MEMORANDUM

To: House Financial Institutions and Pensions

From: Alan D. Conroy, Executive Director a.d.c

Date: February 20, 2019

Subject: HB 2139; Adding Local Jailers to Definition of Policeman for KP&F

HB 2139, as introduced, would add detention deputy, corrections officer, or jailer to the definition of "policeman" for purposes of establishing eligibility for membership in the Kansas Police and Fireman's Retirement System (KP&F).

Definition of Local Corrections Employees

The bill defines detention deputy, corrections officer, detention officer or jailer as:

- an employee assigned to a jail, adult detention center or other local correctional facility;
- whose principal duties are engagement in maintaining security and control of the facility, monitoring both preconviction and postconviction inmate or prisoner behaviors and activities, enforcing the facility rules and guidelines; and
- who is specifically designated, appointed, commissioned or styled by the governing body of the participating employer and certifies to the retirement system as such.

The bill makes these positions eligible for KP&F coverage, but each KP&F employer with these positions will have the option of choosing to enroll the positions or not.

Employer Affiliation

The bill takes effect July 1, 2019, at which point current local KP&F employers could choose to include jailers, corrections officers, detention officers, or detentions deputies among their KP&F covered employers. When an employer chooses to move these employees to KP&F coverage, all eligible employees would move. There is no opportunity for an individual election to remain in KPERS or move to KP&F.

Any local employer not currently affiliated with KP&F would not be able to elect KP&F members for these employees unless they affiliated with KP&F, which typically takes effect January 1 of the year following their approved application for KP&F affiliation by the Board of Trustees.

Benefit Structure Comparison

Currently, local corrections positions do not meet the definition of KP&F eligibility and are covered by regular KPERS. KP&F is similar to KPERS 1 and KPERS 2 in basic plan design structure, but many of the plan design elements are different.

- The basic type of 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% compared to 6% for regular KPERS.
- The employer contribution rate is the full actuarial rate (22.13% for KP&F in CY 2019 compared to 8.89% for KPERS-Local).
- The vesting requirement for KP&F is 15 years of service versus 5 years for regular KPERS.

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KPERS

- 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. Normal retirement for KPERS 2 members is age 60 with 30 years of service or age 65 with 5 years of service.

Because of the higher multiplier, the KP&F plan design will yield a higher benefit than KPERS given the same working career. KP&F also has a vesting period that is three times longer 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 benefit is very different:

	KPERS 2 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%

A detailed comparison of KPERS and KP&F benefit provisions is attached to this memorandum.

Actuarial Cost
KPERS does not have position description information for members to tell how many current members would be eligible for coverage in KP&F under HB 2139. Even if the total number of members affected was known, since the election to move to KP&F coverage is voluntary by the local employer, there is no way to know in advance how many or which local employers will elect such coverage. Therefore, the number of employees who are now covered by KPERS but would move to KP&F is unknown.

If the local employers affiliate for future service only, we would expect no increase in the unfunded actuarial liability for KP&F to occur as a result of the passage of HB 2139. The KP&F uniform contribution rate, which impacts both State KP&F employers and local KP&F employers, consists of a normal cost rate and an unfunded actuarial liability contribution rate.

If a local employer affiliates for past service, the employer is responsible for paying for the increase in the unfunded actuarial liability. The larger the number of employees that move into KP&F, the more likely there will be a potential impact on the KP&F normal cost rate.

The unfunded actuarial liability is not expected to increase as a result of the addition of any new KP&F members under HB 2139, the dollar amount of the unfunded actuarial liability contribution would be unchanged. However, increasing the number of KP&F active members will result in a higher total covered payroll. As a result, the unfunded actuarial liability contribution <u>rate</u> (dollar amount of unfunded actuarial liability payment divided by covered payroll) is expected to decline.

The net impact on the KP&F uniform contribution rate (normal cost rate + unfunded actuarial liability payment rate) cannot be determined without more information about the size and demographics of the group of employees who are expected to change coverage from KPERS to KP&F.

In addition, the change in pension coverage from KPERS to KP&F for these employees would have an impact on the KPERS Local contribution rate, potentially impacting both the normal cost rate and unfunded actuarial liability contribution rate for the entire Local group. However, the specific impact cannot be estimated without membership data to indicate the size and demographics of the impacted group.

Because KP&F employers are required by statute to pay the full actuarial rate, any change to the actuarial required contribution rate caused by HB 2139 would be have to be paid by employers. Because KP&F uses a single uniform rate as the base for both State and Local employers, HB 2139 has the potential to impact both state and local contributions for all KP&F employers.

Employer Contributions

Local employers who opt to cover their jailers, corrections officers or detention deputies in KP&F would be required to pay the higher KP&F employer contribution rate (22.13% v. 8.89% in CY 2018).

Any changes to the actuarial required contribution rate caused by HB 2139 would also be reflected in employer contribution rates for all local KP&F employers.

Administrative Costs

HB 2139 makes a large group of members eligible for KP&F retirement. The change will require significant resources to ensure the timely and accurate conversation of the new members.

KPERS estimates that two additional permanent staff will be required to provide transition and ongoing support to local employers and individual members, assisting with design and testing of the information technology changes. The estimated FY 2020 cost for 2.0 FTE positions is $98,479, including fringe benefits, which would be funded by the KPERS Trust Fund.

In order to accommodate the change in data for a potentially large number of employees when they become eligible for KP&F, there will need to be changes made to the KPERS Integrated Technology System (KITS) database. Updates are required across many of the database systems, including enrollment, employer reporting, accounting/SHARP reporting, member annual statements, member web portal, interest crediting, benefit calculations and payments. The scope of the project is sizeable due to the large number of KITS systems that will need to be updated. The estimated cost to complete the information technology upgrades is $280,000.

The information technology costs are the same if both the State and local correctional officers were moved from KPERS to KP&F.

In addition, KPERS would need to update publications for employers and employees to reflect the changes.

The total cost for FY 2020 for two additional positions, publication costs and IT upgrades is $378,479, all from the KPERS Trust Fund.

Attachment

Attachment A

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	*Tier 1 (Members before 7/1/93):* 20 years *Tier 2 (Members on and after 7/1/93):* 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	*For members hired before 7/1/1993:* 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. *For members hired after 7/1/1993:* An average of the three highest years of salary, excluding additional compensation.	An average of the five highest years of salary, excluding additional compensation.	*For members hired before 7/1/1993:* An average of the three highest of your last five years of service, **including** additional compensation. *For members hired after 7/1/1993:* An average of the three highest of your last five years of service, **excluding** additional compensation.
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	*Tier 1:* Age 55 with 20 years of service Any age with 32 years of service *Tier 2:* 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
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.	Benefits are reduced based on actuarial reduction.

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KPERS

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	*Maximum Monthly Annuity* *Joint Survivor:* 50%, 75%, 100% *Life Certain:* 5-year, 10-year, 15-year *Partial Lump Sum Option:* 10%, 20%, 30%, 40%, 50%	*Maximum Monthly Annuity* *Joint Survivor:* 50%, 75%, 100% *Life Certain:* 5-year, 10-year, 15-year *Partial Lump Sum Option:* 10%, 20%, 30%	*Maximum Monthly Annuity* *Joint Survivor:* 50%, 75%, 100% *Life Certain:* 5-year, 10-year, 15-year *Partial Lump Sum Option:* 10%, 20%, 30%, 40%, 50%
Disability Benefits	Disability benefits are based on 60% of the member's annual salary Members must be disabled for 180 days and no longer receive employer compensation To be considered disabled: **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	Disability benefits are based on 60% of the member's annual salary Members must be disabled for 180 days and no longer receive employer compensation To be considered disabled: **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	50% of final average salary, in ongoing monthly payments There is no waiting period to begin receiving benefits If the member returns to work for any KP&F participating employer, their disability benefits will automatically stop. There is no earnings limit for non-public safety employment.
Employer Contributions	13.21% in FY 2019	13.21% in FY 2019	20.05% in FY 2019