

MEMORANDUM

To: Senate Ways and Means Committee

From: Alan D. Conroy, Executive Director

Date: March 3, 2022

Subject: Proponent Testimony on SB 523; \$1.0 billion KPERS payment

I appear before the Committee on behalf of the KPERS Board of Trustees to request your support for SB 523.

SB 523 authorizes the transfer of \$1.0 billion in four payments from the State General Fund to the KPERS Trust Fund. The transfers are scheduled as:

1. \$300 million on the effective date of the act
2. \$300 million on June 1, 2022
3. \$200 million on October 1, 2022, subject to Finance Council approval
4. \$200 million on January 1, 2023, subject to Finance Council approval

Actuarial Cost Impact of Additional Funding

The addition of \$1.0 billion across two fiscal years decreases the unfunded actuarial liability, improves the funded ratio, and reduces future employer contributions required to extinguish the unfunded actuarial liability.

Compared to the current baseline projection, the addition of \$1.0 billion across two fiscal years is projected to have the following impacts:

- The unfunded actuarial liability is \$1.0 billion lower in the 2023 actuarial valuation compared to the current projection (\$4.43B to \$3.41B).
- The funded ratio is projected to increase from the baseline of 77.4% to 80.2% in 2022 and from the baseline of 80.4% to 84.9% in 2023.
- The FY 2023 employer contribution rate is reduced from the currently certified 13.11% to 12.22%, a reduction of about \$45.8 million.
- The FY 2024 employer contribution rate is reduced from currently certified 12.57% to 11.08%, a reduction of about \$78.5 million.
- The total contributions savings in the first five years after the transfers are made (FY 2024-FY 2028) total \$422 million.

A summary of the projected actuarial cost impact is attached to this memorandum.



Policy Questions

Based on our understanding of the intent of SB 523, the actuarial cost projection assumes that the first \$600 million in additional funding would first impact the FY 2023 KPERS State/School employer contributions. The remaining \$400 million would further impact the FY 2024 KPERS State/School employer contributions. However, the FY 2023 and FY 2024 employer contribution rates have already been certified at 13.11% and 12.57% respectively.




SB 523 does not contain language to change the certified FY 2023 and FY 2024 State/School employer contribution rates. If there is no additional language to adjust the certified employer contributions in SB 523 or other legislation, the additional contributions would first impact the 12/31/2021 actuarial valuation, which certifies the FY 2025 employer contribution rate.

Again, I respectfully request your support for HB 2561. I would be pleased to answer any questions from the Committee.

KPERS Funding: The Impact of SB 523

\$1 billion in additional contributions in four installments.

Additional State appropriations paid on or before January 1, 2023, translates into improved funding immediately and reduced employer contributions in the coming years.

<p>Unfunded Actuarial Liability (UAL) State/School</p>		<p>Decreases by \$1B over two years \$4.43B to \$3.41B in CY 2023</p>										
<p>Funded Ratio Assets/Liabilities State/School</p>		<p>Improves from 77.4% to 80.2% in 2022 and to 84.9% in 2023.</p>										
<p>Future Monies Saved</p>		<p>\$78* million in State/School contributions in FY 2024</p> <p>Total savings of \$422M over first 5 years</p> <table data-bbox="867 919 1068 1077"> <tr><td>FY 2024</td><td>\$78.5M</td></tr> <tr><td>FY 2025</td><td>\$82.0M</td></tr> <tr><td>FY 2026</td><td>\$84.6M</td></tr> <tr><td>FY 2027</td><td>\$87.3M</td></tr> <tr><td>FY 2028</td><td>\$90.2M</td></tr> </table> <p>State/School employer contribution rate drops from 13.11% to 12.22% in FY 2023 and 12.57% to 11.08% in FY 2024.</p> <p>These amounts do not include the elimination of the \$25.8 million annual payments on delayed employer contributions from FY 2017 and FY 2019.</p>	FY 2024	\$78.5M	FY 2025	\$82.0M	FY 2026	\$84.6M	FY 2027	\$87.3M	FY 2028	\$90.2M
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**Savings for all funds, roughly 85% for State General Fund. Savings based on a payroll of \$5.15 billion in FY 2023.*

Timing is everything

- \$600 million paid by June 30, 2022 affect the FY 2023 contribution rates, \$400 million paid after June 30, 2022 affect the FY 2024 contribution rates

Important to know

- Funding over 80% is the short-term goal and rising to 100% is the ultimate goal for full funding.
- Payment would be credited toward the KPERS School unfunded actuarial liability, which is reflected as part of the KPERS State/School unfunded actuarial liability.
- The State pays the entire State/School employer contribution.