

Retirement Funding Shortfall Needs Cooperative, Comprehensive Solution

Unprecedented financial market declines in 2008 have affected all long-term investors, including KPERS. The negative impact has reversed the funding progress the Retirement System has made over the last several years. A new solution will take careful analysis and teamwork.

The last year has been the worst year for the stock market since 1931. All equity market indexes were down substantially, including the S&P with a -26.2 percent return for the fiscal year ending June 30, 2009. Reflecting this market turmoil, the KPERS portfolio returned -19.4 percent during this same time frame. These losses created a \$2.9 billion decrease in assets for the fiscal year and have had a substantial impact on KPERS' long-term funding outlook. In addition, employer contributions not being at the actuarially required rate and benefit enhancements from the 1990s have had a lasting effect on funding.

Funding Outlook and Projections

The Retirement System's most recent actuarial valuation shows a \$2.7 billion increase in the unfunded actuarial liability (UAL), which dropped the funded ratio to 59 percent. Given the current funding structure, this means that the System does not have enough assets to provide all the benefits already earned by members and to pay off the UAL in the adopted amortization period ending in 2033.

While it is not an immediate crisis, the depth of the impact is serious. Investment returns alone cannot fix the funding shortfall. If returns over the next few years are weak or see new lows, the funding status could deteriorate further from current projections.

Where Do We Go From Here?

The KPERS Board of Trustees uses a set of funding standards to guide board members in upholding their fiduciary responsibilities. This last valuation has triggered multiple "warning indicators," prompting the Board and staff to complete a top-to-bottom analysis of the System's funding status, projections and options. In the next few months, we will complete a new, compre-



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Funding — Last Five Years

	UAL (millions)	Funded Ratio
2004	\$4,743	70%
2005	\$5,152	69%
2006	\$5,364	69%
2007	\$5,552	71%
2008	\$8,279	59%

hensive funding analysis on how to restore the System to financial health. Since contributions and investment returns must equal benefits and expenses, we will consider all of these areas.

We are committed to a comprehensive solution that is sustainable for both the short and the long term. In addition, any plan needs to be cooperative in the sense that it respects the competing demands of members, employers and taxpayers. It must provide a reasonable balance of all the factors involved – cost, stability and benefit adequacy. The solution could include contribution increases for employers and future benefit changes and contribution increases for employees within legal and contractual boundaries.

The Board and staff will evaluate possible options based on results from the detailed analysis. We will use the most viable options to develop a funding solution for consideration by the Governor and the Joint Committee on Pensions, Investments and Benefits later this fall.

Addressing the funding shortfall is critical and will be costly. Stakeholders can count on KPERS to be a trusted partner during this time of uncertainty.

Funding Status and Member Benefits

Current benefits are safe for a period of time. The Retirement System has about \$10 billion in assets available to pay benefits. And not all benefits are due at once. Most members are still working and contributing and will not retire for years. Those in retirement are paid over a lifetime.

Neither the System’s funding status nor the unfunded actuarial liability alter the State’s obligation to pay benefits already earned. KPERS’ Board and staff remain committed to working on behalf of our members to advocate for policies that provide for the health and stability of the Retirement System.

Current Funding Status Breakdown		
	UAL (millions)	Funded Ratio
Kansas Public Employees Retirement System (KPERS)		
• State Group	\$ 1,002	72%
• School Group	5,239	51%
• Local Group	1,385	59%
Kansas Police and Firemen’s Retirement System (KP&F)		
	619	71%
Kansas Retirement System for Judges		
	36	75%
Retirement System Totals	\$ 8,279*	59%

*may not add due to rounding