Approved January 29, 1985
Date

MINUTES OF THE HOUSE COMMITTEE ON PENSIONS, INVESTMENTS & BENEFITS.

The meeting was called to order by REPRESENTATIVE VERN WILLIAMS, VICE-CHAIRMAN at
Chairperson

9:00 a.m. a.m./p.m. on Tuesday, January 29, 1985 in room 527-S of the Capitol.

All members were present except:

Representatives Michael Peterson, R.H. Miller and Ken Francisco - Excused.

Committee staff present:

Gordon Self
Alan Conroy
Richard Ryan
Rosalie Black

Conferees appearing before the committee:

Marshall Crowther, Executive Secretary, KPERS.

Jim Maag, Kansas Bankers Association.

The meeting was called to order by Vice-Chairman, Vern Williams. Minutes of the January 24, 1985, meeting were approved.

The Vice-Chairman introduced Jim Maag to present two proposals before the committee. Mr. Maag noted that both proposals comprised pledging securities at market value 100% of the amount of the account instead of the current 70%. Attachment 1.

Representative Dyck moved to consolidate both proposals into one bill to be introduced by the committee and referred back; seconded by Representative Ott. The motion carried.

Marshall Crowther discussed significant features of the Kansas public employees, Kansas police and fire, and Kansas judges retirement systems; disability benefits; and KPERS comprehensive annual financial report. Attachment 2.

The meeting adjourned at 10:15 a.m.

VW
1/30/85

Please PRINT Name, Address, the organization you represent, and the Number of the Bill in which you are interested. Thank you.

NAME	ADDRESS	ORGANIZATION	BILL NO.
BILL NEY		DPS	
[illegible] C Burnett		KRTA	
Basil Covey		KRTA	
Harold C Pitts		TARTA	
John D McNeal		Observer	
Carl [illegible]		KAPE	
Bill Curtis		KASB	
[illegible]		KBA	

Attachment I

Section 1. K.S.A. 1984 Supp. 9-1402 is hereby amended to read as follows:

9-1402. (a) Before any deposit of public monies . . .

(d) Any state or national bank, trust company, state or federally chartered savings and loan association or federally chartered savings bank may deposit, maintain, pledge and assign for the benefit of the governing body of the municipal corporation or quasi-municipal corporation in the manner provided in this act, securities the market value of which is equal to ~~no less than 70%~~ 100% of the total deposits at any given time, and such securities shall consist of: . . .

~~(g) Any state or national bank, trust company, state or federally chartered savings and loan association or federally chartered savings bank which has agreed to pay a rate of interest upon monies deposited pursuant to K.S.A. 12-1675, and any amendments thereto, greater than the average yield before taxes received on nine-one day United States treasury bills as determined by the federal reserve banks as fiscal agents of the United States at its most recent public offering of such bills prior to the inception of such deposit contract, and depositing, pledging and signing securities to secure payment of such deposit, shall deposit and maintain for the benefit of the governing body of the municipal corporation or quasi-municipal corporation, in the manner as provided in this act, securities of a type described in this section market value of which is equal to no less than 100% of such deposit. . . .~~

~~(h)~~(g) Any expense incurred in connection with granting approval of revenue bonds shall be paid by the applicant for approval.

~~(i)~~(h) All negotiable promissory notes . . .

Sec. 2. K.S.A. 1984 Supp. 9-1402 is hereby repealed.

Sec. 3. This act shall take effect and be in force from and after its publication in the statute book.

Attachment 1

Section 1. K.S.A. 75-4218 is hereby amended to read as follows:

75-4218. (a) All state bank accounts shall be secured by pledge of securities as provided in this section . . .

(e) Active accounts, time deposit, open accounts, inactive accounts, fee agency accounts, and custodial accounts shall be secured ~~in an amount equal to seventy percent (70%) thereof~~ by pledge of securities the market value of which is equal to 100% of the amount of the account, less so much of any such account as is protected by the federal deposit insurance corporation. Any agency responsible for a fee agency account shall transfer immediately all monies not so secured to the state treasurer for deposit in the state treasury.

(f) Time deposit, open accounts and certificates of deposit contracted for under authority of K.S.A. 75-4259, shall be secured ~~in an amount equal to seventy percent (70%) thereof~~ by pledge of securities the market value of which is equal to 100% of the amount of the account, less so much thereof as is protected by the federal deposit insurance corporation.

Sec. 2. K.S.A. 75-4218 is hereby repealed.

Sec. 3. This act shall take effect and be in force from and after its publication in the statute book.

Attachment 2

May 7, 1984

COMPARISON OF SIGNIFICANT FEATURES OF THE KANSAS PUBLIC EMPLOYEES, KANSAS POLICE AND FIRE, AND KANSAS JUDGES RETIREMENT SYSTEMS*
(All Administered by the Board of Trustees of KPERS)

COVERAGE - EMPLOYERS

KPERS - Mandatory for the state. Optional for any city, county, township, special district or any instrumentality of any one or several of the aforementioned whose employees are covered by Social Security and not covered by or eligible for another retirement plan under the laws of the State of Kansas.

KP&F - Optional, any political subdivision employing firemen or policemen. Includes Highway Patrol and KBI.

JUDGES - State Judicial System.

COVERAGE - EMPLOYEES

KPERS - Mandatory for all eligible employees (except elected officials), both current and future, whose employment is not seasonal or temporary and requires at least 1,000 hours per year. Future nonschool employees after entry date become eligible after one continuous year of service (except for first-day coverage for death and disability benefits).

KP&F - Mandatory for all employees except sheriffs. Sheriff may elect membership.

JUDGES - All justices of the Supreme Court, Court of Appeals and all judges and associate judges of the district courts of the State of Kansas automatically participate upon appointment. Supreme Court Commissioners were considered justices of the Supreme Court for the purpose of inclusion under the Judges Retirement System.

EMPLOYER CONTRIBUTION

KPERS - Amount required to pay current service liabilities and to fund prior service costs.

FYs 1984 and 1985	School	4.4%	FY 1986	School	4.3%
	Non-School	4.6%		Non-School	4.9%[a]

a) This rate applies to local government employees in CY 1985.

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* Prepared by KPERS staff and Kansas Legislative Research Department.

KP&F - Amount required to pay current service liabilities and to fund prior service costs. (16% for first year.) Each employer has a separate rate.

FY 1985	Local	20.9% (Avg.)	FY 1986	Local	16.8% (Avg.)
	KBI	18.5%		KBI	14.7%
	Patrol	20.1%		Patrol	16.1%

JUDGES - Amount required to pay all liabilities which shall exist or accrue, including amortization of unfunded accrued liability.

FY 1985 10.3% FY 1986 8.7%

EMPLOYEE CONTRIBUTION

KPERS - 4% gross compensation.

KP&F - 7% gross compensation - after 35 years credited service or attainment of age 60 and 20 years credited service, drops to 2%.

JUDGES - 6% gross compensation - after 20 years credited service and attainment of age 65, drops to 2%.

(Beginning in the 3rd quarter of CY 1984, legislation enacted in 1984 requires member contributions to be "picked-up" by employers, i.e., treated, but not actually paid, as employer contributions, for federal income tax purposes to defer taxation of that part of a member's salary until contributions are withdrawn or retirement benefits begin.)

REQUIRED SERVICE

KPERS - No required number of years.

KP&F - 20 years.

JUDGES - No required number of years.

VESTING OF BENEFITS

KPERS - 10 years credited service.

KP&F - 20 years credited service.

JUDGES - 10 years credited service.

(Members of one of the above systems who were members of either of the other systems may combine service credit for vesting under all systems for which they have credit.)

RETIREMENT AGE

KPERS - 65 (normal retirement).*
60 (early retirement).*

KP&F - 55 (normal retirement).
50 (early retirement).

JUDGES - 65 (normal retirement).
62 (early retirement).

MINIMUM RETIREMENT AGE

KPERS - 60, early retirement with 10 years credited service (actuarially reduced benefit). Exceptions for state correctional employees — see Retirement Age.

KP&F - 50, after 20 years service (actuarially reduced benefit).

JUDGES - 62, early retirement with 10 years credited service (actuarially reduced benefit).

MANDATORY RETIREMENT AGE

KPERS - None

KP&F - No mandatory retirement age except for Highway Patrol (age 60) and KBI (age 65); however, no credit earned after 60 except for employees who do not have required 20 years service. Employee must make contributions as long as employed as policeman or fireman.

JUDGES - End of term in which age 70 is attained.

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* State correctional employees — unit team personnel, correctional officers, and supervisors have a normal retirement age of 55 and an early retirement option at age 50. Power plant operators, correctional industries personnel, food service employees, and maintenance supervisors, who have regular contact with inmates, have a normal retirement age of 60 and an early retirement option at age 55. Early retirement is subject to actuarial reduction.

BASIS OF RETIREMENT BENEFIT

KPERS - Final average salary (FAS). Average highest 5 years of participating service. However, members eligible for a long-term disability benefit, who were disabled for at least five years immediately before retirement, will have their FAS adjusted upon retirement by the actuarial salary assumption rates existing during the period of disability.

KP&F - Final average salary (FAS). Average highest 3 of last 5 years of participating service.

JUDGES - Final average salary (FAS). Average highest 5 of last 10 years of participating service.

BASIC RETIREMENT BENEFIT

KPERS - Prior service - 1% FAS for each year of prior service for persons retiring on or after 7-1-81; otherwise, 1% prior service salary (highest salary paid in one of the immediately preceding 3 years before entry date). Participating service - 1 1/4% FAS for each year of participating service; 1.4% for service credited after June 30, 1982; 1.4% FAS for all years of participating service for members who retire on or after July 1, 1989 with at least 25 years of such service. No minimum — No maximum.

KP&F - 2% FAS per year of service (combined prior and participating) not to exceed 70% of FAS.

JUDGES - 4% FAS per year of service for up to 10 years and 3 1/3% for more than 10 years (combined prior and participating) not to exceed 65% of FAS. Minimum of 50% FAS per month if 10 or more years of continuous service immediately preceding retirement.

OPTIONS

KPERS - OPTION A: A reduced monthly benefit payable for life with one-half this amount continued monthly to the joint annuitant upon the death of a retirant. The reduction factor is 87% minus .6% for each year the joint annuitant is younger than the retirant or plus .6% for each year older.

OPTION B: A reduced monthly benefit payable for life with the same amount continuing monthly to the joint annuitant upon the retirant's death. The reduction factor is 75% minus .9% for each year the joint annuitant is younger than the retirant or plus .9% for each year older.

OPTION C: A reduced monthly benefit payable for life and if death occurs within 10 years of the retirement date, the same amount is payable to the beneficiary for the remainder of the 10 year period. The reduction factor is 94%.

KP&F - OPTION A: Same as KPERS except reduction factor is 89% plus or minus .4% for age differential.

OPTION B: Same as KPERS except reduction factor is 80% plus or minus .7% for age differential.

OPTION C: Same as KPERS except reduction factor is 97%.

JUDGES - OPTION A: Same as KPERS.

OPTION B: Same as KPERS.

OPTION C: Same as KPERS.

POST RETIREMENT ADJUSTMENTS

KPERS - 1972 - 5% across the board. (Permanent)

1973 - Graduated percentage increase based on year of retirement ranging from 32% to 2%. (Permanent)

1976 - 5% of annual benefit; maximum $200, minimum $20. (13th Check)

1977 - 5% of annual benefit; maximum $200, minimum $20. (13th Check)

1978 - Graduated percentage increase based on year of retirement ranging from 7.34% to 1.1%. (Permanent)

1980 - Retirement Dividend Payment not to exceed 8.33% of annual benefit (13th Check); expires October 2, 1987.

1982 - 10% increase in monthly benefits for retirants who were entitled to benefits as of 6-30-81. (Permanent)

1984 - 10% increase in monthly benefits for retirants who were entitled to benefits as of 6-30-81. (Permanent)

KP&F - 1972 - Same as KPERS.
1973 - Same as KPERS except 50% to those who retired before 1962.
1976 - Same as KPERS.
1977 - Same as KPERS.
1978 - Same as KPERS.
1980 - Same as KPERS.
1982 - Same as KPERS.
1984 - Same as KPERS.

JUDGES - 1972 - Same as KPERS.
1973 - None.
1974 - Integration with social security removed.

1976 - Same as KPERS.
1977 - Same as KPERS.
1978 - Same as KPERS.
1980 - Same as KPERS.
1982 - Same as KPERS.
1984 - Same as KPERS.

RESTRICTIONS ON POST RETIREMENT EARNINGS

KPERS - None.

KP&F - Retirants may not be employed by the same department of the employer from which they retired for more than 30 days in any calendar year.

JUDGES - None.

TERMINATION BENEFIT

KPERS - Return member's actual contributions plus credited interest (must be repaid by employee or employer if reemployed by same employer within 60 days); 31-day conversion provision on life insurance. Vested benefit with 10 years, if no withdrawal.

KP&F - Return member's actual contributions plus interest credited after June 30, 1982 (must be repaid by employee or employer if reemployed by same employer within 60 days). Vested benefit with 20 years, if no withdrawal.

JUDGES - Return member's contributions plus interest credited after June 30, 1982. Vested benefit with 10 years of service.

DEATH BENEFITS DEFINITION (DUTY CAUSED)

KPERS - Service-connected accident.

KP&F - Service-connected accident; for members with 5 or more years of credited service heart and lung disease is presumed service-connected.

JUDGES - Death from any cause while in service as a judge.

DEATH BENEFITS (DUTY CAUSED)

KPERS -	SPOUSE:	50% FAS less any amount paid or payable under Workers' Compensation ($100 minimum per month), until death or remarriage, and a $50,000 lump sum payment.
	EACH CHILD:	NONE.
	FAMILY MAXIMUM:	50% FAS.
	CHILDREN, NO SPOUSE:	Same as spouse, until youngest child attains age 18.
	BENEFICIARY:	Return member's actual contributions plus interest. Insured death benefit-100% annual rate of compensation (ARC) if member under age 70 (100% limitation eliminated in 1982, subject to availability of funds and KPERS Board approval). If no spouse or children, service-connected accident benefits payable to dependent parents.
KP&F -	SPOUSE:	50% FAS, until death or remarriage.
	EACH CHILD:	10% FAS, until youngest attains age 18.
	FAMILY MAXIMUM:	75% FAS.
	CHILDREN, NO SPOUSE:	50% FAS + 10% FAS per child.
	BENEFICIARY:	If no spouse or children, return member's contributions plus interest credited after June 30, 1982, to beneficiary.

JUDGES

PAYABLE TO ANY NAMED BENEFICIARY:	Return member's actual contributions plus interest. Insured death benefit of 100% ARC payable to beneficiary if member under age 70 (100% limitation eliminated in 1982 subject to availability of funds and KPERS Board approval). If over age 60, with 10 years credited service and spouse is sole beneficiary, spouse may elect payment under Option A rather than lump sum return of actual contributions.

DEATH BENEFITS (NON DUTY)

KPERS - Return member's actual contributions plus interest. Insured death benefit of 100% ARC payable to beneficiary if member under age 70

(100% limitation eliminated in 1982 subject to availability of funds and KPERS Board approval). If over age 60, with 10 years credited service and spouse is sole beneficiary, spouse may elect payment under Option A rather than lump sum return of actual contributions.

KP&F - UNDER 5 YEARS SERVICE: Return member's actual contributions (with interest credited after June 30, 1982) to beneficiary.

5 YEARS OR MORE: Spouse receives lump sum of 50% FAS plus 2% FAS per year of service (payable at spouse's age 50 unless there are unmarried children under age 18). If no spouse or children, return member's actual contributions without interest to beneficiary.

JUDGES - Same as above (duty caused).

DEATH BENEFITS AFTER RETIREMENT

KPERS - None unless option is selected. If no option selected beneficiary receives amount remaining, if any, of member's actual contributions less retirement benefits paid to deceased member. Lump sum death benefit of $1,000.

KP&F - None unless option is selected. Lump sum death benefit same as KPERS.

JUDGES - None unless option is selected. If no option selected beneficiary receives amount remaining, if any, of member's actual contributions less retirement benefits paid to deceased member. Lump sum death benefit same as KPERS.

DISABILITY BENEFIT DEFINITION (DUTY CAUSED)

KPERS - Totally and permanently disabled after 180 consecutive days regardless of cause. May be either physical or mental.

KP&F - Totally and permanently disabled as a policeman or fireman, may be physical or mental but must be caused by service-connected accident. For members with 5 or more years of credited service heart and lung disease is presumed service-connected.

JUDGES - Totally and permanently disabled as a judge, may be physical or mental from any cause. Also available to vested, inactive judges.

DISABILITY BENEFITS (DUTY CAUSED)

KPERS - EMPLOYEE: 55% ARC (law permits not to exceed 60% subject to availability of funds and KPERS Board approval), reduced by 1/2 Workers' Compensation and total of primary Social Security or any other employer provided benefits after 180 days disability ($50 minimum). Continued group life insurance coverage. Participating service credit granted during period of total disability. Insurance benefits and coverage ends at age 70 or retirement, whichever first occurs. Disabilities occurring after age 60 receive benefits to the earlier of (1) termination, (2) age 70, (3) 5 years.

EACH CHILD: None.

FAMILY MAXIMUM: 55% ARC.

(Certain state correctional employees have the same benefits as under KP&F from July 1, 1982 to July 1, 1986, except such benefits are reduced by any disability benefits received under Social Security or Workers' Compensation but not to less than $50 per month.)

KP&F - EMPLOYEE: 50% FAS.

EACH CHILD: 10% FAS.

FAMILY MAXIMUM: 75% FAS.

JUDGES - EMPLOYEE: Same as normal retirement benefits; benefits recalculated upon attainment of retirement age with additional credit granted for the period of disability.

EACH CHILD: Not applicable.

FAMILY MAXIMUM: Same as normal retirement benefits.

DISABILITY BENEFITS (NON-DUTY)

KPERS - Same as duty caused. (For certain state correctional employees, disability benefits are generally the same as for KP&F, both duty and nonduty caused.

KP&F - UNDER 5 YEARS SERVICE: Return member's actual contributions (with interest credited after June 30, 1982).

5 YEARS OR MORE: 2% FAS per year of service, after 180 days disability. (Limit of 50% FAS).

JUDGES - Same as duty caused.

RELATIONSHIP TO SOCIAL SECURITY

KPERS - None except offset for social security under insured disability.

KP&F - None except select group covered under Brazelton vs. KPERS law suit.

JUDGES - None, integration with social security removed in 1974.

BACKGROUND

KANSAS SCHOOL RETIREMENT SYSTEM (KSRS) ANNUITANTS

In 1971 all of the active members (and most inactive vested members) of the KSRS became members of KPERS. KSRS members who were retired at that time and certain classes of inactive employees with vested rights did not come under KPERS. Instead, payments to these members continued under the provisions of KSRS through separate reserves maintained specifically for that purpose.

KSRS provided a benefit related to the amount of employee contributions, and a separate benefit, paid by the state, based solely on years of school service as follows:

Savings annuity - is the annuity amount which could be provided by the employee's contribution account at retirement (1984 legislation increased the savings annuity by 50%).

Service Annuity - the service related benefit - is a level dollar amount based on years of service at retirement. The service annuity rates at the time of the merger and prior to 1973 were as follows:

Years of Service	Monthly Service Annuity Per Year of Service Prior to 1973
less than 10	$ 1.00
10 but less than 20	1.50
20 but less than 25	2.00
25 to 35	3.50

Effective in 1973, this benefit was increased to $6.50 per year of service for all employees with at least 10 years of service; a further increase to $6.85 became effective October 1, 1978, (with two subsequent 10% increases, the benefit is now $8.29). Benefits to those with less than 10 years of service are $1.21 per year of service. Effective September 1, 1979, the 35-year limit on service was removed and benefits were increased accordingly.

Although all currently active school employees are covered under KPERS, a small number of former school employees continue to qualify for benefits each year under KSRS.

The obligation of the state of Kansas for payment of School Service Annuities was originally to be amortized over a period of 10 years commencing July 1,

1973. The sum of $10,220,000 was transferred from the State General Fund on July 1, 1973, and annual transfers of $10 million were made each year from 1974 through 1983.

Legislation enacted in 1984 eliminated annual transfers from the State General Fund (which would have been $10 million in 1984 and approximately $3.4 million in 1985), made members of the old KSRS special members of KPERS, and provided that the state's remaining obligation for service annuities be amortized over 27 years.

The increase in the benefit level to $6.85 effective October 1, 1978 produced an additional liability of $4,507,900 as of that date. To finance this benefit increase, separate appropriations were made in 1978 of $700,000 for FY 1979 and of $1,269,300 for each of the fiscal years 1980, 1981, and 1982. Removal of the 35 year limitation in 1979 was funded by an appropriation in 1979 from the General Fund of $2.8 million for both FY 1980 and FY 1981.

BACKGROUND

KANSAS CITY, KANSAS SCHOOL EMPLOYEES RETIREMENT FUND

The only Kansas school employees presently covered by a local retirement system are those of the Kansas City Unified School District No. 500 who were hired before 1964. Employees of that school district hired after January 1, 1964 — like all other active Kansas school employees — became members of the Kansas Public Employees Retirement System (KPERS) on January 1, 1971, the effective date of the merger of the Kansas School Retirement System (KSRS) into KPERS.

The 1953 legislation was passed to permit first-class city school retirement systems to transfer into KSRS. Employees covered by such city systems that joined the state system were given prior service credit under KSRS, and their contributions to the local systems after September 1, 1941 were transferred to KSRS. First-class cities that entered KSRS were permitted to retain their local school systems as supplemental retirement plans, so as to bring monthly benefits to a maximum of $125 if a lesser amount was payable under KSRS.

The first-class city systems that transferred into KSRS in 1953 were those in Atchison, Coffeyville, Fort Scott, Leavenworth, Parsons, Pittsburg and Topeka. (A special act resulted in Hutchinson entering KSRS in 1951.) When Salina joined KSRS in 1954, Kansas City remained as the only first-class city with a separate school employees retirement system.

In 1963 the Kansas School Retirement Law (K.S.A. 72-5512a) was amended to provide that employees of the Kansas City school district hired after January 1, 1964 would become members of KSRS. The separate city system — the Kansas City School Employees Retirement Fund — continued to cover the closed group of employees hired before 1964. As of August 31, 1973 the Kansas City Plan covered only 407 active school employees.

The 1963 legislation also provided that the State School Retirement Fund would reimburse the Kansas City Fund for its members who retired after July 1, 1963, in the amount that such employees would have received had they retired under KSRS.

Payments from the State Fund to the Kansas City Fund were made semiannually on March 1 and September 1 of each year on the basis of the service annuities payable for the preceding six month period.

The substantial increase in KSRS service annuities effective July 1, 1973, did not apply to retirants receiving benefits from the Kansas City Fund. (The only exceptions to this general rule are a few Kansas City Plan retirants who are receiving direct payments from KSRS as Group II and Group III annuitants.) State payments to the Kansas City Fund continued to be based on the schedule of KSRS service annuity amounts effective July 1, 1965, up to a maximum of $122.50 a month for Kansas City Plan retirants with 35 or more years of service. The State payment for the first 30 years of service (up to $105 a month per retirant) was used to help finance the Kansas City Plan, but any amounts in excess of $105 a month are paid to eligible Kansas City Plan retirants in addition to local plan benefits (up to $17.50 a month passes through to the direct benefit of the retirant).

Chapter 293, Session Laws of 1974, amended K.S.A. 72-1759 and 74-4932 to provide members of the Kansas City School Employees Retirement Fund with the opportunity of electing membership in KPERS. The election had to be made prior to September 1, 1974. There are currently 69 active members of this local plan. For those who elected to become members of KPERS, the Kansas City Board of Education was required to transfer from the local retirement fund to KPERS an amount equal to the aggregate of all employee contributions of those so transferring. Employees were to be granted prior service credit in accordance with K.S.A. 74-4936 except that service between January 1, 1971 and September 1, 1974 was credited as participating service. Those electing membership in KPERS are no longer covered under the local retirement fund (K.S.A. 72-1758 to 72-1769) and are now governed by all the provisions of law applicable to employees who became members under K.S.A. 74-4935.

The 1974 legislation further provided for the KPERS actuary to compute the remaining obligation of the state for the retirants and employees who elected to remain under the local retirement fund and the level annual payments that were to be made by the state over a period of 10 years commencing July 1, 1975. This level annual payment amounts to $404,900.

In 1978, 1979, and 1980, legislation was enacted which provided post-retirement benefits for certain members of the Kansas City system.

A bill enacted in 1981 lowered from $125 to $75 the maximum amount of primary social security benefits which are deducted from the monthly annuity paid to a member of the Kansas City system.

A bill enacted in 1982 provides for a 10 percent increase in the monthly benefits of retirants, but this must be financed by the Kansas City System.

Legislation enacted in 1984 provides that annuities paid by the Kansas City system shall begin on the first day of the month following retirement rather than on September 1 of the year in which retirement occurs.

KPERS PAPERS

KPERS PAPERS is published by the Kansas Public Employees Retirement System, Capitol Tower, 2nd Floor, 400 W. 8th, Topeka, Kansas 66603

Vol. 12 No. 4 January 1985 Topeka, Kansas

KPERS BOARD INCREASES DISABILITY BENEFITS

At its meeting of October 26, 1984, the board of trustees of the Kansas Public Employees Retirement System increased benefits for disabled members. The board received a review of the past year's insurance experience and was able to make the increase effective January 1, 1985. The disability benefit is now based on 60% of the member's annual rate of compensation at the date of disability. Formerly, the disability benefit was based on 55% of the member's annual salary and the above increase was provided without a corresponding increase in the employer contribution rate for group insurance purposes. The increase affects all existing disabilities as well as those that occur in the future and is in addition to the 13th check most disabled members are entitled to receive on October 1st of each year through 1987.

The KPERS life insurance and disability benefit program is funded solely by employer contributions which presently amount to .6% of covered payroll. The KPERS board is charged with providing the broadest possible coverage with the funds generated through this statutory employer contribution rate. Presently, the life insurance coverage is equal to 100% of the member's annual salary at the time of death and the disability benefits as described above.

This insurance program was first established on January 1, 1966, and over the years the board has been able to make significant improvements while on only one occasion (1975) was the employer rate increased. The following is a brief summary of these major changes:

January 1968 Improved salary basis used to compute insured benefits from "final average salary" (highest average compensation in five of last ten years of participating service) to "current annual rate of compensation".

January 1970 Provided that insured disability benefits would not be reduced as a result of any increases in Social Security benefits after the later of January 1, 1970 or the commencement of disability benefit payments.

September 1972 Eliminated the graded reduction in insured death benefits which previously applied to members between ages 60 and 65. As a result, the insured death benefit for all KPERS members under age 65 was 50% of compensation.

Increased the insured disability benefit from 42% to 50% of compensation, inclusive of primary Social Security benefits and other employment-related benefits.

April 1973 KPERS Act amended to provide that certain faculty members and other employees of educational institutions under the management of the State Board of Regents would be covered under the KPERS insurance program effective July 1, 1973.

May 1973 Increased the insured death benefit from 50% to 60% of compensation, effective July 1, 1973. (Legislation enacted in 1973 increased the statutory limit on life insurance benefits from 50% to 65% of compensation.)

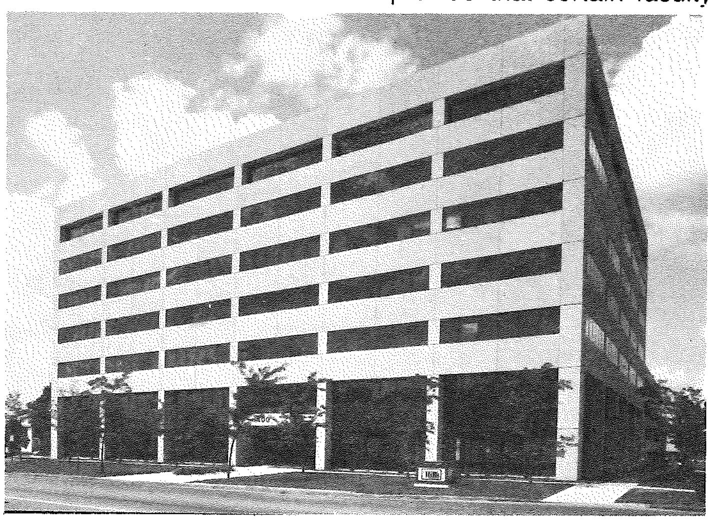
December 1974 Increased the insured death benefit from 60% to 65% of compensation, effective January 1, 1975.

July 1975 Establish a minimum insured disability benefit of $50 a month.

Provide that insured disability benefits may not be reduced by more than 50% of Worker's Compensation benefits.

Increase the employer contribution rate for insured benefits from .5% to .6% of members' compensation.

(continued on page 4)



Seven-story Capitol Tower building at 8th and Harrison.

KPERS MOVES TO CAPITOL TOWER

On December 3, 1984, the retirement system started moving into its new facilities on the second floor of the Capitol Tower building. The Capitol Tower is a modern highrise office building adjacent (northwest) to the State Capitol grounds. On Harrison Street there is an entrance to a covered parking garage which will benefit the many visitors to the retirement system office. The retirement system will occupy the whole second floor and to fully utilize the space will continue to use modular office equipment which can be added to or rearranged as the situation dictates. The new address for the retirement system is:

Kansas Public Employees Retirement System
Capitol Tower, 2nd Floor
400 West 8th Street
Topeka, Kansas 66603
(913) 232-6665

KPERS EMPLOYEES SPEARHEAD FUND RAISER

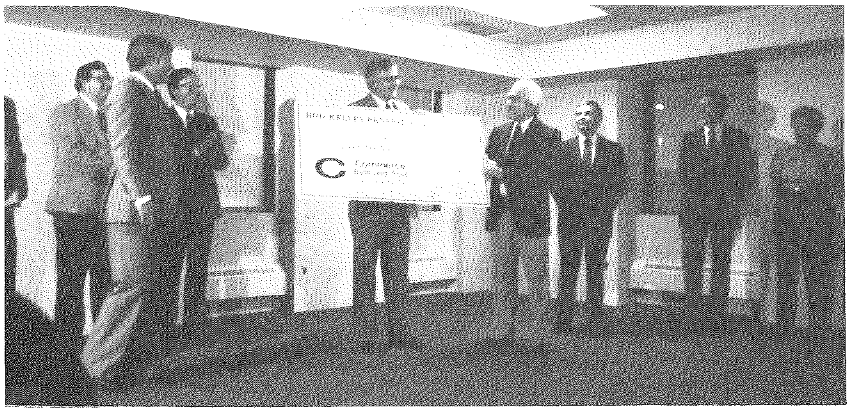
In early August, 1984, nineteen year old Rod Kelley, a recent graduate of Topeka High School, was tragically paralyzed in a swimming pool accident. Rod's mother, Nancy, served as Chief of the Accounting Section for KPERS in the early 1960's and his father, Dean, has been with the system almost 20 years—first as the agency's first field representative and presently as Chief of the Enrollment Section.

Recognizing that non-medical related bills were mounting up, a group of KPERS employees banded together and formed the Rod Kelley Benefit Fund and established a bank account at Commerce Bank and Trust in Topeka. A benefit dance/auction was planned for the night of October 27, 1984, at the Municipal Auditorium. The highlight was the auctioning off of a 1981 Chevy Chevette.

Posters were circulated throughout the Topeka area and local merchants were contacted to either contribute products for the auction or sponsor tables at the dance. The local media, i.e., newspapers, television, and radio contributed greatly in the weeks preceding the benefit. The theme of the benefit was "A Great Time for a Great Cause" and indeed it was. Live music was provided by the Wagonmasters, a country rock band and free beer and soft drinks were provided throughout the evening. Interspersed between the band breaks, the auction was conducted.

On November 21st at a Thanksgiving pot-luck luncheon held in the retirement system offices, a check for $11,707.68 was presented to Dean on behalf of all those in the community who donated their time, talents, and money to this benefit.

As of the writing of this story, Rod is at the Craig Institute in Denver, Colorado, battling to rehabilitate himself as best he can; but also knowing he has an army of support in the Topeka community.



Dean Kelley (center), Chief of KPERS Enrollment Section, shown receiving check in the amount of $11,707.68 for his son, Rod.

POP UP BUT DON'T POP OUT

In 1982 the Kansas legislature passed House Bill 2623 which provided what is commonly called a "Pop-up Option" feature under KPERS. The pop-up option effectively increases an optional monthly benefit for those who retired on and after July 1, 1982, and select an option and are pre-deceased by their joint annuitant.

When a member retires under either Option A or Option B, their monthly benefit is actuarially reduced to take into account the age differential between them and their joint annuitant. Under former law if the joint annuitant predeceased the member, the member's monthly benefit remained at the reduced amount. The 1982 legislation now allows the system to "Pop" the benefit up to the amount it would have been had the member not selected Option A or Option B. This change would be effective the first day of the month following the death of the member's joint annuitant. Members who retired prior to July 1, 1982, under Option A or Option B are not eligible for this pop-up feature.

What To Do?

Therefore, if you (a) retired on or after July 1, 1982, AND (b) retired under Option A or Option B, AND (c) your joint annuitant pre-deceases you, you should notify KPERS immediately of your joint annuitant's death. In addition, you will need to complete a new beneficiary designation form. Although there would be no further monthly benefits payable to anyone after your death, there will be a $1,000 death benefit payable to your designated beneficiary/ies. Please keep in mind, however, that you cannot change your beneficiary designation (under Option A or Option B) unless your joint annuitant dies.

For those who retired prior to July 1, 1982, under Option A or Option B you still need to notify KPERS immediately of the death of your joint annuitant. Although there will be no change in the amount of your monthly benefit, you will need to name a new beneficiary/ies so that they may receive the $1,000 death benefit. If you retired under Option C or the maximum with no option, you may change your designated beneficiary/ies at any time regardless of your retirement date but there will be no change in the amount of your monthly benefit at the time of your beneficiary's death.

REQUEST FOR INCOME VERIFICATION

KPERS receives numerous requests both by letter and by phone for verification of benefits received.

To help us process your request, you need to specify whether you are receiving retirement benefits or disability income benefits.

Any requests should include your full name and your social security number. If you are receiving benefits as a joint annuitant, please give us the retirant's name and social security number.

We need to know exactly what information you need verified. Some agencies require only verification of your monthly benefit while others need verification of income for a certain period of time. Please be specific with dates.

If someone other than the retirant makes the request for income verification information, we do need written authorization from the retirant. Personal requests should be signed.

Please remember that the retirant dividend check that is sent out on the first of October is also counted as income.

TAXABILITY OF BENEFITS

By law, your benefit is exempt from Kansas state income tax.

Along with your benefit check you receive on or about February 1, 1985, you will receive your W-2P form for 1984. This form reports total benefits paid to you in 1984 to the Internal Revenue Service and includes information regarding your unsheltered contributions to the retirement system. Remember, your contributions made on and after the third quarter of 1984 were tax sheltered at the time of your employment. Consequently, only contributions made prior to that date may be considered in determining when your benefit becomes subject to federal income tax. We are required to report all benefit payments to the Internal Revenue Service although your benefit may not be taxable based on your own specific situation.

Your W-2P form will show the total benefits paid to you in 1984. As your December warrant is mailed in December, it is considered part of your total 1984 benefits. Your W-2P will also show total benefits paid in previous years plus your *own* unsheltered contributions to the retirement system. You may wish to refer to the information in the article entitled "Three-Year Rule" for general information regarding the taxability of your retirement benefit. We recommend you consult a reputable tax consultant or the IRS in the preparation of your tax forms, especially during your early retirement years. You may also find IRS publication 554, "Tax Benefits for Older Americans" and publication 575, "Pension and Annuity Income" helpful in determining the taxability of your pension.

WITHHOLDING FOR FEDERAL INCOME TAX

Since January 1, 1983 the retirement system has been withholding from retirement benefits for federal income taxes.

KPERS is required to notify each retirant when benefits received are equal to the member's *own* contributions to the retirement system and consequently become subject to federal income tax. Remember, your contributions were tax sheltered beginning with the third quarter of 1984. Consequently, only contributions made prior to the third quarter of 1984 may be considered in determining when your benefit becomes subject to federal income tax. Different regulations apply depending upon the amount of your benefit.

Monthly Benefit *Less* than $460 *

If your monthly benefit from the retirement system is less than $460, no federal income tax will be withheld unless you choose to have withholding apply by filing a withholding certificate with the retirement system.

Although your KPERS benefit is *NOT* subject to mandatory withholding, you may elect to have withholding from your benefit by obtaining a form W-4P, Pension, Annuity or Sick Pay Recipient's Request for Federal Withholding, and submitting same to KPERS. You need to designate a specific dollar amount to be withheld.

Any election for withholding will be effective no later than January 1, May 1, July 1, or October 1, after it is received so long as it is received at least 30 days before that date. You may make or revoke withholding elections as often as you wish. The completed forms should be returned to the Kansas Public Employees Retirement System, Capitol Tower, 2nd Floor, 400 W. 8th St., Topeka, Kansas 66603.

In Kansas you can obtain your W-4P form by calling the following toll-free number: 1-800-424-1040. Outside of Kansas, call your regional IRS toll-free number.

If you have withholding from your pension, your form W-2P will show your total pension paid, and the tax withheld. Please keep in mind, however, if the benefit you are receiving is less than $460 NO FEDERAL INCOME TAX WITHHOLDING IS REQUIRED UNLESS YOU SPECIFICALLY REQUEST THAT THE WITHHOLDING PROVISIONS APPLY TO YOUR MONTHLY BENEFIT.

Monthly Benefit *More* than $460 *

If your monthly benefit is $460 or more, your benefit is subject to federal income tax unless you elect not to have withholding apply. There will be no withholding on the return of your own contributions unless you elect to have withholding on those benefits. Remember, your contributions beginning with the third quarter of 1984 were tax sheltered at the time of your employment. Consequently, only contributions made prior to the third quarter of 1984 may be considered in determining when your benefit becomes subject to federal income tax.

At such time as you have received benefits equal to your unsheltered contributions to the retirement system, you will be sent the necessary election form.

You may elect not to have withholding apply by completing and returning the election form sent to you. The form should be returned to the Kansas Public Employees Retirement System, Capitol Tower, 2nd Floor, 400 W. 8th St., Topeka, Kansas 66603.

Any election or revocation will be effective no later than January 1, May 1, July 1, or October 1, after it is received so long as it is received at least 30 days before that date. You may make or revoke elections not to have withholding apply as often as you wish. Additional election forms may be obtained from the retirement system by contacting us at the above address.

To change your withholding allowances or change the additional amount being withheld, please obtain a form W-4P, Pension, Annuity or Sick Pay Recipient's Request for Federal Withholding.

In Kansas you can obtain your W-4P form by calling the following toll-free number: 1-800-424-1040. Outside of Kansas, call your regional IRS toll-free number.

Please bear in mind that if you request withholding of a specific dollar amount on the election form or W-4P form, this amount will be withheld in addition to the amount withheld based on the withholding tables.

If you do not return the election form sent to you by KPERS by the date stated on the election form, federal income tax will be withheld from the taxable portion of your benefit payment as if you were a married individual claiming three withholding allowances.

* NOTE: Even if you elect not to have federal income tax withheld, you are liable for payment of federal income tax on the taxable portion of your pension. You also may be subject to tax penalties under the estimated tax payment rules if your payments of estimated tax and withholding if any are not adequate.

(continued from page 1)

April 1979 KPERS Act amended, effective April 7, 1979, to provide for first day coverage of state employees under insured benefits program (i.e., for coverage of state employees fulfilling one-year service requirement for KPERS membership).

April 1980 Increase statutory maximum on insured death benefit from 65% to 100% of compensation.

Extend death benefit coverage from age 65 to age 70.

Provide for five years of benefit payments to disabled members who become disabled at or after age 60.

Allow the use of Social Security retirement benefits, as well as Social Security disability benefits, as an offset to the KPERS insured disability benefit.

June 1980 Increased insured death benefit from 65% to 100% of compensation, effective July 1, 1980 (and amended insurance contract to implement provisions of 1980 legislation).

October 1980 Disabled members receive the retirant dividend payment (13th Check)

April 1981 KPERS Act amended, effective April 30, 1981, to authorize the board to provide death and/or disability benefits on an insured or self-insured basis, and to contract with insurance companies to administer and/or underwrite death or disability benefits or both such benefits.

September 1981 Changed structure of program effective July 1, 1981, to provide disability benefits and waiver of premium death benefits through a self-insured plan administered by SBL under an administrative services agreement.

May 1982 Eliminate statutory maximum on insured death benefit.

Increased statutory maximum on long-term disability benefit from 50% to 60% of the member's annual rate of compensation on the date disability commences.

September 1982 Increased disability benefit percentage from 50% to 55% of the member's annual rate of compensation.

May 1984 The KPERS Act was amended effective July 1, 1984, to provide that any KPERS member who receives disability benefits for at least five (5) years immediately prior to retirement will have his or her final average salary adjusted by the actuarial salary increase assumption rate in existence during the member's period of disability.

October 1984 Increased disability benefit percentage from 55% to 60% of the member's annual rate of compensation.

During the first 18½ years of the program's operation, death and disability benefits paid to KPERS members and their beneficiaries have exceeded $58 million.

THREE-YEAR RULE ON RETIREMENT BENEFITS

Except for certain TIAA members of KPERS, both you and your employer pay the cost of your benefit from KPERS. If you will get back your own unsheltered contributions within three years after the date you receive your first payment, no part of your benefit is taxable until your unsheltered contributions have been recovered. After your contributions have been recovered in benefits, all amounts you receive are subject to income tax. Remember, contributions made on and after the third quarter of 1984 were tax sheltered at the time of your employment. Consequently, only contributions made prior to that date may be considered in determining when your benefit becomes subject to income tax.

If you will not recover your contributions within three years, the IRS has a formula for determining which part of each benefit payment is the return of your own unsheltered contributions, and which part is taxable income. We suggest you refer to IRS publication 554, "Tax Benefits for Older Americans", and IRS publication 575, "Pension and Annuity Income", for more information concerning the taxability of your benefits.

If you are receiving a benefit as a joint-annuitant, or beneficiary, under one of the optional forms of benefit payment, you do not include your benefit payments in income until the retiree's unsheltered contributions have been recovered. Thereafter, you must include all your payments in income. If the retirant had recovered all unsheltered contributions before death, your survivor benefits are subject to income tax.

If you are a TIAA member of KPERS receiving benefits based on service prior to 1962 only or if you are the joint annuitant of a TIAA member, your benefit is fully taxable because TIAA members make no employee contributions to KPERS.

The above is conveyed as general information only. For specific information, we suggest you contact your local IRS information line or the various IRS publications outlined above.

MOVING?

If you are a retirant and move, we ask that you notify KPERS in writing by the 10th of the month preceding the effective date of the change.

When notifying the retirement system you should provide the following information to the system:

1. Your Full Name
2. Your Social Security Number or Retirement Number
3. Your Old Address
4. Your New Address
5. The Effective Date of New Address
6. Member's Name, if you are receiving a check as a Joint Annuitant

Failure to supply all the above information may result in a delay of the address change being made and thus a delay in the delivery of your retirement check.