

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

FY 2022 – FY 2024 BUDGET ANALYSIS

FIGURE 1
BUDGET OVERVIEW, FY 2022 – FY 2024

	Actual FY 2022	Agency FY 2023	Governor FY 2023	Agency FY 2024	Governor FY 2024
Operating Expenditures:					
State General Fund	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Funds	-	-	-	-	-
All Other Funds	59,815,495	63,897,928	63,897,928	65,920,720	65,920,720
<i>Subtotal</i>	<u>\$ 59,815,495</u>	<u>\$ 63,897,928</u>	<u>\$ 63,897,928</u>	<u>\$ 65,920,720</u>	<u>\$ 65,920,720</u>
Capital Improvements:					
State General Fund	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Funds	-	-	-	-	-
All Other Funds	-	-	-	-	-
<i>Subtotal</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL	<u>\$ 59,815,495</u>	<u>\$ 63,897,928</u>	<u>\$ 63,897,928</u>	<u>\$ 65,920,720</u>	<u>\$ 65,920,720</u>
Percentage Change:					
State General Fund	-- %	-- %	-- %	-- %	-- %
All Funds	18.0 %	6.8 %	6.8 %	3.2 %	3.2 %
FTE Positions	98.4	98.4	98.4	98.4	98.4

For purposes of this analysis, full-time equivalent (FTE) positions include non-FTE permanent unclassified positions but continue to exclude temporary employees. FTE positions reflect permanent state positions equating to a 40-hour work week.

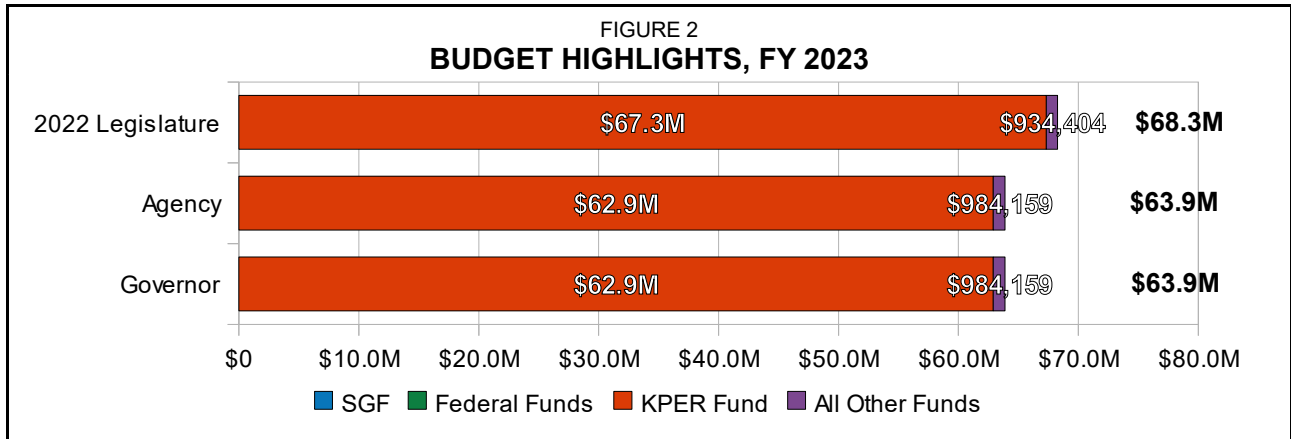
Pursuant to KSA 74-4901, the Kansas Public Employees Retirement System (KPERs) is to "provide an orderly means whereby employees of the participating employers who have attained retirement age as herein set forth may be retired from active service without prejudice and without inflicting a hardship upon the employees retired and to enable such employees to accumulate reserves for themselves and their dependents to provide for old age, death and termination of employment, and for the purpose of effecting economy and efficiency in the administration of governmental affairs."

KPERs administers three statewide coverage groups: **KPERs–State**, **KPERs–School**, and **KPERs–Local** (for regular state and local public employees, school district, technical college, and community college employees; Regents classified employees and certain Regents unclassified staff with pre-1962 service; and state correctional officers); the **Kansas Police and Firemen’s Retirement System** (for certain designated state and local public safety employees); and the **Kansas Retirement System for Judges** (for the State’s judicial system judges and justices). All coverage groups are defined benefit, contributory retirement plans and have most public employees in Kansas as members. KPERs also administers other employee benefit programs, including the State Deferred Compensation program; a public employee death and long-term disability benefits plan; an optional term life insurance program; a Kansas City, Kansas, annuitant program; and a legislative session-only employees retirement program.

KPERs also performs duties beyond the retirement system in managing investments of non-KPERs moneys that include two funds: the Kansas Endowment for Youth Fund and the Treasurer’s Unclaimed Property Fund. A nine-member Board of Trustees is the governing body for KPERs. Four members are appointed by the Governor and confirmed by the Senate, one member is appointed by the President of the Senate, one member is appointed by the Speaker of the House of Representatives, two members are elected by KPERs members, and one member is the State Treasurer. The Board appoints the Executive Director, who administers the agency operations for the Board.

EXECUTIVE SUMMARY

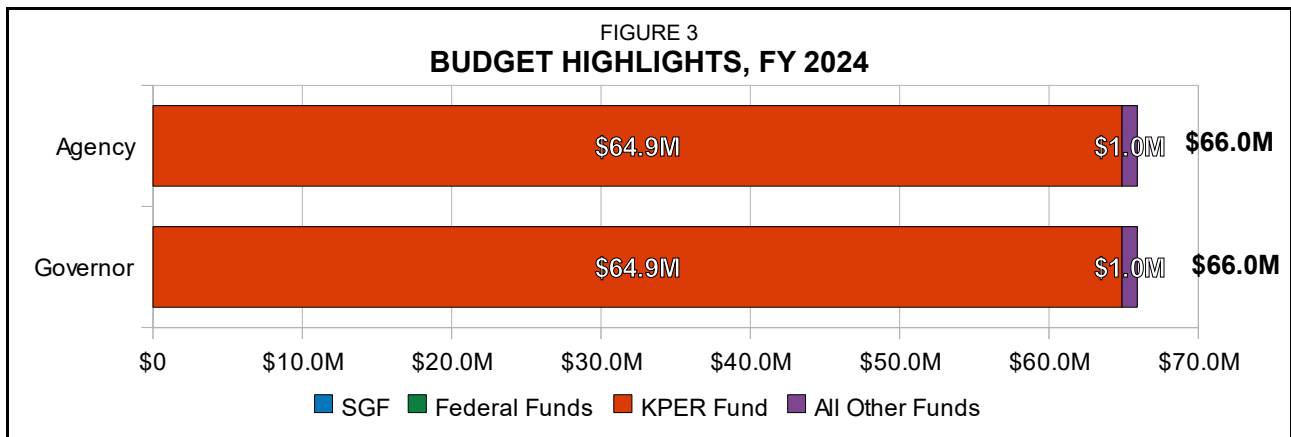
The 2022 Legislature approved a budget of \$68.3 million, including \$67.3 million from the Kansas Public Employees Retirement Fund, for the Kansas Public Employees Retirement System for FY 2023. No adjustments have been subsequently made to that amount.



The **agency** submits a revised estimate of \$63.9 million in FY 2023, including \$62.9 million from the Kansas Public Employees Retirement Fund. This represents a decrease of \$4.4 million, or 6.4 percent, below the amount approved by the 2022 Legislature. The majority of the decrease is attributable to a \$4.6 million decrease in expenditures from the Kansas Public Employees Retirement Fund for **external investment management and consultant fees**. Investment-related expenditures are determined by forecasting the current market value of the portfolio on June 30, 2022, by an actuarial rate of return assumption. On May 20, 2022, the KPER Board of Trustees lowered the assumed rate of return from 7.75 percent to 7.00 percent. Management fee estimates are regularly updated to reflect investment experience and performance. The revised estimate lowers management fee estimates from the \$38.4 million approved by the 2022 Legislature to \$33.9 million in FY 2023, representing 0.143 percent of total assets.

The agency also submits a revised estimate of 98.4 FTE positions in FY 2023, which is the same as the approved number.

The **Governor** concurs with the agency's revised estimate and recommends \$63.9 million in FY 2023, including \$62.9 million from the Kansas Public Employees Retirement Fund.



The **agency** requests \$65.9 million for FY 2024, including \$64.9 million from the Kansas Public Employees Retirement Fund. This represents an increase of \$2.0 million, or 3.2 percent, above the FY 2023 revised estimate. The majority of the increase is attributable to a \$1.4 million increase in expenditures from the Kansas Public Employees Retirement Fund for **external investment management and consultant fees**. The request decreases management fee estimates from \$33.9 million in FY 2023 to \$35.3 million for FY 2024.

The request also includes increases in a variety of other expenditures, including expenses for computer system maintenance agreements and repairs on computers and related equipment (\$332,432). The increase is also attributable to administrative expenses for the following programs: Investment (\$44,380), Deferred Compensation (\$13,979), and Death and Disability (\$21,066).

The agency also requests 98.4 FTE positions for FY 2024, which is the same as the FY 2023 revised estimate number.

The **Governor** concurs with the agency's request and recommends \$65.9 million for FY 2024, including \$64.9 million from the Kansas Public Employees Retirement Fund.

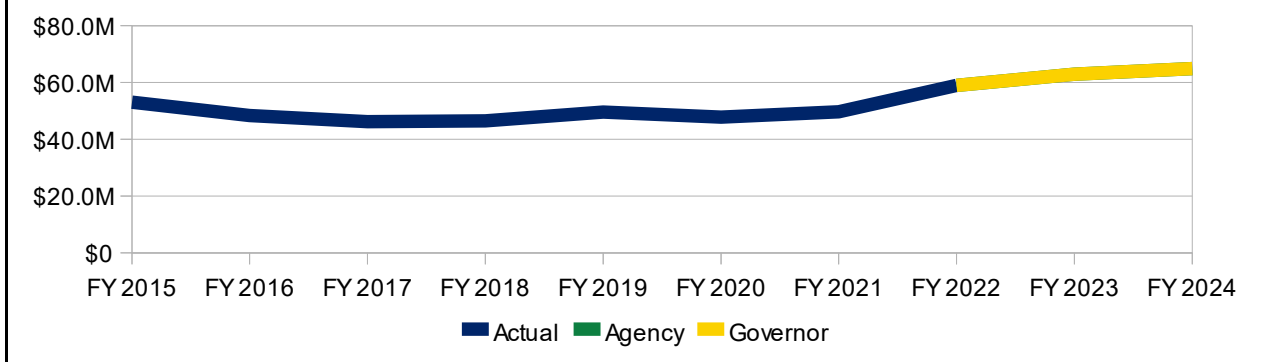
EXPENDITURES AND FINANCING

FIGURE 4
BUDGET SUMMARY BY CATEGORY OF EXPENDITURE, FY 2022 – FY 2024

Category of Expenditure:	Actual FY 2022	Agency FY 2023	Governor FY 2023	Agency FY 2024	Governor FY 2024
Salaries and Wages	\$ 13,373,608	\$ 15,609,646	\$ 15,609,646	\$ 15,941,499	\$ 15,941,499
Contractual Services	45,129,611	47,663,332	47,663,332	49,354,271	49,354,271
Commodities	227,556	124,950	124,950	124,950	124,950
Capital Outlay	1,084,720	500,000	500,000	500,000	500,000
Debt Service Interest	-	-	-	-	-
<i>Subtotal</i>	<u>\$ 59,815,495</u>	<u>\$ 63,897,928</u>	<u>\$ 63,897,928</u>	<u>\$ 65,920,720</u>	<u>\$ 65,920,720</u>
Aid to Local Units	-	-	-	-	-
Other Assistance	-	-	-	-	-
<i>Subtotal—Operating</i>	<u>\$ 59,815,495</u>	<u>\$ 63,897,928</u>	<u>\$ 63,897,928</u>	<u>\$ 65,920,720</u>	<u>\$ 65,920,720</u>
Capital Improvements	-	-	-	-	-
Debt Service Principal	-	-	-	-	-
TOTAL	<u>\$ 59,815,495</u>	<u>\$ 63,897,928</u>	<u>\$ 63,897,928</u>	<u>\$ 65,920,720</u>	<u>\$ 65,920,720</u>
Financing:					
State General Fund	\$ -	\$ -	\$ -	\$ -	\$ -
KPER Fund	58,960,138	62,913,769	62,913,769	64,901,491	64,901,491
Deferred Comp. Fund	519,087	618,909	618,909	632,913	632,913
Group Ins. Res. Fund	336,270	365,250	365,250	386,316	386,316
Federal Funds	-	-	-	-	-
All Other Funds	-	-	-	-	-
TOTAL	<u>\$ 59,815,495</u>	<u>\$ 63,897,928</u>	<u>\$ 63,897,928</u>	<u>\$ 65,920,720</u>	<u>\$ 65,920,720</u>
FTE Positions	98.4	98.4	98.4	98.4	98.4

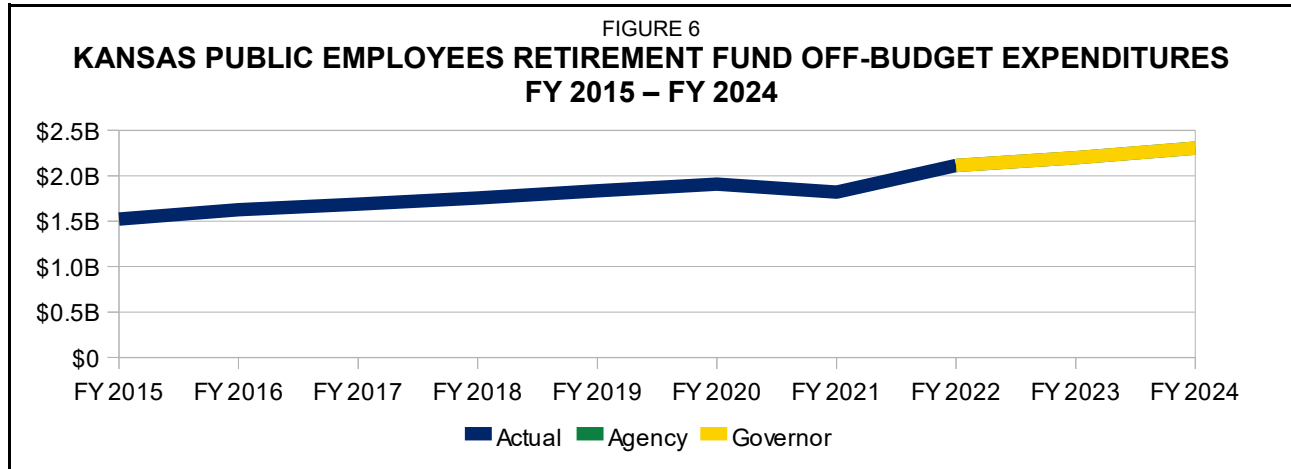
KANSAS PUBLIC EMPLOYEES RETIREMENT FUND

FIGURE 5
**KANSAS PUBLIC EMPLOYEES RETIREMENT FUND ON-BUDGET EXPENDITURES
FY 2015 – FY 2024**



KSA 74-4902 and KSA 74-4921 establish the Kansas Public Employees Retirement Fund for the payment of expenses and benefits under the retirement system. KSA 74-4920 provides that the Division of the Budget and the Governor shall include in the budget appropriations for personal services amounting to the sum required to satisfy the State's obligation under the Retirement Act, as certified by the Board of Trustees, presenting the same to the Legislature for allowance of appropriation. Additionally, KSA 74-4939 provides that, before September 15 of each year, school employers shall certify to the State Board of Education the anticipated total compensation to be paid during the next fiscal year to employees who are or are to become members.

KSA 74-4920 establishes the state employer contribution rate and the local employer contribution rate. The combined state/school group employer contribution rate is 13.11 percent in FY 2023 and 12.57 percent for FY 2024. The statutory state/school employer contribution rate reflects the full actuarial required contribution rate (ARC) for those years. The local employer rate is 8.43 percent in calendar year (CY) 2023 and 9.26 percent for CY 2024. Local employers have been contributing the full ARC since CY 2015 and are scheduled to pay the full ARC in CY 2023 and for CY 2024.



The Legislature has previously taken action to increase state and local employer contributions to provide enhanced resources for the long-term financing of KPERS. In 2004, the Legislature authorized issuance of \$500.0 million in pension obligation bonds to be repaid from the State General Fund (SGF) in order to augment state employer contributions. In 2015, the Legislature authorized issuance of \$1.0 billion in pension obligation bonds, and in 2021, the Legislature authorized issuance of another \$500.0 million in such bonds. The pension obligation bonds are reflected in the Department of Administration’s budget rather than in the KPERS budget.

Additionally, the 2022 Legislature transferred \$1.125 billion SGF directly to the KPERS Trust Fund. Of that amount, the first \$253.9 million SGF paid off outstanding accounts receivable for KPERS-School employer contributions withheld in FY 2017 and FY 2019 (“layering payments”) while the remaining \$871.1 million SGF was applied to the KPERS-School unfunded actuarial liability.

At a 7.0 percent assumed rate of return, investment earnings are estimated to total \$1.7 billion in FY 2023 and \$1.82 billion for FY 2024. Total combined employee and employer contributions for pension, death and disability, and optional group life insurance are estimated to be \$1.87 billion in FY 2023 (which includes \$271.1 million in additional contributions approved in 2022 SB 421) and \$1.6 billion for FY 2024. This reflects the certified employer contributions set in the 2019 and 2020 actuarial valuations, which include a state/school employer contribution rate of 13.11 percent in FY 2023 and 12.57 percent for FY 2024.

GROUP INSURANCE RESERVE FUND

Each employer contributes to the Group Insurance Reserve Fund. Established in KSA 74-4927, the employer contribution rate is 1.0 percent of compensation. On occasion, the Legislature has placed a moratorium on contributions to the Group Insurance Reserve Fund, most recently in FY 2016. The employer contribution rate is scheduled to be 1.0 percent for FY 2021 through FY 2023. The Governor's July 2020 allotment included a full-year moratorium on state/school employer contributions to the Group Insurance Reserve Fund in FY 2021.

FY 2023 ANALYSIS

FIGURE 7
SUMMARY OF BUDGET REQUEST, FY 2023

		SGF	Special Revenue Funds	All Funds	FTE
Legislative Approved:					
Amount Approved by 2022 Legislature	\$	-	\$ 68,272,942	\$ 68,272,942	98.4
1. No Changes		-	-	-	--
<i>Subtotal—Legislative Approved</i>	\$	-	\$ 68,272,942	\$ 68,272,942	98.4
Agency Revised Estimate:					
2. Investment Management Fees	\$	-	\$ (4,596,786)	\$ (4,596,786)	--
3. All Other Adjustments		-	221,772	221,772	--
<i>Subtotal—Agency Revised Estimate</i>	\$	-	\$ 63,897,928	\$ 63,897,928	98.4
Governor's Recommendation:					
4. No Changes	\$	-	-	-	--
TOTAL	\$	-	\$ 63,897,928	\$ 63,897,928	98.4

LEGISLATIVE APPROVED

The 2022 Legislature approved \$68.3 million in expenditures and 98.4 FTE positions for the Kansas Public Employees Retirement System for FY 2023.

- NO CHANGES.** Subsequent to the 2022 Session, no changes were made to the \$68.3 million appropriated to the Kansas Public Employees Retirement System for FY 2023.

AGENCY ESTIMATE

The **agency** submits a revised estimate of \$63.9 million and 98.4 FTE positions in FY 2023, including \$62.9 million from the Kansas Public Employees Retirement Fund. This represents a decrease of \$4.4 million, or 6.4 percent, below the amount approved by the 2022 Legislature. The revised estimate includes the following adjustments:

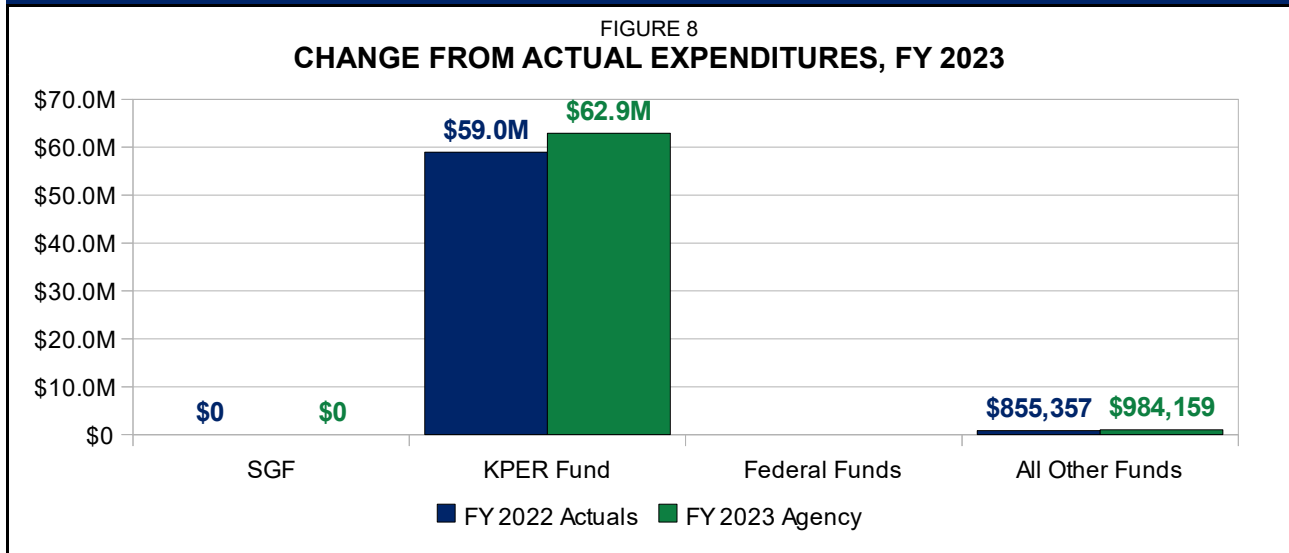
- INVESTMENT MANAGEMENT FEES.** The revised estimate includes a decrease of \$4.6 million in expenditures from the Kansas Public Employees Retirement Fund for external investment management and consultant fees. Investment-related expenditures are determined by forecasting the current market value of the portfolio on June 30, 2022, by an actuarial rate of return assumption. On May 20, 2022, the KPERS Board of Trustees lowered the assumed rate of return from 7.75 percent to 7.00 percent. Management fee estimates are regularly updated to reflect investment experience and performance. The revised estimate lowers management fee estimates from the \$38.4 million approved by the 2022 Legislature to \$33.9 million in FY 2023.
- ALL OTHER ADJUSTMENTS.** The revised estimate also includes an increase of \$221,772 in administrative expenses for the following programs: Investment (\$172,017), Deferred Compensation (\$22,315), and Death and Disability (\$27,440).

GOVERNOR'S RECOMMENDATION

The **Governor** concurs with the agency's revised estimate and recommends \$63.9 million and 98.4 FTE positions in FY 2023, including \$62.9 million from the Kansas Public Employees Retirement Fund.

- NO CHANGES.** The Governor does not recommend any changes to the agency's revised estimate in FY 2023.

FY 2023 CHANGE FROM ACTUAL EXPENDITURES



The **agency** submits a revised estimate of \$63.9 million and 98.4 FTE positions in FY 2023, including \$62.9 million from the Kansas Public Employees Retirement Fund. This represents an increase of \$4.1 million, or 6.8 percent, above actual expenditures in FY 2022, largely due to the following items:

- **PENSION ADMINISTRATION SYSTEM.** The revised estimate includes an increase of \$5.7 million in expenditures for the continued modernization of the Pension Administration System in FY 2023. The increase is due to contractual service expenditures with the current vendor, Sagitec, to modernize the system. The agency anticipates an increase in expenditures as the project moves from planning to implementation, before tapering off as the project nears completion in FY 2026. The revised estimate increases expenditures from \$3.4 million in FY 2022 to \$9.2 million in FY 2023.
- **INVESTMENT MANAGEMENT FEES.** The revised estimate includes a decrease of \$1.5 million in expenditures from the Kansas Public Employees Retirement Fund for external investment management and consultant fees. Investment-related expenses are determined by forecasting the current market value of the portfolio on June 30, 2022, by an actuarial rate of return assumption. On May 20, 2022, the KPERS Board of Trustees lowered the assumed rate of return from 7.75 percent to 7.00 percent. Management fee estimates are regularly updated to reflect investment experience and performance. The revised estimate decreases management fee estimates from \$35.3 million in FY 2022 to \$33.9 million in FY 2023.

FY 2024 ANALYSIS

FIGURE 9
SUMMARY OF BUDGET REQUEST, FY 2024

	SGF	Special Revenue Funds	All Funds	FTE
Agency Revised Estimate, FY 2023	\$ -	\$ 63,897,928	\$ 63,897,928	98.4
Agency Request:				
1. Investment Management Fees	\$ -	\$ 1,430,635	\$ 1,430,635	--
2. All Other Adjustments	-	592,157	592,157	--
<i>Subtotal—Agency Estimate</i>	<u>\$ -</u>	<u>\$ 65,920,720</u>	<u>\$ 65,920,720</u>	<u>98.4</u>
Governor’s Recommendation:				
3. No Changes	\$ -	\$ -	\$ -	--
TOTAL	<u>\$ -</u>	<u>\$ 65,920,720</u>	<u>\$ 65,920,720</u>	<u>98.4</u>

AGENCY REQUEST

The **agency** requests \$65.9 million and 98.4 FTE positions for FY 2024, including \$64.9 million from the Kansas Public Employees Retirement Fund. This represents an increase of \$2.0 million, or 3.2 percent, above the FY 2023 revised estimate. The request includes the following adjustments:

1. **INVESTMENT MANAGEMENT FEES.** The request includes an increase of \$1.4 million from the Kansas Public Employees Retirement Fund for external investment management and consultant fees. Investment-related expenses are determined by forecasting the current market value of the portfolio on June 30, 2022, by an actuarial rate of return assumption. On May 20, 2022, the KPERs Board of Trustees lowered the assumed rate of return from 7.75 percent to 7.00 percent. Management fee estimates are regularly updated to reflect investment experience and performance. The request decreases management fee estimates from \$33.9 million in FY 2023 to \$35.3 million for FY 2024.

2. **ALL OTHER ADJUSTMENTS.** The request also includes an increase of \$592,157 in a variety of other expenditures, including expenditures for computer system maintenance agreements and repairs on computers and related equipment (\$332,432). The increase is also attributable to administrative expenditures for the following programs: Investment (\$44,380), Deferred Compensation (\$13,979), and Death and Disability (\$21,066).

GOVERNOR’S RECOMMENDATION

The **Governor** concurs with the agency request and recommends \$65.9 million and 98.4 FTE positions for FY 2024, including \$64.9 million from the Kansas Public Employees Retirement Fund.

3. **NO CHANGES.** The Governor does not recommend any changes to the agency’s request for FY 2024.

SPECIAL TOPICS

PENSION ADMINISTRATION SYSTEM MODERNIZATION PROJECT

The agency maintains a pension administration software application that provides the functionality needed to collect data and moneys from employers and to process and pay benefits. KPERS partnered with Sagitec Solutions to implement the current software system, which has been in continuous use since 2005. Over the past 15 years, additional system customization has been necessitated by plan design changes, including both internal changes, such as implementing solutions for business processes, and external changes, such as legislative actions. Significant plan design changes include the creation of KPERS 2 in 2007 and KPERS 3 in 2012, which required moving to pay period reporting for employee and employer contributions.

BACKGROUND

In 2020, KPERS engaged in a request for proposal (RFP) for a complete business assessment of KPERS and the current pension administration system, which was completed by The Segal Group. Part of Segal's assessment was to determine whether KPERS needed to invest in a completely new pension administration system or whether the existing vendor, Sagitec, could meet the future needs of the system. KPERS determined that Sagitec had the capacity to continue supporting the current system but, at Segal's recommendation, asked that Sagitec complete a proof-of-concept project to demonstrate whether they could execute the modernization features KPERS requires.

In 2021, Sagitec completed the proof-of-concept project, and KPERS elected to retain Sagitec as a project vendor at that time. Because of the extensive customization of the base system, KPERS originally decided the new pension administration system would be based on a new platform using Sagitec's application, Neospin. External data would have been migrated to a new database and the base application would be customized to meet project requirements.

In 2022, after assessing the existing state of the system, KPERS initially determined it could adopt an upgrade-in-place approach with Sagitec. However, as the year progressed, KPERS ultimately determined Sagitec was unable to meet its expectations for a successful process. Additionally, KPERS indicates budget estimates had increased to a point where it made more sense to go to the market to assess the cost of a full replacement.

In 2023, KPERS initiated the RFP process for a replacement and is working with Segal to draft a proposal that covers the requirements identified during the needs assessment. The agency anticipates the RFP being completed this spring and a vendor selected this autumn. KPERS will need to continue using the existing pension administration system during this time and indicates the work completed to this point is essential.

FINANCING

At this point, KPERS maintains the budget estimates provided to the 2022 Legislature but indicates those numbers may be adjusted in future years as a new vendor is selected. In **FY 2023**, the revised estimate remains unchanged at the \$9.2 million. For **FY 2024**, KPERS requests \$9.0 million, all from the Kansas Public Employee Retirement Fund, for preliminary modernization costs. These estimates are primarily budgeted for contractual services expenditures for the vendor. For **FY 2025**, KPERS has preliminarily budgeted \$9.0 million for the project, which is the same amount presented to the 2022 Legislature. New budget estimates for the modernization project will be available when a vendor is selected later this year.

SPECIAL TOPICS

COST-OF-LIVING ADJUSTMENTS

Cost-of-living adjustments (COLAs) modify benefits to counteract the impact of economic changes like inflation. COLAs can be implemented either automatically or on an *ad hoc* basis. **Automatic adjustments** occur on a regular, predetermined schedule and do not require additional action by the plan sponsor. These adjustments can be tied to an index, such as the Consumer Price Index (CPI), or conditioned on investment performance or funding level. In contrast, ***ad hoc* adjustments** do not occur on a regular basis and require approval of the plan sponsor or a delegating authority. In Kansas, that authority resides within the Legislature.

KPERS plans have not included a COLA since the system was created, with three exceptions:

- **KPERS 2** included an automatic 2.0 percent COLA when it was created in 2007, but the authorizing statute was repealed in 2012.
- **KPERS 3** has a self-funded COLA of 1.0 or 2.0 percent, but that benefit is funded by the member through an actuarial reduction to the member's lifetime benefit.
- A **13th check benefit** was paid to members from 1980 to 1987.

The Kansas Legislature has approved both permanent and one-time *ad hoc* COLAs. The Legislature has not approved a COLA since 2008. As of the December 31, 2021, valuation, 11,261 members (10.0 percent of beneficiaries) met the criteria to receive at least one COLA since they retired. The remaining 90.0 percent have never received a COLA.

The projected costs of implementing a COLA depends on the characteristics of the adjustment—automatic or *ad hoc*, one-time payment or permanent adjustment, base or compound adjustment, and so on. When a COLA is approved, costs are funded through current employee or employer contributions. COLAs can be funded through a one-time payment equal to the change in the unfunded actuarial liability (UAL), or the cost can be amortized over a number of years.

During the 2022 Session, several bills to implement a COLA were introduced to both the House and Senate, but none were passed. Examples of such bills are as follows:

- **HB 2583** and **SB 401** would have implemented an **automatic COLA** for all retirees starting June 30, 2022. COLA increases would be tied to the CPI, ranging from no COLA, if the CPI increase was lower than 0.04 percent, to a 5.0 percent COLA, if the CPI increase was 3.5 percent or greater. The projected cost for the bill was a \$4.9 billion increase in the UAL. If funded over a 20-year period, the projected average annual cost would have been about \$500.0 million.
- **HB 2584** and **SB 402** would have provided a **single, permanent adjustment** for those who retired before July 1, 2017. The adjustment would have been tiered from 1.0 to 5.0 percent, depending on how long the member had been retired. The projected increase in the UAL was \$317.4 million. If funded over a 15-year period, the average annual cost would have been approximately \$36.0 million.
- **HB 2742** would have issued a **one-time 13th check** payment to retirees on or before July 1, 2022. The projected cost was \$142.4 million.

PROGRAM AND PERFORMANCE MEASURES OVERVIEW

FIGURE 10
EXPENDITURES AND FTE POSITIONS BY PROGRAM, FY 2022 – FY 2024

Programs	Actual FY 2022	Agency FY 2023	Governor FY 2023	Agency FY 2024	Governor FY 2024
Expenditures:					
Administration	\$ 21,129,047	\$ 25,839,254	\$ 25,839,254	\$ 26,351,961	\$ 26,351,961
KPERS Investments	37,831,091	37,074,515	37,074,515	38,549,530	38,549,530
Deferred Comp.	519,087	618,909	618,909	632,913	632,913
Death and Disability	336,270	365,250	365,250	386,316	386,316
TOTAL	\$ 59,815,495	\$ 63,897,928	\$ 63,897,928	\$ 65,920,720	\$ 65,920,720
FTE Positions:					
Administration	83.1	83.1	83.1	83.1	83.1
KPERS Investments	9.4	9.4	9.4	9.4	9.4
Deferred Comp.	2.6	2.6	2.6	2.6	2.6
Death and Disability	3.3	3.3	3.3	3.3	3.3
TOTAL	98.4	98.4	98.4	98.4	98.4

PERFORMANCE MEASURES

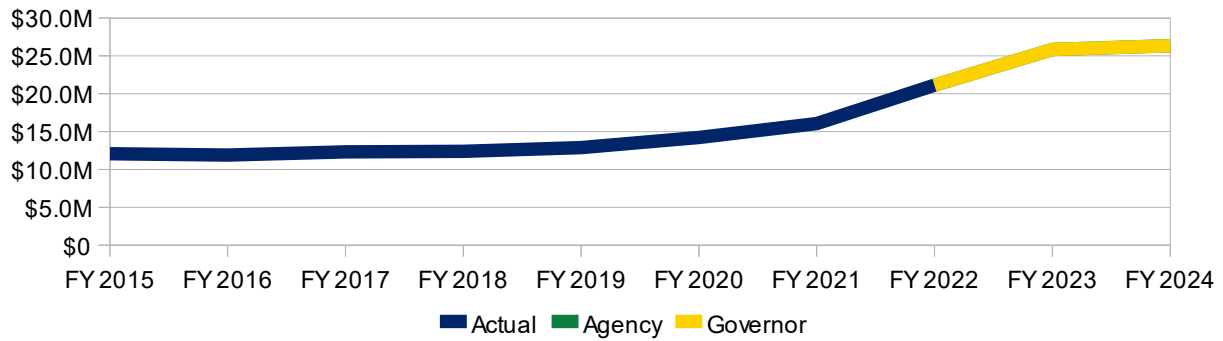
The 2016 Legislature passed HB 2739, which outlined a three-year process for state agencies to develop and implement a system of performance budgeting using outcome measures to evaluate program effectiveness.

FIGURE 11
KPERS MEMBERSHIP, 12/31/2021

Group	Active Members		Retired Members	
State	19,917	13.1 %	21,245	19.2 %
School	87,898	57.7	59,421	53.7
Local	36,436	23.9	23,546	21.3
KP&F	7,779	5.1	6,055	5.5
Judges	258	0.2	319	0.3
TOTAL	152,288	100.0 %	110,586	100.0 %

ADMINISTRATION

FIGURE 12
ADMINISTRATION EXPENDITURES, FY 2015 – FY 2024



STATUTORY BASIS: • KSA 74-4920 *et seq.*

PROGRAM GOALS:

- Pay retirement and death and disability benefits earned by KPERS members.
- Prudently manage the investments of the KPERS Trust Fund (pension plan) and group insurance reserve fund (death and disability plan).
- Collect all statutorily required employer and employee contributions to the pension plan and all statutorily required employer contributions to the death and disability plan.

The Administration program provides a centralized resource to accumulate funds and statistical information on active, inactive, and retired members of the various systems under its jurisdictions. Additionally, this program provides operations support—excluding

investments—for management, statistical information, service records, contributions, payment, and customer service. The Executive Director administers this program and reports to the KPERS Board of Trustees.

FIGURE 13
ADMINISTRATION, PERFORMANCE MEASURES

	Actual FY 2021	Actual FY 2022	Actual 3-Year Avg.	Target FY 2023	Target FY 2024
Outcome Measure:					
1. Annual Cost of Administrative Operations as a Percentage of Trust Fund Assets*	0.063 %	0.087 %	0.073 %	0.099 %	0.095 %
2. Annual Cost of Administrative Operations as a Percentage of Benefit Payments	0.786 %	1.000 %	0.851 %	1.175 %	1.144 %
Financing	Actual FY 2021	Actual FY 2022		Governor FY 2023	Governor FY 2024
SGF	\$ -	\$ -		\$ -	\$ -
Federal Funds	217,615	-		-	-
All Other Funds	15,844,263	21,129,047		25,839,254	26,351,961
TOTAL	<u>\$ 16,061,878</u>	<u>\$ 21,129,047</u>		<u>\$ 25,839,254</u>	<u>\$ 26,351,961</u>
Percentage Change:					
SGF	-- %	-- %		-- %	-- %
All Funds	12.9 %	31.5 %		22.3 %	2.0 %
FTE Positions	83.1	83.1		83.1	83.1

* The Governor's Office does not utilize this measure for evaluation purposes.

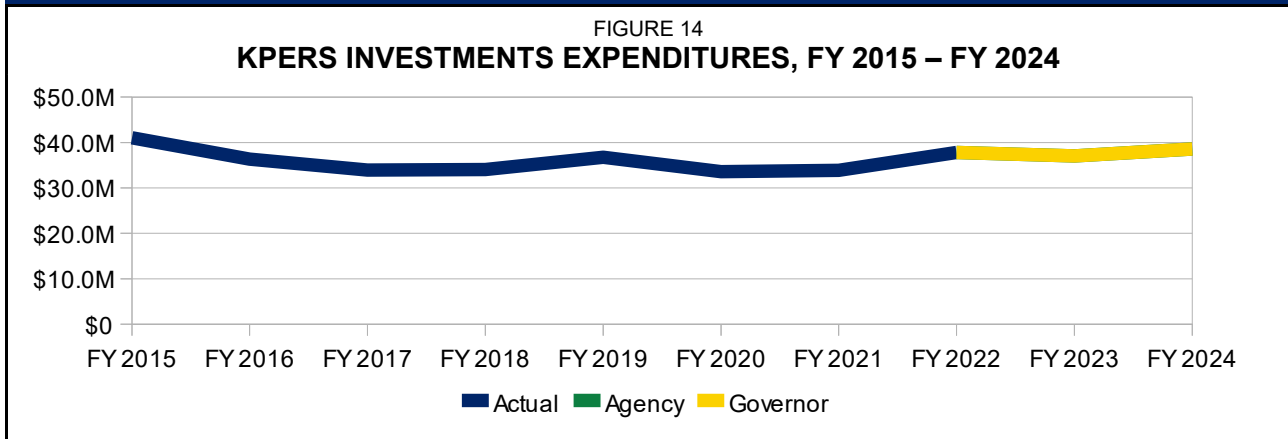
BUDGET ANALYSIS

The **agency** requests \$26.4 million and 83.1 FTE positions for the Administration program for FY 2024. This represents an increase of \$512,707, or 2.0 percent, above the agency's revised estimate in FY 2023. The change is primarily due to expenditure increases on repair and servicing fees (\$332,432), employee pay

(\$158,868), and employer contributions for group health insurance (\$106,554).

The **Governor** concurs with the agency's request and recommends \$26.4 million and 83.1 FTE positions for the Administration program for FY 2024.

KPERS INVESTMENTS



STATUTORY BASIS: • KSA 74-4920 *et seq.*
PROGRAM GOALS: • Prudently manage the investments of the KPERS Trust Fund.

The KPERS Investments program directs investment-related activities, including the supervision of investment managers under contract to the KPERS Board of Trustees and management of a portion of the investment portfolio not assigned to the outside investment managers. KPERS staff charge a portion of time and operating expenses for non-KPERS investment management in order to secure reimbursement for managing investments of the State’s Unclaimed Property Fund and the Kansas Endowment for Youth Fund.

Policy, Objectives, and Guidelines maintained by the Board. The investment policy specifies a long-term target asset mix based on market value.

FY 2022 INVESTMENT PERFORMANCE
 In FY 2022, the system's investment portfolio experienced a (4.7) percent rate of return, exceeding the KPERS Policy Index of -8.5 percent. For reference, the portfolio's rate of return averaged an annualized return of 7.1 percent in a three-year period (FY 2020 to FY 2022), 7.4 percent in a five-year period (FY 2018 to FY 2022), and 7.3 percent in a twenty-five-year period (FY 1998 to FY 2022).

FIGURE 15
KPERS INVESTMENTS, PERFORMANCE MEASURES

	Actual FY 2021	Actual FY 2022	Actual 3-Year Avg.	Target FY 2023	Target FY 2024
Outcome Measure:					
1.Total Trust Fund Assets (in Billions)*	\$ 25	\$ 24	\$ 23	\$ 26	\$ 28
2.Total Benefit Payments (in Billions)	2.01	2.11	1.99	2.20	2.30
3.KPERS Portfolio Rate of Return*	26.3 %	(4.7) %	7.9 %	7.0 %	7.0 %
4.Investment-Related Fees as a Percentage of Trust Fund Assets*	0.133 %	0.148 %	0.149 %	0.143 %	0.139 %
Financing					
	Actual FY 2021	Actual FY 2022		Governor FY 2023	Governor FY 2024
SGF	\$ -	\$ -		\$ -	\$ -
Federal Funds	-	-		-	-
All Other Funds	33,853,772	37,831,091		37,074,515	38,549,530
TOTAL	\$33,853,772	\$37,831,091		\$37,074,515	\$38,549,530
Percentage Change:					
SGF	-- %	-- %		-- %	-- %
All Funds	0.8 %	11.7 %		(2.0) %	4.0 %
FTE Positions	9.4	9.4		9.4	9.4

*The Governor's Office does not utilize this measure for evaluation purposes.

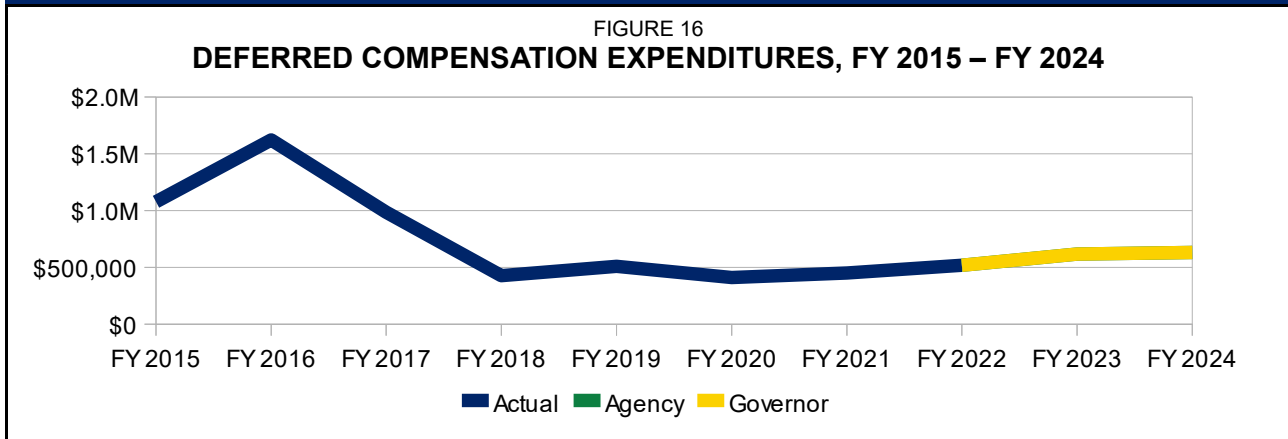
BUDGET ANALYSIS

The **agency** requests \$38.5 million and 9.4 FTE positions for the KPERS Investments program for FY 2024. This represents an increase of \$1.5 million, or 4.0 percent, above the agency's revised estimate in FY 2023. The change is largely due to a \$1.4 million increase in expenditures for external investment management and consultant fees. Investment-related expenditures are determined by forecasting the current market value of the portfolio on June 30, 2022, by an actuarial rate of return assumption. On May 20, 2022, the KPERS Board of Trustees lowered the

assumed rate of return from 7.75 percent to 7.00 percent. Management fee estimates are regularly updated to reflect investment experience and performance. The request decreases management fee estimates from \$33.9 million in FY 2023 to \$35.3 million for FY 2024.

The **Governor** concurs with the agency's request and recommends \$38.5 million and 9.4 FTE positions for the KPERS Investments program for FY 2024.

DEFERRED COMPENSATION



STATUTORY BASIS: • KSA 74-49b01 *et seq.*

- PROGRAM GOALS:**
- Ensure that the plan is administered and operated according to its terms and to keep the plan compliant with federal as well as applicable state laws.
 - Prudently manage the investments of the KPERS Trust Fund (pension plan) and group insurance reserve fund (death and disability plan).
 - Increase the number of deferring employees.

The Deferred Compensation program is a voluntary, tax-deferred retirement program for state employees. In addition, many local public employers offer the plan to their employees. Only the administrative cost portion of this program is included in the agency's budget request since it operates as an employee savings plan, with a small portion of those revenues used to finance operating expenditures of the plan for personnel and service provider contracts.

The 2007 Legislature moved administration of the program from the Department of Administration to KPERS. The KPERS Board of Trustees is assigned responsibility to administer the plan. The Director of Accounts and Reports retains responsibility for payroll deferrals and deductions for state employees who participate in the plan.

The 2016 Legislature provided KPERS with the authority to establish a flexible 401(a) supplemental defined contribution plan for local employers that have adopted the KPERS 457 plan and wish to make employer contributions to employee personal savings. As of June 30,

2022, there are 12 employers participating in the 401(a) plan, with 409 participants and assets totaling \$3.4 million.

The KPERS Board of Trustees created a Deferred Compensation Committee to oversee administration of the plan and make recommendations to the full Board for consideration and action. The oversight and recommendations relate to management of plan assets, selection and monitoring of investment options, and selection and evaluation of service providers. KPERS staff manages operations in conjunction with the plan's service provider, Empower. Empower is responsible for participant account record keeping and direct services, such as enrollments, phone inquiries, and investment transactions.

As of June 30, 2022, the plan has 26,162 state and local participants, with total assets of approximately \$1.26 billion. During FY 2022, 2,295 new participants enrolled in the plan, 23 local employers adopted the KPERS 457 plan, and two local employers adopted the 401(a) plan.

FIGURE 17
DEFERRED COMPENSATION, PERFORMANCE MEASURES

	Actual FY 2021	Actual FY 2022	Actual 3-Year Avg.	Target FY 2023	Target FY 2024
Outcome Measure:					
1. Total Number of Participants*	25,476	26,162	25,654	N/A	N/A
2. Total Actively Deferring Members*	13,068	13,081	13,143	N/A	N/A
3. Percent of Active Members from Participating Employers in All Retirement Systems*	23 %	32 %	26 %	N/A	N/A
4. Total Plan Assets (in Millions)*	\$ 1,463.2	\$ 1,255.6	\$ 1,295.5	N/A	N/A
Financing	Actual FY 2021	Actual FY 2022		Governor FY 2023	Governor FY 2024
SGF	\$ -	\$ -		\$ -	\$ -
Federal Funds	-	-		-	-
All Other Funds	451,773	519,087		618,909	632,913
TOTAL	<u>\$ 451,773</u>	<u>\$ 519,087</u>		<u>\$ 618,909</u>	<u>\$ 632,913</u>
Percentage Change:					
SGF	-- %	-- %		-- %	-- %
All Funds	9.9 %	14.9 %		19.2 %	2.3 %
FTE Positions	2.6	2.6		2.6	2.6

* The Governor's Office does not utilize this measure for evaluation purposes.

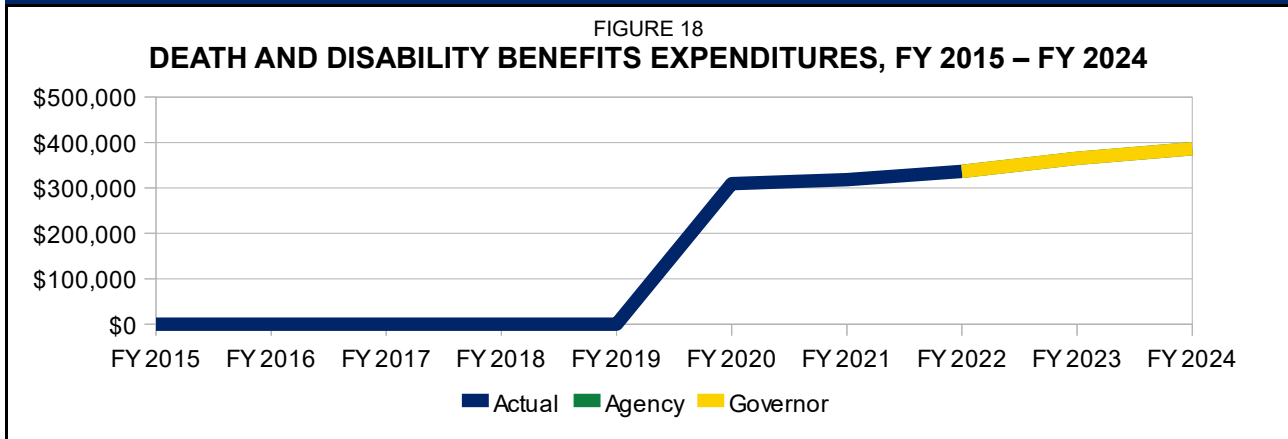
BUDGET ANALYSIS

The **agency** requests \$632,913, all from the Deferred Compensation Fee Fund, and 2.6 FTE positions for the Deferred Compensation program for FY 2024. This represents an increase of \$14,004, or 2.3 percent, above the agency's revised estimate in FY 2023, largely due to expenditure increases for temporary employee pay (\$10,249) and employer

contributions for group health insurance (\$3,054).

The **Governor** concurs with the agency's request and recommends \$632,913, all from the Deferred Compensation Fee Fund, and 2.6 FTE positions for the Deferred Compensation program for FY 2024.

DEATH AND DISABILITY BENEFITS



STATUTORY BASIS: • KSA 74-4920 *et seq.*

- PROGRAM GOALS:**
- Pay all death and disability benefits earned by KPERS members.
 - Prudently manage the investments of the Group Insurance Reserve Fund.
 - Collect statutorily required employer contributions to the death and disability plan.

Since 1966, the Death and Disability Benefits program has provided death and disability benefits for active KPERS members and unclassified employees of the Board of Regents and its institutions. Employers currently contribute a statutory rate of 1.0 percent of covered payroll to pay for basic group life insurance and long-term disability protection. Employees do not pay for the basic benefits, but may choose to purchase optional term life insurance on an individual basis. The 2005 Legislature adopted a number of changes in the program in order to make it self-sustaining on a

pay-as-you-go basis, including an increase in the employer contribution rate from 0.6 percent to 1.0 percent, effective in FY 2007.

To carry out the legislative intent to provide, within the funds made available, the broadest possible coverage, the KPERS Board of Trustees may adjust the plan. KPERS contracts with the insurance company The Standard to underwrite the group life insurance benefits. Disability Management Services, Inc. is the third-party administrator for the disability program.

FIGURE 19
DEATH AND DISABILITY BENEFITS, PERFORMANCE MEASURES

Actual FY 2021	Actual FY 2022	Actual 3-Year Avg.	Target FY 2023	Target FY 2024
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There are no performance measures submitted for this program.

Financing	Actual FY 2021	Actual FY 2022		Governor FY 2023	Governor FY 2024
SGF	\$ -	\$ -		\$ -	\$ -
Federal Funds	-	-		-	-
All Other Funds	318,379	336,270		365,250	386,316
TOTAL	\$ 318,379	\$ 336,270		\$ 365,250	\$ 386,316
Percentage Change:					
SGF	-- %	-- %		-- %	-- %
All Funds	2.9 %	5.6 %		8.6 %	5.8 %
FTE Positions	3.3	3.3		3.3	3.3

BUDGET ANALYSIS

The **agency** requests \$386,316 and 3.3 FTE positions for the Death and Disability Benefits program for FY 2024. This represents an increase of \$21,066, or 5.8 percent, above the agency's revised estimate in FY 2023. The increase is largely due to higher expenditures for employee pay (\$15,375) and employer contributions for group health insurance (\$3,691).

The **Governor** concurs with the agency request and recommends \$386,316 and 3.3 FTE positions for the Death and Disability Benefits program for FY 2024.