

## HB 2460

### Testimony for the Senate Ways & Means Committee

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Chairperson McGinn and Members of the Committee:

Thank you for this opportunity to provide testimony in support of HB 2640, which addresses several technical amendments that (1) provide a less costly option for employers considering affiliation with KPERS, (2) ensure new employers pay the same employer contribution rate during their first year of affiliation, and (3) update the Retirement Act's IRS Guidepost section to remain in compliance with federal law.

**"Future Service Only" Affiliation Option:** Amends K.S.A. 74-4910 to permit public employers to affiliate with KPERS for future service only. The Retirement Act allows KP&F employers to affiliate for either "prior service and future service," or for "future service only." K.S.A. 74-4910 does not provide such an election to employers who affiliate with KPERS; instead, they must affiliate for both prior and future service. As a result, they begin their KPERS affiliation with an actuarial liability for their employees' prior service, which must be amortized on a flat dollar basis.

Depending upon the demographic characteristics of their workforce (including the number of employees and their ages and years of service at the time of affiliation), this prior service actuarial liability may be significant relative to the employer's capability to fund retirement benefits and may pose a deterrent to affiliation. HB 2460 would provide KPERS employers with the option of affiliating for future service only. Employers choosing this option would not assume prior service liabilities or the obligation to amortize that liability, thereby offering a less costly option for affiliation.

**First-Year Employer Contribution Rate:** Amends K.S.A. 74-4920 by deleting a provision that sets out a fixed 7.0% contribution rate for first-year employers. The System's actuary did not think there was any need for there to be a different employer contribution rate for the first year an employer is affiliated; the employer will be paying off any actuarial liability for prior service on a flat dollar amortization schedule. In addition, while the first-year rate of 7.0% historically has been higher than the statutory rate, it will actually be lower than the statutory rate beginning in CY 2012.

For CY 2012, the statutory employer contribution rate for local units of government is 7.34%, with 0.6% increases anticipated each year through CY 2014. By deleting the 7.0% rate for first-year employers, these new employers will be paying the full contribution rate required of other local government employers.

Senate Ways and Means  
Date: 02-17-2012

Attachment: 6  
The logo for the Kansas Public Employees Retirement System (KPERS) features a stylized 'K' inside a square, followed by the letters 'KPERS' in a bold, sans-serif font.

**Compliance with Federal Law:** Amends K.S.A. 74-49,123 to remain in federal compliance with several post-Economic Growth and Tax Relief Reconciliation Act of 2001 amendments, specifically, the Pension Protection Act of 2006, Final 415 Regulations, the Heroes Earnings Assistance and Tax Relief Act of 2008, and the Worker, Retiree, and Employee Recovery Act of 2008, as follows:

1. Adds reference to "good faith interpretation" in accordance with new federal regulations for required minimum distributions in K.S.A. 74-49,123;
2. updates K.S.A. 74-49,123 with a reference to the Heroes Earnings Assistance Recovery Act of 2008;
3. clarifies a definition in K.S.A. 74-49,123 regarding the "eligible rollover distribution" definition; and
4. updates K.S.A. 74-49,123 to include a reference to "Final 415 Regulations" as required for compliance with the Internal Revenue Code.

These amendments are essential to KPERS obtaining an IRS Determination Letter confirming the Plan's compliance with the Internal Revenue Code.

Thank you for your thoughtful consideration of HB 2460. I would be glad to respond to any questions you might have.