

February 3, 2014

The Honorable Steven Johnson, Chairperson  
House Committee on Pensions and Benefits  
Statehouse, Room 286-N  
Topeka, Kansas 66612

Dear Representative Johnson:

**SUBJECT:** Fiscal Note for HB 2533 by House Committee on Pensions and Benefits

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2533 is respectfully submitted to your committee.

HB 2533 would make several amendments to the Kansas Public Employees Retirement System (KPERS) Act of 2015 and the cash balance plan that will go into effect January 1, 2015. Under current law, cash balance plan members receive a guaranteed interest credit of 5.25 percent per year with interest credited to the member's account balance quarterly. Additional credits of up to 4.0 percent may be granted at the discretion of the KPERS Board of Directors provided certain conditions are satisfied. HB 2523 would lower the guaranteed interest credit to 4.0 percent and require the Board to provide additional interest credits equal to 75.0 percent of the five-year average net compound rate of return on the market value of the system's assets above 6.0 percent on a rolling five-year average.

Currently, when a member retires the account balance must be converted to a monthly benefit, which is determined by annuity conversion factors based on a 6.0 percent interest rate and a mortality table selected by the Board. HB 2533 would change the annuity conversion interest rate to the actuarial assumed investment rate of return established by the Board minus 2.0 percent.

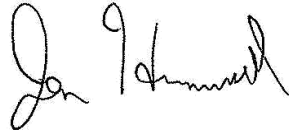
Non-vested members who terminate service would be entitled to receive only the member's mandatory contributions. Vested members who terminate employment may take a distribution of their account contributions plus any earnings but would forfeit employer account contributions and any associated earnings.

KPERS' consulting actuary completed an actuarial cost study on the provisions of HB 2533. Assuming all actuarial assumptions are met, there would be no fiscal effect in FY 2014 or FY 2015 related to the State/School Group employer contribution rates. However, over the long term the bill could lower contribution rates which would result in a reduction to employer

contributions of approximately \$3.0 billion. Similarly, HB 2533 would reduce Local Group total employer contributions over the long term by approximately \$1.1 billion, but would not change employer contributions for FY 2014 and FY 2015.

The bill may require modification of some elements of KPERS' information technology system currently under development for the cash balance plan. However, the agency expects that any costs resulting from those modifications would not require additional expenditure authority. Any fiscal effect associated with HB 2533 is not reflected in *The FY 2015 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Jon Hummell". The signature is written in a cursive, flowing style.

Jon Hummell,  
Interim Director of the Budget

cc: Faith Loretto, KPERS