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Adam C. Proffitt, Director

Laura Kelly, Governor

February 4, 2025

The Honorable Nick Hoheisel, Chairperson
House Committee on Financial Institutions and Pensions
300 SW 10th Avenue, Room 582-N
Topeka, Kansas 66612

Dear Representative Hoheisel:

SUBJECT: Fiscal Note for HB 2129 by House Committee on Financial Institutions and Pensions

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2129 is respectfully submitted to your committee.

HB 2129 would transfer teachers who are KPERS Tier 3 members to KPERS Tier 2 for all prior and future service on January 1, 2026. If a current KPERS Tier 3 member would receive a higher benefit under KPERS Tier 3 at the time of the transfer than under KPERS Tier 3, then the member would remain in KPERS Tier 3. The bill would provide that the cost of the transfer would be paid from employer contributions and would have no cost to the member. In addition, all future teachers would become a member of KPERS Tier 2. For the provisions of the bill, a teacher would be defined as “any professional employee who is required to hold a certificate to teach in any school district and any teacher or instructor in any technical college or community college.”

For administrative costs, KPERS indicates that reopening the KPERS Tier 2 plan for teachers would have a significant effect on plan administration. Because KPERS does not track position data, the total number of affected teachers is unknown. However, using teacher counts from Department of Education data, KPERS estimates that there are 43,593 total teachers, including 19,096 current KPERS Tier 3 members. This estimate does not include inactive teacher members who would also convert to KPERS 2.

Implementing HB 2129 would require both technical updates to the pension administration system and extensive data collection on teachers, which KPERS does not currently track. Additionally, the transition would involve educational and communication efforts for affected members. While the KPERS Tier 2 technical structure currently remains in the pension administration system, converting members from KPERS Tier 3 to KPERS Tier 2 would require major system changes to accurately establish salary and service time for KPERS Tier 2 benefit calculations. The system would also have to be modified to allow the agency to compare KPERS Tier 2 and KPERS Tier 3 benefits, ensuring that no member would receive a lower benefit due to this transition.

KPERS estimates a cost of $1.0 million in FY 2026 from the KPERS Trust Fund in technical system updates and testing, requiring six months to complete. Additional staffing would be needed for identifying teacher members and assisting with member education. The agency estimates expenditures for 5.00 temporary positions for FY 2026 and FY 2027, including 2.00 Benefits Representatives and 3.00 Benefit Analysts. FY 2026 salaries and benefits costs are estimated to be $373,158 in FY 2026 and $389,211 in FY 2027.

For the actuarial cost estimate, the KPERS actuary reports moving the KPERS Tier 3 teacher members to KPERS Tier 2 would increase the unfunded actuarial liability UAL for those members by approximately $220.0 million because of the difference in the benefit plan design, along with an increased normal cost of the system for the increased benefits. Because the proposed changes would affect the benefit amounts for future retirees, the actuary utilized an amortization period of 20 years for the increase in the UAL.

The actuary reports that the bill would increase the normal cost of employer contributions by 0.42 percent for the State/School Group. In addition, there would be an employer contribution rate increase to fund the UAL totaling 0.31 percent for the State School Group. In total, the bill would increase the actuarial contribution rate by 0.73 percent, beginning in FY 2026, going from 11.68 percent to 12.41 percent, excluding KPERS Death and Disability Fund contributions. KPERS estimates an employer contribution increase totaling $43.0 million in FY 2026 and $44.0 million in FY 2027 for the KPERS State/School Group. The Division of the Budget estimates that approximately 85.0 percent of the State/School group employer contributions would be financed from the State General Fund, with $36.6 million in FY 2026 and $37.4 million in FY 2027.

KPERS notes that the $220.0 million UAL cost could be funded with a one-time appropriation from the State General Fund in FY 2026. If this would occur, the actuary reports that this would eliminate the 20-year amortization of the UAL, with eliminating the corresponding rate increase of 0.31 percent; however, the normal cost increase of 0.42 percent would remain. This assumption of paying off the UAL in its entirety would result in a FY 2026 employer contribution for the State/School Group of 12.1 percent. This increase without the UAL factored in would be approximately $24.8 million in FY 2026. The Division of the Budget estimates that of this amount, $21.1 million would be from the State General Fund.

The Division of the Budget estimates that this policy change could increase the number of people entering in the field of teaching with a greater retirement benefit than is currently available. In addition, teachers may remain in service for a longer period of time than under the current KPERS Tier 3 structure. However, the number of additional teachers or change in retirement behavior cannot be estimated. Any experience change by teachers is not factored into the cost estimate for HB 2129. Any fiscal effect associated with HB 2129 is not reflected in *The FY 2026 Governor's Budget Report*.

Sincerely,

Adam C. Proffitt
Director of the Budget

cc: Jarod Waltner, KPERS
Gabrielle Hull, Department of Education