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May 22, 2023

The Honorable Nick Hoheisel, Chairperson
House Committee on Financial Institutions and Pensions
300 SW 10th Avenue, Room 582-N
Topeka, Kansas 66612

Dear Representative Hoheisel:

SUBJECT: Fiscal Note for HB 2365 by Representative Vic Miller, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2365 is respectfully submitted to your committee.

HB 2365 would reopen the KPERS Tier 2 plan to new members on July 1, 2023, and would abolish the KPERS Tier 3 plan on January 1, 2024. All active and inactive KPERS Tier 3 members would be converted to KPERS Tier 2 members by January 1, 2024. If a current KPERS Tier 3 member would receive a higher benefit under KPERS Tier 3 than under Tier 2, the member would retain the KPERS Tier 3 benefits.

Currently, there are three tiers in the KPERS plan: KPERS Tier 1, KPERS Tier 2, and KPERS Tier 3. KPERS Tier 1 members began service before July 1, 2009. KPERS Tier 2 members started service between July 1, 2009, and December 31, 2014. KPERS Tier 3 members started service after January 1, 2015. Each tier has a different retirement plan design. KPERS Tier 1 and KPERS Tier 2 are traditional defined benefit plans, where benefits are calculated using a benefit formula. Members pay 6.0 percent of pay and employers contribute an amount calculated by the KPERS actuary to fund the normal cost and amortize the unfunded actuarial liability.

KPERS Tier 3 is a cash balance plan, where a member's lifetime benefit is based on contributions and interest earned through the member's career. Members contribute 6.0 percent to a notional account that earns a guaranteed 4.0 percent interest each year and a possible dividend interest credit based on a statutory formula coupled with the five-year net average rate of return. Members also have an employer pay account that is credited 3.0 percent to 6.0 percent of pay each year, based upon the number of years of service of the member. This account also earns a guaranteed 4.0 percent interest rate, plus a possible dividend payment. However, employers contribute the same actuarial contribution rate for KPERS Tier 3 members as Tier 1 and Tier 2 members.

For administrative costs, KPERS estimates that closing the KPERS Tier 3 plan and reopening KPERS Tier 2 to new numbers would require approximately $1.6 million from the KPERS Fund in FY 2024. Of this amount, $1.4 million would be for technical work on the KPERS IT systems, including testing costs. These changes could be completed in approximately six months. For the educational and plan administration changes, the agency estimates approximately $238,000 would be required in FY 2024. The agency notes that more than 68,000 active members and 38,000 inactive KPERS Tier 3 members would have to be converted to KPERS Tier 2 membership.

For actuarial costs, the KPERS actuary estimates moving the KPERS Tier 3 members to KPERS Tier 2 would increase the unfunded actuarial liability (UAL) for those members by $217.0 million, based on the difference in the benefit plan design. The proposed changes would affect the benefit amounts for future retirees so an amortization period of 20 years for the increase in the UAL was used. The amortization payments are determined using the same methodology as is used in the actuarial valuation. The actuarial cost estimates are summarized in the following table:

Actuarial Cost Estimate
HB 2365
dollars in millions

	FY 2025 Current Baseline	Changes in HB 2365	Difference
Acutarial Liability	$ 23,540	$ 23,757	$ 217
Actuarial Assets Value	16,647	16,647	--
UAL	$ 6,893	$ 7,110	$ 217
Funded Ratio	70.7%	70.1%	-0.6%
Normal Cost Rate	8.89%	9.56%	0.67%
UAL Contribution Rate	8.53%	9.05%	0.52%
Actuarial Contribution Rate	17.42%	18.61%	1.19%
Member Rate	6.00%	6.00%	6.00%
Employer Actuarial Rate	11.42%	12.61%	1.19%

KPERS notes that the increased FY 2025 employer actuarial rate of 1.19 percent would require an additional $61.4 million in state employer contributions in FY 2025. Using the assumption that approximately 85.0 percent of state employer contributions are financed from the State General Fund, the Division of the Budget estimates that approximately $52.2 million in appropriations from the State General Fund would be required for state agencies. Any fiscal effect associated with HB 2365 is not reflected in *The FY 2024 Governor's Budget Report*.

Sincerely,

Adam Proffitt
Director of the Budget

cc: Jarod Waltner, KPERS