

Memorandum

To: Senate Ways and Means Committee
 From: Alan D. Conroy, Executive Director
 Date: March 21, 2013
 Subject: House Bill 2352: Kansas Police and Fire Cap on Benefits

Existing Provisions

- Under KP&F, the benefit paid to a retiring member is equal to 2.5% times Final Average Salary times Years of Service, not to exceed 80% of Final Average Salary.
- The member contribution rate drops from 7% to 2% when the 80% maximum benefit level is attained.
- Because of the formula, members who retire with more than 32 Years of Service are affected by the maximum benefit limitation of 80%.
- Members of the Judges plan have a cap of 70% of their Final Average Salary, at which point their contributions are reduced from 6% to 2%. There is no similar cap on KPERS benefits. However, very few KPERS members receive benefits equal to or greater than 80% of their Final Average Salary because the benefit formula multiplier is 1.75%.
 - A KPERS member must work 46 years to reach a benefit equal to 80% of their final average salary.

Multiplier	KPERS	KP&F	Judges
	1.75%	2.50%	3.50%
Years of service	Per Cent of Final Average Salary		
20	35.00%	50.00%	70.00%
25	43.75%	62.50%	87.50%
30	52.50%	75.00%	105.00%
32	56.00%	80.00%	112.00%
35	61.25%	87.50%	122.50%
40	70.00%	100.00%	No members have more than 40 years of service.
45	78.75%	112.50%	
46	80.50%	115.00%	
50	87.50%	125.00%	
55	96.25%	137.50%	

- Of the active KP&F members, 0.45 percent had 32 or more years of service as of 12/31/2011. By way of contrast, 45% of Judges members had 20 or more years of service. Fewer than 0.25% of KPERS members had 46 or more years of service at the same point in time.
- Representatives of KP&F members have expressed concern that the cap on benefits is a disincentive to continued employment by members who have 32 years of service.
- KP&F members may or may not be contributing members of Social Security for their KP&F-related employment, depending on their employer's decision and federal law.

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- For example, KP&F members in the Kansas Highway Patrol and the Kansas Bureau of Investigation generally are not covered by Social Security.
- However, for groups that elected Social Security coverage prior to affiliation with KP&F, future participation is mandatory. The newer KP&F member groups from Regents' universities (police officers), the Highway Patrol (Capitol Police and certain motor carrier inspectors), and State Fire Marshall's Office (fire investigators) have Social Security coverage and are not permitted to opt out.

Bill Description

HB 2352 makes three changes to the Kansas Police and Firemen's Retirement System:

1. Raises the cap on member retirement benefits from 80.0 percent of Final Average Salary to 90.0 percent of Final Average Salary. Members reach the existing cap of 80 percent of Final Average Salary with 32 years of service, while 36 years of service would be required to reach a 90.0 percent cap.
2. Raises the employee contribution rate to 7.15 percent for all years of service. Currently members pay 7.0 percent of compensation up to 32 years of service and 2.0 percent of compensation for every year of service over 32 years.
3. Allows for current members who have more than 32 years of service before July 1, 2013, to pay a lump sum amount equal to the difference between actual contributions made at 2.0 percent of total compensation and 7.15 percent of total compensation, plus interest in an amount prescribed by the KPERS Board of Trustees. If the member makes the lump sum payment prior to or at the time of retirement, the years of service for which he or she had contributed 2.0 percent will be included in calculating the member's retirement benefit, subject to the 90 percent cap established by HB 2352.

Cost Study

According to the cost study completed by KPERS' consulting actuary, HB 2352 as introduced would be cost neutral to employers. In performing the studies, the actuary assumed that the changes in benefit provisions would not change retirement patterns. To the extent that members make different choices regarding when they leave covered employment and retire, the retirement rates in the future could change, and along with them, the costs associated with this plan modification.

As of 12/31/2011, there were 32 KP&F members with more than 32 years of service out of 7,143 active members. Of the 32 members with more than 32 years of service, only three had more than 36 years of service. Although retirement patterns for current members do not predict how members will act in the future, the group immediately affected by the higher benefit cap in HB 2352 is currently a very small percentage (0.45%) of the total membership.

It is expected that administrative expenses to modify KPERS' information technology system to implement HB 2352 can be funded within KPERS' expenditure limitations.

I hope this information is helpful. I am happy to respond to any questions the Committee has regarding HB 2352.

Attachment



Cavanaugh Macdonald

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February 21, 2013

Mr. Alan Conroy
Executive Director
Kansas Public Employees Retirement System
611 S. Kansas Ave., Suite 100
Topeka, KS 66603-3803

Re: Cost Study for HB 2352 Increasing the Maximum Benefit for KP&F

Dear Alan:

Under KP&F, the benefit paid to a retiring member is 2.5% times Final Average Salary times Years of Service, not to exceed 80% of Final Average Salary. The member contribution rate drops from 7% to 2% when the 80% maximum benefit level is attained. Because of the formula, only members who retire with more than 32 Years of Service are affected by the maximum benefit limitation of 80%. As you requested, we have performed a cost study for HB 2352 related to changes to the maximum benefit limitation for the Kansas Police and Firemen's Retirement System (KP&F).

The provisions of the bill are as follows: Increase the maximum benefit level to 90% while keeping the benefit multiplier at 2.5% per year of service. The employee contribution rate for all active members will be increased to 7.15% of pay for all years of service.

Cost Analysis

The results of the cost studies are summarized in the following table:

	<u>12/31/11 Actuarial Valuation</u>	<u>HB 2352</u>
Employee Contribution Rate	7.0% for first 32 yrs, then 2%	7.15% for all years
Unfunded Actuarial Liability	\$738.6M	\$751.9M
Normal Cost Rate	14.49%	14.57%
Employee Contribution Rate	<u>(6.87%)</u>	<u>(7.15%)</u>
Employer Normal Cost Rate	7.62%	7.42%
UAL Payment	<u>12.30%</u>	<u>12.51%</u>
Total Employer Contribution	19.92%	19.93%

3906 Raynor Pkwy, Suite 106, Bellevue, NE 68123

Phone (402) 905-4461 • Fax (402) 905-4464

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Data, Assumptions and Methodology

The analysis contained in this letter is based on the December 31, 2011 actuarial valuation. To the extent that any of that data is inaccurate, our analysis may need to be revised. Unless otherwise noted, the assumptions and methods used in analyzing this proposal are the same as those used in the December 31, 2011 actuarial valuation and are shown in Appendix C of that report.

In performing this study, we have assumed that the changes in benefit provisions would not change retirement patterns. To the extent that members make different choices regarding when they leave covered employment and retire, the retirement rates in the future could change, and along with them the costs associated with this plan modification.

The comments and analysis contained in this letter are not intended to give exact calculations of costs. They should be considered to be estimates. The emerging costs will vary from those presented in this letter to the extent that actual experience differs from that projected by the actuarial assumptions. This cost analysis has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the principles prescribed by the Actuarial Standards Board (ASB) and the Code of Professional Conduct and Qualification Standards for Public Statement of Actuarial Opinion of the American Academy of Actuaries.

We have not explored any legal issues with respect to the proposed plan changes. We are not attorneys and cannot give legal advice on such issues. We suggest that you review this proposal with counsel.

We, Patrice A. Beckham, FSA and Brent A. Banister, FSA, are consulting actuaries with Cavanaugh Macdonald Consulting, LLC. We are members of the American Academy of Actuaries, Fellows of the Society of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

If you have any questions or additional information is needed, please let us know.

Sincerely,

A handwritten signature in cursive script that reads 'Patrice Beckham'.

Patrice A. Beckham, FSA, EA, FCA, MAAA
Principal and Consulting Actuary

A handwritten signature in cursive script that reads 'Brent A. Banister'.

Brent A. Banister, PhD, FSA, EA, FCA, MAAA
Chief Pension Actuary