

MEMORANDUM

To: House Financial Institutions and Pensions Committee

From: Alan D. Conroy, Executive Director

Date: February 20, 2023

Subject: HB 2198; Moving Kansas Department of Wildlife and Parks officers to KP&F

House Bill 2198 makes the Kansas Department of Wildlife and Parks (KDWP) an eligible employer under the Kansas Police and Firemen's Retirement System (KP&F) on July 1, 2023. KDWP employees who would become eligible for KP&F are specified in the bill as:

- Full-time law enforcement certified
- Working in the parks, law enforcement and public lands divisions

Any employees meeting this definition would become KP&F members on July 1, 2023. Based on information provided by the KDWP, this includes 163 positions.

For all service time prior to July 1, 2023, members would keep the KPERS benefit that they had earned. The member would be able to use their prior years of service for purposes of vesting and retirement eligibility. At retirement, the member would have a KPERS benefit calculation and a KP&F benefit calculation. The member receives two payments, one for KPERS retirement and one for KP&F retirement.

For members who joined the System before July 1, 1993, it is possible to use sick and annual leave payments at retirement in final average salary calculation. HB 2198 includes language to allow these employees to use their sick leave as of July 1, 2023, for their KPERS final average salary calculation.

If a member does not reach the vesting requirement under KP&F, HB 2198 allows the member to use their KP&F service time to calculate their KPERS benefit.

KPERS Benefits

Currently, these KDWP employees are KPERS members. KPERS 1 and KPERS 2 are tradition defined benefit plans that use a benefit formula for calculating retirement benefits (final average salary x years of service x 1.75% or 1.85%).

Any employee who became a member on or after January 1, 2015, is a member of KPERS 3, which is a cash balance plan. A cash balance plan is a defined benefit plan, but rather than using a benefit formula, member benefits are calculated based on employer contributions and employee credits, plus interest, throughout a member's career.

For KPERS, members vest with 5 years of service and the normal retirement age is 60 or 65 depending on the amount of service they have accrued (KPERS 1 also has the "rule of 85").

Employee contributions to KPERS are set statutorily at 6%. For FY 2024, employer contributions to KPERS total 12.57%.



KP&F benefits

KP&F is like KPERS 1 and KPERS 2 in basic plan design structure, but many of the plan design elements are different.

- The benefit formula is the same, but the KP&F multiplier 2.5% vs. 1.85% in KPERS.
- Employee contribution rate is 7.15% in KP&F vs. 6% in KPERS.
- The FY 2024 employer contribution rate is 22.86% in KP&F vs. 12.57% in KPERS.
- The vesting requirement for KP&F is 15 years of service vs. 5 years in 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 for the same service and salary. As an example, if a person works a 30-year career and has a final average salary of \$50,000, their maximum annual benefit under KP&F is higher than under KPERS:

| | KPERS 2 Member | KP&F Member |
|--|-----------------------|------------------------|
| Final average salary | \$50,000 | \$50,000 |
| Service | 30 years | 30 years |
| Annual Benefit | \$27,750 | \$37,500 |
| Replacement percentage of final average salary | 55.5% | 75.0% |

However, KP&F has a higher employee and employer contribution rate and has a vesting period that is three times longer than KPERS.

Cost Impact

In FY 2024 KDWP would begin paying the already certified KP&F employer contribution rate of 22.86% for the positions that are impacted by the change. The following table summarizes the estimated impact on KDWP employer contributions due to the change:

| Group | KPERS Employer Contribution Rate | KP&F Employer Contribution Rate | Estimated KDWP FY 2024 Payroll Impacted by HB 2198 | Increase in Employer Contributions |
|--------------|---|--|---|---|
| KDWP | 12.57% | 22.86% | \$9,767,351 | \$1,005,060 |

Adding additional members to KP&F also impacts future KP&F employer contribution rates. The KP&F employer contribution rate would first be impacted in FY 2026 for State employers and CY 2025 for Local employers. HB 2198 is estimated to decrease the FY 2026 employer contribution rate by 0.13% (from 23.10% to 22.97%). However, because the expected FY 2026 payroll is \$10.5 million higher with the additional KDWP positions, projected KP&F employer contributions are higher in FY 2026, by about \$1.6 million.

I would be pleased to answer any questions the Committee has regarding HB 2198.