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Steven J. Anderson, CPA, MBA, Director

Sam Brownback, Governor

March 11, 2013

The Honorable Steven Johnson, Chairperson
House Committee on Pensions and Benefits
Statehouse, Room 286-N
Topeka, Kansas 66612

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2308 by House Committee on Education

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2308 is respectfully submitted to your committee.

Under current law, the final average salary calculation for certain Kansas Public Employee Retirement System (KPERS) members who were hired before July 1, 1993, includes compensation for unused sick leave, vacation or annual leave. HB 2308 would remove this additional compensation from the final average salary calculation for members who retire on or after July 1, 2013.

With certain exceptions, KPERS retirees who return to work for the same KPERS employer after retirement are currently limited to earnings of $20,000 annually. However, this limit does not apply to retirees who return to work for a different KPERS employer provided the retiree did not work for the employer two years prior to retirement. Current law considers the State of Kansas to be a single employer; however, school districts and local governments are regarded as different employers. Beginning July 1, 2013, HB 2308 would apply the $20,000 earnings limitation to KPERS retirees who return to work for any employer who participates in KPERS. Employers would be required to pay the actuarially required contribution rate plus the statutorily prescribed employee contribution rate for all employees who are “working-after-retirement KPERS retirees.” Exceptions allowed by HB 2308 include daily call substitute teachers or officers, as well as employees or appointees of the Legislature.

For the provisions of HB 2308 relating to final average salary calculations, KPERS indicates that excluding accumulated leave payouts from the final average salary of certain members would reduce the retirement benefits for those employees who were hired before July 1, 1993. The benefit reductions would, in turn, provide reductions to KPERS’ actuarial liability and employer contribution rates. A 2011 cost study of this issue projected a reduction of $58.0 million. KPERS explains that in the near term the bill may create a sharp increase in retirements prior to July 1, 2013, as affected members seek to avoid the reduced benefits. This could result in some participating KPERS employers experiencing unexpected increases in accumulated leave payments. The agency estimates that the provisions could affect approximately 30,000 members although not all would be eligible to retire by July 1, 2013.

For the provisions of the bill relating to working after retirement, KPERS indicates that it is not possible to estimate the fiscal effect of HB 2308 because some aspects of the bill may reduce future contributions while other aspects may increase them. Currently, employers are not required to pay contributions on retirees the employer has re-hired. HB 2308 would require employers to pay contributions on retirees who return to work for either a different employer or their former employer. If participating employers continue to hire a similar number of retirees, KPERS may receive additional revenue from contributions that otherwise had not been required under current law. However, if the passage of HB 2308 has the effect of reducing the number of KPERS retirees who are re-hired, then the additional revenue may be limited. Also, applying the $20,000 annual earnings limit more broadly may result in the reduction of retirees who choose to return to work. The limit may also result in some active KPERS members choosing to delay retirement as members would no longer be able to earn more than $20,000 per year while also receiving KPERS benefits.

As noted above, the current earnings limit does not apply to members who return to work for a different KPERS employer, provided that the retiree did not work for the employer two years prior to retirement. In these cases, the employers are required to pay special contributions on these retirees returning to work. These special contributions are applied to the unfunded actuarial liability because working-after-retirement retirees are not eligible to earn additional KPERS service credit or benefits. The special contributions are not funded through the KPERS School payments financed by the State General Fund; they are funded directly from school district operating budgets. Therefore, any fiscal effect from HB 2308 that either increases or decreases revenue from these special contributions would have no effect on the State General Fund.

The bill would create additional administrative expenditures for KPERS totaling $42,000 for one-time costs to modify the agency's information system. It is estimated that the fiscal effect could be accommodated within existing resources and staffing levels. Any fiscal effect associated with HB 2308 is not reflected in *The FY 2014 Governor's Budget Report*.

Sincerely,

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

cc: Faith Loretto, KPERS
Dale Dennis, Education