

MEMORANDUM

To: House Insurance and Pensions

From: Alan D. Conroy, Executive Director

Date: March 16, 2022

Subject: Proponent Testimony on SB 523; \$1.0 billion KPERS payment

I appear before the Committee on behalf of the KPERS Board of Trustees to request your support for SB 523.

SB 523 authorizes the transfer of \$1.0 billion in four payments from the State General Fund to the KPERS Trust Fund. The transfers are scheduled as:

1. \$300 million on the effective date of the act
2. \$300 million on June 1, 2022
3. \$200 million on October 1, 2022, subject to Finance Council approval
4. \$200 million on January 1, 2023, subject to Finance Council approval

Actuarial Cost Impact of Additional Funding

The addition of \$1.0 billion across two fiscal years decreases the unfunded actuarial liability, improves the funded ratio, and reduces future employer contributions required to extinguish the unfunded actuarial liability.

Compared to the current baseline projection, the addition of \$1.0 billion across two fiscal years is projected to have the following impacts:

- The unfunded actuarial liability is \$1.0 billion lower in the 2023 actuarial valuation compared to the current projection (\$4.43B to \$3.41B).
- The funded ratio is projected to increase from the baseline of 77.4% to 80.2% in 2022 and from the baseline of 80.4% to 84.9% in 2023.
- The FY 2023 employer contribution rate is reduced from the currently certified 13.11% to 12.22%, a reduction of about \$45.8 million.
- The FY 2024 employer contribution rate is reduced from currently certified 12.57% to 11.08%, a reduction of about \$78.5 million.
- The total contributions savings in the first five years after the transfers are made (FY 2024-FY 2028) total \$422 million.

A summary of the projected actuarial cost impact is attached to this memorandum.



Policy Questions

Based on our understanding of the intent of SB 523, the actuarial cost projection assumes that the first \$600 million in additional funding would first impact the FY 2023 KPERS State/School employer contributions. The remaining \$400 million would further impact the FY 2024 KPERS State/School employer contributions. However, the FY 2023 and FY 2024 employer contribution rates have already been certified at 13.11% and 12.57% respectively.

SB 523 does not contain language to change the certified FY 2023 and FY 2024 State/School employer contribution rates. If there is no additional language to adjust the certified employer contributions in SB 523 or other legislation, the additional contributions would first impact the 12/31/2021 actuarial valuation, which certifies the FY 2025 employer contribution rate.

Senate Action

The Senate Committee on Ways and Means amended SB 523 to include language that sets the KPERS State/School employer contribution rates from 13.11% to 12.22% in FY 2023 and from 12.57% to 11.08% in FY 2024. These rates align with the actuarial cost projection that was completed on the provisions of SB 523.

SB 523 as amended by the Senate Committee was approved by the full Senate on March 11, with a final action vote of 28-12.

Again, I respectfully request your support for SB 523. I would be pleased to answer any questions from the Committee.