

HB 2786

Testimony for the House Committee on Pensions and Benefits

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Chairperson Holmes and Members of the Committee:

Thank you for this opportunity to provide testimony regarding HB 2786, which suspends employer contributions to the KPERS Death and Disability program from April 1, 2012, through June 30, 2012.

Overview

K.S.A. 2012 Supp. 74-4927 provides a plan of death and long-term disability benefits for active KPERS members and certain other public employees, consistent with the terms and conditions set out in the statute. It further provides for each participating employer to pay an amount equal to 1.0% of the amount of compensation on which members' contributions to the System are based. The employer contributions are deposited in the Group Insurance Reserve Fund (the Fund), from which the death and disability benefits are paid.

On several occasions, the Legislature amended K.S.A. 2012 Supp. 74-4927 to suspend employer contributions for varying lengths of time. Through the appropriations process, the 2011 Legislature expressed its intent to establish a similar moratorium on contributions in FY 2012. As summarized by the Governor's July 2011 "Comparison Report" –

The [2011] Legislature approved a three-month moratorium of employer contributions to the KPERS Death and Disability Program for the last quarter in FY 2012. A similar moratorium for FY 2011 was approved by the 2010 Legislature. For FY 2012, the moratorium was estimated to create savings of \$12.1 million from all funding sources, including \$9.7 million from the State General Fund. However, unlike the moratorium in FY 2011, savings from state special revenue funds that would have been spent on KPERS Death and Disability employer contributions were not swept to the State General Fund, but will remain in their respective funds.

While the Legislature built this moratorium into the FY 2012 budget, a statutory amendment is needed to implement it. To that end, HB 2786 amends K.S.A. 74-4927 by stating that no employer contributions are to be paid for a three-month period beginning April 1, 2012, and ending on June 30, 2012.

Projected Savings

FY 2012 budgetary savings to the State for this three-month moratorium are currently estimated to total \$12.8 million, with an additional \$3.9 million in savings for local government employers, as follows:

Kansas Public Employees Retirement System Death and Disability Fund Budgetary Impact of a One-Quarter Moratorium Beginning April 1, 2012	
State	\$ 4,549,000
School	\$ 8,226,000
Judges	\$ 21,000
Total State	\$12,796,000
Local	\$ 3,905,000
Grand Total	\$16,701,000

Fund Balances

Assuming implementation of the three-month moratorium, the Fund's balance at the end of FY 2012 is projected to \$11.5 million. A fund balance of at least \$10 million is needed to ensure timely payment of claims on the Fund and other Fund obligations. To the extent that the Fund's balances fall below \$10 million, careful monitoring of cash flow is required, and if there is a significant spike in death and disability claims or a delay in employer contributions, balances may be insufficient to meet the Fund's obligations. In such a case, the Fund would require a loan from the Pooled Money Investment Board as provided by K.S.A. 74-4927m.

I would be glad to respond to any questions that you may have regarding HB 2786.