

SESSION OF 2021

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2064

As Amended by Senate Committee on Financial
Institutions and Insurance

Brief*

HB 2064, as amended, would amend provisions in the Kansas Deferred Retirement Option Program (DROP) Act relating to participating members' election and extension of their DROP periods. The bill would remove a requirement that makes a member's election choice irrevocable.

The bill would allow an enrolled member who previously elected a DROP period of less than five years to revoke such election, with the employer's authorization, and extend their DROP period to an aggregate maximum of five years upon making an application to the system. The bill would provide the aggregate total DROP period must be consecutive.

Under current law, a member makes a one-time, irrevocable election upon entering the DROP to continue working for three, four, or five years, a term known as the DROP period.

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

Background

The bill was prefiled for introduction by the Joint Committee on Pensions, Investments and Benefits. The Joint Committee reviewed the September 2020 evaluation of the DROP program conducted by the Legislative Division of Post

*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>

Audit, which indicated DROP has 39 participants (35 Kansas Highway Patrol members and 4 Kansas Bureau of Investigation members). The audit reviewed the DROP's effectiveness in recruitment and retention and provided the comparative experience in four other programs in other states.

House Committee on Insurance and Pensions

In the House Committee hearing, a representative of the Kansas Public Employees Retirement System (KPERs) provided neutral information about the DROP Act and DROP benefit structure. The conferee discussed enactment of the DROP Act as a 2015 pilot program for Kansas Highway Patrol troopers, who were able to enter the DROP upon retirement eligibility. The conferee stated both members and employers continue to make regular contributions to KPERs during the DROP period, and this amount accumulates in an account to be disbursed in a lump sum to the member at the end of their DROP period. The conferee also discussed the election decisions of current DROP participants, indicating 31 made a 5-year election, 6 made a 3-year election, and 2 made a 4-year election.

The conferee also presented policy considerations, indicating the bill does not clearly state whether employer authorization would be required to approve a DROP extension (such authorization is required at the initial entry into the DROP). The conferee also indicated the bill, as introduced, would not explicitly require the DROP extension to be consecutive with the initial DROP period, which could result in a gap of service that would violate the principle of "in-service distribution" under the Internal Revenue Code.

No other testimony was provided.

The House Committee amended the bill to require employer authorization before a member elects to extend the

DROP period and to require the aggregated total of the DROP period be consecutive.

Senate Committee on Financial Institutions and Insurance

In the Senate Committee hearing, a representative of KPERS provided information on the bill. No other testimony was provided.

The Senate Committee amended the bill to change its effective date to upon 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 indicated the potential actuarial cost associated with enactment of the bill would be negligible due to the limited term of the DROP period and required employer and employee contributions. KPERS also indicated it would have to update some agency publications and make minor changes to the agency's database, but these changes could be accomplished within existing resources.

Retirement; Kansas Deferred Retirement Option Program Act; DROP