MEMORANDUM

To: Senate Ways and Means Committee

From: Alan D. Conroy, Executive Director

Date: February 15, 2023

Subject: SB 172; KPERS Retiree Death Benefits

When a KPERS retiree dies, the designated beneficiary is entitled to a one-time $4,000 death benefit. The beneficiary can be the same beneficiary as selected for the retirement benefit, a different beneficiary, or even paid directly to a funeral home. The $4,000 death benefit is a taxable benefit, which is why members may select a funeral home as the designated beneficiary for the death benefit.

SB 172 increases the retiree death benefit in K.S.A. 74-4989 from $4,000 to $6,000 on July 1, 2023.

Retiree Death Benefit History
The retiree death benefit was added to the benefit plan design by the 1982 Legislature. The benefit was originally $750. It has been adjusted five times since 1982, most recently in 1993 when it was increased to the current $4,000 benefit. The following table summarizes the changes to the retiree death benefit since it was created:

Changes to KPERS Retiree Death Benefit	
Legislative Session	Change to Retiree Death Benefit
1982	Created at $750
1983	Increased to $1,000
1985	Increased to $1,500
1986	Increased to $2,000
1987	Increased to $2,500
1993	Increased to $4,000

In FY 2022, there were about 3,500 KPERS retiree deaths, which totals approximately $14.0 million in retiree death benefits.

KPERS

Actuarial Costs

The proposed change under SB 178 increases benefits under the current plan design for all groups (KPERS, KP&F and Judges). This increases both the existing unfunded actuarial liability and the normal cost of benefits. The estimated increase in the unfunded actuarial liability because of the benefit change totals $108.2 million, including $78.3 million to the State/School group.

Since the benefit affects both current and future retirees, the actuary included the cost to amortize the increase in the unfunded actuarial liability over 20 years. The estimated increase for the unfunded actuarial liability amortization for the State/School group totals 0.11% or about $5.9 million in FY 2024. However, the increase in the unfunded actuarial liability could be pre-funded through a direct appropriation, which would eliminate this portion of the future employer contribution rate increases.

In addition to the increase in the unfunded actuarial liability, the normal cost rate also increases because the proposed change increases benefits for current and future active members. The increase in the State/School normal cost is 0.02%, or about $900,000 in FY 2024. The increase in the unfunded actuarial liability, normal cost rate, and total contribution rate (which includes both the increase in the normal cost rate and the unfunded actuarial liability rate), are summarized in the table below:

	Estimated Increase in UAL ($M)	Normal Cost Rate Increase	Total Contribution Rate Increase	Additional First-Year Contribution ($M)	Additional Second-Year Contribution ($M)
State/School	78.3	0.02%	0.13%	6.76	6.96
Local	25.3	0.02%	0.11%	2.24	2.31
KP&F					
State	0.6	0.01%	0.09%	0.05	0.05
Local	3.8	0.01%	0.06%	0.33	0.34
Judges	0.3	0.02%	0.10%	0.03	0.03
Total	$108.2			$9.40	$9.68

By statute (K.S.A. 74-4920), changes to the benefit plan design are implemented in the fiscal year immediately following enactment, so this change would increase the FY 2024 State/School employer contribution rate from 12.57% to 12.70% if the unfunded actuarial liability is amortized over 20 years.

I would be pleased to answer any questions the Committee may have regarding SB 172.