HOUSE BILL No. 2489

By Committee on Pensions and Benefits

1-20

Proposed amendment to HB 2489
House Committee on Pensions and Benefits
2/3/2016

Striking old dates in K.S.A. 74-4927

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AN ACT concerning the Kansas public employees retirement system; relating to death and long-term disability benefits; employer payments to group insurance reserve fund; Kansas public employees retirement system act of 2015; accidental death benefit; annuity interest rate; amending K.S.A. 74-4916 and K.S.A. 2015 Supp. 74-4927 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. 74-4916 is hereby amended to read as follows: 74-4916. (1) Upon the death of a member before retirement, the member's accumulated contributions shall be paid to the member's beneficiary.

(2) (a) In the event that a member dies before retirement as a result of an accident arising out of and in the course of the member's actual performance of duty in the employ of a participating employer independent of all other causes and not as a result of a willfully negligent or intentional act of the member, an accidental death benefit shall be payable if: (A) A report of the accident, in a form acceptable to the board, is filed in the office of the executive director of the board within 60 days after the date of the accident causing such death and an application for such benefit, in such form and manner as the board shall prescribe, is filed in the office of the executive director of the board within two years of the date of the accident, but the board may waive such time limits for a reasonable period if in the judgment of the board the failure to meet these limits was due to lack of knowledge or incapacity; and (B) the board finds from such evidence as it may require, to be submitted in such form and manner as it shall prescribe, that the natural and proximate cause of death was the result of an accident arising out of and in the course of the member's employment with a participating employer independent of all other causes at a definite time and place. Such accidental death benefit shall be a lump-sum amount of $50,000 and an annual amount of $^1/_2$ of the member's final average salary, *and for members who were first employed by a participating employer and covered as a member of the system under the provisions of K.S.A. 74-49,301 et seq., and amendments thereto, an annual amount of 50% of such member's salary averaged over the final three years of such member's covered employment,* which shall accrue from the first day of the month following the date of death and which shall

be payable in monthly installments or as the board may direct, but, after June 30, 1982, in no case shall the accidental death benefit be less than $100 per month. The accidental death benefit payments shall be paid to the surviving spouse of such deceased member, such payments to continue so long as such surviving spouse lives or if there is no surviving spouse, or in the case the spouse dies before the youngest child of such deceased member attains age 18 or before the youngest child of such deceased member attains age 23 years, if such child is a full-time student as provided in K.S.A. 74-49,117, and amendments thereto, or if there are one or more children of the member who are totally disabled and dependent on the member or spouse, then to the child or children of such member under age 18 or under age 23, if such child or children are full-time students as provided in K.S.A. 74-49,117, and amendments thereto, and to the child or children of the member who are totally disabled and dependent on the member or spouse, divided in such manner as the board in its discretion shall determine, to continue until the youngest surviving child dies or attains age 18 or attains age 23 if such child is a full-time student as provided in K.S.A. 79-49,117, and amendments thereto, or, in the case of the child or children who are totally disabled and dependent on the member or spouse, until death or until no longer totally disabled, or if there is no surviving spouse or child eligible for accidental death benefits under this subsection (2) at the time of the member's death, then to the parent or parents of such member who are dependent on such member, to continue until the last such parent dies. All payments due under this subsection (2) to a minor shall be made to a legally appointed conservator of such minor or totally disabled child as provided in ~~subsection (7) of~~ K.S.A. ~~74-4902~~ *74-49,127*, and amendments thereto. Commencing on the effective date of this act, any surviving spouse, who was receiving benefits pursuant to this section and who had such benefits terminated by reason of such spouse's remarriage, shall be entitled to once again receive benefits pursuant to this section, except that such surviving spouse shall not be entitled to recover any benefits not received after the termination of benefits by reason of such surviving spouse's remarriage but before the effective date of this act.

(b) In construction of this section of the act there shall be no presumption that the death of the member was the result of an accident nor shall there be a liberal interpretation of the law or evidence in favor of the person claiming under this subsection (2). In the event of the death of a member resulting from a heart, circulatory or respiratory condition there must be clear and precise evidence that death was the result of an accident independent of all other causes which arose out of and in the course of the member's actual performance of duties in the employ of a participating employer.

(c) The annual benefit under this subsection (2) shall be reduced by any workers compensation benefit payable. If the workers compensation benefit is paid in a lump-sum, the amount of such reduction shall be calculated on a monthly basis over the period of time for which workers compensation benefits would have been payable had such lump-sum not been paid. For any recipient already in receipt of such benefits on the effective date of this act, no change in the original reduction for workers compensation benefits shall be applicable to benefits paid prior to July 1, 1994. In the event that a member should die as a result of an accident as described in this subsection (2), all elections or options previously made by the deceased member shall become void and of no effect whatsoever and the retirement system shall be liable only for the accidental death benefit, refund of accumulated contributions as described in subsection (1) and any insured death benefit that may be due. The benefit payable under this subsection (2) shall be known and referred to as the "accidental death benefit."

(3) (a) Upon the application of a member, or the member's appointing authority acting for the member, a member who is in the employ of a participating employer and becomes totally and permanently disabled for duty in the employ of a participating employer, by reason of an accident which occurred prior to July 1, 1975, may be retired by the board if~~,~~: (A) The board finds the total and permanent disability to be the natural and proximate result of an accident causing personal injury or disease independent of all other causes and arising out of and in the course of the member's actual performance of duties as an employee of a participating employer; ~~and~~ (B) a report of the accident, in a form acceptable to the board is filed in the office of the executive director of the board within 200 days after the date of the accident causing such injury; ~~and~~ (C) such application for retirement under this provision, in such form and manner as shall be prescribed by the board, is filed in the office of the executive director of the board within two years of the date of the accident;~~, and~~ (D) after a medical examination of the member has been made by or under the direction of a medical physician or physicians or any other practitioner holding a valid license to practice a branch of the healing arts issued by the state board of healing arts designated by the board and the medical physician or physicians or any other practitioner holding a valid license to practice a branch of the healing arts issued by the state board of healing arts report in writing to the board that the member is physically or mentally totally disabled for duty in the employ of a participating employer and that such disability will probably be permanent; and (E) the board finds that the member became permanently and totally disabled on a date certain based on the evidence furnished and the professional guidance obtained and that such disability was not the result of a willfully negligent

or intentional act of the member. If the board shall so retire the applicant, the member shall receive annually an accidental total disability benefit equal to $^1/_2$ of the member's final average salary which shall accrue from the first day of the month following the date of such accidental total and permanent disability as found by the board payable in monthly installments or as the board may direct.

(b) In construction of this subsection (3) there shall be no presumption that the disability of the member was the result of an accident nor shall there be a liberal interpretation of the law or evidence in favor of the member claiming under this subsection (3). In the event of the disability of a member resulting from a heart, circulatory or respiratory condition there must be clear and precise evidence that disability was the result of an accident independent of all other causes which arose out of and in the course of the member's actual performance of duties in the employ of a participating employer.

(c) A member will continue to receive such accidental total disability benefit so long as the member is wholly and continuously disabled by such injury and prevented thereby from engaging in any gainful occupation or employment for which the member is reasonably qualified by reason of education, training or experience. The accidental loss of both hands by actual severance through or above the wrist joint, or the accidental loss of both feet by actual severance through or above the ankle joint or the entire and irrecoverable accidental loss of sight of both eyes, or such severance of one hand and one foot, and such severance of one hand or one foot and such loss of sight of one eye, shall be deemed accidental total and permanent disability and accidental total disability benefits shall be paid so long as the member lives.

(d) Any retirant retired by reason of such accidental total and permanent disability who has been receiving benefits under the provisions of this subsection (3) for a period of five years shall be deemed finally retired and shall not be subject to further medical examinations, except that if the board of trustees has reasonable grounds to question whether the retirant remains totally and permanently disabled, a further medical examination or examinations may be required. Refusal or neglect to submit to examination shall be sufficient cause for suspending or discontinuing the accidental total disability benefit. If the refusal or neglect continues for a period of one year, all of the member's rights with respect to such accidental total disability benefit may be revoked by the board.

(e) In the event that a retirant who is receiving an accidental total disability benefit dies within five years after the date of the retirant's retirement, an accidental death benefit shall then be payable as provided in subsection (2) of this section.

(f) A member who retires under the provisions of this subsection (3) shall receive such benefits as provided in this subsection (3) in lieu of all other retirement benefits provided under the retirement system except that no member shall be entitled to receive any payments under this subsection (3) for a period for which insured disability benefits are received.

(g) The value, as determined by the board upon recommendation of the actuary, of any workmen's compensation benefits paid or payable to the recipient of an accidental total disability benefit shall be deducted from the amount payable under this section.

(h) The benefit payable under subsection (3) of this section shall be known and referred to as "accidental total disability benefit."

(4) The payment of benefits as provided in this section is subject to the provisions of K.S.A. 74-49,123, and amendments thereto.

Sec. 2. K.S.A. 2015 Supp. 74-4927 is hereby amended to read as follows: 74-4927. (1) The board may establish a plan of death and long-term disability benefits to be paid to the members of the retirement system as provided by this section. The long-term disability benefit shall be payable in accordance with the terms of such plan as established by the board, except that for any member who is disabled prior to the effective date of this act, the annual disability benefit amount shall be an amount equal to $66^2/_3$% of the member's annual rate of compensation on the date such disability commenced. Such plan shall provide that:

(A) ~~For deaths occurring prior to January 1, 1987, the right to receive such death benefit shall cease upon the member's attainment of age 70 or date of retirement whichever first occurs.~~ The right to receive such long-term disability benefit shall cease*:* (i) For a member who becomes eligible for such benefit before attaining age 60, upon the date that such member attains age 65 or the date of such member's retirement, whichever first occurs~~,~~*;* and (ii) for a member who becomes eligible for such benefit at or after attaining age 60, the date that such member has received such benefit for a period of five years, or upon the date of such member's retirement, whichever first occurs.

(B) Long-term disability benefit payments shall be in lieu of any accidental total disability benefit that a member may be eligible to receive under ~~subsection (3) of~~ K.S.A. 74-4916*(3)*, and amendments thereto. The member must make an initial application for social security disability benefits and, if denied such benefits, the member must pursue and exhaust all administrative remedies of the social security administration which include, but are not limited to, reconsideration and hearings. Such plan may provide that any amount which a member receives as a social security benefit or a disability benefit or compensation from any source by reason of any employment including, but not limited to, workers compensation benefits may be deducted from the amount of long-term disability benefit payments under such plan. However, in no event shall the amount of long-

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term disability benefit payments under such plan be reduced by any amounts a member receives as a supplemental disability benefit or compensation from any source by reason of the member's employment, provided such supplemental disability benefit or compensation is based solely upon the portion of the member's monthly compensation that exceeds the maximum monthly compensation taken into account under such plan. As used in this paragraph, "maximum monthly compensation" means the dollar amount that results from dividing the maximum monthly disability benefit payable under such plan by the percentage of compensation that is used to calculate disability benefit payments under such plan. During the period in which such member is pursuing such administrative remedies prior to a final decision of the social security administration, social security disability benefits may be estimated and may be deducted from the amount of long-term disability benefit payments under such plan. If the social security benefit, workers compensation benefit, other income or wages or other disability benefit by reason of employment other than a supplemental benefit based solely on compensation in excess of the maximum monthly compensation taken into account under such plan, or any part thereof, is paid in a lump-sum, the amount of the reduction shall be calculated on a monthly basis over the period of time for which the lump-sum is given. As used in this section, "workers compensation benefits" means the total award of disability benefit payments under the workers compensation act notwithstanding any payment of attorney fees from such benefits as provided in the workers compensation act.

(C) The plan may include other provisions relating to qualifications for benefits; schedules and graduation of benefits; limitations of eligibility for benefits by reason of termination of employment or membership; conversion privileges; limitations of eligibility for benefits by reason of leaves of absence, military service or other interruptions in service; limitations on the condition of long-term disability benefit payment by reason of improved health; requirements for medical examinations or reports; or any other reasonable provisions as established by rule and regulation of uniform application adopted by the board.

(D) Any visually impaired person who is in training at and employed by a sheltered workshop for the blind operated by the secretary for children and families and who would otherwise be eligible for the long-term disability benefit as described in this section shall not be eligible to receive such benefit due to visual impairment as such impairment shall be determined to be a preexisting condition.

(2) (A) In the event that a member becomes eligible for a long-term disability benefit under the plan authorized by this section such member shall be given participating service credit for the entire period of such

disability. Such member's final average salary shall be computed in accordance with ~~subsection (17) of~~ K.S.A. 74-4902*(17)*, and amendments thereto, except that the years of participating service used in such computation shall be the years of salaried participating service.

(B) In the event that a member eligible for a long-term disability benefit under the plan authorized by this section shall be disabled for a period of five years or more immediately preceding retirement, such member's final average salary shall be adjusted upon retirement by the actuarial salary assumption rates in existence during such period of disability. [~~Effective July 1, 1993, such member's final average salary shall be adjusted upon retirement by 5% for each year of disability after July 1, 1993, but before July 1, 1998.~~] Effective July 1, 1998, such member's final average salary shall be adjusted upon retirement by an amount equal to the lesser of: (i) The percentage increase in the consumer price index for all urban consumers as published by the bureau of labor statistics of the United States department of labor minus 1%; or (ii) four percent per annum, measured from the member's last day on the payroll to the month that is two months prior to the month of retirement, for each year of disability after July 1, 1998.

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(C) In the event that a member eligible for a long-term disability benefit under the plan authorized by this section shall be disabled for a period of five years or more immediately preceding death, such member's current annual rate shall be adjusted by the actuarial salary assumption rates in existence during such period of disability. [~~Effective July 1, 1993, such member's current annual rate shall be adjusted upon death by 5% for each year of disability after July 1, 1993, but before July 1, 1998.~~] Effective July 1, 1998, such member's current annual rate shall be adjusted upon death by an amount equal to the lesser of: (i) The percentage increase in the consumer price index for all urban consumers published by the bureau of labor statistics of the United States department of labor minus 1%; or (ii) four percent per annum, measured from the member's last day on the payroll to the month that is two months prior to the month of death, for each year of disability after July 1, 1998.

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(3) (A) To carry out the legislative intent to provide, within the funds made available therefor, the broadest possible coverage for members who are in active employment or involuntarily absent from such active employment, the plan of death and long-term disability benefits shall be subject to adjustment from time to time by the board within the limitations of this section. The plan may include terms and provisions which are consistent with the terms and provisions of group life and long-term disability policies usually issued to those employers who employ a large number of employees. The board shall have the authority to establish and adjust from time to time the procedures for financing and administering

the plan of death and long-term disability benefits authorized by this section. Either the insured death benefit or the insured disability benefit or both such benefits may be financed directly by the system or by one or more insurance companies authorized and licensed to transact group life and group accident and health insurance in this state.

(B) The board may contract with one or more insurance companies, which are authorized and licensed to transact group life and group accident and health insurance in Kansas, to underwrite or to administer or to both underwrite and administer either the insured death benefit or the long-term disability benefit or both such benefits. Each such contract with an insurance company under this subsection shall be entered into on the basis of competitive bids solicited and administered by the board. Such competitive bids shall be based on specifications prepared by the board.

(i) In the event the board purchases one or more policies of group insurance from such company or companies to provide either the insured death benefit or the long-term disability benefit or both such benefits, the board shall have the authority to subsequently cancel one or more of such policies and, notwithstanding any other provision of law, to release each company which issued any such canceled policy from any liability for future benefits under any such policy and to have the reserves established by such company under any such canceled policy returned to the system for deposit in the group insurance reserve of the fund.

(ii) In addition, the board shall have the authority to cancel any policy or policies of group life and long-term disability insurance in existence on the effective date of this act and, notwithstanding any other provision of law, to release each company which issued any such canceled policy from any liability for future benefits under any such policy and to have the reserves established by such company under any such canceled policy returned to the system for deposit in the group insurance reserve of the fund. Notwithstanding any other provision of law, no premium tax shall be due or payable by any such company or companies on any such policy or policies purchased by the board nor shall any brokerage fees or commissions be paid thereon.

(4) (A) There is hereby created in the state treasury the group insurance reserve fund. Investment income of the fund shall be added or credited to the fund as provided by law. The cost of the plan of death and long-term disability benefits shall be paid from the group insurance reserve fund, which shall be administered by the board. ~~For the period commencing July 1, 2013, and ending June 30, 2015, each participating employer shall appropriate and pay to the system in such manner as the board shall prescribe in addition to the employee and employer retirement contributions an amount equal to .85% of the amount of compensation on which the members' contributions to the Kansas public employees~~

~~retirement system are based for deposit in the group insurance reserve fund. For the period commencing July 1, 2015, and all periods thereafter,~~ Each participating employer shall appropriate and pay to the system in such manner as the board shall prescribe in addition to the employee and employer retirement contributions an amount equal to 1.0% of the amount of compensation on which the members' contributions to the Kansas public employees retirement system are based for deposit in the group insurance reserve fund. Notwithstanding the provisions of this subsection, no participating employer *other than the state of Kansas* shall appropriate and pay to the system any amount provided for by this subsection for deposit in the group insurance reserve fund for the period commencing on April 1, ~~2013~~ *2016*, and ending on June 30, ~~2013~~ *2016. Notwithstanding the provisions of this subsection, the state of Kansas shall not appropriate and pay to the system any amount provided for by this subsection for deposit in the group insurance reserve fund for the period commencing on March 25, 2016, and ending on June 30, 2016. Notwithstanding the provisions of this subsection, no participating employer shall appropriate and pay to the system any amount provided for by this subsection for deposit in the group insurance reserve fund for the period commencing on April 1, 2017, and ending on June 30, 2017.*

(B) The director of the budget and the governor shall include in the budget and in the budget request for appropriations for personal services a sum to pay the state's contribution to the group insurance reserve fund as provided by this section and shall present the same to the legislature for allowances and appropriation.

(C) The provisions of ~~subsection (4) of~~ K.S.A. 74-4920*(4)*, and amendments thereto, shall apply for the purpose of providing the funds to make the contributions to be deposited to the group insurance reserve fund.

(D) Any dividend or retrospective rate credit allowed by an insurance company or companies shall be credited to the group insurance reserve fund and the board may take such amounts into consideration in determining the amounts of the benefits under the plan authorized by this section.

(5) The death benefit provided under the plan of death and long-term disability benefits authorized by this section shall be known and referred to as insured death benefit. The long-term disability benefit provided under the plan of death and long-term disability benefits authorized by this section shall be known and referred to as long-term disability benefit.

(6) The board is hereby authorized to establish an optional death benefit plan for employees and spouses and dependents of employees. Except as provided in subsection (7), such optional death benefit plan shall be made available to all employees who are covered or may hereafter

become covered by the plan of death and long-term disability benefits authorized by this section. The cost of the optional death benefit plan shall be paid by the applicant either by means of a system of payroll deductions or direct payment to the board. The board shall have the authority and discretion to establish such terms, conditions, specifications and coverages as it may deem to be in the best interest of the state of Kansas and its employees which should include term death benefits for the person's period of active state employment regardless of age, but in no case, shall the maximum allowable coverage be less than $200,000. The cost of the optional death benefit plan shall not be established on such a basis as to unreasonably discriminate against any particular age group. The board shall have full administrative responsibility, discretion and authority to establish and continue such optional death benefit plan and the director of accounts and reports of the department of administration shall when requested by the board and from funds appropriated or available for such purpose establish a system to make periodic deductions from state payrolls to cover the cost of the optional death benefit plan coverage under the provisions of this subsection (6) and shall remit all deductions together with appropriate accounting reports to the system. There is hereby created in the state treasury the optional death benefit plan reserve fund. Investment income of the fund shall be added or credited to the fund as provided by law. All funds received by the board, whether in the form of direct payments, payroll deductions or otherwise, shall be accounted for separately from all other funds of the retirement system and shall be paid into the optional death benefit plan reserve fund, from which the board is authorized to make the appropriate payments and to pay the ongoing costs of administration of such optional death benefit plan as may be incurred in carrying out the provisions of this subsection (6).

(7) Any employer other than the state of Kansas which is currently a participating employer of the Kansas public employees retirement system or is in the process of affiliating with the Kansas public employees retirement system may also elect to affiliate for the purposes of subsection (6). All such employers shall make application for affiliation with such system, to be effective on January 1 or July 1 next following application.

(8) For purposes of the death benefit provided under the plan of death and long-term disability benefits authorized by this section and the optional death benefit plan authorized by subsection (6), commencing on the effective date of this act, in the case of medical or financial hardship of the member as determined by the executive director, or otherwise commencing January 1, 2005, the member may name a beneficiary or beneficiaries other than the beneficiary or beneficiaries named by the member to receive other benefits as provided by the provisions of K.S.A. 74-4901 et seq., and amendments thereto.

Sec. 3. K.S.A. 2015 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 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. 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%~~ *equal to the actuarial assumed investment rate of return established by the board minus 2%, as of the member's annuity start date*. 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. 2015 Supp. 74-49,311*(a)*, 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. 74-4916 and K.S.A. 2015 Supp. 74-4927 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.