SESSION OF 2020

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2503

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

Brief*

HB 2503 would transfer $268.4 million from the State General Fund (SGF) to the Kansas Public Employees Retirement Fund in fiscal year (FY) 2020 for payment of the remaining balance on delayed State and School employer contributions from FY 2017 and FY 2019 while also eliminating the level-dollar employer contribution payments of $6.4 million and $19.4 million per year over 20 years placed in statute after such FY 2017 and FY 2019 employer contribution delays.

The bill would reamortize the State and School Groups legacy unfunded actuarial liability (UAL) (the liability that existed on December 31, 2015) of the Kansas Public Employees Retirement System (KPERS or the Retirement System) over a 25-year period commencing December 31, 2017. 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.

If any legislation is passed by the Legislature during the 2020 Session and enacted into law that would authorize amortization over a period of 25 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 in

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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 the Department of Administration the appropriated amounts from the SGF and special revenue funds that would be lapsed for FY 2021 from the difference between the amount budgeted by employers under current law and the amount required for employer contributions under the new amortization period.

The bill would be in effect upon publication in the *Kansas Register.*

Background

The bill was introduced by the House Committee on Appropriations at the request of Representative Parker on behalf of the Governor.

In the hearing before the House Committee on Financial Institutions and Pensions, the Director of the Budget (Director) spoke in favor of the bill, stating reamortization would free SGF resources for current needs and rectifies past budget shortfalls due to the recession and tax policies. The Director stated this bill provides a reasonable cost to achieve KPERS payment sustainability and provides SGF sustainability for education, additional resources to the Kansas Department of Transportation, and resources to meet other critical needs of the State. The Director added that skipped employer contributions are less likely to occur if this bill is enacted and reamortization does not harm benefits for state employees or retirees.

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, scheduled to conclude at the end of calendar year 2033, with amounts paid on a level percentage of pay. 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 by which experience in future years is amortized over separate amortization layers with separate pay schedules. The Executive Director noted the bill would lower contributions in early years, incorporate higher contributions in later years, result in "negative amortization" resulting in growing the UAL for half of the amortization period, increase the UAL before decreasing it towards the end of the 25-year period, and having a lower funded ratio for an extended period of time. He stated the Board reviewed its actuarial assumptions including amortization policy in January 2020 and voted to maintain the current amortization schedule. The Executive Director noted the actuarial assessments have already accounted for repayment of previously delayed contributions; however, early payment would provide funds for investment purposes.

A former KPERS Board Trustee spoke in opposition to reamortization policy in the bill. The conferee expressed concern for the long-term negative implications of a deferred obligation to make required payments.

A representative from the Kansas Association of Retired School Personnel spoke in opposition to the reamortization policy in the bill, citing the increased amortization period, the increase of the UAL by $4.4 billion, and delay in achieving the goal of 80 percent KPERS funding from 2029 to 2036.

Representative Johnson spoke in opposition to reamortization policy in the bill, stating compound interest would work against the State and KPERS solvency would become more expensive in the future. He stated "negative amortization," meaning payments made to the system are less than the increase in liability for the year, is a significant concern. He stated the Board reviews reamortization every three years, and it makes a recommendation at that time.

According to the fiscal note prepared by the Division of the Budget, the bill would produce FY 2021 budgetary savings of $150.4 million, including $131.0 million from the SGF based on submitted state agency budgets for the KPERS State Group and 2019 Education Consensus Estimating Group estimates for the KPERS School Group.

KPERS estimates a total reduction of employer contributions of $186.5 million from all funds for FY 2021, which includes the elimination of $25.8 million for scheduled payments due for previously delayed payments in FY 2017 and FY 2019. The Division of the Budget does not view the estimates as competing methodologies because one is budgetary and the other is actuarial. Additionally, the bill would transfer $268.4 million from the SGF for early payoff of previously delayed employer contributions in FY 2017 and FY 2019 to be paid over 20 years. This would save the State approximately $209.0 million in interest payments. The fiscal note states the KPERS State/School Group UAL would cost an estimated $4.4 billion more than under the current amortization period.