# MEMORANDUM

To: Senate Financial Institutions and Insurance

From: Alan D. Conroy, Executive Director

Date: March 5, 2024

Subject: SB 505; KPERS-Correctional Multiplier

SB 505 changes the benefit multiplier for KPERS-Correctional members to 2% for any member who retires after July 1, 2024.

KPERS-Correctional is a subgroup of State employees that includes correctional officers (C55) and other staff with inmate contact (i.e., power plant, food service, correctional industries) (C60). This subgroup has the same benefit formula as KPERS members, but they have a younger normal retirement age than KPERS 1 or KPERS 2:

| KPERS-Correctional Normal Retirement | | |
|---|---|---|
| **Membership Date** | **KPERS-Correctional Group A** | **KPERS-Correctional Group B** |
| Membership on or before July 1, 2009 | Age 55 with 3 years of service | Age 60 with 3 years of service |
| Membership after July 1, 2009 | Age 55 with 10 years of service | Age 60 with 10 years of service |

The KPERS-Correctional group (C55 and C60 combined) has about 1,800 members, which is about 1.7% of the 107,000 total State/School active membership.

KPERS-Correctional is the only group of KPERS members who are still enrolled in the KPERS 2 plan design. The KPERS-Correctional plan design was not included when the rest of KPERS plan design was transitioned to the KPERS 3 cash balance plan on January 1, 2015.

For all KPERS 1, KPERS 2, and KPERS-Correctional members, the benefit formula is equal to final average salary X years of service X multiplier. Members who started on or before July 1, 2009, have both a 1.75% multiplier (for service before 2014) and a 1.85% multiplier (for service since 2014). Members who started since July 1, 2009, have a 1.85% multiplier for all years of service.

KPERS

SB 505 would change the benefit multiplier to 2% for all years of service for both groups of KPERS-Correctional members who retire on or after July 1, 2024.

Over the past 5 years, KPERS-Correctional members have retired with an average of 23 years of service and a final average salary of about $53,000. The following table compares the maximum benefit calculation under the current plan design for a KPERS-Correctional 2 member with the average years of service and final average salary and the same member with the 2% multiplier in SB 505.

| KPERS-Correctional Benefit Calculation Example | | | |
|---|---|---|---|
| | Current KPERS-Correctional 2 Benefit Calculation | SB 505 KPERS-Correctional Benefit Calculation | Difference |
| Final Average Salary | $53,000 | $53,000 | - |
| Years of Service | 23 | 23 | - |
| Multiplier | 1.85% | 2.00% | 0.15% |
| Maximum Annual Benefit | $22,552 | $24,380 | $1,828 |
| *Monthly Benefit* | *$1,879* | *$2,032* | *$153* |

**Actuarial Cost Estimate**

Changing the KPERS-Correctional plan design has two impacts on plan funding:

1. **Increase in the unfunded actuarial liability**. SB 505 is estimated to increase the unfunded actuarial liability of the State/School group by $22.3 million because of the increased benefits expected with a higher multiplier for the KPERS-Correctional group.
2. **Increase in the normal cost**. The normal cost is the cost of benefits allocated to each funding year. The higher multiplier for the KPERS-Correctional group increases the total benefits expected for KPERS-Correctional members and therefore increases the normal cost to fund those benefits.

KPERS-Correctional members are part of the State/School group, but this group has a higher normal cost than regular KPERS because of the lower retirement age requirements. Their employer (Kansas Department of Corrections) pays the State/School contribution rate plus the difference in the normal cost for the KPERS-Correctional plan design.

Because of this funding mechanism, the $22.3 million increase in the unfunded actuarial liability for this proposed change is funded by the State/School group while the change in the normal cost is funded by the Kansas Department of Corrections.

The increase in the unfunded actuarial liability could be funded up front or amortized over time. The table below summarizes the estimated cost impact of SB 505 for the C55, C60 and State/School group for FY 2025 if the increase in the unfunded actuarial liability is funded over 20 years:

| | Estimated Increase in UAL ($M) | FY25 Contribution Rate Baseline | 2.00% Multiplier | Contribution Rate Increase | FY 2025 Additional Contribution ($M) |
|---|---|---|---|---|---|
| C55 | $20.6 | 12.34% | 12.94% | 0.60% | $0.69 |
| C60 | $1.7 | 13.13% | 13.74% | 0.61% | $0.05 |
| State/School | $22.3 | 11.42% | 11.47% | 0.05% | $2.74 |

The revised employer contribution rates for FY 2026, assuming a 20-year amortization of the unfunded actuarial liability, are summarized below:

| | FY26 Contribution Rate Baseline | 2.00% Multiplier | Contribution Rate Increase | FY 2026 Additional Contribution ($M) |
|---|---|---|---|---|
| C55 | 12.46% | 13.06% | 0.60% | $0.71 |
| C60 | 12.90% | 13.51% | 0.61% | $0.05 |
| State/School | 11.56% | 11.61% | 0.05% | $2.82 |

**Clarifying Amendments**
The wording in SB 505 states that the multiplier shall be 2% for all years of participating service. If a member has participating service as a KPERS-Correctional member and as a regular KPERS member, it appears that the 2% multiplier would apply to both periods of service.

This approach is different than other situations where a member has service in two groups (e.g. KPERS service and KP&F service). However, this situation is unique in that KPERS-Correctional members are KPERS members, so all of their service would be in a single plan.

Whatever the intent of the Legislature is, if the Committee chooses to work SB 505 KPERS would request clarifying language be added to the bill so it is clear which years of service are to be calculated with the 2% multiplier. We can work with the Revisor's office on the appropriate language if that is the will of the Committee.

**Administrative Cost Estimate**
The provisions of SB 505 will require some updates to the pension administration system and changes to publications and educational materials. However, we do not anticipate the impact will require any change to the existing appropriation.

I would be pleased to respond to any questions the Committee has on SB 505.