SESSION OF 2024

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2711

As Amended by House Committee on Financial Institutions and Pensions

Brief*

HB 2711, as amended, would amend the Kansas Public Employees Retirement System (KPERS or Retirement System) working after retirement provisions to:

- Add a new category of positions exempt from working after retirement employer contributions;
- Increase a retirant threshold amount from $25,000 to $40,000 for the specified 30.0 percent employer contribution; and
- Increase the earnings limit from $25,000 to $40,000 for retired Kansas Police and Firemen's Retirement System (KP&F) members returning to employment with a previous employer.

Exemption from Working After Retirement Rules

The bill would create a new category of positions exempt from working after retirement employer contributions by adding licensed nurses and direct support workers at a KPERS-affiliated Community Developmental Disability Organizations (CDDOs) to the list of exempted positions.

[*Note:* If exempted from the requirements, the participating employer (CDDO) would not have to enroll retirees into KPERS or report compensation to the

*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

Retirement System. The participating employer would not make contributions to KPERS. However, retirees would still be required to serve their 60- or 180-day waiting period, as applicable before returning to covered employment, provided there is no prearranged agreement for employment.]

Contribution Rates Paid for Covered Positions; Threshold on Retirant Compensation

Under current law, when a KPERS retirant ("retiree") returns to work for a KPERS-affiliated employer in a covered position, the participating employer is required to pay a 30.0 percent "assessment" on compensation paid to the retiree that exceeds the $25,000 threshold amount. The bill would increase this threshold from $25,000 to $40,000 per calendar year.

[*Note:* Participating employers are required to make contributions to KPERS to help finance the Retirement System. The working after retirement law requires employers to pay the statutory contribution rate for the first $25,000 of the retirant's salary and a 30.0 percent contribution rate ("assessment") on earnings over the $25,000 threshold.]

Earnings Limit—KP&F Members, Returning to Work with Previous Employer

The bill would increase from $25,000 to $40,000 the earning limit on KP&F members who have retired and return to work for a previous employer.

Technical Changes

The bill would also make technical updates to remove previous working after retirement exceptions that expired January 1, 2018.

Background

The bill was introduced by the House Committee on Financial Institutions and Pensions at the request of Representative Hoye.

House Committee on Financial Institutions and Pensions

In the House Committee hearing on February 19, 2024, a representative of the Kansas Association of Chiefs of Police, Kansas Sheriffs Association, and Kansas Peace Officers Association and a representative of Big Lakes Developmental Center, Inc., provided **proponent** testimony, generally stating the bill would assist agencies and organizations in hiring retired persons into certain positions to help address staff shortages and improve recruitment efforts. The law enforcement organization representative requested consideration for an amendment to a similar limitation in statutes governing KP&F members returning to work after retirement. The Big Lakes representative requested consideration for a working after retirement rules exemption that had been previously discussed in the 2023 Session.

Written-only proponent testimony was submitted by representatives of the Kansas Association of School Boards; Kansas National Education Association; and Starkey, Inc. These representatives indicated the increased threshold amount would help employers address staff shortages and recruitment, without the additional cost of the 30.0 percent assessment.

Neutral information provided by a representative of KPERS outlined the working after retirement experience in the Retirement System and the working after retirement rules (*e.g.,* specified waiting periods, no permitted prearrangements between retirees and employers, and employer contributions). The information highlighted the current employer contribution rates for a retiree returning to work in a KPERS-covered position, which are based on the retiree's salary: employers pay the statutory contribution rate (currently 12.57 percent for the State/School Group) for the first $25,000 of the retiree's salary and a 30.0 contribution rate on earnings over $25,000.

The KPERS conferee's testimony also addressed the working after retirement experience, noting in the December 31, 2022, KPERS actuarial valuation, there were about 4,500 retirees with reported compensation during the calendar year, with about 1,900 in exempt positions and about 2,600 in covered positions. The conferee also explained actuarial cost implications (further noted in the bill's fiscal note), explaining actuarial cost is based on two factors: the loss of expected employer contributions due to the proposed change (retirant compensation threshold amount increase) and the potential change in the pattern of retirement or hiring behavior by changing the working after retirement rules. Based on data for calendar year 2022, employer contributions for working after retirement based on the existing $25,000 threshold were estimated to be about $13.1 million. If the compensation limit had been $50,000 (as introduced), total contributions would be reduced by $2.7 million—about 20 percent lower. This difference would directly reduce the assets (to the Trust Fund) and therefore, increase the unfunded actuarial liability.

The House Committee amended the bill to:

- Reduce the retirant threshold amount on KPERS retirees working after retirement in a covered position with a participating employer to $40,000 (the amount in the bill, as introduced, increased the threshold from $25,000 to $50,000);
- Insert provisions adding an exemption for retirants employed by a CDDO to working after retirement rules (this language was also included in HB 2272, as recommended by this House Committee); and
- Insert provisions pertaining to an earnings limitation on retired KP&F members returning to

work with a previous employer, in the same amount as specified for other KPERS members by the bill, as amended.

Fiscal Information

According to the fiscal note prepared by the Division of the Budget on the bill, as introduced, KPERS indicates provisions from enactment of the bill could be implemented within its existing staffing levels and any costs would be negligible. [*Note:* Additional information from this fiscal estimate is noted above in the KPERS neutral testimony.]

KPERS provided additional information following the House Committee action on the bill to address provisions modified by or added to the bill.

Increasing the employer contribution rate threshold. KPERS indicates the bill, as amended, would reduce the employer contribution by approximately $2.0 million, assuming similar working after retirement experience in the future. This amount represents about 0.2 percent of total employer contribution for the State/School Group.

Working after retirement contribution exemption. Similar to prior analysis provided on HB 2272, KPERS indicates the estimated number of positions (*i.e.* direct care support) was one to two positions per facility at the 27 CDDOs. Using the higher end of the estimate, these 54 retirees represent about 1.0 percent of all retirees returning to work and do not represent a large enough group to present a meaningful impact on cost estimates.

Increasing the KP&F retiree earnings limitation. KP&F retirees remain under a structure that existed prior to 2017, when KPERS working after retirement was changed to include employer contributions but no retiree earnings limit. KP&F employers therefore only report when a KP&F retiree has reached the earnings limitation. In 2023, there were five

KP&F retirees who exceeded the limitation during the calendar year. Increasing this limitation to $40,000, is not expected to have a meaningful impact on KP&F funding.

Retirement system; KPERS; working after retirement; employer contributions; retirant compensation threshold; exemption from working after retirement rules; Community Developmental Disability Organizations; KP&F; earnings limitation