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Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

February 15, 2016

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 2653 by House Committee on Pensions and Benefits

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2653 is respectfully submitted to your committee.

HB 2653 would make several amendments to working after retirement rules for KPERS retirees. Under current law, beginning July 1, 2016, the earnings limit for retirees who return to work will increase to $25,000. The earnings limitation will be applicable to retirees working for any KPERS employer. Further, the difference between the "same employer" and "different employer" will be eliminated. The employer contribution on the compensation of these retirees will be set at the statutorily prescribed employer contribution rate for active members.

Under HB 2653, the distinction between same and different employer would be reinstated. KPERS retirees returning to work for a different employer would not be subject to an earnings limit. An employer contribution rate of 30.0 percent would be applied to the retiree's compensation.

The bill would establish provisions for a written assurance protocol, which is to be submitted to KPERS. The assurance protocol must be signed by the superintendent and board president for school districts. For municipalities, the governing body or a designee must sign the assurance protocol. The assurance protocol must state that the position was advertised on multiple platforms for at least 30 calendar days and must identify one of three conditions:

1. No applications were submitted for the position for which an extension of an exemption is sought;
2. None of the applicants met the reference screening criteria of the employer; or
3. No applicant possessed the appropriate licensure, certification or other necessary credentials.

Since 2009, KPERS retirees who are employed in a licensed school professional position have been exempt from any earnings limitation, whether employed by the same or a different employer than the one from which they retired. The working after retirement changes included in 2015 HB 2095 did not continue this particular exemption, but the changes grandfathered all

KPERS retirees employed in a licensed school position who had retired on or before May 1, 2015. Under current law, after July 1, 2017, certain grandfathered retirees will be subject to a $25,000 annual earnings limit while working after retirement for a KPERS employer. HB 2653 would eliminate the July 1, 2017, sunset and indefinitely extend the grandfathered status for these retirees.

According to KPERS, the specific dollar effect on the retirement system from HB 2653 is difficult to determine. However, the bill would, in some instances, increase employer working after retirement contribution rates. Under current law, employers who hire a KPERS retiree who retired from a different employer must pay the statutory employer contribution rate for active members. In FY 2017, that rate would be 10.81 percent for State/School Group employers and 9.18 percent for Local Group employers. HB 2653 would fix the rate at 30.0 percent.

Currently, school employers that hire KPERS retirees in licensed school professional positions pay the actuarial employer contribution rate, plus 8.0 percent. Under HB 2653, this rate structure would continue indefinitely for grandfathered retirees in licensed positions (retirees with retirement dates before May 1, 2015). If the grandfathering provisions were to sunset after June 30, 2017, as currently provided under current law, and the retirees continued working, the employer contribution rate for those retirees would drop to the statutory employer contribution rate (12.01 percent in FY 2018).

KPERS is not able to anticipate how these new rules would change working after retirement patterns, and cannot estimate how the rate changes may impact expected revenues into the KPERS trust fund.

KPERS indicates that the bill would require expenses to modify the agency's information technology system and database for the purposes of tracking employment by same and different employment separately, receiving and maintain assurance protocols, and tracking grandfathered retirees in licensed school professionals indefinitely. However, KPERS estimates that these costs can be funded within existing resources.

KPERS expects the bill would create additional staff responsibilities for communications and services to retirees and employers subject to working after retirement provisions, reporting and payment functions, and other administrative duties. While KPERS anticipates absorbing the additional workload, further consideration of appropriate staffing levels may be required in the future as the agency gains experience with the administrative impact of the new rules. Any fiscal effect associated with HB 2653 is not reflected in *The FY 2017 Governor's Budget Report*.

Sincerely,

Shawn Sullivan,
Director of the Budget

cc: Faith Loretto, KPERS
Dale Dennis, Education