

The Basics of the KPERS System

As an education employee, teachers and school staff are enrolled in KPERS.

KPERS is referred to as a **Defined Benefit Retirement Plan** because the plan guarantees you a set monthly income defined by formula. This means you will receive a set amount of income each month during the entirety of your retirement. Your contribution rate to KPERS while working is set by the plan. The state is *supposed* to contribute a set amount also. Those funds are pooled and invested on the behalf of all those enrolled in KPERS.

The participant's retirement benefit is guaranteed regardless of the portfolio performance. Under a defined benefit plan, participants are protected from the ups and downs of the market. Under the current defined benefit (DB) system, contributions are pooled and invested. The combination of pooled contributions and investment earnings yields enough funds to provide a guaranteed retired benefit to current and future retirees. Retirees drawing benefits are replaced by active employees making contributions. Active employees are partially funding the current retiree benefit and depending on future active employees to partially fund their own retirement benefit later. Most of the revenues that KPERS receives yearly come from investing the pooled contributions. Without the pooled contributions the revenues into KPERS decrease significantly.

Under a **defined contribution retirement** plan, your monthly retirement benefit is determined by how much was invested or contributed (the participant's defined contribution) and how well those investments have paid off. You may or may not have enough in your plan to last your entire retirement. The risk of the investment is borne by you and not the system at large. Your account contributions would come from a combination of you and the state.

Management of the investments could be done by a combination of the plan and the individual participant. There is no guaranteed retirement benefit in a defined contribution plan. Under a defined contribution plan, a participant's benefit is subject to the ups and downs of the market. Remember that during the last economic downturn the average 401k lost on average 31% of its value. Losing 31% of your retirement would have severe consequences on your future.

For a graph of how these plans work, visit <http://www.knea.org/home/354.htm>