

March 31, 2015

The Honorable Jeff King, Chairperson
Senate Select Committee on KPERS
Statehouse, Room 341-E
Topeka, Kansas 66612

Dear Senator King:

SUBJECT: Fiscal Note for SB 299 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 299 is respectfully submitted to your committee.

SB 299 would establish new working after retirement guidelines starting July 1, 2016. The current guidelines are scheduled to sunset on July 1, 2015. The bill would extend the current guidelines to June 30, 2016.

The new guidelines would allow a retiree to return to work for the same employer or a different employer in a covered position, after a 60-day waiting period following retirement in which work is not performed for any KPERS employer and as long as the return to work is not the result of a pre-arrangement. The retiree's benefit would be suspended and an amount equivalent to the retirement benefit would accumulate in a notional account while the retiree was reemployed, rather than being received by the retiree during the reemployment period. Upon leaving re-employment, which includes a new 60-day waiting period, the retiree would be able to receive a distribution of the notional account balance in the form of a lump sum payment or through a direct rollover to another eligible plan.

Retirees returning to work for a KPERS-affiliated employer in a non-covered position would be subject to the existing earnings limitation of \$20,000. Upon reaching the earnings limitation in a single calendar year, the retiree must either stop working or suspend the retirement benefit for the remainder of the calendar year.

Currently, there are exemptions from working after retirement guidelines for daily call substitutes, legislative staff and nurses at state hospitals. Under SB 299, these groups would not be exempted from working after retirement guidelines. The new rules would apply to retirees

who were first reemployed prior to July 1, 2016. No retirees would be “grandfathered” in under the current working after retirement provisions. As is currently the case, retirees returning to work would not be eligible for active member death and disability benefits, but would remain eligible for the \$4,000 death benefit for beneficiaries of retirees.

The bill would require the establishment of new notional accounts for retirees returning to covered positions, including functions for determining and crediting an amount equivalent to the retirement benefit, crediting interest, tracking eligibility for and processing distributions, and integrating the notional accounts into the member web portal. Reporting, tracking, and contributions required for retirees would also be changed. As a result, KPERS would incur administrative costs in order to modify the information technology systems and provide associated member and employer communication, education, and services. These costs are estimated to total \$266,462 in FY 2016 and would include \$170,000 for one-time information technology changes and approximately \$96,462 for the salary and benefits of 2.00 FTE positions to enroll members, track individual member’s notional account, and provide member and employer education. Costs for the positions would be on-going and are estimated to be \$97,627 in FY 2017 and \$98,378 in FY 2018.

The bill would require employers to pay employer contributions equal to the actuarial required rate, the member contribution rate, plus 2.00 percent on the compensation of all retirees returning to work in covered positions. If the current member contribution rate of 6.00 percent is used, the SB 299 employer contribution rate would be the actuarial rate plus 8.00 percent (6.00 percent member contribution rate plus 2.00 percent). KPERS indicates that it does not have data to identify which employees currently working after retirement would fall in covered and non-covered positions. Also, working after retirement patterns may shift in response to the new rules. Therefore, it is not possible to determine the specific fiscal effect from the new contribution structure for working after retirement.

Changes in working after retirement rules in SB 299 would likely to contribute to changes in working after retirement patterns over the long term. For those retirees returning to work in a covered position who expect to rely on their KPERS retirement benefit to meet current living expenses, this proposal may change their retirement decision or their decision to work in either full-time or part-time status after retirement. If members ultimately retire later, that could create cost savings. However, if members retire at the same age, but work more hours in reemployment or seek non-KPERS employment, there would be no cost savings. In the specific case of the licensed school professional group, it is possible that retirement patterns would not be affected and that the same financial incentive to retire early associated with the existing exemption for retired licensed school professionals is present under SB 299.

Any working after retirement rules that encourage members to retire and return to work soon after becoming eligible, rather than continuing in employment, could result in long-term costs to KPERS. KPERS expects that members will utilize the proposed working after retirement provisions under SB 299 and, as a result, retirement patterns will be impacted and

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costs will be higher. The fiscal effect of this is difficult to anticipate given that no additional benefit would be earned during the reemployment period, but employer contributions at rates above the full actuarial rate would be required by employers. The contributions would serve to decrease any costs associated with early retirements, but it cannot be determined whether or not the full costs would be covered by the contributions that would be received. Any fiscal effect associated with SB 299 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Faith Loretto, KPERS