Approved: May 24, 2002 (by letter)
Date

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Vice Chairperson David Adkins at 10:50 a.m. on March 15, 2002 in Room 123-S of the Capitol.

All members were present except: Senator Jim Barone - excused
Senator Christine Downey - excused
Senator Paul Feleciano, Jr. - excused
Senator Stephen Morris - excused
Senator Jean Schodorf - excused

Committee staff present:
Alan Conroy, Chief Fiscal Analyst, Kansas Legislative Research Department
Deb Hollon, Kansas Legislative Research Department
Julian Efird, Kansas Legislative Research Department
Michael Corrigan, Assistant Revisor of Statutes
Gordon Self, Revisor of Statutes
Judy Bromich, Assistant to the Chairman
Mary Shaw, Committee Secretary

Conferees appearing before the committee: None

Others attending: See attached list

Subcommittee report on:

Kansas Public Employees Retirement System Issues (Attachment 1)

Subcommittee Chairman Kerr reported the Subcommittee recommendations regarding the following bills (detailed in the Subcommittee report):

SB 484--KPERS accidental death benefit coverage, certain employees of state board of regents or its institutions or of state board of education institutions

SB 530--Employment after retirement

HB 2619--Employer contributions for tax sheltered annuities for certain school district and community college employees

HB 2621--Retirement issues involving benefits, eligibility, purchase of service credit, rollover of distributions and certain retirement plans and accounts

HB 2626--Rollover of certain retirement distributions for the purpose of the purchase of service credit in KPERS

Senator Jackson moved, with a second by Senator Kerr, to adopt the Subcommittee report on the Kansas Public Employees Retirement System Issues. Motion carried on a voice vote.

Vice Chairman Adkins called the Committee's attention to discussion of:

HB 2621--Retirement issues involving benefits, eligibility, purchase of service credit, rollover of distributions and certain retirement plans and accounts

Senator Kerr moved, with a second by Senator Salmans, to amend **HB 2621** with a Substitute bill placing the language of **HB 2619, HB 2626** and the original contents of **HB 2621** into the bill and recommend **Substitute for HB 2621** favorable for passage as amended. Motion carried on a roll call vote.

Vice Chairman Adkins called the Committee's attention to discussion of

SB 484--KPERS accidental death benefit coverage, certain employees of state board of regents or its institutions or of state board of education institutions

Senator Kerr moved, with a second by Senator Jackson, to recommend **SB 484** favorable for passage. Motion carried on a roll call vote.

Vice Chairman Adkins mentioned that **SB 530** will be held for further discussion at a future meeting.

Bill Introduction

Senator Kerr moved, with a second by Senator Jackson, to introduce a bill concerning day reporting in Wyandotte County (1rs2340). Motion carried on a voice vote.

The meeting adjourned at 11:20 a.m. The next meeting is scheduled for March 18, 2002.

SENATE WAYS AND MEANS COMMITTEE
GUEST LIST
DATE March 15, 2002

NAME	REPRESENTING
Jeff Arpin	Division of the Budget
Glenn Deck	KPERS
Jack Hawn	"
Krista Gasparich-Hurla	DofA/DPS
Sheli Sweeney	KNEA
Jessi Remac	Shadowing Sen. Dave Jackson
Josh Hersh	Shadowing Sen. Dave Jackson
Andy Sanchez	KAPE
B. Mariani	DofA

SENATE SUBCOMMITTEE ON KPERS ISSUES

March 14, 2002

Dave Kerr

Senator Dave Kerr, Chairperson

David Adkins

Senator David Adkins

Christine Downey

Senator Christine Downey

Senate Ways and Means
3-15-02
Attachment 1

Senate Subcommittee on KPERS Issues

March 14, 2002

The Subcommittee on KPERS Issues reviewed five bills: SB 484, SB 530, HB 2619, HB 2621, and HB 2626. A description and background for each bill is included in the concluding section of this report. The next section reflects the Subcommittee's recommendations on these bills.

Subcommittee Recommendations

The Subcommittee makes the following recommendations regarding these bills:

1. **SB 484** be recommended favorable for passage. This bill would provide first-day coverage for Regents unclassified employees under a service-connected accidental death benefit provision during their year of waiting to become members of the Regents retirement plan. All other state employees have first-day coverage and Regents unclassified as well as other state employees have accidental death benefit coverage after their year of waiting. There is no fiscal note since the mortality rate for this group of less than 1,600 employees is presumed to be low. Another provision gives coverage to two employees at the School for the Blind who are long-term state workers but not members of KPERS and therefor without this benefit.

2. **SB 530** be amended and recommended favorably for passage. This bill addresses the nurse shortage at SRS institutions, especially Osawatomie State Hospital, by allowing licensed nurses to be exempt from a $15,000 earnings limitation imposed on KPERS retirees who return to work for the state. The Subcommittee recommends that this bill be amended to include institutions under the Veterans Commission which also are experiencing a nurse shortage. In addition, the Subcommittee recommends a three-year sunset of this provision to allow a review of the fiscal impact on KPERS and of whether this program contributes to reducing the nurse shortage at these institutions. Any nurse who opts to participate in this post-retirement plan should be allowed to remain in the program after the sunset date which is intended to cut off new nurses from entering the program, not to force participating nurses out. This program is not an entirely satisfactory solution to a complex problem. One alternative would be bonuses, but given the financial condition of the state, that option may be limited.

3, **HB 2619** be amended and recommended favorably for passage. This bill would allow school districts, community colleges and the State of Kansas to make contributions into employees' supplemental retirement savings accounts and annuities. An Attorney General's letter option has indicated a need to permissive legislation giving school districts this authority. The Subcommittee recommends that language in the bill suggesting "an amount to match the employee's contribution.." be stricken in order to clarify that the authority is permissive (may contribute), that the boards would determine the amounts to be contributed, and that no dollar for dollar match is required or implied by the law. In addition, the Subcommittee recommends that certain terminology referring to state employees be clarified by substituting the term "participant" to denote those who voluntarily contributed to the state's 457(b) plan. The fiscal impact in the case of the State of Kansas would be delayed because of the financial condition of the State General Fund, and would be subjected to the appropriations process in the future if resources were requested. Local school boards and boards of trustees would have to determine if resources would be made available to implement this permissive legislation, and also would determine amounts to be contributed, if any.

4. **HB 2621** be passed. This bill has four items of a technical nature that include changes requested by the KPERS Board of Trustees and recommended by the Joint Committee on Pensions, Investments and Benefits to correct or clarify a number of different sections of KPERS law. There is no fiscal impact for these changes.

5. **HB 2626** be passed. This bill would allow KPERS members to buy eligible past service credit with money previously directed into employees' tax-deferred retirement accounts and annuities outside of KPERS. The bill

would insure that transfers of such money would continue to be tax-exempt and allow KPERS to accept funds from 403(b) annuities and 457(b) plans for state, local and school employees who have contributed to such voluntary retirement annuities and savings plans.

6. **Senate Substitute Bill** be passed. The Subcommittee recommends that the previous three bills (HB 2619, HB 2621, and HB 2626) be combined into Senate Sub for HB 2621 and that this bill be recommended favorably for passage instead of three separate House bills.

Subcommittee Review of Bills and Background

SB 484 would provide KPERS accidental death benefit coverage for unclassified employees of the State Board of Regents who are in their one-year waiting period prior to entry into the Regents retirement plan, and for certain Kansas School for the Blind employees who would be covered after the first year in conjunction with a 1971 provision that did not make them KPERS members.

Background

SB 484 was recommended for introduction by the Legislative Educational Planning Committee. Under current law, most other state employees already have service connected accidental death benefit coverage in their year of waiting and subsequently after retirement contributions start with KPERS. Regents unclassified and the two School for the Blind employees participate in a non-KPERS retirement plan, and under current law, in the case of Regents unclassified personnel, have accidental death benefit coverage after contributing as a member to the Regents retirement program. According to the Board of Regents staff, no additional funding would be required to extend accidental death coverage to the employees in their year of waiting. KPERS staff indicate a minimal actuarial impact since the mortality rate due to accidental death for Regents unclassified staff is presumed to be low and the number of additional covered personnel would be less than 1,600. The mortality rate for accidental deaths affects the actuarial calculations when actual experience is factored into the KPERS actuarial contribution rate. Benefits for accidental death are paid from the KPERS Retirement Fund, not from the Death and Long-Term Disability Benefits Fund. All state employees, including Regents unclassified, are covered by the death and disability program for non-service connected death and long-term disability.

SB 530 would allow KPERS retirees who are licensed nurses to return to work without any earnings limitation on their annual pay if employed at a state hospital under the Department of Social and Rehabilitation Services. The bill would be effective upon publication in the *Kansas Register*.

Background

Under current law, retirees who return to work for any state institution or agency after they retired are limited to $15,000 maximum earnings while drawing retirement benefits. The Department of Social and Rehabilitation Services reports that passage of SB 530 would increase expenditures for salaries and wages for retired nurses who otherwise might not be working for the state. At the same time, hiring retirees would allow the hospitals to fill vacant positions and reduce the amount of overtime paid to ensure that there are enough nurses on duty every day. Hiring retired nurses also could reduce expenditures for recruiting and training new employees. The Department states that any net increase in expenditures would be absorbed within existing resources.

KPERS staff states that the actuarial impact of SB 530 is dependent upon the number of retirees who reenter the workforce, and there could be an actuarial impact on the liability of the System. When KPERS members retire, they generally are replaced with younger employees who will contribute to the System for many years.

If retirees are allowed to return to work for the state with no limitations, then there are no additional employee or employer contributions to KPERS for that employee. In addition, if SB 530 encourages people who are retirement eligible to retire earlier than indicated in the actuarial estimates, then a fiscal impact could increase the liability of the Retirement System. The Division of Personnel Services estimates that 64 nurses at KPERS participating employers as of December 2001 were eligible for retirement out of 387 positions filled by licensed nurses. A total of 51 nurses at state institutions were retirement eligible in December 2001. The cumulative projection of retirement eligible nurses working for KPERS participating employers is estimated at 64 immediately, 76 in 2002, and 88 in 2003. The net increase in 2002 of retirement eligible nurses is 12 and the net increase in 2003 is 12, yielding a potential pool of 88 nurses who might retire during the three-year program period.

HB 2619, as amended, would permit school district boards of education, community college boards of trustees, and the State of Kansas to make employer contributions to tax deferred savings plans authorized by federal law. The bill would allow boards for community colleges and public school districts to contribute to an employee's individual account or annuity under section 403(b) or deferred compensation plan under 457(b) of the Internal Revenue Code. In addition, the bill would allow the state to establish a new section 401(a) plan under the Internal Revenue Code to make employer contributions on behalf of employees who make contributions into a section 457(b) deferred compensation plan. The state's contributions would be subject to appropriations in determining an amount to be paid.

Background

The Joint Committee on Pensions, Investments and Benefits recommended introduction of HB 2619. The bill as introduced would have permitted community college and public school boards to make employer contributions to an employee's tax sheltered 403(b) plan.

An Attorney General's Letter Opinion was reviewed by the Joint Committee during the 2001 Interim. The letter was in response to a State Department of Education request about matching annuity contributions for school employees to be paid by a school district. The Attorney General's letter indicated that "statutes fail to provide any reasonable implication that a board of education may match contributions made into a tax sheltered annuity by an employee through a reduction in compensation paid by the school district. A board of education, there for, may not use its funds to match contributions paid into an employee's tax sheltered annuity."

Testimony in support of HB 2619 came from representatives of Unified School District 233 (Olathe), the Kansas National Education Association, and the Kansas Association of School Boards. The Director of Personnel Services, Department of Administration, asked for an amendment to include a new plan for state employees in provisions of the bill that would allow the state to make contributions in conjunction with an employee's participation in a 457(b) plan. The Director stressed that the provision would be subject to appropriations, and that by adding the new authority for the State of Kansas to make contributions, then at some future date the plan might be implemented as financial resources become available. According to the fiscal note for this bill, there would be no fiscal effect on the state. School districts or community colleges that choose to participate would be responsible for the costs.

HB 2621 would amend current KPERS law to provide the following:

1. Service Credit Purchase. This provision would clarify that anyone previously employed full-time as a Regents unclassified employee would be eligible to purchase KPERS service credit for the period of time when waiting to become a member of the Regents retirement plan, even if the individual never gained membership. In 2001, legislation was passed that allows former employees of Regents institutions to purchase service credit for the waiting period, even if they never attained membership in the Regents retirement plan.

2. Multi-Employer Employment. A clarifying amendment would allow local employers in a region of the state to share an employee to perform a particular function (e.g., county appraiser) and for that employee to participate in KPERS, if working the minimum number of hours when number of hours working for all public employers were taken into account. This would allow an employee who does not work the minimum requirement of 1,000 hours for KPERS coverage with any single employer to meet the minimum requirement when employment with all employers is combined.

3. Hire Date Before July 1, 1993. This provision would protect employees who were in their year of waiting for KPERS coverage when 1993 legislation passed that allows an employee hired prior to the effective date but who became a member afterwards to be entitled to either a four or three-year option for calculating retirement benefits. Members hired before July 1, 1993 have the option of choosing the higher benefit based on either a four-year final average salary with add-ons payments or a three-year final average without any add-ons.

4. Partial Lump Sum Options. Another provision would clarify that the actuarial calculation of benefits for members of the Brazelton group assumes that members started receiving payments under Social Security at either the age for which they are eligible for unreduced Social Security benefits or their actual retirement age, whichever is later. The Brazelton group is a closed group of police and firemen who have their retirement benefits offset for any Social Security they receive. Their lump-sum option would be based on their monthly benefit after this offset.

Background

HB 2621 was recommended by the Joint Committee on Pensions, Investments and Benefits concluding its 2001 Interim study. The bill was requested by the KPERS Board of Trustees. The Executive Director of KPERS appeared in support of the bill. There is no fiscal impact reported by KPERS for this legislation.

HB 2626 would allow for trustee-to-trustee transfers for qualified service credit purchases using money invested in one retirement plan to buy service credit in a different plan. Specifically, the bill would allow trustee-to-trustee transfers in order to avoid tax consequences for persons with 403(b) retirement annuity accounts or 457 retirement savings accounts who are eligible and wish to buy KPERS service credit.

Background

The KPERS Executive Director indicated that state legislation is required to address recent changes in federal law. The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 was cited as an attempt to address deficiencies in the qualified retirement plan market.

Changes included in the federal law that were identified were increased contribution limits; increased portability among plans; enhanced service credit purchase alternatives; tax credits; and enhanced contributions to IRAs. KPERS requested the Chairperson of the Joint Committee on Pensions, Investments and Benefits to prefile this bill since the Joint Committee had completed its 2001 Interim work and subsequently KPERS learned that state legislation would be required. The Joint Committee had been apprised that state legislation might be needed, but none had been drafted prior to that panel's last interim meeting.

There is no fiscal impact on administrative costs reported by KPERS for this legislation. A slight increase in workload is anticipated, and the 2001 Legislature authorized 4.0 additional positions to work in KPERS customer service which would handle this work.

Licensed Nurses Eligible for Retirement**

Statewide* Retirement Eligibles			2001	2002	2003	2004	2005		Total Employees in Job Class
	7111F2	Licensed Practical Nurse	4	0	0	2	1		39
		Cumulative Total* **	**4**	**4**	**4**	**6**	**7**		
	7109F2	Licensed Practical Nurse Sr	8	1	2	3	3		59
		Cumulative Total* **	**8**	**9**	**11**	**14**	**17**		
	8323F2	Public Health Nurse I	0	0	0	1	0		8
		Cumulative Total* **	**0**	**0**	**0**	**1**	**1**		
	8324F2	Public Health Nurse II	0	0	0	1	0		3
		Cumulative Total* **	**0**	**0**	**0**	**1**	**1**		
	8288F2	Public Health Nurse III	1	0	0	0	0		10
		Cumulative Total* **	**1**	**1**	**1**	**1**	**1**		
	7112F2	Registered Nurse I	0	0	0	0	0		0
		Cumulative Total* **	**0**	**0**	**0**	**0**	**0**		
	7113F2	Registered Nurse II	1	0	0	0	0		30
		Cumulative Total* **	**1**	**1**	**1**	**1**	**1**		
	7114F2	Registered Nurse III	36	9	6	9	13		188
		Cumulative Total* **	**36**	**45**	**51**	**60**	**73**		
	7115F2	Registered Nurse IV	12	2	3	3	1		44
		Cumulative Total* **	**12**	**14**	**17**	**20**	**21**		
	7116F2	Registered Nurse V	2	1	1	0	0		6
		Cumulative Total* **	**2**	**2**	**3**	**3**	**3**		
Total			64	76	88	107	125		387

*Statewide numbers include SRS, Rainbow Mental Health Facility, Parsons State Hospital and Training Center, Osawatomie State Hospital, KNI, Larned State Hospital, KDHE, Veterans' Affairs Commission, Beloit Juvenile Correction Facility, School for the Blind, and School for the Deaf.