MEMORANDUM

To: House Financial Institutions and Pensions Committee

From: Alan D. Conroy, Executive Director A.D.C.

Date: January 31, 2018

Subject: HB 2448; Moving State Correctional Officers to KP&F

HB 2448 as introduced would make the Kansas Department of Corrections an eligible employer and affiliate with the Kanas Police and Firemen's (KP&F) retirement system on July 1, 2018 and any "security officer" who is employed by the Department of Corrections would be enrolled as a KP&F member for all future service. HB 2448 defines "security officer" as:

- Correctional Group A members (corrections officers);
- Correctional Group B members (other staff with direct inmate contact and supervision); and
- Equivalent juvenile corrections positions.

For all service time prior to July 1, 2018, members would keep the KPERS benefit that they had earned. The member would able to use their prior years of service for purposes of vesting and retirement eligibility. At retirement, the member would have a single final average salary calculation and would receive a monthly benefit for their KPERS service and a monthly benefit for their KP&F service.

Current benefit provisions

Currently, the adult corrections positions are covered in either Corrections Group A (C55) or Corrections Group B (C60). Juvenile corrections positions, to the extent those job classifications still exist, are in regular KPERS.

C55 and C60 use the same benefit formula as regular KPERS (final average salary x years of service x 1.85%) but they have different requirements for normal retirement. For all members since 2009:

- C55 members are eligible for full retirement at age 55 with 10 years of service
- C60 members are eligible for full retirement at age 60 with 10 years of service
- KPERS members are eligible for full retirement at age 65 with 5 years of service or age 60 with 30 years of service.

All of these groups have a 6% employee contribution rate and the employer contributes the State/School rate (14.41% in FY 2019).

KPERS

KP&F benefits

KP&F is similar to KPERS in basic plan design structure, but many of the plan design elements are different.

- The benefit formula is the same, but the final average salary is calculated differently and the multiplier is 2.5% instead of 1.85%.
- Employee contributions are slightly higher in KP&F at 7.15%
- The employer contribution rate is the full actuarial rate (20.56% in FY 2019). The vesting requirement for KP&F is 15 years of service.
- Normal retirement for KP&F is age 50 with 25 years of service, age 55 with 20 years of service, or age 60 with 15 years of service.

Because of the higher multiplier, the KP&F plan design will yield a higher benefit than KPERS or KPERS Correctional. KP&F also has a vesting period that is three times longer than KPERS. As an example, if a person works a 30-year career and has a final average salary of $40,000, their maximum annual is very different:

	KPERS Member	KP&F Member
Final average salary	$40,000	$40,000
Service	30 years	30 years
Benefit	$22,200 per year	$30,000 per year
Replacement percentage of final average salary	55.5%	75.0%

A more detailed comparison of KPERS, KPERS Correctional and KP&F is attached to this memorandum.

Actuarial costs

KPERS' consulting actuary completed a cost study using data provided by the Department of Corrections to estimate the actuarial cost and employer contributions if those members are moved to KP&F.

Moving this group of Corrections employees to KP&F for future service increases the overall KP&F normal cost rate due to the entry age of the Corrections employees in the group (their current attained age). However, as new hires replace current Corrections employees, the normal cost rate is expected to gradually decline. Since the Corrections employees are moving to KP&F for future service only, there is no increase in the unfunded actuarial liability for KP&F.

Because there is no increase in the unfunded actuarial liability but there is additional KP&F payroll, the unfunded actuarial liability (UAL) contribution rate for KP&F declines. The decline in the UAL payment rate is larger than the corresponding increase in the normal cost rate so the net impact is a decline in the KP&F uniform contribution rate from 20.05% to 18.82% for State employers, effective July 1, 2018.

Based on the data provided by the Department of Corrections and using the 12/31/2016 actuarial valuation, HB 2448 is projected to increase employer contributions from the Department of Corrections by $5.6 million in FY 2019. This increase is partially offset by decrease in the employer contributions at other state KP&F agencies totaling about $566,000, <u>resulting in a net increase of $5.0 million in KP&F employer contributions from state agencies in FY 2019</u>.

The decline in the uniform rate also affect local KP&F employers. The uniform rate local employers would affect CY 2019 and would reduce the local KP&F employer contribution rate from 22.13% to 20.51%. Applied to the project KP&F payroll for CY 2019, the differential totals about $7.9 million less in total local KP&F contributions.

After the transfer, no further contributions to KPERS would be made on behalf of the Corrections employees covered by KP&F. However, vested KPERS members who transfer to KP&F would remain eligible for a KPERS benefit based on the service accrued prior to the transfer. The transfer of the Corrections members to KP&F has a very small impact on the KPERS State unfunded actuarial liability (a decrease of around $17 million). Therefore, any residual unfunded actuarial liability in KPERS for the transfer group will remain in KPERS, and the costs of amortizing any unfunded actuarial liability for that group would be spread over the remaining KPERS State payroll. Since the total covered payroll of the State/School group declines by 2.2% as a result of the transfer, the State/School actuarial contribution rate increases by 0.22%. While the contribution rate for KPERS state agency employers may increase by 0.22%, the rate would apply to a lower total State payroll, which results in a minimal difference in the total State contributions to KPERS. However, because of the statutory contribution rate cap, any increase would not be reflected in employer contributions immediately.

I would be happy to respond to any questions the Committee may have regarding HB 2448.

Attachment

Attachment A

Comparison of KPERS Plan Designs

Plan	KPERS 1 (Members before 7/1/2009)	KPERS 2 (Members on and after 7/1/2009)	KPERS Correctional 1 (Members before 7/1/2009)	KPERS Correctional 2 (Members on and after 7/1/2009)	KP&F
Number of active members as of 12/31/16	77,009 members	39,044 members	Group A (C55): 2,076 members Group B (C60): 171 members		7,303 members
Vesting	5 years	5 years	5 years	5 years	*Tier 1 (Members before 7/1/93):* 20 years *Tier 2 (Members on and after 7/1/93):* 15 years
Employee Contribution	5% for CY 2014 6% for CY 2015 and all future years	6%	6%	6%	7.15%
Multiplier	1.75% for service before 1/1/14 1.85% for service on and after 1/1/14	1.85%	1.75% for service before 1/1/14 1.85% for service on and after 1/1/14	1.85%	2.50%
Final Average Salary Calculation	*For members hired before 7/1/1993:* An average of the four highest years of salary, including additional compensation; *or* An average of the three highest years of salary, excluding additional compensation. *For members hired after 7/1/1993:* An average of the three highest years of salary, excluding additional compensation.	An average of the five highest years of salary, excluding additional compensation.	*For members hired before 7/1/1993:* An average of the four highest years of salary, including additional compensation; *or* An average of the three highest years of salary, excluding additional compensation. *For member hired after 7/1/1993:* An average of the three highest years of salary, excluding additional compensation.	An average of the five highest years of salary, excluding additional compensation.	*Tier 1:* An average of the three highest of the last five years of service, excluding additional compensation. *Tier 2:* An average of the three highest of the last five years of service, including additional compensation.
Benefit Cap	No Cap (30 years of service = 52.5% to 55.5% of FAS)	No Cap (30 years of service = 55.5% of FAS)	No Cap (30 years of service = 52.5% - 55.5% of FAS)	No Cap (30 years of service = 55.5% of FAS)	90% of FAS (36 years of service = 90% of FAS)
Normal Retirement	Age 65 with 1 year of service Age 62 with 10 years of service Any age when age and years of service credit added together equal 85	Age 65 with 5 years of service Age 60 with 30 years of service	*C55:* Age 55 Any age when age and years of service credit added together equal 85 *C60:* Age 60 Any age when age and years of service credit added together equal 85 Retiring members must have worked in an eligible position for at least 3 years immediately preceding retirement.	*C55:* Age 55 with 10 years of service *C60:* Age 60 with 10 years of service Retiring members must have worked in an eligible position for at least 3 years immediately preceding retirement.	*Tier 1:* Age 55 with 20 years of service Any age with 32 years of service *Tier 2:* Age 50 with 25 years of service Age 55 with 20 years of service Age 60 with 15 years of service
Early Retirement	Age 55 with 10 years of service Benefits are reduced by 0.6 percent for each month between ages 55 and 60, and 0.2 percent for each month between ages 60 and 62.	Age 55 with 10 years of service Benefits are reduced based on actuarial reduction.	*C55:* Age 50 with 10 years of service Benefits are reduced by 0.2 percent for each month under age 55 *C60:* Age 55 with 10 years of service Benefits are reduced by 0.2 percent for each month under age 60 Retiring members must have worked in an eligible position for at least 3 years immediately preceding retirement.	*C55:* Age 50 with 10 years of service Benefits are reduced based on actuarial reduction. *C60:* Age 55 with 10 years of service Benefits are reduced based on actuarial reduction. Retiring members must have worked in an eligible position for at least 3 years immediately preceding retirement.	Age 50 with 20 years of service Benefits are reduced based on actuarial reduction.

Attachment A

Plan	KPERS 1 (Members before 7/1/2009)	KPERS 2 (Members on and after 7/1/2009)	KPERS Correctional 1 (Members before 7/1/2009)	KPERS Correctional 2 (Members on and after 7/1/2009)	KP&F
Benefit Options	*Maximum Monthly Annuity* *Joint Survivor:* 50%, 75%, 100% *Life Certain:* 5-year, 10-year, 15-year *Partial Lump Sum Option:* 10%, 20%, 30%, 40%, 50%	*Maximum Monthly Annuity* *Joint Survivor:* 50%, 75%, 100% *Life Certain:* 5-year, 10-year, 15-year *Partial Lump Sum Option:* 10%, 20%, 30%	*Maximum Monthly Annuity* *Joint Survivor:* 50%, 75%, 100% *Life Certain:* 5-year, 10-year, 15-year *Partial Lump Sum Option:* 10%, 20%, 30%, 40%, 50%	*Maximum Monthly Annuity* *Joint Survivor:* 50%, 75%, 100% *Life Certain:* 5-year, 10-year, 15-year *Partial Lump Sum Option:* 10%, 20%, 30%	*Maximum Monthly Annuity* *Joint Survivor:* 50%, 75%, 100% *Life Certain:* 5-year, 10-year, 15-year *Partial Lump Sum Option:* 10%, 20%, 30%, 40%, 50%
Disability Benefits	Disability benefits are based on 60% of the member's annual salary. Members must be disabled for 180 days and no longer receive employer compensation. To be considered disabled: **First 24 months:** You must be unable to perform the material and substantial duties of your regular occupation. **After 24 months:** You must be unable to perform the material and substantial duties of any occupation.	Disability benefits are based on 60% of the member's annual salary. Members must be disabled for 180 days and no longer receive employer compensation. To be considered disabled: **First 24 months:** You must be unable to perform the material and substantial duties of your regular occupation. **After 24 months:** You must be unable to perform the material and substantial duties of any occupation.	Disability benefits are based on 60% of the member's annual salary. Members must be disabled for 180 days and no longer receive employer compensation. To be considered disabled: **First 24 months:** You must be unable to perform the material and substantial duties of your regular occupation. **After 24 months:** You must be unable to perform the material and substantial duties of any occupation.	Disability benefits are based on 60% of the member's annual salary. Members must be disabled for 180 days and no longer receive employer compensation. To be considered disabled: **First 24 months:** You must be unable to perform the material and substantial duties of your regular occupation. **After 24 months:** You must be unable to perform the material and substantial duties of any occupation.	50% of final average salary in ongoing monthly payments. There is no waiting period to begin receiving benefits. If the member returns to work for any KP&F participating employer, their disability benefits will automatically stop. There is no earnings limit for non-public safety employment.
Employer Contributions	Employer: 14.41% in FY 2019	Employer: 14.41% in FY 2019	Employer: 14.41% in FY 2019	Employer: 14.41% in FY 2019	If C55 and C60 are moved to KP&F for future service only, the Employer rate is projected to be 20.56% in FY 2019

KPERS