

January 31, 2020

The Honorable Jim Kelly, Chairperson  
House Committee on Financial Institutions and Pensions  
Statehouse, Room 581-W  
Topeka, Kansas 66612

Dear Representative Kelly:

SUBJECT: Fiscal Note for HB 2503 by House Committee on Appropriations

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2503 is respectfully submitted to your committee.

HB 2503 would implement the Governor's recommendations for certain Kansas Public Employees Retirement System (KPERs) issues contained in *The FY 2021 Governor's Budget Report*. First, the bill would transfer \$268.4 million from the State General Fund to the KPERs Fund in FY 2020 for payment of the remaining balance on delayed KPERs school employer contributions from FY 2017 and FY 2019, as of June 30, 2020, also known as "layering" payments.

Second, the bill would establish in statute a new 25-year amortization period for the KPERs State/School Group legacy unfunded actuarial liability. The current amortization period was set in 1993 for a period of 40 years. Under current law, amortization methods and decisions are determined under the authority of the KPERs Board of Trustees. The amortization schedules of all other KPERs groups would not be changed.

Finally, the bill would require the Director of the Division of the Budget to certify to the Director of the Division of Accounts and Reports in the Department of Administration lapses from State General Fund accounts and decreases to special revenue fund expenditure limitations in each state agency within the KPERs State/School Group. The amounts of the lapses and decreases would be equal to reductions to KPERs State/School Group employer contributions in FY 2021 resulting from establishing the new amortization period. A copy of the certification would be provided to the Director of Legislative Research.

Enactment of HB 2503 would transfer \$268.4 million from the State General Fund on the enactment of the bill. This transfer would be reported with other transfers from the State General Fund and would reduce the FY 2020 ending balance of the State General Fund by the same amount. KPERs reports that the early payoff of the "layering" payments in FY 2020 would save the state

approximately \$209.0 million in interest payments, which currently accrues at 7.75 percent each year.

KPERS’ consulting actuary completed a cost study based on the Governor’s reamortization policy. Generally, extending the amortization period out 25 years would reduce employer contributions in the near term but increase the overall cost to pay down the unfunded actuarial liability. From an actuarial perspective, KPERS estimates HB 2503 would reduce FY 2021 employer contributions by \$186.5 million from all funds, which includes the elimination of \$25.8 million in “layering” payments. The actuarial required contribution rate would decrease from 15.23 percent to 11.85 percent in FY 2021, including KPERS Death and Disability contributions. However, reamortizing the KPERS State/School Group legacy unfunded actuarial liability for a new 25-year period would cost an additional \$4.4 billion from all funds over the long term.

For budget savings included in *The FY 2021 Governor’s Budget Report*, the Division of the Budget calculated savings using FY 2021 payroll information in submitted state agency budgets for the KPERS State Group and information from the 2019 Education Consensus Estimating Group for the KPERS School Group. Reducing the KPERS employer contributions from 15.23 percent to 11.85 percent in FY 2021 would generate expenditure savings totaling \$150.4 million from all funding sources, including \$131.0 million from the State General Fund. By FY 2024, the KPERS employer contribution rate would reduce from 16.21 percent to 12.81 percent, with associated expenditure savings of \$183.2 million from all funding sources, including \$162.9 million from the State General Fund. The following tables illustrate the effect on the employer contribution rates, along with the associated expenditure savings from FY 2021 through FY 2024:

**KPERS 25-Year Reamortization Savings**

**KPERS Employer Contribution Rates (including Death & Disability)**

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
Current Law	15.23%	15.09%	15.85%	16.21%
With Reamortization	11.85%	11.80%	12.49%	12.81%

**KPERS Legacy Unfunded Actuarial Reamortization Savings**

	<u>FY 2021</u>		<u>FY 2022</u>		<u>FY 2023</u>		<u>FY 2024</u>	
	<u>SGF</u>	<u>AF</u>	<u>SGF</u>	<u>AF</u>	<u>SGF</u>	<u>AF</u>	<u>SGF</u>	<u>AF</u>
State Group	\$ (13,424,055)	\$ (32,822,749)	\$ (13,242,209)	\$ (32,377,039)	\$ (13,699,769)	\$ (33,495,768)	\$ (14,043,079)	\$ (34,335,156)
School Group	(117,558,659)	(117,558,659)	(119,173,078)	(119,173,078)	(144,207,757)	(144,207,757)	(148,843,006)	(148,843,006)
Total	\$ (130,982,714)	\$ (150,381,408)	\$ (132,415,287)	\$ (151,550,117)	\$ (157,907,526)	\$ (177,703,525)	\$ (162,886,085)	\$ (183,178,162)

The fiscal effect associated with HB 2503 is included in *The FY 2021 Governor’s Budget Report*.

Sincerely,



Larry L. Campbell  
Director of the Budget

cc: Jarod Waltner, KPERS