

SESSION OF 2024

**SUPPLEMENTAL NOTE ON SENATE SUBSTITUTE FOR
HOUSE BILL NO. 2646**

As Recommended by Senate Committee on
Education

Brief*

Senate Sub. for HB 2646 would reopen the closed KPERS 2 plan to certain teachers who will become members on July 1, 2024. The bill would also provide that teachers who are currently KPERS 3 members would convert to KPERS 2 members by January 1, 2025. The bill would also make a statement acknowledging the Legislature's continuous review of the Kansas Public Employees Retirement System (KPERS) and its intention to continue such review in order to make necessary changes, which could include transfer of additional employee groups from KPERS 3 to KPERS 2.

Legislative Declaration

The bill would make the following statement in law:

In light of the Legislature's continuous review of the Kansas Public Employees Retirement System, including the audit report by the Kansas Legislative Division of Post Audit published in February 2024, titled "Reviewing the KPERS 3 Retirement Plan," the Legislature intends to continue such review in order to make changes as necessary to [KPERS] to ensure such system serves the purposes as provided in KSA 74-4901, and amendments thereto. Such changes may include transferring additional employee groups from

*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 Kansas Public Employees Retirement System Act of 2015 [KPERS 3] to the Kansas Public Employees Retirement System Act of 2009 [KPERS 2].

“Teacher” Defined

The bill would define “teacher” to mean any professional employee who is required to hold a certificate to teach in any school district and any teacher or instructor in any technical college, community college, or the Institute of Technology at Washburn University.

KPERS 2 Membership—Teachers; July 1, 2024

The bill would provide that any teacher who is first employed by a KPERS participating employer on or after July 1, 2024, would be a member of the Retirement System under the provisions of the KPERS Act of 2009 (KPERS 2).

KPERS 2 Membership—Conversion from KPERS 3; January 1, 2025

The bill would transfer all active and inactive teacher members enrolled in the KPERS Act of 2015 (KPERS 3) to the KPERS 2 membership group on and after January 1, 2025. The bill would further provide transfer instructions pertaining rights and benefits of members, employer contributions and interest, and qualification requirements for government plans under the federal Internal Revenue Code.

Provisions pertaining to teacher membership in and conversion of teacher members to KPERS 2 would be made part of the KPERS 2 Act.

Exemption from KPERS Act of 2015

The bill would amend the KPERS Act of 2015 (KPERS 3 Act) to exempt teachers from this act.

Background

The Senate Committee on Education recommended a substitute bill incorporating provisions pertaining to the reopening of the KPERS 2 plan to teachers and the transfer of certain teachers who are currently KPERS 3 members to KPERS 2. (These provisions were originally contained in SB 479, as modified by the Senate Committee on Education.) The contents of HB 2646 (as recommended by the House Committee on Education), which would amend the Kansas Hero's Scholarship Act, were included in Senate Sub. for HB 2645.

Senate Committee on Education

In the Senate Committee informational hearing on March 5, 2024, about provisions pertaining to the re-opening of KPERS 2 and transfer of teachers from KPERS 3 (the subject of SB 479), Representative Essex and representatives of the Kansas Association of School Boards and the Kansas PTA provided **proponent** testimony. Proponents generally stated SB 479 would help address teacher recruitment and retention challenges. These conferees noted an improved retirement benefit could bring individuals to the profession and help retain more experienced teachers.

Written-only proponent testimony was submitted by the Superintendent of USD 233 (Olathe Public Schools) and a representative of USD 501 (Topeka Public Schools).

The Executive Director of KPERS provided an informational briefing that outlined the current plan design for

the three groups within KPERS (KPERS 1, 2, and 3) and each group's plan design and calculation of benefits. KPERS 3 is a cash balance plan where members' lifetime benefits are based on contributions and interest earned throughout their careers. KPERS 3 members contribute 6 percent to notional accounts that earn a guaranteed 4 percent interest each year and a possible dividend interest credit based on a statutory formula that is tied to the 5-year net average rate of return. Members also have employer pay credits that are credited at 3–6 percent of pay based on the member's years of service. At retirement, the members' account balances are converted to lifetime annuities. Employer contributions are at the same actuarial contribution rate for KPERS 3 members as they contribute for KPERS 1 and KPERS 2 members.

In Committee discussion, the KPERS conferee provided data from the December 31, 2022, actuarial valuation regarding the estimate for teachers who are currently KPERS 3 members. KPERS estimates there are about 40,000 teacher positions employed in Kansas USDs, with about 15,000 being KPERS 3 members. This total, however, does not include positions that would also be deemed "teachers" under the bill's definition, which includes community and technical college teachers and instructors. KPERS is not able to estimate the number of inactive teacher members that would be affected by the conversion to KPERS 2.

The KPERS conferee noted the two key implementation dates of SB 479 and requested consideration for a delay in the implementation date of January 1, 2025, that is prescribed for the conversion of the existing KPERS 3 teacher members, citing the time needed to complete the associated administrative work. [Note: Additional information detailing actuarial costs, administrative costs, and financing of plan design changes is detailed in the "Fiscal Information."]

Neutral testimony was provided by a representative of the Kansas Association of Chiefs of Police, Kansas Sheriffs Association, and Kansas Peace Officers Association (law enforcement agencies); Kansas Coalition of Public Retirees

and Kansas Association of Retired School Personnel; Kansas National Education Association (KNEA); Kansas Organization of State Employees; and USA-Kansas and Kansas School Superintendents' Association (KSSA). Neutral conferees generally indicated the KPERS 3 plan provides less adequate benefits than KPERS 2 and acknowledged other employees also receiving retirement benefits under KPERS 3. The law enforcement agencies' representative requested consideration for inclusion of county and municipal employees (*i.e.*, support staff in county jails and dispatch centers) in KPERS 2. The KNEA and USA-Kansas/ KSSA representatives requested consideration for inclusion of other education support professionals (*i.e.*, paraprofessionals, school counselors, speech therapists, school nurses, bus drivers, and other supporting staff).

Written-only neutral testimony was submitted by Keeping the Kansas Promise Coalition, League of Kansas Municipalities, Northeast Johnson County Cities (Prairie Village, Mission, Merriam, Roeland Park, and Westwood Hills), and a retired teacher.

No other testimony was provided.

The Senate Committee adopted a balloon amendment incorporating the provisions of SB 479. The amendment added provisions acknowledging the Legislature's continuous review of the Retirement System, including a Legislative Division of Post Audit report on the KPERS 3 plan, and stating the Legislature's intentions to continue such review of the Retirement System and KPERS 3 and possible future employee group transfers to KPERS 2.

Fiscal Information

The fiscal note prepared by the Division of the Budget on SB 479, as introduced, addresses items detailed in the Executive Director's neutral information described above and also addresses administrative and actuarial costs and

financing of plan design changes. These estimates are described below.

Administrative Costs

Pension Administration System

Enactment of the bill would require both technical changes to the KPERS pension administration system as well as work to collect additional data on “teachers” that KPERS does not currently possess. In addition, education and communication efforts would be needed for the affected members. The agency notes KPERS 2 is a fundamentally different plan than the KPERS 3 cash balance plan. While the technical structure for KPERS 2 remains in place in the pension administration system, the conversion of members from KPERS 3 to KPERS 2 would require substantial coding changes to calculate the proper salary and service time information that will be required for KPERS 2 benefit calculations. KPERS estimates the cost for the technical work on the pension administration system and testing to total approximately \$950,000 from the KPERS Fund and would take approximately six months to complete.

Staffing

Additional KPERS staffing would be required for the identification of teacher members and for providing education and resources to members. The agency would require 5.00 temporary FTE (full-time equivalent) positions and salaries and wages expenditures totaling \$362,111 (including fringe benefits) in FY 2025 for 3.00 temporary Benefit Analysts and 2.00 temporary Benefits Representatives. For FY 2026, expenditures for these 5.00 temporary positions would total \$377,528 (including fringe benefits). KPERS indicates these temporary positions would no longer be needed two to three years after the changes in the bill would be in effect.

Actuarial Costs; Funding Mechanism

For estimating the actuarial costs to KPERS associated with the enactment of the bill, the actuary reports that moving the KPERS 3 teacher members to KPERS 2 would increase the unfunded actuarial liability (UAL) for those members by \$134.0 million as a result of the difference in the benefit plan design. The proposed changes affect the benefit amounts for future retirees, so the actuary used an amortization period of 20 years for the increase in the UAL. The amortization payments would be determined using the same methodology used in the actuarial valuation, which is the level-percent of payroll. The increase in the UAL, normal cost rate, and total actuarial contribution rate (which includes both the increase in the normal cost rate and the UAL rate), are summarized in the following table:

KPERS–STATE/SCHOOL GROUP			
<i>(Dollars in Millions)</i>			
	Baseline	SB 479	Change
Actuarial Liability	\$ 24,290	\$ 24,424	\$ 134
Actuarial Value of Assets	18,029	18,029	-
UAL	\$ 6,261	\$ 6,395	\$ 134
Funded Ratio	74.20 %	73.80 %	(0.40)%
Normal Cost Rate	8.89 %	9.15 %	0.26 %
UAL Contribution Rate	8.53	8.73	0.20
Actuarial Contribution Rate	17.42 %	17.88 %	0.46 %
Member Rate	6.00 %	6.00 %	- %
Employer Contribution Rate	11.42	11.88	0.46

Unfunded Actuarial Liability; Contribution Rate Increase

As detailed in the above table, the bill would increase the normal cost rate by 0.26 percent of payroll of the State/School Group. In addition, there would also be a contribution rate increase to fund the increase in the UAL over 20 years totaling 0.20 percent for the State/School Group. This payment on the UAL would be over a fixed period and would stop after 20 years of payments. The increase of

0.46 percent in the State/School Group rate is estimated to increase expenditures by approximately \$25.1 million in FY 2025 and \$26.1 million in FY 2026. The Division of the Budget estimates that 85.0 percent of employer contributions for the State/School Group is funded from the State General Fund (SGF). As a result, of the total increased employer contributions, \$21.3 million would be from the SGF in FY 2025 and \$22.2 million in FY 2026.

Funding Mechanism for Plan Design Changes

KPERS notes the bill does not include a funding mechanism for the plan design changes. Based on current law (KSA 74-4920) and with the enactment of the bill, KPERS would recertify the employer contribution rate to the Division of the Budget for FY 2025, which would increase the employer contribution rate from 11.42 percent to 11.88 percent, exclusive of the KPERS Death and Disability Insurance rate. KPERS also notes that the \$134.0 million increase in the UAL could be funded with a one-time appropriation by the Legislature. Under this scenario, this would eliminate the 20-year amortization of the UAL increase, reducing the change in the FY 2025 employer contribution rate from 0.46 percent to 0.26 percent, or from an increase of \$25.1 million to an increase of \$14.2 million, with the same assumption that 85.0 percent of employer contributions from the State/School Group is funded from the SGF.

Any fiscal effect associated with the bill is not reflected in *The FY 2025 Governor's Budget Report*.

Retirement; education; teachers; Kansas Public Employees Retirement System; KPERS 2 defined benefit plan; KPERS 3 cash balance plan; Legislature