

February 17, 2011

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 49 by Joint Committee on Pensions, Investments and Benefits

In accordance with KSA 75-3715a, the following fiscal note concerning SB 49 is respectfully submitted to your committee.

SB 49 would make several changes to the Kansas Public Employees Retirement System (KPERS). The bill would include the following three components:

1. **Increased Employer Contributions**—the bill would raise the cap on increased employer contributions from 0.6 percentage points per year to 1.0 percentage point per year, beginning in FY 2013. For local employers, this increase would begin on January 1, 2013.
2. **Increased Employee Contributions**—rates for Tier 1 and Tier 2 members would increase by 0.5 percentage points in each of four calendar years, beginning January 1, 2013. By calendar year 2016, the contribution for Tier 1 employees would reach 6.0 percent and the contribution rate for Tier 2 employees would reach 8.0 percent. The current rate is 4.0 percent for Tier 1 and 6.0 percent for Tier 2 employees.
3. **Increased Benefit Multiplier for Future Service**—beginning January 1, 2013, the KPERS retirement benefit formula multiplier would increase from 1.75 to 1.85 for all future years of service credited to KPERS members.

According to KPERS, enactment of SB 49 would reduce KPERS employer contributions long term through FY 2033 by \$3.5 billion from all funding sources, including \$2.6 billion from the State General Fund. However, contributions in FY 2013 through FY 2023 would increase over current statutory cap levels. The following table illustrates the effect SB 49 would have on KPERS State and School Group employer contributions from FY 2013 through FY 2033:

KPERS State and School Group
(dollars in millions)

Fiscal Year	New State/School Contribution Rate	Additional Contrib. Above Current Cap
2013	9.77%	\$ 18.8
2014	10.77%	38.6
2015	11.77%	59.6
2016	12.77%	81.8
2017	13.77%	105.3
2018	14.77%	130.3
2019	15.66%	150.8
2020	15.79%	128.1
2021	15.82%	98.3
2022	15.75%	60.8
2023	15.61%	15.1
2024	15.41%	(36.9)
2025	15.17%	(96.2)
2026	14.87%	(163.0)
2027	14.54%	(237.8)
2028	14.12%	(324.1)
2029	13.63%	(422.1)
2030	13.01%	(537.5)
2031	12.23%	(674.9)
2032	11.17%	(847.0)
2033	9.57%	<u>(1,079.6)</u>
		<u>\$(3,531.6)</u>

In addition, the Local Group would experience long-term employer contribution savings over current statutory capped rates from calendar years 2013 through 2033. However, contributions in calendar year FY 2013 through FY 2015 would increase over current statutory capped levels. The following table illustrates the employer contribution effect on the Local Group:

Local Group
(dollars in millions)

Fiscal Year	New Local Group Contribution Rate	Additional Contrib. Above Current Cap
2013	8.34%	7.3
2014	9.15%	11.6
2015	9.34%	3.8
2016	9.17%	(11.5)
2017	9.09%	(26.3)
2018	8.96%	(35.0)
2019	8.78%	(37.7)
2020	8.57%	(39.6)
2021	8.36%	(40.7)
2022	8.12%	(42.4)
2023	8.00%	(40.4)
2024	8.00%	(34.4)
2025	8.00%	(27.0)
2026	8.00%	(18.2)
2027	8.00%	(6.9)
2028	8.00%	7.2
2029	8.00%	25.3
2030	8.00%	49.4
2031	8.00%	68.7
2032	8.00%	71.3
2033	8.00%	<u>74.1</u>
		(41.4)

The bill would also increase contributions by KPERs members by 0.5 percentage points each year from FY 2013 through FY 2016. Tier 1 members would have an employee contribution rate of 6.0 percent by FY 2016, while Tier 2 members would have a rate of 8.0 percent. The following table illustrates these changes:

Additional Employee Contributions
(dollars in millions)

Fiscal Year	State/School Group	Local Group	Total
2013	\$ 11.7	\$ 9.2	\$ 20.9
2014	36.2	18.9	55.2
2015	62.1	29.4	91.5
2016	89.5	40.5	130.0
2017	105.3	41.9	147.2
2018	108.6	43.3	151.9
2019	112.0	44.8	156.8
2020	115.7	46.3	162.0
2021	119.5	48.0	167.5
2022	123.6	49.6	173.2
2023	127.8	51.4	179.2
2024	132.3	53.2	185.6
2025	137.0	55.2	192.2
2026	141.9	57.2	199.1
2027	147.0	59.3	206.3
2028	152.4	61.5	213.9
2029	158.0	63.8	221.8
2030	163.9	66.2	230.1
2031	170.0	68.7	238.7
2032	176.4	71.3	247.7
2033	<u>183.0</u>	<u>74.1</u>	<u>257.1</u>
	<u>\$2,573.9</u>	<u>\$1,053.8</u>	<u>\$3,627.9</u>

KPERS notes that the actuarial process and models on which the estimates are based rely on a number of assumptions about future events, relating to both demographic and investment return experience. Two key assumptions that are used are (1) an average annual investment return of 8.0 percent and (2) annual growth in payroll of 4.0 percent. If experience varies significantly from either of these assumptions, employer and employee contributions would have to be adjusted substantially. The fiscal note information given by KPERS does not estimate the net cost of the employee multiplier increase. Any fiscal effect associated with SB 49 is not reflected in *The FY 2012 Governor's Budget Report*.

Sincerely,



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