

## MEMORANDUM

To: House Insurance and Pensions  
From: *A.D.C.*  
Alan D. Conroy, Executive Director  
Date: March 22, 2021  
Subject: House Bill 2111; Moving State Correctional Officers to KP&F

HB 2111 as introduced would make the Kansas Department of Corrections an eligible employer and affiliate with the Kansas Police and Firemen's (KP&F) retirement system on July 1, 2021 and any "security officer" who is employed by the Department of Corrections would be enrolled as a KP&F member for all future service. HB 2111 defines "security officer" as Correctional Group A members (corrections officers) specified in K.S.A. 74-4914a.

New members would automatically be enrolled as KP&F members. However, HB 2111 allows for current members in Correctional Group A to make an election to move from KPERS Correctional coverage to KP&F coverage. There are approximately 1,900 members in Correctional Group A.

Any current member who elects KP&F coverage would have all KPERS Correctional service converted to KP&F service. The cost for including past service is funded by the affiliating employer so that other KP&F employers are not contributing for the past service of the new members.

### **Current benefit provisions**

Currently, adult corrections positions are covered in either Correctional Group A (C55) or Correctional Group B (C60). Juvenile corrections positions, to the extent those job classifications still exist, are in regular KPERS.

C55 and C60 use the same benefit formula as regular KPERS (final average salary x years of service x 1.85%) but they have different requirements for normal retirement. The normal retirement ages are:

KPERS 1	KPERS 2	KPERS Correctional
Age 62 with 10 years of service	Age 60 with 30 years of service	Group A: 55 with 10 years of service
Age 65 with 1 year of service	Age 65 with 5 years of service	Group B: 60 with 10 years of service
When age plus service totals 85		

KPERS 2 members are eligible for full retirement at age 65 with 5 years of service or age 60 with 30 years of service.

All of these groups have a 6% employee contribution rate and the Department of Corrections contributes the State/School statutory rate (14.09% in FY 2021).

**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 higher in KP&F at 7.15%, compared to 6% under KPERS.
- The employer contribution rate is the full actuarial rate (22.80% in FY 2022).
- The vesting requirement for KP&F is 15 years of service, compared to 5 years for 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.

Because of the higher multiplier, the KP&F plan design will yield a higher benefit than KPERS or KPERS Correctional. 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 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%

**Policy Questions**

The provisions that allow current members to make an election to participate in KP&F is not an allowable election for qualified retirement plans under the Internal Revenue Code. If the group is moved as a whole and no election is involved, there would be no compliance issue with the Internal Revenue Code.

The proposed language in §1(e) of the bill changes the KPERS retirement rules for this group of correctional employees by allowing the use of KP&F service for KPERS calculations. Currently, if a member has both KPERS and KP&F service and they choose to retire from KPERS before reaching KP&F vesting, the member receives their KP&F member contributions and interest. These situations are addressed in K.S.A. 74-4988 and the language in HB 2111 creates a new benefit applied only to this group of Department of Corrections members.

### **KP&F Actuarial Cost Projection**

KPERS' consulting actuary completed a cost study using data provided by the Department of Corrections to estimate the actuarial cost and employer contributions if those members are moved to KP&F.

KP&F employer contributions will be affected by the addition of about 1,900 new members. The additional payroll increases by approximately \$86.1 million with the additional members. Spreading the plan costs over a larger payroll decreases the KP&F employer contribution rate from 22.99% in FY 2022 to 20.54%.

For the Department of Corrections, they will start contributing the 20.54% KP&F rate instead of the 14.09% KPERS rate in FY 2022. This results in an increase of \$7.2 million in FY 2022 employer contributions for the Department of Corrections. The increase to the Department of Corrections budget is partially offset by a decrease in the employer contributions at other state KP&F agencies (e.g. Highway Patrol, Kansas Bureau of Investigation) totaling about \$1.5 million, resulting in a net increase of \$5.8 million in State KP&F employer contributions from state agencies in FY 2022.

In addition, HB 2111 makes Correctional Group A members KP&F members for all years of service. When an employer affiliates with KP&F for past service there is an increase in the unfunded actuarial liability of the KP&F group. However, the increased unfunded liability must be funded by the affiliating employer so the other KP&F employers are not paying the cost of affiliation of the new members.

Statute does provide for some assets to be transferred to KP&F to help cover the cost of the additional unfunded liability. An amount equal to two times the member account balances would be transferred from KPERS to KP&F. The difference between the increased liability and the assets is then amortized over 15 years and paid by the employer in addition to normal KP&F employer contributions.

For the Correctional group, the amount of unfunded liability left over after the asset transfer is \$96.2 million. Amortized over 15 years the additional payment required is \$10.7 million in additional contributions each year. The bill does not specify whether the Department of Corrections would make this contribution or if the State of Kansas would make a transfer to KPERS on behalf of the Department of Corrections

The decline in the uniform KP&F employer contribution rate also affects local KP&F employers. The uniform rate local employers would affect CY 2022 and would reduce

the local KP&F employer contribution rate by 2.1%, from 22.99% to 20.54%. The reduced employer contribution rate in CY 2022 is approximately \$11 million in total contributions across all 108 Local KP&F employers.

**Administrative Costs**

KPERS estimates that one additional permanent staff will be required to provide transition and ongoing support to the Department of Corrections and correctional facilities and individual members, assisting with design and testing of the information technology changes. The estimated FY 2022 cost for 1.0 FTE positions is \$67,068, including fringe benefits and group health insurance, which would be funded by the KPERS Trust Fund.

HB 2111 requires some changes and updates to KPERS information technology system. However, the changes can be accomplished within existing resources.

I would be happy to respond to any questions the Committee may have regarding HB 2111.