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April 11, 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 2298 by Representatives Weigel and Helgerson

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2298 is respectfully submitted to your committee.

HB 2298 would (1) create a cost-of-living adjustment (COLA) for certain KPERS retirees; (2) transfer $1.0 billion from the Budget Stabilization Fund to the newly created KPERS Liability Reduction Fund and authorize certain transfers of employer contribution savings from the State General Fund to KPERS; and (4) establish requirements for the expenditures or transfer of funds from the Budget Stabilization Fund.

The bill would create a COLA for KPERS retirees who have a retirement date on or before July 1, 2020, and who are entitled to receive a retirement benefit on July 1, 2025. The bill would increase the retirement benefit by 2.0 percent on July 1, 2025. The payments would be made from interest earnings of the Liability Reduction Fund, described below.

The bill would create the Liability Reduction Fund and would be administered by the KPERS Board of Trustees. On July 1, 2025, $1.0 billion would be transferred from the Budget Stabilization Fund to the Liability Reduction Fund. On July 1, 2026, and each subsequent year, the Director of the Budget, in consultation with the Executive Director of KPERS, would determine an amount to be transferred from the State General Fund to the Budget Stabilization Fund. This amount would represent the actual cost savings from the transfer of the $1.0 billion in funds to the Liability Reduction Fund, minus the annual cost of the COLA, authorized by the bill. The baseline calculation for this transfer would be from the KPERS December 31, 2024, Actuarial Valuation.

The bill would make changes to current law regarding the Budget Stabilization Fund. The bill would state that the Legislature would be required to strive to maintain a balance in the Budget Stabilization Fund between 15.0 percent and 20.0 percent of expenditures from the State General

Fund in the previous year. The bill would require any expenditures or transfers, other than the $1.0 billion transfer authorized by the bill, from the Budget Stabilization Fund to respond to the following extraordinary conditions: (1) financial emergencies caused by a natural disaster; (2) a deep downturn in state revenues greater than 10.0 percent from the immediately preceding fiscal year; or (3) a crippling healthcare emergency caused by the deaths or illnesses of a significant percentage of the state's population.

For administrative costs, KPERS indicates that the enactment of the bill would require the agency to calculate the COLA benefit changes for more than 114,000 affected KPERS retirees and beneficiaries. This would be accomplished through the pension administration system and would require development time and testing to ensure the accurate calculation of benefits. However, this would be accomplished within the agency's existing resources, with no additional funding needed.

In addition, KPERS would need to create an investment program for the Liability Reduction Fund. The agency would assume that the management of the fund would be similar to the existing investment program for the State Treasurer's Unclaimed Property Fund. Any additional administrative expenditures required would be charged to the Liability Reduction Fund and would not affect expenditures from the KPERS Trust Fund.

To calculate the actuarial cost for the COLA authorized by the bill, the KPERS actuary used the projected actuarial liability to the corresponding increase in the actuarial required contribution rates for the five KPERS groups—State/School, Local, Kansas Police & Firemen (KP&F)—State, and KP&F—Local, and Judges. The KPERS actuary used an amortization period of ten years for its calculations for all groups, except for the KP&F groups. An amortization period of 15 years was used for the KP&F groups because of the younger members who would receive the COLA for a longer period. The amortization payments are estimated using the same methodology as is used in the actuarial valuations, using level-percent of payroll for all groups other than the Judges Group, which the estimate uses a level-dollar payment method.

Estimated Fiscal Effect--Cost of Living Adjustment

dollars in millions

KPERS Group	Estimated Increase in UAL	Contribution Rate Increase	First-Year Additional Contribution	Second-Year Additional Contribution
State/School	$ 184.9	0.39%	$ 23.1	$ 23.8
KP&F--State	4.6	0.55%	0.4	0.4
Judges	1.9	0.69%	0.3	0.3
Subtotal--State Groups	**$ 191.4**		**$ 23.8**	**$ 24.5**
Local Group	$ 46.1	0.24%	$ 5.6	$ 5.8
KP&F--Local	34.6	0.46%	3.1	3.2
Subtotal--Local Groups	**$ 80.7**		**$ 8.7**	**$ 9.0**
Total--All KPERS Groups	**$ 272.1**		**$ 32.5**	**$ 33.4**

Based on the above cost projections, the amount that would be required in FY 2026 to fully fund the proposed COLA would be $272.1 million. If the COLA would be amortized over the recommended period under each option, the first-year cost in FY 2026 is estimated to be $32.5 million for all KPERS groups. KPERS assumes that the initial amortization payment would be made in FY 2026 with recertified employer contribution rates once the bill would be enacted. KPERS also assumes that employer contributions to amortize the increase in the unfunded actuarial liability would not subject to the statutory cap on employer contribution increases, based on existing Kansas law that requires any additional benefit to begin payment in the following fiscal year.

Under the provisions in HB 2298, the initial transfer of $1.0 billion from the Budget Stabilization Fund to the Liability Reduction Fund, along with any investment income of the Liability Reduction Fund, would be included in the KPERS School Group's assets when determining the required employer contribution rates. However, to determine the transfer amount from the State General Fund to the Budget Stabilization Fund each year, the employer contribution rate would be calculated both with and without reflecting the Liability Reduction Fund in the KPERS assets. The difference in the employer contribution amount between the two asset valuation methods would be transferred from the State General Fund to the Budget Stabilization Fund each year. Because this change would affect future contribution calculations, the agency's cost analysis for the State/School Group is based on the results of a projection model prepared using the December 31, 2023, actuarial valuation and reflects the proposed change in the December 31, 2024, valuation and subsequent valuations.

Because the bill would require the Liability Reduction Fund to be included in the assets in the KPERS annual actuarial funding valuation, the bill would also affect the recertification of the State/School Group employer contribution rates for FY 2026. KPERS estimates that the employer contribution rates for the State/School Group would be re-certified from 12.07 percent to 10.82 percent for FY 2026 and from 11.71 percent to 10.48 percent for FY 2027. The actual difference in the dollar amount of employer contributions, based on these rates for each fiscal year, would be the amount to be transferred from the State General Fund to the Budget Stabilization Fund.

The savings in State General Fund employer contributions because of this calculation would be transferred from the State General Fund to the Budget Stabilization Fund. The difference of 1.25 percent in FY 2026 is estimated to be approximately $72.2 million in total State/School Group contribution savings. In FY 2027, the contribution difference is 1.23 percent, or approximately $72.5 million in total contribution savings. The State General Fund portion of the total contribution is approximately 70.0 percent to 80.0 percent, meaning the State General Fund transfer would be $50.0 million to $58.0 million in both FY 2026 and FY 2027.

For long-term fiscal considerations, the creation of the Liability Reduction Fund would increase the funding risk to KPERS. HB 2298 would require the annual actuarial valuation to include the value of the Liability Reduction Fund in the State/School Group assets when determining the employer contribution rates. The agency notes that there is no provision in the bill for those funds to be transferred to the KPERS Trust Fund, the System would be systematically underfunded by calculating employer contribution rates using a higher asset value than is in the KPERS Trust Fund. In addition, the bill would provide that funds may be transferred out of the

Liability Reduction Fund in extraordinary circumstances. If that were to occur, it would be reflected in the next actuarial valuation and the unfunded actuarial liability would increase with a corresponding increase in the employer contribution rate. The result would be an increase in the State/School Group employer contribution rate, likely coinciding with other budget challenges.

The Office of the State Treasurer indicates that any additional workload associated with the provisions of the bill would be accommodated using its existing budget and staff. Any fiscal effect associated with HB 2298 is not reflected in *The FY 2026 Governor's Budget Report*.

For the Local Group, local employer contributions would increase from the COLA and the assets of this group would not be affected by the Liability Reduction Fund. Local Group employers would see an increase in the total employer contributions of about $5.6 million in FY 2026 and $5.8 million in FY 2027, spread across more than 1,400 local employers. KP&F—Local Group employer contributions would increase approximately $3.1 million in FY 2026 and $3.2 million FY 2027 across 100 KP&F—Local Group employers.

Sincerely,

Adam C. Proffitt
Director of the Budget

cc: Jarod Waltner, KPERS
John Hedges, Office of the State Treasurer