

MEMORANDUM

To: Joint Committee on Pensions, Investments, and Benefits
From: Jarod Waltner, Planning and Research Officer
Date: December 8, 2021
Subject: KPERS 3 Dividend Credits

KPERS 3 Cash Balance plan was created in 2012 and has been the primary retirement plan for new KPERS members since 2015 (some corrections positions continue to be enrolled in KPERS 2). A cash balance plan is a defined benefit plan (like KPERS 1 and KPERS 2) that has features similar to defined contribution plans (like 401k plans).

KPERS 3 retirement benefits are based on notional account balances accrued throughout a member's career based on employee contributions, employer credits and interest earnings. This structure of benefit calculation makes the accrual of interest more important for KPERS 3 members and their ultimate retirement benefits.

The KPERS 3 plan design includes two ways that interest is applied to member account balances:

1. A guaranteed 4% annual interest rate credited quarterly.
2. An optional dividend credit determined by statutory formula.

Dividend Credit Statutory Formula

The dividend credit for KPERS 3 is contained in K.S.A. 74-49,306 and is set at 75% of the five-year average net compound rate of return above 6%.

Dividend Calculation Example	
Five-year average net compound rate of return	8%
Amount of average return above 6%	2%
75% of return above 6%	1.5%
Dividend credit equals 1.5%	

For the first four years of the KPERS 3 plan, there were provisions for calculating the dividend with fewer years, but KPERS 3 is now more than 5 years old so the full 5-year average applies.



Dividend Experience

Each year in the March the KPERS Board of Trustees reviews the previous calendar year returns and whether a dividend is to be paid based on the statutory formula.

Over the first six years of KPERS 3, the formulaic dividend interest credit has applied in three years. A summary of the dividends paid is included in the following table.

KPERS 3 Dividend Credit Calculations		
Calendar Year	Average Net Compound Rate of Return*	Dividend Credit
2015	0.2%	None
2016	4.3%	None
2017	7.4%	1.1%
2018	4.7%	None
2019	7.1%	0.825%
2020	9.3%	2.475%

*The compound rate of return in the first four years was based on the number of years since the plan took effect (the first year was based on the one-year average, the second year was based on the two-year average, etc.). Starting in 2019 and going forward the formula uses a five-year rolling average.

The total interest crediting rate (guarantee plus dividend) is calculated by the actuary to be **4.73%** over the first six years of KPERS 3. The actuary assumes that the long-term interest crediting rate will be 6.25%.

Future Dividend Credits

KPERS net investment return through September totaled 10.3% (10.6% gross return). If the investment return stays at that level through end of the calendar year, that would result in a 5-year average net compound return of 11.8%. Applying that to the dividend formula results in a dividend credit of 4.4% for CY 2021.

Based on the investment returns in CY 2018, CY 2019, CY 2020, and assuming CY 2021 reaches at least 7.75%, KPERS CY 2022 investment return would have to be approximately a negative 5% or worse in order for a dividend not to be paid in CY 2022 based on the existing statutory formula.

I would be pleased to answer any questions the Committee has regarding the KPERS 3 dividend interest credit.