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February 13, 2023

The Honorable Nick Hoheisel, Chairperson
House Committee on Financial Institutions and Pensions
300 SW 10th Avenue, Room 582-N
Topeka, Kansas 66612

Dear Representative Hoheisel:

SUBJECT: Fiscal Note for HB 2195 by House Committee on Financial Institutions and Pensions

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2195 is respectfully submitted to your committee.

HB 2195 would make changes to current law regarding KPERS and working after retirement rules. Under current law, when a KPERS retiree returns to work for a KPERS-participating employer, if the employee earns greater than $25,000 in a calendar year, this threshold triggers a KPERS employer contribution rate of 30.0 percent on amounts above $25,000. For amounts under $25,000 the employer pays the statutory contribution rate, currently 14.33 percent in FY 2023. HB 2195 would make two changes to current law, including raising the threshold for the 30.0 percent employer contribution from $25,000 per calendar year to $35,000, and waiving the 30.0 percent contribution rate during an 18-month window from July 1, 2023, through December 31, 2024, when KPERS-participating employers would only make the statutory contributions on all KPERS retiree compensation.

According to the KPERS actuary, the two main areas of cost associated with the enactment of HB 2195 would be the loss of expected employer contributions, as well as the potential to change the pattern of retirement behavior by altering the working after retirement rules. Based on the data for the calendar year 2021, there were about 4,700 KPERS working-after-retirement members. Total employer contributions for calendar year 2021, based on the existing $25,000 threshold, were approximately $15.6 million. If the compensation limit for the 30.0 percent employer contribution rate had been increased to $35,000, the total contributions would have been reduced to $14.2 million, or by $1.4 million (or 10.0 percent). The reduction in employer contributions would be approximately the same fiscal effect in FY 2024 under HB 2195. This employer contribution reduction would directly reduce the value of KPERS assets and would increase the system's unfunded actuarial liability. Given the total KPERS unfunded actuarial liability of $8.7 billion (State, School and Local), KPERS indicates the loss of $1.4 million annually would have a negligible effect on the long-term funding of KPERS.

In addition, only the statutory employer contribution rate would be assessed on all compensation paid to retirees who return to work in covered employment from July 1, 2023, through December 31, 2024. Based on the available data, the estimated loss of contributions for this 18-month period would be $5.5 million. Since this would be a time-limited window, the long-term impact on the funding of the plan would be considered negligible.

As for the threshold for the 30.0 percent employer contribution rate trigger, the KPERS actuary states that it would likely become more attractive for employers to rehire retirees rather than seeking to fill the job with a new employee. This has the potential to encourage active members to retire earlier than they would otherwise and then return to work as there would be financial incentives to do so. If retirement behavior changes and members would retire earlier, it can create additional actuarial costs. However, this potential cost cannot be estimated. KPERS notes that all other laws regarding prohibiting KPERS retiree prearrangements to return to work and the current statutory waiting period of 180 days for a KPERS retiree to return to work for a KPERS-participating employer would remain in place.

KPERS also indicates that the bill would require additional administrative expenses, including updating printed materials and minor changes to the KPERS IT systems; however, any additional administrative costs would be negligible. Any fiscal effect associated with HB 2195 is not reflected in *The FY 2024 Governor's Budget Report*.

Sincerely,

Adam Proffitt
Director of the Budget

cc: Jarod Waltner, KPERS