



KPERS 3 Dividend Credit

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Covering Today

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KPERS 3 Creation

KPERS 3 cash balance plan was created in 2012 HB 2333.

In a cash balance plan retirement benefits are calculated based on the notional account balance of member contributions, employer pay credits, and interest.

The original KPERS 3 plan design included a guaranteed 5.25% interest rate on the member and employer accounts and allowed for the KPERS Board of Trustees to approve a discretionary dividend credit.



Original KPERS 3 Dividend

The KPERS 3 dividend credit was originally structured as a discretionary dividend credit that could be provided by KPERS Board of Trustees.

There were several parameters the Board was required to consider when providing the dividend.

- The System funded ratio was equal to or above 80%
 - The Board could consider a dividend if the funded ratio was below 80%, but only after considering market conditions, investment returns, and other factors
- The investment return in the previous fiscal year was at least 10%
- The dividend credit could not exceed 4%



KPERS 3 Dividend Adjustments

2014 HB 2533 made two adjustments to the interest crediting in KPERS 3 plan design.

1. Reduced the guaranteed interest crediting rate on the notional member and employer accounts from 5.25% to 4.0%.
2. Replaced the discretionary dividend credit language with a formulaic dividend design.

These changes occurred before KPERS 3 took affect and only applied to future members. There was no change to any existing benefits.



KPERS 3 Dividend Structure

The current KPERS 3 dividend design (K.S.A. 74-49,306) is equal to 75% of the five-year average net compound rate of return above 6%, as determined by the Board for each calendar year and the four preceding calendar years.

Hypothetical 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%	

CY 2019 was the fifth year of the KPERS 3 plan and the first year there was a five-year rolling average.

Prior to CY 2019 there were provisions to provide a dividend on a shorter time-frame but capped the dividend at a maximum of 1.5%.



KPERS 3 Dividend Experience

The dividend is reviewed by the Board of Trustees each year in March.

Over the first 5 years of the KPERS 3 cash balance plan, the formulaic interest dividend credit has applied twice.

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%

*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 will consider a five-year rolling average.



Questions?

