

February 7, 2022

The Honorable Jeff Longbine, Chairperson
Senate Committee on Financial Institutions & Insurance
Statehouse, Room 546-S
Topeka, Kansas 66612

Dear Senator Longbine:

SUBJECT: Fiscal Note for SB 402 by Senate Committee on Financial Institutions and Insurance

In accordance with KSA 75-3715a, the following fiscal note concerning SB 402 is respectfully submitted to your committee.

SB 402 would provide an ad hoc (one-time) cost of living adjustment (COLA) for KPERS retirees who have been retired for at least five years, as of July 1, 2022. The COLA would be structured to provide the following, with a maximum monthly benefit increase of \$200:

<u>Years Since Retirement</u>	<u>Ad Hoc COLA</u>
0-5	0.0%
6-8	1.0%
9-11	2.0%
12-14	3.0%
15-17	4.0%
18+	5.0%

According to KPERS, of the 107,850 retirees and beneficiaries in the December 31, 2020, actuarial valuation, 88,736 retirees, or 82.3 percent, would be eligible for a COLA with the enactment of SB 402. The KPERS consulting actuary completed a cost study for the bill and projected the cost for all KPERS groups to be \$317.4 million.

Although the bill does not specify a method to fund the COLA, two options have been identified by KPERS and the Division of the Budget. The KPERS actuary assumed amortizing the cost by increasing the unfunded actuarial liability (UAL) of the retirement system with a 15-

year amortization. With this option, the following table illustrates the additional contribution rate increase, the additional first-year contributions, and the additional second-year contributions by KPERS group:

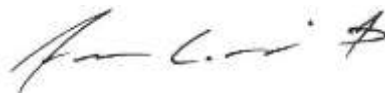
Estimated Costs—SB 402
Dollars in Millions

<u>Group</u>	<u>Estimated Increase in UAL</u>	<u>Contribution Rate Increase</u>	<u>Additional 1st-Year Contribution</u>	<u>Additional 2nd-Year Contribution</u>
KPERS State-School	\$229.8	0.41%	\$21.4	\$22.0
KP&F—State	6.0	1.02%	0.6	0.6
Judges	<u>2.2</u>	0.87%	<u>0.3</u>	<u>0.3</u>
Subtotal—State Groups	\$238.0		\$22.2	\$22.9
Local Group	\$ 42.5	0.20%	\$ 4.0	\$ 4.1
KP&F—Local	<u>36.8</u>	0.62%	<u>3.4</u>	<u>3.5</u>
Subtotal—Local Groups	\$ 79.3		\$ 7.4	\$ 7.6
Total—State & Local Groups	\$317.3		\$29.6	\$30.5

For the state groups, KPERS and the Division of the Budget estimate that approximately 86.0 percent of the total state employer contributions costs are funded from the State General Fund. With this assumption, of the first-year additional cost of \$22.2 million from all funding sources, \$19.1 million would be required from the State General Fund. In addition, the increased employer contribution rates would need to be appropriated in a subsequent appropriation bill.

The Division of the Budget notes that the Legislature could choose to fund the state cost of \$238.0 million in a one-lump sum, all from the State General Fund, with a subsequent appropriation bill during the 2022 Legislative Session. Any fiscal effect associated with SB 402 is not reflected in *The FY 2023 Governor’s Budget Report*.

Sincerely,



Adam Proffitt
Director of the Budget

cc: Jarod Waltner, KPERS