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Laura Kelly, Governor

February 28, 2022

The Honorable Jeff Longbine, Chairperson
Senate Committee on Financial Institutions & Insurance
Statehouse, Room 546-S
Topeka, Kansas 66612

Dear Senator Longbine:

SUBJECT: Fiscal Note for SB 401 by Senate Committee on Financial Institutions and Insurance

In accordance with KSA 75-3715a, the following fiscal note concerning SB 401 is respectfully submitted to your committee.

SB 401 would provide for an automatic cost of living adjustment (COLA) for all current and future KPERS retirees, beginning July 1, 2022. The COLA each year for all retirants would vary and would be dependent on the actual inflation and actual investment performance for the prior calendar year. Each year, the KPERS Board of Trustees would certify the financial condition of the KPERS retirement system by June 30. The certification would include the annual rate of investment return for the previous calendar year, the annual percentage increase in the consumer price index for all urban consumers (CPI-U) during the previous calendar year, and any other financial or administrative information that may affect the status of the KPERS Fund. If the certified annual rate of investment return for the previous calendar year equals or exceeds the actuarial assumed investment return established by the Board, the benefit payment for each retirant would be increased according to the following:

Certified Increase in CPI-U	COLA Increase
0 through .04%	None
.05 through 0.9%	1.0%
1 through 1.4%	1.5%
1.5 through 1.9%	2.0%
2 through 2.4%	3.0%
2.5 through 2.9%	3.5%
3 through 3.4%	4.0%
3.5% or more	5.0%

Above percentages are shown as included in SB 401.

The KPERS actuary developed an assumption for the fiscal effect of the bill by simulating 50,000 observations of inflation (using a 2.75 percent inflation assumption and a 1.5 percent standard deviation) and assuming the actual investment returns exceed the assumption 50.0 percent of the time. Using these parameters, the assumed COLA in the future would be equal to 1.65 percent annually. The proposed COLA provided by the bill would increase the benefit amounts for both current and future retirees. As a result, an amortization period of 20 years for the increase in the unfunded actuarial liability (UAL) was used for the fiscal effect estimate.

In addition to the increase in the UAL, the normal cost rate of the KPERS system would also increase because the automatic COLA provision increases benefits for current and future active members. The increase in the unfunded actuarial liability, normal cost rate, the total contribution rate increase (which includes both the increase in the normal cost rate and the UAL rate), and the first-year additional contributions required are summarized in the table below:

Fiscal Effect
Dollars in Millions

KPERS Group	Total Estimated UAL Increase	First-Year Normal Cost Rate Increase	First-Year Total Rate Increase	First-Year Additional Contributions
State/School	$3,280.7	0.89%	4.78%	$252.7
KP&F—State	69.4	2.04%	9.14%	5.4
Judges	30.7	2.68%	10.18%	3.0
Subtotal—State	$3,380.8			$261.0
Local Group	$ 591.6	0.68%	3.45%	$ 67.6
KP&F—Local	877.8	2.11%	8.60%	45.6
Subtotal—Local	$1,469.4			$113.2
Total	$4,850.2			$374.2

As illustrated above, the bill would increase the FY 2023 employer contribution rate for the State/School group rate by 4.78 percentage points, from 13.11 percent to 17.89 percent. This would increase expenditures by $252.7 million from all funding sources. Using the estimate of 86.0 percent of total State/School Group employer contributions funded from the State General Fund, the Division of the Budget estimates that the bill would require additional State General Fund appropriations totaling $217.3 million in FY 2023 for this group. For the KP&F—State Group and the Judges Group, the fiscal effect on the State General Fund would depend on the percentage these groups are funded by the State General Fund and an estimate is not available. Any fiscal effect associated with SB 401 is not reflected in *The FY 2023 Governor's Budget Report*.

Sincerely,

Adam Proffitt
Director of the Budget

cc: Jarod Waltner, KPERS