

## MEMORANDUM

To: House Financial Institutions and Pensions

From: Alan D. Conroy, Executive Director

Date: February 18, 2019

Subject: HB 2140; KP&F Deferred Retirement Option Program

House Bill 2140, as introduced, extends the statutory sunset on KP&F Deferred Retirement Option Program (DROP) from January 1, 2020 to January 1, 2025. The bill also makes KP&F members of the Kansas Bureau of Investigation eligible for the DROP in addition to KP&F members of the Kansas Highway Patrol.

A Deferred Retirement Option Plan (DROP) is a 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 this 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.

### **Current Law**

The 2015 Legislature created a Deferred Retirement Option Program (DROP) pilot. The pilot group of members included only the Kansas Highway Patrol. The DROP pilot was given a 5-year window, sun setting on January 1, 2020.

The pilot DROP for the Kansas Highway Patrol KP&F members includes the following plan design features:

- Members may enter the DROP at normal retirement age,
- Members must select a period of 3-5 years to continue working, during which time their benefit is deposited into a DROP account, which may be credited interest when certain investment thresholds are met.
- Members and employer continue to make regular contributions to KPERS (7.15% for the employee and 22.13% in FY 2020 for employers).
- At ultimate retirement, the member receives the balance of the DROP account as a lump sum or a rollover to another qualified account.

Over the past 4 years, 13 members have entered into the DROP. In the most recent valuation there were 496 active KP&F members at the Kansas Highway Patrol, out of 7,481 total KP&F members. The Kansas Highway Patrol typically has 10-20 KP&F retirements each year.



**Actuarial Cost Impact**

KPERS' consulting actuary completed a cost projection on the extension of the DROP and addition of the Kansas Bureau of Investigation as an eligible employer. Adding the Kansas Bureau of Investigation KP&F members to the DROP increases the total number DROP eligible member by 67 to a total of 563 eligible members. The additional benefit for these 67 members is projected to cause an increase in the unfunded actuarial liability of about \$450,000. The current unfunded actuarial liability for KP&F is \$845.5 million.

This unfunded actuarial liability is funded through annual employer contributions for all KP&F employers. Increasing the unfunded actuarial liability by \$450,000 is projected to increase the actuarial required contribution rate by 0.01%.

In addition, the employer normal cost changes due to the additional DROP members. The projected impact on the normal cost rate is also 0.01%.

The total projected increase in the actuarial required contribution rate due to HB 2140 is 0.02% in the uniform contribution rate. This increase applies to all 115 KP&F employers. Applying the 0.02% increase in the contribution rate to the \$508 million in total KP&F payroll, the projected increase in KP&F contribution due to HB 2140 is about \$102,000.

**Administrative Costs**

HB 2140, as introduced, is limited in the number of KP&F members who can participate in the DROP. Currently, the number of people that are eligible is small enough to be administered without major information technology upgrades or staffing. As introduced, the bill would not require additional administrative expenditures to implement.

However, if the DROP plan is ultimately expanded to include additional employers or expanded to all KP&F then there will be administrative implications. Specifically there will be additional staffing necessary to assist the KP&F members with the new benefit provision and information technology upgrades will be required to automate some of the calculations that are completed by hand for the pilot DROP participants.

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