

SESSION OF 2011

**CONFERENCE COMMITTEE REPORT BRIEF
SENATE SUBSTITUTE FOR HOUSE BILL NO. 2194**

As Agreed to May 4, 2011

Brief*

Senate Sub. for HB 2194 would modify the Kansas Public Employees Retirement System (KPERs) retirement plan for public employees who are current KPERs members and for future public employees of the state, school, and local groups. The bill would make a number of changes, most contingent upon specific triggers, including certain actions that would have be taken by the 2012 Legislature, and upon a decision from the Internal Revenue Service (IRS) regarding elections by KPERs Tier 1 and Tier 2 members to choose alternative options for their individual retirement contributions and benefits.

The KPERs changes would bring the state, school, and local groups into actuarial balance no later than FY 2019.

The general fiscal note estimated a net savings of \$2.9 billion for the KPERs state and school group, and \$636 million for the KPERs local group for the changes without factoring the elections into the impact. A subsequent fiscal impact is being prepared by the KPERs actuary for the effect of elections and will be made available later.

The Conference Committee Report on Senate Sub. for HB 2194 would make the following changes in KPERs laws:

* Conference committee report briefs are prepared by the Legislative Research Department and do not express legislative intent. No summary is prepared when the report is an agreement to disagree. Conference committee report briefs may be accessed on the Internet at <http://www.kslegislature.org/kldr>

First, the bill would establish a 13-member KPERS Study Commission to consider alternative retirement plans, including defined contribution plans, hybrid plans that could include a defined contribution component, and other possible plans. The Commission would be required to report no later than January 6, 2012 on its recommendations, which then would be introduced as two identical bills in each chamber of the Legislature.

Second, for other provisions in the bill to become effective, the 2012 Legislature would have to vote on each of the bills, with one required vote to occur in the Committee of the Whole of one chamber and another required vote to occur in a Committee of the other chamber. The dual voting is the trigger of the effective date for other provisions in the bill that would implement the next items noted below.

Third, the statutory state, school and local employer contribution annual rate caps of 0.6 percent would increase to new annual limits as follows, provided that the dual vote occurred during the 2012 Legislature:

- 0.9 percent in FY 2014 (and January 1, 2014 for local employers);
- 1.0 percent in FY 2015 (and January 1, 2015 for local employers);
- 1.1 percent in FY 2016 (and January 1, 2016 for local employers); and
- 1.2 percent in FY 2017 (and January 1, 2017 for local employers).

Fourth, employee contribution adjustments, that would be triggered by the 2012 Session dual votes, include adding two options that would apply to all active KPERS Tier 1 members:

- Tier 1 members as the default option would have an employee contribution increase from 4.0 to 6.0 percent and also would be given for future years of service an increase in multiplier from 1.75 to 1.85 percent; or if an election is permitted by the IRS, then the alternative option could be chosen:
- Tier 1 members would be able to elect freezing the employee contribution rate at 4.0 percent and reducing their future multiplier from 1.75 to 1.4 percent.

Fifth, employee contribution adjustments, that would be triggered by the 2012 Session dual votes, include adding two options that would apply to all active KPERS Tier 2 members:

- Tier 2 members as the default option would have the employee contribution rate frozen at 6.0 percent and the cost-of-living adjustment (COLA) would be eliminated; or if an election is permitted by the IRS, then the alternative option could be chosen:
- Tier 2 members would be able to elect freezing the employee contribution rate at 6.0 percent and reducing their multiplier from 1.75 to 1.4 percent in order to retain their COLA.

Sixth, inactive KPERS members, if returning to covered employment, would be offered an election for alternative options in their respective tier prior to July 1, 2013. After that date, or if there were no election approved, inactive members would be given the default option in their tier upon returning to covered employment.

Seventh, a provision would be added to direct that after the sale of surplus state real property, 80 percent of the proceeds would be transferred to KPERS for reducing the unfunded actuarial liability.

Eighth, an appropriation of \$60,000 in FY 2012 by increasing the special revenue fund expenditure authority of KPERS was included to pay for estimated actuarial services in support of the Study Commission's work during the 2011 Interim.

Conference Committee Action

The Conference Committee considered the various provisions from Sub. for HB 2333 that passed the House and decided to include a provision in the conference committee report that would direct 80.0 percent of the proceeds from the sale of state property to be transferred to KPERS for paying down the unfunded actuarial liability. Most other provisions were incorporated in the report from Senate Sub. for HB 2194, with certain modifications in the original language suggested during conferencing, such as using a 1.4 percent multiplier for benefit calculations in certain instances that originally had been in the House-passed bill. The Senate trigger concept was modified, the due date for the final report was adjusted to a later period, and the options available if IRS permits an election were redefined by the conferees.

Background

Two public hearings were conducted, first on SB 49, as introduced, and second, on a set of proposed amendments. At the second hearing, a representative of Keeping the Kansas Promise supported the increased employer contribution cap, higher employee contributions, and the increased benefit multiplier. The organization's limited opposition was attributed to the loss of representation on the new Study Commission that occurred in the proposed amendments. A representative of the Public Employee Association of Kansas asked for a fact-finding task force to be constituted, and that no further action should be taken until recommendations were received from the task force.

At an earlier public hearing on SB 49, as introduced, proponents included representatives of the KPERS Board of Trustees, the Kansas Association of School Boards, the City of Lenexa, and the Olathe Public Schools. Opponents included representatives of Keeping the Kansas Promise and the Kansas Organization of State Employees.

SB 49, as introduced, made changes in the KPERS retirement plan for state, school and local public employees who are members of the three KPERS groups. That bill, as introduced, included the following three components:

Increased Employer Contributions—the annual cap on state and school participating employer KPERS contributions would increase from 0.6 percent per year to 1.0 percent per year, beginning July 1, 2012. For local participating employers, the 1.0 percent cap in contribution increases would begin on January 1, 2013.

Increased Employee Contributions—rates for KPERS Tier 1 and Tier 2 members would increase by 0.5 percentage points in each of four calendar years, beginning January 1, 2013. By calendar year 2016, the contribution for Tier 1 employees would reach 6.0 percent and the contribution rate for Tier 2 employees would remain 6.0 percent. The current rate is 4.0 percent for Tier 1 and 6.0 percent for Tier 2 employees.

Increased Benefit Multiplier for Future Service—beginning January 1, 2013, the KPERS retirement benefit formula multiplier would increase from 1.75 percent to 1.85 percent for all future years of service credited to KPERS Tier 1 and Tier 2 members.

The Senate Committee adopted a number of amendments to the original provisions of SB 49, and inserted the revised provisions of SB 49, as amended, into Senate Sub. for HB 2194.

Fiscal Note for Conference Committee Report

Senate Sub. for HB 2194—The fiscal note may be divided into three parts to correspond with the different sections in the bill. First, the bill would establish a KPERS Study Commission on July 1, 2011. The administrative fiscal note for those sections is presented below under a separate side-head. Second, most other provisions in the bill would become effective after dual votes during the 2012 Legislature. KPERS staff worked with the actuary to develop an estimated total cost for employer and employee contributions based on the default options for Tier 1 and Tier 2. That information for the second part of the fiscal note is included below. Third, other options would become effective if the IRS rules that such elections may be held. KPERS staff are working with the actuary to develop an estimated total for employee contributions based alternative options that may be elected by employees. The third part of the fiscal note will be published later when available.

Administrative Fiscal Note. KPERS estimated professional services for actuarial work and consultants to support the work of the Study Commission should not exceed \$60,000 from fee funds. In addition, Legislative Administrative Services estimated costs of \$55,218, all from the State General Fund, for the travel, subsistence and per diem compensation associated with the Study Commission meetings based on a total of 18 days.

General Fiscal Note without Elections. According to the KPERS actuary, with enactment of Senate Sub. for HB 2194 and the 2012 triggers being fulfilled, the employee contribution rate for certain members would rise and also the employer contribution rate cap would rise yearly from 0.6 percent to 1.2 percent, continuing until each group would reach the actuarial required contribution (ARC) rate.

The contribution rate for the KPERS state and school groups would rise to an ARC rate of 15.75 percent in FY 2019. The bill would reduce long-term KPERS employer

contributions for the state and school groups through FY 2033 by a net of \$2.913 billion from all funding sources when compared to current law. The ARC for the state group would be 9.46 percent in FY 2014 and the excess after that date would be directed to the school group as the cap continued to rise to ARC for the combined state and school groups in FY 2019. The estimated first-year cost increase compared to current law would be an increase of \$14.5 million in FY 2014 for the state and school groups employer contributions from all funding sources. The State General Fund estimated cost would be approximately \$12.3 million in FY 2014.

The increasing annual cap for the KPERS local group would cause the contribution rate to rise to 8.74 percent in CY 2014 (beginning January 1, 2014) for ARC. The bill would reduce long-term KPERS employer contributions for the local group through CY 2033 by a net of \$636.1 million when compared to current law. The estimated first-year cost increase compared to current law would be \$3.8 million in CY 2014 for local units of government.

The bill also would increase the KPERS employee contributions by 1.0 percent beginning CY 2014 (January 1, 2014) and by another 1.0 percent the next year beginning January 1, 2015. The total KPERS employee contribution rate would increase from the current 4.0 percent to 6.0 percent over this period. The KPERS actuary estimated the impact on the state and school group would be to increase contributions by \$1.887 billion over the period through FY 2033. The impact for the local group would be adding \$577 million of employee contributions over the period through CY 2033.

General Fiscal Note with Elections

The general fiscal note with elections will be determined later by the KPERS actuary and submitted when available.

KPERS; freezing; contribution rate; COLA