

**DRAFT  
SCOPE STATEMENT**

**Kansas Public Employees Retirement System: Reviewing How the Recent Economic Downturn Has Affected the System's Funding Situation**

The Kansas Public Employees Retirement System administers the retirement plans covering State employees as well as those covering many local jurisdictions in the State, such as cities, counties, and school districts. Those plans rely on funding from employer contributions, employee contributions, and investment earnings to accumulate moneys needed to pay benefits. The latest audited figures (from June 30, 2008) show that the Retirement System had net assets of \$13.2 billion. Those figures also show a decrease in fair value of the System's investments of about \$1.0 billion during fiscal year 2008. For fiscal year 2009, the System's investments incurred further losses of about 19% through May.

State law calls for an annual financial-compliance audit of the Retirement System, which is conducted by a CPA firm under contract with Legislative Post Audit. That audit looks at whether the System presents its financial statements in accordance with generally accepted accounting principles, has adequate financial-management practices, and complies with applicable laws and regulations. State law also calls for the addition of a performance audit topic at least once every three years.

Legislators have expressed concern about the extent to which the recent economic downturn has adversely affected the value of the System's investment portfolio and the System's ability to pay future benefits.

A performance audit in this area would address the following question:

**How has the recent economic downturn affected the Kansas Public Employees Retirement System's funding situation?** To answer this question, the auditors would compare the value of the KPER's investment portfolio to the net present value of the System's obligations over a period of 5-10 years to determine the impact of investment losses in recent years on KPER's funded ratio. The auditors would identify public employee retirement systems with similar benefit structures in other states and gather information about those systems' funded ratios, employer and employee contribution rates, retirement age and years-of-service provisions, and levels of benefits provided. They would compare that information to similar information for KPERS. In addition, the auditors would identify the types of steps retirement systems in the sample states have taken, or are planning to take, (such as modifying contribution rates or changing retirement provisions) to shore up their financial positions as a result financial losses they have suffered over the past two years.

**Estimated completion time: The performance audit report would be available for consideration by the 2010 Legislature. By State law, the Retirement System pays for the cost of this audit work.**