House Insurance and Pensions

KPERS Overview and Funding

PRESENTED BY:
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January 27, 2021
Covering Today

KPERS Retirement Plans

System Statistics

Key Terms
KPERS Overview
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
<table>
<thead>
<tr>
<th>Name</th>
<th>Title/Profession</th>
<th>Appointment Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kelly Arnold – Wichita</td>
<td>County Clerk, Sedgwick County</td>
<td>Appointed by the Governor</td>
</tr>
<tr>
<td>Suresh Ramamurthi – Topeka</td>
<td>Chairman, CBW Bank</td>
<td>Appointed by the President of the Senate</td>
</tr>
<tr>
<td>Ernie Claudel – Olathe</td>
<td>Retired Teacher and Administrator</td>
<td>Elected Member - School</td>
</tr>
<tr>
<td>Emily Hill – Lawrence</td>
<td>Founding Partner, Bowersock Capital Partners</td>
<td>Appointed by the Governor</td>
</tr>
<tr>
<td>Ron Johnson – Seneca</td>
<td>Retired President and CEO, Community National Bank</td>
<td>Appointed by the Speaker of the House</td>
</tr>
<tr>
<td>Brad Stratton – Overland Park</td>
<td>President, Overland Park Wealth Management</td>
<td>Appointed by the Governor</td>
</tr>
<tr>
<td>Lynn Rogers – Wichita</td>
<td>Kansas State Treasurer</td>
<td>Statutory Member</td>
</tr>
<tr>
<td>Ryan Trader – Olathe</td>
<td>Firefighter/Paramedic, City of Olathe</td>
<td>Elected member – Non-School</td>
</tr>
<tr>
<td>James Zakoura – Overland Park</td>
<td>Partner, Smithyman &amp; Zakoura Law Firm</td>
<td>Appointed by the Governor</td>
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</tbody>
</table>

**KPERS Overview and Funding**
KPERS’ Mission

KPERS exists to deliver retirement, disability and survivor benefits to our members and beneficiaries.

• The fiduciary standard is our guiding principle and driving force. We put the interests of our members first in all that we do.

• We serve members as a fiduciary, holding assets in trust for them, growing those assets through investments and delivering promised benefits.

• Our aim is to provide timely and accurate information to our members, employers and plan sponsors with a high level of customer service.

FY20 by the Numbers

- $1.9B Total Benefits Paid
  Includes retirement, life insurance, withdrawals and disability

- 91,000 Account Updates
  Enrollments, transfers, retirements, beneficiary changes, and withdrawals

- 90,000 Calls Answered

- 20,500 Emails Answered

- Almost Half the Cost
  Compared to administrative costs for peer systems

KPERS Overview and Funding
KPERS Retirement Plans

**KPERS is a qualified 401(a) defined benefit plan under the Internal Revenue Code.**

- The Internal Revenue Service (IRS) periodically reviews KPERS’ plan design to determine if the plan complies with 401(a) requirements.

- Being a qualified plans allows for certain tax advantages. The primary advantage is that member contributions are “picked up” and excluded from taxable income for federal income taxes.

- Maintaining a qualified status is a consideration for policy issues (e.g., working after retirement, withdrawals).
KPERS Retirement Plans

**KPERS administers three retirement plans:**

1. **KPERS State/School/Local** – The largest of the three retirement plans with more than 1,500 employers and 309,000 active, inactive or retired members. This group covers all state employees, local school districts, and about 1,200 other local public employers.

2. **Kansas Police and Fire (KP&F)** – This plan covers police officers, firefighters and emergency medical technicians (EMTs) if their employer is affiliated with KP&F. 106 local employers and the State of Kansas offer this plan, covering more than 15,000 active, inactive or retired members.

3. **Judges** – This plan covers all state Judges across Kansas, but not judicial staff. Judges are smallest group with 564 total active, inactive and retired members.
Major plan design changes have created retirement plan subgroups.

- KPERS 1 – Members prior to July 1, 2009. Currently the largest group of members, but now closed.
- KPERS 2 – Created through pension reform legislation in 2007. Applies to members from July 1, 2009 through December 31, 2014. Limited group of employees (i.e. corrections officers) can still be enrolled.
- KPERS 3 – Created through pension reform legislation in 2012. Applies to members since January 1, 2015.
- KP&F Tier 1 – Members prior to July 1, 1989 who did not elect Tier 2 coverage. Only a few hundred tier 1 members remain.
- KP&F Tier 2 – Members since July 1, 1989.
All KPERS plans are defined benefit retirement plans, often called pensions.

- A pension plan is a retirement fund composed of contributions from the employer, employee and with investment earnings.

- At retirement, the member receives guaranteed regular monthly payments from the fund.

- Most KPERS plan follow the traditional pension formula: Years of Service X Final Average Salary X Multiplier

- KPERS 3 is a hybrid Cash Balance plan that uses account balances to determine benefits, but it is still a defined benefit plan.
System Statistics
• KPERS has more than 156,000 active members.
  • Active members range in age from 17 to 92.

• KPERS 1 is the largest membership group with 60,995 active members. KPERS 3 is the second largest with 57,662 members.

• The average KPERS member has 10.8 years of service and a salary of about $45,000.

• The average KP&F member has 10.9 years of service and a salary of about $71,000.
KPERS Overview, Funding and Benefits

- KPERS has over 105,000 retirees and beneficiaries.
  - Retirees range in age from 51 to 109.
  - Beneficiaries range in age from 15 to 108.

- The average KPERS retiree benefit is about $15,500 per year ($1,292 per month).
  - 78% of KPERS retirees receive less than $2,000 per month ($24,000 annually).

- The average KP&F retiree benefit is about $38,500 per year ($3,200 per month).
KPERS receives about $1.5 billion in employee and employer contributions each year. Those contributions are deposited in the Trust Fund and investment across a diversified investment portfolio.

Calendar year 2019 returns exceeded 17%. 2020 returns are not final but are expected to exceed the 7.75% investment return assumption and assets currently exceed $23 billion.

Asset levels fluctuate with investment markets but have increased over time.

Increased employer and employee contributions along with consistent investment performance has greatly improved the value of the Trust Fund since the Great Recession.
Investments

Investment returns make up the largest source of income for paying benefits.

KPERS manages a well diversified portfolio across eight asset classes, including:

- Domestic equity
- International equity
- Fixed income
- Yield driven
- Real return
- Real estate
- Private equity
- Cash

As of November 30, 2020, KPERS investments earned 7.9% over the previous 25 years, exceeding the 7.75% investment return target.

CY 2020 returns will be finalized later this month, but the preliminary investment return for CY 2020 is 11.5%.
Kansas has issued two pension obligation bonds to improve the funded status of the System.

1. $500 million gross of fees in 2004 (KPERS received about $440 million) at a 5.39% interest rate
2. $1.0 billion net of fees in 2015 at 4.69% interest rate

The state makes the debt service payments on the bonds. The bond payments include about $33 million from the Expanded Lottery Act Revenues Fund for the 2004 bond and $65 million from the State General Fund for the 2015 bond.

The expectation is, over time, KPERS’ investments will exceed the interest rates paid on the bonds.

As of November 30, 2020, KPERS investments have exceeded the bond interest rates and provided about $676 million in value above the debt service cost of the bonds.
As a System, KPERS reached 70% funding in the 12/31/2019 valuation. The State/School Group funded status improved 2%, from 66.1% to 68.1% funded. As the legacy unfunded actuarial liability reaches the end of the amortization period (2033), the funded status should continue to improve.
All plan assets are held in a single Trust Fund, but group assets and liabilities are calculated separately.

The largest single factor in the unfunded actuarial liability is the underfunding of employer contributions.

The state reached the actuarial required employer contribution rate in FY 2021 for the first time in 25 years.

Local employers have been contributing the full actuarial required rate since 2015. KP&F and Judges employers have always contributed the actuarial rate.

<table>
<thead>
<tr>
<th>Group</th>
<th>Funded Ratio</th>
<th>Unfunded Actuarial Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>79.1%</td>
<td>$0.96 billion</td>
</tr>
<tr>
<td>School</td>
<td>64.9%</td>
<td>$5.58 billion</td>
</tr>
<tr>
<td>State/School Combined</td>
<td>68.1%</td>
<td>$6.54 billion</td>
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<tr>
<td>Local</td>
<td>73.7%</td>
<td>$1.50 billion</td>
</tr>
<tr>
<td>KPERS Total</td>
<td>69.3%</td>
<td>$8.05 billion</td>
</tr>
<tr>
<td>KP&amp;F</td>
<td>73.5%</td>
<td>$0.95 billion</td>
</tr>
<tr>
<td>Judges</td>
<td>94.7%</td>
<td>$0.01 billion</td>
</tr>
<tr>
<td>Total System</td>
<td>70.0%</td>
<td>$9.01 billion</td>
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</tbody>
</table>
Benefits Are Secure

Funds can never be removed from the KPERS Trust Fund, except to pay member benefits and System expenses.

KPERS has a well-diversified investment portfolio.

The KPERS Trust Fund received about $1 billion in employer and employee contributions each year.

With over $21 billion in assets today, KPERS can pay promised benefits for many years.
Key Terms
Key Retirement Terms

**Actuarial Valuation** – Annual evaluation of the funding health of the System by calculating the System’s assets and liabilities. In addition, the actuarial valuation determines the contributions necessary to meet the financing plan, based on the funded status on the valuation date.

**Actuarial Required Contribution (ARC) Rate** – The calculated contribution rate necessary each budget year to fund the value of benefits allocated to the budget year for all active members and the amortized portion of unfunded past liabilities.

**Funded Ratio** – The ratio of actuarial assets (smoothed value) to the actuarial accrued liability. For KPERS this totals $21.0 billion in assets / $30.0 billion in liabilities, or 70%, as of 12/31/2019.

**Amortization** – Paying off the unfunded portion of System liabilities through a series of installments over time (similar to a home mortgage).
**Pension Plan** – A pension plan is a retirement fund composed of contributions from the employer, employee, or both, along with investment earnings. At retirement, the employee receives regular monthly payments from the fund. Generally used interchangeably with defined benefit.

**Defined Contribution (DC) Plan** – A type of retirement plan in which contributions are made to an individual account for each employee. The money in the account is invested and actual investment earnings are credited directly to the individual account. The benefit at retirement is equal to the account balance at retirement. In this type of plan, the employee bears all the investment risk.

**Defined Benefit (DB) Plan** – A type of pension plan that is designed to provide participants with a guaranteed benefit for their lifetime, typically based on a formula that considers an employee’s compensation, years of service, and age. The investment risk is either shared between the employer and employee or totally borne by the employer.

**Cash Balance Plan** – A hybrid defined benefit pension plan with some defined contribution features, specifically the retirement benefit before retirement is in the form of an account balance which is usually converted into monthly income at retirement.

**Cost of Living Adjustment (COLA)** – Increases in retirement benefits for members who have already retired and are receiving benefits. In Kansas, COLAs are not a part of the pension plan design but can be granted by the Legislature (called ad hoc COLAs).
KPERS Groups
Traditional Defined Benefit Plan

- Membership dates before 7/1/2009
- Final average salary x years of service x multiplier (1.85%)*
- Final average salary = 3 highest years of salary (if membership date after 7/1/93)
- Vesting = 5 years
- Normal retirement:
  - 85 points (age + years of service)
  - Age 62 with 10 years of service
  - Age 65 with 1 year of service

*KPERS 1 multiplier is 1.75% for all service prior to 2014

<table>
<thead>
<tr>
<th>20-year KPERS 1 member</th>
<th>30-year KPERS 1 member</th>
</tr>
</thead>
<tbody>
<tr>
<td>Final average salary</td>
<td>Final average salary</td>
</tr>
<tr>
<td>$40,000</td>
<td>$40,000</td>
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<tr>
<td>Service</td>
<td>Service</td>
</tr>
<tr>
<td>20 years</td>
<td>30 years</td>
</tr>
<tr>
<td>Benefit*</td>
<td>Benefit*</td>
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<tr>
<td>$14,200 a year</td>
<td>$21,200 a year</td>
</tr>
</tbody>
</table>

*Calculated using 15 years at 1.75% multiplier and 5 years at 1.85% multiplier.
Traditional Defined Benefit Plan

- Membership dates between 7/1/2009 and 1/1/2015
- Final average salary $ \times \text{years of service} \times \text{multiplier (1.85\%)}$
- Final average salary = 5 highest years of salary
- Vesting = 5 years
- Normal retirement:
  - Age 60 with 30 years of service
  - Age 65 with 5 years of service

<table>
<thead>
<tr>
<th>20-year KPERS 2 member</th>
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<tbody>
<tr>
<td>Final average salary</td>
<td>$40,000</td>
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<tr>
<td>Service</td>
<td>20 years</td>
</tr>
<tr>
<td>Benefit</td>
<td>$14,800 a year</td>
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</tbody>
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<table>
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<tr>
<th>30-year KPERS 2 member</th>
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<td>Final average salary</td>
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</tr>
<tr>
<td>Service</td>
<td>30 years</td>
</tr>
<tr>
<td>Benefit</td>
<td>$22,200 a year</td>
</tr>
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</table>
KPERS Correctional Group A (C55) and Group B (C60)

Traditional Defined Benefit Plan

- Same benefit structure as KPERS 1 or KPERS 2 (depending on hire date).
- Correctional Group A is most corrections officers and their supervisors.
- Correctional Group B is other positions with inmate contact like food service, maintenance or correctional industries.
- Normal retirement:
  - Correctional Group A – Age 55 with 10 years of service
  - Correctional Group B – Age 60 with 10 years of service
- Members must have worked in an eligible for the preceding 3 years to be eligible for the younger normal retirement age.

| 20-year KPERS Correctional member | Final average salary | $40,000 |
| Service | 20 years | |
| Benefit | $14,800 a year | |

| 30-year KPERS Correctional member | Final average salary | $40,000 |
| Service | 30 years | |
| Benefit | $22,200 a year | |
Cash Balance Benefit Plan

- Membership dates on and after 1/1/2015
- Benefit is based on total account balances at retirement
  - Member contributions plus interest
  - Employer pay credits plus interest
- Guaranteed interest of 4% per year, plus statutory formula for dividend interest
- Normal retirement:
  - Age 60 with 30 years of service
  - Age 65 with 5 years of service

### 20-year KPERS 3 member

- End of career salary: $60,000
- Total account balances at retirement*: $140,420
- Benefit: $12,000 a year

### 30-year KPERS 3 member

- End of career salary: $60,000
- Total account balances at retirement*: $261,000
- Benefit: $22,800 a year

* Assumes 6.5% annual interest on account balances.
KPERS 3 Cash Balance Plan

Defined benefit plan with defined contribution characteristics

**Defined benefit features**
- Benefit is paid as lifetime income in retirement (Lump sum may be optional form of payment)
- Guaranteed interest crediting rate provides determinable benefit
- Assets are pooled and professionally managed
- Actuarial valuation determines contributions required to fund the plan
- Required actuarial contributions vary depending on the actual experience compared to actuarial assumptions

**Defined contribution features**
- Value of benefit is expressed during working years as account value
- However, accounts are “notional” or hypothetical accounts
- Assets don’t precisely match account values as in a defined contribution plan
- Reflects compensation earned over entire career
- Investment, inflation and longevity risks may be shared with employee
KPERS 3 Cash Balance Plan

KPERS 3 Retirement Benefits

5 Steps to How It Works

1. You contribute 6% of your pay
   Contributions vest immediately and can be withdrawn if you leave.

2. You earn retirement credits
   Retirement credits are only available at retirement.

3. Vesting
   You vest your benefit with five years of service. That means it’s guaranteed.

4. Calculate
   KPERS calculates a benefit based on your contribution account balance and the value of your retirement credits.

5. Lifetime benefit
   KPERS pays you a monthly benefit for the rest of your life.

While Working

AFTER 5 YEARS

At Retirement
## Traditional Defined Benefit Plan

- **Final average salary x years of service x multiplier (2.5%)**
- **Final average salary = 3 highest of last 5 years of salary**
- **Vesting = 15 years**
- **Normal retirement:**
  - Age 50 with 25 years of service
  - Age 55 with 20 years of service
  - Age 60 with 15 years of service
- **Benefits capped at 90% of final average salary (36 years of service)**
- **Unlike other coverage groups, death and disability benefits are part of the pension plan design.**
  - Disability benefits = 50% of final average salary.
  - Death benefits = Surviving spouse received 50% of final average salary or 100% survivor retirement, whichever is greater.

### 20-year KP&F member

<table>
<thead>
<tr>
<th>Final average salary</th>
<th>$60,000</th>
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<tbody>
<tr>
<td>Service</td>
<td>20 years</td>
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<tr>
<td>Benefit</td>
<td>$30,000 a year</td>
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### 30-year KP&F member

<table>
<thead>
<tr>
<th>Final average salary</th>
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<tbody>
<tr>
<td>Service</td>
<td>30 years</td>
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<tr>
<td>Benefit</td>
<td>$45,000 a year</td>
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</table>
Traditional Defined Benefit Plan

- Final average salary $x$ years of service $x$ multiplier (3.5%)
- Final average salary = 3 highest of last 10 years of salary
- Vesting = Immediate
- Normal retirement:
  - 85 points (age + years of service)
  - Age 62 with 10 years of service
  - Age 65 with 1 year of service
- Benefits capped at 70% of final average salary (20 years of service)

### 10-year Judges Member

<table>
<thead>
<tr>
<th>Final average salary</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Service</td>
<td>10 years</td>
</tr>
<tr>
<td>Benefit</td>
<td>$35,000 a year</td>
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</table>

### 20-year Judges Member

<table>
<thead>
<tr>
<th>Final average salary</th>
<th>$100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service</td>
<td>20 years</td>
</tr>
<tr>
<td>Benefit</td>
<td>$70,000 a year</td>
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</table>
KPERS Death and Disability Benefits

100% employer funded with 1% of total payroll contribution
• This contribution has been subject to contribution moratoria by the Governor and the Legislature, including for FY 2021.

Any person unable to perform regular occupation for the first 24 months and unable to perform any occupation after 24 months is entitled to a disability benefit
• Benefit waiting period of 180 days
• Benefits total 60% of compensation at time of disability with a max monthly benefit of $5,000
• Rehabilitative programs are available to help people return to work without immediately losing all disability benefits

$4,000 death benefit
Questions
MEMORANDUM

To: House Insurance and Pensions Committee
   House of Representatives

From: Alan D. Conroy, Executive Director

Date: January 27, 2021

Subject: HB 2063/KP&F Disability Benefits

During the bill hearing on HB 2063 the Committee requested additional information on KP&F disability benefits, including the number of disabled members who might be affected by HB 2063.

Service-Connected Definition
The amount KP&F Tier 2 disability benefits do not depend on a service-connected cause. However, service-connected is used for determining other types of benefits (e.g. death benefits). The definition of service-connected is laid out in K.S.A. 74-4952(10). The definition states “any death or disability resulting from external force, violence or diseases occasioned by an act of duty” is considered service-connected.

Several diseases are included in statute as presumed to be service-connected including:
- Heart disease
- Bloodborne pathogens (e.g. hepatitis)
- Cancers of the lung or respiratory tract, including but not limited to cancers of the brain, skin, digestive system, hematological (blood) system or genitourinary system.

KP&F Disability Counts
In the latest actuarial valuation (12/31/2019) the KP&F plan had a total of 7,797 active employees. In addition, there were 192 KP&F members receiving disability benefits. Each year there are approximately 20-30 KP&F approved disability claims. This group of about 8,000 members is the pool of members potentially impacted by the new benefit plan design proposed in HB 2063. However, the number of disabled KP&F members who die each year is a much smaller number. Over the past 5 years there have been 13 of disabled members who have died.

Because the survivor benefits currently do not depend on whether the member death was service-connected or not, we do not have a clear record of how many of those 13 members might qualify for the new survivor benefits in HB 2063. However, in reviewing the available information, it appears there may be three survivors who could potentially qualify for the higher benefits as provided for in HB 2063. One of the deaths occurred in 2017, one in 2019 and the third in 2020.
MEMORANDUM

To: House Insurance and Pensions Committee
From: Alan D. Conroy, Executive Director
Date: January 13, 2021
Subject: Joint Committee on Pensions, Investments and Benefits Bills

The Joint Committee on Pensions, Investments and Benefits met in early December to review various topics related to KPERS. As part of their annual report to the Legislature the Joint Committee recommended introduction of three pieces of legislation, which are summarized below.

**Technical Legislation**

The federal Coronavirus Aid, Relief, and Economic Security (CARES) Act contains several provisions that impact retirement benefits and allow disbursements. The Board adopted certain provisions for the KPERS 457 plan (i.e., coronavirus related distributions or loans, qualified birth or adoption withdrawals). However, those provisions do not apply to the Retirement System. KPERS’ tax and compliance counsel, Ice Miller LLP, advised us that KPERS’ IRS guidepost section (K.S.A. 74-49,123) needs to be updated during the 2021 Session to align with the federal CARES Act. Ice Miller has recommended updating the 457 plan’s companion 401(a) plan language in KPERS statutes as well. Some of the updates are not required by the IRS until 2024, but if a technical adjustment for the CARES Act is being made it would be a good time to also update these statutes.

This technical legislation will have no administrative or cost impact to KPERS. Our understanding is that the technical bill will be introduced in the Senate.

**KP&F Death Benefits**

The Joint Committee reintroduced 2020 House Bill 2452. This legislation adds an option for spouses and dependent children of KP&F Tier II members to receive the greater of two benefit options in the event of a service-connected death of a member who is disabled. The two options are:

- A monthly benefit equal to 50% of the member’s final average salary at the time of disability, plus 10% for each dependent child up to a 75% maximum; or
- If there are no dependent children, the retirement benefit the member would have received if the member had retired.
Currently there is no distinction between service-connected and non-service-connected death for KP&F Tier II members. The current spousal benefit is equal to 50% of the member’s disability benefit.

Adjusting the KP&F benefit structure will have some administrative and actuarial costs, but the overall impact is expected to be very low.

**Deferred Retirement Option Program (DROP) Member Extension Option**

The Deferred Retirement Option Program (DROP) was created during the 2015 Legislature session. This benefit provision allows a member to initiate a retirement calculation with KPERS but continuing to work for their employer while an amount equal to their retirement benefit accrues in a DROP account. At the end of the DROP period, the member receives a lump sum payment or qualified rollover of the balance of the DROP account.

The DROP is currently in a pilot phase and only KP&F members at the Kansas Highway Patrol and Kansas Bureau of Investigation are eligible to participate.

The current plan design of the DROP includes a one-time, irrevocable election of a 3-, 4- or 5-year DROP period. The Joint Committee recommended legislation to review the possibility of allowing DROP participants to extend their DROP period but maintaining the maximum 5-year time period.

This change will have administrative and actuarial costs. The administrative impact is expected to be minimal. The actuarial impact is not yet complete. However, the current group of eligible employees is a small percentage of the overall KP&F group, so the impact is expected to be very small.

I would be pleased to answer any questions the Committee has regarding this legislation.
Dedicated Fiduciary, First and Always

The fiduciary standard is our guiding principle and driving force. That means we put the interest of our members first. It is the highest standard of care and accountability. The Kansas Public Employees Retirement System serves members as a fiduciary, holding assets in trust for them, growing those assets through investments and delivering promised benefits when the time comes.

The Kansas Legislature created KPERS in 1962 to secure a financial foundation for those spending their careers in Kansas public service. KPERS provides disability and death benefits to protect employees while they are still working, and guarantees them a lifetime benefit when they retire.

Who We Are

We have three statewide defined benefit retirement plans overseen by a nine-member board of trustees. A staff of more than 100 employees partners with about 1,500 state and local employers to provide benefits. KPERS also oversees KPERS 457, a voluntary 457(b) savings plan for all State and many local employees. KPERS membership totals over 325,000, including active, inactive and retired members. Our membership includes people from all walks of life in a variety of jobs with one thing in common – serving Kansans.

The State of Kansas is the largest single employer, and more than half of active members are employed by school districts.

How KPERS Works

1. Legislature defines benefits and funding.
2. Actuary projects how much benefits will cost.
3. Employers and members make contributions to KPERS.
4. KPERS invests the money over time.
5. KPERS pays benefits with contributions and investment earnings.

Myth:
KPERS is like Social Security. Contributions from current employees pay benefits of current retirees.

Fact:
KPERS is not like Social Security. KPERS benefits are “prefunded.” Current contributions are invested to pay benefits down the road.

Alan Conroy, Executive Director
aconroy@kpers.org
785-296-6880
How Benefits Are Funded
Contributions + Investments — Expenses = Benefits

Money In – Employee and Employer Contributions
Contributions for Fiscal Year 2020 totaled about $1.5 billion.

Employee Contributions
- KPERS = 6% of pay
- KP&F = 7.15% of pay
- Judges = 6% of pay

Employer Contributions
- Variable percent of pay set by annual actuarial valuation
- Statutory cap on annual rate increases

Investments
The investment portfolio represents all contributions as well as net earnings on these assets, currently more than $20 billion. KPERS' portfolio is managed for the long-term in an effort to generate adequate returns to pay promised benefits.

Investment returns make up the largest source of income for paying benefits. They are a vital part of successful funding. Over the years, investments have paid for about 47% of benefits.

Funding Over Time
Last 20 Fiscal Years

Our actuarial projections currently assume an average, long-term investment return of 7.75%. In some years, returns will be below that rate, and in others, returns will exceed it. While investment returns each year are important, healthy returns over time are essential for proper funding. KPERS' 25-year investment return average is 7.8%, slightly exceeding the 7.75% target.

Money Out – Benefits
KPERS paid about $1.8 billion in benefits in Fiscal Year 2020 (retirement, death, disability and withdrawal). At retirement, a member’s benefit is calculated and the retiree will receive a benefit for life.

The average monthly KPERS retirement benefit is $1,347. After about three years, most retirees begin receiving more in total benefits than they paid in contributions (if no lump-sum option).