

February 10, 2016

The Honorable Steven Johnson, Chairperson
House Committee on Pensions and Benefits
Statehouse, Room 286-N
Topeka, Kansas 66612

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2542 by House Committee on Pensions and Benefits

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2542 is respectfully submitted to your committee.

HB 2542 would provide a cost of living adjustment (COLA) beginning July 1, 2016, for certain retirees who have been retired at least five years. The COLA would be applicable to all Kansas Public Employee Retirement System (KPERS) groups. The structure of the COLA would be the following: retirees who retire on or before July 1, 2011, would receive a 1.0 percent increase; retirees who retire on or before July 1, 2006, would receive a 2.0 percent increase; and, retirees who retire on or before July 1, 2001, would receive a 3.0 percent increase. However, any increase in the monthly benefit from the COLA cannot exceed \$150.

According to a cost study performed by KPERS' consulting actuary, it is estimated that HB 2542 could increase the total unfunded actuarial liability for all groups (including KPERS Local and KP&F Local) by \$131.2 million. While the bill does not specify the length of the amortization period to fund the cost of living adjustment, the actuary looked at amortizing over 15 years and amortizing over 17 years. The second scenario is equal to the remainder of the existing unfunded actuarial liability amortization period.

Under a 15-year amortization period, it is estimated that HB 2542 could cost \$11.72 million in FY 2017 and \$12.18 million in FY 2018 for all groups. When local groups are excluded, the state's portion of the costs would be \$8.96 million in FY 2017 and \$9.32 million in FY 2018 from all funds. Based on information contained in the *FY 2017 Governors Budget Report*, it is estimated that approximately 44.0 percent of the FY 2017 expenditures for state agency aggregate salaries and wages plus state expenditures for school districts' KPERS costs are from the State General Fund. If this percentage is used to estimate the approximate fiscal effect to the State General Fund, it is estimated that \$3.94 million and \$4.10 million would be needed from the State General Fund in FY 2017 and FY 2018, respectively. HB 2542 would also result in contribution rate increases for all plans. In particular, the State/School Group employer contribution rate would increase by 0.20 percent.

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Under a 17-year amortization period, it is estimated that the bill could cost \$10.70 million in FY 2017 and \$11.12 million in FY 2018 for all groups. Excluding local groups, the state's share of the costs would be \$8.19 million in FY 2017 and \$8.52 million in FY 2018 from all funds. Using the same funding percentage from above, it is estimated that the bill would require additional State General Fund resources of \$3.60 million in FY 2017 and \$3.75 million in FY 2018. The State/School Group employer contribution rate would increase by 0.18 percent. Any fiscal effect associated with HB 2542 is not reflected in *The FY 2017 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Faith Loretto, KPERS