MEMORANDUM

To: Senate Financial Institutions and Insurance

From: Alan D. Conroy, Executive Director

Date: March 7, 2019

Subject: SB 200; Increasing Kansas Policemen and Firemen's (KP&F) benefits cap

SB 200 makes three changes to the Kansas Police and Firemen's Retirement System:

1. Raises the cap on member retirement benefits from 90% of Final Average Salary to 95% of Final Average Salary. Members reach the existing cap of 90% of Final Average Salary with 36 years of service, while 38 years of service would be required to reach a 95% cap.
2. Lowers the employee contribution rate from 7.15% to 2% when a member reaches the benefit cap (years of service above 38 years). Currently, members pay 7.15% for all years of service.
3. Allows current members who have contributed 7.15% for years above the current 90% benefit cap (36 years of service) to be refunded the difference in contributions that would have been made if contributions had dropped to 2% when they reached the cap. Alternatively, if the member retired after July 1, 2018 the retirees benefit will be calculated using the increased 95% cap and applied retroactively.

Benefit Cap History

KP&F has had a cap on benefits since the creation of the plan by the 1965 Legislature. The initial cap on benefits was 66%, which at the time was equal to 33 years of service. The cap and benefit multiplier have changed over the years and are summarized in the following table:

Year	Benefit Cap (% of final average salary)	Multiplier	Years of service to reach benefit cap
1965	66%	2.0%	33
1979	70%	2.0%	35
1993	80%	2.5%	32
2013	90%	2.5%	36

The most recent change to the benefit cap was passed by the 2013 Legislature. The 2013 legislation (2013 HB 2352) adjusted the employee contribution rate from 7% for the first 32 years of service and 2% thereafter to 7.15% for all years of service. Increasing the employee contribution rates kept the benefit change from increasing the employer contribution rate.

Actuarial Costs

SB 200 changes the benefit plan design for KP&F members by increasing benefits for certain members. Creating an increased benefit results in higher costs to fully fund those benefits. SB 200 does not specify how the change in benefit plan design will be funded. Since employee contributions are statutorily set, any cost increases caused by SB 200, as introduced, will be funded by KP&F employers. KPERS' consulting actuary completed a cost study on the provisions of SB 200. The cost study indicates that increasing the cap on KP&F benefits would result in:

- An increase of $2.2 million in the KP&F unfunded actuarial liability.
- An increase the unfunded actuarial liability contribution rate for KP&F employers by 0.04%.
- An increase in the employer normal cost rate of 0.01%.

The total increase in the KP&F contribution rate if the benefit cap is raised to 95% is estimated to be .05%. The additional employer contributions would first be reflected in the FY 2020 employer contribution rate for state KP&F employers and CY 2020 for local KP&F employers. For State KP&F employers, this would adjust the employer contribution rate for FY 2020 from 22.13% to 22.18%.

Potential Effect

In the latest valuation (12/31/2017):

- 0 active KP&F members had 38 years of service or more.
- 5 active KP&F members were within 1 year of reaching 38 years of service.
- 26 active KP&F members were within 5 years of reaching 38 years of service.

For comparison, the total active membership for KP&F in the 12/31/2017 valuation was 7,481 members. The 26 members who were within 5 years of the reaching new 95% KP&F benefits cap represent about 0.3% of total KP&F membership.

It is possible that increasing the maximum benefit to 95% of final average salary could motivate certain KP&F members to retire later. However, the number that could potentially be impacted is very small.

I would be pleased to respond to any questions the Committee may have.