

Governor's Budget Proposal

\$600 Million Shortfall Over Next 3 Years

With the start of the new legislative session, the Governor has announced his budget recommendations for Fiscal Year 17 (current revised), 18 and 19. In short, the proposal would reduce KPERS contributions by a total of \$600 million, extend the time to pay down KPERS' existing unfunded actuarial liability by 10 years, and add \$6.5 billion to the State's contributions over the long term to pay for it. What we don't pay for now costs more later.

The Breakdown

1. In FY2016, the State delayed its fourth quarter payment for State/School employer contributions with a promise to pay it in FY2018 with interest.
Governor's Recommendation: do not pay
2. **Governor's Recommendation:** freeze contributions in FY2017, 2018 and 2019 to the reduced amount paid in FY2016.
3. **Governor's Recommendation:** Pay off the existing unfunded actuarial liability over an additional 10 years.

The Result

- 4 missing State quarterly payments and a total shortfall of \$600 million
- Eventual *State/School* employer contribution rate of 12% to 13% through FY 2045*
- Long-term additional cost of \$6.5 billion
- Funded ratio stays in the 60% "cautionary" range for an additional eight years or through 2030
- Unfunded liability increases by about \$1.3 billion, and it will take 20 years to get back to where we are now

**Doesn't affect Local employer contribution rates.*

Most Important

It's most important to remember that this **does not affect benefits** for current retirees, or even for those thinking about retiring. KPERS has \$17 billion in assets to pay benefits for many years. The funding shortfall is a *long-term* funding issue. However, underfunding continues to add to the unfunded liability and undermines KPERS' long-term strength.

The State's recent \$1 billion pension obligation bond was a significant step in the right direction. But it's consistent and full employer contributions over time that will make the most difference in having a sound and sustainable retirement system.

What's Next?

We are at the beginning of the session. And budget legislation will wind its way through the usual process. The Governor's proposal is a starting point for discussion.

We'll keep you posted as things affecting KPERS develop in the months to come.

Questions?

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