Joint Committee on
Pensions, Investments and Benefits

November 20, 2024

Joint Committee on Pensions Investments, and Benefits

12/31/2023 Actuarial Valuation

PRESENTED BY:

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November 20, 2024

KPERS

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
- 426 cities and townships
- Other employers include libraries, hospitals, community colleges and conservation districts

KPERS Board of Trustees

James Zakoura – Overland Park, Chairperson	Special Counsel, Foulston Siefkin LLC	Appointed by the Governor
Ernie Claudel – Olathe, Vice Chairperson	Retired Teacher and Administrator	Elected Member - School
Emily Hill – Lawrence	Founding Partner, Bowersock Capital Partners	Appointed by the Governor
Steven Johnson – Assaria	Kansas State Treasurer	Ex Officio Statutory Member
Rich Proehl - Parsons	Retired Banker, Labette Bank	Appointed by the Speaker of the House
Brad Stratton – Overland Park	President, Overland Park Wealth Management	Appointed by the Governor
Ryan Trader – Olathe	Firefighter/Paramedic, City of Olathe	Elected member – Non-School
Sam Williams – Wichita	Retired CFO and Managing Partner, Sullivan, Higdon, and Sink Agency; Former Kansas Secretary of Revenue	Appointed by the President of the Senate
Jo Yun – Prairie Village	Vice President of Finance/Operations and CFO, Reach Healthcare Foundation	Appointed by the Governor

Covering Today

Purpose of the Annual Actuarial Valuation

System Statistics

Current Funded Status and Funding Projections

Impact of Legislative Actions

Employer Contributions

Purpose of the Annual Actuarial Valuation

Measurement of assets and liabilities

Best estimate of ultimate costs

- Project future benefits using actuarial assumptions
- Calculate present value of future benefits (their cost in today's dollars)
- Apply cost method to allocate benefit costs to periods of service

Calculate employer contribution rates

- The 12/31/2023 valuation sets the contribution rates for FY 2027 for State and School employers and CY 2026 for Local employers.

Baseline for any cost studies in 2025 legislative session

Key Findings

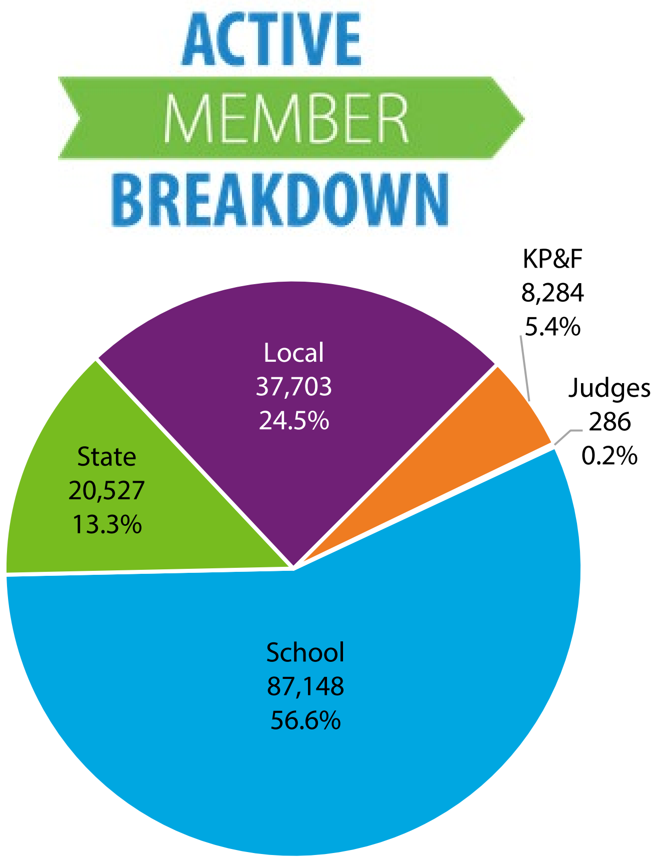
All groups remain at the full Actuarial Required Contribution rate.

Net investment returns on a calendar year basis were 10.6% on market value of assets. Due to actuarial smoothing, the return on actuarial assets was 6.9%.

Overall, the unfunded actuarial liability increased from $9.6 billion last year to $9.7 billion this year.

Overall, the funded ratio (assets to liabilities) improved to 74.0% (from 73.4% on 12/31/2022).

Active Membership on 12/31/2023



Total Active Members – 153,948

KPERS has about 154,000 active members.

- Active members range in age from 16 to 91.

KPERS 3 is the largest group of active members.

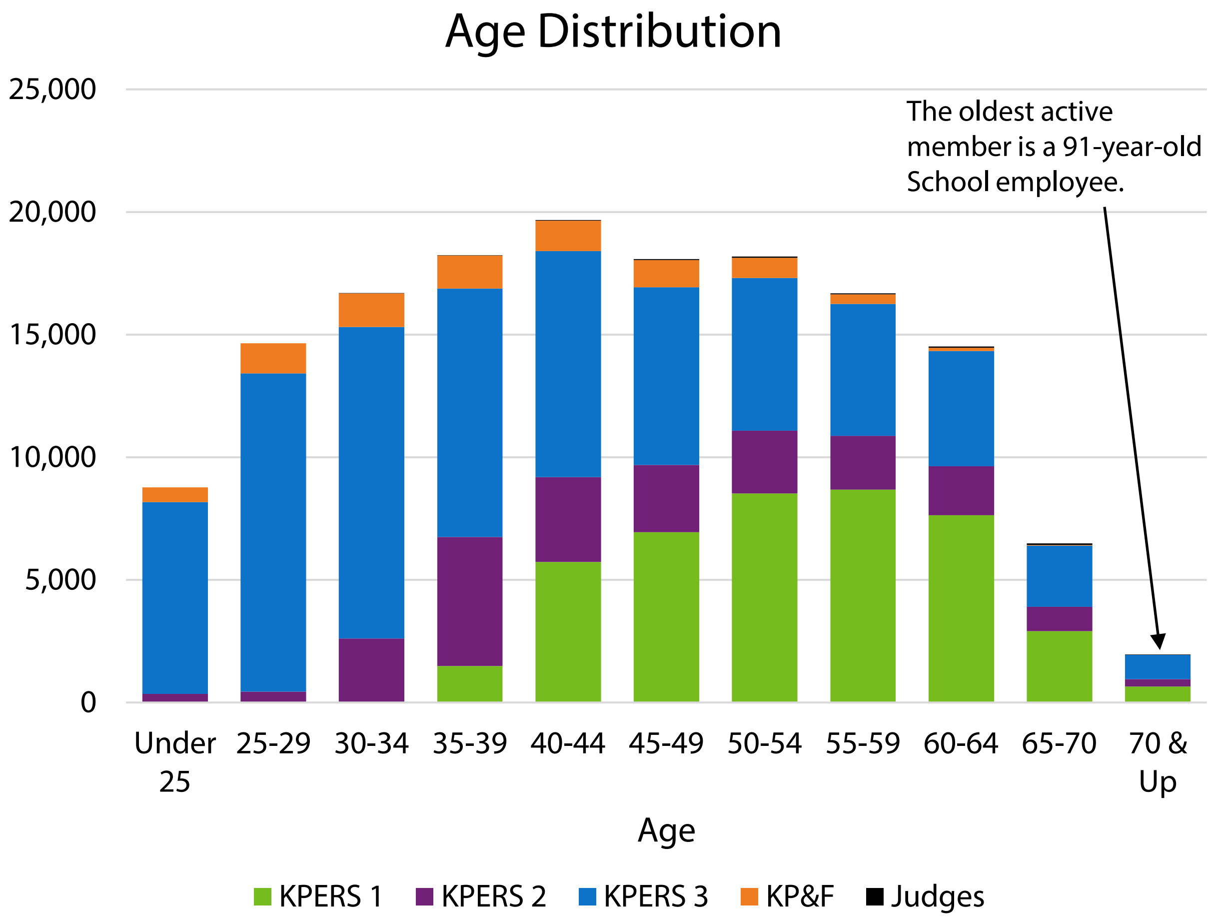
- 42,700 active KPERS 1 members
- 22,800 active KPERS 2 members
- 79,900 active KPERS 3 members

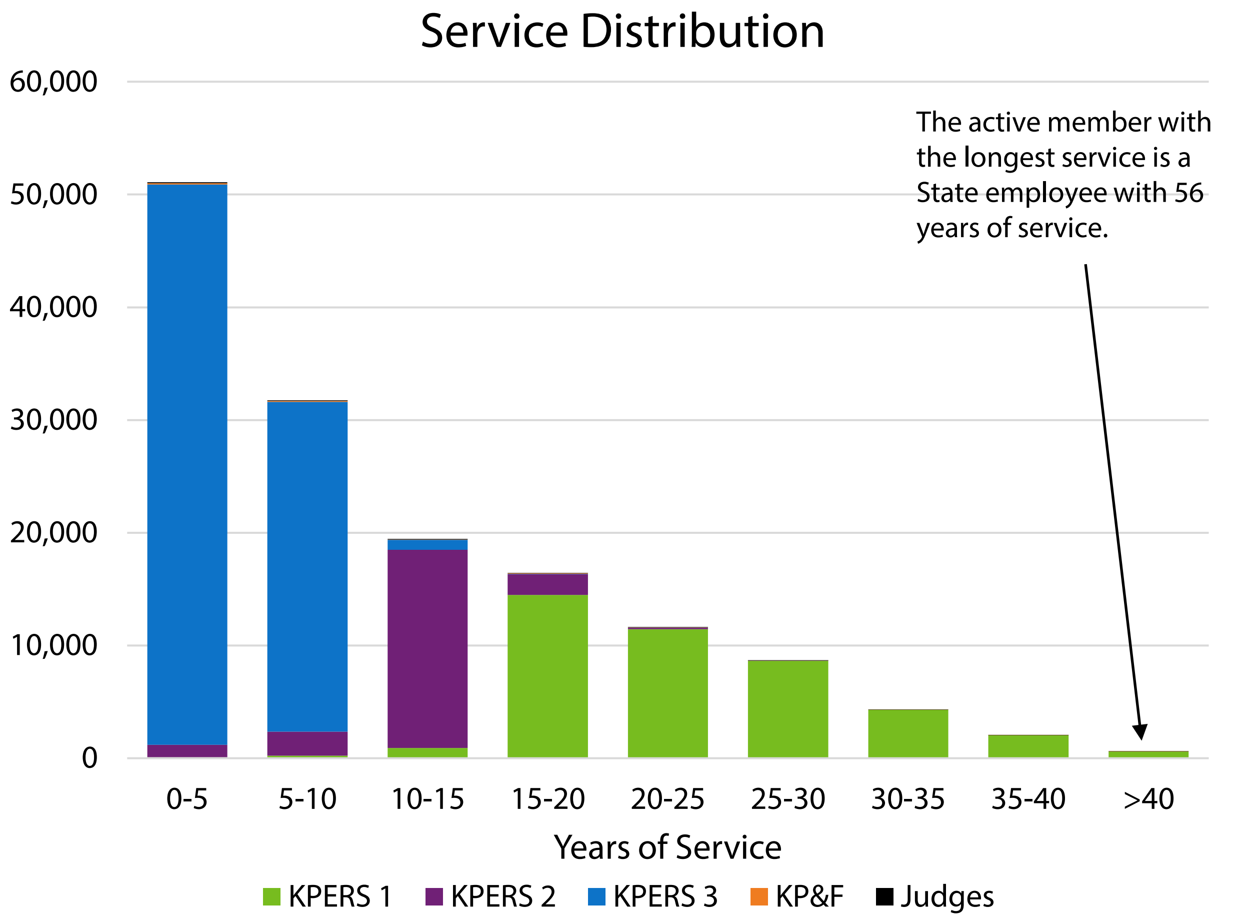
The average KPERS members has 10.4 years of service and a salary of about $51,000.

The average KP&F member has 10.4 years of service and a salary of about $80,000.

The average Judges member has 9.3 years of service and a salary of about $127,000.

Active Membership on 12/31/2023





KPERS 1 – Members before 7/1/2009
KPERS 2 – Members between 7/1/2009 and 12/31/2014
KPERS 3 – Members since 1/1/2015

Total Active Members: 153,948

Retired Membership on 12/31/2023

KPERS has more than 116,000 retirees and beneficiaries.

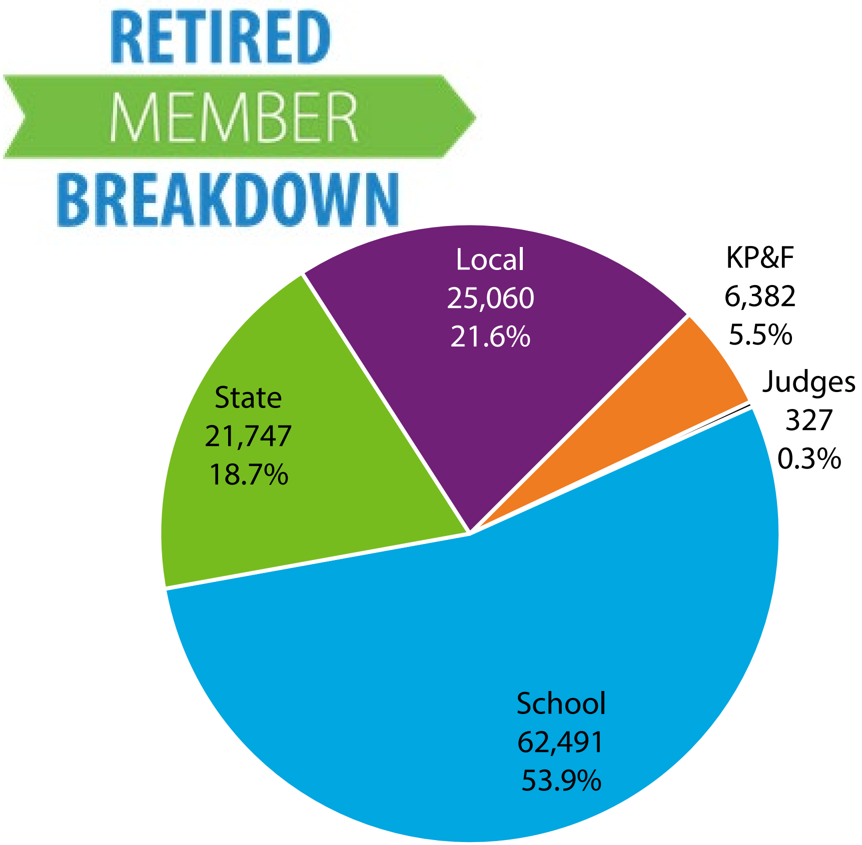
- Retirees range in age from 50 to 109.
- Beneficiaries range in age from 15 to 107.

The average KPERS retiree benefit is about $16,805 per year ($1,400 per month).

The average KP&F retiree benefit is about $42,670 per year ($3,556 per month).

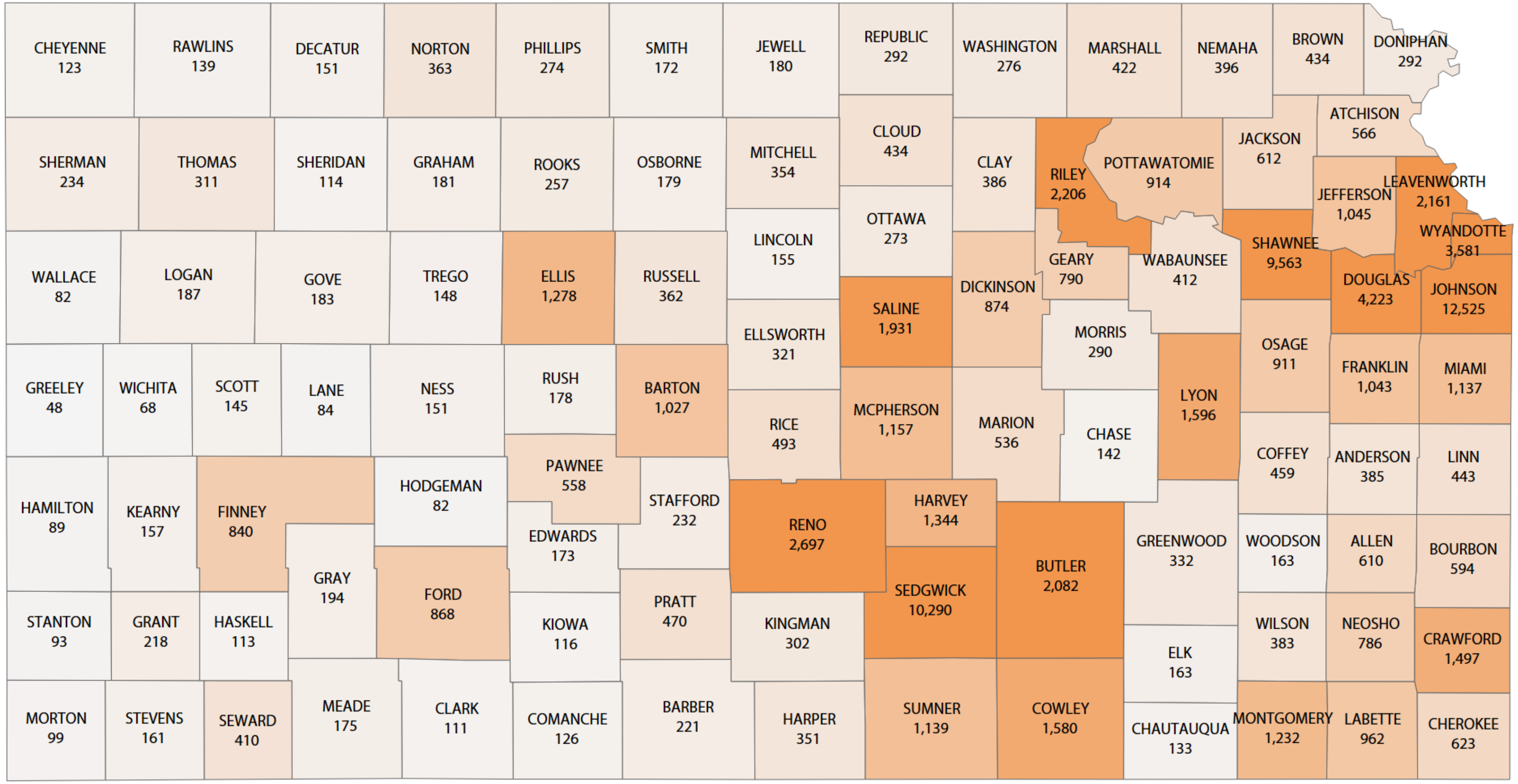
The average Judges retiree benefit is about $47,689 per year ($3,974 per month).

About 88% of retirement benefits are paid to a Kansas address.



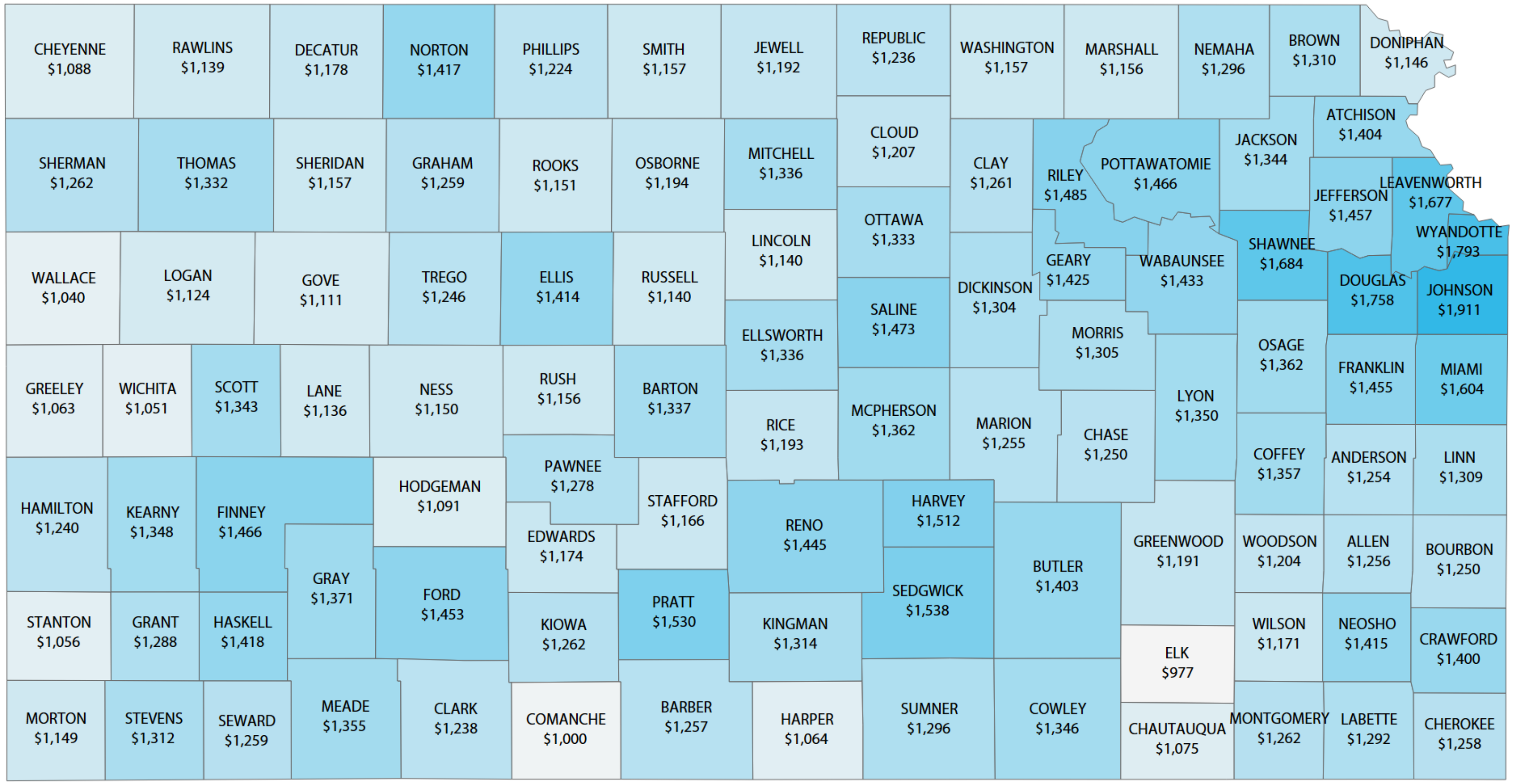
Total Retirees and Beneficiaries – 116,007

Number of Retirees in Kansas



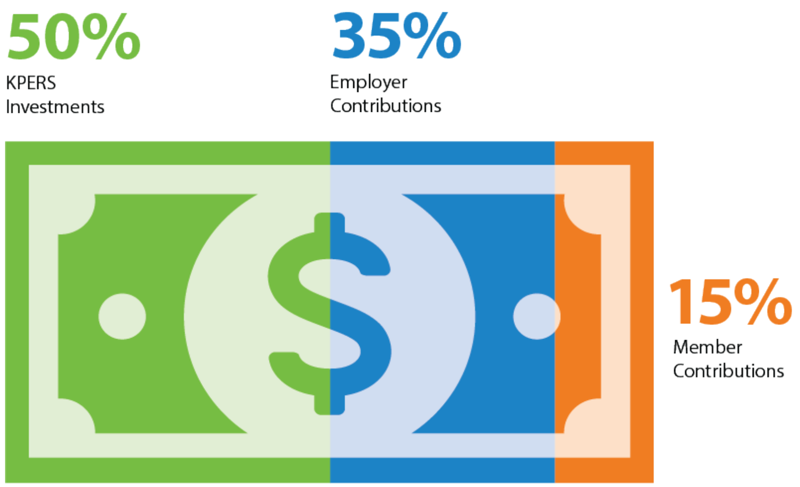
Note: Includes 93,418 retirees (KPERS, KP&F and Judges) who received a monthly benefit payment in CY 2023. Beneficiaries are not included.

Average Monthly Benefits of Retirees in Kansas



Note: Includes 93,418 retirees (KPERS, KP&F and Judges) who received a monthly benefit payment in CY 2023. Beneficiaries are not included.

Most revenue to the KPERS Trust Fund comes from investment returns.



Percent of total revenue over 20 years, as of 6/30/2023

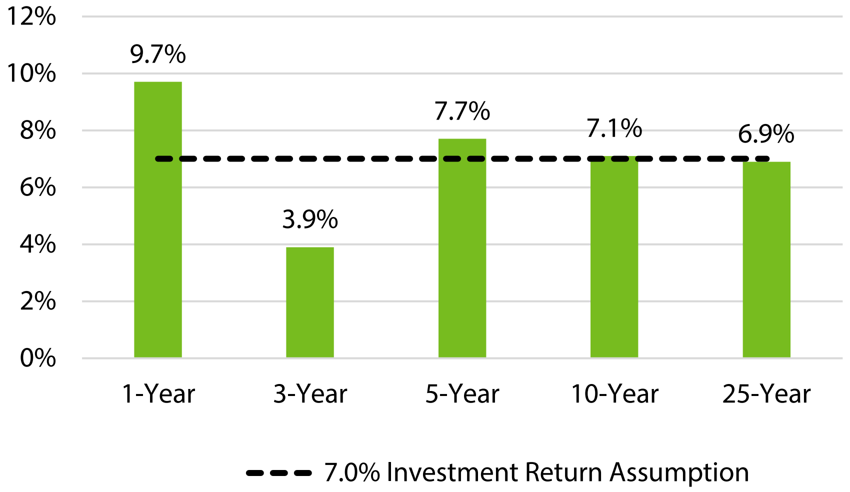
KPERS annual actuarial valuation is measured on a calendar year basis.

- The CY 2023 total return was 10.6%.

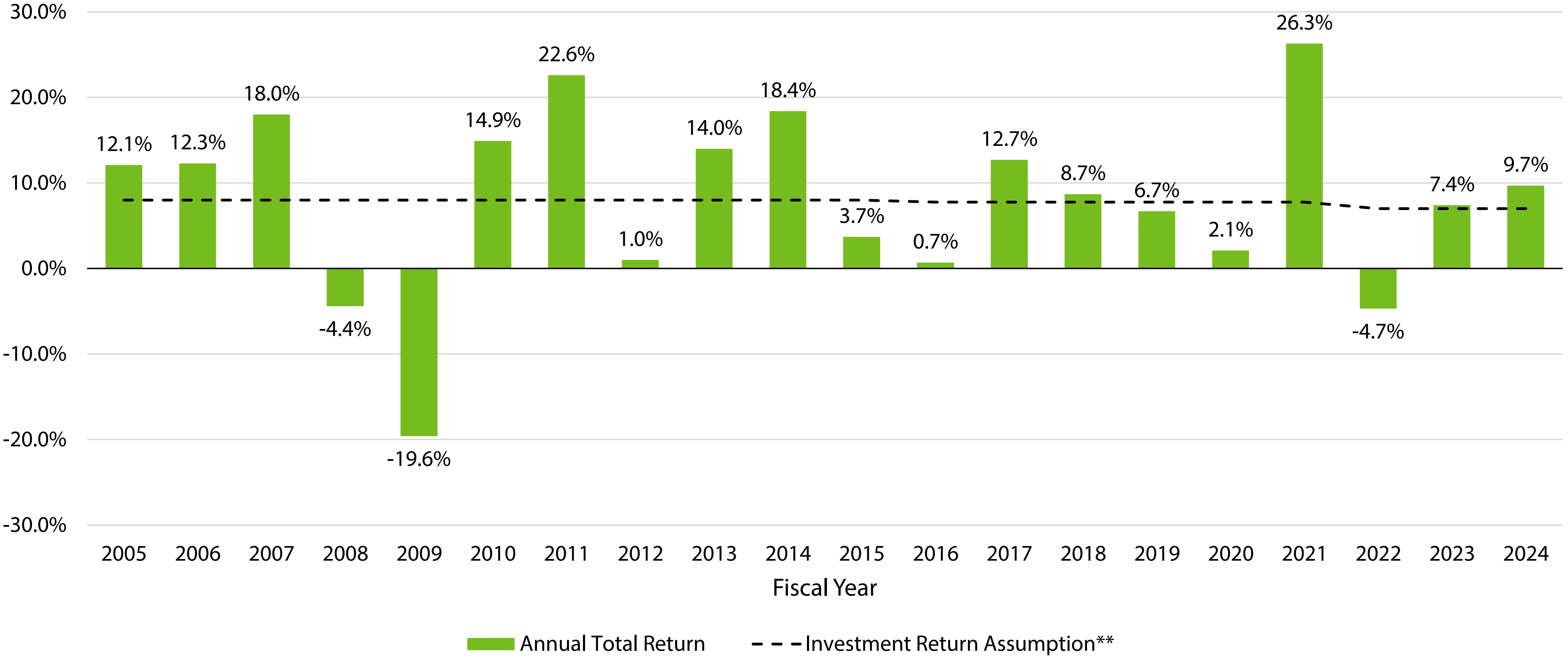
KPERS annual comprehensive financial report (ACFR) is reported on the fiscal year ending June 30.

- The FY 2024 total return was 9.7%.

Annualized Total Return through 6/30/2024



Historical Fiscal-Year Returns*



* Time weighted total return, gross of fees

** The investment return assumption was changed to 7.75% and to 7.0% in 2021.

Development of the Unfunded Actuarial Liability

Actuarial Liabilities – Actuarial Assets = Unfunded Actuarial Liability (UAL)

Actuarial liability:

- Project future benefits using actuarial assumptions
- Calculate present value of future benefits (their cost in today's dollars)
- Apply cost method to allocate benefit costs to periods of service

Actuarial value of assets

- Average or "smoothed" value
- Not market value

Development of the Unfunded Actuarial Liability

Actuarial Liabilities – Actuarial Assets = Unfunded Actuarial Liability (UAL)

Total Actuarial Liability on 12/31/2023	$37.27 billion
Total Actuarial Assets on 12/31/2023	$27.58 billion
Total Unfunded Actuarial Liability on 12/31/2023	**$9.69 billion**

Market Value of Assets vs. Actuarial Value of Assets

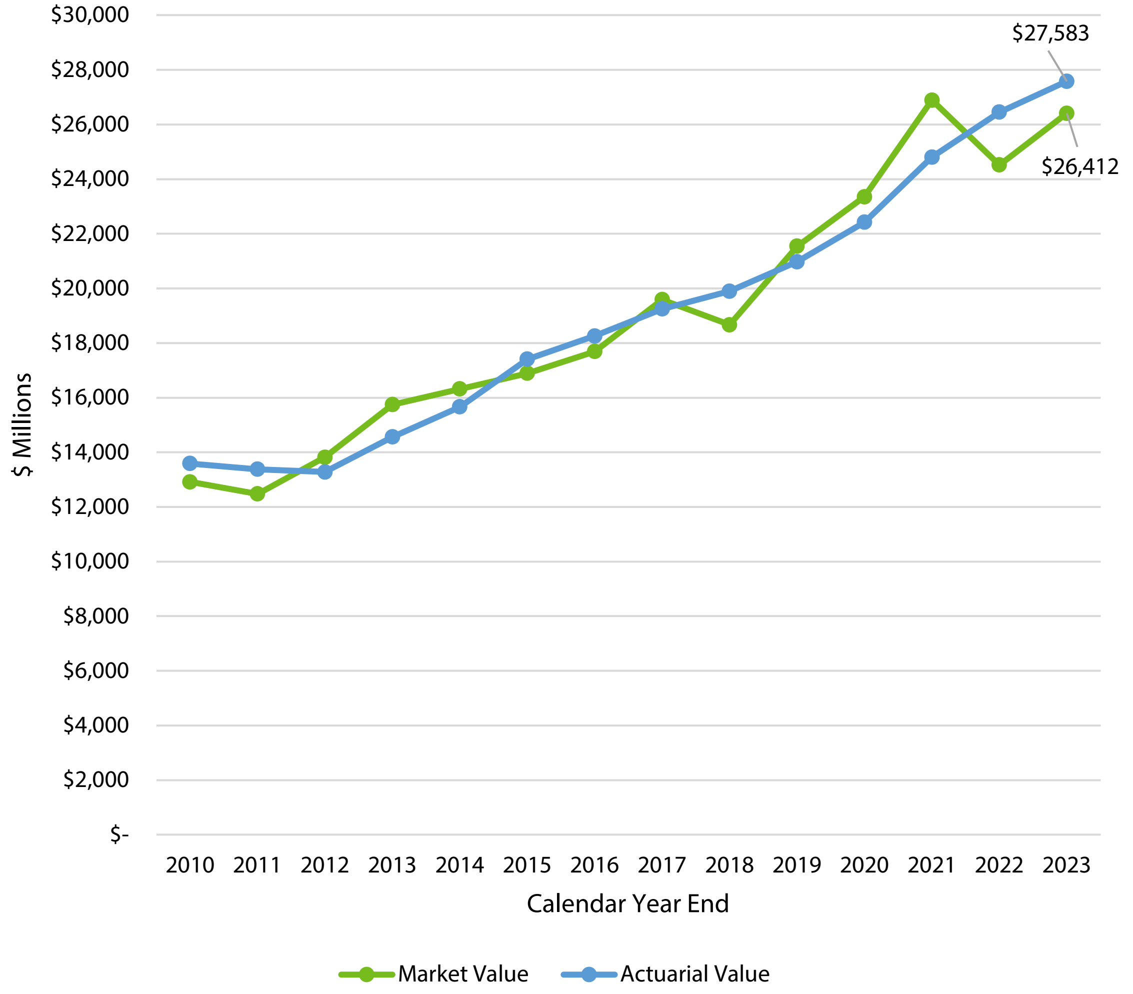
Market value of assets is not used directly in valuation

Asset valuation method is used to smooth the effect of market fluctuations

- Smoothed value is called actuarial value of assets
- Goal is to provide more stability in employer contribution rates

Actuarial value recognizes the difference in actual investment return compared to expected return (7.0%) evenly over 5 years.

There are $1.2 billion in deferred investment losses to be recognized over the next 4 years.



Market Value of Assets vs. Actuarial Value of Assets

Investment return on market value basis in CY 2023 (net) was 10.6%.

Due to asset smoothing method, return on actuarial assets was 6.9%.

Deferred investment experience yet to be recognized due to asset smoothing.

- Deferred loss will flow through smoothing method over the next four years (20% per year).
- Expected to decrease the unfunded actuarial liability and improved the funded ratio in future years absent negative experience.

Deferred Investment Income	
CY 2023 (20% recognized/80% remaining)	$688.6 million
CY 2022 (40% recognized/60% remaining)	$(2,704.5) million
CY 2021 (60% recognized/40% remaining)	$715.6 million
CY 2020 (80% recognized/20% remaining)	$129.7 million
Total Deferred Investment Experience	$(1,170.5) million

Actuarial value of assets on 12/31/2023 totaled $27.6 billion.

Funded Status on 12/31/2023

As a system, KPERS' funded ratio increased while the unfunded actuarial liability increase marginally in the 12/31/2023 valuation.

	12/31/2022	12/31/2023
Funded Ratio	73.4%	74.0%
Unfunded Actuarial Liability	$9.57 billion	$9.69 billion

KPERS had a 10.6% investment return in CY 2023, but deferred investment losses from CY 2022 will continue to be a headwind for the next three years.

The State/School group is at 75.2% funded as of 12/31/2023.

All employer groups remain at the full actuarial required contribution (ARC) rate in the 12/31/2023 valuation (FY 2027 for State, CY 2026 for Locals).

- The State/School employer contribution rate for FY 2025 is 11.54%, FY 2026 is 11.68% and FY 2027 is 11.32%.

12/31/2023 Unfunded Actuarial Liability (UAL) by group:

	Actuarial Liability (in millions)	Actuarial Assets (in millions)	Unfunded Actuarial Liability (in millions)	Funded Ratio
State	$ 5,412	$ 4,110	$ 1,302	75.9%
School	19,543	14,645	4,899	74.9%
State/School*	24,956	18,755	6,200	75.2%
Local	7,393	5,303	2,090	71.7%
KP&F	4,689	3,307	1,382	70.5%
Judges	231	218	13	94.2%
Total*	$ 37,269	$ 27,583	$ 9,686	74.0%

*Amounts may not add due to rounding.

Valuation Results

Factors affecting the Unfunded Actuarial Liability (UAL)

System Unfunded Actuarial Liability: 12/31/2022	**$ 9,567M**
Statutory contribution cap/time lag*	0M
Amortization method (paying more principal)	(212)M
Experience	
– Investment	37.7M
– Demographics (e.g., number of retirements, wage growth, number of retiree deaths)	485M
Assumption Changes (Experience Study)	(192)M
System Unfunded Actuarial Liability: 12/31/ 2023	**$9,686M**

All employer groups paid the full actuarial contribution in CY 2023 and are projected to stay at the actuarial required amount. The statutory contribution cap is no longer adding to the unfunded actuarial liability.

This increase in the unfunded actuarial liability is driven by higher than expected salaries, a trend seen across many public pension plans.

The Board of Trustees completed the statutory review of actuarial assumptions and adopted several adjustments to better align actuarial assumptions with actual experience. The biggest change was adopting a new set of mortality assumptions for all groups.

Note: Amounts may not add due to rounding

*Time lag is the period from the valuation date (12/31/2023) to the date the new contribution rate takes effect – (e.g., 7/1/2026 (FY 2027) for State and School Groups, 1/1/2026 for Local Group) as provided by law.

Employer Contributions

Rates effective for years beginning in 2026 (FY 2027 for State/School; CY 2026 for Local).

State/School combined statutory rate in FY 2027 is equal to the actuarial required contribution rate 11.32%, for the seventh consecutive valuation.

- The State/School statutory employer contribution rate reached the actuarial required contribution rate for the first time in the 12/31/2017 valuation (FY 2021), the first time the rates were the same in 24 years.
- The Local group reached the actuarial required contribution rate in CY 2015.

Employer contribution rates for State only and Local continue to be at the full actuarial rate.

- State actuarial rate went from 11.33% for FY 2026 to 10.98% for FY 2027.
- Local actuarial rate went from 9.71% for CY 2025 to 9.59% for CY 2026.

Employer Contributions

	December 31, 2023		
	Actuarial	Statutory	Shortfall
State	10.98%	11.32%	(0.34%)*
School	11.41%	11.32%	0.09%
State/School	11.32%	11.32%	0.00%
Local	9.59%	9.59%	0.00%
KP&F	24.00%	24.00%	0.00%
Judges	21.29%	21.29%	0.00%

*As provided in statute, the contribution above the State Actuarial Required Contribution (ARC) rate is applied to fund the School Group.

The State/School statutory employer contribution rate continues to be at the full actuarial required contribution rate for FY 27 which is the seventh consecutive year the statutory and actuarial rates have been equal.

The School only actuarial rate totals 11.41%, higher than the statutory State/School rate of 11.32% for FY 2027.

Funding Projections

Not precise predictions but general estimates

Projections based on many assumptions

- 7.0% return on market value in 2024 and all future years
- All actuarial assumptions met
- Current plan provisions
- Contributions are paid per current statutes
- New entrants in future years are similar to recent history

State/School Funding Projections

December 31, 2023 Valuation

- State/School Funded Ratio: 75.2% (Total System is 74.0%)
- Actuarial required rate: 11.32%
- Statutory rate: 11.32%

Actuarial Required Contribution (ARC) Date/Rate (actuarial and statutory contribution rates are equal) occurred in 12/31/2017 valuation at 14.23% for FY 2021.

Continues to be at full actuarial contribution rate in 12/31/2023 valuation.

Actuarial contribution rate declined slightly to 11.32% in FY 2027 (11.68% in FY 2026).

Funding Projections

<u>If</u> all assumptions were met in future years:

- The State/School group employer contribution rate is projected to initially increase due to deferred investment losses and then stabilize at about 12.5%
- The State/School group unfunded actuarial liability would increase until 2028 while recognizing deferred investment losses and then decline for the remainder of the amortization period.
- The legacy unfunded actuarial liability for the State/School group funded will be paid off in 2039 valuation.

We know that not all assumptions will be met exactly each year, but the goal is that the assumptions are accurate over time.

KPERS Funding

Investment returns in CY 2023 were above the 7.0% investment return assumption, but the CY 2022 investment losses will put upward pressure on future employer contribution rates.

The funded ratio increased from 73.4% to 74.0%. However, deferred investment losses are expected to keep the funded ratio relatively level for several years if all assumptions are met.

Continued full funding of the employer contribution rate is one of the keys to keeping KPERS on a path to full, sustainable funding.

KPERS benefits are not in jeopardy, with over $28 billion in assets today and a well diversified investment portfolio, KPERS will pay all promised benefits.

Questions?