

February 8, 2012

The Honorable Mitch Holmes, Chairperson
House Committee on Pensions and Benefits
Statehouse, Room 166-W
Topeka, Kansas 66612

Dear Representative Mitch Holmes:

SUBJECT: Fiscal Note for HB 2630 by House Committee on Pensions and Benefits

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2630 is respectfully submitted to your committee.

HB 2630 would allow eligible KP&F and KPERS retired public safety officers to elect to have direct deduction of qualified health insurance premiums from a member's monthly retirement system benefits or disability benefits. The direct deduction of qualified health insurance premiums would be excluded from a retiree's gross income, to the extent permitted by federal law.

Estimated State Fiscal Effect				
	FY 2012 SGF	FY 2012 All Funds	FY 2013 SGF	FY 2013 All Funds
Revenue	--	--	--	--
Expenditure	--	--	--	\$524,891
FTE Pos.	--	--	--	1.50

For eligible KP&F and KPERS retired public safety officers, enactment of HB 2630 would allow federal tax-free distributions up to \$3,000 per year to pay premiums on health or long-term care insurance. For a retiree in the 15.0 percent federal tax bracket, the result of the tax-free distribution to pay premiums would result in estimated tax savings of up to \$450 annually. KPERS benefits are not subject to the state income tax so enactment of HB 2630 would have no effect on state revenues.

KPERS estimates that enactment of HB 2630 would allow between 5,000 and 10,000 retired KP&F and KPERS public safety officers to qualify for the tax-free premium distributions. According to federal law, KPERS would have to make the payment directly to the potentially

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hundreds or thousands of different insurance companies in order to have the payment be tax-free for the retiree. KPERS would need to make significant changes to its benefit information systems, establish an enrollment and payment processing procedure, and develop communication outreach to the public safety retirees. The agency estimates that a one-time cost of \$442,000 would be required for the information system changes. In addition, ongoing costs of \$82,891 would be required for an additional 1.5 FTE positions for processing benefits. All additional costs would be paid from the KPERS Trust Fund through the agency's operating expenditure limitation. Any fiscal effect associated with HB 2630 is not reflected in *The FY 2013 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", with a long horizontal flourish extending to the right.

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Faith Loretto, KPERS