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Laura Kelly, Governor

January 25, 2021

The Honorable Steve Johnson, Chairperson
House Committee on Insurance and Pensions
Statehouse, Room 276A-W
Topeka, Kansas 66612

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2064 by Joint Committee on Pensions, Investments and Benefits

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2064 is respectfully submitted to your committee.

Under current law, a Deferred Retirement Option Plan (DROP) is a retirement plan design feature where a member initiates the calculation of a retirement benefit but opts to defer actual receipt of the benefit for a specified period. During the specified DROP period, the member continues working and the member's benefit is credited to a notional account and made available in a lump sum when the member ultimately leaves employment. In the Kansas Police and Firemen's (KP&F) current DROP plan, member and employers continue making regular contributions to the KP&F system. Currently, only KP&F members of the Kansas Highway Patrol and Kansas Bureau of Investigation have a DROP option. The KP&F DROP option for current eligible employees is irrevocable and has a statutory sunset of January 1, 2025.

HB 2064 would allow DROP elections to be revocable. In addition, the bill would allow a member who first elected a DROP period of less than five years to extend the DROP period upon making application to the system. The total aggregate DROP period for a member could not exceed five years from the effective date of the initial election to participate in the DROP.

KPERS indicates that from an actuarial perspective, the primary driver of costs associated with changes to the DROP provisions would be the potential for members to modify their 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 provide incentive for some members to elect into the DROP sooner because they would have the opportunity to extend the period their initial election period. It could also incentivize additional members to elect into the DROP due to the additional flexibility.

However, because HB 2064 would maintain the five-year maximum period and would require both employer and employee contributions during the full DROP period, the KPERS consulting actuary projects that the potential actuarial cost of the changes in HB 2064 will be negligible. KPERS indicates that it would require some updates to agency publications as well as minor changes to the agency's database to administer the changes to the DROP. However, these changes could be accomplished within existing resources.

Sincerely,

Adam Proffitt
Director of the Budget

cc: Jarod Waltner, KPERS