



Senate Ways and Means

KPERS 3 Cash Balance Plan

PRESENTED BY:

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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
- 426 cities and townships
- Other employers include libraries, hospitals, community colleges and conservation districts



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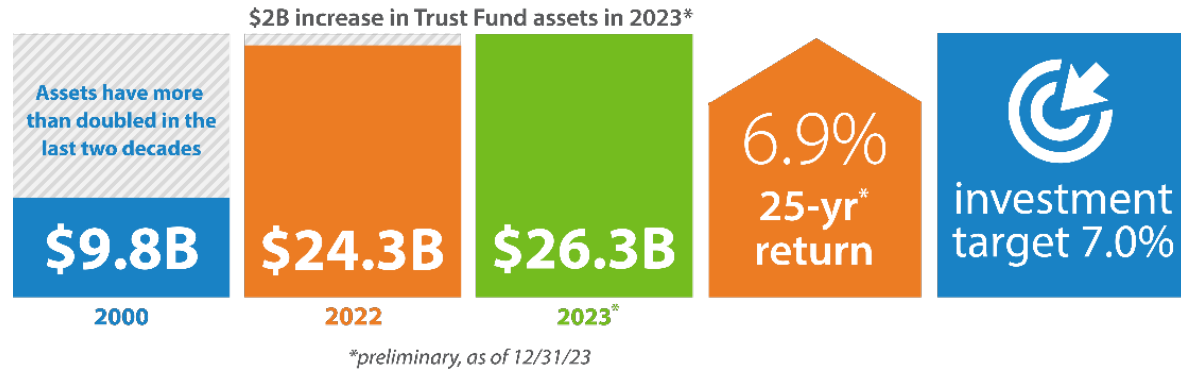
2023 Fast Facts

FY23 by the Numbers

-  **\$2.1B Total Benefits Paid**
Includes retirement, life insurance, withdrawals and disability.
-  **340,637 Total Members**
Active members, inactive members, disability recipients and retirees.
-  **103,948 Retirees**
-  **112 Years Old**
Age of the oldest living retiree
-  **\$1,484 Average Monthly Benefit**
Average retiree benefit (excluding beneficiaries). About 88% of retirees remain in Kansas.



KPERS 3 Cash Balance Plan



Preliminary CY 2023 total return is 11.3%, resulting in over \$2 billion asset growth during the calendar year.

The Trust Fund is currently over \$26 billion in assets.

Assets in the Trust Fund have more than doubled in the last two decades.

KPERS 3 Structure and Benefits



KPERS 3 Cash Balance Plan

The KPERS 3 Cash Balance Plan was created by the 2012 Legislature as part of comprehensive pension reform to address long-term funding.

KPERS 3 opened on January 1, 2015. With the exception of Correctional group members, all new KPERS members are enrolled in the cash balance plan.

KPERS 3 is now the largest group of active KPERS members with 73,557 of the 143,849 active KPERS members.



KPERS 3 Cash Balance Plan Design

A cash balance plan design is a defined benefit plan (like KPERS 1 and KPERS 2), but it has characteristics of a defined contribution plan (like a 401(k) or 403(b)).

Defined Contribution features

- Members have an account balance for employee contributions and employer credits.
 - Accounts are “notional” or hypothetical, all assets remain in the Trust Fund.
- The notional accounts earn interest during the working career.
- Risks are be shared between employer and employee

Defined Benefit features

- Retirement benefits are paid for life.
- Notional accounts are guaranteed a minimum interest crediting rate (4%).
- Assets are pooled and professionally managed.
- Employer contributions are determined by the annual actuarial valuation.



KPERS 3 Employee Contributions

Employees contribute a statutory 6% of pay, pre-tax.

Employee contributions are tracked in a notional account for each member.

Employee contributions vest immediately, i.e., members are always eligible to receive the contributions they have paid.

Interest is credited quarterly. (4% guaranteed)



KPERS 3 Employer Contributions

Employers continue to contribute the rate set by the actuary to fund the System.

- 12.57% for State/School employers in FY 2024.
- 9.26% for Local employers in CY 2024.

Employer contributions are the same for all membership groups (KPERS 1, 2 or 3).

Employer contributions to KPERS are not related to the employer credits in the notional member accounts.



KPERS 3 Employer Credits

Employer credits are applied to a member's notional account and earned quarterly.

The crediting percent depends on years of service.

Interest is also credited quarterly.

Employer credits are used for calculating retirement benefits and are only available to members at retirement, they cannot be withdrawn.

Years of Service	Annual Rate
1-4	3%
5-11	4%
12-23	5%
24+	6%



KPERS 3 Guaranteed Interest Credits

KPERS 3 members earn a guaranteed 4% on their notional employee contribution and employer credit accounts.

The guaranteed interest credit is 4% annually but is applied to member accounts each quarter.

Because the 4% is compounded quarterly, the actuarially calculated quarterly interest rate applied to each eligible account is 0.985341% per quarter.



KPERS 3 Dividend Interest Credits

KPERS 3 members may have additional interest applied to both their member and employer contribution accounts based on a statutory formula.

The KPERS 3 dividend interest credit formula is 75% of the five-year average net compound rate of return above 6% (K.S.A. 74-49,306).

Dividend credits are calculated on a calendar year basis and applied on March 31, or as soon thereafter as practicable, to the account balance that existed on December 31 the prior year.

- The dividend for CY 2021 applied to the account balance on 12/31/2021 but is credited in the spring of 2022.



KPERS 3 Dividend Experience

Over the first eight years of the KPERS 3 cash balance plan, the formulaic interest dividend credit has applied four times.

The preliminary CY 2023 investment returns are above the 6% threshold for a dividend credit.

The total compound dividend interest credits since January 1, 2015, total 0.894%.

The long-term actuarial assumption for the dividend credit is 2%.

KPERS 3 Dividend Credit Calculations		
Calendar Year	Average Net Compound Rate of Return*	Dividend Credit
2015	0.2%	No Dividend
2016	4.3%	No Dividend
2017	7.4%	1.1%
2018	4.7%	No Dividend
2019	7.1%	0.825%
2020	9.3%	2.475%
2021	10.7%	3.525%
2022	5.7%	No Dividend

*The compound rate of return in the first four years was based on the number of years since the plan took effect (the first year was based on the one-year average, the second year was based on the two-year average, etc.). Starting in 2019 and going forward the formula uses a five-year rolling average.

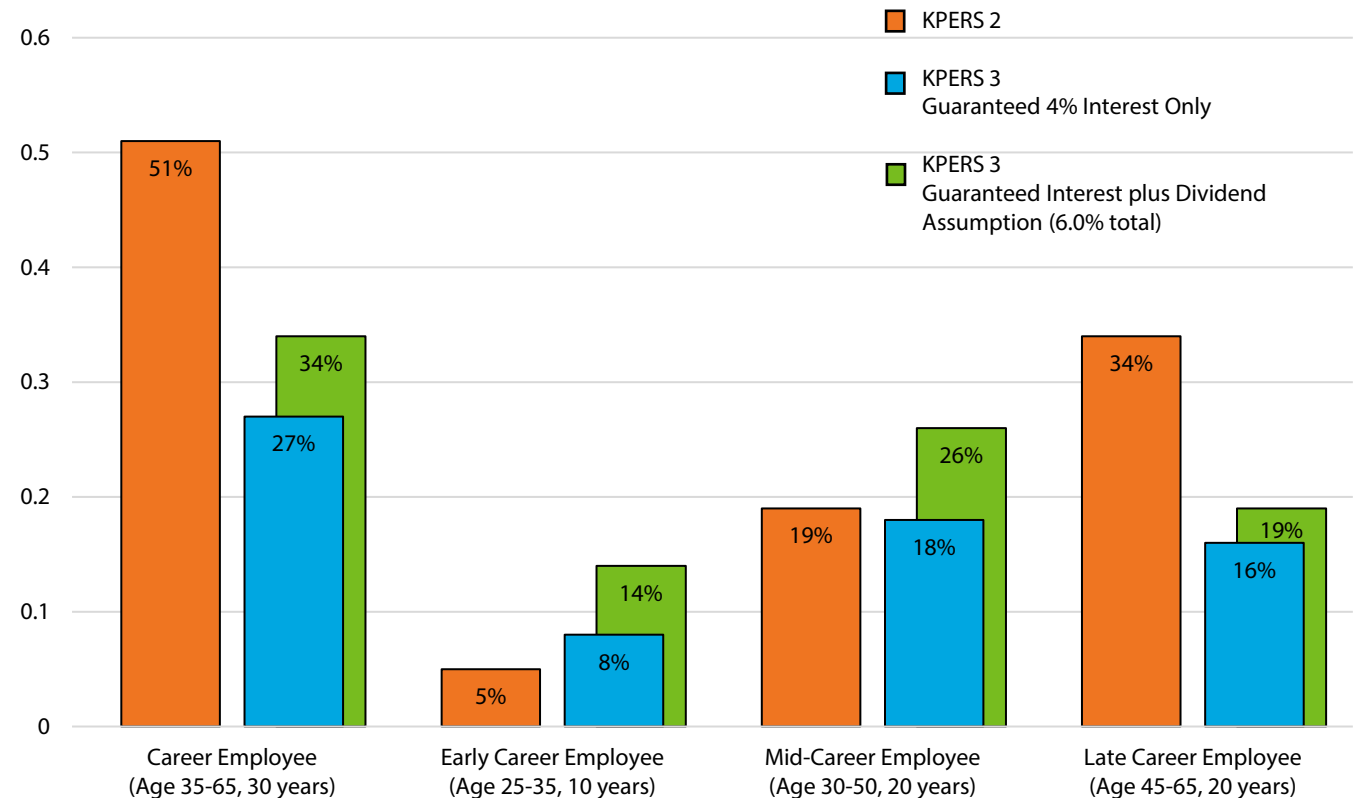


KPERS 3 Replacement Ratios

A replacement ratio is a measure of a person's pre-retirement income that will be replaced by retirement benefits.

Most studies suggest a target of 70% to 80% of pre-retirement income is necessary to maintain a person's lifestyle in retirement.

KPERS benefits are only one part of a person's total replacement ratio, along with Social Security (for most KPERS members) and personal savings.



All scenarios assume that the member retires at age 65 and reflects the current set of actuarial assumption, including the 7.0% investment return assumption.



Questions?

