

SESSION OF 2020

## SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2503

As Amended by House Committee of the Whole

### **Brief\***

HB 2503, as amended, would transfer \$268.4 million from the State General Fund (SGF) to the Kansas Public Employees Retirement Fund of the Kansas Public Employees Retirement System (KPERs) in fiscal year (FY) 2020 for payment of the remaining balance on delayed State and School employer contributions from FY 2017 and FY 2019, while also eliminating the level-dollar employer contribution payments of \$6.4 million and \$19.4 million per year over 20 years placed in statute after such FY 2017 and FY 2019 employer contribution delays.

The bill would be in effect upon publication in the *Kansas Register*.

### **Background**

The bill was introduced by the House Committee on Appropriations at the request of Representative Parker on behalf of the Governor.

In the hearing before the House Committee on Financial Institutions and Pensions, the Director of the Budget (Director) spoke in favor of the bill, stating reamortization would free SGF resources for current needs and rectifies past budget shortfalls due to the recession and tax policies. The Director stated this bill provides a reasonable cost to achieve KPERs payment sustainability and provides SGF sustainability for education, additional resources to the

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\*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

Kansas Department of Transportation, and resources to meet other critical needs of the State. The Director added skipped employer contributions are less likely to occur if this bill is enacted and reamortization does not harm benefits for state employees or retirees.

The Executive Director of KPERS provided neutral testimony, stating the amortization period was initially set by the Legislature in 1993 as a closed 40-year period, scheduled to conclude at the end of calendar year 2033, with amounts paid on a level percentage of pay. In 1998, the Legislature delegated the authority to amortize to the KPERS Board of Trustees (Board). In 2016, the Board adopted a layered amortization method over the remaining 15 years of the 40-year period by which experience in future years is amortized over separate amortization layers with separate pay schedules. The Executive Director noted the bill would lower contributions in early years, incorporate higher contributions in later years, result in “negative amortization” resulting in growing the unfunded actuarial liability (UAL) for half of the amortization period, and increase the UAL before decreasing it toward the end of the 25-year period, and the system having a lower funded ratio for an extended period of time. He stated the Board reviewed its actuarial assumptions, including amortization policy, in January 2020 and voted to maintain the current amortization schedule. The Executive Director noted the actuarial assessments have already accounted for repayment of previously delayed contributions; however, early payment would provide funds for investment purposes.

A former KPERS Board Trustee spoke in opposition to the reamortization policy in the bill. The conferee expressed concern for the long-term negative implications of a deferred obligation to make required payments.

A representative of the Kansas Association of Retired School Personnel spoke in opposition to the reamortization policy in the bill, citing the increased amortization period, the

increase of the UAL by \$4.4 billion, and the delay in achieving the goal of 80 percent KPERS funding from 2029 to 2036.

Representative Johnson spoke in opposition to reamortization policy in the bill, stating compound interest would work against the State and KPERS solvency would become more expensive in the future. He stated “negative amortization,” meaning payments made to the system are less than the increase in liability for the year, is a significant concern. He stated the Board reviews reamortization every three years, and it makes a recommendation at that time.

The House Committee of the Whole amended the bill to remove provisions pertaining to reamortization of the KPERS State and School legacy UAL.

According to the fiscal note prepared by the Division of the Budget, the bill as introduced would produce FY 2021 budgetary savings of \$150.4 million, including \$131.0 million from the SGF based on submitted state agency budgets for the KPERS State Group and 2019 Education Consensus Estimating Group estimates for the KPERS School Group. KPERS estimates a total reduction of employer contributions of \$186.5 million from all funds for FY 2021, which includes the elimination of \$25.8 million for scheduled payments due for previously delayed payments in FY 2017 and FY 2019. The Division of the Budget does not view the estimates as competing methodologies because one is budgetary and the other is actuarial. The fiscal note states the KPERS State/School Group UAL would cost an estimated \$4.4 billion more than under the current amortization period.

The fiscal note also states the bill would transfer \$268.4 million from the SGF for early payoff of previously delayed employer contributions in FY 2017 and FY 2019 to be paid over 20 years. This would save the State approximately \$209.0 million in interest payments.