

MEMORANDUM

To: House Insurance and Pensions

From: Alan D. Conroy, Executive Director

Date: February 14, 2022

Subject: HB 2612; KPERS 1 and KPERS 2 Self-Funded COLA Option

HB 2612 adds a self-funded COLA option to the KPERS 1 and KPERS 2 plans for active members at the time of their retirement. Members may still choose from the existing benefit options. But they would have the additional option of including a COLA, funded entirely through actuarial reductions to their benefits.

This is not an employer-funded COLA.

Current Benefit Options

When a KPERS 1 or KPERS 2 member retires, they may choose from several benefit options. Members can elect from:

- maximum monthly benefit,
- joint-survivor benefit (50%, 75% or 100%),
- life-certain option (5, 10 or 15 years).

The maximum monthly benefit does not have an actuarial reduction and ends when the member passes away. Both the joint-survivor and life-certain options have actuarial reductions but provide additional benefits for beneficiaries when the member dies.

In 2012, the Legislature created the KPERS 3 plan with a self-funded COLA option. KPERS 3 members may choose either a 1% or 2% COLA. If members select the COLA option, their initial retirement benefit has an actuarial reduction but grows each year by their chosen percent.

Impact on Individual Members

If a member elects the self-funded COLA option, their benefit would be permanently adjusted based on actuarial factors. This decision is irrevocable and could not be changed in the future. If the member passes away there is no adjustment to their benefit, however the COLA would continue for the joint survivor or life certain benefit.

The actuarial factors for calculating the reduction to a member's benefit depend on several factors including:

- Age at retirement
- Expected mortality (differs by gender and employment group)
- Investment return assumption

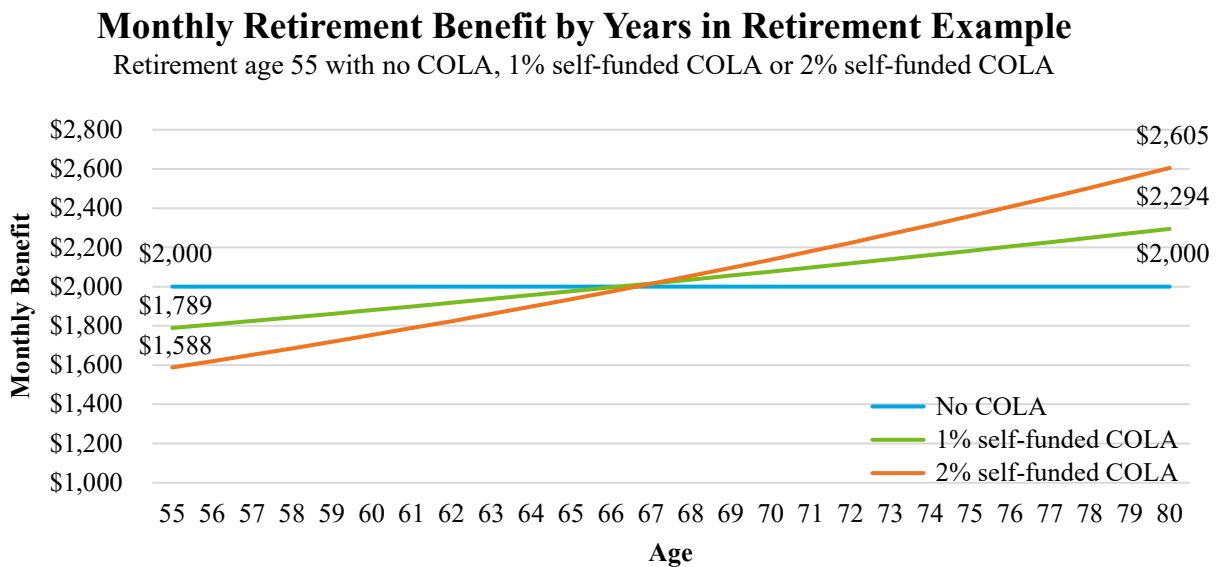


Using actuarial factors provided by the actuary, the following table shows the potential impact on a member’s initial benefit if they elect the self-funded COLA option.

Age at Retirement	Age 55	Age 65	Age 70
Base Benefit (after option)	\$2,000	\$2,000	\$2,000
Initial Benefit with 1% COLA	\$1,789	\$1,830	\$1,853
Initial Benefit with 2% COLA	\$1,588	\$1,667	\$1,711

The impact on the monthly benefit is greater for members who retire at a younger age because they are expected to receive benefits over a longer period of time.

The following graph shows how a member who retires at age 55 with a \$2,000 base monthly benefit would see their benefits change over time.



Actuarial Costs

The fixed COLA options in HB 2612 are intended to be actuarially equivalent to the non-COLA benefit, which means that theoretically there is no cost to the System.

The optional form of payment factors are developed based on certain assumptions regarding future investment returns and mortality experience. If actual experience varies from that assumed there could be actuarial experience gains or losses.

However, there is a relatively small risk to the System because the expectation is there will be both actuarial gains and losses from year to year for individual members, but over time they will tend to offset each other.

Administrative Costs

Adding a new benefit option does require updates to KPERS pension administration system as well as changes to educational and informational materials for members and employers. However, the changes can be accomplished within existing resources.

If the self-funded COLA option is expanded to the KP&F and Judges groups, the updates to the pension administration system also increase because these groups will have different actuarial factors that need to be coded into the pension administration system. KPERS may need an additional appropriation to amend the current vendor contract to accommodate all the required updates.

I would be pleased to answer any questions the Committee has regarding HB 2612.