MEMORANDUM

To: Senate Financial Institutions and Insurance Committee

From: Alan D. Conroy, Executive Director a.D.C.

Date: March 11, 2021

Subject: House Bill 2064

House Bill 2064 adjusts the KP&F Deferred Retirement Option Program by allowing members to extend their DROP period up to a maximum of five years. This bill was introduced at the recommendation of the Joint Committee on Pensions, Investments and Benefits.

Current Benefit Structure

The 2015 Legislature created a pilot DROP for Kansas Highway Patrol troopers from 2016-2020. The 2019 Legislature extended the pilot to 2025 and expanded it to include the Kansas Bureau of Investigation. Only KP&F members at the Highway Patrol and Bureau of Investigation are eligible for the DROP.

Under this pilot DROP, when a member is eligible for normal retirement, they can enter the DROP. Normal retirement for most KP&F members is:

- Age 55 with 25 years of service
- Age 60 with 20 years of service
- Age 65 with 15 years of service

When entering the DROP, the member makes a one-time, irrevocable election to continue working for 3, 4, or 5 years (the DROP period). During the DROP period, both the member and the employer continue making regular contributions to KPERS. The member's monthly retirement benefit accumulates in a DROP account. Members receive the DROP balance in a lump sum at the end of the DROP period.

Proposed Change

HB 2064 eliminates the language making the DROP period election a one-time, irrevocable election and allows members to extend their DROP period. However, the bill does not allow members to have a total DROP period longer than the existing five year maximum.

For example, if a member initially elects a three-year DROP period. At the end of those three years, the member would be able to extend their DROP period by an additional 1 or 2 years. If a member elects a five-year DROP period initially, they will not have the opportunity to extend at the end of their DROP period because five years is the maximum allowed DROP period.

Projected Costs
From an actuarial cost perspective, the primary driver of costs associated with changes to the DROP provisions is the potential to modify retirement behavior. Generally, if a plan design change encourages members to retire at an earlier age there will be a greater actuarial cost.

Adding flexibility to the initial DROP election could incent some members to elect into the DROP sooner because they would have the opportunity to extend their initial election period. It could also incent some additional members to elect into the DROP due to the additional flexibility.

However, because HB 2064 maintains the five-year maximum period and the existing DROP plan requires both employer and employee contributions during the full DROP period, KPERS consulting actuary estimates that the potential cost of the changes in HB 2064 will be minimal.

House Amendments
The House Committee on Insurance and Pensions amended the bill to clarify that the extension election must be approved by the employer. This is consistent with the initial DROP election period.

In addition, the House Committee added language that the extension period must be consecutive with the initial DROP period. This is required to comply with the Internal Revenue Code.

House Action
The House passed HB 2064 on February 10 with a vote of 125-0.

I would be pleased to answer any questions the Committee may have regarding HB 2064.