

SESSION OF 2011

**SUPPLEMENTAL NOTE ON
SENATE SUBSTITUTE FOR HOUSE BILL NO. 2194**

As Recommended by Senate Select Committee
on KPERS

Brief*

Senate Sub. for HB 2194 would modify the Kansas Public Employees Retirement System (KPERS) retirement plan for current public employees who are KPERS members and for future public employees of the state, school, and local groups. The bill would make the following changes, contingent upon other action being taken by the 2012 Legislature, as described below:

Increased Employer Contributions—the annual cap on state and school participating employer KPERS contributions would increase from 0.6 percent per year to 1.1 percent per year, beginning July 1, 2013. For local participating employers, the 1.1 percent cap in contribution increases would begin on January 1, 2014.

Increased Employee Contributions—rates for KPERS Tier 1 and certain Tier 2 members would increase by 1.0 percent in each of two calendar years, beginning January 1, 2014. By calendar year 2015, the contribution for Tier 1 employees would reach 6.0 percent and the contribution rate for certain Tier 2 employees would reach 8.0 percent. Subject to Internal Revenue Service approval, an election would be offered to Tier 2 members to opt out of the rate increase if they would give up the cost-of-living adjustment (COLA) in their plan. If a Tier 2 member opted to give up the COLA, then the Tier 2 employee contribution rate would remain 6.0

*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>

percent. All Tier 2 members hired after July 1, 2013 would have an employee contribution rate of 6.0 percent, but would not receive a COLA. The current contribution rate is 4.0 percent for Tier 1 employees and 6.0 percent for Tier 2 employees.

Increased Benefit Multiplier for Future Service—beginning January 1, 2014, the KPERS retirement benefit formula multiplier would increase from 1.75 percent to 1.85 percent for all future years of service credited to KPERS Tier 1 members and certain Tier 2 members who elect to have their contribution increased to 8.0 percent. Members of Tier 2 who opt to remain at 6.0 percent for the employee contribution rate would continue to have a multiplier of 1.75 percent for future service. All Tier 2 members hired on or after July 1, 2013 would have a 1.75 multiplier.

KPERS Study Commission—The bill also would establish a KPERS Study Commission that is directed to review certain topics and to submit a report by December 15, 2011 for the 2012 Legislature. In order for the other statutory changes in the bill to become effective, the 2012 Legislature must take action within 180 days of the report being issued. The implementation of the increases in employer and employee contributions, as well as the increase in benefit multiplier, would be contingent upon the 2012 Legislature acting upon the report's recommendations.

The KPERS Study Commission would be comprised of 11 members appointed as follows: four legislative members (one each appointed by the President of the Senate, Speaker of the House, and minority leaders of each chamber); four at-large members (one each appointed by the President of the Senate, Speaker of the House, and minority leaders of each chamber); three private sector members, at least one an attorney (appointed by the Governor); and four ex-officio non-voting members (Executive Director of KPERS, Director of the Budget, Revisor of Statutes, and Director of Legislative Research).

Background

Two public hearings were conducted, first on SB 49, as introduced, and second, on a set of proposed amendments. At the second hearing, a representative of Keeping the Kansas Promise supported the increased employer contribution cap, higher employee contributions, and the increased benefit multiplier. The organization's limited opposition was attributed to the loss of representation on the new Study Commission in the proposed amendments. A representative of the Public Employee Association of Kansas asked for a fact-finding task force to be constituted, and that no further action should be taken until recommendations were received from the task force.

At an earlier public hearing on SB 49, as introduced, proponents included representatives of the KPERS Board of Trustees, the Kansas Association of School Boards, the City of Lenexa, and the Olathe Public Schools. Opponents included representatives of Keeping the Kansas Promise and the Kansas Organization of State Employees.

SB 49, as introduced, made changes in the KPERS retirement plan for state, school and local public employees who are members of the three KPERS groups. That bill, as introduced, included the following three components:

Increased Employer Contributions—the annual cap on state and school participating employer KPERS contributions would increase from 0.6 percent per year to 1.0 percent per year, beginning July 1, 2012. For local participating employers, the 1.0 percent cap in contribution increases would begin on January 1, 2013.

Increased Employee Contributions—rates for KPERS Tier 1 and Tier 2 members would increase by 0.5 percentage points in each of four calendar years, beginning January 1, 2013. By calendar year 2016, the contribution for Tier 1 employees would reach 6.0 percent and the contribution rate for Tier 2 employees would reach 8.0 percent. The current

rate is 4.0 percent for Tier 1 and 6.0 percent for Tier 2 employees.

Increased Benefit Multiplier for Future Service—beginning January 1, 2013, the KPERS retirement benefit formula multiplier would increase from 1.75 percent to 1.85 percent for all future years of service credited to KPERS Tier 1 and Tier 2 members.

The Senate Committee adopted a number of amendments to the original provisions of SB 49, and inserted the revised provisions of SB 49, as amended, into Senate Sub. for HB 2194.

Fiscal Note on Senate Sub. for HB 2194—According to KPERS, enactment of Senate Sub. for HB 2194 (which incorporates SB 49, as amended) the employer contribution rate cap would rise 1.1 percent each year until each group would reach the actuarial required contribution (ARC) rate. The contribution rate for the state group would rise to an ARC rate of 10.61 percent in FY 2016, the school group would rise to an ARC rate of 15.88 percent in FY 2021, and the local group would rise to an ARC rate of 9.32 percent in FY 2015.

The bill would reduce long-term KPERS employer contributions for the state and school groups through FY 2033 by \$3.0 billion from all funding sources, including \$2.6 billion from the State General Fund. However, the annual employer contributions in FY 2013 through FY 2023 would increase over current statutory capped rate when the annual rate increases from 0.6 to 1.1 percent.

In addition, the KPERS local group would experience long-term employer contribution savings of \$636 million over current statutory capped rates from calendar years 2013 through 2033. However, contributions in calendar year FY 2013 through FY 2015 would increase over current statutory capped rate when the annual rate increases from 0.6 to 1.1 percent.

The bill also would increase contributions by KPERS members by 1.0 percent each year from FY 2013 through FY 2014. Tier 1 members would have an employee contribution rate of 6.0 percent by FY 2016, while some Tier 2 members would have a rate of 8.0 percent if electing to keep the COLA provision. Tier 2 members who elect to forfeit the COLA provision would remain at 6.0 percent. Increased employee contributions would add \$1.3 billion, including \$932 million from the state and school groups, and \$366 million from the local group, over the period through 2033.

Finally, the bill would increase retirement benefits for those employees whose multiplier goes to 1.85 percent. The net increase in annual benefit is 5.7 percent by raising the multiplier from 1.75 to 1.85 percent beginning January 1, 2014, for KPERS Tier 1 members whose employee contribution will be 6.0 percent and those KPERS Tier 2 members who elect to contribute the 8.0 percent employee amount. Any KPERS Tier 2 member electing to remain at the 6.0 percent employee contribution rate will retain the 1.75 percent benefit multiplier.