

MEMORANDUM

To: House Financial Institutions and Pensions

From: Alan D. Conroy, Executive Director

Date: February 11, 2019

Subject: HB 2100; Retiree Cost of Living Adjustment

KPERS' retirement plans (KPERS, KP&F and Judges) do not have automatic cost of living adjustments as part of their plan design structure. In the past, permanent cost of living adjustments have been granted by the Legislature on an ad hoc basis (attachment A).

HB 2100, as introduced, would provide a permanent, ad hoc cost of living adjustment (COLA) for retirees who have been retired for at least 5 years as of July 1, 2019. The COLA is structured to provide the following increases:

Years Since Retirement	Amount of ad hoc COLA*
0 - 5 years	No Adjustment
5 - 10 years	1.0% increase
10 - 15 years	2.0% increase
15 or more years	3.0% increase
*Increases in the monthly benefit due to the cost of living adjustment cannot exceed \$150.	

As of the 12/31/2017 actuarial valuation, 80,109 out of 99,807 retirees and beneficiaries, or about 80%, would be eligible to receive a cost of living adjustment under HB 2100:

Amount of <i>ad hoc</i> COLA	Eligibility Requirement	Eligible Retirees and Beneficiaries
1.0%	Retired on or before July 1, 2014	27,090
2.0%	Retired on or before July 1, 2009	19,973
3.0%	Retired on or before July 1, 2004	33,046
	Total	80,109

Projected Costs

KPERS' consulting actuary completed a cost study on HB 2100 and projected the increase to the unfunded actuarial liability if HB 2100 is passed as introduced. The projected increase to the unfunded actuarial liability totals \$185.7 million for all KPERS



retirement plans. This includes \$140.8 for State employers (State, School, State KP&F, and Judges). The State could pay this amount up front to pre-fund the COLA.

The COLA could also be amortized and paid over time. HB 2100 does not specify a specific amortization period to fund the cost of living adjustment. The actuary looked at amortizing the COLA.

Under a 15-year amortization period, HB 2100 as introduced is projected to cost \$17.3 million in FY 2020, including \$13.1 million for State employers and \$4.1 million for Local employers.

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

Attachment

**Kansas Public Employees Retirement System
History of Post-Retirement Benefit Adjustments**

A. Permanent, Ad Hoc Cost-of-Living Adjustments (COLA)

<u>Year</u>	<u>Percentage Increase</u>	<u>Eligibility-Retiree Prior to Date</u>
1972	5%	July 1, 1971
1973	% Increase	Retired In 1973
	32%	1962-1963
	28	1964-1965
	22	1966-1967
	15	1968
	9	1969
	2	1970
1978	Percentage increase as follows:	January 1, 1977
	% Increase	Retired Prior to
	7.34%	January 1, 1973
	5.5	1973
	4.4	1974
	2.2	1975
	1.1	1976
1982	10% (payable through 1987)	July 1, 1981
1984	Made 10% increase established in 1982 permanent	July 1, 1981
1985	5%	July 1, 1984
1986	3%	January 1, 1985
1987	2%	January 1, 1986
1988	3%	January 1, 1987
1989	4%	July 1, 1988
1990	4%	July 1, 1989
1991	Higher of 1% or \$10 per month	July 1, 1990
1992	\$15 per month increase	July 1, 1991
1993	Higher of 5% or \$10 per month for retirees with less than 15 years of service. Higher of 15% or \$50 per month to maximum of \$200 per month for retirees with 15 or more years of service.	July 1, 1993
1994	Higher of 1.5% or combination of \$.50 per month for each year of service and each year of retirement	July 1, 1993
1998	3%	July 1, 1997

B. One-Time Benefit Payments

Year	Description
1976	One-time additional payment equal to 5% of total annual benefit, subject to a minimum of \$20 and maximum of \$200, for members who retired prior to January 1, 1975.
1977	One-time additional payment equal to 5% of total annual benefit, subject to a minimum of \$20 and maximum of \$200, for members who retired prior to January 1, 1975.
2000	One-time benefit paid in September equal to 50% of the monthly retirement benefit payment to members who retired prior to July 1, 1999.
2007	One-time benefit of \$300 paid by October 1 st to members who retired prior to July 1, 1997, with 10 or more years of service and disability recipients who had been receiving benefits since July 1, 1997.
2008	One-time benefit of \$300 paid by October 1 st to members who retired prior to July 1, 1998, with 10 or more years of service and disability recipients who had been receiving benefits since July 1, 1998.

C. Permanent Annual Retirant Dividend Payment

Starting in 1980, an extra monthly benefit (“13th Check”) was paid to all members who retired prior to July 1, 1980. This check was conditional and based on a formula involving investment income. From 1981-1987, a new class of retirants was added each year to this group. In 1987, the group was closed so that it applied only to persons who retired prior to July 2, 1987. Because of negative investment returns that put this check in jeopardy, the Legislature issued bonds in 2003 providing funding that made this benefit permanent for the closed group. All members who retired prior to July 2, 1987, receive an extra one-month’s benefit in September each year.