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Jon Hummell, Interim Director

Division of the Budget

Sam Brownback, Governor

February 14, 2014

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 2596 by House Committee on Pensions and Benefits

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2596 is respectfully submitted to your committee.

HB 2596 would reinstate a provision that would allow officers and state employees who retire, become disabled, or die during a certain period and who voluntarily had their compensation reduced or had been placed on furlough to have their Kansas Public Employee Retirement System (KPERS), Kansas Police and Firemen's Retirement System (KP&F), and Judges Retirement System retirement, death, or disability benefit calculations include the level of compensation that would have otherwise been paid had the employees not had their compensation reduced or been furloughed. The original provision applied to employees who retired, became disabled, or died between 2002 and 2007. HB 2596 would create a new period of July 1, 2014, to June 30, 2017.

The Department of Administration would be required to establish the procedures for the payment and remittance of the employer and employee contributions. The bill would not apply to compensation reductions occurring as a result of voluntary demotions, deferred compensation, or compensation reductions from certain authorized cafeteria plans.

KPERS indicates that HB 2596 could have a fiscal effect on state agencies. From the viewpoint of the retirement system, the amount of compensation that would have been paid if the employee was not furloughed or the employee's pay was not reduced can be seen as "additional compensation" since the benefit calculations would be based on the employee's original compensation level rather than the reduced compensation. Within the scenario that no additional contributions are remitted at the time of the furlough, employees whose benefits are affected instead would be identified at the time of retirement, death, or disability. At that time, employer and employee contributions would be remitted by the employing state agency if KPERS determines the additional compensation will change the employee's final average salary and benefits calculation. This could result in unplanned costs for state agencies when affected employees retire; however those costs are unknown. Additionally, KPERS would not have the opportunity to invest the contributions from the time of the furlough to the time when the employee applies for retirement benefits.

KPERS estimates that the effect of HB 2596 on the funding of the retirement system would not be large because both employer and employee contributions ultimately would be paid on the additional compensation. KPERS would need to work with the Department of Administration and other state agencies perform the following actions:

1. Identify state employees with applications for benefits who have had reductions in pay or furloughs;

2. Determine the additional compensation those employees would have received had the furlough not occurred;

3. Ensure that the additional compensation is included in the final average salary calculation; and

4. Calculate and obtain from the employee’s state agency payment of employer and employee contributions due on the additional compensation.

If the furloughs are not widespread or extensive, KPERS anticipates that implementation of the procedures and HB 2596 would not require additional staff or an operating expenditure limitation increase. Any fiscal effect associated with HB 2596 is not reflected in *The FY 2015 Governor’s Budget Report*.

Sincerely,

Jon Hummell

Jon Hummell,
Interim Director of the Budget

cc: Faith Loretto, KPERS