Joint Committee on Pensions, Investments, and Benefits

KPERS 3 Cash Balance Plan

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KPERS

Covering Today

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After the 2008 recession KPERS funding ratio declined for several years, raising concerns in the Legislature over the sustainability of the existing plan design.

After initially passing plan design changes during the 2011 legislative session, a study commission was formed to explore plan design changes during the 2011 interim.

The 2011 study commission made recommendations to the 2012 Legislature on ways to improve the long-term sustainability of the System.

KPERS 3 Cash Balance Plan History

The 2012 Legislature spent most of the 2012 session discussing the recommendations of the study commission.

Ultimately, three major changes were enacted in 2012:

1. **Higher employer contributions**. The annual cap on employer contributions increases was raised from 0.9% to 1.2% over a 4-year period.

2. **Higher employee contributions**. KPERS 1 member contributions were raised from 4% to 6% over a 2-year period.

3. **Creation of a cash balance plan** for new members starting January 1, 2015.

KPERS 3 Cash Balance Plan Design

A cash balance plan design is a defined benefit plan (like KPERS 1 and KPERS 2), but it has characteristics of a defined contribution plan (like a 401(k) or 403(b)).

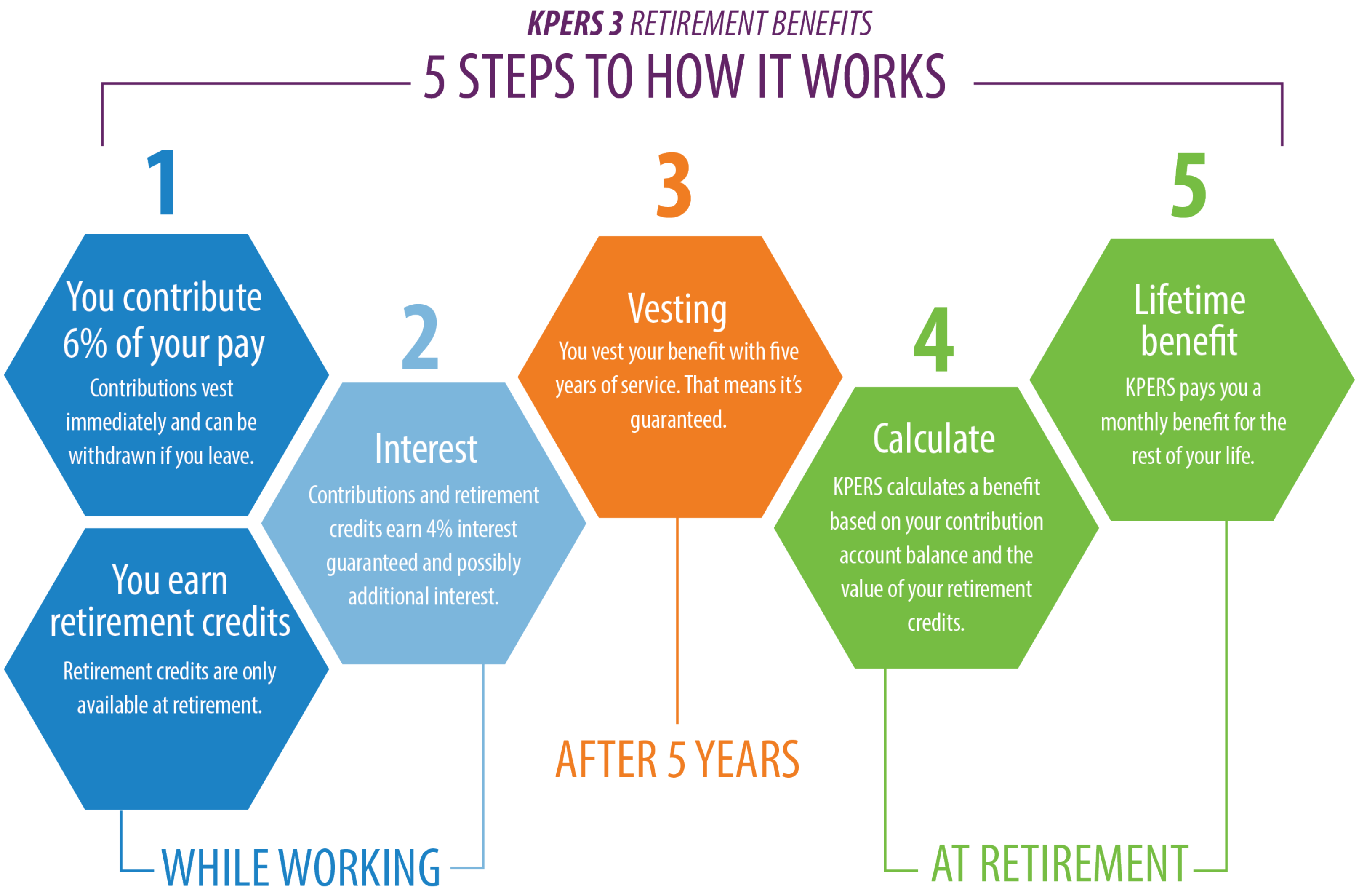
Defined Contribution features

- Members have an account balance for employee contributions and employer credits.
  - Accounts are "notional" or hypothetical, all assets remain in the Trust Fund.
- The notional accounts earn interest during the working career.
- Risks are be shared between employer and employee

Defined Benefit features

- Retirement benefits are paid for life.
- Notional accounts are guaranteed a minimum interest crediting rate (4%).
- Assets are pooled and professionally managed.
- Employer contributions are determined by the annual actuarial valuation.

KPERS 3 Cash Balance Plan



KPERS 3 Employee Contributions

Employees contribute 6% of pay, pre-tax and the contributions vest immediately, i.e., members are always eligible to receive the contributions they have paid.

Employee contributions are guaranteed to receive 4% interest annually

- Interest is credited quarterly.

Additional dividend credits can be credited based on a statutory formula.

- The dividend credit is equal to 75% of the 5-year average return above 6%.
- For example, if the 5-year average return is 8%, the dividend credit would be (8% – 6%) * 0.75 = 1.5%.

KPERS 3 Employer Contributions

Employers continue to contribute the rate set by the actuary to fund the System.

- 12.57% for State/School employers in FY 2024.
- 9.26% for Local employers in CY 2024.

Employer contributions are the same for all membership groups (KPERS 1, 2 or 3).

Employer contributions to KPERS are not related to the employer credits in the notional member accounts.

KPERS 3 Employer Credits

Employer credits are earned quarterly.

The crediting percent depends on years of service.

Interest is also paid quarterly.

Employer credits are only available to members at retirement, they cannot be withdrawn.

Years of Service	Annual Rate
1-4	3%
5-11	4%
12-23	5%
24+	6%

KPERS 3 Guaranteed Interest Credits

KPERS 3 members earn a guaranteed 4% on their notional employee contribution and employer credit accounts.

The guaranteed interest credit is 4% annually but is applied to member accounts each quarter.

Because the 4% is compounded quarterly, the actuarially calculated quarterly interest rate applied to each eligible account is 0.985341% per quarter.

KPERS 3 Dividend Interest Credits

KPERS 3 members may have additional interest applied to both their member and employer contribution accounts based on a statutory formula.

The dividend interest credit formula is based on the actual investment performance of the KPERS Trust Fund.

Dividend credits are calculated on a calendar year basis and applied on March 31, or as soon thereafter as practicable, to the account balance that existed on December 31 the prior year.

- The dividend for CY 2021 applied to the account balance on 12/31/2021, but is credited in the spring of 2022.

KPERS 3 Dividend Experience

The KPERS 3 dividend design (K.S.A. 74-49,306) is 75% of the five-year average net compound rate of return above 6%.

Over the first eight years of the KPERS 3 cash balance plan, the formulaic interest dividend credit has applied four times.

KPERS 3 Dividend Credit Calculations		
Calendar Year	Average Net Compound Rate of Return*	Dividend Credit
2015	0.2%	No Dividend
2016	4.3%	No Dividend
2017	7.4%	1.1%
2018	4.7%	No Dividend
2019	7.1%	0.825%
2020	9.3%	2.475%
2021	10.7%	3.525%
2022	5.7%	No Dividend

*The compound rate of return in the first four years was based on the number of years since the plan took effect (the first year was based on the one-year average, the second year was based on the two-year average, etc.). Starting in 2019 and going forward the formula uses a five-year rolling average.

KPERS 3 Retirement

KPERS 3 members vest after five years of service, the same as KPERS 1 and KPERS 2.

Full and reduced retirement age is the same as KPERS 2:

		5 years	10 years	30 years
FULL	Age 60			✓
	Age 65	✓		
REDUCED	Age 55		✓	

Benefit Options

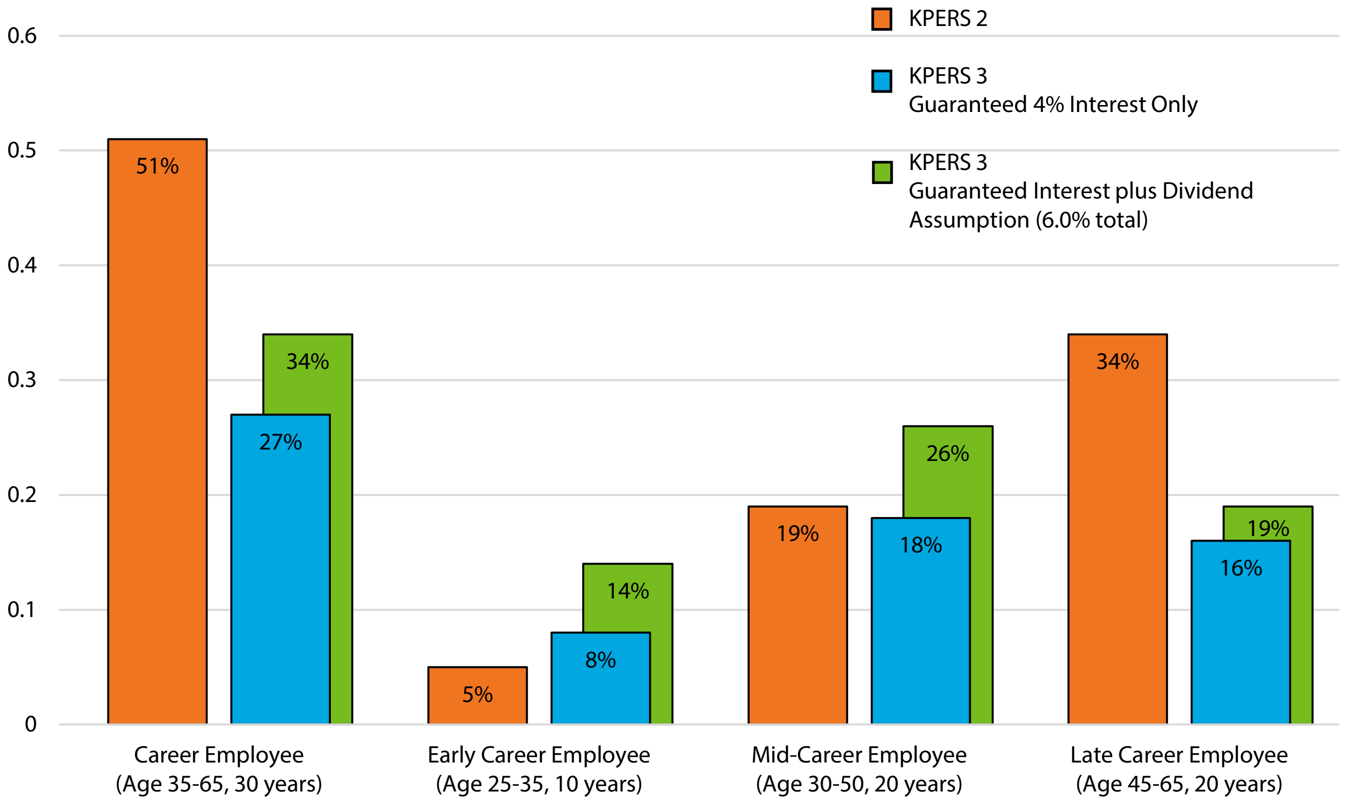
10-year life-certain	base benefit
Other life-certain options	5 year or 15-year
Joint-survivor options	50%, 75% or 100%
COLA options (self funded)	1% or 2%
Partial lump-sum options	up to 30%

KPERS 3 Replacement Ratios

A replacement ratio is a measure of a person's pre-retirement income that will be replaced by retirement benefits.

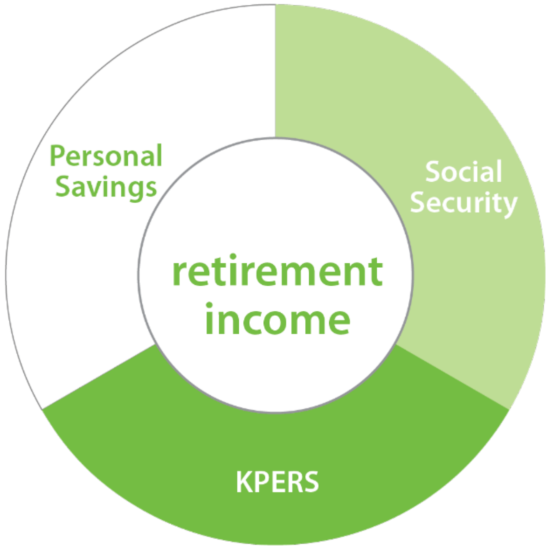
Most studies suggest a target of 70% to 80% of pre-retirement income is necessary to maintain a person's lifestyle in retirement.

KPERS benefits are only one part of a person's total replacement ratio, along with Social Security (for most KPERS members) and personal savings.



All scenarios assume that the member retires at age 65 and reflects the current set of actuarial assumption, including the 7.0% investment return assumption.

Saving for Retirement



Experts suggest replacing **at least 80% of income** in retirement. KPERS & Social Security won't be enough. Employees need to save on their own.

Questions?