

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairman Stephen Morris at 10:40 a.m. on March 16, 2004, in Room 123-S of the Capitol.

All members were present except:
Senator David Adkins- excused

Committee staff present:
J. G. Scott, Chief Fiscal Analyst, Kansas Legislative Research Department
Amy Deckard, Kansas Legislative Research Department
Susan Kannarr, Kansas Legislative Research Department
Norman Furse, Revisor of Statutes
Judy Bromich, Administrative Analyst
Mary Shaw, Committee Secretary

Conferees appearing before the committee:
None

Others attending:
See Attached List.

Copies of the Kansas Legislative Research Department Budget Analysis Report for FY 2004 and FY 2005 were available to the committee.

Subcommittee budget report on:

Kansas Public Employees Retirement System (KPERs) Issues (Attachment 1)

Subcommittee Chairman Kerr reported the recommendations by the subcommittee on the Kansas Public Employees Retirement System (KPERs) Issues in FY 2004 and FY 2005.

Senator Kerr moved, with a second by Senator Downey, to adopt the subcommittee budget report on the Kansas Public Employees Retirement System (KPERs) Issues in FY 2004 and FY 2005. Motion carried on a voice vote.

Senator Kerr moved, with a second by Senator Downey, to insert the contents of the subcommittee budget report on the Kansas Public Employees Retirement System (KPERs) Issues into **SB 381**. Motion carried on a voice vote.

Chairman Morris turned the committee's attention to discussion of:

SB 381--Naming of beneficiaries by members of KPERs

Senator Kerr moved, with a second by Senator Downey, to recommend **SB 381** favorable for passage as amended. Motion carried on a roll call vote.

Chairman Morris opened the public hearing on:

SB 557--Authorizing transfers between certain funds of the attorney general

Staff briefed the committee on the bill.

There being no conferees to come before the committee, the Chairman closed the public hearing on **SB 557**.

Senator Jordan moved, with a second by Senator Downey, to recommend **SB 557** favorable for passage. Motion carried on a roll call vote.

CONTINUATION SHEET

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE at 10:40 a.m. on March 16, 2004, in Room 123-S of the Capitol.

The Chairman opened the public hearing on:

SB 560--Interstate water litigation fund expenditures for appointment of a river master and related expenses

Staff briefed the committee on the bill.

The Chairman recognized Eric Rucker, Chief of Staff, Office of the Attorney General, and he responded to questions from the Committee. Mr. Rucker explained that it is anticipated that the State will go back into litigation in late October or early 2005 regarding the Colorado River and it is also anticipated that the Court at that time may mandate a river master. (No written information was provided.)

There being no further conferees to appear before the committee, the Chairman closed the public hearing on **SB 560**.

Senator Kerr moved, with a second by Senator Downey, to recommend **SB 560** favorable for passage. Motion carried on a roll call vote.

The meeting adjourned at 11:20 a.m. The next meeting is scheduled for March 17, 2004.

SENATE WAYS AND MEANS COMMITTEE

GUEST LIST

DATE March 16, 2004

NAME	REPRESENTING
Mary Beth Green	KPER
Clemm Deck	KPER
Jeff Argo	Division of the Budget
Julia Thomas	DOB
Ethan Erickson	DOB
Preston Williams	USD 501 Tigard Public Schools
Cindy Cain	USD 501-TK Public Schools
Keith Haxton	SEAK
Andy Sanchez	KAPE
Jim Edwards	KASB
Brad Harrelson	KFB
Asha Friesen	Sen. Salmons.

SENATE SUBCOMMITTEE REPORT ON

Kansas Public Employees Retirement System (KPERs) Issues

March 15, 2004



Senator Dave Kerr, Chairperson



Senator David Adkins



Senator Christine Downey

SENATE SUBCOMMITTEE ON KPERS ISSUES

SB 381—KPERS Designated Beneficiaries

The bill would allow active members of the KPERS, KP&F and Judges retirement systems to designate separate beneficiaries for their retirement and life insurance benefits. Under current law, active members may name any natural person, trust or estate to receive retirement and life insurance benefits upon the member's death. The law further specifies that the named beneficiary or beneficiaries must receive all benefits payable including accumulated retirement contributions/benefits and life insurance benefits.

KPERS and its 1,450 participating employers maintain beneficiary records for approximately 160,500 individuals, including:

- 147,000 active Retirement System members;
- 4,000 future members currently completing their required year of service; and
- 9,500 unclassified staff members at Board of Regents' institutions who are not KPERS members but receive KPERS life insurance benefits.

Because of the need to coordinate with 1,450 participating employers, modification of the bill is recommended to authorize a phased implementation:

- ***Kansas Register—December 31, 2004:*** Allow individuals with special medical or financial needs to request approval for separate beneficiaries by submitting a written request to the Executive Director of the Retirement System.
- ***Beginning January 1, 2005:*** Allow all individuals to designate separate beneficiaries for retirement benefits and life insurance benefits.

Preliminary estimates indicate that KPERS would incur one-time administrative costs of approximately \$50,000 for the additional programming, forms and educational activities necessary to implement SB 381. According to the agency, these costs can be absorbed within FY 2005 operating budget.

Recommendation. The Subcommittee recommends the bill, with amendments noted previously, be passed.

SB 554—95 Points for KPERS Retirement

The bill 554 would provide that KPERS members, correctional officers and judges **hired on or after July 1, 2004** may retire with full benefits at any age when their combined age and years of

service equal or exceed 95 "points." Under current law, these members could retire and receive unreduced benefits when their attained age and years of credited service are equal to or more than 85. The provisions of SB 554 would not apply to KPERS members, correctional officers or judges hired before July 1, 2004.

Senator Helgerson and a representative of the Kansas Association of School Boards testified in support of the bill. Representatives of the United School Administrators and the Kansas National Education Association opposed certain aspects of the bill that might discourage new administrators and new teachers from entering the public school job market.

Recommendation. The Subcommittee recommends SB 554 be studied during the 2004 Interim by the Joint Committee on Pensions, Investments and Benefits as part of its review in developing a comprehensive long-term funding plan for KPERS.

Working After Retirement (HB 2517)

The bill was recommended by the Joint Committee on Pensions, Investments and Benefits. To date, the House has not acted on this bill that would exempt certain retired teachers and nurses from the \$15,000 cap on annual earnings. Under current law, if a KPERS retiree returns to work with the same employer from which he or she retired, the retiree's annual earnings are limited to \$15,000. Upon reaching that threshold, the retiree must either stop working to continue to receive KPERS retirement benefits, or continue working and have the benefit payments suspended for the remainder of the year. HB 2517 would eliminate the earnings cap for two specific groups: (a) licensed professional and practical nurses employed by KPERS participating employers, and (b) teachers who return to teach in hard-to-fill positions in the district from which they retired. The State Board of Education would determine which teaching positions qualify as "hard-to-fill" positions. The proposed legislation would require employers to pay both the actuarial employer contributions and employee contributions to KPERS and would sunset on June 30, 2007.

Among the conferees testifying on this bill were representatives of the Kansas National Education Association, the Kansas Association of School Boards, and the United School Administrators.

Recommendation. After hearing testimony on the issue, the Subcommittee recognizes that the bill presents certain problems that have not been resolved satisfactorily. Since the House has not acted on this bill, the Subcommittee defers any recommendation at this time. If legislation passes the House this year, the Subcommittee will examine whatever bill might be transmitted and reconsider the issue at that time.

SB 427—Taxation of Retirement Benefits

The bill would exempt from state income taxes the pension and retirement benefits received by retired employees of Washburn University under the university's retirement plan.

Senator Jackson testified in support of this bill. A representative of the University indicated that the Washburn Board of Regents adopted a resolution in support of legislation pertaining to this

issue. The fiscal impact is estimated at approximately \$54,000 annually in lost state income tax revenue based on the most recent information from WU that \$1,081,000 in retirement benefits was paid last year. Both retired faculty and classified staff members are covered by the retirement plan.

This topic previously was assigned in 1996 to study by the Joint Committee on Pensions, Investments and Benefits by the LCC. The question of exempting annuity benefits of Washburn University (WU) retirees from state income tax was raised by 1996 S.B. 693 which would have provided that exemption in the same manner as 2004 SB 427.

The Department of Revenue prepared comparative information about the pre-retirement and post-retirement tax status of different groups of people, including the WU group. It was indicated that one of the most problematic aspects of determining an individual's income tax liability is related to the treatment of contributions made to, and benefits received from deferred compensation plans, pensions, annuities, and other individual retirement plans. Most of the problems result from the fact that federal and state tax treatment of these plans differ. In addition, state law is not consistent in the treatment of the different plans and groups.

Information provided by the Department of Revenue shows that for some groups and plans, contributions are subject to Kansas income taxes and the benefits are exempt. One group would be classified, state employees covered by regular KPERS. For other groups and plans, the contributions are exempt from Kansas income taxes and benefits are taxed. One group includes non-Regents employees covered by TIAA-CREF plans, such as faculty at independent colleges and universities. However, for certain groups and plans, neither the contributions nor the benefits appear to be subject to Kansas income taxes. One group is unclassified employees of Regents institutions covered by TIAA-CREF or similar 403(b) defined contribution plans. Other groups include employees of the City of Wichita and the Kansas City, Kansas Board of Public Utilities. The tax treatment of the state's deferred compensation program also is reflected in the table.

<u>PRE-RETIREMENT</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>
State Taxed	KPERS State	—
Not Taxed	State Deferred Comp Washburn TIAA-CREF Private College Plans Regents TIAA-CREF	8% State Deferred Comp Washburn TIAA-CREF Regents TIAA-CREF KPERS State
<u>BENEFIT PAYMENTS</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>
State Taxed	State Deferred Comp Washburn TIAA-CREF Private College Plans	8% State Deferred Comp Washburn TIAA-CREF
Not Taxed	Regents TIAA-CREF KPERS State	Regents TIAA-CREF KPERS State

Recommendation. The Subcommittee is concerned about the exemption of both contributions and benefit payments from state taxation for Regents retired unclassified personnel. The same exemption on benefits does not seem to apply to school personnel and others who might have similar 403(b) defined contribution plans. The Subcommittee also notes that the state's independent (private) college retired faculty members are treated the same as the Washburn retirees and that any changes in the tax laws should consider all classes, whether public or private, postsecondary or elementary-secondary retirees. The issue of private pension taxation is connected to this topic and the area needs more study. The Subcommittee recommends review during the 2004 Interim by the Joint Committee on Pensions, Investments and Benefits.