

HOUSE BILL No. 2533

AN ACT concerning retirement and benefits; relating to the Kansas public employees retirement system act of 2015; interest credits on annuity savings and retirement annuity accounts; payment of annuity upon retirement; amending K.S.A. 2013 Supp. 74-49,306, 74-49,308 and 74-49,313 and repealing the existing sections.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 2013 Supp. 74-49,306 is hereby amended to read as follows: 74-49,306. (a) A member's annuity savings account is the sum of the member's mandatory contributions plus the interest credits on those contributions, which shall be credited no less frequently than quarterly based on the account balances as of the last day of the preceding quarter. Effective January 1, 2015, the interest credits are ~~5.25%~~ 4% per annum. The legislature may from time to time prospectively change the interest credits, and expressly reserves the right to do so.

(b) ~~The board may, in the board's discretion, from time to time provide for an additional interest credit, subject to the following conditions:~~

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

~~(2) if the funding ratio of the system as a whole is equal to or more than 80% as certified by the board, the board shall provide for an additional interest credit which may not exceed the lesser of 4% or a percentage of the rate of return on the system's assets that is above 8% for a fiscal year which such percentage is equal to the funding ratio of the system as a whole for each fiscal year;~~

~~(3) the additional interest credit for a fiscal year shall not be granted unless the rate of return on the system's assets is at least 10% for that fiscal year, and~~

~~(4) if the funding ratio of the system as a whole is less than 80% as certified by the board, the board shall consider the funding of the system, market conditions, investment returns and other related factors specified by the board. The board shall provide for an annual additional interest credit. The additional interest credit shall be posted to the member's annuity savings account on March 31 or as soon thereafter as practicable, based on the member's account value as of December 31 of the preceding year. The additional interest credit shall be determined as follows:~~

~~(1) For the additional interest credit based on the member's annuity savings account balance as of December 31, 2015, the dividend shall be equal to 75% of the average net rate of return as determined by the board for calendar year 2015 on the market value of the system's assets that is above 6%, except that such additional interest credit shall not exceed 1.5%;~~

~~(2) for the additional interest credit based on the member's annuity savings account balance as of December 31, 2016, the dividend shall be equal to 75% of the average net rate of return as determined by the board for calendar years 2015 and 2016 on the market value of the system's assets that is above 6%, except that such additional interest credit shall not exceed 1.5%;~~

~~(3) for the additional interest credit based on the member's annuity savings account balance as of December 31, 2017, the dividend shall be equal to 75% of the average net rate of return as determined by the board for calendar years 2015, 2016 and 2017 on the market value of the system's assets that is above 6%, except that such additional interest credit shall not exceed 1.5%;~~

~~(4) for the additional interest credit based on the member's annuity savings account balance as of December 31, 2018, the dividend shall be equal to 75% of the average net rate of return as determined by the board for calendar years 2015, 2016, 2017 and 2018 on the market value of the system's assets that is above 6%, except that such additional interest credit shall not exceed 1.5%; and~~

~~(5) for the additional interest credit based on the member's annuity savings account balance as of December 31, 2019, and all calendar years thereafter, the dividend shall be equal to 75% of the five-year average net compound rate of return as determined by the board for that calendar year and the previous four calendar years on the market value of the system's assets that is above 6%.~~

(c) The member's annuity savings account is vested from the date that the employee becomes a member of the plan.

(d) Interest credits under subsections (a) and (b) shall not be granted on the member's annuity savings account following the end of the second plan year following the member's termination of employment under the

plan without vesting in the retirement annuity account as provided in K.S.A. 2013 Supp. 74-49,312, and amendments thereto.

(e) For a member to be eligible for an additional interest credit, the member shall have an account balance at the time the interest credit is posted to the account.

Sec. 2. K.S.A. 2013 Supp. 74-49,308 is hereby amended to read as follows: 74-49,308. (a) A member's retirement annuity account is the sum of all employer credits to the account plus the interest credits on the account, which shall be credited no less frequently than quarterly, based on the account balances as of the last day of the preceding quarter. Effective January 1, 2015, the interest credits are ~~5.25%~~ 4% per annum. The legislature may from time to time prospectively change the interest credits, and expressly reserves the right to do so.

(b) ~~The board may, in the board's discretion, from time to time provide for an additional interest credit, subject to the following conditions:~~

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

~~(2) if the funding ratio of the system as a whole, is equal to or more than 80% as certified by the board, the board shall provide for an additional interest credit which may not exceed the lesser of 4% or a percentage of the rate of return on the system's assets that is above 8% for a fiscal year which such percentage is equal to the overall funded ratio of the system as a whole for each fiscal year;~~

~~(3) the additional interest credit for a fiscal year shall not be granted unless the rate of return on the system's assets is at least 10% for that fiscal year; and~~

~~(4) if the funding ratio of the system as a whole is less than 80% as certified by the board, the board shall consider the funding of the system; market conditions; investment returns and other related factors specified by the board. The board shall provide for an annual additional interest credit. The additional interest credit shall be posted to the member's retirement annuity account on March 31 or as soon as practicable, based on the member's account value as of December 31 of the preceding year. The additional interest credit shall be determined as follows:~~

~~(1) For the annual additional interest credit based on the member's retirement annuity account balance as of December 31, 2015, the dividend shall be equal to 75% of the average net rate of return as determined by the board for calendar year 2015 on the market value of the system's assets that is above 6%, except that such additional interest credit shall not exceed 1.5%;~~

~~(2) for the annual additional interest credit based on the member's retirement annuity account balance as of December 31, 2016, the dividend shall be equal to 75% of the average net rate of return as determined by the board for calendar years 2015 and 2016 on the market value of the system's assets that is above 6%, except that such additional interest credit shall not exceed 1.5%;~~

~~(3) for the additional interest credit based on the member's retirement annuity account balance as of December 31, 2017, the dividend shall be equal to 75% of the average net rate of return as determined by the board for calendar years 2015, 2016 and 2017 on the market value of the system's assets that is above 6%, except that such additional interest credit shall not exceed 1.5%;~~

~~(4) for the additional interest credit based on the member's retirement annuity account balance as of December 31, 2018, the dividend shall be equal to 75% of the average net rate of return as determined by the board for calendar years 2015, 2016, 2017 and 2018 on the market value of the system's assets that is above 6%, except that such additional interest credit shall not exceed 1.5%; and~~

~~(5) for the additional interest credit based on the member's retirement annuity account balance as of December 31, 2019, and all calendar years thereafter, the dividend shall be equal to 75% of the five-year average net compound rate of return as determined by the board for that calendar year and the previous four calendar years on the market value of the system's assets that is above 6%.~~

(c) For a member to be eligible for an additional interest credit, the member shall have an account balance at the time the interest credit is posted to the account.

(d) Interest credits under subsections (a) and (b) shall not be granted

on the member's non-vested retirement annuity account following the end of the second plan year following the member's termination of employment covered under the plan.

Sec. 3. K.S.A. 2013 Supp. 74-49,313 is hereby amended to read as follows: 74-49,313. (a) Except as provided in subsection (e), a member who has a nonforfeitable interest in the member's retirement annuity account, at any time after termination from service and 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 by official action as of the member's annuity start date and ~~interest rates established by the legislature~~ *an interest rate equal to the actuarial assumed investment rate of return established by the board minus 2%*, as of the member's annuity start date, ~~and such interest rate shall initially 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 rates, and the legislature expressly reserves such rights to do so.

(b) Except as provided in subsection (e), a member who has a vested interest in the member's retirement annuity account, who terminates covered employment, without forfeiting such member's account, with the completion of at least 10 years of service, shall be eligible to receive, upon attainment of age 55, an annuity based upon employer credits and interest credits in such member's retirement annuity account, using mortality rates established by the board by official action as of the member's annuity start date and an interest rate established by the legislature as of the member's annuity start date, and such interest rate shall initially 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 rates, and the legislature expressly reserves such rights to do so.

(c) The form of benefit payable under subsections (a) and (b) shall be a single life annuity with 10-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 factors established by the board from time to time. The benefit option selected 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. One or more fixed percentages shall be established by the board, which may be changed from time to time. In lieu of a part of an annuity, for a member entitled to a benefit under subsection (a), the member may elect to receive a lump-sum of such member's retirement annuity account of any fixed dollar amount or percent, but in no event may the lump-sum option elected under this section and the lump-sum option elected under subsection (a) of K.S.A. 2013 Supp. 74-49,311, and amendments thereto, exceed 30% of the total value of such member's annuity savings account and retirement annuity account.

(d) Except as provided in subsection (e), in the case of an active or inactive member:

- (1) Who is vested in the member's retirement annuity account;
- (2) who has five or more years of service at death; and
- (3) who dies before attaining normal retirement age, with such member's spouse at time of death designated as such member's sole primary beneficiary, the member's surviving spouse on and after the date the member would have attained normal retirement age had such member not died, shall receive an annuity based upon employer credits and interest credits in the retirement annuity account, using factors established by the board by official action as of the beneficiary's annuity start date.

The form of benefit shall be a single life annuity with 10-year certain.

(e) If a member's vested retirement annuity account is less than \$1,000 upon separation from service, or the total of the member's vested retirement annuity account and annuity savings account balance is less than \$1,000, the account balance or balances shall be mandatorily distributed to the member in accordance with section 401(a)(31)(B) of the federal internal revenue code. If the member does not elect to have such distribution paid directly to an eligible retirement plan specified by the participant in a direct rollover or to receive the distribution directly, then the board will pay the distribution to the member directly.

Sec. 4. K.S.A. 2013 Supp. 74-49,306, 74-49,308 and 74-49,313 are hereby repealed.

Sec. 5. This act shall take effect and be in force from and after its publication in the statute book.

I hereby certify that the above BILL originated in the HOUSE, and passed that body

Speaker of the House.

Chief Clerk of the House.

Passed the SENATE _____

President of the Senate.

Secretary of the Senate.

APPROVED _____

Governor.