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**To:** House Committee on Pensions and Benefits

**From:** Julian Efird, Principal Analyst

**Re:** Subcommittee Report on HB 2545

The Chairperson of the House Committee on Pensions and Investments appointed the Subcommittee on 2012 HB 2545, including as members Representative John Grange, Chairperson; Representative Steven Johnson; Representative Charles Roth; and Representative Louis Ruiz. The Subcommittee Report presents an issue by issue guide for 2012 HB 2545 that is intended to assist and focus the standing committee members in reviewing and revising the provisions in the bill.

1. One concern that the Subcommittee identified was non-vested members. Should those members be included in the old KPERS plan's Tier 1 and Tier 2, or in the new KPERS plan's Tier 3? In addition, there are other inactive members who may or may not be vested, and who may return subsequently to work for a participating KPERS employer. If they have not withdrawn contributions and forfeited KPERS membership, should they be allowed an election to choose only the new plan, or the option of choosing between the old and new plans?

2. Another concern identified was legislative pensions and the difference in treatment of vested and non-vested legislators. Moving all legislators to the new KPERS plan's Tier 3, but with different computations of which assets to transfer seemed to favor some while placing others at a disadvantage.

3. Other concern was expressed about the inclusion of a Internal Revenue Code Section 403(b) plan as a component only available to school, community college and such other eligible personnel, while all other state and local personnel would be limited to a Section 401(a), 414(d) and 414(k) plan. Should all members have one plan option available with uniform provisions?

4. There was moderate concern expressed about the required employee contribution rate of 6.0 percent for the employee directed account for investments. Should the percentage be greater or less than 6.0 percent?

5. Another area of concern involved the default investment option, and whether such a portfolio modeled after KPERS investments would be appropriate for everyone at all ages. Should life-cycle or other more appropriate investment options be available as the default?

6. The question of vesting and exactly when it would occur was a concern for the Subcommittee members. Clarification should be sought for the different circumstances in which

vesting would become prior to actual retirement and under exactly what circumstance would a member not forfeit the employer annuity account.

7. Learning more about interest crediting for the employer annuity account and the determination of the final annuity amount was a concern. Annual reporting of interest earnings with a zero balance guaranteed, the Subcommittee believed, should be demonstrated as to how it actually would work.

8. Designation of a primary beneficiary, an alternative to a spouse, also was expressed as a Subcommittee concern for the employer annuity account. Additional information should be sought about alternative arrangements for the member and designated beneficiaries under the old KPERS plan for Tier 1 and Tier 2, as compared with options for the new plan's Tier 3 members. Designating someone other than the spouse as primary beneficiary should be discussed thoroughly.

9. The Subcommittee recommends for the committee to consider striking from HB 2545 all language about removing the statutory caps on participating employer contributions. The matter is addressed by 2011 HB 2196 in increasing employers payments to reach the actuarial required contribution (ARC) that will bring the old KPERS plan into actuarial balance for state, school and local groups for Tier 1 and Tier 2. The question may be placed in a separate bill to consider the merits and problems associated with going to ARC immediately.

10. The Subcommittee recommends for the committee to consider striking from HB 2545 all the provisions that would eliminate service credit purchases.

11. The Subcommittee would expect KPERS staff to consult in a timely manner with outside tax counsel and to have a determination made as to which provisions in HB 2545 are mandatory for Internal Revenue Code compliance.