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MEMORANDUM

To: Senate Select Committee on KPERS
From: David Wiese, Assistant Revisor; Gordon Self, First Assistant Revisor
Date: 3/28/12
RE: Summary of Proposed Senate Bill (Kansas Public Employees Retirement System Act of 2014)

Quick Summary:

This bill draft establishes a new cash balance retirement plan within the Kansas Public Employees Retirement System beginning on July 1, 2014. This new plan would include all new hires after July 1, 2014. The cash balance plan would establish two accounts that combined would constitute the retirement benefit for a member: (1) The annuity savings account and (2) the retirement annuity account. The new plan would have each member contribute 6% of such member's compensation to the annuity savings account. Additionally, the employer would quarterly credit the retirement annuity account with a 4% pay credit. An interest credit rate of 6% would be credited quarterly to each account. An additional interest credit may be provided in the discretion of the KPERS Board, but the additional credit shall not exceed 4% and shall only be credited to members who have 10 or more years of service. When a member reaches normal retirement age of either 65 with five years of service or age 60 with 30 years of service, the account balances shall be converted to an annuity to provide a monthly retirement benefit. The annuity rate is set by statute and is 6%. There is also an option for a member to take a lump-sum distribution of such member's account balance in increments of 10% up to a maximum of 30% of the total account balance.

This bill also contains the provisions of 2011 Senate Sub for HB 2194 minus the trigger provision, KPERS Study Commission and the provision relating to the sale of certain state real estate.

Finally, the bill contains provisions that extend the sunset date on the working after retirement program for certain school employees, suspends employer contributions to the death and disability plan for the fourth quarter of FY 2012 and changes the calculation of legislative KPERS service from 372 days a year to 365 days a year.

Sn Select KPERS
Attachment 2
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Detailed Summary:

New Sections 1 through 17 is the new cash balance retirement plan.

New Section 1.

Names the act as the Kansas Public Employees Retirement System Act of 2014 and describes to whom the new act will apply. This act applies to any individual who is first hired by a participating employer on or after July 1, 2014.

This act does not apply member of the Kansas Police and Firemen's retirement system or to the retirement system for judges.

No member can simultaneously be a member of the pre-2014 plan and the plan established pursuant to this act.

The KPERS Board shall administer the provisions of this act.

The provisions of this act shall not apply to members of KPERS employed by a participating employer prior to July 1, 2014, unless otherwise provided in this act.

New Sec. 2.

Definitional section of the act.

Includes definition of "normal retirement age," which is age 65 with five years of service;

OR

Age 60 with 30 years of credited service.

New Sec. 3.

The board shall establish within KPERS a plan in accordance with the provision of this act. The plan is for the exclusive benefit of members and such member's beneficiaries and is a qualified governmental plan under the provisions of the federal internal revenue code and its implementing regulations. Assets of the plan shall be held in trust for KPERS.

The board shall establish retirement annuity accounts and annuity savings accounts for each member of the plan.

New Sec. 4.

The board has the powers and shall perform the duties regarding the plan established under this act.

New Sec. 5.

An active member shall contribute 6% of such member's compensation to such member's annuity savings account.

The member may not make voluntary contributions to the plan.

New Sec. 6.

A member's annuity savings account is the sum of the member's mandatory 6% contributions plus the interest credits on those contributions, which shall be credited quarterly. Effective July 1, 2014, the interest credits are 6% per annum. The legislature may from time to time prospectively change the interest credits, and expressly reserves the right to do so.

The board may, in its discretion, provide for an additional interest credit, subject to the following conditions:

(1) The additional interest credit may not exceed 4% per annum;

(2) The member shall have 10 or more years of service; and

(3) The board shall consider funding of the system, market conditions, investment returns and other related factors specified by the board.

A member is vested in such member's annuity savings account from the date the employee becomes a member of the plan.

Interest credits shall not be granted on the member's annuity savings account following the end of the fifth plan year following the member's termination of employment under the plan without vesting in the retirement annuity account as provided in section 12.

To be eligible for an additional interest credit, the member shall have an account balance at the time the interest credit is paid out.

New Sec. 7.

The employer pay credit shall be 4% of compensation for each member on a quarterly basis to each member's retirement annuity account.

An active member's employer shall contribute a percentage of compensation, determined by the board, which must be allocated to the death and long-term disability plan under K.S.A. 74-4927, and amendments thereto.

The legislature may from time to time prospectively change employer credits and expressly reserves the right to do so.

New Sec. 8.

A member's retirement annuity account is the sum of all employer credits plus the interest credits on the account, which shall be credited quarterly. Effective July 1, 2014, the interest credit is 6% per annum. The legislature expressly reserves the right to prospectively change the interest credits.

The board may, in its discretion, provide for an additional interest credit, subject to the following conditions:

(1) The additional interest credit may not exceed 4% per annum;

(2) The member shall have 10 or more years of service; and

(3) The board shall consider funding of the system, market conditions, investment returns and other related factors specified by the board.

To be eligible for an additional interest credit, the member shall have an account balance at the time the interest credit is paid out.

Interest credits shall not be granted on the member's non-vested retirement annuity account following the end of the fifth plan year following the member's termination of employment covered under the plan.

New Sec. 9.

If the member's retirement annuity account is not vested upon termination of plan membership, the employer credits and interest credits are forfeited. If the member's retirement annuity account is vested upon termination of plan membership, but the member had died prior to attaining normal retirement age without a spouse, the employer credits and interest credits are forfeited.

Any forfeitures may not be used to increase a member's account, but shall be used to pay administrative expenses of the accounts or to reduce employer contributions.

New Sec. 10.

After termination of service or death, a non-vested member or a non-vested member's beneficiary, may terminate plan membership by filing a written application with the board and take a distribution of the member's annuity savings account through any combination of the following payout options, subject to applicable federal internal revenue code provisions:

1. A direct rollover to an eligible retirement plan; or

2. A lump-sum distribution.

The board by official action may specify minimum account balances for purposes of allowing benefit payment options and rollovers in accordance with federal law.

New Sec. 11.

A member eligible for a benefit under section 13 shall be entitled to a distribution of such member's annuity savings account. The annuity options are the same as those under section 13. A member may elect to receive a lump-sum of such member's annuity savings account in 10% increments, up to a maximum lump-sum distribution of 30% of the total value of such member's annuity savings account and retirement annuity account.

A member who is not eligible for a benefit under section 13, but who terminates employment, may elect to take a distribution of such member's entire annuity savings account balance, but the member shall forfeit the entire balance in the member's retirement annuity account.

In the case of an active member who: (1) is vested in the member's annuity savings account; (2) has five or more years of service at death; and (3) dies before attaining normal retirement age, with such member's spouse designated as the sole beneficiary, the member's surviving spouse on and after the date in which the member would have attained normal retirement age, shall receive an annuity based upon such member's contributions and interest credits in the annuity savings account. The normal form of the benefit shall be a single life annuity with five-year certain.

New Sec. 12.

A member is vested, but subject to forfeiture, in the member's retirement annuity account upon the completion of five years of service. A benefit is nonforfeitable upon the attainment of normal retirement age.

New Sec. 13.

A member, upon the attainment of normal retirement age, shall receive an annuity based upon the balance in such member's retirement annuity account, using mortality rates established by the board as of the member's annuity start date and interest rates established by the legislature as of the member's annuity start date. The initial interest rate shall be 6%. The legislature may from time to time prospectively change the interest rate and the board may from time to time prospectively change the mortality rate, and expressly reserves the right to do so.

The default benefit shall be a single life annuity with five-year certain. The member may elect any option described in K.S.A. 74-4918, and amendments thereto, except the partial lump-sum option, subject to actuarial adjustment factors established by the board. The benefit option may include a self-funded cost-of-living adjustment feature, in which the account value is converted to a benefit amount that increases by a fixed percentage over time. The board shall establish one or more fixed percentages, which may be changed by the board from time to time. A member may elect to receive a lump-sum of such member's retirement annuity account in 10% increments, up to a maximum lump-sum distribution of 30% of the total value of such member's annuity savings account and retirement annuity account.

In the case of an active member who: (1) is vested in the member's retirement annuity account; (2) has five or more years of service at death; and (3) dies before attaining normal retirement age, with such member's spouse designated as the sole beneficiary, the member's surviving spouse on and after the date in which the member would have attained normal retirement age, shall receive an annuity based upon the employer credits and interest credits in the retirement annuity account. The normal form of the benefit shall be a single life annuity with five-year certain.

If the balance of a member's vested retirement annuity account is less than $1,000 upon separation from service, the account balance shall be distributed to the member in accordance with the federal internal revenue code. If the member does not elect to have such distribution paid directly to an eligible retirement plan in a direct rollover, then the board will pay the distribution to the member directly.

New Sec. 14.

All benefit payments under this plan are subject to the requirements imposed under federal internal revenue code 401(a)(9).

New Sec. 15.

A member's beneficiary shall be determined as provided in the pre-2014 plan. A member's beneficiary is entitled to a $4,000 death benefit upon the filing of a written application with the board after the death of a member.

New Sec. 16.

Members of the KPERS act of 2014 shall be covered in the death and disability plan in accordance with K.S.A. 74-4927, and amendments thereto, subject to the provisions of this act.

If a member becomes eligible for a disability benefit under the plan, such member shall be given participating service credit for the entire period of disability. Such member's annuity savings account and retirement annuity account shall be credited with the amount of employee contributions and employer credits and interest credits prescribed in this act for the entire period of such disability.

The salary upon which credits to the employer annuity account for such disabled member shall be the member's salary at the time of disability, and shall be adjusted once a year on January 1, but only after five years of disability, by the lesser of : (1) Consumer price index minus 1%; or (2) 4% per year.

All credits to the employer annuity account shall cease upon the earliest of (1) death, (2) attainment of normal retirement age, or (3) the date the member is no longer entitled to receive disability benefits.

New Sec. 17.

The provisions of K.S.A. 74-49,122, 74-49,123, and 74-49,124, and amendments thereto, shall apply to this act. However, the definitions of "actuarial equivalent" or "actuarial computation" shall not apply to this act.

Sections 18-24 are the same provisions as were found in 2011 Senate Sub for HB 2194 minus the trigger, KPERS Study Commission and the provision relating to the sale of certain state real estate.

These sections provide for an increase in employer contributions in future years commencing in fiscal year 2014 by increasing the current statutory cap which limits the increase in employer contributions from one year to the next. This change affects state, school and local employers.

Current cap	FY 2014	FY2015	FY2016	FY2017+ thereafter
0.60%	0.90%	1.00%	1.10%	1.20%

The bill contains a provision that, subject to IRS approval, would allow for an election for both Tier 1 and Tier 2 members on July 1, 2013. Tier 1 members may elect to increase their contributions to 5% in 2014 and to 6% for 2015 and all years thereafter and receive an increased multiplier from 1.75% to 1.85% for service earned on and after January 1, 2014 or they may choose to continue to contribute 4% and receive a 1.4% multiplier for service on and after January 1, 2014. Tier 1 members who fail to make an election shall contribute 6% and would receive the increased 1.85% multiplier.

Tier 2 members may elect to keep their multiplier at the current 1.75% and forgo any COLA or they may elect to take a reduced 1.4% multiplier for service earned on and after January 1, 2014 and maintain their COLA (currently 2% annual increase). Tier 2 members' contribution rate would remain at 6% no matter which option the member chooses. Tier 2 members who do not make an election shall contribute 6% with the 1.75% multiplier and shall not receive a COLA.

Elections shall be one-time and irrevocable, and shall be made within a 90-day period established by the KPERS board.

If the IRS does not grant approval of the election, Tier 1 members shall have their employee contribution rate increased to 6% and receive a 1.85% multiplier, and Tier 2 members shall not be eligible for a COLA and receive a 1.75% multiplier.

Sec. 25.

Extends a 3-year salary cap exemption for school professionals who go back to work after retiring from KPERS and who are employed by the same KPERS employer, from July 1, 2012, until July 1, 2015. (This was the original SB 259 as it left the Senate)

Sec. 26.

No participating employer shall contribute any amount to the death and disability plan for the period commencing on April 1, 2012, and ending on June 30, 2012.

Sec. 27.

This section changes the calculation of the number of days of service a member of the legislature is credited with for KPERS purposes from 372 days to 365 days. This section also contains a new provision that states that any member of the legislature who makes the election to join KPERS or not may not revoke such election while they remain a participating employee for service as a member of the legislature.

Sec. 28.

Repealer section

Sec. 29.

The bill is effective from and after its publication in the statute book.