SESSION OF 2025

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2086

As Recommended by House Committee on
Financial Institutions and Pensions

Brief*

HB 2086 would increase the Kansas Public Employee Retirement System (KPERS) Tier 3 discretionary dividend credit from 75 percent of the five-year average net compound rate of return to 80 percent. The bill would also reduce the discretionary dividend credit threshold from 6 percent to 5 percent of the five-year average net compound rate.

The bill would also make technical amendments to remove outdated language.

Background

The bill was introduced by the House Committee on Financial Institutions and Pensions at the request of Representative Hoheisel.

House Committee on Financial Institutions and Pensions

In the House Committee hearing, **proponent** testimony was provided by a representative of the Kansas National Education Association. The proponent generally stated the bill would help recruit and retain Kansas public school teachers.

Neutral testimony was provided by a representative of KPERS generally stating the bill's effect on members' benefits and the system's fiscal position. Additional neutral testimony

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*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at https://klrd.gov/

was provided by a representative of the Kansas Peace Officers Association generally stating that KPERS Tier 3 needs to be improved.

Written-only neutral testimony was provided by representatives of Keeping the Kansas Promise.

No other testimony was provided.

Fiscal Information

According to the fiscal note prepared by the Division of the Budget (DOB) on the bill, KPERS indicates that enactment of the bill would have a negligible effect on the agency's operations. KPERS publications would have to be updated, but the agency reports that no additional staffing or information technology development would be required and could be implemented with the agency's current submitted budget for FY 2025 and FY 2026.

The enactment of the bill would provide increased retirement benefits for KPERS Tier 3 members. As of December 31, 2023, a total of 79,886 members of the State/School Group and the Local Group would receive this benefit enhancement, as well as all new members entering the Tier 3 Plan. The proposed changes would increase the overall funding risk to KPERS, as higher employer contributions would be needed over time to finance the higher benefits.

Although each individual KPERS Tier 3 retiree's situation would be different depending on many variables, KPERS has illustrated what the benefit increase may be for a career employee with 30 years of service. If this individual would retire making an annual salary of $60,000, the bill would increase the replacement income ratio from 33.2 percent to 36.5 percent. Under current law, this KPERS Tier 3 member employee would receive approximately $19,920 annually from KPERS for retirement benefits. The bill would increase this yearly amount by $1,980 to $21,900, an increase of 9.9 percent.

For the State/School Group, the KPERS actuary indicates the bill would increase the KPERS unfunded actuarial liability (UAL) by $102.1 million. With current law, any benefit enhancement is required to be reflected in the fiscal year immediately following the enactment of the change. As a result, the State could either: (1) make an up front payment to KPERS from the State General Fund totaling $102.1 million, likely from the State General Fund, to pay for the cost; or (2) pay for the increased costs through increased employer contributions for the UAL. With the second option, the State's employer contributions (excluding death and disability contributions) would increase by 0.48 percent, going from 11.68 percent to 12.16 percent in FY 2026. This increase is estimated to cost $27.0 million from all funding sources for FY 2026. The DOB notes that using an estimate of approximately 85.0 percent of the State/School Group's employer contributions being paid from the State General Fund, this would result in additional expenditures of $23.0 million from the State General Fund statewide for employer KPERS contributions, including KPERS-School payments.

KPERS notes that if the State would make the upfront UAL payment, the State would still incur an increase in KPERS employer contribution rate of 0.35 percent for the cost of the increased benefit. KPERS estimates that this would increase expenditures by $19.8 million from all funding sources, with $16.8 million from the State General Fund, using the DOB payroll funding split estimate. Any fiscal effect associated with the bill is not reflected in *The FY 2026 Governor's Budget Report*.

For the Local Group, KPERS indicates the bill would increase the UAL by $43.7 million. However, unlike the State/School Group, there is no mechanism to pay for the increase in the UAL up front by local employers. As a result, Local Group employers would experience an employer contribution rate increase during calendar year 2026 of 0.58

percent, going from 9.59 percent to 10.17 percent. This increase would cost local employers an estimated $12.9 million among approximately 1,400 Local Group KPERS employers. If the state would make the UAL payment up front for the Local Group, the employer contribution would increase by 0.41 percent in calendar year 2026 for the cost of the benefit increase, or approximately $9.1 million.

Retirement System; KPERS; Tier 3; investment return threshold; dividend; dividend interest credit