

# KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

## 2011 LEGISLATIVE SUMMARY

### BILLS SIGNED BY THE GOVERNOR

**S. Sub. for  
HB 2194 As  
Amended**

2011 Senate Substitute for 2194 creates a KPERS Study Commission that will evaluate possible alternative retirement plans, including defined contribution and hybrid plan designs, and make recommendations to the Legislature by January 6, 2012. Subject to action on the Commission's recommendations by the Legislature, it alters employer contributions as well as current and future employee contributions and plan design.

- The statutory cap on employer increases rises to 0.9% in FY 2014 and continues rising by 0.1% each year to a total of 1.2% in FY 2017 and thereafter.
- A 2% increase in employee contributions for Tier 1 members is phased in over two years beginning CY 2014, along with a 1.85% multiplier for future service.
- Employee contributions for Tier 2 members do not change, but the COLA is removed.
- Subject to approval of the IRS, members of both tiers who are active as of July 1, 2013, would have a one-time opportunity to make an irrevocable election of a 1.4% benefits formula multiplier in lieu of increased contributions for Tier 1 or loss of the Tier 2 COLA.

In addition, 80% of the proceeds of any sale of surplus state real estate is to be paid to KPERS for the purpose of reducing its unfunded actuarial liability.

**Sponsored by Senate KPERS Select Committee.**

**Cost:**

***State/School Employer Contributions:* A 0.9% cap is projected to result in an additional \$14.5 million in state and school employer contributions in FY 2014, for a total employer contribution increase of \$55.6 million when compared to FY 2013.**

***Local Employer Contributions:* A 0.9% cap is projected to result in an additional \$3.8 million in local employer contributions in CY 2014, for a total employer contribution increase of \$20.1 million when compared to CY 2013.**

***State/School Employee Contributions:* Phasing in a 2% increase in Tier 1 employee contribution rates is projected to result in \$18.5 million in additional employee contributions in FY 2014 and \$53.5 million in FY 2015.**

***Local Employee Contributions:* Phasing in a 2% increase in Tier 1 employee contribution rates is projected to result in \$13.6 million in additional employee contributions in CY 2014 and \$26.3 million in CY 2015.**

**The fiscal impact on KPERS' administrative costs is not known at this time.**

**BILLS IN SENATE SELECT COMMITTEE ON KPERS**

**SB 49** Raises the cap on KPERS employer contribution rate increases from 0.6% per year to 1.0% per year, beginning in FY 2013.  
 Increases KPERS employee contribution rates for both Tier 1 and Tier 2 by 0.5% in each of four years, beginning January 1, 2013.  
 Beginning January 1, 2013, raises the KPERS benefits formula multiplier to 1.85% for all future years of service credited to members.  
**Sponsored by Joint Committee on Pensions, Investments and Benefits.**

**Cost:** *State/School Employer Contributions:* A 1.0% cap is projected to result in an additional \$18.8 million in state and school employer contributions in FY 2013, for a total employer contribution increase of \$57.6 million when compared to FY 2012.  
*Local Employer Contributions:* A 1.0% cap is projected to result in an additional \$7.3 million in local employer contributions in FY 2013, for a total employer contribution increase of \$22.8 million when compared to CY 2012.  
*State/School Employee Contributions:* Phasing in a 2% increase in employee contribution rates is projected to result in \$11.8 million in additional employee contributions in FY 2013.  
*Local Employee Contributions:* Phasing in a 2% increase in employee contribution rates is projected to result in \$9.2 million in additional employee contributions in CY 2013.  
**One-time cost of \$20,000 for information system changes.**

**H. Sub. for HB 2333 As Amended** 2011 House Substitute for House Bill 2333 would replace the 0.6% cap increase on employer contributions with a 0.8% cap beginning FY 2013. It would also decrease the multiplying factor in the retirement formula from 1.75% to 1.40% for future service, beginning FY 2013.  
 A separate defined contribution plan for those hired after July 1, 2013, would be established with a 6% employee contribution and a 3% employer contribution. The employer would also contribute a plan funding rate, determined by the board, to help reduce the closed defined benefit plan's unfunded actuarial liability.

**Sponsored by House Committee on Pensions and Benefits.**

**Cost:** *State/School Employer Contributions:* Would increase State/School Group employer contributions by \$9.4 million in FY 2013.  
*Local Employer Contributions:* Would increase Local Group employer contributions by \$3.7 million in CY 2013.  
**The fiscal impact on KPERS' administration expenses is not known at this time.**

**BILLS IN SENATE FEDERAL AND STATE AFFAIRS COMMITTEE**

**SB 237** Expands expenditure authority from the Expanded Lottery Act Revenue Fund to include expenditures by KPERS that are to be applied to the payment of the unfunded actuarial liability (UAL) for the KPERS State Group and School Group, as directed by KPERS.  
**Sponsored by Senate Committee on Federal and State Affairs.**

**Cost:** **Additional payments toward UAL are beneficial, but unlikely to be in an amount large enough to have an appreciable effect on the projected growth of the State and School Groups' UAL.**

**BILLS IN HOUSE COMMITTEE ON PENSIONS AND BENEFITS**

- HB 2086**      Raises the maximum increase in employer contributions for the KPERS State, School and Local Groups to 1.0% a year, effective FY 2013. Currently, their employer contribution rate increases are limited by statute to 0.6% annually.
- Sponsored by Joint Committee on Pensions, Investments and Benefits.**
- Cost:**      *State/School Employer Contributions: A 1.0% cap is projected to result in an additional \$18.8 million in state and school employer contributions in FY 2013, for a total employer contribution increase of \$57.6 million when compared to FY 2012.*
- Local Employer Contributions: A 1.0% cap is projected to result in an additional \$7.3 million in local employer contributions in CY 2013, for a total employer contribution increase of \$22.8 million when compared to CY 2012.*
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- HB 2114**      2011 House Bill 2114 would alter the vesting requirements for KP&F Tier 2 members. Currently, KP&F members vest upon completion of 15 years of service. Effective July 1, 2011, HB 2114 would lower that requirement to 10 years of service.
- Sponsored by Committee on Vision 2020.**
- Cost:**      **The unfunded actuarial liability for KP&F is projected to increase by \$2.0 million, and the actuarial contribution rate would increase by an estimated 0.02%.**
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- HB 2263**      2011 House Bill 2263 eliminates any caps on the maximum KP&F retirement benefit for those years of service for which (1) the member contributed at the 7% member contribution rate; or (2) the member made a lump sum repayment of the difference between the member’s actual contributions prior to the bill’s effective date and the 7% contribution rate, plus interest. Effective with payroll periods beginning on and after July 1, 2011, requires all active members to contribute at the 7% member contribution rate for all future years of service.
- Sponsored by Representative Burgess.**
- Cost:**      **HB 2263 would not increase the unfunded actuarial liability or employer contributions. It would entail an estimated \$25,000 one-time cost to pay for modifications to KPERS’ information system.**
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- HB 2310**      2011 House Bill 2310 would alter working-after-retirement provisions for KPERS retirees. As of July 1, 2011, KPERS retirees who work for an employer that participates in KPERS would be ineligible to receive pension benefits in any month in which they receive compensation from the KPERS employer. This limitation would not apply to a retiree who performs services for a KPERS employer under a contract that was entered into before July 1, 2011. However, once that contract expires, the prohibition would apply to those retirees as well.
- Sponsored by House Committee on Pensions and Benefits.**
- Cost:**      **The net fiscal impact of eliminating working after retirement cannot be estimated. HB 2310 would entail an estimated \$25,000 one-time cost to pay for modifications to the KPERS information system.**

**HB 2311**

Effective July 1, 2013, HB 2311 would create a new, mandatory defined contribution (DC) plan for all future members of KPERS. The KPERS Board of Trustees would be required to establish a separate DC plan within KPERS.

- **Employee Contributions.** Active members would be required to contribute 6% of their compensation to their mandatory contribution account. The contributions would be picked up by the employer via a salary reduction and, therefore, would be pretax for federal income tax purposes.
- **Employer DC Contributions.** Employers would contribute 3% of the active members' compensation to the members' DC accounts.
- **Plan funding rate.** Employers would contribute a percent of active members' compensation determined by the Board to help fund the KPERS DB plan. It would be set at a rate as necessary to actuarially fund (1) the DB plan's unfunded liabilities and (2) the change in the normal cost contribution rate that would result from establishing the new DC plan for future members and closing the existing DB plan.
- **Death and long-term disability plan rate.** Employers would be required to contribute a percent of member payroll towards death & disability benefits for Tier 3 members.
- **Administrative expense rate.** Administrative costs for the Board would be covered by employers as a percent of member payroll.

**Sponsored by House Committee on Pensions and Benefits.**

**Cost:**

**HB 2311 would not significantly increase total employer costs for State/School Group retirement benefits when compared to KPERS' current funding. Total projected State/School Group costs from FY 2011 through FY 2033 are comparable (\$23.05 billion under the Baseline and \$23.23 billion with HB 2311, for a difference of \$183.15 million or 0.8%).**

**HB 2311 would entail an estimated one-time cost in the range of \$277,500 to \$353,100 to pay for KPERS information system modifications. Estimates of other start-up and ongoing administrative costs are not available.**

**HB 2311 authorizes expenditure of forfeited employer contributions for repayment of the Plan's start-up expenses. No estimates are available of the level at which the administrative expense rate would be set.**

**HB 2328**

2011 House Bill 2328 would require school employers to pay a 1.0% KPERS employer contribution in FY 2012, which would be in addition to the existing School Group employer contributions funded by the State from the State General Fund. This additional employer contribution paid by school employers would escalate 1.0% each year until the contributions funded by the State equal the actuarially required contribution (ARC) rate. Once State contributions are equal to the ARC rate, subsequent increases or decreases in School Group employer contributions due to changes in the ARC rate would be shared proportionally by State-funded employer contributions and the school employers.

**Sponsored by House Committee on Pensions and Benefits.**

**Cost:**

**Local school districts' first-year contributions would be an estimated \$34.8 million in CY 2012, rising to \$230.6 million by CY 2017.**

**KPERS would incur an estimated \$26,400 for modifications to its employer contribution reporting and accounting systems.**

- HB 2356** 2011 House Bill 2356 raises the earnings limitation for KPERS retirees who return to work for the same employer. HB 2356 would increase the earnings limit from \$20,000 to \$25,000.  
**Sponsored by House Committee on Appropriations.**  
**Cost: Modest cost to system can be expected, but the impact cannot be readily estimated.**
- HB 2411** 2011 House Bill 2411 prohibits the investment of KPERS funds in companies with certain business investments or activities in Iran and establishes standards and procedures for KPERS' divestment from direct and indirect holdings in companies with such operations.  
**Sponsored by House Committee on Taxation.**  
**Cost: An estimate of the financial impact of this bill is not available at this time and would require further analysis.**

**BILLS IN HOUSE COMMITTEE ON EDUCATION**

- HB 2177** 2011 House Bill 2177 would require school districts to pay a 2% employer contribution, in addition to the existing School Group employer contributions funded by the State and passed through the school districts, beginning July 1, 2011.  
**Sponsored by Committee on Vision 2020.**  
**Cost: Projected school district employer contributions of \$69.6 million in FY 2012, rising to \$80.0 million by FY 2017.**  
**KPERS would incur an estimated \$26,400 for modifications to its employer contribution reporting and accounting systems.**
- HB 2179** 2011 House Bill 2179 would require school districts to pay a 2% employer contribution, in addition to the existing School Group employer contributions funded by the State and passed through the school districts, beginning July 1, 2011.  
**Sponsored by Committee on Vision 2020.**  
**Cost: Projected school district employer contributions of \$69.6 million in FY 2012, rising to \$80.0 million by FY 2017.**  
**KPERS would incur an estimated \$26,400 for modifications to its employer contribution reporting and accounting systems.**
- HB 2180** 2011 House Bill 2180 would require school districts to pay a 2% employer contribution, in addition to the existing School Group employer contributions funded by the State and passed through the school districts, beginning July 1, 2011.  
**Sponsored by Committee on Vision 2020.**  
**Cost: Projected school district employer contributions of \$69.6 million in FY 2012, rising to \$80.0 million by FY 2017.**  
**KPERS would incur an estimated \$26,400 for modifications to its employer contribution reporting and accounting systems.**

- HB 2257** 2011 House Bill 2257 would require school districts to pay a 2% employer contribution, in addition to the existing School Group employer contributions funded by the State and passed through the school districts, beginning July 1, 2011.
- Sponsored by Representative Otto.**
- Cost:** **Projected Local school employer contributions of \$69.64 million in FY 2012, rising to \$80.0 million by FY 2017.**
- KPERS would incur an estimated \$26,400 for modifications to its employer contribution reporting and accounting systems.**

**BILLS IN HOUSE COMMITTEE ON FEDERAL AND STATE AFFAIRS**

- HB 2002** Expands expenditure authority from the Expanded Lottery Act Revenue Fund to include expenditures by KPERS that are to be applied to the payment of the unfunded actuarial liability (UAL) for the KPERS State Group and School Group, as directed by KPERS.
- Sponsored by Representatives Grant and D. Gatewood.**
- Cost:** **Additional payments toward UAL are beneficial, but unlikely to be in an amount large enough to have an appreciable effect on the projected growth of the State and School Groups' UAL.**