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Retirement

S-5 KPERS Long-Term Funding Plan

The Kansas Public Employees Retirement System (known as KPERS and referenced in this document as the Retirement System) administers three statewide plans. One plan includes state, school, and local groups composed of regular state and local public employees, school district and community college employees, Regents classified employees and certain Regents unclassified staff with pre-1962 service, and state correctional officers. A second plan known as the Kansas Police and Firemen's (KP&F) Retirement System includes certain designated state and local public safety employees. A third plan known as the Kansas Retirement System for Judges includes the state's judicial system judges and justices. All coverage groups are defined benefit, contributory retirement plans and have as members most public employees in Kansas.

The primary purpose of the Retirement System is to accumulate sufficient resources in order to pay benefits. Today more than $1.0 billion is paid in annual retirement and death benefits. Payments exceed the contributions from employees and employers, leaving the balance in benefit payments to come from investment earnings. Long-term disability benefit payments also are paid to disabled members. Of the three plans, only the regular KPERS plan is experiencing a long-term funding problem. The other two plans are funded on an actuarial basis, and employer contributions are adjusted annually in order to provide adequate funding on an actuarial reserve basis. The regular KPERS plan, however, is limited in the amount of annual budget increases by statutory caps on the state, school, and local participating employers. Therefore, the participating employer contributions for regular KPERS are not paid at the actuarial amounts, but rather are paid at the statutorily capped amounts. The employee contributions also are capped by a statutory maximum amount that currently is being paid annually.

The Retirement System faces two challenges in terms of long-term funding. The first challenge involves the regular KPERS program's long-term funding of all three groups (state, school, and local), and the second challenge specifically involves the KPERS School Group which is no longer in actuarial balance to achieve full-funding for promised benefits under provisions of current law. Both challenges are impacted by two situations. First, there is an annual gap between current revenue (contributions) and expenditure (benefits) that must be funded from investment income. Second, there is a shortfall in annual employer contributions computed as the difference between the actuarial rate (which indicates how much should be paid by employers) versus the statutory rate (which determines how much is paid by employers). The resulting reduced funding increases the unfunded actuarial liability, which is the difference between assets and promised benefits. The Legislature focused its attention on the long-term retirement funding issue during recent sessions. As recently as two years ago, all plans, including the KPERS School Group, were in actuarial balance and were expected to reach full-funding by FY 2033. However, in the last two actuarial valuations, the KPERS School Group was determined to be "out of balance" and in danger of not having enough resources to pay all promised benefits by the end of its amortization period in 2033.

Latest Actuarial Projections

The most recent actuarial valuation, dated December 31, 2012, found that the Retirement System's long-term funding status remains challenged. The unprecedented negative investment experience in 2008 was a significant setback in the Retirement System's long-term funding. Despite the 2008 investment losses, the State and Local groups remain in actuarial balance. For the School group, the statutory and actuarial contribution rates are projected to converge by 2019 if all assumptions are met in future years and if the excess amount collected from state agencies is used to subsidize the school group.

As of December 31, 2012, the Retirement System's actuarial funded ratio decreased from 59.2 percent the previous year to 56.4 percent and the unfunded actuarial liability increased from $9.2 billion the previous year to $10.3 billion for all groups (state, school, and local; KP&F; and judges). Even with recent funding improvements approved by the Legislature, the dollar amount of the unfunded actuarial liability is projected to increase for a number of years before it begins to decline.

School Group Issue

The KPERS School Group's (excluding the State Group) unfunded actuarial liability increased from $5.8 billion in 2011 to $6.4 billion in the December 31, 2012, valuation report, which is more than one-half of the Retirement System's total unfunded actuarial liability. For this group, the actuarial liability is $12.6 billion and the actuarial value of assets is $6.2 billion. The funded ratio on an actuarial basis decreased slightly from 52.1 percent the previous year to 49.4 percent. Anything below 60 percent funding is considered reason for concern.

Summary

The twin challenges facing the Retirement System both involve funding: all of the retirement plans need more money to address a long-term financing problem, and the School Group needs an even greater share of that new money to solve its funding issue.

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