SESSION OF 2022

SUPPLEMENTAL NOTE ON SENATE BILL NO. 421

As Amended by House Committee of the Whole

Brief*

SB 421, as amended, would transfer $1.0 billion from the State General Fund (SGF) directly to the Kansas Public Employees Retirement System (KPERS). Of that amount, the first $253.9 million SGF would 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 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 would be in effect upon publication in the *Kansas Register.*

Background

The bill was introduced by the Senate Committee on Ways and Means at the request of Senator Claeys.

[*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,

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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 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.]

Senate Committee on Ways and Means

In the Senate Committee hearing on February 9, 2022, the Executive Director of KPERS, appearing on behalf of the KPERS Board of Trustees, testified as a **proponent**, indicating delayed contributions totaled $64 million in FY 2017 and $194 million in FY 2019. The Executive Director 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 Executive Director noted enactment of the bill would not change the assets, liability, or contribution rates determined in the annual actuarial valuation because the delayed contributions are assumed to be statutorily scheduled.

No other testimony was provided.

House Committee on Insurance and Pensions

In a House Committee hearing on March 7, 2022, the Executive Director of KPERS testified as a **proponent**, expressing support for the bill and indicating the payment of $253.9 million in delayed contributions would save the State approximately $172 million SGF in interest costs over 17 years.

The Director of the Budget provided neutral testimony, stating 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 State Department of Education to better reflect the transaction as a matter of proper accounting.

No other testimony was provided.

The House Committee amended the bill to transfer $1.0 billion from the SGF in total. Of that amount, $746.1 million SGF would be transferred directly to the KPERS Trust Fund and applied to the KPERS State/School unfunded actuarial liability. The remaining $253.9 million SGF would be transferred to the State Department of Education to pay off outstanding accounts receivable for KPERS-School employer contributions withheld in FY 2017 and FY 2019. (The bill, as it passed the Senate, would have transferred $253.9 million from the SGF directly to the KPERS Trust Fund.)

House Committee of the Whole

On March 9, 2022, the House Committee of the Whole amended the bill to remove the appropriation to the State Department of Education and directly transfer the entire $1.0 billion SGF to the KPERS Trust Fund. Of that amount, the first $253.9 million would pay off outstanding accounts receivable for KPERS-School employer contributions withheld in FY 2017 and FY 2019. The remaining $746.1 million would be applied to the KPERS State/School unfunded actuarial liability.

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 an immediate transfer of $253.9 million from the SGF to the KPERS Trust Fund. Paying off the layering payments before the final maturity date would save the State approximately $171.9 million SGF in interest payments and eliminate $25.8 million in annual payments. The transfer is included in *The FY 2023 Governor's Budget Report*.

According to the fiscal note on HB 2561, which is substantively similar to this bill, as amended by the House Committee, the $746.1 million applied to the unfunded actuarial liability of the KPERS State/School group would result in a decrease in employer contribution rates beginning in FY 2025.

Retirement; appropriations; revenue transfer; unfunded actuarial liability