SESSION OF 2019

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2197

As Passed Without Recommendation by House Committee on Financial Institutions and Pensions

Brief*

HB 2197 would amortize the actuarial accrued liability (commonly referred to as the unfunded actuarial liability or UAL) of the Kansas Public Employees Retirement System (KPERS or the Retirement System) over a 30-year period commencing December 31, 2016, for the State and School Groups. The bill would not affect the current amortization schedules for the Local Group, the Kansas Police and Firemen's Plan, or the Judges Retirement Plan. The KPERS Board of Trustees (Board) would annually certify the participating employer contribution rates based on the amortization schedule.

The bill would eliminate the remaining level-dollar employer contribution payments of $6.4 million, which started in FY 2018, and $19.4 million, which will start in FY 2020, that are scheduled to be made over 20-year periods.

If any legislation is passed by the Legislature during the 2019 Session and enacted into law that would authorize amortization over a period of 30 years for the State and School Groups, the bill would authorize the Director of the Budget to certify to the Director of Accounts and Reports the appropriated amounts from the State General Fund and all other funds that would be lapsed accordingly.

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*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at http://www.kslegislature.org

Background

The bill was introduced by the House Committee on Financial Institutions and Pensions at the request of Representative Finney on the behalf of the Governor.

In the hearing before the House Committee, the Director of the Budget (Director) spoke in favor of the bill, stating it is part of the Governor's recommendation for the operation of state and local government and the delivery of public services. The Director noted amortization helps make future employer contributions more manageable, reducing the potential for skipped, delayed, or reduced payments to KPERS; he noted KPERS contributions have not been fully made 15 times in the past 9 years. The Director stated the bill would not affect benefits.

The Executive Director of KPERS provided neutral testimony, stating the amortization period was initially set by the Legislature in 1993 as a closed 40-year period with amounts paid on a level percent of pay, which is scheduled to conclude at the end of calendar year 2033. In 1998, the Legislature delegated the authority to amortize to the Board. In 2016, the Board adopted a layered amortization method over the remaining 15 years of the 40-year period. While amortization can make future employer contributions more manageable, industry best practices suggest a 15- or 20-year period be used instead of a 30-year period. KPERS' actuarial analysis estimated the bill would keep the Retirement System at a rate less than 80.0 percent until 2038, which is 12 years longer than projected under current law. The Executive Director stated the KPERS Board is reviewing its amortization policy and methods in 2019 as part of its triennial study. The Executive Director stated the bill would not affect benefits.

A representative of the Kansas Association of School Boards provided neutral testimony, explaining over the past 15 years the State's expenditures on K-12 education and KPERS School contributions have been roughly 50.0 percent of the State General Fund expenditures, with the KPERS contributions taking a relatively larger share over time.

Representative Johnson spoke in opposition of the bill, stating the KPERS Board is the appropriate body to make investment and wealth management decisions. He stated the UAL amount will decrease soon but, if that trend goes backwards, compound interest would work against the State, and KPERS solvency would become more expensive in the future. He expressed concern about amortizing for any period of time longer than 25 years.

A former KPERS Board Trustee spoke in opposition to the bill, providing a history of the Retirement System. The conferee expressed concern about the compound interest ramifications and recommended the current plan be followed and the KPERS Board be allowed to decide when to amortize.

According to the fiscal note prepared by the Division of Budget, the bill would produce FY 2020 budgetary savings of $176.4 million, including $160.0 million from the State General Fund which is based on salaries and wages information provided by agencies. This is a revised estimate from what appears in *The FY 2020 Governor's Budget Report*. KPERS estimates a total reduction of $160.5 million based on actuarial data and assumptions. The Division of the Budget does not view the estimates as competing methodologies because is one budgetary and the other is actuarial. The KPERS State/School Group unfunded actuarial liability would cost an estimated $7.4 billion more than under the current amortization period.