



PERFORMANCE AUDIT REPORT

Reviewing the Performance and Investment Practices of the Kansas Public Employees Retirement System

Executive Summary *with Conclusions*

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
January 1998**



Legislative Post Audit Committee

Legislative Division of Post Audit

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To: Members of the Kansas Legislature

This executive summary contains the findings and conclusions, and the agency response, from our completed performance audit, *Reviewing the Performance and Investment Practices of the Kansas Public Employees Retirement System*.

The report also contains appendices showing comparative information on the retirement plans of Kansas and six other states.

We would be happy to discuss the findings presented in this report with any legislative committees, individual legislators, or other State officials.

If you would like a copy of the full audit report, please call our office and we will send you one right away. We would be happy to discuss these recommendations or any other items in the report with you at your convenience.


Barbara J. Hinton
Legislative Post Auditor

**Reviewing the Performance and Investment Practices of the
Kansas Public Employees Retirement System**
EXECUTIVE SUMMARY
LEGISLATIVE DIVISION OF POST AUDIT

**Question 1: How Do the Retirement System's Rates of Return and
Investment Practices by Type of Investment
Compare With Other Retirement Systems?**

In 1997, other systems generally achieved higher overall rates of return than KPERS, but over the longer term, KPERS has had the second best return of the retirement systems we reviewed. page 5
For fiscal year 1997, the Retirement System achieved an overall rate of return of 14.4%, which was lower than the other states whose investment performance we compared. The other state's rates of return ranged from 16.4% to 19.7%. On a longer-term basis, Kansas' three-year rate of return ranked third among the comparison states, and its five-year rate of return was the second best.

For 1997, KPERS' rates of return for most individual classes of investments were lower than the comparison states, but those returns compared favorably when viewed over a five-year period. page 7
For fiscal year 1997, the Retirement System's rates of return for five of seven investment categories didn't compare favorably with the rates of return reported by the comparison states. However, two classes of investments - domestic fixed income, and cash equivalents- earned higher rates than any comparison state for fiscal year 1997. On a five-year basis, KPERS' average rates of return for four of seven investment classes ranked first or second compared to the comparison states.

The Retirement System's investment policies, procedures, and restrictions generally are similar to other states we contacted. page 9
The Retirement System invested in similar types of investments as the other state systems, and generally has similar policies and procedures. Two exceptions we noted were that Kansas is allowed to invest more of its portfolio in common stocks than other states, and only one other state we contacted is prohibited from investing in banks, savings & loans, and credit unions.

**Question 2: How Do the Rates of Return Achieved by
Individual Investment Managers Compare With
Market Indices and With Returns Achieved by
Other Managers Handling Similar Investments?**

The board of trustees contracted with 23 external investment managers in fiscal year 1997. page 12
These external managers handled 23 different investment portfolios. Because each manager specializes in certain types of investments and follows certain investment styles, they can't be compared to each other and no single index can be used to measure the performance of all of them. It's appropriate to measure each manager against specific indices that represent a benchmark for the type of investment managed and the strategy followed.

For fiscal year 1997, about half the investment managers' portfolios matched or exceeded benchmarks established by the Retirement System. For fiscal year 1997, 10 of 23 portfolios met or exceeded the rate of return achieved by the indices. The three-year average rates of return for 9 of 18 portfolios met or exceeded the appropriate indices. On a five-year basis, 5 of 11 portfolios outperformed the indices. page 13

Conclusion: Fiscal year 1997 was another relatively good year for stocks. However, even though the System had a larger percentage of its portfolio invested in stocks than other systems did, its rate of return was somewhat lower than those other systems. Nonetheless, the System's 14.4% rate of return for 1997 marked its third straight year of double digit returns, which helped give it the second best five-year rate of return for the retirement systems we looked at. page 16

APPENDIX A: Board of Trustees page 17

APPENDIX B: Rates of Return by Type of Investment - Kansas and Six Other State Retirement Systems As of June 30, 1997 page 18

APPENDIX C: Summary of Surveys of State Retirement Systems page 23

APPENDIX D: KPERS Investment Performance by Investment Type Compared to Selected Indices Fiscal Year 1997 page 30

APPENDIX E: Agency Response page 34

This audit was conducted by Chris Clarke. Leo Hafner was the audit manager. If you need any additional information about the audit's findings, please contact Ms. Clarke at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call (785) 296-3792, or contact us via the Internet at: LPA@mail.ksleg.state.ks.us.

