MEMORANDUM

To: Senate Committee on Financial Institutions and Insurance

From: Alan D. Conroy, Executive Director

Date: March 13, 2018

Subject: SB 241; Increasing Kansas Policemen and Firemen's (KP&F) benefits cap

SB 241, as introduced, increases the cap on KP&F benefits from 90% of final average salary to 100% of final average salary. Final average salary is one of the components of a tradition defined benefit pension plan benefit formula: final average salary X years of service X a multiplier.

For KP&F, the benefit formula multiplier is 2.5%. In order to reach the current cap of 90%, a member would have to work for 36 years. Increasing the cap to 100% of final average salary would mean a member reaches the benefit cap at 40 years of service.

Benefit Cap History

KP&F has had a cap on benefits since the creation of the plan by the 1965 Legislature. The initial cap on benefits was 66%, which at the time was equal to 33 years of service. The cap and benefit multiplier have changed over the years and are summarized in the following table:

Year	Benefit Cap (% of final average salary)	Multiplier	Years of service to reach benefit cap
1965	66%	2.0%	33
1979	70%	2.0%	35
1993	80%	2.5%	32
2013	90%	2.5%	36

The most recent change to the benefit cap was passed by the 2013 Legislature. The 2013 legislation (2013 HB 2352) also increase employee contributions to fund the actuarial cost of increasing the benefits cap. The employee contribution increase from 7% for the first 32 years of service and 2% thereafter to 7.15% for all years of service.

Actuarial Costs

SB 241 changes the benefit plan design for KP&F members by increasing benefits for certain members. Creating an increased benefit results in higher costs to fully fund those benefits. SB 241 does not specify how the change in benefit plan design will be funded.

KPERS

Since employee contributions are statutorily set, any cost increases caused by SB 241, as introduced, will be funded by KP&F employers. KPERS' consulting actuary completed a cost study on the provisions of SB 241. The cost study indicates that increasing the cap on KP&F benefits would result in:

- An increase of $2.8 million in the KP&F unfunded actuarial liability.
- An increase the unfunded actuarial liability contribution rate for KP&F employers by 0.05%.
- An increase in the employer normal cost rate of 0.01%.

The total increase in the KP&F contribution rate if the cap on benefits is raised to 100% is estimated to be 0.06%. The additional employer contributions would first be reflected in the FY 2019 employer contribution rate for state KP&F employers and CY 2018 for local KP&F employers. For State KP&F employers, this would adjust the employer contribution rate for FY 2019 from 20.05% to 20.11%.

Potential Effect

In the latest valuation (12/31/2016):

- 0 active KP&F members had more than 36 years of service.
- 6 active KP&F members had 36 years of service
- An additional 11 active KP&F members were within 1 year of reaching 36 years of service.

For comparison, the total active members for KP&F in the 12/31/2016 valuation was 7,303 members. The 17 members who were at or near the existing 90% KP&F benefits cap represent about 0.2% of total KP&F membership.

It is possible that increasing the maximum benefit to 100% of final average salary could motivate certain members to retire later. However, the number that could potentially be impacted is very small.

I would be pleased to respond to any questions the Committee may have.