KPERS **FUNDING** POLICY

How Long-Term Funding Architecture Affects Financial Soundness

KPERS' Funding Shortfall

KPERS has a long-term funding shortfall due to:

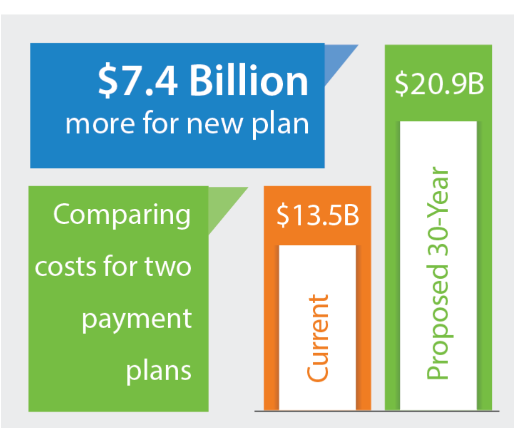
- Decades of lower, delayed and missing employer contributions.
- Market downturns in 2001 and 2008.
- Unfunded benefit enhancements.
- Actuarial assumption changes.

The shortfall has created a legacy unfunded actuarial pension liability. Having an unfunded liability is not necessarily bad or uncommon. As long as there is a plan to pay for it in a reasonable amount of time. KPERS' unfunded liability is paid for as part of employer contributions over time. The debt is amortized, much like a home mortgage.

The KPERS Board of Trustees reviews all actuarial assumptions (including amortization) as part of its regular triennial experience study. A new study begins in 2019. Retirement systems often reamortize within the last 10 to 15 years of the amortization period. But having a sound funding position beforehand is critical.

Adjusting KPERS' Funding Policy

The State has many competing budget priorities. And funding the State's KPERS obligations is a significant commitment among them. Reamortizing KPERS' legacy State/School unfunded actuarial liability is among this year's budget strategies under discussion. This does not include KPERS Local, KP&F or Judges. The Governor has recommended reamortizing KPERS' legacy State/School unfunded liability over a new 30-year period ending in 2046. As with refinancing a home mortgage, reamortization helps with payments in the short-term, but takes longer and costs more in the long run.



Projected cost for KPERS' current amortization plan compared to a proposed 30-year plan

Benefits Are Secure

Reamortization does not impact retiree benefits.

Current Amortization

- 40-year closed period
- Only 15 years remaining
- Contributions going directly toward "principle," instead of just interest
- A KPERS' Board responsibility

Why Amortize?

- Funding improvement over time
- More consistent employer contribution rates
- Cost equity between current and future generations

Why *Reamortize?*

Funding payments are designed to increase over time with payroll growth and inflation. Reamortization lowers the risk of contribution volatility caused by market conditions toward the end of the original amortization period.

KPERS' Board studies actuarial assumptions (including amortization) every three years. A new study begins in 2019. Sound funding is a necessary condition for "best practice" reamortization.

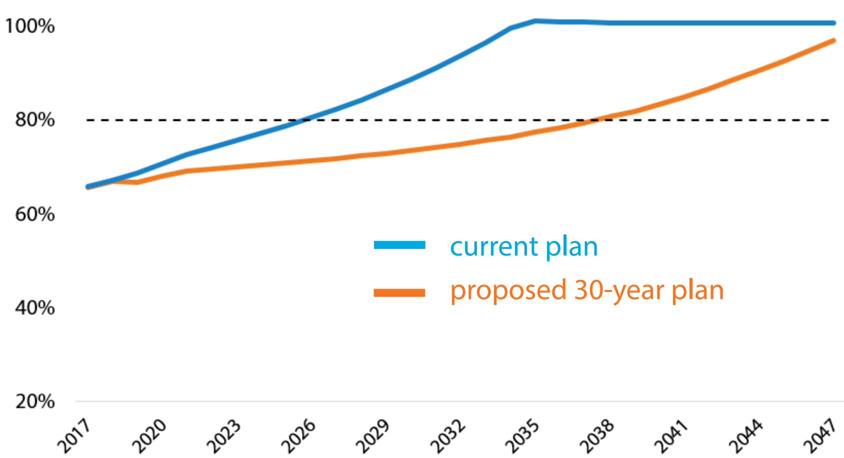
The Effects of Reamortization

In addition to increasing cost over time, a lingering unfunded actuarial liability and lower funded ratio means KPERS will be more vulnerable to adverse market conditions for more than a decade.

Improving KPERS' Funded Ratio

Reamortizing with a proposed new 30-year plan:

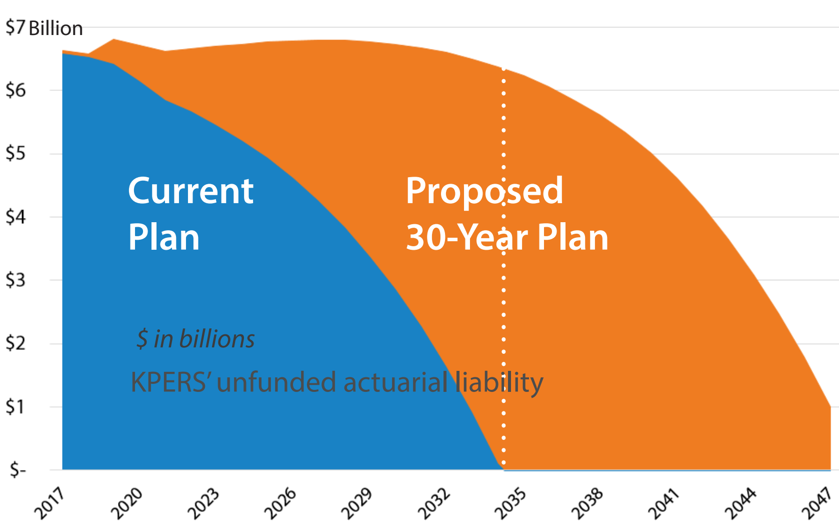
- Keeps KPERS in the 60% cautionary range until 2022.
- Takes an additional 12 years to reach 80% funded status.



Paying Off KPERS' Legacy Unfunded Actuarial Liability

Reamortizing with a proposed new 30-year plan:

- Costs an additional $7.4 billion.
- Keeps the unfunded liability at over $6 billion until 2035, two years after the current plan would extinguish the debt.

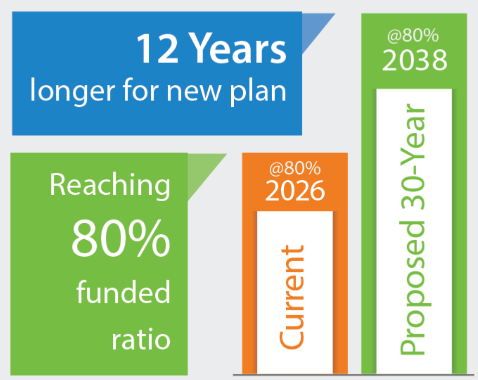


Healthy Funded Ratio

The funded ratio is the ratio of assets to the cost of future benefits.

For public pension plans like KPERS, funding over 80% and rising is good, with the goal of 100%. Funding below 60% is poor and needs prompt attention.

KPERS' *State/School group* currently has a 66% funded ratio. Reamortization with a new 30-year plan would keep KPERS below 80% and more vulnerable to market downturns for an extra 12 years.



Pay Me Now or Pay Me Even More Later

Reamortization could save the State about **$770 million** over the next five years in employer contributions, including $160 million in 2020. This short-term gain is projected to cost the State **$7.4 billion** over time.