

## MEMORANDUM

To: Joint Committee on Pensions, Investments, and Benefits  
From: Alan D. Conroy, Executive Director <sup>AKC.</sup>  
Date: December 19, 2014  
Subject: KPERS Comparisons

Most states and many more public entities offer a traditional defined benefit pension plan to employees. At 290,000 members and approximately \$16 billion in plan assets, KPERS would probably be considered a medium-sized system.

While there are systems of all sizes, including several of similar size to KPERS, comparison of pension plans is somewhat difficult. Differences in plan design, actuarial assumptions, health care provisions, type of covered employees and many more considerations mean that no two plans are quite alike.

However, at times it can be useful to explore how KPERS compares to peer systems to evaluate whether KPERS is moving directionally with peer plans. A review completed in February 2013 by Legislative Post Audit explored how KPERS' recovery from the market losses in 2008 compared to other plans. The highlights from that Legislative Post Audit are attached to this memo.

Additionally, KPERS is a member of the National Association of State Retirement Administrators (NASRA) and provides information on KPERS' plan metrics as part of a public fund survey that is maintained by NASRA. Using the information from the public fund survey and using the same peer plans as identified in the LPA report, attachment A is a table that compares membership, funding, assets, return assumption and employee and employer contribution rates for the most recent information available (FY 2012). The public fund survey is typically updated in December each year, which means information for FY 2013 should be available soon.

Attachments



Attachment A

Plan	Active Members	Annuitants	Actuarial Liabilities	Actuarial Value of Assets	Unfunded Liability	Actuarial Funding Ratio	Market Value of Assets	Investment Return Assumption	Actuarial Valuation Date
Kansas Public Employees Retirement System	155,054	81,025	\$ 22,607,170	\$ 13,379,020	\$ 9,228,150	59.2%	\$ 13,105,812	8.00%	12/31/2011
Kentucky Retirement System	139,339	87,472	\$ 12,113,747	\$ 3,598,543	\$ 8,515,204	29.7%	\$ 10,758,706	7.75%	6/30/2012
Missouri State Retirement System	51,730	37,798	\$ 10,793,652	\$ 7,897,167	\$ 2,896,485	73.2%	\$ 7,681,720	8.00%	6/30/2012
New Mexico State Retirement System	53,819	31,108	\$ 17,788,044	\$ 11,612,047	\$ 6,175,997	65.3%	\$ 11,753,599	7.75%	6/30/2012
Ohio School Employees Retirement System	121,811	69,038	\$ 16,338,000	\$ 10,266,000	\$ 6,072,000	62.8%	\$ 10,201,186	7.75%	6/30/2012
Oklahoma Teachers Retirement System	87,778	52,716	\$ 18,588,000	\$ 10,190,500	\$ 8,397,500	54.8%	\$ 10,194,735	8.00%	6/30/2012

Plan	Employer Contribution Rate	Employee Contribution Rate
Kansas Public Employees Retirement System	8.77% for state and school; 7.34% for local governments; 10.50% for correctional employees	4.0% or 6.0%
Kentucky Retirement System	19.82% for most employers; 28.98% for hazardous duty workers	5.0%; 8.0% for hazardous duty workers; For those hired after 8/31/08, rates are 6.0% and 9.0%, respectively, with all but one percent going to individual participant accounts.
Missouri State Retirement System	14.13%	Non-contributory for those hired before 1/1/11; 4.0% for those hired thereafter
New Mexico State Retirement System	13.34% for state workers; rates vary for other groups	10.67% for state workers; rates vary for other groups
Ohio School Employees Retirement System	14.0%, including 12.65% for pension benefits and the remainder to the Medicare Part B fund, the death benefit, and retiree health care fund.	10.0%
Oklahoma Teachers Retirement System	16.5% for state employers; the combined employee and employer rate for county and local agencies is 20.0%, composed of a minimum employee rate of 3.5% to a max of 8.5%, and a minimum employer rate of 8.5% to a max of 16.5%	3.5% for state employees; the combined employee and employer rate for county and local agencies is 20.0%, composed of a minimum employee rate of 3.5% to a max of 8.5%, and a minimum employer rate of 8.5% to a max of 16.5%





# Legislative Post Audit Performance Audit Report Highlights

Highlights

## Performance Audit of the Kansas Public Employees Retirement System (KPERs)

### Report Highlights

February 2013 • R-13-004

#### **Summary of Legal Requirements**

State Law calls for a triennial performance audit of the Kansas Public Employees Retirement System. This audit was conducted by Cochran Head Vick & Co., P.A., a CPA firm under contract with the Legislative Division of Post Audit.

#### **Background Information**

The Kansas Public Employees Retirement System (KPERs) was established in 1962. KPERs provides three statewide defined-benefit retirement plans for more than 280,000 active, inactive and retired state and local public employees:

- Kansas Public Employees Retirement System
- Kansas Police and Firemen's Retirement System
- Kansas Retirement System for Judges

In addition to retirement benefits, KPERs provides basic and optional life insurance and disability benefits for active members.

**QUESTION:** *How Has the Recent Economic Recovery Affected the Kansas Public Employees Retirement System's Funding Situation?*

#### **Overall Conclusion**

While the economic downturn and resultant investment losses in 2008 had a significant negative impact on the funding ratio and the unfunded actuarial liability of KPERs, the economic recovery and favorable investment returns in calendar years 2009 and 2010 helped alleviate some of that impact. However, the unfavorable investment return experienced in calendar year 2011 has resulted in little impact on the unfunded actuarial liability or the funding ratios.

As of the latest actuarial valuation, December 31, 2011, the Kansas Public Employee's Retirement System had an unfunded actuarial liability of \$9.2 billion and a funded ratio of 59.2%. Even in times of economic recovery these key factors had been impacted negatively. The actual funding progress of KPERs is heavily dependent on the actual investment returns as well as other factors, such as employer contributions. Due to statutory restraints KPERs employers only paid 74% of the recommended contribution in 2011.

Major legislation was passed in 2011 and 2012 to help restore the System's long-term financial prospects by tightening various eligibility and benefit rules, increasing the employer contribution cap rate and providing for alternative sources of revenue.

Even in times of economic recovery it will still be a challenge to manage the long-term funding progress of the System.

#### **Comparison to Other State's Systems**

The auditors identified five comparable public employee retirement systems with similar benefits structures:

- Kentucky Retirement System (KERS)
- Missouri State Retirement System (MOSERS)
- New Mexico State Retirement System (PERA)
- Ohio School Employees Retirement System (SERS)
- Oklahoma Teachers Retirement (OTRS)

The full report includes numerous detailed comparisons among the various plans.

The figure on the following page summarizes various funding and performance measures for KPERs over the past four fiscal years, and ranks KPERs against the comparable systems. KPERs ranked towards the middle for most of the measures.

KPERS SYSTEM <i>(includes the death and disability program)</i>							
Financial Reporting Date:	6/30/09		6/30/10		6/30/11		6/30/12
	Amount (a)	Rank (b)	Amount (a)	Rank (b)	Amount (a)	Rank (b)	Amount (a)
Funded Ratio (c)	58%	5	63%	4	61%	4	59%
Unfunded Actuarial Liability (c)	\$ 8,595,657	4	\$ 7,993,474	4	\$ 8,535,132	5	\$ 9,499,157
Contributions (d)	\$ 764,190	3	\$ 811,171	3	\$ 868,952	4	\$ 915,741
Net Investment Income (Loss)	\$ (2,571,592)	4	\$ 1,485,968	4	\$ 2,499,491	3	\$ 89,057

(a) All dollar amounts in thousands  
(b) Rank 1 (best) - 6 (worst)  
(c) The Funded Ratio and Unfunded Actuarial Liability (UAL) are based on actuarial valuations as of December 31, for the calendar year falling within the financial reporting date.  
(d) To achieve comparable contributions across the selected plans, the total contributions from the audited financial statements were utilized.

### SUMMARY OF RECOMMENDATIONS

- The auditors made no recommendations.

### AGENCY RESPONSE

- KPERS provided a response that gave additional information.

#### HOW DO I GET AN AUDIT APPROVED?

By law, individual legislators, legislative committees, or the Governor may request an audit, but any audit work conducted by the Division must be approved by the Legislative Post Audit Committee, a 10-member committee that oversees the Division's work. Any legislator who would like to request an audit should contact the Division directly at (785) 296-3792.

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