

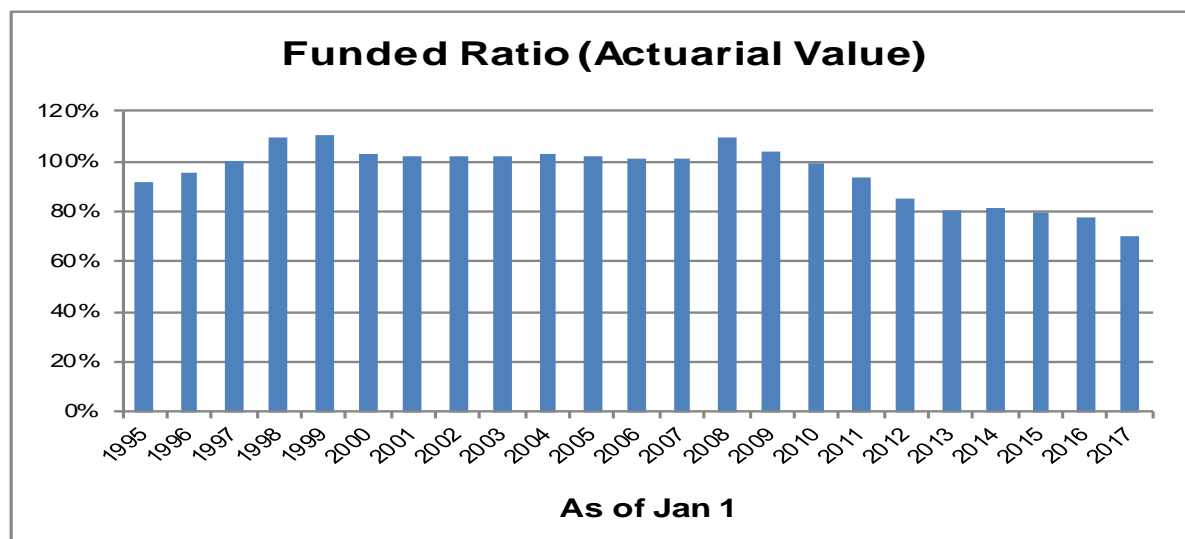
## Why aren't KCPSRS Retirees getting a Cost of Living Adjustment (COLA)?

The KCPSRS Board of Trustees is acutely aware that retirees have not received a COLA since 2008, however Missouri law (Revised Missouri Statutes section 169.324.3) doesn't not allow the Kansas City Public School Retirement System's Board of Trustees to award a cost of living adjustment unless the following two requirements are met.

**Requirement #1 - The funded ratio\* of the Retirement System must be at least 100%.**

*\*Ratio of a pension plan's assets to its long-term liabilities.*

**Current Status – As of the most recent actuarial valuation (1/1/17), the funded ratio is 70%.**



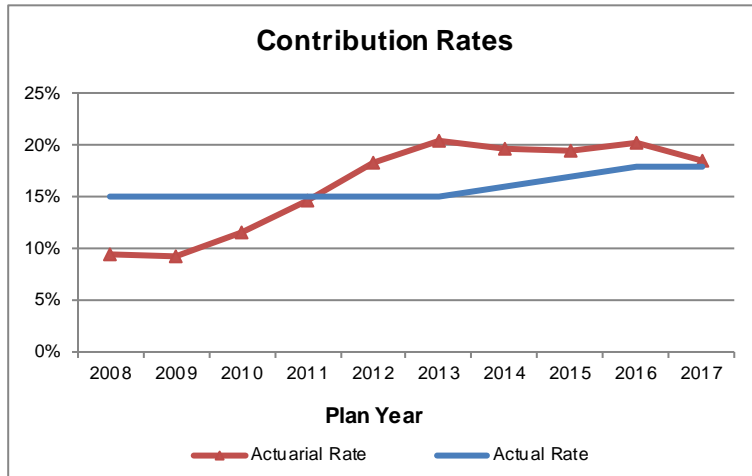
The System's funded ratio was very strong (near or above 100%) until recent years when the recognition of the market downturn of 2008 was fully reflected in the actuarial valuations. Because investment gains and losses are smoothed into the actuarial valuation over five years, the funding ratio decline in 2009 – 2013 (as seen in the chart) was largely due to the major 2008 global investment market downturn. In that same period, the number of active members contributing to the KCPSRS declined due to several school closings. KCPSRS now has more retirees than active members.

In addition to the 2008-09 market downturn and increased number of retirees, the changes to actuarial assumptions for new mortality rates and investment return rates approved by the Board in 2016, had the effect of lowering the funded ratio from 78% to 71%.

Funding of a retirement system is dependent on two revenues sources: investment earnings and contributions (employer and member). Future investment experience will be the largest driver of the System's funded ratio. However, contributions at the full actuarial determined rate will be extremely important to the long-term funding.

**Requirement #2 – The actual contribution rate paid by employers and active members must be equal to or more than the rate as determined by the actuary for the year.**

**Current Status – The actual contribution rate paid by employers and active members has been slightly below the actuarially determined rate.**



Currently, Missouri law fixes the actual contribution rate at 18%. The actual contribution rate paid has been below the actuarially determined rate since 2011.

Without an increase in the actual rate paid, it is projected that we will continue to be below the actuarially determined contribution rate in the future.

### **What is the Board of Trustees doing to increase the funding ratio and the contribution rate?**

Legislation will be proposed in the upcoming legislative session to increase the contribution rate. **A meaningful increase in contribution rates will improve the funding ratio over time, assuming all other actuarial assumptions are met.**

In 2016, the Trustees authorized our actuary and asset consultant to prepare analytics of the System's actual experience, and the assets and long-term liabilities. In 2017, after thorough review of the completed analysis, the Trustees agreed to move forward with a plan to increase KCPSRS's contribution rate. Discussions with our participating employers indicate interest in meaningful increases in the employer contribution rate, leaving the employee rate at the current 9% rate. Trustees are proposing legislation to increase the contribution rate.

**Senate Bill 856 and House Bill 2184 have been filed for consideration by the Missouri legislators in 2018 to change Missouri law to raise the employer contribution rate. Increasing the contribution rate is a huge step to improving the funding ratio over time and once the ratio is again 100% a COLA may be granted.**

### **What's important?**

First and foremost, the Board of Trustees' job is to safeguard KCPSRS assets for the continued payment of members' life time benefits. **The important thing is KCPSRS members and retirees are secure in receiving their expected monthly lifetime benefits.**