

KPERS FUNDING POLICY

How Long-Term Funding Architecture Affects Financial Soundness

KPERS' Funding Shortfall

KPERS has a long-term funding shortfall due to:

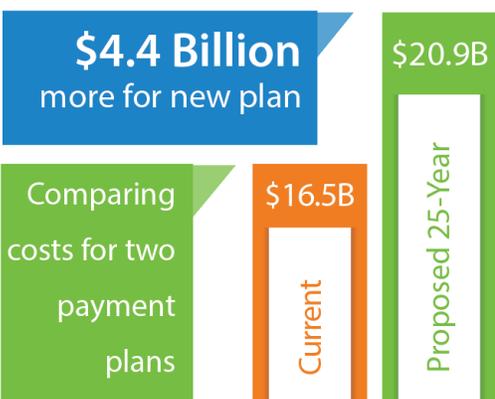
- Decades of lower, delayed and missing employer contributions.
- Significant market downturns in 2001 and 2008.
- Unfunded benefit enhancements.
- Actuarial assumption changes.

The shortfall has created a legacy unfunded actuarial 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. In January, the Board completed a new 12-month study and decided to maintain the current schedule. Retirement systems often reamortize within the last 10-15 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. The Governor recommends reamortizing KPERS' legacy State/School unfunded liability over a new 25-year period ending in 2043, instead of the current 2033 date. This does not include KPERS Local, KP&F or Judges. As with refinancing a home mortgage, reamortization helps lower payments in the short-term, but takes longer and costs more in the long run.



Projected cost for KPERS' current amortization plan compared to the proposed new plan

! Benefits Are Secure

Reamortization does not impact retiree benefits.

Current Amortization

- 40-year closed period
- Extinguishing in 2033
- 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. Sound funding is a necessary condition for "best practice" reamortization.

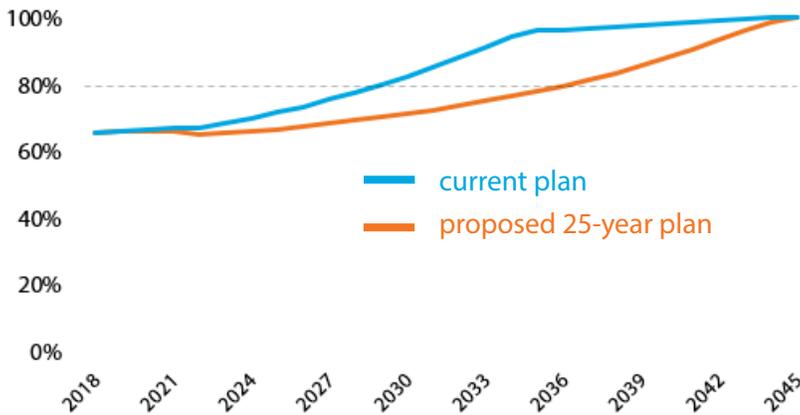
The Effects of Reamortization

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 the proposed new 25-year plan:

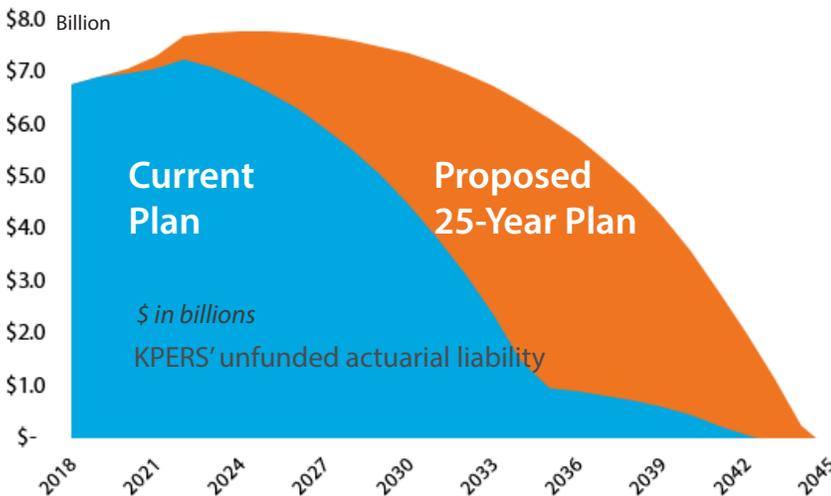
- Keeps KPERS in the 60-70% cautionary range until 2029.
- Takes an additional seven years to reach 80% funded status.



Paying Off KPERS' Legacy Unfunded Actuarial Liability

Reamortizing with the proposed new 25-year plan:

- Costs an additional \$4.4 billion.
- Keeps the unfunded liability at over \$6 billion until 2036, three years after the current plan would extinguish the legacy 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 25-year plan would keep KPERS below 80% and more vulnerable to market downturns for an extra seven years.



Pay Me Now or Pay Me Even More Later

Reamortization would allow the State to put off paying about **\$963 million** over the next five years in employer contributions, including \$187 million in 2021. This short-term gain is projected to cost the State **\$4.4 billion** over time.