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Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

March 14, 2016

The Honorable Steven Johnson, Chairperson
House Committee on Pensions and Benefits
Statehouse, Room 286-N
Topeka, Kansas 66612

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2724 by House Committee on Appropriations

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2724 is respectfully submitted to your committee.

HB 2724 would exclude any payments made to any Kansas Public Employee Retirement System (KPERS) member on or after July 1, 2016, under a 409A or 457(f) plan from being considered as compensation for purposes of calculating a members' final average salary.

According to KPERS, it is anticipated that HB 2724 would have a negligible fiscal effect on the retirement system because of the infrequent use of the plans and existing Internal Revenue Service (IRS) and KPERS laws that limit the impact of 457(f) payments on a member's benefits.

KPERS indicates that there have been only two instances over the past 20 years in which 457(f) payments have been part of final average calculations. Also, under current IRS laws, contributions are limited based on annual earnings and membership date. Current KPERS statutes impose a "cap law" which limits the effects of 457(f) benefits on final average salary calculations for KPERS 1 and KPERS 2 members. If a KPERS 1 member's compensation for any year used in calculating his or her final average salary is more than 15.0 percent higher than the preceding year (7.5 percent for KPERS 2), the amount that exceeds the 15.0 percent (or 7.5 percent) is not included in compensation for purposes of calculating final average salary. The design of the KPERS 3 plan, or cash balance plan, also limits the effect of 457(f) payments on a KPERS 3 member's compensation.

Sincerely,

Shawn Sullivan,
Director of the Budget

cc: Faith Loretto, KPERS