Amortizing KPERS' State/School Unfunded Actuarial Liability
House Bill 2197 Highlights

HB 2197 at a glance

- Establishes a new 30-year amortization period for KPERS State/School unfunded actuarial liability
- Removes KPERS' Board authority to set amortization policy for the State/School group
- Eliminates payment plans for missing FY 2017 and FY 2019 contributions
- Does not affect KPERS Local, KP&F or Judges; does not affect employee contributions
- Does not affect retiree benefits

1. Funding is generally improving

- Funding is slowly improving and headed in the right direction – 68% funded ratio.
- Funding improvements projected to continue with full actuarially required contributions and realized investment returns.
- Amortizing an unfunded actuarial liability is a normal part of pension funding.
- The Legislature set a 40-year amortization period in 1993 and delegated amortization authority to KPERS' Board in 1998.
- KPERS' Board studies amortization every three years, along with all actuarial assumptions, as part of its fiduciary duty. The Board made changes in methodology and the investment return assumption in 2016.

2. Provisions eliminate payment plan for FY 2017 and FY 2019 contributions

- Due to competing budget priorities, the State delayed KPERS State/School contributions for FY 2017 ($64 million) and FY 2019 ($194 million), and approved a 20-year payment plan to pay for them. HB 2197 eliminates these remaining payments.
- KPERS is scheduled to receive an additional $56 million payment contingent upon State General Fund revenues in FY 2019. Another bill, HB 2121, eliminates this contingent payment also.
- Eliminating all of these payments of $301 million lowers actuarial assets, decreases the funded ratio and increases the unfunded actuarial liability.

KPERS

2/13/19

3. HB 2197 extends the amortization period, like refinancing a home mortgage

- There are 15 years remaining in the current amortization period and contributions are now paying principal on the unfunded liability. HB 2197 extends it to 30 years and contributions would pay only interest for years.
- Spreading out the amortized payments over more time lowers employer contributions in the short-term, but increases costs over the long-term.
- The contribution rate decreases from 14.74% to 11.45%, reducing the State's contributions from $681 million to $521 million in FY 2020.
- For FY 2020, the total contribution needed to maintain a "steady state" and not lose ground is approximately $631 million.
- Contributions grow to over $972 million (assuming 3% payroll growth) by FY 2049.
- Projected current plan costs = $13.5 billion.
- Projected new 30-year plan cost = $20.9 billion.
- Projected difference in plan costs = $7.4 billion.

4. HB 2197 affects funded ratio and unfunded actuarial liability

- Reamortization initially increases the State/School unfunded liability and keeps it above $6 billion until 2037, before reducing toward the end of the new 30-year period.
- With 15 years remaining, the current plan is projected to extinguish the unfunded actuarial liability in 2033.
- The slower contribution schedule in HB 2197 means the funded ratio for the State/School group remains lower longer.
- HB 2197 is projected to keep KPERS in the 60% "cautionary" range until 2022 and below 80% funded until 2038, 12 years longer than projected under current law.
- A lower funded ratio means the System is more vulnerable to market downturns and negative actuarial experience.

5. KPERS Board reviewing amortization

- It is normal to review amortization near the end of an amortization period to avoid employer contribution volatility and a large "cliff," where contribution rates drop off by a large amount when the unfunded liability is paid off.
- As part of its regular triennial study, the KPERS Board is reviewing amortization policy and methods in 2019.
- Industry best practices are trending toward 15- or 20-year amortization periods.
- As fiduciaries to KPERS members, Board trustees must focus on what is best for the Retirement System and its members.

Alan Conroy
KPERS Executive Director
aconroy@kpers.org
785-296-6880