

## MEMORANDUM

To: House Financial Institutions and Pensions Committee

From: Alan D. Conroy, Executive Director

Date: February 25, 2019

Subject: HB 2165; Moving State Correctional Officers to KP&F

HB 2165 as introduced would make the Kansas Department of Corrections an eligible employer and affiliate with the Kansas Police and Firemen's (KP&F) retirement system on January 1, 2020 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 2165 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 January 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 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, 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 Department of Corrections contributes the State/School statutory rate (14.41% in FY 2020).



**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 higher in KP&F at 7.15%, compared to 6% under KPERS.
- The employer contribution rate is the full actuarial rate (22.13% in FY 2020).
- The vesting requirement for KP&F is 15 years of service, compared to 5 years for KPERS.
- 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:

	<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%

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

**Policy Questions**

The language in §1(d) changes the KPERS retirement rules for this group of correctional employees by making them eligible for normal retirement under KPERS when they are eligible to retire under KP&F.

KPERS already has statutory language (K.S.A. 74-4988) that governs the handling of member’s with service in two different plans (most commonly KPERS and KP&F service).

If the Committee does not intend to create separate KPERS retirement eligibility rule for just this group of correctional employees, the language can be removed or amended to reference K.S.A. 74-4988 so these members are treated the same as other members with service in two plans.

### **KP&F Actuarial Cost Projection**

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 correctional positions to KP&F for future service increases impacts the actuarial cost:

- Higher normal cost rate. KP&F normal cost rate (annual cost of service) increases initially because the group is entering KP&F with a higher average age than would be expected if the positions were newly hired. Over time the normal cost rate is expected to gradually decline
- No change to unfunded actuarial liability. There is no increase in the KP&F unfunded actuarial liability because the group is entering for future service only and has not accrued any liabilities.
- Lower unfunded actuarial liability rate. Since the total KP&F liabilities do not change, but the total KP&F payroll increases, the rate necessary to amortize the unfunded actuarial liability decreases.

Based on the data provided by the Department of Corrections and using the 12/31/2017 actuarial valuation, HB 2165 is projected to increase employer contributions from the Department of Corrections by \$6.1 million in FY 2021. This increase is partially offset by decrease in the employer contributions at other state KP&F agencies totaling about \$875,000, resulting in a net increase of \$5.2 million in State KP&F employer contributions from state agencies in FY 2021.

Because HB 2165 is effective January 1, 2020, the employer contribution rate would change for the Department of Corrections for the last 6 months of FY 2020 from the 14.41% KPERS rate to the 20.48% KP&F rate. This would result in an increase in total state KP&F contributions of \$2.7 million, include an increase of \$3.1 million for the Department of Corrections and a decrease from other State KP&F employers of about \$430,000.

The decline in the uniform rate also affect local KP&F employers. The uniform rate local employers would affect CY 2020 and would reduce the local KP&F employer contribution rate by 1.61%, from 21.93% to 20.32%. The reduced employer contribution rate in CY 2020 is approximately \$7.8 million in total contributions for Local KP&F employers.

### **KPERS Actuarial Cost Projection**

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 \$18 million from the \$6.58 billion unfunded actuarial liability. Any residual unfunded actuarial liability in KPERS for the correctional employees (due to vested benefits) remains with KPERS. However, the costs of amortizing the unfunded actuarial liability for that group is spread over a smaller payroll, since the correctional members are moved to KP&F.

HB 2165 causes the total covered payroll of the KPERS State/School group to decline by 2.2% as a result of the members transferring to KP&F. The decline in payroll increases the State/School actuarial contribution rate increases by 0.23%. While the contribution rate for KPERS state agency employers increases the higher rate applies to a lower total State payroll, which results in a minimal difference in the total State contributions to KPERS.

### **Administrative Costs**

KPERS estimates that one additional permanent staff will be required to provide transition and ongoing support to the Department of Corrections and correctional facilities and individual members, assisting with design and testing of the information technology changes. The estimated FY 2020 cost for 1.0 FTE positions is \$51,425, including fringe benefits, which would be funded by the KPERS Trust Fund.

If HB 2165 is passed in conjunction with HB 2139, which makes local correctional employees eligible for KP&F service, the 1.0 FTE is not needed in addition to the 2.0 FTE that are include in the fiscal note for HB 2139.

HB 2165 requires some changes and updates to KPERS information technology system. However, the changes can be accomplished within existing resources.

I would be happy to respond to any questions the Committee may have regarding HB 2165.

Attachment

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
<b>Number of active members as of 12/31/16</b>	77,009 members	39,044 members	Group A (C55): 2,076 members Group B (C60): 171 members		7,303 members
<b>Vesting</b>	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
<b>Employee Contribution</b>	5% for CY 2014 6% for CY 2015 and all future years	6%	6%	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%	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>	<i>For members hired before 7/1/1993:</i> An average of the four highest years of salary, including additional compensation; <i>or</i> An average of the three highest years of salary, excluding additional compensation.  <i>For members hired after 7/1/1993:</i> An average of the three highest years of salary, excluding additional compensation.	An average of the five highest years of salary, excluding additional compensation.	<i>For members hired before 7/1/1993:</i> An average of the four highest years of salary, including additional compensation; <i>or</i> An average of the three highest years of salary, excluding additional compensation.  <i>For member hired after 7/1/1993:</i> 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.
<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)	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)
<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	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
<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.	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
<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>	<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.</p> <p><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.</p> <p><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.</p> <p><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.</p> <p><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>	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 <u>20.56%</u> in FY 2019