MEMORANDUM

To: Senate Financial Institutions and Insurance

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

Date: February 23, 2021

Subject: SB 225; Moving certain Kansas Department of Wildlife, Parks and Tourism officers to KP&F

Senate Bill 255 moves certain KPERS covered positions in the Kansas Department of Wildlife, Parks and Tourism (KDWPT) 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, 2021. Eligible positions would become KP&F members for all service on and after July 1, 2021.

For all service time prior to July 1, 2021, 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 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. Currently, 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. SB 255 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 tradition 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

KPERS

    - 12-23 years 5% of pay
    - 24+ years 6% of pay
- Vesting is 5 years.
- Normal retirement varies by group, but includes:
    - KPERS 1 (Hired before July 1, 2009):
        - 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 (Hired between July 1, 2009 and December 31, 2014):
        - Age 60 with 30 years of service
        - Age 65 with 5 years of service
    - KPERS 3 (Higher on and after January 1, 2015):
        - 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 14.09% in FY 2022.

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 (22.80% in FY 2022). 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 under KP&F is higher than under KPERS:

	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%

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

Cost Impact

Moving this group of members from KPERS to KP&F would increase the normal cost rate (the amount allocated to fund future benefits each year) by 0.02%, from 14.87% to 14.89%, or an increase of about $110,000.

Moving these members to KP&F for future service increases the KP&F payroll but does not increase the unfunded actuarial liability ($950 million as of 12/31/2019). This decreases the unfunded actuarial liability rate by 0.26%.

The next change is a decrease in the KP&F employer contribution rate of 0.24%.

Despite the reduction of 0.24% in the KP&F employer contribution rate, the KP&F rate is still higher the KPERS rate (22.56% for KP&F under SB 255 vs 14.09% for KPERS in FY 2022). In total, the KDWPT's contributions to KP&F are estimated to be $2.4 million, which includes $1.4 million that would have been paid as KPERS contributions and an additional $927,000 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 KP&F contributions equal to 0.26% of payroll, or approximately $143,000.

<u>The net change in state contributions is an increase of $784,000 ($926,000 increase in KDWPT minus $143,000 in savings from other State KP&F employers).</u>

Local employers would also begin contributing the lower KP&F employer contribution rate. The total reduction in contributions is approximately $1.2 million across the 108 local KP&F employers. The projected Local KP&F employer contributions are currently estimated to be $114 million in FY 2022.

Policy Considerations

The proposed language in §1(f) of the bill changes the KPERS retirement rules for this group of correctional employees by allowing them to use KP&F service time for KPERS benefits if they do not reach vesting under the KP&F plan.

This language was used in the mid-1980s, once when local KPERS employers were allowed to add KP&F coverage and when the Regent's police were moved from KPERS to KP&F. However, since that time KPERS portability statutes (K.S.A. 74-4988) have been updated to deal with circumstances where members have both KPERS and KP&F service.

The language in §1(f) creates a benefit for this group that is not currently available to any other member with service in two plans. If the Committee does not intend to create separate KPERS retirement eligibility rules for just this group of members, 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.

I would be pleased to answer any questions the Committee has regarding SB 255.