SESSION OF 2022

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2561

As Amended by House Committee on Insurance and Pensions

Brief*

HB 2561, as amended, would apply $1.0 billion from the State General Fund (SGF) to the Kansas Public Employees Retirement System (KPERS). Of that amount, $253.9 million SGF would be appropriated to the Kansas State Department of Education to pay off outstanding accounts receivable for KPERS-School employer contributions withheld in FY 2017 and FY 2019. The remaining $746.1 million SGF would be transferred directly to the KPERS Trust Fund and applied to the KPERS State/School unfunded actuarial liability.

The bill would also update provisions in law relating to employer contributions and contribution rates for State and School employers by removing references to the repayment schedule for the delayed contributions ("layering payments"), which currently require these contributions to be paid on a level-dollar basis over a 20-year period (this period began in FY 2018 and FY 2020). The bill also would make technical amendments.

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

Background

The bill was introduced by the House Committee on Insurance and Pensions at the request of Representative Steven Johnson.

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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

[*Note:* The 2016 Legislature approved the delay of employer contributions from the KPERS-School group in FY 2017 and FY 2019. To keep the retirement system whole, the Legislature authorized statutory layering payments, financed at the KPERS assumed rate of return of 7.75 percent, for 20 years for each of the missed payments, totaling $25.8 million SGF annually. At the end of FY 2022, the outstanding balance of those payments is expected to total $253.9 million.]

House Committee on Insurance and Pensions

In the House Committee hearing on February 9, 2022, a representative of the KPERS Board of Trustees offered **proponent** testimony, indicating delayed contributions totaled $64.0 million in FY 2017 and $194.0 million in FY 2019. The representative stated payments on FY 2017 missed contributions total $6.4 million per year for 20 years beginning in FY 2018 and payments on FY 2019 missed contributions total $19.4 million per year for 20 years beginning in FY 2020. The representative noted paying the remainder of the delayed contributions in FY 2022 would save the State about $172.0 million SGF over the next 17 years.

Regarding the transfer of $746.1 million from the SGF to the KPERS Trust Fund, the representative highlighted the following actuarial projections:

- The **State/School Unfunded Actuarial Liability** in the December 31, 2022, valuation would decrease from $4.99 billion to $4.25 billion;

- The **State/School funded ratio** in the December 31, 2022, valuation would increase from 77.4 percent to 80.8 percent; and

- The **State/School employer contribution rate** for FY 2023 would decrease from 13.11 percent to 12.02 percent (the FY 2023 employer contribution rates have already been certified; this change and certification of the FY 2024 rates would need to be addressed in subsequent legislation).

Representative Steven Johnson also presented proponent testimony, noting the improvements made to the KPERS Trust Fund from a funded ratio of 56.0 percent a decade ago. The representative encouraged vigilance in maintaining a high funded ratio and in eliminating debt, including debt service from previously issued KPERS Pension Obligation Bonds.

The Director of the Budget provided neutral testimony, stating that the elimination of the two layering payments would provide both immediate and long-term fiscal benefits to the State, releasing $25.8 million SGF that would have otherwise been used for debt service for FY 2023 and eliminating approximately $171.9 million in interest payments over the next 16 years. The Director also expressed a preference to appropriate the layering payment through the Kansas State Department of Education to better reflect the transaction as a matter of proper accounting.

The House Committee amended the bill to appropriate $253.9 million SGF to the Kansas State Department of Education to transfer to the KPERS Trust Fund in lieu of the direct revenue transfer provided for in the bill, as introduced. The Committee also specified the line-item expenditure author for the Kansas State Department of Education would be for the purpose of paying the actuarial cost of the delayed employer contributions.

Fiscal Information

According to the fiscal note prepared by the Division of the Budget on the bill, as introduced, enactment of the bill would incur $1.0 billion in expenditures from the SGF. Of that amount, $253.9 million would pay off outstanding accounts receivable for KPERS-School employer contributions withheld in FY 2017 and FY 2019. This would eliminate an annual $25.8 million expenditure within the Kansas State Department of Education budget.

The remaining $746.1 million would be applied to the unfunded actuarial liability of the KPERS State/School group. Employer contribution rates would decrease beginning in FY 2025.

Retirement; appropriations; Kansas State Department of Education; revenue transfer; unfunded actuarial liability