

January 28, 2020

The Honorable Carolyn McGinn, Chairperson
Senate Committee on Ways and Means
Statehouse, Room 545-S
Topeka, Kansas 66612

Dear Senator McGinn:

SUBJECT: Fiscal Note for SB 274 by Senate Committee on Financial Institutions and Insurance

In accordance with KSA 75-3715a, the following fiscal note concerning SB 274 is respectfully submitted to your committee.

Under current law, when a KPERS retiree returns to work for a participating KPERS employer, the employer is required to pay the statutory employer contribution rate on the first \$25,000 of compensation, and 30.0 percent on compensation above \$25,000. SB 274 would eliminate all KPERS employer contributions, if the KPERS employer first hired the retiree after the retiree has reached age of 65. The employer contribution requirement would remain for a retiree who first returned to work prior to age of 65 and continues to work after attaining age 65.

KPERS indicates that exempting retirees hired after the age of 65 from the statutory employer contribution rate would reduce contributions to the KPERS system. Using the latest data available, KPERS reports that approximately 14.0 percent of the State/School contributions received for working after retirement members were attributable to members hired on or after the age of 65, or approximately \$1.2 million, or 0.22 percent of total KPERS State/School employer contributions in FY 2018.

If in future years the proportion of contributions of KPERS members working after retirement remains similar, KPERS would estimate the enactment of SB 274 would result in a loss of approximately \$1.2 million in reduced employer contributions each year. Based upon the agency's analysis, the present value of the reduced contributions over 30 years would be approximately between \$20.0 million and \$25.0 million. The agency notes that if SB 274 would create an incentive for employers to hire more retirees after reaching the age of 65, the amount of reduced employer contributions would be greater than \$1.2 million each year, as the revenue from those hired before the age of 65 would decline.

In addition, KPERS reports that a large portion of the statutory KPERS employer contribution rate is attributed to the unfunded actuarial liability payment. Without contributions on the total payroll of all KPERS covered positions, the UAL would increase as the actuarial valuation assumes new members would be hired to replace members leaving covered employment.

KPERS indicates that the enactment of SB 274 would also affect the KPERS Local Group in a similar way of the KPERS State/School Group. The fiscal effect cannot be estimated; however, any changes would ultimately be reflected in future employer contribution rates. Any fiscal effect associated with SB 274 is not reflected in *The FY 2021 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "L. L. Campbell". The signature is fluid and cursive, with a large initial "L" and "C".

Larry L. Campbell
Director of the Budget

cc: Jarod Waltner, KPERS