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Larry L. Campbell, Director

Laura Kelly, Governor

February 12, 2019

The Honorable Carolyn McGinn, Chairperson
Senate Committee on Ways and Means
Statehouse, Room 545-S
Topeka, Kansas 66612

Dear Senator McGinn:

SUBJECT: Fiscal Note for SB 73 by Senate Committee on Ways and Means

In accordance with KSA 75-3715a, the following fiscal note concerning SB 73 is respectfully submitted to your committee.

SB 73 would establish in statute a new 30-year amortization period for the Kansas Public Employees Retirement System (KPERS) State/School Group 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 retirement groups would not be changed.

KPERS School employer contributions were reduced by $64.1 million in FY 2017 and by $194.0 million in FY 2019. Repayments of the reductions were “layered” or amortized as level dollar amounts over 20 years. The respective “layering” payments are $6.4 million and $19.4 million annually. SB 73 would eliminate the layering payments.

If the bill is enacted, the Director of the Division of the Budget would be required to certify to the Director of the Division of Accounts and Reports in the Department of Administration lapses to 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 2020 resulting from establishing a new amortization period. A copy of the certification must be provided to the Director of Legislative Research.

As part of her budget, the Governor proposes that a new 30-year amortization period be set for the KPERS State/School Group unfunded actuarial liability. The current KPERS State/School Group unfunded actuarial liability is $6.6 billion. The Governor’s proposal includes the following elements:

1. Set a new 30-year amortization period for the KPERS State/School Group unfunded actuarial liability;

2. Eliminate the $6.4 million and $19.4 million "layering" payments. Currently, the layering payments are appropriated separately from amounts appropriated for regular employer contributions in the Department of Education budget. Eliminating the layer payments would allow the separate line items to be removed; and

3. Eliminate a $56.0 million transfer from the State General Fund to the KPERS Trust Fund that will occur in FY 2019 if State General Fund receipts are above estimates. Elimination of the transfer is not in SB 73; it is included in other appropriations bills introduced this session.

KPERS' consulting actuary completed a cost study based on the Governor's reamortization policy. Generally, extending the amortization period out 30-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 SB 73 would reduce FY 2020 employer contributions by $160.5 million from all funds, which includes the elimination of $25.8 million in "layering" payments. The actuarial required contribution rate would decrease from 14.74 percent to 11.45 percent in FY 2020. However, reamortizing the KPERS State/School Group unfunded actuarial liability for a new 30-year period would cost an additional $7.4 billion from all funds over the long term. KPERS notes that eliminating the "layering" payments and the $56.0 million transfer would also increase the unfunded actuarial liability.

KPERS indicates that, under current law, the current $6.6 billion unfunded actuarial liability of KPERS State/School Group is scheduled to be paid off by FY 2035. KPERS estimates that SB 73 would cause negative amortization in which the unfunded actuarial liability grows in the near term and would not be extinguished until after FY 2047. The bill would also delay when the funded ratio of the KPERS State/School Group reaches 80.0 percent. Under current law, the KPERS State/School Group is estimated to achieve a funded ratio of 80.0 percent by FY 2026. Under SB 73, the KPERS State/School Group would reach 80.0 percent by FY 2038. A pension system that is 80.0 percent funded and on its way to 100.0 percent is considered to be in good standing. KPERS indicates that pension systems with lower funded ratios are more vulnerable to downturns in the market. The current funded ratio for all KPERS plans (including KPERS Local Group) is 67.4 percent.

When developing the Governor's budget, it was originally estimated by the Division of the Budget that resetting the amortization period to 30 years could produce budget savings of $145.3 million from the State General Fund and $160.1 million from all funds in FY 2020. These estimates were included in *The FY 2020 Governor's Budget Report* and based on a preliminary KPERS cost study. Since the release of the budget, updated information was provided by KPERS and it is now estimated that reamortization would result in budget savings of $176.4 million from all funds, including $160.0 million from the State General Fund. It is important to note that the Division of the Budget and KPERS use different methods for projecting salaries and wages information used when making estimates. KPERS uses actuarial data and assumptions which include, among other things, estimated payroll growth of 3.0 percent per year. The Division of the Budget uses salaries and wages information contained in agency budgets submitted for the FY 2020 budget cycle. These are not viewed as competing methodologies. They are different ways of making projections and explain the different estimates for SB 73 provided by KPERS and Governor.

Sincerely,

L. Campbell

Larry L. Campbell
Director of the Budget

cc: Jarod Waltner, KPERS