KPERS Update

Valuation, Long-term funding and Triennial Experience Study

Presented by:

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Legislative Budget Committee

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KPERS

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 97-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
- 424 cities and townships
- Other employers include libraries, hospitals, community colleges and conservation districts

KPERS Overview

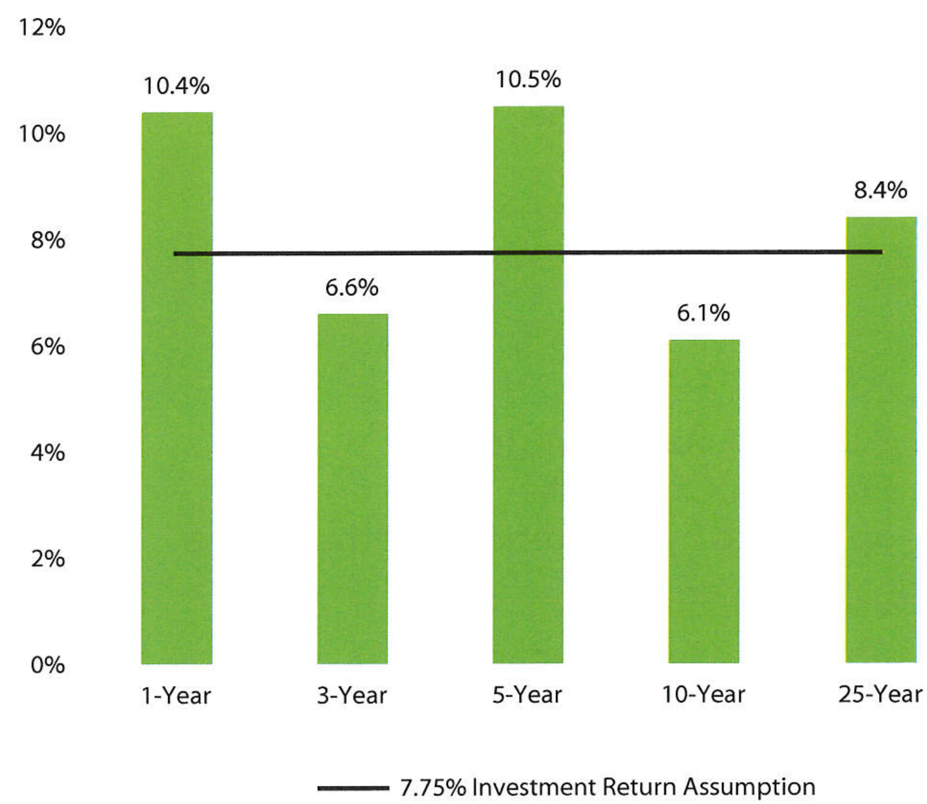
Board of Trustees

KPERS Overview

Investments

- 7.75% long-term return assumption
- Calendar year-to-date return totals 7.1%* (not annualized)
- Earned 10.4%* for the trailing 1-year period ending 9/30/2016
- Earned 8.4%* over the last 25 years as of 9/30/2016

Annualized Total Return through 9/30/2016



*Gross total return for all assets as of 9/30/2015

2015 Actuarial Valuation

- Continued Improvement
- Funding Status
- Contribution Rates

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2015 Valuation

Continued improvement

- Required annually by statute
- Completed on a calendar year basis, presented to the Board the following July
- Generally, KPERS' funding improved on an actuarial basis during calendar year 2015
- Calendar year rate of return on the market value of assets was 0.2%, below the 8% return assumption
- Due to asset smoothing, the rate of return on the actuarial value of assets for the calendar year was 7.6%
- Deferred losses will be absorbed over the next 4 years, unless there are offsetting gains in future years
- Proceeds from the sale of bonds are reflected in this valuation

2015 Valuation

KPERS Funding Status

- As a system, KPERS' funded ratio and unfunded actuarial liability improved in the most recent valuation

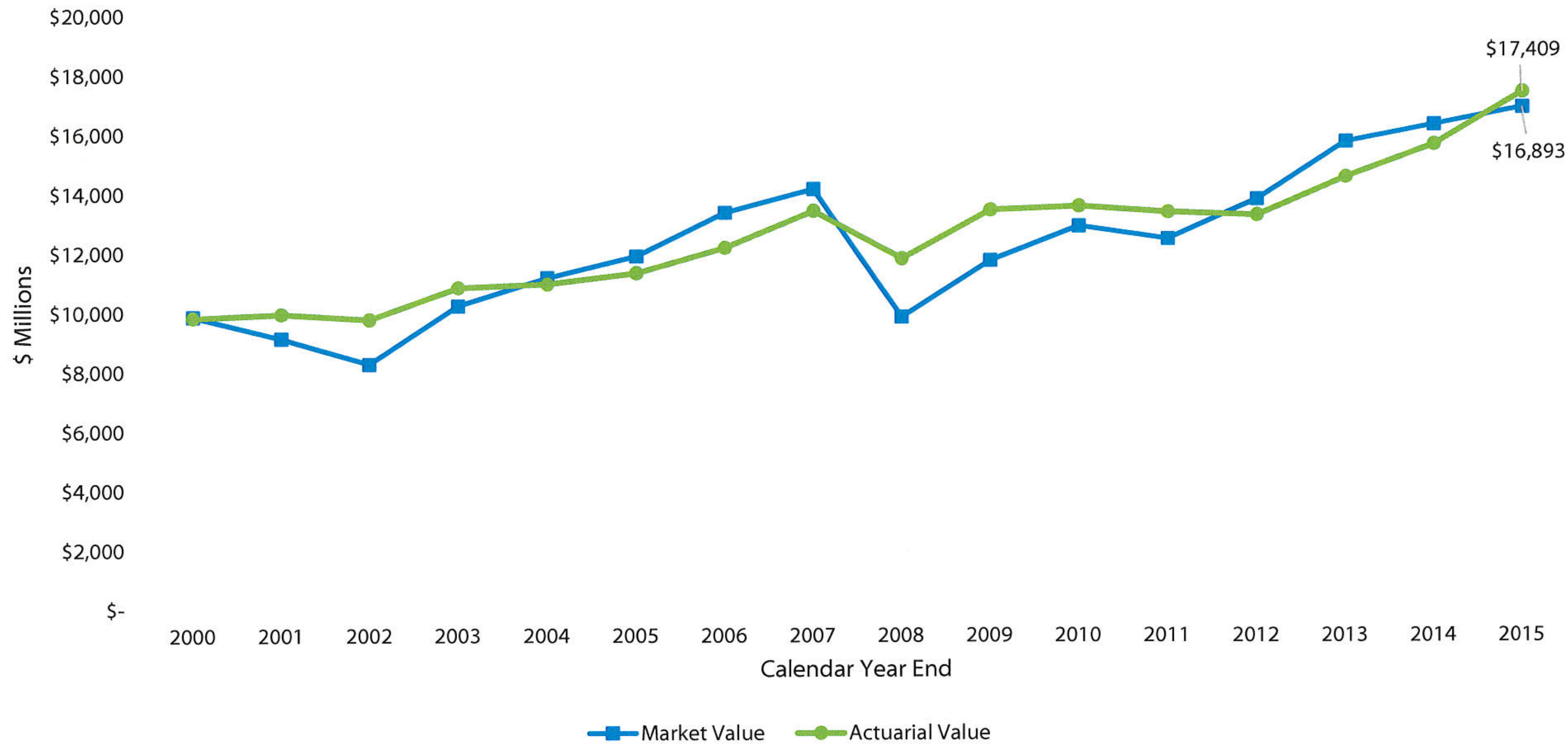
	12/31/2015	12/31/2014
Funded Ratio	67%	62%
Unfunded Actuarial Liability	$8.54 billion	$9.47 billion

- Actuarially required contribution (ARC) rates (effective in CY 2018) declined for Local employers but increased for KP&F due to demographic experience (i.e. more retirements than expected, higher benefits than expected)

- Statutory employer contribution rate increases for State/School Group until it reaches the actuarial required contribution rate, which was projected to happen in FY 2020

2015 Valuation

Historical asset growth



Triennial Experience Study

- Review of actuarial assumptions
- Changes to economic assumptions
- Changes to demographic assumptions
- Changes to actuarial methods
- Impact of changing assumptions

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Experience Study

Review of actuarial assumptions

- KPERS actuary and Board of Trustees review the experience of the System every three years as required by law
- The current review covers calendar years 2012 to 2015
- All economic and demographic actuarial assumptions were reviewed
- Changes to actuarial assumptions will first be reflected in the 12/31/2016 valuation, which will be used for FY 2020 State/School employer contribution rates
- The Board has a **fiduciary responsibility** to set the actuarial assumptions using their best judgement in light of available information
- The assumptions are long-term in nature and try to anticipate what will happen over decades, not react to short-term trends
- Having accurate assumptions is important so that costs aren't too high today or passed on to future generations

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Experience Study

Changes to economic assumptions

Assumption	Old Assumption	Adopted Assumption	Cost Impact
Price inflation	3.0%	2.75%	None
Investment return	8.0%	7.75%	Increase
KPERS 3 interest crediting rate	6.5%	6.25%	Decrease
General wage inflation (part of individual salary increase)	4.0%	3.50%	Decrease
Payroll growth (used only for calculating unfunded actuarial liability payment)	4.0%	3.0%	Increase
Administrative expenses	Reduce investment return	Component of contribution rate	Added to contribution rate

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Experience Study

Changes to demographic assumptions

- Update mortality assumptions for all groups to most recent actuarial tables (RP-2014), with adjustments to match actual experience
- Modify retirement rates for all groups by increasing assumed retirements when first eligible and decreasing rates at other eligibility
- Change interest assumption for lump sum calculations to the investment return assumption (7.75%)
- Increase termination of employment rates for all KPERS groups and KP&F, which means more people leave employment than expected
- Lower disability rates for KPERS
- Modify load for final average salary for pre-1993 hires in KPERS (except School) and KP&F to more accurately reflect the cost of the 4-year final average salary that may be used by this closed group of members

Experience Study

Changes to actuarial methods

- Most actuarial methods left unchanged
  - Entry Age Normal cost method
  - 5-year asset smoothing
- Amortization method changed from closed period for entire unfunded actuarial liability to layered amortization
  - Existing unfunded actuarial liability still paid off in 2033
  - Changes to the unfunded actuarial liability in the future will be amortized in separate closed periods over 20 years
  - Each layer is added together to report a single unfunded actuarial liability and contribution rate
  - Layered amortization is more transparent, maintains the current funding plan for the existing unfunded actuarial liability and moderates volatility, but could be somewhat more complex and difficult to explain to policy makers

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Experience Study

Impact of changing assumptions

- The changes **do not impact** retiree benefits
- The changes **do not impact** employee contributions
- The changes **will increase** employer contributions in the future (starting in FY 2020 for State/School employers)
- The estimated unfunded actuarial liability for the total System increases $565 million, or 6.6%
- The estimated funded ratio for the total System decreases from 67.1% to 65.7%
- The 12/31/2016 valuation will reflect both the changes in the actuarial assumptions and the actual experience (investments, demographics, etc.) and the results will differ from the estimates

Long-term Funding

Projections under the new assumptions

- Unfunded Actuarial Liability
- Funded Ratio
- Employer Contributions

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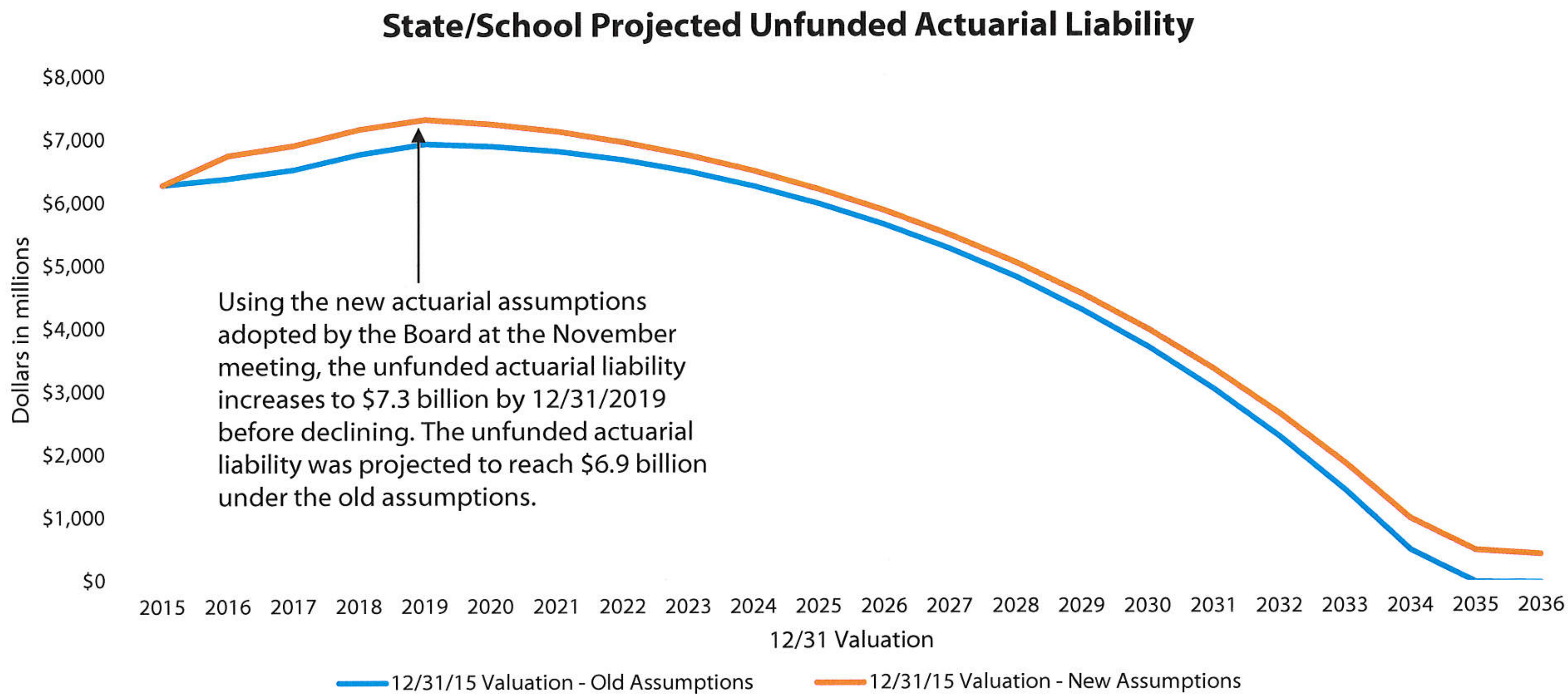
Long-term Funding

Unfunded Actuarial Liability

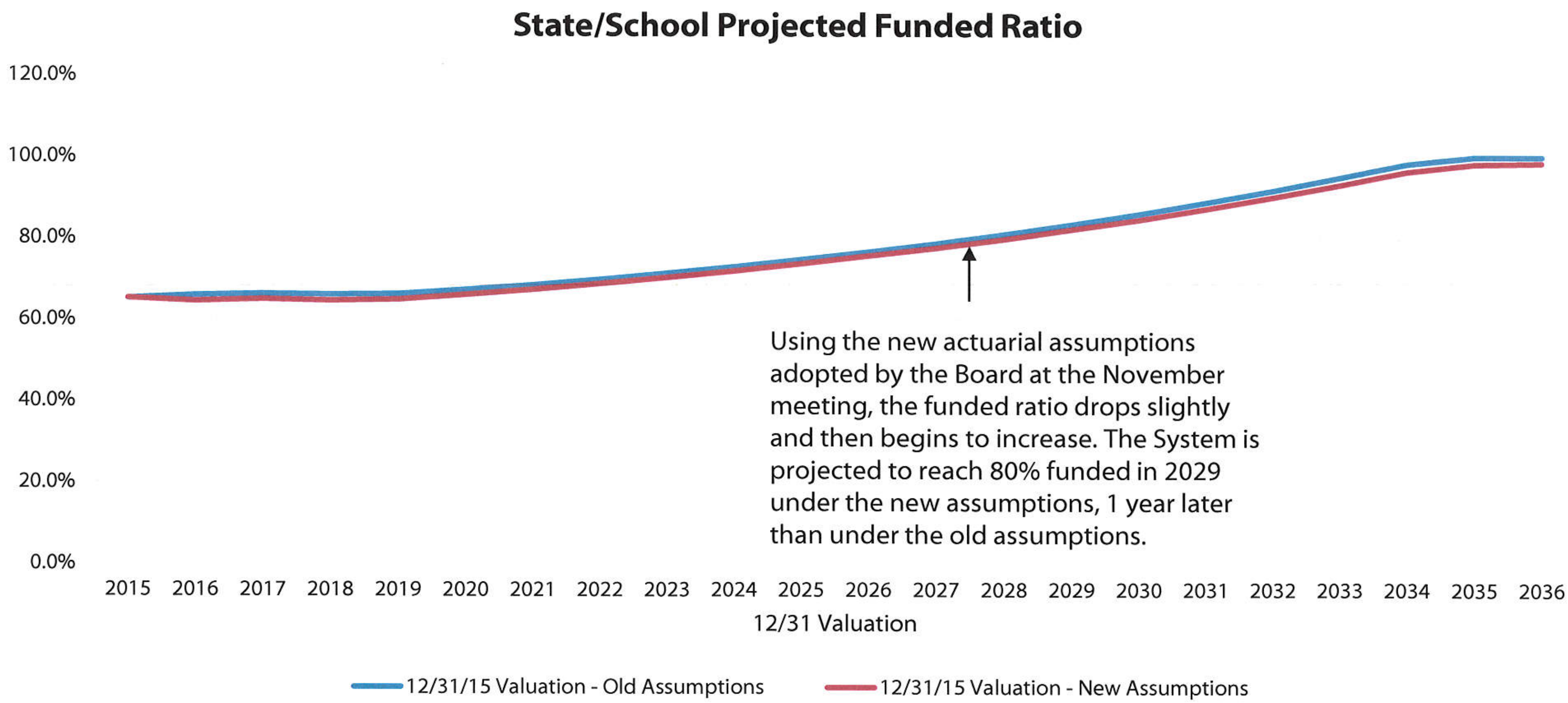


Old assumptions: 8% investment return, 4% payroll growth, 4% wage inflation

New assumptions: 7.75% investment return, 3% payroll growth, 3.5% wage inflation

Long-term Funding

Funded Ratio



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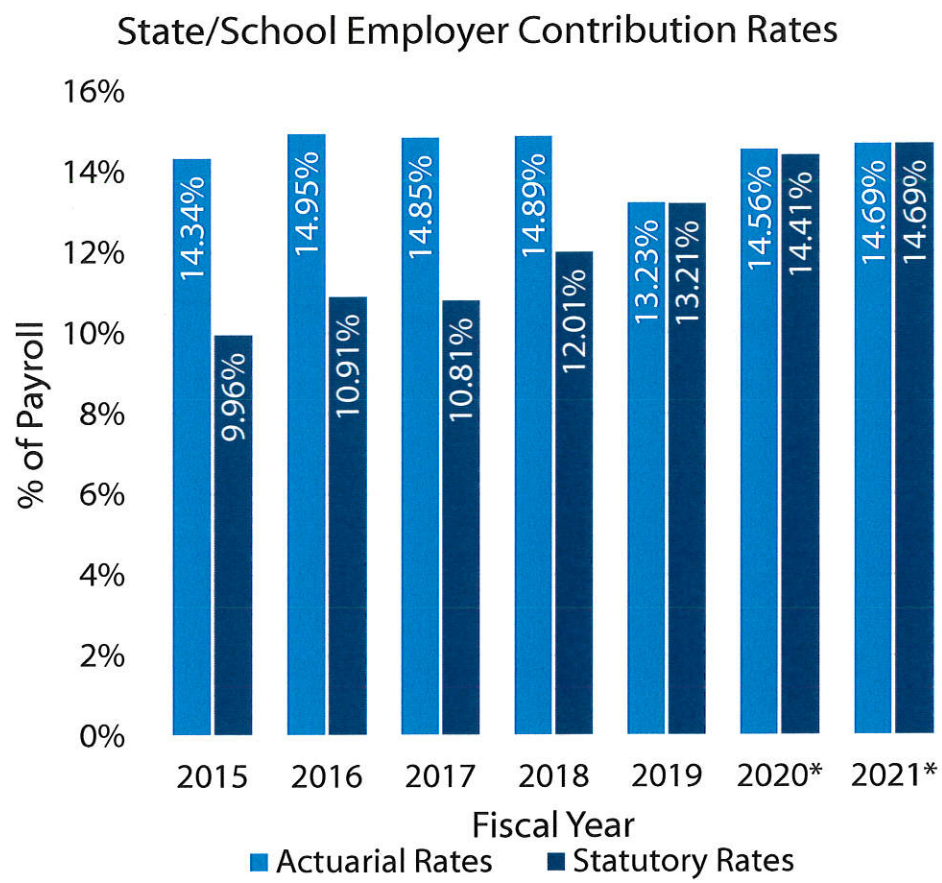
Long-term Funding

Employer Contribution Rates

- The Governor's budget allotment and Legislative action in 2015 SB 4 reduced the employer contribution rate from 11.27% to 8.65% for the last 6 months of FY 2015, an effective rate of 9.96% for the year
- In addition to authorizing sale of $1.0 billion in bonds, 2015 SB 228 reset the statutory employer contribution rate for FY 2016 and FY 2017 to 10.91% and 10.81% respectively
- In FY 2018, the 1.2% statutory cap on rate increases will apply, resulting in a statutory rate of 12.01%.
- The new actuarial assumptions do not affect employer contribution rates until FY 2020
- Until FY 2021 (under the new actuarial assumptions), statutory State/School employer contribution rate will continue to be lower than the actuarial required rate, 1 year later than under the old assumptions



*Projected

Board Election
2017 Elections

- Two members of the Board of Trustees are elected by KPERS members
- Retired and active members can run for an elected board position
- Candidates had until the end of November 2016 to collect signatures and turn in forms
  - 2 School Group candidates accepted
  - 3 Non-school Group candidates accepted
- Members will vote in April 2017

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Questions?

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