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Steven J. Anderson, CPA, MBA, Director

Sam Brownback, Governor

February 16, 2012

The Honorable Stephen Morris, Chairperson
Senate Committee on KPERS Select
Statehouse, Room 333-E
Topeka, Kansas 66612

Dear Senator Morris:

SUBJECT: Fiscal Note for SB 429 by Senate Committee on Ways and Means

In accordance with KSA 75-3715a, the following fiscal note concerning SB 429 is respectfully submitted to your committee.

SB 429 would enact the Kansas Public Employees Retirement System (KPERS) Act of 2014. The bill would be applicable to anyone who is first hired on and after January 1, 2014, by a participating KPERS employer. In addition, the bill would be applicable to anyone who was a KPERS member prior to January 1, 2014, but was not an active or inactive member of KPERS on January 1, 2014. The bill would not apply to members of the KP&F retirement system or the retirement system for judges. In addition, the bill specifies that a KPERS member may not simultaneously be a member of the pre-2014 plan and the plan established by SB 429.

Employee Directed Accounts

For new KPERS members hired on and after January 1, 2014, the bill would create individual employee directed accounts, which would require a 6.0 percent mandatory contribution by the employee. The bill would stipulate that a member's employee directed account would include the member's mandatory contributions, as well as the gains and losses on the contributions. The employee directed account would be vested from the date the member becomes a KPERS member.

The bill would provide that a wide variety of investment alternatives would be established for employee directed accounts. In addition, there would be offered an investment alternative that would be similar to the investment portfolio of KPERS. This would also be the default option for any member or beneficiary who does not specify an investment direction. The KPERS Board would be able to assess fees on the accounts to pay for reasonable administrative costs. All fees assessed would be fully disclosed to KPERS members and treated as public information. Employees would be able to rollover contributions from other eligible retirement plans to a rollover account within the KPERS plan with the same investment options as employee directed accounts.

Employer Annuity Account

The bill would create an employer annuity account for each member. An employer credit would be made to the member's account at the end of each calendar quarter, according to the following schedule. A credit of 1.0 percent of compensation would be made for each member who has up to one year of service. This credit would increase by 0.5 percent of compensation through the eighth year of service, for a maximum of 5.0 percent each year. For each year of service after the eighth year, the employee's employer annuity account would be credited 5.0 percent of compensation. Any credited service accrued by a member under provisions of the pre-2014 plan would be credited for the purpose of computing the member's years of service.

At the end of each calendar year, the Board would credit each employer annuity account with a zero percent interest credit. In addition, the Board would credit each employer annuity account with a supplemental interest credit rate, which would equal the net investment return on the KPERS portfolio. Depending on that year's investment performance, this interest rate credit could either be negative or positive. If a member retires in the middle of a calendar year, the Board would credit the employer annuity account with a rate that equals the net KPERS portfolio investment return for that calendar year.

A member would be vested in the member's employer annuity account upon completion of five years of service. If not vested when the member's service is terminated, the employer credits and interest credits would be forfeited. However, if a member is vested, but the member dies prior to attaining normal retirement age without a spouse eligible to receive benefits, the employer credits and interest credits would be forfeited. Forfeitures could not be used to increase any member's account, but would be used to pay administrative expenses of the accounts, or to reduce employer contributions.

A member, who has a nonforfeitable interest in the member's employer annuity account, at any time after termination from service and the attainment of normal retirement age, would receive an annuity that would be provided by the employer credits and income credits in the employer annuity account. The Board would use the Pension Benefits Guaranty Corporation distress termination interest rate for the annuity. The benefit would be a single-life annuity, with five-year certain. A member would be able to elect joint and survivor options.

Death & Disability Plan Benefits

SB 429 would extend the state's current death and disability plan coverage to new KPERS members hired after January 1, 2014. Under current law, the KPERS Board has the authority to establish a plan of death and long-term disability benefits. In general terms, the death and disability plan established by the Board provides a disability income benefit equal to 60.0 percent of annual salary, offset by Social Security benefits. This disability benefit remains in place so long as the individual remains disabled under the terms of the plan, until the earlier of either age 65 or retirement, for those who become disabled before age 60; or five years after the disability benefit begins or retirement, for those first disabled at age 60 or later.

Active members who die receive an insured death benefit equal to 150.0 percent of annual salary, for deaths that are not connected to service. Employers pay the employer death and disability rate to fund these benefits. Current law sets that rate at 1.0 percent of the amount of compensation on which KPERS contributions are based.

Current law also provides certain retirement benefits for members who are on long-term disability. SB 429 sets out the following provisions with respect to the retirement benefits for members hired after January 1, 2014, who are receiving long-term disability benefits. The member would receive service credit for the entire period of the disability. The member's employer-annuity account would be credited for the entire period of disability with the credits and interest prescribed by SB 429. KPERS would assume that an amount equal to the service-based employer credit for an active member with the same years of service would be credited to the employer annuity account. The salary on which the credits are based would be the member's pay at the beginning of the disability, adjusted after five years for the lesser of the increase in the CPI for urban consumers, minus 1.0 percent, or 4.0 percent each year. All credits to the employer annuity account would cease as of the earliest of the member's normal retirement age, death, or the date the member is no longer entitled to receive disability benefits.

The employer credits to the employer annuity accounts of members on long-term disability would be funded in the same manner as employer credits for active members. As noted previously, the employer credit would not be a direct employer contribution. The actuarially determined employer contribution rate paid on the payroll for active KPERS members in all three tiers would be calculated in a manner that would fund the employer credits of members on long-term disability as well.

At the time this fiscal note was prepared, KPERS had not submitted an estimate of the bill's effect on KPERS and the state's costs to finance the higher contribution rates. There would be no accumulation of liability in the current KPERS system for new employees hired after January 1, 2014, with enactment of SB 429. Although the bill is silent regarding employer contributions for the pre-2014 system, the Division of the Budget assumes that the employer contribution caps outlined in 2011 Senate Substitute for HB 2194 would be instituted. Under this assumption, the current statutory state, school and local employer contribution annual rate caps of 0.6 percent would increase to new annual limits as follows, provided that the dual vote occurred during the 2012 Legislature: 0.9 percent in FY 2014 (January 1, 2014 for local employers); 1.0 percent in FY 2015 (January 1, 2015 for local employers); 1.1 percent in FY 2016 (January 1, 2016 for local employers); and 1.2 percent in FY 2017 (January 1, 2017 for local employers).

Sincerely,

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Faith Loretto, KPERS