KPERS

KPERS Lowering Investment Return Assumption to 7%

Retiree benefits are not affected. Benefits are safe and unchanged.

The KPERS Board of Trustees lowered its *assumed* investment rate of return from 7.75% to 7%. Setting actuarial assumptions is part of the Board's fiduciary duty to members and to make sure promised benefits are paid.

Why?

- A matter of fairness. An investment rate assumption that's too high asks future generations of employers to pay more than their fair share.
- Based on current and projected market data from our investment experts.
- Based on best practices for the actuarial industry. KPERS is funded on an actuarial basis.

When?

The 7.0% target will be reflected in KPERS' 2021 actuarial valuation. The valuation is an annual snapshot of the System's funding position. The 2021 valuation will be presented to the Board of Trustees in July 2022 based on a snapshot as of December 31, 2021.

The 2021 valuation then affects employer contribution rates starting with Fiscal Year 2025 (July 1, 2024) for the State/School group and Calendar Year 2024 for Local employers.

Effects of Lowering the Assumed Rate of Return

- Lowering the investment return assumption generally increases the unfunded liability and reduces the funded ratio the first year the change goes into effect. All plans are projected to have improved funding in the December 2022 valuation if the actuarial assumptions are met. The 2021 actuarial valuation (available July 2022) will cover these projections in detail.

- Specifically, the State/School group's funded ratio is projected to be 70.9% in the 2021 valuation when including the change from 7.75% to 7.0%. It was projected to be 76.8% without an assumption change. With the change to 7.0%, it is projected to reach 80.5% in 2023 if the actuarial assumptions are met.

- The change will impact future employer contribution rates. The Board utilized reamortization of the unfunded actuarial liability to help mitigate the employer contribution rate increases. Reamortization schedules differ by plan (KPERS, KPF&F, Judges). Reamortizing the KPERS plan (State/School/Local) unfunded liability adds six years to the amortization schedule, now projected to be extinguished in 2039.

How does KPERS compare?

At 7.75%, KPERS had the highest investment return assumption across major U.S. public pension plans. KPERS was alone in that number. As of May 2022, the average investment return assumption among them is 6.99%.

5/20/22