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Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

March 18, 2015

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 2253 by House Committee on Pensions and Benefits

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2253 is respectfully submitted to your committee.

Under current law, certain retired teachers and other retired, licensed school professionals who work after retirement in a licensed position may be exempt from the statutory $20,000 earnings limitation. Existing law also requires employers who hire retired teachers or retired licensed school professionals to pay a special employer contribution rate that is equal to the full actuarial required contribution rate plus 8.0 percent. These special exemptions are scheduled to sunset on July 1, 2015. HB 2253 would extend the working after retirement exemptions to July 1, 2018.

Because the special exemptions from working after retirement are existing law, KPERS indicates that extending the exemptions would not have a fiscal effect on expenditures. The fiscal effect on revenues is less clear. If the existing provisions were to sunset this year, as required under current law, the special employer contribution rate would expire, and the rate structure would change as follows:

1. School group employers hiring licensed professionals who retired from another school district would be required to pay the actuarial rate, plus 6.0 percent, rather than the actuarial rate plus 8.0; and

2. School group employers rehiring licensed professionals who retired from the same school district would no longer be required to pay an employer contribution. Instead, the licensed professionals would be subject to the $20,000 annual earnings limitation.

HB 2253 would retain the higher actuarial rate plus 8.0 percent rate for all retired licensed professionals who return to work for any school employer. However, KPERS notes that either the sunset or extension of the current exemption and rate structure may affect the behavior of school districts and licensed professional school employees nearing or in retirement. This retirement behavior is difficult to predict. As a result, the fiscal effect of HB 2253 on revenues cannot be estimated.

Modifications to the earnings limitation, such as the current exemption provided to retired licensed professionals who are rehired by the same school district, can impact the cost of retirement benefits, with the degree of the impact dependent on the number of retirees affected. The potential for an impact results primarily from two factors: (1) changes in retirement patterns and behavior stemming from incentives for members to retire earlier than they would have absent the exemption; and (2) reductions in employee and employer contributions that occur when positions historically filled by active, contributing members are instead filled by noncontributing retirees. Because school group employers are paying contributions on the compensation of retired licensed professionals at the actuarial rate plus 8.0 percent, KPERS is continuing to receive contributions on the position filled by a retiree. There could also be long-term costs associated with changes in retirement patterns and behaviors if the exemptions continue. However, it is not possible to calculate the precise costs to the system and to what extent the actuarial rate plus 8.0 percent is sufficient to cover those costs. Any fiscal effect associated with HB 2253 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,

Shawn Sullivan,
Director of the Budget

cc: Faith Loretto, KPERS
Dale Dennis, Education