KPERS Overview and FY 16-FY 17 Budget

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Senate Select Committee on KPERS

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KPERS

Kansas Public Employees Retirement System

Dependable Benefits. Trusted Partner.

Dedicated Fiduciary, First and Always

- The fiduciary standard is the highest standard of care and accountability. KPERS serves members as a fiduciary by:
  - Holding assets in trust
  - Prudently investing assets
  - Delivering promised benefits

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

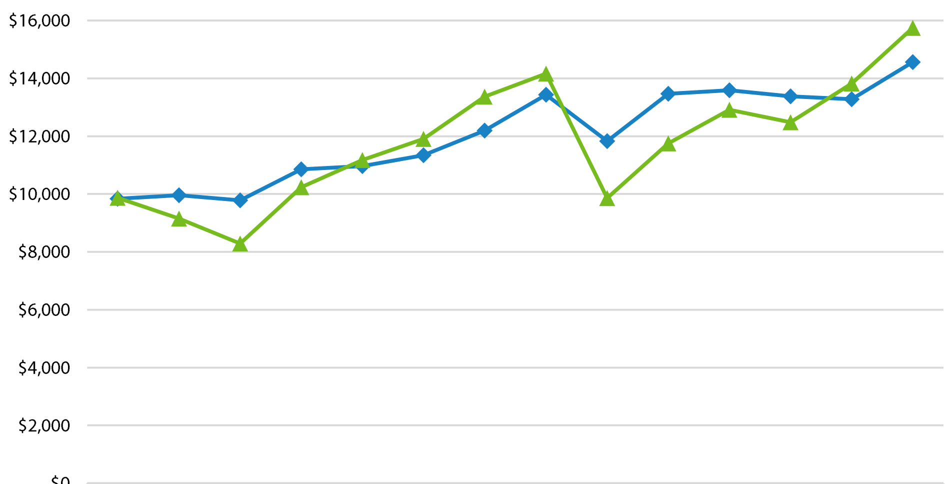
KPERS partners with more than 1,500 state and local government employers.

- State of Kansas
- 286 school districts
- 105 counties
- 418 cities and townships
- Many other local government employers

KPERS' Funding Status

Assets and Liabilities as of 12/31/2013

- KPERS' Unfunded Actuarial Liability (UAL) decreased from $10.3 billion to $9.8 billion. The funded ratio improved from 56% to 60%.
- The UAL represents the shortfall between the portion of the total actuarial liability that is to have been funded during years already worked and the actuarial value of assets. It is a debt that must be paid.



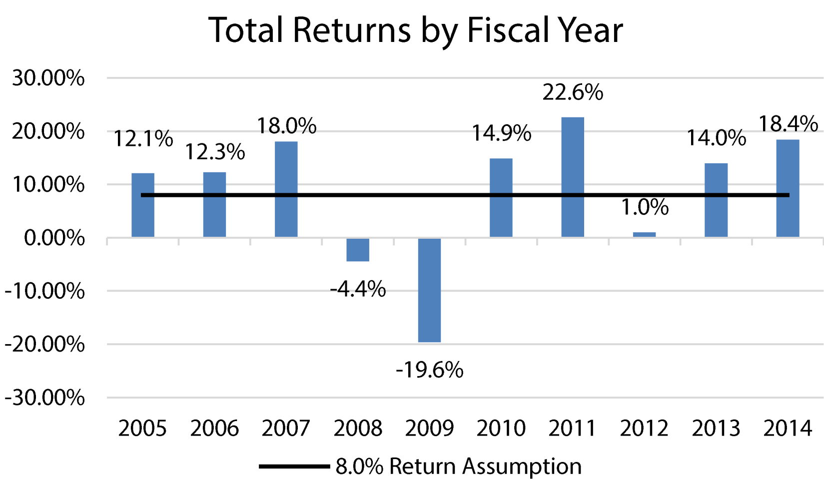
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Actuarial	9,835	9,963	9,785	10,853	10,971	11,339	12,190	13,433	11,828	13,461	13,590	13,379	13,278	14,563
Market	9,874	9,146	8,283	10,237	11,178	11,909	13,368	14,168	9,856	11,755	12,918	12,477	13,817	15,745

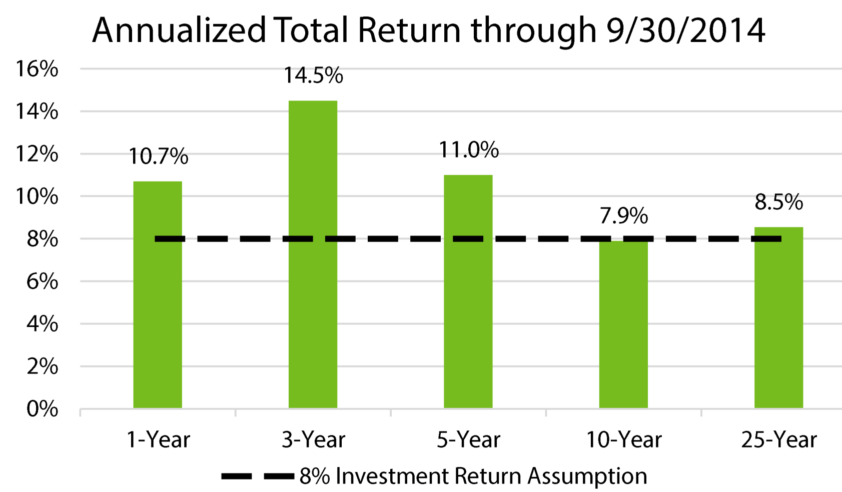
- The market value of assets exceeds the actuarial value of assets
- Investment gains and losses are averaged in over five years to calculate actuarial value
- A higher market value of assets indicates deferred gains yet to be averaged in
- More than a **billion dollars** in deferred investment gains are yet to be realized

KPERS' Funding Status

Investment Performance

- Strong investment performance helped improve long-term funding outlook
  - FY 2013 return: 14.0%
  - FY 2014 return: 18.4%
- Recent returns were exceptionally robust. We expect returns to normalize going forward
  - CY 2014 return to date: 4.9% (as of 09/30/14, not annualized)
- 8.0% long-term return assumption
- Earned 8.5% over the last 25 years (as of 09/30/14)





KPERS' Funding Status

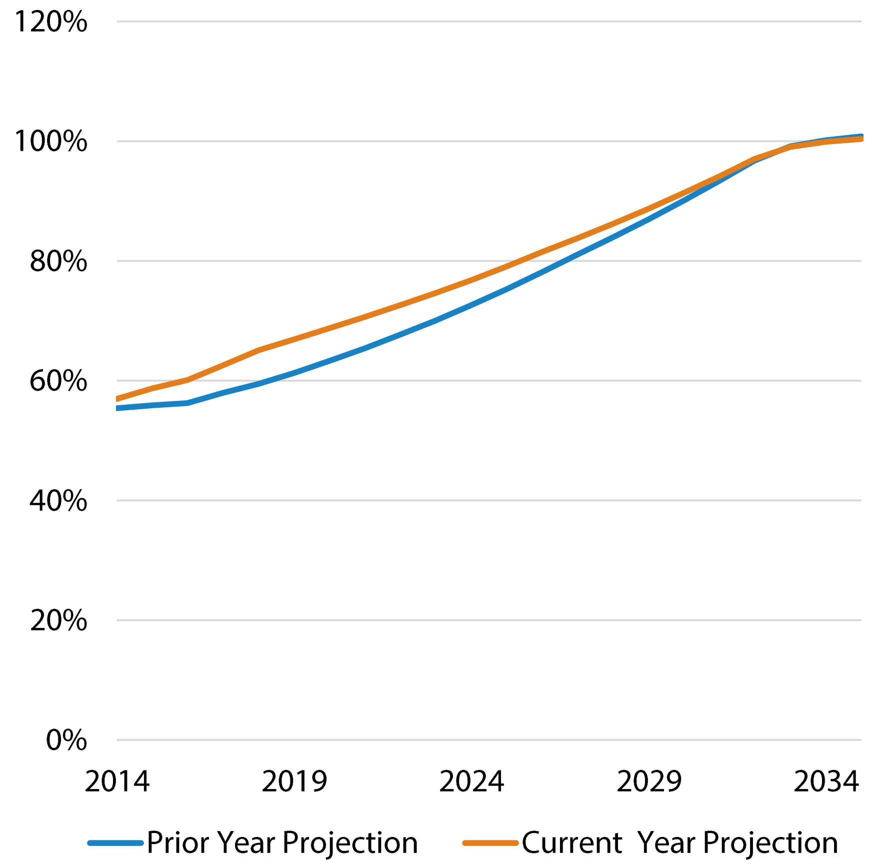
Long-Term Funding Outlook - Projections

Long-term funding outlook improving

- Increased contributions
- Plan design changes
- Favorable investment experience
- Funded ratio increasing

KPERS is projected to be 100% funded by end of amortization period (FY 2033)

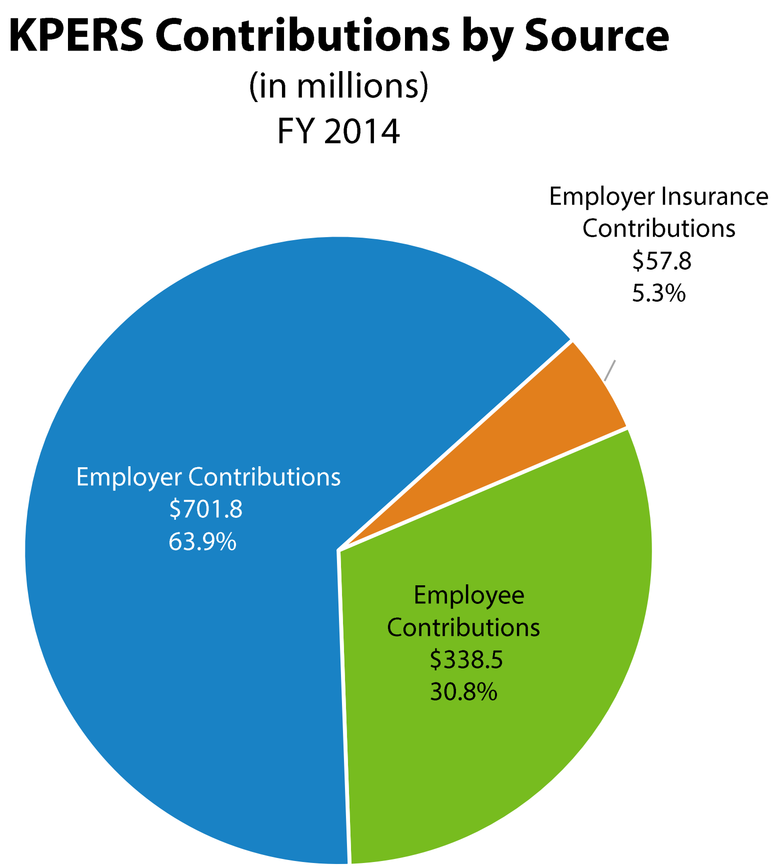
- As of **12/31/2008** valuation, State/School Group was not expected to reach 100% funding until 2041
- The funded ratio is projected to reach 80% in 2026, one year earlier than the 2012 projection



KPERS' Funding Status

KPERS Contributions

- KPERS Employee Contributions
  - KPERS 1 = 6% of pay (as of 1/1/15)
  - 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 2014:
  $1.1 billion



KPERS' Funding Status

Employer Contribution Rates

- For fiscal years beginning in 2016, all groups other than School Group will be at the Actuarially Required Contribution (ARC) Rate.
- The ARC rate went down for all four funding groups compared to the 2012 valuation

	Actuarial Rate (ARC as % of Pay)		Statutory Rate		% of ARC Contributed
System	12/31/2012	12/31/2013	12/31/2012	12/31/2013	12/31/2013
State	11.44%	10.77%	12.37%	13.57%*	126%
School	16.00%	16.03%	12.37%	13.57%	85%
State/School	14.95%	14.85%	12.37%	13.57%	91%
Local	9.48%	9.18%	9.48%	9.18%	100%
KP&F	21.36%	20.42%	21.36%	20.42%	100%
Judges	23.98%	21.36%	23.98%	21.36%	100%

*The excess of the statutory over the actuarial contribution rate on State payroll is contributed to the School Group.

Governor's Allotments

How KPERS is Affected

- The Governor's December 2014 allotments included reducing the employer contribution rate from 11.27% to 8.65% for the last 6 months of FY 2015
- $52 million in State General Fund reductions, approximately $58 million total reduction in contributions to the KPERS Trust Fund
- The reduction in FY 2015 results in additional contributions of $76.7 over the next 20 years
- Lower contributions in FY 2015 are not projected to keep KPERS from being fully funded by the end of the amortization period (FY 2033), but do slow the rate at which KPERS' funded ratio improves and increase total future contributions
- The dollars were removed through the Governor's allotment authority, the Legislature will have to enact the rate change

Governor's Budget

Pension Obligation Bonds

- Recommended authorizing $1.5 billion in pension obligation bonds
- KPERS would receive slightly less in actual assets due to costs of issuing bonds, which would be around 1%
- Pension obligation bonds would be taxable bonds
- As of the beginning of the year, taxable bond rates were in the 4.4% to 4.75% range
- Debt service would roughly be $90-$95 million per year (higher if any initial principal payments are delayed or interest is capitalized)
- With current bond rates relatively low, the opportunity for KPERS' investment returns exceeding the bond rate exists

Governor's Budget

Pension Obligation Bonds

- Adding the proceeds of a pension obligation bond immediately improves the System's funded ratio and lowers the unfunded actuarial liability (UAL)
- Investment income may increase as more assets are available to be invested in the short-term
- Additional contributions from bond proceeds have effect of lowering future employer contribution rates if all assumptions are met in the future
- Lower employer contribution rates would not include the debt service on the pension obligation bonds, which are assumed to be paid from a source other than KPERS

Governor's Budget

Pension Obligation Bonds

- Market timing risk increases with a large lump sum payment into the system
- $1.5 billion in bonds would likely be issued in two or more stages
- KPERS would utilize investment strategies to prudently invest the proceeds in a manner consistent with its asset allocation and reduce market timing risk as much as possible

Pension Obligation Bonds

2004 Bonds

- The 2003 Legislature authorized $500 million in pension obligation bonds to increase the System's assets
- Approximately $5 million in fees and bond insurance and $55 million in capitalized interest
- KPERS received about $440 million in additional assets in March of 2004
- Debt service on the bonds (about $33 million annually) is appropriated from the State General Fund to the Department of Administration
- As of 9/30/2014, the investment return on the proceeds of the 2004 pension obligation bonds (7.45% return) has exceeded the bond rate (5.39%) by more than $174 million

Governor's Budget

Reamortization

- The Governor recommends extending the amortization period by 10 years to FY 2043
- The amortization period is similar to a mortgage on a house, the unfunded actuarial liability is split into annual payments
- The current amortization period is a 40-year closed period that began in FY 1993 and ends in FY 2033
- It is amortized using a level percent of payroll. As a result:
  - The payments are structured to grow over time as the payroll grows.
  - Payments are less than interest during early years of the amortization period.
- Extending the amortization period reduces the employer contribution rate in the short-term but increases the long-term cost
- Reamortizing will keep the funded ratio of the system lower and result in higher unfunded actuarial liabilities for a longer period of time

Governor's Budget

Cumulative Impact of Recommended Package

Assumptions:

- Employer contribution rate of 8.65% in last half of FY 2015; 9.69% in FY 2016; and 9.59% in FY 2017.
- 10-year extension of amortization period
- Net bond proceeds of $1.5 billion deposited 12/31/2015
- Elimination of additional funding from Expanded Lottery Act Revenue Fund (ELARF)

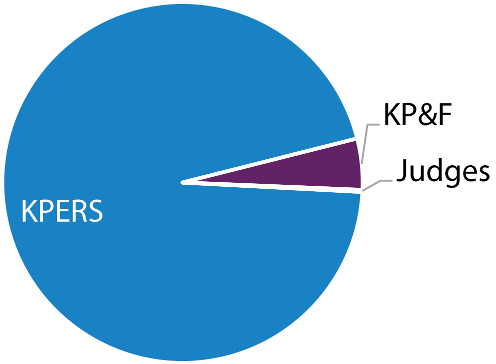
Impact:

	Current (Baseline) Scenario		Alternate Scenario	
Maximum contribution rate		14.83% in FY 2019		9.88% in FY 2018
Total contributions through 2046 (nominal dollars)		$16.37 billion		$20.11 billion ($3.74 billion more than baseline)
Year funded ratio reaches 80%		2025		2029
Unfunded actuarial liability	2015	$7.26 billion	2015	$5.83 billion
	2023	$5.25 billion	2023	$5.71 billion
	2033	$0.03 billion	2033	$4.70 billion
	2041	$0.03 billion	2041	$1.09 billion

KPERS Overview

Membership Information

Total Membership
Calendar Year 2013



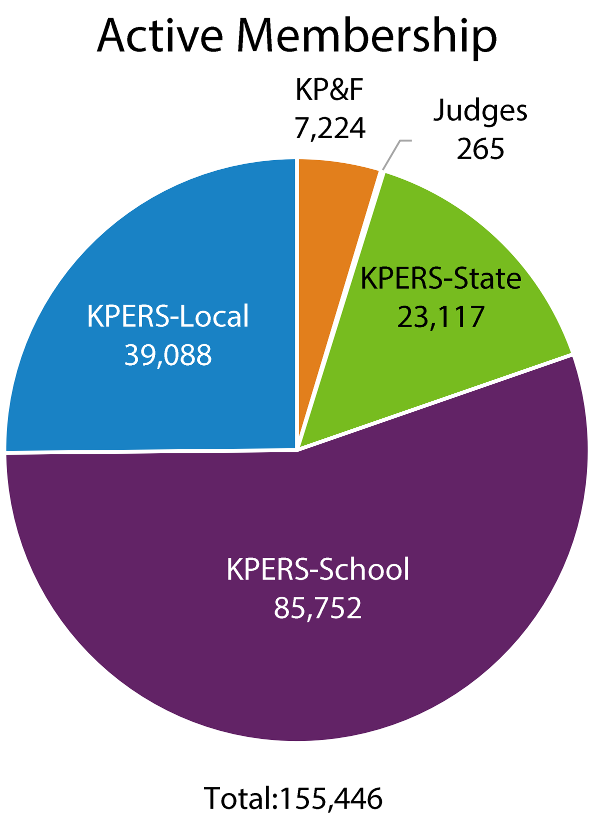
	KPERS	KP&F	Judges
Active	147,957	7,224	265
Retired	81,930	4,670	243
Inactive	46,096	1,382	6
TOTAL	**275,983**	**13,109**	**494**

KPERS Serves

- More than 289,000 members
  - More than 155,000 active employees
  - Approximately 10% of Kansans are members of a KPERS retirement plan
- More than 1,500 employers
  - State of Kansas
  - Every county
  - Over 400 cities and townships
  - All 286 school districts

KPERS Overview

Active Membership



- More than half of active members employed by school districts
- Average current age
  - KPERS – 45.5
  - KP&F – 39.6
  - Judges – 57.8
- Average years of service
  - KPERS – 11.3 years
  - KP&F – 11.8 years
  - Judges – 11.7 years

KPERS Overview

Retirees and Beneficiaries

- Average age
  - KPERS – 72.0
  - KP&F – 66.3
  - Judges – 74.2
- Average annual benefit
  - KPERS – $13,325
  - KP&F – $29,721
  - Judges – $39,809
- More than 88% of benefit payments are made to Kansas residents
- KPERS paid about $1.5 billion in total benefits in FY 2014

Retirees and Beneficiaries