SESSION OF 2023

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2196

As Amended by Senate Committee on Financial Institutions and Insurance

Brief*

HB 2196, as amended, would expand the defined membership of the Deferred Retirement Option Program (DROP) to include any member of the Kansas Police and Firemen's Retirement System (KP&F) who is eligible to participate and elects to participate in DROP. Under current law, a DROP participant can only include a trooper, examiner, or officer of the Kansas Highway Patrol (KHP) or an agent of the Kansas Bureau of Investigation (KBI).

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

Background

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, cannot choose a partial lump sum retirement option, and the individual's election to participate is irrevocable. Members may opt 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.

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*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at http://www.kslegislature.org

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 Sheriffs Association, and the Kansas Peace Officers 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 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. 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 Sheriffs Association, and the Kansas Peace Officers 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*.

Fiscal Information

According to the fiscal note prepared by the Division of the Budget on the bill, as introduced, 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, there is a higher cost associated with the program.

Cost projections. The KPERS actuary provided cost projections using three difference 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 the bill is not reflected in *The FY 2024 Governor's Budget Report*.

Retirement System; KP&F employers; DROP