

Testimony before House Commerce Committee  
HB 2426 – Pension Spiking reform  
Presented by Mike O’Neal, Kansas Chamber CEO  
May 11, 2015

Mr. Chairman and members of the Committee

On behalf of The Kansas Chamber, I am pleased to appear in support of the provisions of HB 2426, which reforms state law regarding calculation of KPERS benefits by limiting the accumulation of leave days which are causing a spiking of benefits at the expense of the retirement system and Kansas taxpayers. The bill’s provisions are explained in good detail in the published fiscal note of May 6, as are the benefits to both the retirement system and Kansas taxpayers.

As the Legislature struggles to grapple with this year’s projected shortfall, we have heard many of your colleagues claim that there are simply no more efficiencies to find or places to cut and the only alternative is to raise taxes on Kansas businesses and individuals. Yet, this is a stark example of why this claim is simply not true. We applaud the thoughtful research and review that occurred to identify this practice of pension spiking that results in an artificially high final wage calculation for pension purposes. Benefit calculation methods should be by design and backed by good public policy. The current system of allowing the level of pension spiking we now see was neither intentional nor is it good policy and in the best interests of the retirement system or Kansas taxpayers.

The Kansas Chamber Legislative Agenda “encourages government reform aimed at lowering the overall cost of state government so it is more affordable to Kansas businesses and residents through policies that promote adoption of ‘lean government’ practices to transform the state into a more efficient enterprise.” While the exact cost savings cannot be calculated with certainty, as explained in the fiscal note, it is undisputed that there will be cost savings and reduction of our KPERS actuarial liability and for that reason HB 2426 earns our endorsement. This is but one type of cost efficiency that a thorough governmental efficiency study would likely uncover.

We do suggest, however, that the Committee address the issue raised in the fiscal note dealing with the unique situation with legislative staff and the system of compensatory time offsetting the amount of overtime they put in during a legislative session. We don’t think eliminating the current system of using compensatory time to address the disproportionate hours put in during the session would be in the best interests of the state.



*“...to continually strive to improve the economic climate for the benefit of every business and citizen and to safeguard our system of free, competitive enterprise”.*



# KANSAS POLICY INSTITUTE

ADVOCATING FOR FREE MARKETS AND THE PROTECTION OF PERSONAL LIBERTY

## Testimony to House Commerce, Labor and Economic Development HB 2426 Definition of Final Average Salary for Pensions

May 11, 2015

Dave Trabert, President

Chairman Hutton and members of the Committee:

We appreciate this opportunity to provide testimony in support of HB 2426, which would reduce the impact of 'pension spiking' by including one-time payouts of accrued sick leave and vacation leave in the calculation of Final Average Salary.

KPI gathers state payroll information for publication on [KansasOpenGov.org](http://KansasOpenGov.org). The 2013 data collected from the Kansas Turnpike Authority showed some unusually high compensation numbers for some employees, which we learned was partly driven by large payouts of unused sick leave, vacation and other paid leave upon employees' termination or retirement. Total payout across KTA was \$692,923.

The following table shows the annual and 20-year cost of the current practice. In each case, we assume 25 years of service and a 1.75% multiplier. Base pay and total pay for 2013 are actual amounts; prior years are estimated as 2013 was the first year of data collection from KTA.

President / CEO			Customer Service Rep			Toll Collector II		
	Pension Basis		Pension Basis			Pension Basis		
	3 years Salary	4 Years Total Pay	3 years Salary	4 Years Total Pay		3 years Salary	4 Years Total Pay	
FAS	\$379,831	\$405,505	\$98,080	\$121,991		\$48,892	\$55,858	
Years of Service	25	25	25	25		25	25	
Multiplier	1.75%	1.75%	1.75%	1.75%		1.75%	1.75%	
Annual Pension	\$166,176	\$177,408	\$42,910	\$53,371		\$21,390	\$24,438	
Pension Spike		\$11,232		\$10,461			\$3,048	
20-year value		\$224,642		\$209,223			\$60,955	
	Base	Total	Base	Total		Base	Total	
2013	384,494	497,019	100,240	199,965		50,676	82,433	
2012	380,000	380,000	98,000	98,000		49,000	49,000	
2011	375,000	375,000	96,000	96,000		47,000	47,000	
2010		370,000		94,000			45,000	
Final Avg. Salary	379,831	405,505	98,080	121,991		48,892	55,858	

The three individuals collectively received \$244,007 in payouts which would cost taxpayers \$494,821 in additional pension costs over the next twenty years (based on the above assumptions). Further, payouts of unused sick leave and vacation time are not recorded as expense when occurred each year because the costs are booked on a cash basis; this results in unusual and unplanned spending increases.

[WWW.KANSASPOLICY.ORG](http://WWW.KANSASPOLICY.ORG) | [WWW.KANSASOPENGOV.ORG](http://WWW.KANSASOPENGOV.ORG)

WICHITA OFFICE: 250 N. WATER, SUITE 216 | WICHITA, KANSAS 67202 | P 316-634-0218  
OVERLAND PARK OFFICE: 12980 METCALF, SUITE 430 | OVERLAND PARK, KANSAS 66213 | P 913-213-5038

Sick leave is a benefit to provide pay when an employee is ill; it is not an entitlement intended to boost pay and pension. Vacation leave exists to be used in the promotion and maintenance of employee health and well-being within a calendar year. Employees should be required to use vacation time each year or forego it, both for the purposes on employee health and well-being and for internal control purposes. Internal control over financial transactions and other sensitive data is enhanced when employee duties are transferred to others while the employee is on vacation.

We believe this bill is in taxpayers' interest and encourage the Committee to support it.

**Testimony**

**Proponent of HB2426**

House Commerce, Labor and Economic Development Committee

Monday, May 11, 2015

I am newly appointed Saline County commissioner and want to indicate my support for HB2426. I believe it is only reasonable that retirement pay not be artificially inflated by unused sick and vacation leave.

Thank you for your consideration.

Dave Smith  
Saline County Commissioner