

Joint Committee on Pensions, Investments, and Benefits

Recent Alternative Plan Design Discussions

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# Covering Today

General Plan Design Comparison

2023 SB 230 – Defined Contribution Plan

2023 HB 2365 – Reopening KPERS 2 (Defined Benefit) Plan

Adjustments to KPERS 3 Plan Design





# General Plan Design Comparison

|   | KPERS<br>Defined Benefit |          | Defined<br>Contribution |          | Cash<br>Balance |          |
|---|--------------------------|----------|-------------------------|----------|-----------------|----------|
|   | Employer                 | Employee | Employer                | Employee | Employer        | Employee |
| Economic Risk                               |                          |          |                         |          |                 |          |
| Investment Risk                             | High                     | Low      | None                    | High     | Medium          | Low      |
| Inflation Risk – wage (preretirement)       | High                     | None     | None                    | High     | None            | High     |
| Inflation Risk – price (postretirement)     | None                     | High     | None                    | High     | None            | High     |
| Contribution Risk                           | High                     | Low      | None                    | High     | Medium          | Low      |
| Longevity Risk                              | Medium                   | None     | None                    | High     | Medium          | None     |
| Features                                    |                          |          |                         |          |                 |          |
| Rewards older/longer service employees      | High                     |          | Low                     |          | Medium          |          |
| Provides retirement security                | High                     |          | Low                     |          | Medium          |          |
| Attract employees                           | Medium                   |          | High                    |          | High            |          |
| Retain employees                            | High                     |          | Low                     |          | Medium          |          |
| Provides systematic retirement of employees | High                     |          | Low                     |          | Medium          |          |





#### Senate Bill 230

Senate Bill 230, as introduced, creates a defined contribution plan for all new KPERS employees on July 1, 2025.

Existing members would be given the option to elect from their current plan (KPERS 1, KPERS 2 or KPERS 3) into the new defined contribution plan.

The plan design is modeled on the federal Thrift Savings Plan.





#### Senate Bill 230

#### The key features of the plan include:

- 1. Mandatory 6% employee contribution and Optional employee contributions of 1% to 10%. Immediate vesting.
- 2. Base employer contribution of 4% and additional 0.5% or 1.0% if the member is making optional contributions. 5-year vesting.
- 3. Additional employer contributions to the unfunded actuarial liability of the existing plans.
- 4. Members can withdraw or rollover contribution (employee and employer) accounts and interest any time after termination (at retirement or earlier). Non-vested employer contribution cannot be withdrawn.
- 5. At retirement, KPERS must offer annuity options from an insurer as an alternative to 100% lump sum distributions.
- 6. Current members would be given the opportunity to elect into the Thrift Savings Plan, if allowed by the IRS.





#### House Bill 2365

House Bill 2365 closes the KPERS 3 cash balance plan on July 1, 2024.

New members after July 1, 2024 are enrolled in the KPERS 2 plan.

Existing KPERS 3 members, who are not retired, are converted to KPERS 2 members on or before January 1, 2024.





### House Bill 2365

KPERS 2 is a traditional defined benefit plan.

Retirement benefits are based on a formula.

 Years of Service X 1.85% Multiplier X Final Average Salary (highest five years)

Employees contribute 6%.

Employer contribution calculated by the actuary (12.57% in FY 2024).





# KPERS 3 Adjustments

Although no legislation was introduced in 2023, KPERS received multiple requests for cost projections on adjusting the KPERS 3 plan design.

The KPERS 3 statutes expressly allow the Legislature to adjust the KPERS 3 plan design.

The KPERS 3 cash balance plan has already been adjusted by the Legislature, although the changes were made prior to the 1/1/2015 start date of KPERS 3.

- 1. Guaranteed interest credit lowered from 6% to 4%
- Dividend interest credit changed from discretionary (by the Board) to formulaic
- 3. Annuity rate changed from a set 6% to being coupled to the investment return assumption (equal to 6% at the time)





## KPERS 3 Adjustments

The KPERS 3 cash balance plan design has three components that can be adjusted to enhance benefit levels.

- 1. Interest Crediting. Currently 4% guaranteed plus a formulaic dividend.
  - Higher interest = higher benefits
- 2. Employer Credits. Currently 3% to 6% depending on years of service.
  - Higher employer credits = higher benefits
- 3. Annuity Rate. Currently 2% less than the investment return assumption (currently equal to 5%)
  Higher annuity rate = higher benefits





# Questions?



