Kansas Public Employees Retirement System

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
• 425 cities and townships
• Other employers include libraries, hospitals, community colleges and conservation districts
<table>
<thead>
<tr>
<th><strong>Chairperson Kelly Arnold</strong>, Wichita</th>
<th><strong>Ernie Claudel</strong>, Olathe</th>
</tr>
</thead>
<tbody>
<tr>
<td>County Clerk, Sedgwick County</td>
<td>Retired teacher</td>
</tr>
<tr>
<td>Appointed by the Governor</td>
<td>Elected member – school</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Shawn Creger</strong>, Prairie Village</th>
<th><strong>James Cusser, CFA</strong>, Mission Hills</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Advisor, Edward Jones</td>
<td>Wall Street Investment Banker and Mutual Fund Manager</td>
</tr>
<tr>
<td>Appointed by the Speaker of the House</td>
<td>Adjunct Associate Professor, Political Science</td>
</tr>
<tr>
<td></td>
<td>Johnson County Community College</td>
</tr>
<tr>
<td></td>
<td>Appointed by the Governor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Jake LaTurner</strong>, Wichita</th>
<th><strong>Suresh Ramamurthi</strong>, Topeka</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kansas State Treasurer</td>
<td>Chairman, CBW Bank</td>
</tr>
<tr>
<td>Statutory member</td>
<td>Appointed by the President of the Senate</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Michael Rogers</strong>, Manhattan</th>
<th><strong>Ryan Trader</strong>, Olathe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certified Public Accountant</td>
<td>Firefighter/Paramedic, City of Olathe</td>
</tr>
<tr>
<td>Appointed by the Governor</td>
<td>Elected member - non-school</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>James Zakoura</strong>, Overland Park</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner, Smithyman &amp; Zakoura law firm</td>
<td></td>
</tr>
<tr>
<td>Appointed by the Governor</td>
<td></td>
</tr>
</tbody>
</table>
Created by the 1961 Legislature, KPERS (now KPERS 1) became effective in 1962.

The Kansas School Retirement System is merged with KPERS in 1971.

1993 legislation made major enhancements to benefits for active and retired KPERS members and implemented a cap on annual increases in employer contributions.

KPERS 2 implemented for all new hires after July 1, 2009.

In 1986, local units of government are allowed to participate in the voluntary deferred compensation plan.

The first state-level voluntary deferred compensation program is enacted in 1976.

1950s

Retirement System for Judges established by the 1953 Legislature.

The first state-level voluntary deferred compensation program is enacted in 1976.


1960s

In 1986, local units of government are allowed to participate in the voluntary deferred compensation plan.

1970s

1980s

1990s

The 2003 Legislature approves $500 million in bonds to reduce the unfunded actuarial liability. Bonds were sold in early 2004 and nearly $440 million in net proceeds added to the Trust Fund.

2000s

2010s

KPERS 3 implemented for all new hires January 1, 2015. The Legislature approves net $1 billion in bonds to reduce the unfunded actuarial liability. In August 2015, bonds were sold at 4.68% rate and deposited in the Trust Fund.
• Legislature defines benefits and funding
  – Membership eligibility
  – Vesting
  – Employee and employer contributions
  – Benefit formula
  – Service credit
  – Retirement eligibility
• Actuary estimates how much benefits will cost
• Employers and members make contributions
KPERS Overview
How KPERS Works

**MYTH:** KPERS is like Social Security, using current contributions to pay current benefits.

**FACT:** KPERS is not like Social Security, investing current contributions to pay benefits down the road.

- KPERS is designed as a pre-funded system.
- KPERS collects contributions during a member’s career and invests the money over time.
- At retirement, KPERS pays member benefits from the combined contributions collected, interest already earned and future interest.
KPERS Overview

FY 18 By The Numbers

$1.7B Total Benefits Paid
Includes retirement, life insurance, withdrawals and disability

87,000+ Account Updates
Enrollments, Transfers, Retirements, Beneficiary Changes, and Withdrawals

100,000 Calls Answered
Average caller wait of 10 seconds

21,000 Emails Answered

Half the Cost
Compared to peer systems administrative costs

$19 Billion Trust Fund Assets highest ever

Assets have nearly doubled in the last 18 years

$9.8B

2000

2018

$19B
KPERS Overview
Active Membership on 12/31/2017

**Active Member Breakdown**
- 55% School
- 25% Local
- 14% State
- 5% KP&F
- <1% Judges

Total Active Members – 151,687

**Average Active Members**

<table>
<thead>
<tr>
<th></th>
<th>Average Age</th>
<th>Average Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPERS-State</td>
<td>46.7</td>
<td>12.1</td>
</tr>
<tr>
<td>KPERS-School</td>
<td>45.0</td>
<td>11.2</td>
</tr>
<tr>
<td>KPERS-Local</td>
<td>45.4</td>
<td>10.3</td>
</tr>
<tr>
<td>KP&amp;F</td>
<td>39.1</td>
<td>11.3</td>
</tr>
<tr>
<td>Judges</td>
<td>58.0</td>
<td>11.4</td>
</tr>
</tbody>
</table>
### KPERS Overview

Retired Membership on 12/31/2017

#### Average Retired Members and Beneficiaries

<table>
<thead>
<tr>
<th></th>
<th>Average Age</th>
<th>Average Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPERS-State</td>
<td>72.6</td>
<td>$14,249</td>
</tr>
<tr>
<td>KPERS-School</td>
<td>72.4</td>
<td>$15,428</td>
</tr>
<tr>
<td>KPERS-Local</td>
<td>72.3</td>
<td>$12,129</td>
</tr>
<tr>
<td>KP&amp;F</td>
<td>65.6</td>
<td>$33,340</td>
</tr>
<tr>
<td>Judges</td>
<td>75.1</td>
<td>$41,964</td>
</tr>
</tbody>
</table>

#### Retired Member Breakdown

- KPERS-State: 20% (53,521 members)
- KPERS-School: 21% (20,534 members)
- KPERS-Local: 20% (20,075 members)
- KP&F: 5% (5,398 members)
- Judges: <1% (279 members)

Total Retirees: 99,807
KPERS Overview

Investments

• FY 2017 return: 12.7%*
• FY 2018 return: 8.7%*
• 7.75% long-term return assumption
• Earned 8.2% over the last 25 years through the end of FY 2018 (6/30/2018)
• Over the past 20 years, KPERS investments account for more than half of the income to the Trust Fund
**KPERS Overview**

**Historical Fiscal-Year Returns**

* Time weighted total return, gross of fees
** The investment return assumption was changed to 7.75%, effective 1/1/2018, as part of the most recent statutory triennial experience study.
Employer Contributions

- FY 2018 contributions
- Future employer contribution projections
- Additional “layered” payments
- Pension obligation bonds
• KPERS employees contribute 6% of pay.

• KPERS employers contributions
  – % of pay set by annual actuarial valuation.
  – Statutory cap on annual rate increase.
  – State pays for state and school employees.

• The Legislature approved an additional $56 million in contributions that were paid in FY 2018.

• Total contributions for FY 2018: $1.3 billion
• The statutory State/School employer contribution rate for FY 2019 is 13.21%, but $194 million of that contribution will be delayed and paid over 20 years.

• The employer contribution rate is scheduled to increase to 14.41% for FY 2020.

• The 12/31/2017 valuation sets the employer contribution rates for FY 2021 for State/School employers.

• The State/School statutory employer contribution is scheduled to be equal to the actuarial required rate for the first time in 24 years.

*Does not reflect reductions to the State/School employer contributions of $97 million in FY 2016, $64 million in FY 2017 and $194 million FY 2019.
### December 31, 2017*

<table>
<thead>
<tr>
<th></th>
<th>Actuarial</th>
<th>Statutory</th>
<th>Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>9.22%</td>
<td>14.23%</td>
<td>(5.01%)**</td>
</tr>
<tr>
<td>School</td>
<td>15.59%</td>
<td>14.23%</td>
<td>1.36%</td>
</tr>
<tr>
<td>State/School</td>
<td>14.23%</td>
<td>14.23%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Local</td>
<td>8.61%</td>
<td>86.1%</td>
<td>0.00%</td>
</tr>
<tr>
<td>KP&amp;F</td>
<td>21.93%</td>
<td>21.93%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Judges</td>
<td>17.26%</td>
<td>17.26%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

* Rates apply in fiscal years **beginning** in 2020 (FY 2021 for State/School; CY 2020 for Local).

** As provided in statute, contributions above the State actuarial required contribution rate will be used to fund the School Group.
The 2018 Legislature approved additional payments to KPERS.

- Up to **$56 million** in FY 2018 contingent on actual FY 2018 receipts exceeding April revenue estimates.
- **$82 million** direct transfer in FY 2019.
- Up to **$56 million** in FY 2019 contingent on actual FY 2019 receipts exceeding April revenue estimates.

KPERS has received two of the approved payments so far.

- **$56 million** received in June 2018 for the first contingent payment.
- **$82 million** received in July 2019.

Senate Bill 9 would approve an additional **$115 million** payment to KPERS in FY 2019.

- **$115 million** was the calculated cost to repay the FY 2016 State/School employer contribution reduction, plus interest.
The 2017 Legislature delayed a portion of FY 2017 and FY 2019 employer contributions.

The delayed contributions, plus interest, are scheduled to be paid to the System over 20 years.

Because the contributions are on a statutory payment plan and paid with interest, the contributions are already accounted for in the actuarial funding valuation.

<table>
<thead>
<tr>
<th></th>
<th>FY 2017 Delayed Payment</th>
<th>FY 2019 Delayed Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delayed Contribution Amount</td>
<td>$64 million</td>
<td>$194 million</td>
</tr>
<tr>
<td>Contributions paid over</td>
<td>20 years</td>
<td>20 years</td>
</tr>
<tr>
<td>Annual payment</td>
<td>$6.4 million</td>
<td>$19.4 million</td>
</tr>
<tr>
<td>Payments start in</td>
<td>FY 2018</td>
<td>FY 2020</td>
</tr>
</tbody>
</table>
Actual and Projected State/School Valuation Employer Contributions

**Notes:**
1. The actuarial required contribution for FY 2019 totals $592 million and for FY 2020 totals $671 million. For years FY 2021 - FY 2025, the actuarial required contributions are equal to the statutory contributions (dark blue bars).
2. The first contingent payment (purple bars) was received in full on 6/30/2018. The second contingent payment of up to $56 million will be made if actual receipts in FY 2019 exceed the April 2019 consensus revenue estimates. **This funding projection assumes both $56 million payments are made in full.**
3. The delayed payments of $64 million in FY 2017 and $194 million in FY 2019 are scheduled to be paid over 20 years on a level dollar amortization.
Notes:
1. The first contingent payment was received in full on 6/30/2018. The second contingent payment of up to $56 million will be made if actual receipts in FY 2019 exceed the April 2019 consensus revenue estimates. **This funding projection assumes both $56 million payments are made in full.**
The State of Kansas has issued pension obligation bonds to improve the funded status of the System on two occasions.

- The first pension obligation bond issue was in 2004 (2004C) for a total of $500 million, gross of fees.
- The second pension obligation bond issue was approved by the Legislature and issued in 2015 (2015H). The approved amount of the pension obligation bonds was $1.0 billion, net of fees.

The idea behind the bonds is for KPERS investment returns to exceed the interest cost of the bonds (interest arbitrage).

The State makes annual debt service payments in addition to the annual employer contributions.
• As of November 30, 2018, investment returns on the System’s investment portfolio have exceeded the interest cost of both bond issues.

• The System’s average annualized total return for the time period since the 2004C bond issue is 7.13%, compared to the bond interest cost of 5.39%. The value added since issuance, after payment of the debt service, is over $261.2 million.

• The System’s average annualized total return for the time period since the 2015H bond issue is 6.64%, compared to the bond interest cost of 4.68%. The value added since issuance, after payment of the debt service, is over $72.9 million.
KPERS Funding

• Steady progress

• Funding plan

• Funding projections
Generally, KPERS funding is slowly improving and headed in the right direction.

KPERS is on target to pay off the legacy unfunded liability in 2033.

The Board of Trustees adopted a more conservative investment return assumption in 2016, moving from 8% to 7.75%. This change caused an increase in the calculation of liabilities, but positive investment returns kept the funded ratio stable.
## KPERS Funding

<table>
<thead>
<tr>
<th>Group</th>
<th>12/31/2017 Unfunded Liability</th>
<th>12/31/2017 Funded Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPERS-State</td>
<td>$868,776,048</td>
<td>80.5%</td>
</tr>
<tr>
<td>KPERS-School</td>
<td>$5,713,483,520</td>
<td>61.6%</td>
</tr>
<tr>
<td>KPERS-State/School</td>
<td>$6,581,259,568</td>
<td>66.0%</td>
</tr>
<tr>
<td>KPERS-Local</td>
<td>$1,458,333,453</td>
<td>72.5%</td>
</tr>
<tr>
<td><strong>Total KPERS</strong></td>
<td>$8,039,593,021</td>
<td><strong>67.4%</strong></td>
</tr>
<tr>
<td>KP&amp;F</td>
<td>$859,907,027</td>
<td>74.1%</td>
</tr>
<tr>
<td>Judges</td>
<td>$7,713,669</td>
<td>95.9%</td>
</tr>
<tr>
<td><strong>System Total</strong></td>
<td><strong>$8,907,213,717</strong></td>
<td><strong>68.4%</strong></td>
</tr>
</tbody>
</table>
The System has a funding plan to fully fund the System.

The Legislature set a 40-year, closed amortization period in 1993.

The Board of Trustees approved a layered amortization approach as part of the last triennial experience study.

- The existing unfunded liability (legacy unfunded liability) remains on the 40-year amortization schedule, ending in 2033.
- Each year any experience different than the actuarial assumptions (either positive or negative) will be realized in separate 20-year amortization periods.
- Each layer will have an annual “payment” calculated and each layer’s payment is added together to calculate a single unfunded liability payment.
“Level percent of pay” amortization methodology results in an increase in the dollar amount of unfunded actuarial liability over more than half of amortization period, even if full actuarial required contribution rate is paid.

Amortization period on the legacy unfunded liability has declined and at the point where unfunded actuarial liability will start decreasing if full actuarial required contribution rate is paid and all assumptions are met.
The projected Unfunded Actuarial Liability has a steady decline (due to recognition of the deferred investment gains and amortization payments on the UAL). Last year's projections increase for a few years before declining, due to recognizing deferred investment losses.
Due to strong investment returns and additional contributions approved by the Legislature, the funded ratio is expected to reach 80% in 2026, three years earlier than last year’s projection.
The Actuarial Required Contribution date occurs in FY 2021 at a rate of 14.23% (vs. projected rate of 14.99% in FY 2021 in the 12/31/2016 valuation). The rate increases for a few years since the statutory contribution rate is still less than the actuarial rate. Then the rate decreases as the deferred investment gains are recognized and remains stable.
KPERS Status
Making Good Progress

KPERS has a long-term funding shortfall. We cannot invest our way out of it.

Consistent and full employer contributions year after year will make the most difference in the System’s funded status.

Funded Ratio
 ↑12% since 2012

67% Funded in 2017
The fiduciary standard is our guiding principle and driving force.

As a fiduciary, KPERS serves members by:
- Holding assets in trust;
- Growing those assets through investments; and
- Delivering promised benefits when the time comes.

Funds can never be removed from a trust fund like KPERS for any reason other than to fund the benefits of members and pay expenses of the System.

With approximately $19 billion in assets today and a well diversified investment portfolio, KPERS is able to pay promised benefits for many years.
Questions?