Joint Committee on Pensions, Investments, and Benefits

Recent Alternative Plan Design Discussions

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KPERS

Covering Today

General Plan Design Comparison

2023 SB 230 – Defined Contribution Plan

2023 HB 2365 – Reopening KPERS 2 (Defined Benefit) Plan

Adjustments to KPERS 3 Plan Design

General Plan Design Comparison

	KPERS Defined Benefit		Defined Contribution		Cash Balance	
	Employer	Employee	Employer	Employee	Employer	Employee
Economic Risk						
Investment Risk	High	Low	None	High	Medium	Low
Inflation Risk – wage (preretirement)	High	None	None	High	None	High
Inflation Risk – price (postretirement)	None	High	None	High	None	High
Contribution Risk	High	Low	None	High	Medium	Low
Longevity Risk	Medium	None	None	High	Medium	None
Features						
Rewards older/longer service employees	High		Low		Medium	
Provides retirement security	High		Low		Medium	
Attract employees	Medium		High		High	
Retain employees	High		Low		Medium	
Provides systematic retirement of employees	High		Low		Medium	

Senate Bill 230

Senate Bill 230, as introduced, creates a defined contribution plan for all new KPERS employees on July 1, 2025.

Existing members would be given the option to elect from their current plan (KPERS 1, KPERS 2 or KPERS 3) into the new defined contribution plan.

The plan design is modeled on the federal Thrift Savings Plan.

Senate Bill 230

The key features of the plan include:

1. Mandatory 6% employee contribution and Optional employee contributions of 1% to 10%. Immediate vesting.
2. Base employer contribution of 4% and additional 0.5% or 1.0% if the member is making optional contributions. 5-year vesting.
3. Additional employer contributions to the unfunded actuarial liability of the existing plans.
4. Members can withdraw or rollover contribution (employee and employer) accounts and interest any time after termination (at retirement or earlier). Non-vested employer contribution cannot be withdrawn.
5. At retirement, KPERS must offer annuity options from an insurer as an alternative to 100% lump sum distributions.
6. Current members would be given the opportunity to elect into the Thrift Savings Plan, if allowed by the IRS.

House Bill 2365

House Bill 2365 closes the KPERS 3 cash balance plan on July 1, 2024.

New members after July 1, 2024 are enrolled in the KPERS 2 plan.

Existing KPERS 3 members, who are not retired, are converted to KPERS 2 members on or before January 1, 2024.

House Bill 2365

KPERS 2 is a traditional defined benefit plan.

Retirement benefits are based on a formula.

- Years of Service X 1.85% Multiplier X Final Average Salary (highest five years)

Employees contribute 6%.

Employer contribution calculated by the actuary (12.57% in FY 2024).

KPERS 3 Adjustments

Although no legislation was introduced in 2023, KPERS received multiple requests for cost projections on adjusting the KPERS 3 plan design.

The KPERS 3 statutes expressly allow the Legislature to adjust the KPERS 3 plan design.

The KPERS 3 cash balance plan has already been adjusted by the Legislature, although the changes were made prior to the 1/1/2015 start date of KPERS 3.

1. Guaranteed interest credit lowered from 6% to 4%
2. Dividend interest credit changed from discretionary (by the Board) to formulaic
3. Annuity rate changed from a set 6% to being coupled to the investment return assumption (equal to 6% at the time)

KPERS 3 Adjustments

The KPERS 3 cash balance plan design has three components that can be adjusted to enhance benefit levels.

1. Interest Crediting. Currently 4% guaranteed plus a formulaic dividend.
   - Higher interest = higher benefits
2. Employer Credits. Currently 3% to 6% depending on years of service.
   - Higher employer credits = higher benefits
3. Annuity Rate. Currently 2% less than the investment return assumption (currently equal to 5%)
   - Higher annuity rate = higher benefits

Questions?