

**CONFERENCE COMMITTEE REPORT BRIEF  
HOUSE BILL NO. 2196**

As Agreed to April 5, 2023

**Brief\***

HB 2196 would authorize the affiliation of certain persons employed by the Kansas Department of Wildlife and Parks (Department) into the Kansas Police and Firemen's (KP&F) Retirement System on July 1, 2023, and would expand the defined membership of the Deferred Retirement Option Program (DROP) to include any member of KP&F who is eligible to participate in DROP. The bill would also extend the sunset date for DROP from January 1, 2025, to January 1, 2031.

The bill would be in effect upon publication in the *Kansas Register*.

***KP&F Affiliation***

The bill would authorize the Department to become an eligible employer with the KP&F Retirement System on July 1, 2023, for persons employed in the parks, public lands, or law enforcement division who have completed the coursework for law enforcement officers approved by the Kansas Law Enforcement Training Center and who are certified as a full-time police officer or law enforcement officer. The application for affiliation with KP&F would be effective on the July 1 next following application. The Division of the Budget and Governor would be required to budget future contributions accordingly.

Under this affiliation, the Department would pay the KP&F employer contribution rate for its qualified employees. As KP&F members, the employees would contribute at the rate of 7.15 percent of compensation. Currently, these employees contribute to the Kansas Public Employees Retirement System (KPERS or the Retirement System) at the rate of 6.0 percent. The determination of benefits would be based upon service credited under KP&F statutes, and it would include participating service earned on and after July 1, 2023. Department employees who would become KP&F members and have a vested retirement benefit under KPERS but terminate employment prior to vesting in KP&F would be allowed to have their KP&F service credit apply to KPERS benefits.

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\*Conference committee report briefs are prepared by the Legislative Research Department and do not express legislative intent. No summary is prepared when the report is an agreement to disagree. Conference committee report briefs may be accessed on the Internet at <http://www.kslegislature.org/kIRD>

### *Legacy Costs of Affiliation; Amortization, Payment Options*

The bill would provide the actuarial legacy cost of \$2,733,769, for the remaining unfunded liabilities in the Retirement System be amortized over 20 years as a level dollar amount, as certified by the KPERS Board of Trustees upon recommendation of its consulting actuary, through an additional payment by the Department. The bill would also permit, subject to appropriations, the Department to make a payment in full or payments in two installments for the actuarial legacy cost prior to the expiration of the 20-year amortization period.

### ***DROP—Membership Expansion, Sunset Date***

The bill would expand the defined membership of DROP to include any KP&F member who is eligible to participate and elects to participate in DROP. Under current law, a DROP "member" is defined to include only a trooper, examiner, or officer of the Kansas Highway Patrol (KHP) or an agent of the Kansas Bureau of Investigation (KBI).

The bill would also extend the sunset date for DROP from January 1, 2025, to January 1, 2031.

### **Conference Committee Action**

The Conference Committee agreed to the Senate Committee amendments to the bill and agreed to insert provisions relating to the expansion of DROP membership (HB 2196 as recommended by the House Committee on Financial Institutions and Pensions). The Conference Committee agreed to further modify the bill to add language addressing the actuarial legacy cost of KP&F affiliation for designated employees of the Department and to extend the sunset date for the DROP.

### **Background**

#### ***HB 2196 (DROP Membership Expansion)***

Established in 2015, DROP was created to offer a deferred retirement option to eligible KP&F members with the KHP. On January 1, 2020, this program was expanded to include agents of the KBI (2019 HB 2031). Eligible members who opt to participate in the DROP do not earn additional service credit and cannot choose a partial lump sum retirement option, and the individual's election to participate is irrevocable. Members may choose to participate for three, four, or five years. The member's employer must also agree to the member's participation in DROP. Under current law, DROP is a pilot program and will sunset January 1, 2025.

HB 2196 was introduced by the House Committee on Financial Institutions and Pensions at the request of Representative Xu.

### *House Committee on Financial Institutions and Pensions*

In the House Committee hearing, **proponent** testimony was provided by representatives of the Fraternal Order of Police Lodge #3 (Topeka Police; Shawnee County Sheriffs); the Kansas Association of Chiefs of Police, Kansas Peace Officers Association, and Kansas Sheriffs Association; and the Kansas State Council of Firefighters. Written-only proponent testimony was provided by the Chief of Police for the City of Bel Aire and a fire captain with the Olathe Fire Department. Proponents noted concerns with agency vacancy rates, compounded by increasing retirements and loss of more senior staff paired with declining numbers of law enforcement academy graduates. They stated retaining more senior personnel would also ensure proper supervision and guidance throughout the public safety agencies.

Neutral information was provided by the Executive Director of the Kansas Public Employees Retirement System (KPERS), which outlined the DROP plan design, requirements in current law, present DROP participation, potential costs of individuals' DROP elections, and administrative costs. In terms of participation, between July 1, 2015, and December 31, 2022, the conferee reported that 67 out of 550 KP&F members from the KHP or the KBI elected to participate in DROP. As of December 31, 2022, 18 members have completed their DROP period or opted to leave DROP and retire.

### *Senate Committee on Financial Institutions and Insurance*

In the Senate Committee hearing, **proponent** testimony was provided by representatives of the Fraternal Order of Police Lodge #3 (Topeka Police; Shawnee County Sheriffs); the Kansas Association of Chiefs of Police, Kansas Peace Officers Association, and Kansas Sheriffs Association; the Kansas State Council of Firefighters; and the Chief of Police for the City of Bel Aire. Written-only proponent testimony was provided by a fire captain with the Olathe Fire Department. The Chief of Police addressed his experience with and the benefits of the City of Wichita's "DROP" plan and encouraged support for expansion of DROP (KPERS-administered) to all KP&F members.

The Senate Committee amended the bill to change the effective date to publication in the *Kansas Register*. [Note: The Conference Committee retained this amendment.]

### **HB 2198 (KP&F Affiliation)**

The bill was introduced in the House Committee on Financial Institutions and Pensions by Representative Blex on behalf of the Department. [Note: The bill is substantively similar to bills in previous sessions, including 2022 HB 2713, 2020 HB 2678, and 2018 HB 2764.]

### *House Committee on Financial Institutions and Pensions*

In the House Committee hearing, Representative Blex; the Secretary of Wildlife and Parks (Secretary); a natural resource officer working for the Department and representing Lodge 59 of the Fraternal Order of Police; and representatives of the Kansas Association of State Employees (KOSE), Kansas Peace Officers Association, and Kansas Sheriffs Association provided proponent testimony. Representative Blex stated the bill would allow qualified Department employees to transition out of law enforcement at an earlier age and protect the

officer from physical confrontations at a later age. The Secretary explained the Department's law enforcement officers have the same certification as the officers of the KHP and the agents of the KBI, and they face the same dangers as other law enforcement personnel. The Secretary said the bill would help with recruitment and retention issues. The KOSE representative addressed the importance of affording appropriate retirement benefit opportunities to law enforcement professionals who keep citizens and communities safe and requested consideration of inclusion of state correctional officers in KP&F.

The Executive Director of KPERS provided neutral information, explaining many elements in the KP&F plan are different from those of regular KPERS. The final average salary is calculated differently, and the multiplier is 2.5 percent instead of 1.85 percent. The vesting requirement is 15 years of service in KP&F and 5 years of service in KPERS. Normal KP&F retirement is at age 50 with 25 years of service, age 55 with 20 years of service, or age 60 with 15 years of service.

No other testimony was provided.

### *Senate Committee on Financial Institutions and Insurance*

In the Senate Committee hearing, the **proponents** previously appearing in the House Committee hearing submitted similar testimony. The Executive Director of KPERS also provided neutral information regarding the KP&F plan.

Written-only proponent testimony was submitted by three correctional facility employees. These proponents noted the difficult and dangerous work of correctional employees and the challenges of recruiting and retaining correctional facility staff, and they requested consideration for inclusion in KP&F.

## **Fiscal Information**

### ***HB 2196 (DROP Membership Expansion)***

According to the fiscal note prepared by the Division of the Budget on the bill, KPERS states KP&F retirement system costs associated with enactment of the bill would be dependent upon member behavior. If a member entered the DROP when planning to retire and ultimately worked longer, the costs would be relatively low. However, if a member entered the DROP earlier and ultimately retired when the member would have without the DROP, a higher cost is associated with the program.

*Cost projections.* The KPERS actuary provided cost projections using three different scenarios (low- to high-cost) for the scope of the potential costs of the bill:

- **Scenario 1.** Members would enter the DROP early, but still retire as anticipated (a medium-cost approach);
- **Scenario 2.** Members would enter the DROP early, but retire earlier than anticipated (a high-cost approach); and

- **Scenario 3.** Members would enter the DROP when they had anticipated to retire and work longer with the DROP option (a low-cost approach).

For all three scenarios, to estimate a potential fiscal effect, the KPERS actuary used data from the December 31, 2021, actuarial valuation. Normally, any benefit change during the current legislative session would result in a recertification of the next year's employer contribution (pursuant to KSA 74-4920); however, since the fiscal effect cannot be estimated, there would be no change to certified KPERS rates in FY 2024 or FY 2025 with the enactment of the bill. The employer contribution rates in the scenarios below are for FY 2025, as the December 31, 2021, actuarial valuation would set the FY 2025 KPERS rates. KPERS notes that the fiscal effect would be similar in FY 2024.

With **scenario 1**, the actuary projects an employer contribution rate increase from 23.10 percent to 23.50 percent, which is an increase of 0.40 percentage points or \$2.3 million on a \$579.0 million total KP&F state and local payroll base. With **scenario 2**, the actuary projects an employer contribution increase from 23.10 to 24.11 percent, which is an increase of 1.01 percentage points, or \$5.8 million on a \$579.0 million total KP&F state and local payroll base. With **scenario 3**, the actuary projects a decrease in the employer contribution rate from 23.10 percent to 22.86 percent, which is a decrease of 0.24 percentage points or \$1.4 million on a \$579.0 million total KP&F state and local payroll base.

*Future costs.* KPERS notes that while it is not possible to reliably project the future cost of the enactment of the bill, any future experience that would be caused by the expansion would ultimately be reflected in future KP&F employer contribution rates. As required by current law, all KP&F employers are required to pay the full actuarial required contribution rate each year, unlike the regular KPERS rate. Any rate changes would be spread across all 112 KP&F employers. While each employer would have the option to participate in the DROP, each employer would be required to pay the full employer contribution rate. The actual additional cost that would be required by the state and local employers would ultimately depend on the number of members who choose to participate in the DROP, as well as the retirement behavior of those members.

*Administrative costs.* KPERS indicates that expanding DROP to all KP&F members would require additional expenditures totaling \$166,421 in FY 2024, including 1.00 FTE Benefit Analyst II position (\$75,478, including fringe benefits) and 1.00 non-FTE unclassified temporary Benefits Analyst I position (\$70,943, including fringe benefits). Included in this estimate is \$20,000 for changes to KPERS information technology systems. KPERS notes that the Benefits Analyst I position would be a limited-time position to assist with enrollment, tracking, and education activities for members and employers.

Any fiscal effect associated with enactment of the bill is not reflected in *The FY 2024 Governor's Budget Report*.

### **HB 2198 (KP&F Affiliation)**

According to the fiscal note prepared by the Division of the Budget, KPERS indicates the bill would require additional employer contributions of \$1.0 million for the Department beginning in FY 2024. The unfunded actuarial liability (UAL) for KP&F would not increase, and the change would result in a reduction to the State/School Group's UAL by approximately \$6.0 million. According to the actuarial valuation on December 31, 2021, the UAL of the State/School Group

was \$6.8 billion. *The FY 2024 Governor's Budget Report* includes funding for the conversion of Department officers and certain Kansas Department of Corrections employees to KP&F. For the Department, the Governor includes total expenditures of \$2.5 million for FY 2024. The fiscal note states this estimate, however, was not made with actuarial data and the \$1.0 million cost estimate more accurately represents recent actuarial data.

Retirement System; KPERS; KP&F employers; DROP; KP&F affiliation; Kansas Department of Wildlife and Parks; natural resource officers; law enforcement

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