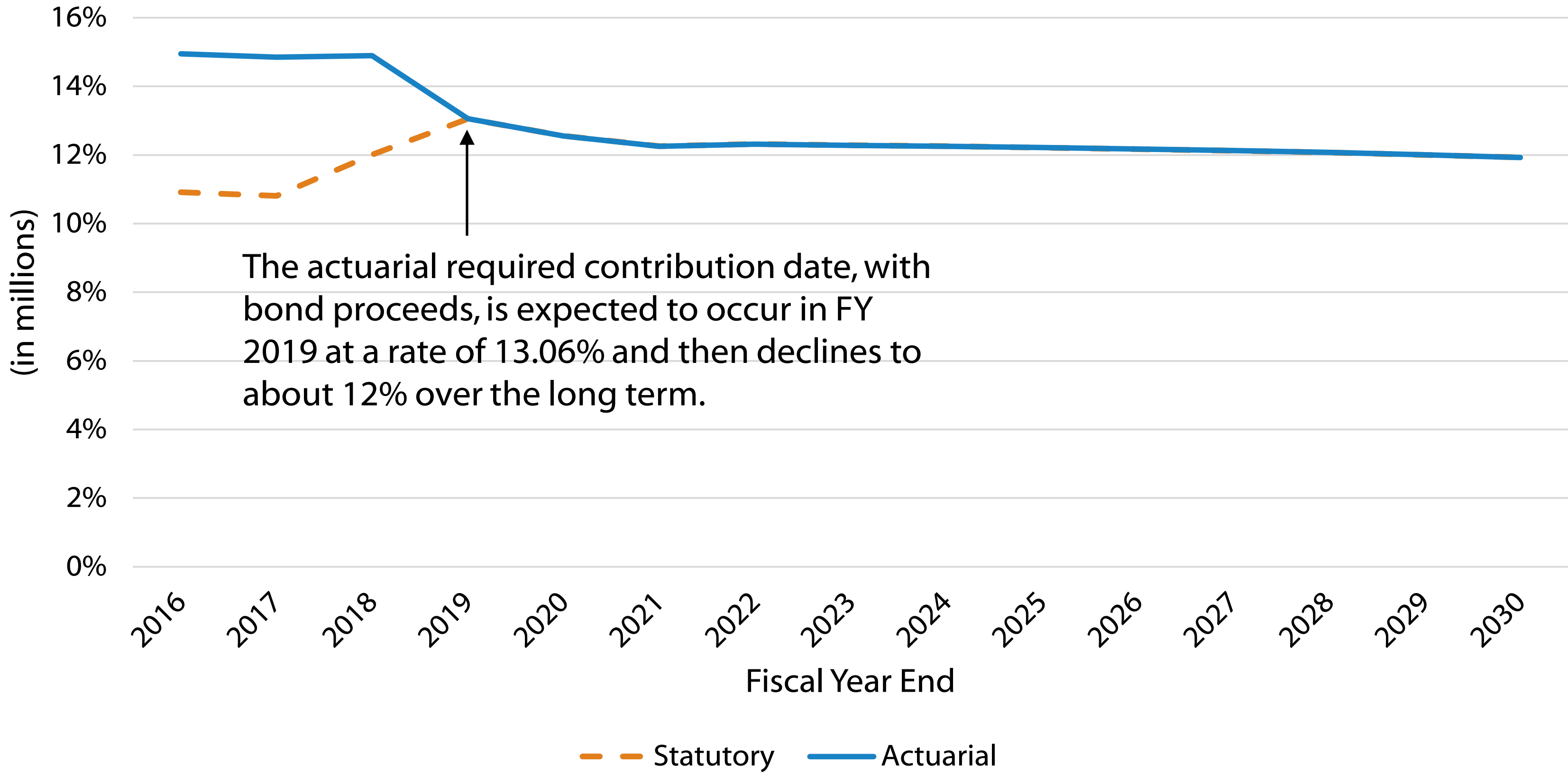
State/School funding

- 12/31/14 Valuation (not including bond proceeds)
  - Funded ratio: 59%
  - FY 2018 actuarial rate: 14.89%
  - FY 2018 statutory rate: 12.01%

- Actuarial required contribution date (when actuarial and statutory contribution rates are equal)
  - Projected date with bond proceeds: FY 2019 at actuarial required contribution rate of 13.06%
  - Based on prior valuation (12/31/2013), was 15.01% in FY 2019
  - Statutory State/School rate has exceeded State-only actuarial required contribution rate since the December 31, 2010, valuation (which set rates for FY 2014).
    - SB 228 reduced statutory contribution rate to 10.91% for FY 2016
    - Therefore, statutory rate is less than State actuarial required contribution rate for one year

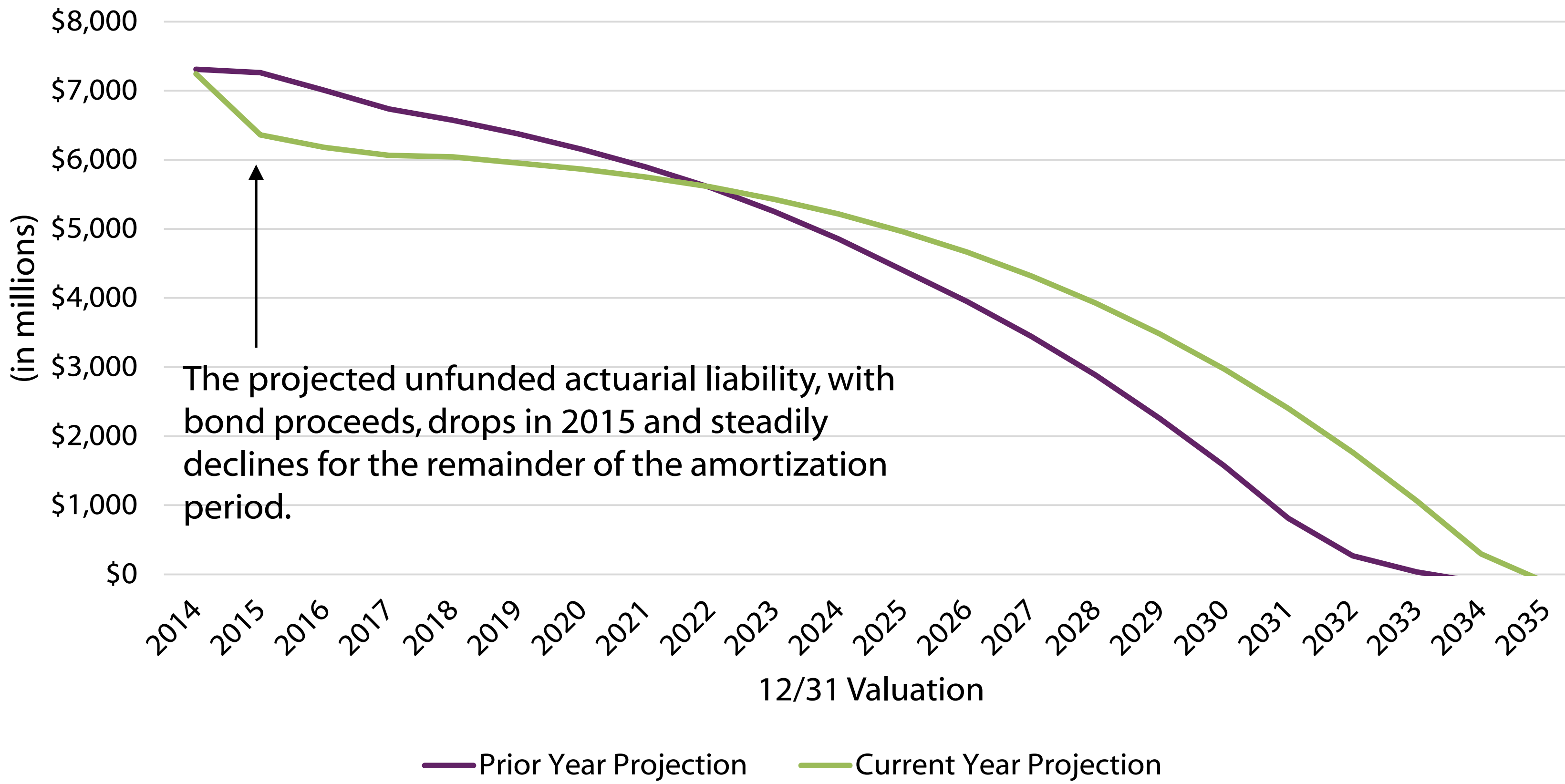
Funding Projections

Projected State/School employer contribution rates



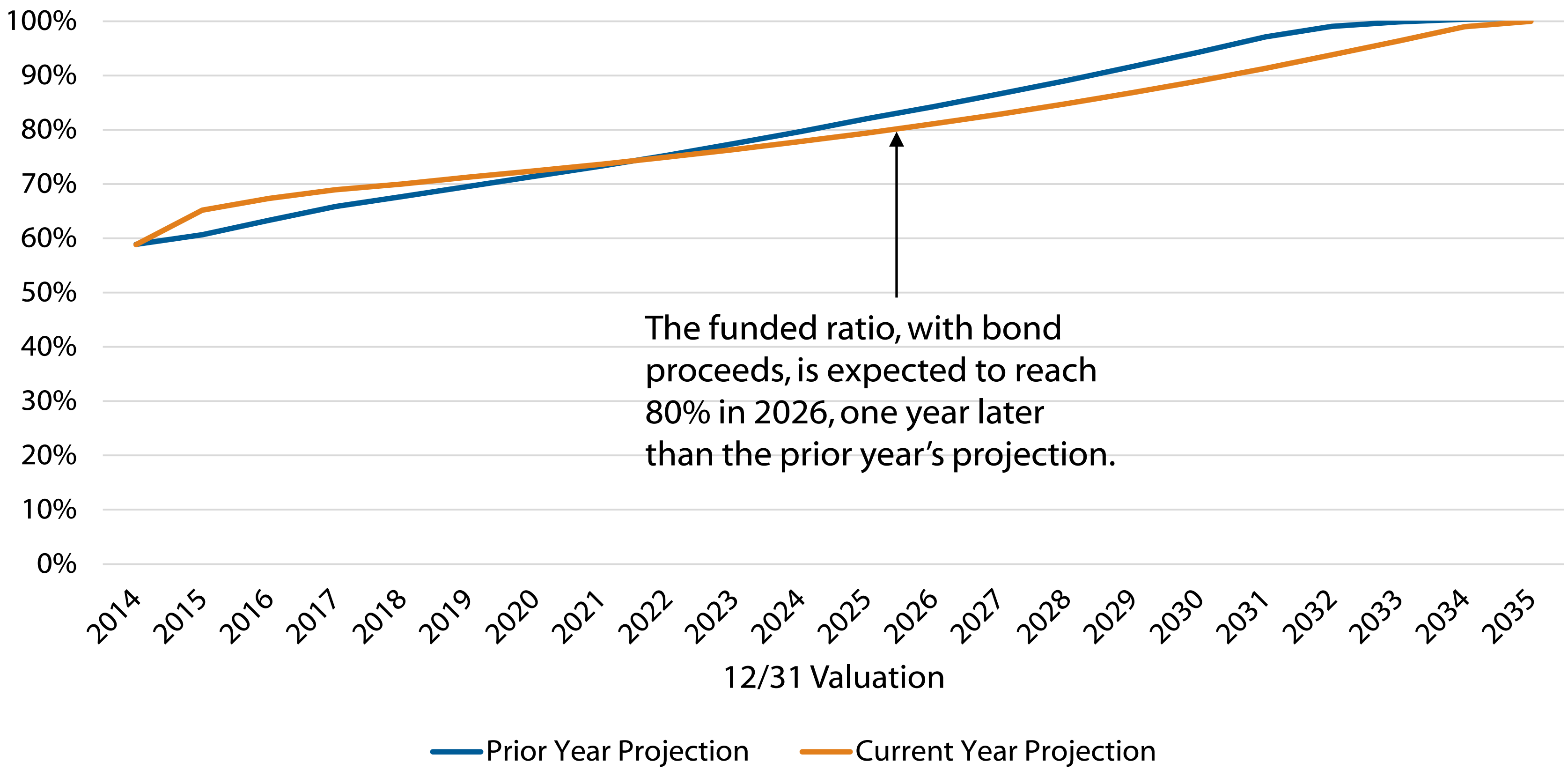
Funding Projections

Projected State/School unfunded actuarial liability



Funding Projections

Projected State/School funded ratio



Funding Projections

Short term projections (Total System)

Return in 2015*

	8%		0%		- 8%	
Valuation Date (12/31)	Unfunded Actuarial Liability	Funded Ratio	Unfunded Actuarial Liability	Funded Ratio	Unfunded Actuarial Liability	Funded Ratio
2015	$8,511M	67%	$8,787M	66%	$9,063M	65%
2016	8,187M	70%	8,831M	68%	9,477M	65%
2017	7,978M	72%	9,000M	68%	10,024M	64%
2018	7,942M	73%	9,339M	68%	10,740M	63%

* **Includes** bond proceeds and an 8% return in all years after 2015, so current deferred investment experience is reflected in future years.

Working After Retirement

- Why changes were made
- Policy Issues
- The New Law

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Working After Retirement

Why were changes made

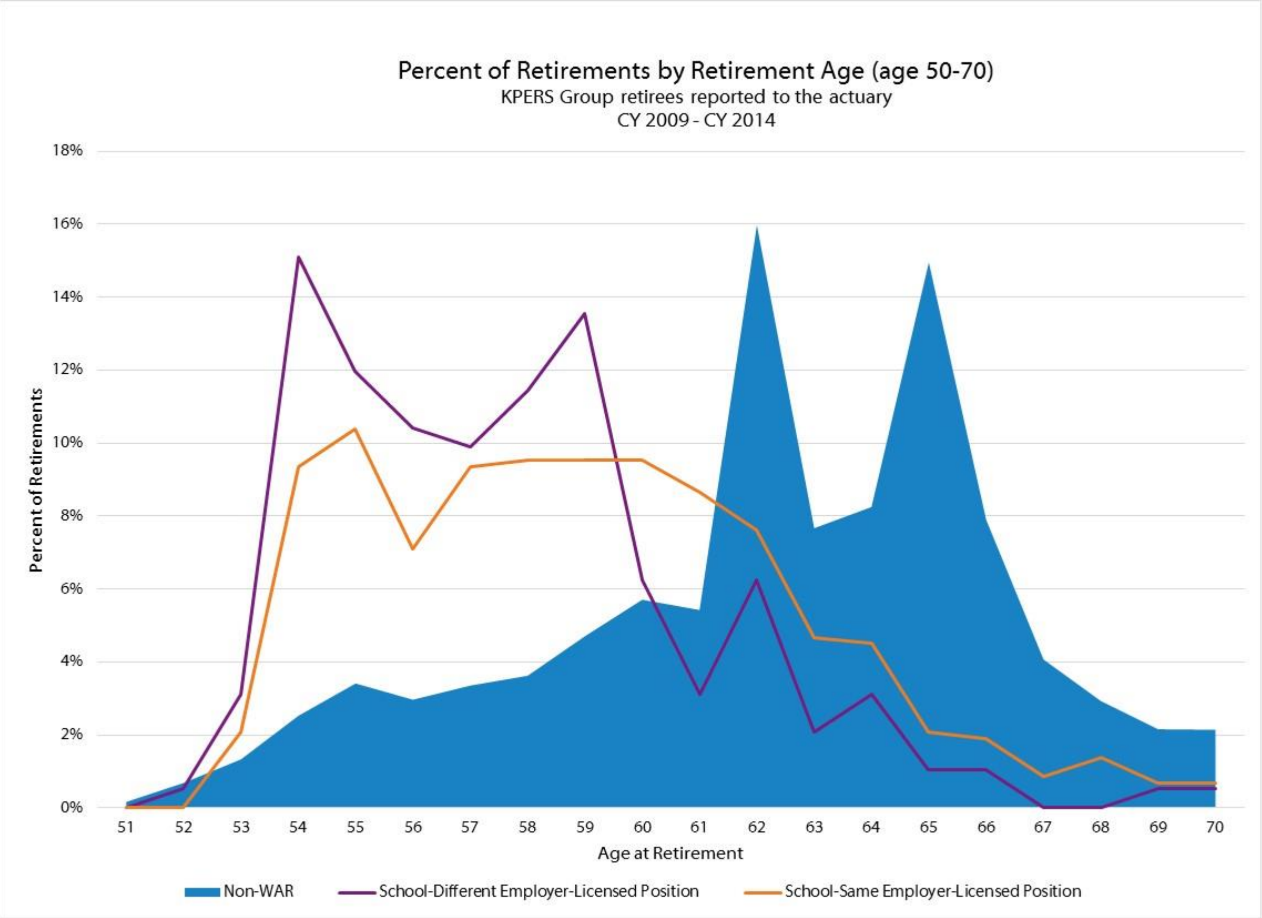
- The current “temporary” rules for licensed school professionals were scheduled to sunset on June 30, 2015 but now have been extended to June 30, 2016
- The Legislature wanted to find a more permanent plan rather than extend the sunset on the current rules
- The focus was on addressing fiscal and legal issues
- Employer flexibility was recognized as a concern, specifically as it pertains to certain teaching positions

Working After Retirement

Retirement Trends: 2009-2014

- Retirees returning to work as licensed teachers retired at younger ages than retirees not returning to work during that period

- Licensed teachers have a financial incentive to retire at younger ages under the working after retirement rules in effect since 2009



Working After Retirement

Addressing policy issues

Cost considerations

- The new policy reduces the financial incentive for members to retire and return to work
- Contributions on retiree earnings offset some of the cost to the System

Staffing considerations

- Special education and hard to fill licensed positions can still be filled with a retiree when recruitment efforts fail
- Emergency vacancies can be filled with retirees
- Daily call substitutes are not subject to the working after retirement policy

Working After Retirement

The new policy

What has changed?

- No difference between same employer or different employer
- Employers report all rehired retirees to KPERS
- Employer contributions on all compensation paid and on additional groups of retirees
- Earnings limitation raised to $25,000
- New exemptions for certain school positions
- Employer explicitly required to continue seeking permanent employees for positions filled by retirees under new exemptions
- Joint Committee on Pensions & Benefits may review exceptions

What has stayed the same?

- 60-day waiting period
- No pre-arrangements

Summary

- KPERS Overview
- Valuation Overview
- Working After Retirement
- Questions

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