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300 SW TENTH AVENUE ■ SUITE 24-E ■ TOPEKA, KS 66612 ■ (785) 296-2321

MEMORANDUM

To: Chairman Johnson and members of the House Committee on Pensions and Benefits

From: David Wiese, Assistant Revisor

Date: 2/20/2015

Subject: HB 2288; Enacting the Kansas deferred retirement option program act

Quick Summary:

House Bill No. 2288 enacts eight new sections of law known as the Kansas deferred retirement option program (DROP) act. The act would be effective January 1, 2016. Certain members of KP&F, upon attaining normal retirement age, would have the option of electing to participate in the DROP for a period of between three to five years. After electing to participate in the DROP, a member's monthly retirement benefit shall be determined by the system and deposited into a DROP account for the duration of the DROP period. Additional interest credits would also be credited to the DROP account on an annual basis in the range of 0% to 7%, subject to certain investment rate of return requirements. During the member's DROP period, the member remains in active service and employer and employee contributions are still made to the system, but such member shall not earn any additional service credit after the DROP election's effective date. At the end of the DROP period, a member is entitled to a distribution of such member's DROP account. A member may make a direct rollover of the DROP account balance to an eligible retirement plan or may take a lump-sum distribution.

Detailed Summary:

Section 1 names the act the Kansas deferred retirement option program act. This act is part of and supplemental to the KPERS act, K.S.A. 74-4901 et seq.

Section 2 of the bill provides definitions to be used through the act. "Member" means a member in the Kansas police and firemen's retirement system who is eligible to participate in the DROP, who elects to participate and who is either employed by the state of Kansas or employed

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by a participating employer other than the state of Kansas that affiliates with the DROP pursuant to section 4.

Section 3 requires the KPERS board of trustees to establish within the KP&F system a deferred retirement option program for members. The board shall administer the DROP in compliance with the internal revenue code and applicable treasury regulations. The board shall establish a DROP account for each member and each DROP account shall be credited annually with interest, as determined by the board in consultation with the actuary, in the range of 0% to 7%. Interest may only be credited in a year in which the actual rate of return on the market value on the investments of the DROP reach the system's assumed rate of return and such interest credit may not exceed 50% of the actual rate of return.

Section 4 allows any KP&F eligible employer to affiliate with the DROP established by this act. The affiliation would be effective on the January 1 next following application. Each participating employer affiliating shall appropriate and pay to the system a sum sufficient to satisfy the obligations under this act as certified by the board.

Section 5 allows members to elect to participate in the DROP at the attainment of normal retirement age for KP&F Tier 1 and Tier 2 members.

A member shall indicate the DROP period the member wishes to participate in the DROP. The minimum DROP period is three years and the maximum is five years from the effective date of DROP participation election. A member may only participate in DROP once and the participation election is a one-time irrevocable election.

If a member fails to meet the minimum DROP period of three years, all the member's interest credits shall be forfeited, unless such member retires due to disability. A member who remains in active service at the expiration of the DROP period shall not be eligible for any additional interest credits.

A member who elects to participate in the DROP shall continue in the active service under the KP&F retirement system but shall not earn any additional service credit after the election's effective date. After the election, a member is ineligible to purchase service credit.

During the DROP period, employer contributions and employee contributions shall be made to the retirement system.

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Section 6 requires the board to calculate a monthly DROP accrual for each DROP member. The monthly DROP accrual is the amount equal to the monthly retirement benefit that would have been payable to the member if the member had terminated service and retired on the day the member elected to participate in the DROP. Before entering DROP, a member may elect to have such member's retirement benefit determined under any of the joint annuitant retirement benefit options except for the lump sum payment option. During the DROP period, an amount equal to the monthly DROP accrual shall be credited to the member's DROP account.

Section 7 describes the instances which would end DROP participation. DROP participation ceases on the occurrence of the earliest of the following:

1. Termination of the member's active service with a participating employer;
2. The last day of the member's DROP period;
3. Retirement due to disability;
4. The member's death

If a member dies before taking a distribution from such member's DROP account, the member's designated beneficiary shall receive a lump-sum payment equal to the member's DROP account balance.

Section 8 provides for the distribution methods of a member's DROP account. Each payout option is subject to applicable provisions of the federal internal revenue code and the applicable regulations of the IRS. The following distribution methods are authorized:

1. A direct roll-over to an eligible retirement plan; or
2. A lump-sum distribution.

Section 9 makes the DROP act effective on January 1, 2016.