MEMORANDUM

To: Senate Financial Institutions and Insurance

From: Alan D. Conroy, Executive Director

Date: March 12, 2020

Subject: House Bill 2452

House Bill 2452 (HB 2452) changes the benefits for certain KP&F members who are disabled and ultimately die due to service-connected conditions.

Current Benefit Structure

When a KP&F Tier II member (members since July 1, 1989) becomes disabled, the member receives a disability benefit equal to 50% of their final average salary at the time of disability. The final average salary is an average of the three highest of the previous five years of employment.

If the disabled KP&F Tier II member dies before reaching eligibility for retirement benefits, their spouse receives both:

1. A one-time, lump-sum payment equal to 50% of the member's final average salary at the time of disability; and
2. A monthly benefit equal to 50% of the <u>member's disability benefit</u>, or 25% of the member's final average salary.

If there is no surviving spouse, the spousal benefit goes to any dependent children in equal shares.

If there is no surviving spouse or dependent children, the member's beneficiary receives a one-time lump sum payment of 100% of the member's current annual salary, less any refundable contributions and interest.

Because the current benefit structure does not consider whether the member's death was service-connected, the spousal benefit does not change if the death is due to a service-connected condition.

Proposed Change

HB 2452 adds a benefit option for spouses and dependent children of disabled KP&F Tier II members in the event of a service-connected death. The proposed benefit change would be effective retroactively to July 1, 2019.

KPERS

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The new benefit is the greater of either:

- A monthly benefit equal to 50% of the members final average salary at the time of disability, plus 10% for each dependent child up to a 75% maximum; or
- If there are no dependent children, the retirement benefit the member would have received if the member had retired.

Projected Costs
As required by statute for all changes to benefit plan design, KPERS consulting actuary completed a cost estimate on the changes proposed in HB 2452.

HB 2452 has the potential to impact active KP&F Tier II members who become disabled. Each year there are approximately 20-30 KP&F disabilities, so the change in disability death benefits would apply to a very limited number of members. It is difficult to track past members who would have been affected by the proposed change, but based on the information available KPERS estimates on average that less than 1 member per year would be impacted by HB 2452.

The actuarial cost study estimate includes two parts; the increase in the normal cost due to the change in benefits and the increase in the unfunded actuarial liability due to the change.

- The employer normal cost rate is estimated to increase by 0.03% of pay due to the new benefit structure.
- The estimated increase in the unfunded actuarial liability is about $91,000 with a corresponding increase in the unfunded actuarial payment rate of 0.01%.

The total increase in the KP&F contribution rate is estimated to be 0.04% of pay. The total KP&F payroll is approximately $530 million so an increase of 0.04% in the employer contribution rate is approximately $212,000 spread over all 112 KP&F employers.

There would be some administrative work required due to the change in the benefit structures, including updates to print materials and changes to the information technology system to allow for payment of the new benefit. However, these changes can be accomplished within existing resources.

House Action
The House Committee of the Whole passed HB 2452, as introduced, on February 26. The final action vote was 125-0.

I would be pleased to answer any questions the Committee may have regarding HB 2452.