KPERS Amortization Fact Sheet

KPERS Unfunded Actuarial Liability

KPERS unfunded actuarial liability is a debt of the State that has grown over time primarily due to:

- The statutory cap on employer contributions
- Merging of retirement plans
- Benefit enhancements that were not prefunded
- Market recessions in 2001 and 2008

Having an unfunded actuarial liability is not inherently bad if there is a plan in place to fully fund the liability over a reasonable amount of time.

Amortization

Like a home mortgage, the Legislature established a payment plan in 1993 to pay off the unfunded actuarial liability over 40 years.

However, unlike a typical home mortgage, KPERS unfunded actuarial liability payments are designed to increase over time as payroll increases (as a fixed percent of pay). This means that as payroll grows over time the dollar amount of employer contributions will increase, but the contribution rate will stay about the same.

Over time, the ratio of employer contributions to total State General Fund expenditures should also be relatively consistent (assuming revenue growth and salary growth move together).

In 2004, the Governor and Legislature delegated amortizing the unfunded actuarial liability to the KPERS Board of Trustees.

Amortization Changes in May 2022

In May 2022, the KPERS Board of Trustees lowered the investment return assumption from 7.75% to 7%. Lowering the assumption increases projected liabilities. When the liabilities increase and the amortization period remains the same, employer contribution rates must increase to stay on the existing funding plan.

The investment return assumption change starts in the 12/31/2021 actuarial valuation and will take effect for employers in FY 2025 for the State and CY 2024 for local employers.

The KPERS Board of Trustees adjusted the amortization schedule (reamortized) to keep employer contribution rates as stable as possible after the change to the investment return assumption.

The amortization periods were set by group:

- State/School Group: 6-year extension ending in 2039
- Local Group: 6-year extension ending in 2039
- KP&F: 11-year extension ending 2044
- Judges: 9-year extension ending in 2042

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Why Reamortize Now?

Governors recommended reamortization in 2017, 2019, 2020 and 2021 and it was reviewed by the Legislature. Reamortization would extend the payment period, which would reduce the annual cost of employer contributions. The KPERS Board of Trustees did not support the recommendation to reamortize the unfunded actuarial liability for the purpose of reducing annual employer contributions. The Legislature ultimately rejected reamortization each time it was recommended.

However, with the change in the investment return assumption and the relatively short period remaining on the current amortization period (11 years remaining as of 12/31/2021), the Board of Trustees made the decision to extend the amortization period to avoid a large increase to employer contribution rates.

Extending the amortization period does increase the projected total employer contributions required to pay off the unfunded actuarial liability. But it also avoids creating budgetary issues at the state and local levels by keeping future employer contribution rates fairly consistent with current rates. This approach is different from reamortizing to reduce employer rates to achieve budgetary savings. As part of the investment return assumption change, the Board wanted to lessen the possible impact on employers by keeping their rates as stable as possible.