

To: Senate Financial Institutions and Insurance
From: Ryan Trader, Fire Captain Olathe Fire Department and KPERS Board Member
Date: March 6, 2023
Subject: HB 2196; Deferred Retirement Option Program Expansion

My written testimony today is of my own opinion and not a reflection of my position on the KPERS Board. The Deferred Retirement Option Program offers a vital service to the citizens of Kansas for an administrative cost and an actuarial cost that can't be determined. The intent of the original program was to assist with keeping experienced officers working because of a reduction in applicants. The DROP was instituted for a five-year period to get an idea of how members would use it and the impact on the KP&F system. I believe there are two benefits to the proposed bill. The first being the impact to the citizens of Kansas. The second is an increased sample size to better understand retirement behavior with the DROP and to accurately model the actuarial cost.

I will speak to the Kansas fire service because that is what I know and am familiar with. The concept of how a DROP impacts the citizens of Kansas isn't as abstract as it seems. It originates from the intent of the original bill, keeping experienced firefighters working in the largest departments in Kansas. These experienced firefighters provide a higher level of service than a recruit and assist in the mentorship of new firefighters, helping close the experience gap. The next five years are critical as many departments have had increased retirements and expansion in the previous five years. These experienced Fire Fighters, Drivers/Engineers, Fire Captains, and Chiefs contemplating retirement could provide essential services as current inexperienced firefighters gain experience and grow under their mentorship. Why hasn't this experience gap been an issue in the past?

The Kansas fire service has seen the sharp decline in applicants in the past 10 years like what law enforcement saw when this program was originally passed. Many departments have dropped requirements such as Firefighter 1 and 2 and Emergency Medical Technician – Basic to increase the applicant pool. My own department would have over 300 qualified applicants 10 years ago and now with a reduction in the requirements has interviewed around 60-80 for each hiring process in the past three years. Larger departments in the KP&F system are hiring recruit classes from 12-20, demonstrating the increased retirement and city growth. Experienced fire fighters extending their careers assist new firefighters being hired with less requirements and slows the need allowing applicant pool to grow. All KP&F departments are working around this challenge. This bill could alleviate the hiring stress on departments and leave experienced firefighters working, making Kansas safer for the citizens and public service employees.

The original DROP bill was to be an experience study. Even after the initial period, there hasn't been enough information to determine how KP&F members will utilize the DROP. This bill will allow for an increased sample size to help determine if KP&F members will alter their retirement plans or extend. The concern for the actuarial cost to the KPERS system is that members will not extend with the DROP but retire at the same age after participating in the DROP. Given the data collected in 2019, the average retirement age for KP&F members was down to 54 years and dropping. With the DROP only becoming eligible to a member at the retirement age of 50 with the required amount of service years, the negative

impact of the DROP (members retiring earlier than planned) is almost negated. A member can't elect for the 3-year DROP at 47 years old and retire at 50. The possible negative impact to KPERS system would be that a 50-year-old member elects for a 3-year DROP and retires at 53 instead of the declining average of 54. The increased cost comes for the retired firefighter being in the system for one more year than the 54-year-old average. On the other side of this example, the DROP might have kept that 50-year-old firefighter for 3 more years than expected because they desired the lump sum benefits of the program. This would create a situation where the firefighter would reduce their time receiving benefits by three years. The negative impact is less likely and less impactful than the positive, recalling that the DROP is funded from the employer and the employee. The lump sum payment reduces the future liabilities to the system while also freezing the members service credit.

I have witnessed the opposite effect of not having a DROP available. I have had many discussions over the past five years with many department members informing me that they would have elected to extend their career with the DROP. The incentive being the ability to continue working and obtaining a lump sum payment that would not affect their retired monthly benefits. Each of these members could have applied for the DROP and extended for 3-5 more years, decreasing their time collecting benefits and continuing their contribution to their department and citizens. The impact that even just five members, with a combined 125 years of experience, extending their career on fire departments with nearly 50% of its members having less than five years of experience can't be defined but is definitely worth expansion of the DROP.