

## MEMORANDUM

To: House Financial Institutions and Pensions

From: Alan D. Conroy, Executive Director

Date: February 6, 2019

Subject: HB 2099; Moving certain Kansas Department of Wildlife, Parks and Tourism officers to KP&F

House Bill 2099 as introduced would move certain KPERS covered positions in the Kansas Department of Wildlife, Parks and Tourism to KP&F for future service. Employees who would become eligible for KP&F are specified in the bill as:

- Full-time law enforcement certified
- Working in the parks, law enforcement and public lands divisions

As introduced, the Department of Wildlife, Parks and Tourism would become an eligible KP&F employer on July 1, 2019. KPERS' understanding is that the eligible members would be enrolled as KP&F members starting July 1, 2020.

For all service time prior to July 1, 2020, members would keep the KPERS benefit that they had earned. The member would be able to use their prior years of service for purposes of vesting and retirement eligibility. At retirement, the member would have a KPERS benefit calculation and a KP&F benefit calculation. The member receives two payments, one for KPERS retirement and one for KP&F retirement.

For some members who joined the System before July 1, 1993, it is possible to use sick and annual leave payments at retirement in final average salary calculation. If a member is transferred from KPERS to KP&F, the member would lose their ability to use those payments and could be negatively impacted by the change. HB 2099 includes language to ensure that members would not be negatively impacted in their final average salary calculation due to moving from KPERS to KP&F.

### **Current benefit provisions**

Currently, the affected members are regular KPERS members. KPERS 1 and KPERS 2 are traditional defined benefit plans that use a benefit formula for calculating retirement benefits (final average salary x years of service x 1.75% or 1.85%).

Any employee who became a member on or after January 1, 2015 is a member of KPERS 3, which is a cash balance. A cash balance plan is a defined benefit plan, but rather than using a benefit formula, member benefits are calculated based on employer contributions and employee credits, plus interest, throughout a member's career. Some of the plan design features of KPERS include:



- The benefit calculation for KPERS 1 and KPERS 2 is final average salary x years of service x 1.75% or 1.85%.
- Employees contribute 6% of compensation.
- KPERS 3 employer pay credits (which are not the same as employer contributions) are based on length of service:
  - Less than 5 years           3% of pay
  - 5-11 years                   4% of pay
  - 12-23 years                 5% of pay
  - 24+ years                   6% of pay
- Vesting is 5 years.
- Normal retirement varies by group, but includes:
  - KPERS 1:           When age and years of service total 85 (85 point rule)  
Age 62 with 10 years of service  
Age 65 with 1 years of service
  - KPERS 2:           Age 60 with 30 years of service  
Age 65 with 5 years of service
  - KPERS 3:           Age 60 with 30 years of service  
Age 65 with 5 years of service

The employer contribution rate is the same for all KPERS payroll. For the State/School group that rate totals 14.41% in FY 2019.

### **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. 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:

	<b>KPERS Member</b>	<b>KP&amp;F Member</b>
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%

However, KP&F has a higher employee and employer contribution rate and also has a vesting period that is three times longer than KPERS.

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

### **Cost Impact**

Because the Kansas Department of Wildlife, Parks and Tourism (KDWPT) employees are affiliating for future service only for benefit purposes, there is no increase in the unfunded actuarial liability for KP&F. However, adding the KDWPT payroll increases the total covered payroll for KP&F, which results in a decline in the unfunded actuarial liability payment rate of 0.24%. The unfunded actuarial liability decline is larger than the corresponding increase in the normal cost rate of 0.04%, so the net impact is a decline in the FY 2021 KP&F uniform contribution rate from 21.93% to 21.73%. Note that this lower uniform contribution rate would also apply to Local employers participating in KP&F, and therefore, the net result is a shift of costs to the State from the Local employers.

The total FY 2019 KP&F employer contributions increase from \$119.9 million to \$120.9 million, a net increase of about \$991,000. The KDWPT's FY 2019 contributions to KP&F are estimated to be \$2.1 million, which includes \$1.4 million that would have been paid as KPERS contributions and an additional \$0.7 million due to their coverage in KP&F and the higher KP&F employer contribution rate. Other state KP&F employers (such as the Kansas Highway Patrol and Kansas Bureau of Investigation) would realize a reduction in their FY 2019 KP&F contributions equal to 0.20% of payroll, or approximately \$109,000. The net change in state contributions is an increase of \$0.6 million (\$0.7 million increase in KDWPT minus \$0.1 million other State employers decrease).

After the transfer, no further contributions to KPERS would be made on behalf of the KDWPT employees. However, KDWPT employees who transfer to KP&F would remain eligible for a KPERS benefit based on service accrued prior to the transfer. Therefore, any unfunded actuarial liability in KPERS for these employees who are in the System will remain in KPERS and the cost of amortizing that unfunded actuarial liability would be spread across the remaining KPERS State/School payroll of \$4.4 billion. The transfer of the KDWPT employees to KP&F has a very small impact on the KPERS State/School unfunded actuarial liability (a decrease of around \$2.4 million from the \$6.6 billion total unfunded actuarial liability). Since the total covered payroll of the State/School group declines by 0.2% as a result of the transfer, the State/School actuarial contribution rate increases by 0.02% of pay.

Attachment

## Comparison of KPERS Plan Designs

Plan	KPERS 1 (Members before 7/1/2009)	KPERS 2 (Members on and after 7/1/2009)	KP&F
<b>Number of active members as of 12/31/16</b>	77,009 members	39,044 members	7,303 members
<b>Vesting</b>	5 years	5 years	Tier 1 (Members before 7/1/93): 20 years  Tier 2 (Members on and after 7/1/93): 15 years
<b>Employee Contribution</b>	5% for CY 2014 6% for CY 2015 and all future years	6%	7.15%
<b>Multiplier</b>	1.75% for service before 1/1/14 1.85% for service on and after 1/1/14	1.85%	2.50%
<b>Final Average Salary Calculation</b>	<p><i>For members hired before 7/1/1993:</i> 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.</p> <p><i>For members hired after 7/1/1993:</i> An average of the three highest years of salary, excluding additional compensation.</p>	An average of the five highest years of salary, excluding additional compensation.	<p><i>For members hired before 7/1/1993:</i> An average of the three highest of your last five years of service, <b>including</b> additional compensation.</p> <p><i>For members hired after 7/1/1993:</i> An average of the three highest of your last five years of service, <b>excluding</b> additional compensation.</p>
<b>Benefit Cap</b>	No Cap (30 years of service = 52.5% to 55.5% of FAS)	No Cap (30 years of service = 55.5% of FAS)	90% of FAS (36 years of service = 90% of FAS)
<b>Normal Retirement</b>	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	<p>Tier 1: Age 55 with 20 years of service Any age with 32 years of service</p> <p>Tier 2: Age 50 with 25 years of service Age 55 with 20 years of service Age 60 with 15 years of service Age 50 with 20 years of service</p>
<b>Early Retirement</b>	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.	Age 50 with 20 years of service  Benefits are reduced based on actuarial reduction.

## Comparison of KPERS Plan Designs

Plan	KPERS 1 (Members before 7/1/2009)	KPERS 2 (Members on and after 7/1/2009)	KP&F
<b>Benefit Options</b>	<p><i>Maximum Monthly Annuity</i></p> <p><i>Joint Survivor:</i> 50%, 75%, 100%</p> <p><i>Life Certain:</i> 5-year, 10-year, 15-year</p> <p><i>Partial Lump Sum Option:</i> 10%, 20%, 30%, 40%, 50%</p>	<p><i>Maximum Monthly Annuity</i></p> <p><i>Joint Survivor:</i> 50%, 75%, 100%</p> <p><i>Life Certain:</i> 5-year, 10-year, 15-year</p> <p><i>Partial Lump Sum Option:</i> 10%, 20%, 30%</p>	<p><i>Maximum Monthly Annuity</i></p> <p><i>Joint Survivor:</i> 50%, 75%, 100%</p> <p><i>Life Certain:</i> 5-year, 10-year, 15-year</p> <p><i>Partial Lump Sum Option:</i> 10%, 20%, 30%, 40%, 50%</p>
<b>Disability Benefits</b>	<p>Disability benefits are based on 60% of the member's annual salary</p> <p>Members must be disabled for 180 days and no longer receive employer compensation</p> <p><u>To be considered disabled:</u> <b>First 24 months:</b> You must be unable to perform the material and substantial duties of your regular occupation. <b>After 24 months:</b> You must be unable to perform the material and substantial duties of any occupation</p>	<p>Disability benefits are based on 60% of the member's annual salary</p> <p>Members must be disabled for 180 days and no longer receive employer compensation</p> <p><u>To be considered disabled:</u> <b>First 24 months:</b> You must be unable to perform the material and substantial duties of your regular occupation. <b>After 24 months:</b> You must be unable to perform the material and substantial duties of any occupation</p>	<p>50% of final average salary, in ongoing monthly payments</p> <p>There is no waiting period to begin receiving benefits</p> <p>If the member returns to work for any KP&amp;F participating employer, their disability benefits will automatically stop. <u>There is no earnings limit for non-public safety employment.</u></p>
<b>Employer Contributions</b>	13.21% in FY 2019	13.21% in FY 2019	20.05% in FY 2019