MEMORANDUM

To: Senate Financial Institutions and Insurance Committee

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

Date: March 11, 2021

Subject: House Bill 2063; Michael Wells Memorial Act

House Bill 2063 changes the benefits for certain KP&F members who are disabled and ultimately die due to service-connected conditions. This bill was introduced at the recommendation of the Joint Committee on Pensions, Investments and Benefits and is a re-introduction of legislation considered during the 2020 session.

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.

When the disabled member reach retirement eligibility their disability benefit is converted into a retirement benefit. KP&F Tier II members are eligible to retire when they are:

- Age 50 with 25 years of service
- Age 55 with 20 years of service
- Age 60 with 15 years of service

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 member's disability benefit.

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.

KPERS

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 2063 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. The retroactive date would address one specific service-connected death of a KP&F member.

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 2063.

HB 2063 has the potential to impact active KP&F Tier II members who become disabled. Each year there are 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 2063.

The actuarial cost study estimate includes two parts; an increase in the amount necessary each year to fund benefits and the increase in the unfunded actuarial liability due to the new plan design.

- 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 $555 million so an increase of 0.04% in the employer contribution rate is approximately $222,000 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 Amendments
The House Insurance and Pensions Committee amended the bill by changing the effective date of the act from July 1, 2019 to January 1, 2017. This date was based on a KPERS review of files of members who had died after becoming disabled over the past five years. Based on the information available, there was one additional survivor who may be eligible for an increased benefit under the provisions of HB 2063 if the effective date is moved to January 1, 2017.

The bill was also amended to be known as the Michael Wells Memorial Act, a disabled firefighter who passed away from cancer caused by service-connected duties.

House Action
The House passed HB 2063 as amended by the House Insurance and Pensions Committee on February 10 with a vote of 125-0.

I would be pleased to answer any questions the Committee may have regarding HB 2063.