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Adam C. Proffitt, Director

Laura Kelly, Governor

February 1, 2024

The Honorable Jeff Longbine, Chairperson
Senate Committee on Financial Institutions and Insurance
300 SW 10th Avenue, Room 546-S
Topeka, Kansas 66612

Dear Senator Longbine:

SUBJECT: Fiscal Note for SB 388 by Senate Committee on Financial Institutions and Insurance

In accordance with KSA 75-3715a, the following fiscal note concerning SB 388 is respectfully submitted to your committee.

SB 388 would change the working after retirement law for KPERS retirees. When a member retires from KPERS, there are statutes governing the return to work for a KPERS employer. The law requires having: (1) a 180-day waiting period before being rehired by a KPERS employer, or a 60-day waiting period for members who retire at age 62 or later; (2) no prearrangements about returning to work; and (3) a special KPERS employer contribution for the employee for certain employee compensation.

For the special employer contribution, the employer makes contributions at the statutory rate (current 13.11 percent in FY 2024), up to $25,000 in earnings. Any employee earnings above $25,000 are subject to a 30.0 percent employer contribution rate. SB 388 would increase the threshold for the 30.0 percent employer contribution to $40,000.

KPERS indicates that the provisions from the enactment of SB 388 could be implemented within its existing staffing levels and any costs would be negligible.

For the actuarial cost and based upon data provided during calendar year 2022, there were approximately 2,600 KPERS retirees working whose employer were subject to the special employer contribution rate. Based upon this data, the total employer contributions for these KPERS retirees was $13.1 million, including $6.3 million for compensation up to $25,000 and $6.9 million for compensation above $25,000. If the provisions of the bill would have been implemented, the employer contributions would have been reduced to $11.1 million, including $7.8 million for compensation up to $40,000 and $3.3 million for compensation above $40,000. This would result in a net fiscal effect of approximately $2.0 million in revenue for the KPERS system. This reduction of revenue would reduce the market and actuarial values of assets and would have increased the unfunded actuarial liability of the system; however, because of the total actuarial liability of $36.0 billion, with actuarial assets of $26.1 billion, the employer contribution loss of $2.0 million would be considered negligible to the long-term funding of the KPERS system and would not affect overall employer contribution rates, other than for the proposed threshold change.

KPERS notes that if retirement behavior would change and members would retire earlier than without SB 388, the policy could cause an increase to the unfunded actuarial liability of the retirement system, as the system would be paying more benefits than is currently estimated by the actuary. However, this cost cannot be estimated. Any fiscal effect associated with SB 388 is not reflected in *The FY 2025 Governor's Budget Report*.

Sincerely,

Adam C. Proffitt
Director of the Budget

cc: Jarod Waltner, KPERS