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February 20, 2023

The Honorable Nick Hoheisel, Chairperson
House Committee on Financial Institutions and Pensions
300 SW 10th Avenue, Room 582-N
Topeka, Kansas 66612

Dear Representative Hoheisel:

SUBJECT: Fiscal Note for HB 2196 by House Committee on Financial Institutions and Pensions

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2196 is respectfully submitted to your committee.

A Deferred Retirement Option Plan (DROP) is a retirement plan design feature where an individual member initiates the calculation of a retirement benefit, but opts to defer actual receipt of the benefit for a specific period. During the specified DROP period, the member would continue working and the member's benefit would be credited to a notational account and made available in a lump sum when the member ultimately retired. In the current pilot KPERS Kansas Police and Firemen (KP&F) DROP plan, members and employers continue making regular contributions to the retirement system. The current pilot program has a sunset date of January 1, 2025, and allows the troopers at the Kansas Highway Patrol and agents at the Kansas Bureau of Investigation to participate.

HB 2196 would expand the current KPERS pilot DROP to all KP&F retirement system members. However, this expansion would require participating employers to approve participation so that individual employees would have the option to participate in DROP. The bill would keep the DROP sunset date of January 1, 2025.

With the enactment of HB 2196, costs for the KPERS KP&F retirement system 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, there is a higher cost associated with the program. KPERS notes that some pension plans are designed with benefit caps, and it can be easy for a member to know the most advantageous time to enter the

DROP. However, KPERS indicates that it currently takes 36 years to reach the KP&F benefit cap and most KP&F members do not work that long. Because of this, KPERS indicates that it would be difficult for a member to know the most advantageous time to enter the DROP.

KPERS notes that the current pilot DROP has been in place since 2015 and only 31 KP&F members have utilized the program. As a result, the data is not yet sufficient to set an actuarial assumption with much of a confidence interval. The KPERS actuary did make a cost projection using three difference scenarios for the scope of the potential costs of HB 2196:

1. Members would enter the DROP early, but still retire as anticipated (a medium-cost approach);
2. Members would enter the DROP early, but retire earlier than anticipated (a high-cost approach); and
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, as required in 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 HB 2196. 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. The agency 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, an increase of 0.40 percent 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, an increase of 1.01 percent 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, a decrease of 0.24 percent or $1.4 million on a $579.0 million total KP&F state and local payroll base.

KPERS notes that while it is not possible to reliably project the future cost of the enactment of HB 2196, 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.

For 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 HB 2196 is not reflected in *The FY 2024 Governor's Budget Report*.

Sincerely,

Adam Proffitt
Director of the Budget

cc: Jarod Waltner, KPERS