

MEMORANDUM

To: Senate Financial Institutions and Insurance Committee
From: Alan D. Conroy, Executive Director
Date: March 11, 2021
Subject: House Bill 2243

House Bill 2243 changes the required timing of the KPERS actuarial experience study. Currently, state law requires an actuarial experience study to be performed every three years. HB 2243 changes the required timing to every four years, but allows for KPERS Board of Trustees, as fiduciaries to the plan, to decide to complete the experience study after three years or five years if they believe it is prudent. Administratively, this change has very little impact on the System.

KPERS completed an actuarial experience study in January 2020 for the three-year period covering calendar years 2016 through 2018. The next scheduled experience study, covering calendar years 2019 through 2022 will commence in the summer of 2022. Under HB 2243, the presumed next experience study would start in the summer of 2023, although that could be adjusted by the Board at their discretion as described above.

Actuarial Experience Studies

An actuarial experience study is a common practice for large public pension plans. The experience study process looks at all assumptions and methods used in the actuarial valuation to ensure that the actuarial assumptions are reasonably anticipating the actual experience of the System and that they continue to be the best expectation of future experience.

The actuarial assumptions can generally be divided into two categories:

1. Economic assumptions
2. Demographic assumptions

Economic assumptions include the inflation rate, investment return assumption, and general wage growth. The economic assumptions affect the calculation of liabilities as well as the annual required contribution rates.

Demographic assumptions include mortality, retirement rates, termination rates and benefit selections. Demographic assumptions are generally selected based heavily on the actual experience of the System and are used to calculate liabilities and required employer contribution rates.

In addition to setting assumptions, part of the experience study is the selection of actuarial methods. Actuarial methods include the amortization method for the unfunded actuarial liability, the asset valuation method (*i.e.*, level percent of pay or level dollar), and the actuarial cost method (how the costs of benefits are allocated throughout a member's career). These methods essentially create the funding policy used to calculate the annual required contributions.

History of KPERS Experience Studies

When the System was created in 1961, the enacting provisions included the requirement for a "general investigation" of actuarial assumptions every three years. That triennial schedule has been followed since the first experience study was completed in 1962.

Experience Study Timing in Other Pension Plans

There is no external requirement that determines the timing of actuarial experience studies for public plans. KPERS uses a 3-year timeframe because it is required by State law. However, the period between experience studies varies among public pension plans.

KPERS consulting actuary reports that the common timeframe for experience studies is three to five years. Shorter than three years would likely result in insufficient data to base actuarial analysis and data trends. Longer than five years may create a greater risk of using actuarial assumptions that do not reflect the actual experience of the System and could cause the actuary to miss evidence of more recent trends.

In addition, allowing the Board of Trustees the flexibility to complete the experience study every three or five years ensures the experience study will be completed as frequently as needed to ensure the assumptions in the annual actuarial valuation are current, reasonably reflect future expected experience, and meet actuarial standards of practice.

Ultimately, changing the timing of the actuarial experience study from three years to four years has very little impact on the administration of the System. An experience study is still required under HB 2243, it is just moved to a different schedule.

House Action

The House passed HB 2243 without amendments on February 25 with a vote of 123-1.

I would be pleased to answer any questions the Committee may have regarding House Bill 2243.