

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

	Actual FY 2020	Agency Est. FY 2021	Gov. Rec. FY 2021	Agency Req. FY 2022	Gov. Rec. FY 2022
Operating Expenditures:					
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other Funds	48,525,570	52,487,529	52,687,529	60,555,156	60,555,156
<i>Subtotal</i>	<u>\$ 48,525,570</u>	<u>\$ 52,487,529</u>	<u>\$ 52,687,529</u>	<u>\$ 60,555,156</u>	<u>\$ 60,555,156</u>
Capital Improvements:					
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other Funds	0	0	0	0	0
<i>Subtotal</i>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
TOTAL	<u>\$ 48,525,570</u>	<u>\$ 52,487,529</u>	<u>\$ 52,687,529</u>	<u>\$ 60,555,156</u>	<u>\$ 60,555,156</u>

Percentage Change:

Operating Expenditures					
State General Fund	-- %	-- %	-- %	-- %	-- %
All Funds	(3.1)	8.2	8.6	15.4	14.9
FTE Positions	98.4	98.4	98.4	98.4	98.4

For purposes of this analysis, full-time equivalent (FTE) positions include non-FTE permanent unclassified positions but continue to exclude temporary employees. FTE positions reflect permanent state positions equating to a 40-hour work week.

AGENCY OVERVIEW

Pursuant to KSA 74-4901, the Kansas Public Employees Retirement System (KPERS) is to "provide an orderly means whereby employees of the participating employers who have attained retirement age as herein set forth may be retired from active service without prejudice and without inflicting a hardship upon the employees retired and to enable such employees to accumulate reserves for themselves and their dependents to provide for old age, death and termination of employment, and for the purpose of effecting economy and efficiency in the administration of governmental affairs."

Accordingly, KPERS administers three statewide coverage groups:

- KPERS–State, KPERS–School, and KPERS–Local (for regular state and local public employees, school district, technical college, and community college employees, Regents classified employees and certain Regents unclassified staff with pre-1962 service, and state correctional officers);
- The Kansas Police and Firemen’s Retirement System (for certain designated state and local public safety employees); and

- The Kansas Retirement System for Judges (for the State's judicial system judges and justices).

All coverage groups are defined benefit, contributory retirement plans and have most public employees in Kansas as members. KPERS also administers other employee benefit programs, including the State Deferred Compensation program; a public employee death and long-term disability benefits plan; an optional term life insurance program; a Kansas City, Kansas, annuitant program; and a legislative session-only employees retirement program.

KPERS also performs non-KPERS duties in managing investments of non-KPERS moneys that include two funds: the Kansas Endowment for Youth Fund and the Treasurer's Unclaimed Property Fund. A nine-member Board of Trustees is the governing body for KPERS. Four members are appointed by the Governor and confirmed by the Senate, one member is appointed by the President of the Senate, one member is appointed by the Speaker of the House of Representatives, two members are elected by KPERS members, and one member is the State Treasurer. The Board appoints the Executive Director, who administers the agency operations for the Board.

State Deferred Compensation Program. The 2007 Legislature transferred administration of the program from the Department of Administration to KPERS. The KPERS Board of Trustees is assigned responsibility to administer the plan. The Director of Accounts and Reports retains responsibility for payroll deferrals and deductions for state employees who participate in the plan. The Administrative Oversight Committee on Deferred Compensation was abolished and the KPERS Board of Trustees assumed the responsibilities of monitoring the plan. Local units of government also are authorized for their employees to participate in the program. Only the administrative cost portion of this program is included in the agency's budget request since it operates as an employee savings plan, with a small portion of those revenues used to finance operating expenditures of the plan for personnel and service provider contracts.

Death and Disability Benefits. Since 1966, the Death and Long-Term Disability Benefits program has provided death and disability benefits for active KPERS members and unclassified employees of the Board of Regents and its institutions. Employers currently contribute a statutory rate of 1.0 percent of covered payroll to pay for basic group life insurance and long-term disability protection. Employees do not pay for the basic benefits, but may choose to purchase optional term life insurance on an individual basis. The 2005 Legislature adopted a number of changes in the program in order to make it self-sustaining on a pay-as-you-go basis, including an increase in the employer contribution rate from 0.6 percent to 1.0 percent, effective in fiscal year (FY) 2007.

Retirement Contributions. During recent years, the Legislature has taken action to increase state and local employer contributions to provide enhanced resources for the long-term financing of KPERS. In 2004, the Legislature authorized issuance of \$500.0 million in pension obligation bonds to be repaid from the State General Fund (SGF) in order to augment state employer contributions. In 2015, the Legislature authorized issuance of \$1.0 billion in pension obligation bonds. The pension obligation bonds are reflected in the Department of Administration's budget rather than in the KPERS budget.

MAJOR ISSUES FROM PRIOR YEARS

The **2011 Legislature** passed Senate Sub. for HB 2194, which created the KPERS Study Commission that was charged with reviewing changes to KPERS. The Commission submitted a report to the 2012 Legislature with proposed changes and recommendations.

The **2012 Legislature** added \$2,750,000, all from the KPERS Trust Fund, and 11.0 FTE positions to implement HB 2333, which created a new defined benefit retirement plan, or cash balance plan, for state employees who began in 2015. The bill added a new Tier 3 for new hires on or after January 1, 2015. New employees pay an employee contribution rate of 6.0 percent and the employer contribution would be set at 3.0 percent to 6.0 percent based upon years of service. Interest credits would be set at an annual 5.25 percent guaranteed interest on employee and employer account balances. Possible additional interest credits of up to 4.0 percent may be granted by the KPERS Board based on KPERS' actual investment returns and funding. The bill also increased some current employee contributions from 4.0 percent to 5.0 percent in 2014 and then to 6.0 percent in 2015. If allowed by the Internal Revenue Service (IRS), current employees could maintain a 4.0 percent contribution rate with a lower benefit in the future.

The **2015 Legislature** passed SB 228, which allowed the Kansas Development Finance Authority (KDFA) to issue bonds, in one or more series, of \$1.0 billion plus all amounts required to pay the costs of issuance. The proceeds from the bonds were applied to the unfunded actuarial pension liability as directed by KPERS. Debt service is payable from appropriations. Additionally, the employer contribution rate for the State-School group was decreased from 12.37 percent to 10.91 percent in FY 2016 and from 13.57 percent to 10.81 percent in FY 2017.

The **2016 Legislature** passed House Sub. for SB 168, which revised statutes of KPERS pertaining to working after retirement. The bill also made technical and clarifying amendments to statutes pertaining to death and disability contributions, Tier 3 members, the tax status of 457 Roth accounts, optional 401(a) plans for local public employers, retirement income planning, and the Deferred Retirement Option Program (DROP).

The **2016 Legislature** deleted a total of \$97.4 million in employer contributions from KPERS in FY 2016. Of this amount, \$92.9 million was from the KPERS-School group and \$4.5 million was from the KPERS-State group.

The **2017 Legislature** passed HB 2052, which included a \$64.1 million decrease to KPERS-School employer SGF contributions in FY 2017. The Legislature required the repayment of the decrease to be "layered" or amortized as a level dollar amount over 20 years, with the first payment starting for FY 2018. The "layering" payments are estimated to be \$6.4 million annually. These payments are to be paid in addition to the KPERS-State/School contribution rate. The layering payment was appropriated as an SGF line item in the Department of Education budget.

The **2017 Legislature** passed HB 2002, which included a \$194.0 million decrease to KPERS-School employer contributions, for FY 2019. This amount was all from the SGF. The Legislature required repayment of the decrease to be "layered" or amortized as a level dollar amount over 20 years, with the first payment starting in FY 2020. The layering payments are estimated to be \$19.4 million annually and will be paid in addition to the KPERS-State/School contribution.

The **2018 Legislature** authorized a transfer of \$82.0 million from the SGF to the KPERS Trust Fund for FY 2019. The Legislature authorized additional transfers for both FY 2018 and

FY 2019 from the SGF to the KPERS Trust Fund. The amount to be transferred is the amount actual SGF receipts exceed projected receipts, up to \$56.0 million per year. This \$56.0 million in FY 2019 was revised by the FY 2019 Legislature to a direct payment of \$51.0 million in FY 2020.

The **2019 Legislature** passed SB 9, which authorized a transfer of \$115.0 million from the SGF to the KPERS Trust Fund for repayment of KPERS-State/School group employer contributions from participating employers in prior fiscal years.

BUDGET SUMMARY AND KEY POINTS

FY 2021 – Current Year. The **agency** requests a revised estimate of \$52.5 million, all from special revenue funds, in FY 2021. The revised estimate is an all funds increase of \$64,224, or 0.1 percent, above the amount approved by the 2020 Legislature. The increase is primarily due to revised investment-related management expenses (\$71,193), partially offset by reduced administration expenses from the Group Insurance Reserve Fund (\$6,968). The revised estimate includes expenditures to begin the modernization process for the KPERS Information Technology System (KITS), totaling \$1.5 million in FY 2021. Of that amount, the agency includes expenditures for laying the technical and infrastructure groundwork for the modernization process (\$1.0 million), temporary staffing to assist with the process (\$302,500), information technology support (\$77,240), data management and governance (\$70,000), and preliminary work on integrating and automating parts of the Pension Administration System (\$39,512). The revised estimate also includes higher expenditures for employee pay (\$344,813), offset by lower budgeted expenditures for computer system maintenance (\$410,000) and staff travel (\$124,500). These expenditures are funded by existing resources in FY 2021 and do not change the overall amount approved by the 2020 Legislature. The request also includes 98.4 FTE positions, which is the same as the FY 2021 approved number.

The **Governor** recommends expenditures of \$52.7 million, all from special revenue funds, in FY 2021. The recommendation is an all funds increase of \$200,000, or 0.4 percent, above the FY 2021 revised estimate. The increase is due to distributions from the Coronavirus Relief Fund made after submission of the agency revised estimate (\$200,000). The agency estimates using these funds for COVID-19 relief expenditures, including emergency protective measures and conference room equipment for streaming Board of Trustees meetings. The recommendation also includes 98.4 FTE positions, which is the same as the FY 2021 revised estimate.

FY 2022 – Budget Year. The **agency** requests \$60.6 million, all from special revenue funds, for FY 2022. The request is an all funds increase of \$8.1 million, or 15.4 percent, above the FY 2021 revised estimate. The increase is primarily due to continued expenses for the modernization of the pension administration system (\$6.6 million). Expenditures for preliminary stages of the modernization process were approved by the 2020 Legislature and are included in the FY 2021 revised estimate. For FY 2022, the agency anticipates laying the technical and infrastructure groundwork for the modernization process, including processes related to benefit calculator automation, user interface updates, data profiling and cleansing, member web portal interface and functionality, and business process management. The increase is also attributable to additional expenditures for investment management fees, which are based on performance of those investments (\$1.6 million). The increase is partially offset by expenses for information processing equipment incurred in FY 2021 that are not present for FY 2022 (\$350,000). The request also includes 98.4 FTE positions, which is the same as the FY 2021 revised estimate.

The **Governor** concurs with the agency's request for FY 2022.

PERFORMANCE MEASURES

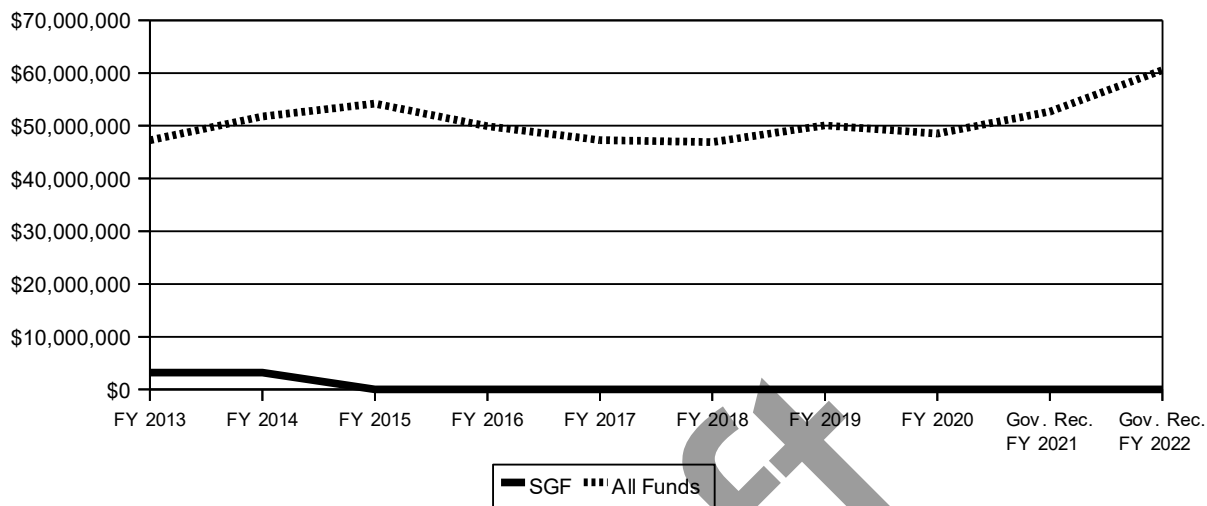
The 2016 Legislature passed HB 2739, which outlined a three-year process for state agencies to develop and implement a system of performance budgeting using outcome measures to evaluate program effectiveness. Measures to evaluate agency-wide performance are presented below. Additional measures to evaluate specific programs appear in the relevant program sections.

PERFORMANCE MEASURES						
Measure	Actual FY 2018	Actual FY 2019	Gov. Rec. FY 2020	Actual FY 2020	Gov. Rec. FY 2021	Gov. Rec. FY 2022
Annual Cost of Administrative Operations as a Percentage of Benefit Payments	0.702 %	0.703 %	0.740 %	0.767 %	0.818 %	1.104 %
Investment-Related Fees as a Percentage of Trust Fund Assets	0.172 %	0.158 %	0.152 %	0.159 %	0.150 %	0.153 %
KPERS Portfolio Rate of Return	8.70 %	6.70 %	7.75 %	2.10 %	7.75 %	7.75 %
<u>Agency Expenditures</u>						
All Funds (Dollars in Millions)	\$ 46.9	\$ 50.1	\$ 49.4	\$ 48.5	\$ 52.7	\$ 60.6
FTE Positions	98.4	98.4	98.4	98.4	98.4	98.4

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BUDGET TRENDS

OPERATING EXPENDITURES FY 2013 – FY 2022



OPERATING EXPENDITURES FY 2013 – FY 2022

Fiscal Year	SGF	% Change	All Funds	% Change	FTE
2013	\$ 3,208,979	(0.0)%	\$ 47,260,785	13.4 %	97.4
2014	3,206,401	(0.1)	51,768,215	9.5	98.4
2015	0	(100.0)	54,197,298	4.7	98.4
2016	0	--	49,910,068	(7.9)	98.4
2017	0	--	47,276,464	(5.3)	98.4
2018	0	--	46,908,669	(0.8)	98.4
2019	0	--	50,067,565	6.7	98.4
2020	0	--	48,525,570	(3.1)	98.4
2021 Gov. Rec.	0	--	52,687,529	8.6	98.4
2022 Gov. Rec.	0	--	60,555,156	14.9	98.4
Ten-Year Change Dollars/Percent	\$ (3,208,979)	(100.0)%	\$ 13,294,371	28.1 %	1.0

Summary of Operating Budget FY 2020 - FY 2022

	Actual FY 2020	Agency Estimate				Governor's Recommendation			
		Estimate FY 2021	Request FY 2022	Dollar Change from FY 21	Percent Change from FY 21	Rec. FY 2021	Rec. FY 2022	Dollar Change from FY 21	Percent Change from FY 21
By Program:									
Administration	\$ 14,224,794	\$ 15,919,877	\$ 22,578,549	\$ 6,658,672	41.8 %	\$ 16,119,877	\$ 22,578,549	\$ 6,458,672	40.1 %
KPERS Investments	33,580,465	35,711,503	37,088,739	1,377,236	3.9	35,711,503	37,088,739	1,377,236	3.9
Deferred Compensation	410,980	533,390	562,035	28,645	5.4	533,390	562,035	28,645	5.4
Death and Disability	309,331	322,759	325,833	3,074	1.0	322,759	325,833	3,074	1.0
TOTAL	\$ 48,525,570	\$ 52,487,529	\$ 60,555,156	\$ 8,067,627	15.4 %	\$ 52,687,529	\$ 60,555,156	\$ 7,867,627	14.9 %
By Major Object of Expenditure:									
Salaries and Wages	\$ 11,527,555	\$ 12,909,374	\$ 13,048,855	\$ 139,481	1.1 %	\$ 12,909,374	\$ 13,048,855	\$ 139,481	1.1 %
Contractual Services	36,098,377	38,603,205	46,881,351	8,278,146	21.4	38,803,205	46,881,351	8,078,146	20.8
Commodities	127,007	124,950	124,950	0	0.0	124,950	124,950	0	0.0
Capital Outlay	772,631	850,000	500,000	(350,000)	(41.2)	850,000	500,000	(350,000)	(41.2)
Debt Service	0	0	0	0	--	0	0	0	--
<i>Subtotal - Operations</i>	<i>\$ 48,525,570</i>	<i>\$ 52,487,529</i>	<i>\$ 60,555,156</i>	<i>\$ 8,067,627</i>	<i>15.4 %</i>	<i>\$ 52,687,529</i>	<i>\$ 60,555,156</i>	<i>\$ 7,867,627</i>	<i>14.9 %</i>
Aid to Local Units	0	0	0	0	--	0	0	0	--
Other Assistance	0	0	0	0	--	0	0	0	--
TOTAL	\$ 48,525,570	\$ 52,487,529	\$ 60,555,156	\$ 8,067,627	15.4 %	\$ 52,687,529	\$ 60,555,156	\$ 7,867,627	14.9 %
Financing:									
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	-- %	\$ 0	\$ 0	\$ 0	-- %
KPERS Deferred Compensation Fee Fund	410,980	533,390	562,035	28,645	5.4	533,390	562,035	28,645	5.4
KS Public Employees Retirement Fund	47,803,830	51,631,380	59,667,288	8,035,908	15.6	49,703,205	57,504,263	7,801,058	15.7
Group Insurance Reserve Fund	309,331	322,759	325,833	3,074	1.0	322,759	325,833	3,074	1.0
All Other Funds	1,429	0	0	0	--	2,128,175	2,163,025	34,850	1.6
TOTAL	\$ 48,525,570	\$ 52,487,529	\$ 60,555,156	\$ 8,067,627	15.4 %	\$ 52,687,529	\$ 60,555,156	\$ 7,867,627	14.9 %

BUDGET OVERVIEW

A. FY 2021 – Current Year

Adjustments to Approved State General Fund Budget

The agency’s revised estimate does not include any State General Fund expenditures.

CHANGE FROM APPROVED BUDGET					
	Legislative Approved FY 2021	Agency Estimate FY 2021	Agency Change from Approved	Governor Rec. FY 2021	Governor Change from Approved
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
All Other Funds	52,423,305	52,487,529	64,224	52,687,529	264,224
TOTAL	\$ 52,423,305	\$ 52,487,529	\$ 64,224	\$ 52,687,529	\$ 264,224
FTE Positions	98.4	98.4	0.0	98.4	0.0

The **agency** requests a revised estimate of \$52.5 million, all from special revenue funds, in FY 2021. The revised estimate is an all funds increase of \$64,224, or 0.1 percent, above the amount approved by the 2020 Legislature. The increase is primarily due to revised investment-related management expenses (\$71,193), partially offset by reduced administration expenses from the Group Insurance Reserve Fund (\$6,968). The revised estimate includes expenditures to begin the modernization process for the KPERs Information Technology System (KITS), totaling \$1.5 million in FY 2021. Of that amount, the agency includes expenditures for laying the technical and infrastructure groundwork for the modernization process (\$1.0 million), temporary staffing to assist with the process (\$302,500), information technology support (\$77,240), data management and governance (\$70,000), and preliminary work on integrating and automating parts of the Pension Administration System (\$39,512). The revised estimate also includes higher expenditures for employee pay (\$344,813), offset by lower budgeted expenditures for computer system maintenance (\$410,000) and staff travel (\$124,500). These expenditures are funded by existing resources in FY 2021 and do not change the overall amount approved by the 2020 Legislature. Additional information on this project may be found on page 13. The request also includes 98.4 FTE positions, which is the same as the FY 2021 approved number.

The **Governor** recommends expenditures of \$52.7 million, all from special revenue funds, in FY 2021. The recommendation is an all funds increase of \$200,000, or 0.4 percent, above the FY 2021 revised estimate. The increase is due to distributions from the Coronavirus Relief Fund made after submission of the agency revised estimate (\$200,000). The agency has since expended these funds on COVID-19 relief measures, including emergency protective measures, the purchase of laptops for agency employees, and conference room equipment for streaming Board of Trustees meetings. The recommendation also includes 98.4 FTE positions, which is the same as the FY 2021 revised estimate.

B. FY 2022 – Budget Year

FY 2022 OPERATING BUDGET SUMMARY			
	Agency Request	Governor's Recommendation	Difference
Total Request/Recommendation	\$ 60,555,156	\$ 60,555,156	\$ 0
FTE Positions	98.4	98.4	0.0
Change from FY 2021:			
<i>Dollar Change:</i>			
State General Fund	\$ 0	\$ 0	
All Other Funds	8,067,627	7,867,627	
TOTAL	\$ 8,067,627	\$ 7,867,627	
<i>Percent Change:</i>			
State General Fund	0.0 %	0.0 %	
All Other Funds	15.4	14.9	
TOTAL	15.4 %	14.9 %	
Change in FTE Positions	0.0	0.0	

The **agency** requests \$60.6 million, all from special revenue funds, for FY 2022. The request is an all funds increase of \$8.1 million, or 15.4 percent, above the FY 2021 revised estimate. The increase is primarily due to continued expenses for the modernization of the Pension Administration System (\$6.6 million). Expenditures for preliminary stages of the modernization process were approved by the 2020 Legislature and are included in the FY 2021 revised estimate. For FY 2022, the agency includes expenditures for work on integrating and automating parts of the Pension Administration System (\$3.8 million), data management and governance (\$1.0 million), temporary staffing (\$789,000), establishing a contingency fund (\$389,708), creating a member web portal (\$359,200), information technology support (\$272,800), and residual expenses for technical and infrastructure groundwork necessary for the modernization process (\$24,000). Additional information on this project may be found on page 13. The increase is also attributable to additional expenditures for investment management fees, which are based on performance of those investments (\$1.6 million). These increases are partially offset by expenses for information processing equipment incurred in FY 2021 that are not present for FY 2022 (\$350,000). The request also includes 98.4 FTE positions, which is the same as the FY 2021 revised estimate.

The **Governor** concurs with the agency's request for FY 2022.

Governor's Recommended Salary and Wage Adjustments

For FY 2022, the Governor recommends adding \$31.5 million, including \$11.3 million SGF, for a 2.5 percent state employee base pay adjustment. The plan would increase salaries for classified and unclassified employees in the Executive Branch, Legislative Branch, and Judicial Branch. Legislative and elected officials would be excluded from this salary adjustment. The funds would be appropriated to and certified for distribution by the State Finance Council if approved. Employees of state universities are also not included in the proposed pay plan; however, the Governor recommends adding \$10.4 million, all SGF, to the university operating grants. This amount is equivalent to what the pay plan would have provided for university employees, but the funds are included in the Kansas Board of Regents budget for use at their discretion.

Longevity Bonus Payments. In FY 2021 and for FY 2022, the Governor recommends funding longevity bonus payments for eligible state employees at the statutory rate of \$40 per year of service, with a 10-year minimum (\$400) and a 25-year maximum (\$1,000). Classified employees hired after June 15, 2008, are not eligible for longevity bonus payments. The estimated cost for the recommended FY 2021 payment is \$3.0 million, including \$1.1 million SGF. For FY 2022, the estimated cost is \$3.1 million, including \$1.1 million SGF. **The agency has no longevity payments for FY 2021 or FY 2022.**

Kansas Public Employees Retirement System (KPERs). The employer retirement contribution rate, including Death and Disability contributions, for the KPERs State and School Group is scheduled to be 14.23 percent in FY 2021 and 15.09 percent for FY 2022. The FY 2021 rate excludes the 1.0 percent KPERs Death and Disability contribution that is currently subject to a moratorium described below.

The Governor recommends the KPERs State and School Group be reamortized. The current amortization period was set by the Legislature in 1993 for 40 years. The Governor proposes the new amortization be set for 25 years beginning in FY 2022, an extension of 10 years to the current plan. Reamortization would reduce employer contributions for the KPERs State and School Group in the short term. It is estimated that resetting the amortization period to 25 years could produce budget savings of \$177.3 million, including \$158.7 million SGF, for FY 2022. The Governor's recommendation would also incorporate \$25.8 million in KPERs layering payments into the amortization schedules. **No savings from this policy are currently included in this agency's budget.**

KPERs Death and Disability Group Insurance Fund. During FY 2021, a moratorium on employer contributions to the KPERs Death and Disability Group Insurance Fund was in effect. The fund had a sufficient balance to suspend payments on a temporary basis without affecting employee benefits. The moratorium was implemented *via* the Governor's allotment authority; therefore, the Legislative and Judicial branches are currently excluded from the moratorium. The total savings for the moratorium are estimated at \$46.7 million in contributions from the SGF. Included in this amount were savings of approximately \$40.3 million from KPERs School Group contributions in the Kansas State Department of Education budget. No similar moratorium is proposed for FY 2022, requiring the addition of \$46.7 million to annualize the payments for the full fiscal year.

Funding Sources

Funding Source	Agency Req. Percent of Total FY 2022	Gov. Rec. Percent of Total FY 2022
State General Fund	0.0 %	0.0 %
KPERS Deferred Compensation Fee Fund	0.9	0.9
Kansas Public Employees Retirement Fund	95.0	95.0
Group Insurance Reserve Fund	0.5	0.5
All Other Funds	3.6	3.6
TOTAL	100.0 %	100.0 %

(Note: Totals may not add due to rounding.)

Kansas Public Employees Retirement Fund

KSA 74-4902 and KSA 74-4921 establishes the Kansas Public Employees Retirement Fund for the payment of expenses and benefits under the retirement system. KSA 74-4920 provides that the Division of the Budget and the Governor shall include in the budget appropriations for personal services amounting to the sum required to satisfy the state's obligation under the Retirement Act, as certified by the Board of Trustees, presenting the same to the Legislature for allowance of appropriation. Additionally, KSA 74-4939 provides that, before September 15 of each year, school employers shall certify to the State Board of Education the anticipated total compensation to be paid during the next fiscal year to employees who are or are to become members.

KSA 74-4920 establishes the state employer contribution rate and the local employer contribution rate. The combined state/school group employer contribution rate is 14.23 percent in FY 2021 and 14.09 percent for FY 2022. The FY 2021 employer contribution rate reflects the full actuarial required contribution (ARC) rate. The local employer rate is 8.87 percent in calendar year (CY) 2021 and 8.90 percent for CY 2022. Local employers have been contributing the full actuarial rate since CY 2015 and are scheduled to pay the full actuarial required contribution rate in CY 2021 and for CY 2022.

In addition to regular employer contributions, the State is in the process of making additional payments on delayed contributions from FY 2017 and FY 2019. The delayed contributions were approved by the 2017 Legislature and include \$64.0 million for FY 2017 and \$194.0 million for FY 2019, to be repaid on a level-dollar amortization over 20 years. Additional payments include \$6.4 million per year through FY 2038 and \$19.4 million through FY 2040.

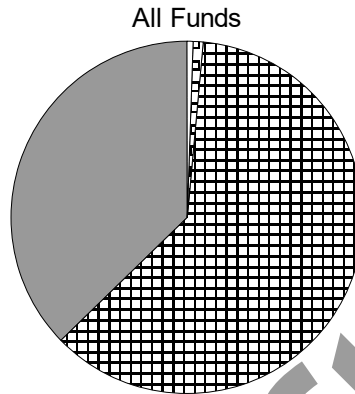
Group Insurance Reserve Fund

Each employer contributes to the Group Insurance Reserve Fund. Established in KSA 74-4927, the employer contribution rate is 1.0 percent of compensation. On occasion, the Legislature has placed a moratorium on contributions to the Group Insurance Reserve Fund, most recently in FY 2016. The employer contribution rate is scheduled to be 1.0 percent for FY 2021 through FY 2023. The Governor's July 2020 allotment includes a full-year moratorium on state/school employer contributions to the Group Insurance Reserve Fund in FY 2021. The agency indicates that if there is such a moratorium on the state/school group, Internal Revenue Service (IRS) regulations would require a moratorium for local employers as well.

PROGRAM DETAIL

Expenditures by Program

Governor's FY 2022 Recommendation



Administration
 KPERS Investments
 Deferred Compensation
 Death and Disability

Program	Gov. Rec. All Funds FY 2022	Percent of Total	Gov. Rec. SGF FY 2022	Percent of Total
Administration	\$ 22,578,549	37.3 %	\$ 0	-- %
KPERS Investments	37,088,739	61.2	0	--
Deferred Compensation	562,035	0.9	0	--
Death and Disability	325,833	0.5	0	--
TOTAL	\$ 60,555,156	100.0 %	\$ 0	-- %

FTE POSITIONS BY PROGRAM FY 2020 – FY 2022

Program	Actual FY 2020	Agency Est. FY 2021	Gov. Rec. FY 2021	Agency Req. FY 2022	Gov. Rec. FY 2022
Administration	83.8	83.1	83.1	83.1	83.1
KPERS Investments	9.3	9.4	9.4	9.4	9.4
Deferred Compensation	2.6	2.6	2.6	2.6	2.6
Death and Disability	2.6	3.3	3.3	3.3	3.3
TOTAL	98.4	98.4	98.4	98.4	98.4

(Note: For purposes of this analysis, full-time equivalent (FTE) positions include non-FTE permanent unclassified positions but continue to exclude temporary employees. FTE positions reflect permanent state positions equating to a 40-hour work week.)

A. Administration

This program provides a centralized resource to accumulate funds and statistical information on active, inactive, and retired members of the various systems under its jurisdictions. Additionally, this program provides operations support, excluding investments, for management, statistical information, service records, contributions, payment, and customer service. The Executive Director administers this program and reports to the KPERS Board of Trustees.

KPERS Modernization Project

The agency maintains a pension administration software application that provides the functionality needed to collect data and moneys from employers and to process and pay benefits. KPERS partnered with Sagitec Solutions to implement the current software system, Neospin, which has been in continuous use since 2005. Over the past 15 years, additional system customization has been necessitated by plan design changes, including both internal changes, such as implementing solutions for business processes, and external changes, such as legislative actions. The most significant plan design changes included the creation of the KPERS 2 and KPERS 3 plans, which required moving to pay period reporting for employee and employer contributions.

The agency indicates that while the existing system is still capable of executing mission-critical processes, it has nonetheless become less efficient and unstable over time, due to the implementation of required customizations. Accordingly, the agency and the Board of Trustees made the decision to begin efforts to modernize the pension administration system. The agency requested FY 2021, expenditures, which the 2020 Legislature approved of, to engage in a request for proposal for a complete business assessment of KPERS and the current pension administration system. KPERS completed the request for proposal process in June 2020 and selected The Segal Group to provide the comprehensive assessment. Segal then spent three months interviewing agency staff, reviewing current processes, and assessing the functionality of the existing system as compared to peer organizations. Segal completed its assessment in September 2020 and submitted three reports to the agency—a current state report, a gap assessment report, and a future roadmap report. With the Segal assessment, the KPERS Board of Trustees identified the following six areas for its pension systems modernization:

- **Foundational Functions.** This area involves processes for laying the technical and infrastructure groundwork necessary for the modernization process, including project management services, resource gathering, pension administration system selection, and knowledge management;
- **Information Technology.** This area involves information technology support, including change management, help desk functions, and security and support services;
- **Data.** This area involves processes to assist with data management, including a data dictionary, data trustworthiness verification, and data reporting and governance;
- **Pension System Administration.** This area involves preliminary work on integrating and automating parts of the Pension Administration System, including

benefit calculation automation, business process automation, improving member annual statements, and 457 Plan integration;

- **Member Web Portal.** This area involves the creation of a web portal for members, including accessibility options, an improved user interface, and added functionality; and
- **Employer Web Portal.** This area involves the creation of a web portal for employers, including tracking pay period reporting changes, adjustments and accounting functions, and additional user functionality.

In addition to budgeting expenditures to address these areas, the agency has also budgeted for a contingency project fund as well as for temporary staffing to assist with the modernization process. This additional staffing would be hired through existing state agency contracts, with the exception of an IT position that will be contracted through Segal as part of the consulting contract. In total, the agency estimates a five-year process to modernize the system, spread across those six identified areas as follows:

KPERS IT MODERNIZATION ROADMAP PLAN						
Project Category	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Total
Foundational	\$ 1,008,520	\$ 24,000	\$ 0	\$ 0	\$ 0	\$ 1,032,520
Information Technology	77,240	272,800	5,000	0	0	355,040
Data	70,000	1,013,847	1,111,097	2,115,217	795,000	5,105,161
Pension Admin. System	39,512	3,774,146	2,064,546	1,256,946	580,849	7,715,999
Member Web Portal	0	359,200	230,400	0	0	589,600
Employer Web Portal	0	0	702,500	87,500	0	790,000
<i>Subtotal</i>	\$ 1,195,272	\$ 5,443,993	\$ 4,113,543	\$ 3,459,663	\$ 1,375,849	\$ 15,588,320
Contingency Fund	\$ 0	\$ 389,708	\$ 389,708	\$ 389,708	\$ 389,708	\$ 1,558,832
Temporary Staffing	302,500	789,000	789,000	789,000	789,000	3,458,500
TOTAL	\$ 1,497,772	\$ 6,622,701	\$ 5,292,251	\$ 4,638,371	\$ 2,554,557	\$ 20,605,652

The agency request for FY 2022 includes expenses reflecting the estimated costs associated with implementing the recommendations in the roadmap report. For FY 2022, the agency requests expenditures totaling \$6.6 million, all from special revenue funds, to begin laying the technical and infrastructure groundwork for modernization, including processes related to benefit calculator automation, user interface updates, data profiling and cleansing, member web portal interface and functionality, and business process management. For FY 2023, the agency estimates expenditures totaling \$5.3 million, all from special revenue funds, to continue the modernization effort, including addressing processes related to the employer web portal and administration system upgrades, as well as projects continued from FY 2022. The agency anticipates knowing whether the appropriate approach is to modernize or replace the existing system by July 2022, further indicating that its budget is currently designed as if modernization will be the proper course.

PERFORMANCE MEASURES						
Measure	Actual FY 2018	Actual FY 2019	Gov. Rec. FY 2020	Actual FY 2020	Gov. Rec. FY 2021	Gov. Rec. FY 2022
Annual Cost of Administrative Operations as a Percentage of Benefit Payments	0.702 %	0.703 %	0.740 %	0.767 %	0.818 %	1.104 %
<u>Agency Expenditures</u>						
All Funds (Dollars in Millions)	\$ 12.4	\$ 12.9	\$ 14.6	\$ 14.2	\$ 16.1	\$ 22.6
FTE Positions	86.9	86.9	86.5	83.8	83.1	83.1

ADMINISTRATION SUMMARY OF EXPENDITURES FY 2020 – FY 2022					
Item	Actual FY 2020	Agency Est. FY 2021	Gov. Rec. FY 2021	Agency Req. FY 2022	Gov. Rec. FY 2022
Expenditures:					
Salaries and Wages	\$ 8,572,841	\$ 9,288,510	\$ 9,288,510	\$ 9,396,999	\$ 9,396,999
Contractual Services	4,771,135	5,857,867	6,057,867	12,558,050	12,558,050
Commodities	125,724	123,500	123,500	123,500	123,500
Capital Outlay	755,094	650,000	650,000	500,000	500,000
Debt Service	0	0	0	0	0
Subtotal - Operations	\$ 14,224,794	\$ 15,919,877	\$ 16,119,877	\$ 22,578,549	\$ 22,578,549
Aid to Local Units	0	0	0	0	0
Other Assistance	0	0	0	0	0
TOTAL	\$ 14,224,794	\$ 15,919,877	\$ 16,119,877	\$ 22,578,549	\$ 22,578,549
Financing:					
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
All Other Funds	14,224,794	15,919,877	16,119,877	22,578,549	22,578,549
TOTAL	\$ 14,224,794	\$ 15,919,877	\$ 16,119,877	\$ 22,578,549	\$ 22,578,549
FTE Positions	83.8	83.1	83.1	83.1	83.1

The **agency** requests \$22.6 million, all from special revenue funds, for administrative and operational expenditures for FY 2022. The request is an all funds increase of \$6.7 million, or 41.8 percent, above the FY 2021 revised estimate. The increase is primarily due to continued expenses for the modernization of the pension administration system (\$6.6 million). Expenditures for preliminary stages of the modernization process were approved by the 2020 Legislature and are included in the FY 2021 revised estimate. For FY 2022, the agency anticipates laying the technical and infrastructure groundwork for the modernization process, including processes related to benefit calculator automation, user interface updates, data profiling and cleansing, member web portal interface and functionality, and business process management. The agency indicates that, although these items require significant investments in project management, computer coding, and internal testing, they would be required regardless of whether the existing pension administration system is modernized or replaced. The request also includes 83.1 FTE positions, which is the same as the FY 2021 revised estimate.

The **Governor** concurs with the agency's request for FY 2022.

B. KPERS Investments

This program coordinates investment-related activities, including supervision of investment managers under contract to the KPERS Board of Trustees and management of a portion of the investment portfolio not assigned to the outside investment managers. This unit is supervised by the Chief Investment Officer, who reports to the Executive Director. KPERS staff charge a portion of their time and operating expenditures for non-KPERS investment management in order to secure reimbursement for managing investments of the State's Unclaimed Property Fund and the Kansas Endowment for Youth Fund.

PERFORMANCE MEASURES						
Measure	Actual FY 2018	Actual FY 2019	Gov. Rec. FY 2020	Actual FY 2020	Gov. Rec. FY 2021	Gov. Rec. FY 2022
Investment-Related Fees as a Percentage of Trust Fund Assets	0.172 %	0.158 %	0.152 %	0.159 %	0.150 %	0.153 %
KPERS Portfolio Rate of Return	8.70 %	6.70 %	7.75 %	2.10 %	7.75 %	7.75 %
Agency Expenditures						
All Funds (Dollars in Millions)	\$ 34.1	\$ 36.7	\$ 34.3	\$ 33.6	\$ 35.7	\$ 37.1
FTE Positions	9.0	9.0	9.3	9.4	9.4	9.4

KPERS INVESTMENTS SUMMARY OF EXPENDITURES FY 2020 – FY 2022					
Item	Actual FY 2020	Agency Est. FY 2021	Gov. Rec. FY 2021	Agency Req. FY 2022	Gov. Rec. FY 2022
Expenditures:					
Salaries and Wages	\$ 2,324,409	\$ 2,962,367	\$ 2,962,367	\$ 2,987,313	\$ 2,987,313
Contractual Services	31,237,490	32,549,136	32,549,136	34,101,426	34,101,426
Commodities	1,029	0	0	0	0
Capital Outlay	17,537	200,000	200,000	0	0
Debt Service	0	0	0	0	0
Subtotal - Operations	\$ 33,580,465	\$ 35,711,503	\$ 35,711,503	\$ 37,088,739	\$ 37,088,739
Aid to Local Units	0	0	0	0	0
Other Assistance	0	0	0	0	0
TOTAL	\$ 33,580,465	\$ 35,711,503	\$ 35,711,503	\$ 37,088,739	\$ 37,088,739
Financing:					
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
All Other Funds	33,580,465	35,711,503	35,711,503	37,088,739	37,088,739
TOTAL	\$ 33,580,465	\$ 35,711,503	\$ 35,711,503	\$ 37,088,739	\$ 37,088,739
FTE Positions	9.3	9.4	9.4	9.4	9.4

The **agency** requests \$37.1 million, all from special revenue funds, for KPERS investment expenses for FY 2022. Expenses within this program include expenses for both internal staff and external investment managers. The request is an all funds increase of \$1.4 million, or 3.9 percent, above the FY 2021 revised estimate. The increase is primarily due to additional expenditures for investment management fees, which are based on performance of those investments (\$1.6 million), partially offset by a reduction of \$200,000 in capital outlay for non-recurring expenditures to replace computer equipment from FY 2021. The request also includes 9.4 FTE positions, which is the same as the FY 2021 revised estimate.

The **Governor** concurs with the agency's request for FY 2022.

C. Deferred Compensation

The Kansas Deferred Compensation program is a voluntary, tax-deferred retirement program for state employees. In addition, many local public employers offer the plan to their employees. Since 2007, the management of the Kansas Deferred Compensation program has been administered by KPERS. The management provides state and local employees with coordinated retirement education and planning information and facilitates an increased emphasis on personal savings for retirement. The Plan has 25,324 state and local participants, with total assets of approximately \$1.2 billion.

The KPERS Board of Trustees created a Deferred Compensation Committee to oversee administration of the Plan and make recommendations to the full Board for consideration and action. The oversight and recommendations relate to management of plan assets, selection and monitoring of investment options, and selection and evaluation of service providers. KPERS staff manages operations in conjunction with the plan's service provider, Empower. Empower is responsible for participant account record keeping and direct services, such as enrollments, phone inquiries, and investment transactions. SageView Advisory Group acts as the Plan's investment consultant.

DEFERRED COMPENSATION PLAN HIGHLIGHTS — JUNE 30, 2020			
Item	State	Local	Total
Total Assets (Dollars in Millions)	\$ 793.2	\$ 374.4	\$ 1,167.6
Number of Participants	14,588	10,736	25,324
Number of Actively Deferring Participants	6,969	6,311	13,280
Number of Employers	1	371	372

PERFORMANCE MEASURES						
Measure	Actual FY 2018	Actual FY 2019	Gov. Rec. FY 2020	Actual FY 2020	Gov. Rec. FY 2021	Gov. Rec. FY 2022
Performance measures for this program are included in the KPERS Investment program.						
<u>Agency Expenditures</u>						
All Funds (Dollars in Thousands)	\$ 427.2	\$ 430.8	\$ 533.1	\$ 411.0	\$ 533.4	\$ 562.0
FTE Positions	2.4	2.4	2.6	2.6	2.6	2.6

**DEFERRED COMPENSATION
SUMMARY OF EXPENDITURES FY 2020 – FY 2022**

Item	Actual FY 2020	Agency Est. FY 2021	Gov. Rec. FY 2021	Agency Req. FY 2022	Gov. Rec. FY 2022
Expenditures:					
Salaries and Wages	\$ 320,974	\$ 336,738	\$ 336,738	\$ 339,710	\$ 339,710
Contractual Services	89,752	196,202	196,202	221,875	221,875
Commodities	254	450	450	450	450
Capital Outlay	0	0	0	0	0
Debt Service	0	0	0	0	0
<i>Subtotal - Operations</i>	<u>\$ 410,980</u>	<u>\$ 533,390</u>	<u>\$ 533,390</u>	<u>\$ 562,035</u>	<u>\$ 562,035</u>
Aid to Local Units	0	0	0	0	0
Other Assistance	0	0	0	0	0
TOTAL	<u>\$ 410,980</u>	<u>\$ 533,390</u>	<u>\$ 533,390</u>	<u>\$ 562,035</u>	<u>\$ 562,035</u>
Financing:					
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
All Other Funds	410,980	533,390	533,390	562,035	562,035
TOTAL	<u>\$ 410,980</u>	<u>\$ 533,390</u>	<u>\$ 533,390</u>	<u>\$ 562,035</u>	<u>\$ 562,035</u>
FTE Positions	2.6	2.6	2.6	2.6	2.6

The **agency** requests \$562,035, all from special revenue funds, for administrative expenses for the Deferred Compensation Plan for FY 2022. The request is an all funds increase of \$28,645, or 5.4 percent, above the FY 2021 revised estimate. The increase is primarily due to additional expenditures for attorney and plan consultant fees (\$21,673) as well as an increase in estimated travel expenditures (\$4,000). The request also includes 2.6 FTE positions, which is the same as the FY 2021 revised estimate.

The **Governor** concurs with the agency's request for FY 2022.

D. Death and Disability Benefits

In addition to serving as the pension plan for state and local government employees, KPERS offers basic group life insurance and long-term disability benefits. The KPERS Death and Disability Benefits program was established in January 1966, pursuant to KSA 74-4927. The plan is funded through a special reserve called the group insurance reserve.

To carry out the legislative intent to provide, within the funds made available, the broadest possible coverage, the KPERS Board of Trustees may adjust the plan from time to time. KPERS contracts with the insurance company The Standard to underwrite the group life insurance benefits. Disability Management Services, Inc. is the third-party administrator for the disability program. In FY 2019, more than \$43.6 million in insurance premiums and disability payments were made.

PERFORMANCE MEASURES

Measure	Actual FY 2018	Actual FY 2019	Gov. Rec. FY 2020	Actual FY 2020	Gov. Rec. FY 2021	Gov. Rec. FY 2022
There are no performance measures submitted for this program.						
<u>Agency Expenditures</u>						
All Funds (Dollars in Thousands)	\$ --	\$ --	\$ --	\$ 309.3	\$ 322.8	\$ 325.8
FTE Positions	--	--	--	2.6	3.3	3.3

Note: Prior to FY 2020, reportable expenditures for this program were included in the Administration program.

**DEATH AND DISABILITY BENEFITS
SUMMARY OF EXPENDITURES FY 2020 – FY 2022**

Item	Actual FY 2020	Agency Est. FY 2021	Gov. Rec. FY 2021	Agency Req. FY 2022	Gov. Rec. FY 2022
Expenditures:					
Salaries and Wages	\$ 309,331	\$ 321,759	\$ 321,759	\$ 324,833	\$ 324,833
Contractual Services	0	0	0	0	0
Commodities	0	1,000	1,000	1,000	1,000
Capital Outlay	0	0	0	0	0
Debt Service	0	0	0	0	0
<i>Subtotal - Operations</i>	<u>\$ 309,331</u>	<u>\$ 322,759</u>	<u>\$ 322,759</u>	<u>\$ 325,833</u>	<u>\$ 325,833</u>
Aid to Local Units	0	0	0	0	0
Other Assistance	0	0	0	0	0
TOTAL	<u>\$ 309,331</u>	<u>\$ 322,759</u>	<u>\$ 322,759</u>	<u>\$ 325,833</u>	<u>\$ 325,833</u>
Financing:					
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
All Other Funds	309,331	322,759	322,759	325,833	325,833
TOTAL	<u>\$ 309,331</u>	<u>\$ 322,759</u>	<u>\$ 322,759</u>	<u>\$ 325,833</u>	<u>\$ 325,833</u>
FTE Positions	2.6	3.3	3.3	3.3	3.3

The **agency** requests \$325,833, all from special revenue funds, for administrative expenses related to the death and disability benefits program for FY 2022. The request is an all funds increase of \$3,074, or 1.0 percent, above the FY 2021 revised estimate. The increase is primarily due to higher employer contributions for employee retirement (\$2,036) and group health insurance (\$923). The request also includes 3.3 FTE positions, which is the same as the FY 2021 revised estimate.

The **Governor** concurs with the agency's request for FY 2022.