SESSION OF 2023

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2195

As Amended by House Committee on Financial Institutions and Pensions

Brief*

HB 2195, as amended, would modify the Kansas Public Employees Retirement System (KPERS or Retirement System) working after retirement provisions pertaining to employer contributions by raising the threshold for the 30.0 percent employer contribution from $25,000 per calendar year to $50,000 per calendar year and temporarily waiving the 30.0 percent contribution rate for an 18-month window. During this time, KPERS-participating employers would only make statutory contributions on all KPERS retirant compensation.

Temporary Modification to Contribution Rates Paid for Covered Positions

The bill would require participating employers (State, School, and Local) to pay only the statutory employer contribution rate on retirant compensation earned during the period of July 1, 2023, through December 31, 2024.

Under current law, participating employers are required to pay a 30.0 percent "assessment" on compensation exceeding the $25,000 threshold amount. [*Note:* 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

*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 contribution rate (“assessment”) on earnings over the $25,000 threshold.]

Retirant Compensation Threshold Amount

The bill would also increase the retirant compensation threshold that is subject to the statutory KPERS employer contribution rate from the first $25,000 of a retirant’s compensation earned in a calendar year to $50,000 per calendar year. [*Note:* This threshold is not subject to the temporary provisions described above.]

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 Xu.

House Committee on Financial Institutions and Pensions

In the House Committee hearing, **proponent** testimony was provided by the Chair Pro Tem of the Sedgwick County Board of Commissioners, a former state representative, and representatives of the Kansas National Education Association and State Board of Education. The proponents highlighted challenges in filling vacancies from the perspectives of a local employer experiencing critical vacancies to education shortages that could be better addressed with the removal of the assessment on participating employers.

Neutral information provided by the Executive Director of KPERS outlined the working after retirement experience in the Retirement System and the working after retirement rules, noting employer contributions are not considered under the Internal Revenue Code (*e.g.,* requiring a *bona fide* retirement, waiting period, no prearrangement to return to work). The Executive Director addressed the actuarial cost implications of the bill's enactment (described later in this supplemental note). The information presented notes that increasing the threshold amount for the 30.0 percent contribution rate would make it more attractive for employers to rehire employees, rather than seeking to fill the position with a new employee. Retirement behavior changes, such as members retiring earlier, could create additional actuarial costs.

The House Committee amended the bill to increase the retirant compensation threshold amount from $25,000 (current law) to $50,000. [*Note:* This amount had been increased from $25,000 to $35,000, in the bill, as introduced.]

Fiscal Information

According to the fiscal note prepared by the Division of the Budget on the bill, as introduced, the KPERS actuary notes the two main areas of cost associated with enactment of the bill would be the loss of expected employer contributions, as well as the potential to change the pattern of retirement behavior by altering the working after retirement rules.

Compensation Threshold. Based on the data for the calendar year 2021, there were about 4,700 KPERS working after retirement members. Total employer contributions for calendar year 2021, based on the existing $25,000 threshold, were approximately $15.6 million. If the compensation limit for the 30.0 percent employer contribution rate had been increased to $35,000, total contributions would have been reduced to $14.2 million, or by $1.4 million (or 10.0 percent). The reduction in employer contributions would have approximately the same fiscal effect in FY 2024 under the bill. This reduction in employer contributions would directly lower the value of KPERS assets and would increase the Retirement System's unfunded actuarial liability. Given the total KPERS unfunded actuarial liability of $8.7 billion (State, School, and Local), KPERS indicates the loss of $1.4 million annually would have a negligible effect on the long-term funding of KPERS. [*Note:* A fiscal note was not immediately available on the increase to this threshold amount included in the bill, as amended.]

Temporary Waiver of Assessment. The fiscal note also addresses the statutory employer contribution rate (and waiver of the assessment), which would be assessed on all compensation paid to retirants who return to work in covered employment from July 1, 2023, through December 31, 2024. Based on available data, the estimated loss of contributions for this 18-month period would be $5.5 million. Since this would be a time-limited window, the long-term impact on the funding of the plan would be considered negligible.

Administrative Costs. KPERS also indicates that the bill would require additional administrative expenses, including updating printed materials and minor changes to the KPERS IT systems; however, any additional administrative costs would be negligible. Any fiscal effect associated with the bill is not reflected in *The FY 2024 Governor's Budget Report*.

Retirement System; KPERS; working after retirement; employer contributions; retirant compensation threshold; assessment waiver