

KPERS Study Commission and Other KPERS Changes

Senate Sub. for HB 2194 modifies the Kansas Public Employees Retirement System (KPERS) plan for public employees who are current KPERS members in the state, school, and local groups, and for future public employees in the same groups. The bill also establishes a new study commission effective July 1, 2011.

In addition, the bill makes a number of modifications, with some of the changes in plan benefits and funding being contingent upon specific triggers, including certain actions that would have been taken by the 2012 Legislature, before becoming effective. Other new plan options for benefits and funding are contingent upon a favorable ruling from the Internal Revenue Service (IRS) regarding elections for KPERS Tier 1 and Tier 2 members to choose from other plan alternatives for retirement contributions and benefits.

The plan modifications and funding changes (without elections) will bring the employer contributions for KPERS state, school, and local groups into actuarial balance. Employer contributions for both the state and local groups will reach the actuarial required contribution (ARC) in 2014, specifically FY 2014 for the state and CY 2014 for local units of government. The ARC for the school group will occur in FY 2019.

The general fiscal note (without factoring an election of other options) through FY 2033 forecasts a net savings of \$2.9 billion for the employer contributions for the KPERS state and school groups, and a net savings of \$636 million for the KPERS local group. The KPERS plan modifications (without elections) will increase the employee contributions by \$932.0 million for the state and school groups, and by \$365.4 million for the local group.

A subsequent fiscal impact assessment will be prepared by the KPERS actuary for the effect of elections and will be made available to the study commission. In addition, the impact of plan changes on retirement benefits will be prepared by the KPERS actuary and will be made available to the Study Commission.

Summary of Key Points

First, the bill establishes a 13-member KPERS Study Commission to consider alternative retirement plans, including defined contribution plans, hybrid plans that could include a defined contribution component, and other possible plans. The Commission must report no later than January 6, 2012, on its recommendations, which then would be introduced as two identical bills in each chamber of the Legislature.

The KPERS Study Commission will be comprised of 13 members appointed as follows: four legislative members (one each appointed by the President of the Senate, Speaker of the House, and minority leaders of each chamber); four at-large members (one each appointed by the President of the Senate, Speaker of the House, and minority leaders of

each chamber); five private sector members including at least one an attorney (appointed by the Governor); and four ex-officio non-voting members (Executive Director of KPERs, Director of the Budget, Revisor of Statutes, and Director of Legislative Research).

Second, for the other provisions in the bill to become effective, the 2012 Legislature must vote on each of the House and Senate bills containing the study commission's recommendations, with one required vote to occur in the Committee of the Whole of one chamber and another required vote to occur in a Committee of the other chamber. The dual voting is the trigger of the effective date for other provisions in the bill that implement those items noted below, which will bring KPERs into actuarial balance by FY 2019 when all KPERs groups (state, school and local) will reach the actuarial required contribution (ARC).

Third, the statutory annual state, school, and local KPERs increase in employer contribution rate caps will phase into new annual limits from the current 0.6 percent, provided that the dual vote occurs during the 2012 Legislative Session:

- 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).

Fourth, Tier 1 employee adjustments, triggered by the 2012 Session dual votes, include adding two options commencing January 1, 2014, that apply to active KPERs members:

- Tier 1 members will have as the default option an employee contribution rate increase from 4.0 to 6.0 percent and also will have for future years of service an increase in multiplier from 1.75 to 1.85 percent; or
- If an election is permitted by the IRS, then Tier 1 members may elect freezing the employee contribution rate at 4.0 percent and reducing their future service multiplier from 1.75 to 1.4 percent.

Fifth, Tier 2 employee adjustments, triggered by the 2012 Session dual votes, include adding two options commencing January 1, 2014, that apply to active KPERs members:

- Tier 2 members will have as the default option an employee contribution rate frozen at 6.0 percent and the cost-of-living adjustment (COLA) eliminated; or

- If an election is permitted by the IRS, then Tier 2 members may elect freezing the employee contribution rate at 6.0 percent and reducing their multiplier from 1.75 to 1.4 percent in order to retain their COLA.

KPERs will determine when an election will be held over a 90-day period. The election will be held only after a favorable IRS ruling that an in-service election may be held for active Tier 1 and Tier 2 members. The default options will apply if the IRS ruling does not allow an election for active members.

Sixth, inactive KPERs members, if returning to covered employment, will have an election for alternative options in their respective tier prior to July 1, 2013. After that date, or if no election is approved by the IRS, then inactive members will have the default option in their tier upon returning to active, covered KPERs employment.

Seventh, a provision directs that after the sale of surplus state real property, 80 percent of the proceeds will be transferred to KPERs for reducing the unfunded actuarial liability.

Eighth, the bill includes an appropriation of \$60,000 in FY 2012 that increases the special revenue fund expenditure authority of KPERs in order to pay for actuarial services in support of the KPERs Study Commission's work during the 2011 Interim. As the Commission is an interim study group, the Legislative Coordinating Council (LCC) will have to authorize the number of meeting days in order for the members to receive pay for the commission when it meets prior to January 6, 2012. Discussions during the conference committee assumed 18 meeting days for the commission during the 2011 Interim period.

**KPERs Employer Contributions 2011 to 2033
(In Millions)**

KPERs Participants	Baseline Contributions	New Contributions	Change
State & School Groups	\$ 30,644.9	\$ 28,663.8	\$ (1,981.1)
Local Group	7,740.5	7,469.7	(270.8)
Totals	<u>\$ 38,385.4</u>	<u>\$ 36,133.5</u>	<u>\$ (2,251.9)</u>

Fiscal Note for Conference Committee Bill

The fiscal note is a three-part report to correspond with the different provisions in the bill. The multiyear fiscal impact for the bill (excluding the options offered in an election and using the default options for Tier 1 and Tier 2) is to adjust the net KPERs employer and employee contributions by almost an estimated \$2.3 billion as a result of the changes in statutorily required contributions and retirement benefits.

First, the bill establishes a KPERS Study Commission on July 1, 2011. The administrative fiscal note for that provision is presented below under a separate heading.

Second, most other provisions in the bill become effective after dual votes during the 2012 Legislature. KPERS staff worked with the actuary to develop an estimated impact for employer and employee contributions based on the default options (no elections) for Tier 1 and Tier 2. The information for the second part of the fiscal impact is included below as the general fiscal note without elections.

Third, other options become effective if the IRS rules that elections may be held. The KPERS actuary is working to develop an estimated impact if the alternative options are elected by KPERS employees. The third part of the fiscal impact will be available to the KPERS Study Commission. In addition, the KPERS actuary is preparing an estimated impact on retirement benefits of the changes, comparing the assessment with the baseline benefits before the legislation. That assessments also will be provided to the commission.

Administrative Fiscal Note

KPERS estimates professional services for actuarial work and consultants to support the work of the KPERS Study Commission should not exceed \$60,000, all from fee funds. In addition, Legislative Administrative Services estimates costs of \$55,218, all from the State General Fund, for the travel, subsistence, and per diem compensation associated with the KPERS Study Commission, based on a total of 18 meeting days. The LCC must approve meeting days for 2011 Interim study groups, including the Commission.

General Fiscal Note Without Elections

According to the KPERS actuary, with enactment of Senate Sub. for HB 2194 and the 2012 triggers being fulfilled, the KPERS employee contribution rate for certain members will rise by 2.0 percent. In addition, the annual KPERS employer contribution rate cap will rise yearly from 0.6 percent to 1.2 percent, and the higher annual cap for increases will continue to be applied until each KPERS group reaches the ARC rate.

The employer contribution rate for the combined KPERS state and school groups will rise to an ARC rate of 15.75 percent in FY 2019. The state group will reach an ARC rate of 9.46 percent in FY 2014, but will continue rising until the combined state and school groups reach an ARC five years later. The bill reduces long-term aggregate KPERS employer contributions for the state and school groups through FY 2033 by a net of \$2.913 billion from all funding sources when compared to current law. The estimated first-year cost increase compared to current law is an additional \$14.5 million in FY 2014 for the state and school groups employer contributions from all funding sources. The estimated State General Fund cost is approximately \$12.3 million in additional FY 2014 payments.

The increasing annual cap for the KPERs local group will raise the employer contribution rate to an ARC of 8.74 percent in CY 2014 (beginning January 1, 2014). The bill reduces the long-term aggregate KPERs employer contributions for the local group through CY 2033 by a net of \$636.1 million when compared to current law. The estimated first-year cost increase compared to current law is \$3.8 million in CY 2014 for local units of government.

The bill also increases some KPERs employee contributions by 1.0 percent beginning January 1, 2014, and by another 1.0 percent the next year beginning January 1, 2015, unless an employee elects an option to freeze the contribution rate. The total KPERs employee contribution rate rises from the current 4.0 percent to 6.0 percent over this period for one Tier 1 option, while Tier 2 will remain at 6.0 percent under both options. The KPERs actuary estimates the impact on the state and school group of employees will increase their aggregate employee contributions by \$932.0 million over the period through FY 2033 based on the default options. The impact for the local group of employees will add \$366.0 million of employee contributions over the period through CY 2033 based on the default option.

General Fiscal Note With Elections

The general fiscal note for the election of options and its impact will be provided by the KPERs actuary for the KPERs Study Commission.