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March 1, 2024

The Honorable Jeff Longbine, Chairperson
Senate Committee on Financial Institutions and Insurance
300 SW 10th Avenue, Room 546-S
Topeka, Kansas 66612

Dear Senator Longbine:

SUBJECT: Fiscal Note for SB 505 by Senate Committee on Ways and Means

In accordance with KSA 75-3715a, the following fiscal note concerning SB 505 is respectfully submitted to your committee.

Under current law, the annual retirement benefit for security officers in the Department of Corrections is calculated with the following formula: Final Average Salary X Years of Service X Benefit Multiplier = Annual Retirement Benefit. For all security officers, as well as KPERS Tier 1 and KPERS Tier 2 members, the benefit multiplier is 1.75 percent for credited service before July 1, 2014, and 1.85 percent, for service after July 1, 2014. SB 505 would increase the benefit multiplier to 2.0 percent for all years of service for security officers in the Department of Corrections who retire on or after July 1, 2024.

According to the KPERS actuary, changing the plan design for security officers in the Department of Corrections would have two costs: (1) the increase in the unfunded actuarial liability for the multiplier increase for all years of service for security officers who retire on and after July 1, 2024; and (2) the increase in the normal cost of benefits in future years for these members. Security officers in the Department of Corrections are part of the State/School Group. However, because of the plan design for these security officers, the Department of Corrections pays the KPERS State/School employer contribution rate, plus the normal cost of the security officer plan design.

The KPERS actuary indicates that the enactment of SB 505 would increase the unfunded actuarial liability (UAL) of the KPERS State/School Group by $22.3 million. This increase in the UAL could be funded with a one-time State General Fund appropriation in FY 2025, or amortized over time. Because the bill does not contain an appropriation to fund the UAL payment, the actuary performed an analysis to fund the UAL over 20 years through increased employer contribution rates for the KPERS State/School Group. The following summarizes the fiscal effect for these rates in FY 2025 and FY 2026:

Cost Estimate—Employer Contribution Increases with SB 505
(Dollars in Millions)

Group	FY 2025 Employer Contribution Baseline	FY 2025 Employer Contribution SB 505	Net Change	FY 2025 Additional Contributions
Security Officer—C55	12.34%	12.94%	0.60%	$ 0.69
Security Officer—C60	13.13%	13.74%	0.61%	0.05
State/School	11.42%	11.47%	0.05%	2.74
FY 2025 Total				**$ 3.48**

Group	FY 2026 Employer Contribution Baseline	FY 2026 Employer Contribution SB 505	Net Change	FY 2026 Additional Contributions
Security Officer—C55	12.46%	13.06%	0.60%	$ 0.71
Security Officer—C60	12.90%	13.51%	0.61%	0.05
State/School	11.56%	11.61%	0.05%	2.82
FY 2026 Total				**$ 3.58**

The Division of the Budget notes that of the total additional contributions required with the actuary's scenario in FY 2025, approximately 85.0 percent of total employer contributions for the KPERS State/School Group is estimated to be funded from the State General Fund. As a result, of the total $3.48 million in additional FY 2025 employer contributions required, approximately $2.96 million would be from the State General Fund. Using this same assumption for FY 2026, approximately $3.04 million of the $3.58 million in increased employer contributions would be from the State General Fund. The Division also notes that if the Legislature would fund the increased UAL with a one-time State General Fund appropriation, the increased employer contribution for the State/School Group would be eliminated from the above table. However, the increased normal cost of the enhanced multiplier benefit would still be paid by the Department of Corrections.

KPERS reports that modifications to the pension administration system would be required with the enactment of SB 505. The agency estimates that the programming and testing required would cost approximately $20,000 from its operating budget. In addition, the bill would require updates to agency publications and educational materials. However, the agency indicates that any additional administrative costs can be accomplished with the Governor's proposed FY 2025 operating expenditures limit from the KPERS Fund for the agency. Any fiscal effect associated with SB 505 is not reflected in *The FY 2025 Governor's Budget Report*.

Sincerely,

Adam C. Proffitt
Director of the Budget

cc: Jarod Waltner, KPERS