

MEMORANDUM

To: House Committee on Financial Institutions and Pensions

From: Alan D. Conroy, Executive Director

Date: March 12, 2018

Subject: HB 2764; Moving certain Kansas Department of Wildlife, Parks and Tourism officers to KP&F

House Bill 2764 as introduced would certain employees of the Kansas Department of Wildlife, Parks and Tourism members of KPERS for future service. Employees who would become eligible for KP&F are specified in the bill as:

- Full-time law enforcement certified; and
- Working in the parks and law enforcement divisions.

As introduced, the affected members would move to KP&F for future service starting July 1, 2018.

For all service time prior to July 1, 2018, members would keep the KPERS benefit that they had earned. The member would be able to use their prior years of service for purposes of vesting and retirement eligibility. At retirement, the member would have a single final average salary calculation and would receive a monthly benefit for their KPERS service and a monthly benefit for their KP&F service.

Current benefit provisions

Currently, the affected members are regular KPERS members. KPERS 1 and KPERS 2 are traditional defined benefit plans that use a benefit formula for calculating retirement benefits (final average salary x years of service x 1.75% or 1.85%).

Any employee who became a member on or after January 1, 2015 is a member of KPERS 3, which is a cash balance. A cash balance plan is a defined benefit plan, but rather than using a benefit formula, member benefits are calculated based on employer contributions and employee credits, plus interest, throughout a member's career. Some of the plan design features of KPERS include:

- The benefit calculation for KPERS 1 and KPERS 2 is final average salary x years of service x 1.75% or 1.85%.
- Employees contribute 6% of compensation.
- KPERS 3 employer pay credits (which are not the same as employer contributions) are based on length of service:
 - Less than 5 years 3% of pay
 - 5-11 years 4% of pay
 - 12-23 years 5% of pay



- 24+ years 6% of pay
- Vesting is 5 years.
- Normal retirement varies by group, but includes:
 - KPERS 1: When age and years of service total 85 (85 point rule)
 - Age 62 with 10 years of service
 - Age 65 with 1 years of service
 - KPERS 2: Age 60 with 30 years of service
 - Age 65 with 5 years of service
 - KPERS 3: Age 60 with 30 years of service
 - Age 65 with 5 years of service

The employer contribution rate is the same for all KPERS payroll. For the State/School group that rate totals 14.41% in FY 2019.

KP&F benefits

KP&F is similar to KPERS in basic plan design structure, but many of the plan design elements are different.

- The benefit formula is the same, but the final average salary is calculated differently and the multiplier is 2.5% instead of 1.85%.
- Employee contributions are slightly higher in KP&F at 7.15%
- The employer contribution rate is the full actuarial rate (20.56% in FY 2019). The vesting requirement for KP&F is 15 years of service.
- Normal retirement for KP&F is age 50 with 25 years of service, age 55 with 20 years of service, or age 60 with 15 years of service.

Because of the higher multiplier, the KP&F plan design will yield a higher benefit than KPERS. As an example, if a person works a 30-year career and has a final average salary of \$40,000, their maximum annual is very different:

	KPERS Member	KP&F Member
Final average salary	\$40,000	\$40,000
Service	30 years	30 years
Benefit	\$22,200 per year	\$30,000 per year
Replacement percentage of final average salary	55.5%	75.0%

However, KP&F has a higher employee and employer contribution rate and also has a vesting period that is three times longer than KPERS.

A more detailed comparison of KPERS, KPERS Correctional and KP&F is attached to this memorandum.

Cost Impact

Because the Kansas Department of Wildlife, Parks and Tourism (KDWPT) employees are affiliating for future service only for benefit purposes, there is no increase in the unfunded actuarial liability (UAL) for KP&F. However, adding the KDWPT payroll increases the total covered payroll for KP&F, which results in a decline in the UAL payment rate of 0.20%. The UAL decline is larger than the corresponding increase in the normal cost rate of 0.04%, so the net impact is a decline in the KP&F uniform contribution rate from 22.11% to 21.95%. Note that this lower uniform contribution rate would also apply to Local employers participating in KP&F, and therefore, the net result is a shift of costs to the State from the Local employers.

The total FY 2019 KP&F employer contributions increase from \$115.5 million to \$116.2 million, a net increase of about \$645,000. The KDWPT's FY 2019 contributions to KP&F are estimated to be \$1.5 million, which includes \$1.0 million that would have been paid as KPERS contributions and an additional \$0.5 million due to their coverage in KP&F and the higher KP&F employer contribution rate. Other state KP&F employers (such as the Kansas Highway Patrol and Kansas Bureau of Investigation) would realize a reduction in their FY 2019 KP&F contributions equal to 0.16% of payroll, or approximately \$76,000. The net change in state contributions is an increase of \$0.4 million (\$0.5 million increase in KDWPT minus \$0.1 million other State employers decrease).

After the transfer, no further contributions to KPERS would be made on behalf of the KDWPT employees. However, KDWPT employees who transfer to KP&F would remain eligible for a KPERS benefit based on service accrued prior to the transfer. Therefore, any unfunded actuarial liability in KPERS for these employees who are in the System will remain in KPERS and the cost of amortizing that unfunded actuarial liability would be spread across the remaining KPERS State payroll. The transfer of the KDWPT employees to KP&F has a small impact on the KPERS State unfunded actuarial liability (a decrease of around \$4.1 million, compared to the \$922 million total unfunded actuarial liability of the KPERS State group). Since the total covered payroll of the State group declines by 0.7% as a result of the transfer, the State KPERS actuarial contribution rate increases by 0.03%. The State/School actuarial contribution rate is unchanged.

Attachment

Comparison of KPERS Plan Designs

Plan	KPERS 1 (Members before 7/1/2009)	KPERS 2 (Members on and after 7/1/2009)	KP&F
Number of active members as of 12/31/16	77,009 members	39,044 members	7,303 members
Vesting	5 years	5 years	<i>Tier 1 (Members before 7/1/93):</i> 20 years <i>Tier 2 (Members on and after 7/1/93):</i> 15 years
Employee Contribution	5% for CY 2014 6% for CY 2015 and all future years	6%	7.15%
Multiplier	1.75% for service before 1/1/14 1.85% for service on and after 1/1/14	1.85%	2.50%
Final Average Salary Calculation	<p><i>For members hired before 7/1/1993:</i> An average of the four highest years of salary, including additional compensation; or An average of the three highest years of salary, excluding additional compensation.</p> <p><i>For members hired after 7/1/1993:</i> An average of the three highest years of salary, excluding additional compensation.</p>	An average of the five highest years of salary, excluding additional compensation.	<p><i>Tier 1:</i> An average of the three highest of the last five years of service, excluding additional compensation.</p> <p><i>Tier 2:</i> An average of the three highest of the last five years of service, including additional compensation.</p>
Benefit Cap	No Cap (30 years of service = 52.5% to 55.5% of FAS)	No Cap (30 years of service = 55.5% of FAS)	90% of FAS (36 years of service = 90% of FAS)
Normal Retirement	Age 65 with 1 year of service Age 62 with 10 years of service Any age when age and years of service credit added together equal 85	Age 65 with 5 years of service Age 60 with 30 years of service	<p><i>Tier 1:</i> Age 55 with 20 years of service Any age with 32 years of service</p> <p><i>Tier 2:</i> Age 50 with 25 years of service Age 55 with 20 years of service Age 60 with 15 years of service Age 50 with 20 years of service</p>
Early Retirement	Age 55 with 10 years of service Benefits are reduced by 0.6 percent for each month between ages 55 and 60, and 0.2 percent for each month between ages 60 and 62.	Age 55 with 10 years of service Benefits are reduced based on actuarial reduction.	Age 55 with 10 years of service Benefits are reduced based on actuarial reduction.

Comparison of KPERS Plan Designs

Plan	KPERS 1 (Members before 7/1/2009)	KPERS 2 (Members on and after 7/1/2009)	KP&F
Benefit Options	<p><i>Maximum Monthly Annuity</i></p> <p><i>Joint Survivor:</i> 50%, 75%, 100%</p> <p><i>Life Certain:</i> 5-year, 10-year, 15-year</p> <p><i>Partial Lump Sum Option:</i> 10%, 20%, 30%, 40%, 50%</p>	<p><i>Maximum Monthly Annuity</i></p> <p><i>Joint Survivor:</i> 50%, 75%, 100%</p> <p><i>Life Certain:</i> 5-year, 10-year, 15-year</p> <p><i>Partial Lump Sum Option:</i> 10%, 20%, 30%</p>	<p><i>Maximum Monthly Annuity</i></p> <p><i>Joint Survivor:</i> 50%, 75%, 100%</p> <p><i>Life Certain:</i> 5-year, 10-year, 15-year</p> <p><i>Partial Lump Sum Option:</i> 10%, 20%, 30%, 40%, 50%</p>
Disability Benefits	<p>Disability benefits are based on 60% of the member's annual salary</p> <p>Members must be disabled for 180 days and no longer receive employer compensation</p> <p><u>To be considered disabled:</u> First 24 months: You must be unable to perform the material and substantial duties of your regular occupation. After 24 months: You must be unable to perform the material and substantial duties of any occupation</p>	<p>Disability benefits are based on 60% of the member's annual salary</p> <p>Members must be disabled for 180 days and no longer receive employer compensation</p> <p><u>To be considered disabled:</u> First 24 months: You must be unable to perform the material and substantial duties of your regular occupation. After 24 months: You must be unable to perform the material and substantial duties of any occupation</p>	<p>50% of final average salary, in ongoing monthly payments</p> <p>There is no waiting period to begin receiving benefits</p> <p>If the member returns to work for any KP&F participating employer, their disability benefits will automatically stop. <u>There is no earnings limit for non-public safety employment.</u></p>
Employer Contributions	13.21% in FY 2019	13.21% in FY 2019	20.05% in FY 2019