SESSION OF 2021

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2399

As Passed Without Recommendation by House Committee on Insurance and Pensions

Brief*

HB 2399 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 Retirement System) over a 24-year period commencing December 31, 2018, for the State and School Groups. The KPERS Board of Trustees (Board) would annually certify the participating employer contribution rates based on the amortization schedule. [*Note:* 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 bill would eliminate the remaining level-dollar employer contribution payments of $6.4 million, which started in FY 2018, and $19.4 million, which started in FY 2020, that are currently scheduled to be made over 20-year periods, and would add the balance into the new amortization period.

State Budget

If any legislation is passed by the Legislature during the 2021 Legislative Session and enacted into law that would authorize amortization over a period of 24 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 (SGF) and special revenue funds that would be lapsed for FY 2022

---

*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 from the difference between the amount that is budgeted by employers under current law and the amount required for employer contributions under the new amortization period. A copy of each certification would be transmitted to the Director of Legislative Research.

Background

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

House Committee on Insurance and Pensions

In the House Committee hearing, the Director of the Budget (Director) provided **proponent** testimony, stating the bill is a key component of the Governor's recommended budget. The Director indicated that the State is in a period of economic uncertainty, and reamortization of the UAL is a tool that can bring immediate relief to the SGF. The Director noted amortization helps make future employer contributions more manageable by reducing the potential for skipped, delayed, or reduced payments to KPERS. The Director further stated the $4.6 billion cost associated with the bill is in comparison to the remaining 14-year schedule and does not account for the cost of likely reamortization in the coming years. The Director stated the bill would not affect member benefits for state employees or retirees.

The Executive Director of KPERS provided neutral testimony, stating amortization is a method used to systematically pay off an unfunded liability over a reasonable period, and is a normal part of funding a public sector pension plan. 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 (CY) 2033. The Legislature chose to delegate amortization decisions to the Board in 2004. In

2016, the Board adopted a layered amortization method over the remaining 15 years of the 40-year period. The Executive Director further stated the Board completed a yearlong review of all actuarial assumptions, including amortization policy, in January 2020. At that time the Board voted to maintain the existing amortization schedule, and the Board will again review all actuarial assumptions during CY 2022. The Executive Director also noted the bill would not affect retiree benefits or employee contributions.

A former KPERS Board Trustee and a representative of the Kansas Association of Retired School Personnel and the Kansas Coalition of Public Retirees provided **opponent** testimony on the reamortization policy in the bill. The conferees stated concerns about the negative long-term implications for the State and characterized the short-term savings as a deferred obligation. The latter conferee indicated the goal in achieving 80 percent KPERS funding would be further delayed from 2029 to 2036.

Fiscal Information

According to the fiscal note prepared by the Division of the Budget, the reduction of the certified FY 2022 KPERS employer contribution rate from 15.09 percent to 11.92 percent would generate FY 2022 savings of $177.3 million from all funding sources, including $158.7 million from the SGF. This estimate includes folding in the annual SGF layering payments of $25.8 million from the missed KPERS School Group employer contributions from FY 2017 and FY 2019 in the reamortization. By FY 2025, the KPERS contribution rate would reduce from 14.52 percent to 11.32 percent, with an associated annual expenditure savings of $173.4 million from the SGF. The fiscal note further indicates, however, that reamortizing would cost an additional $4.6 billion from all funding sources over the full term compared to the current amortization schedule. (Information relating to the changes in the employer contribution rate is attributed to the cost study on the Governor's reamortization recommendation completed by the KPERS' consulting actuary.)

The fiscal effect associated with enactment of this bill is reflected in *The FY 2022 Governor's Budget Report.*

Pensions; Kansas Public Employees Retirement System; amortization; state budget