

SESSION OF 2016

**SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2489**

As Amended by House Committee of the Whole

**Brief\***

HB 2489, as amended, would make technical and clarifying amendments to the Kansas Public Employees Retirement System (KPERS) statutes pertaining to death and disability contributions, Tier 3 members, the tax status of 457 Roth accounts, optional 401(a) plans for local public employers, and retirement income planning.

The bill would specify a moratorium on contribution amounts made for death and disability benefits, commencing on April 1, 2016, and ending on June 30, 2017.

The accidental service-connected death benefit would apply to KPERS Tier 3 members. This would allow surviving spouses or dependents to receive a lump sum payment of \$50,000 and a monthly, lifetime benefit equal to 50 percent of the deceased member's final average salary, which would be based on an average of the member's final three years of compensation. The annuity interest rate for Tier 3 members who take early retirement would be adjusted from 6 percent to the actuarially assumed investment rate of return, which would be established by the KPERS Board of Trustees, minus 2 percent. This provision would make the annuity rates consistent across all retirement options for Tier 3 members.

The bill would clarify the tax status of contributions and distributions associated with Roth accounts within KPERS' deferred compensation 457 plan. Under federal tax law, Roth 457 contributions are taxable in the year in which they are contributed, and qualified distributions are not taxed. The

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\*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

state would tax the contributions and distributions in the same manner as the federal government.

KPERS would be allowed to establish an optional 401(a) plan for local participating employers who adopt the KPERS 457 plan. In 2002, the Legislature granted KPERS the authority to establish a 401(a) defined contribution plan for state employees, but KPERS has not created that plan. Under a 401(a) plan, an employer is not required to pay Social Security taxes on employer contributions.

KPERS would be allowed to share pension data for 457 participants with the plan's record keeper for the purpose of retirement income planning.

## **Background**

The bill contains the language of HB 2489 and HB 2541, which were both introduced by the House Committee on Pensions and Benefits at the request of the KPERS Board of Trustees.

### ***HB 2489 (original bill)***

Representatives of KPERS testified before the House Pensions and Benefits Committee. The bill would provide KPERS Tier 3 members with a service-connected death benefit based on an average of their final three years of compensation, making the death benefit consistent for all KPERS members. The annuity rate for the Tier 3 cash balance plan would be made consistent among all retirement options for Tier 3 members. The death and disability language would mirror the appropriations approved during the 2015 Legislative Session.

There was no opponent or neutral testimony.

### ***HB 2541***

Representatives of KPERS testified before the House Pensions and Benefits Committee, stating participating

employers and employees have requested Roth and 401(a) options in the 457 plan. By sharing pension data with KPERS' record keeper, members will be able to receive real-time snapshots of projected monthly retirement income needs, taking into consideration pension and Social Security benefits and personal savings. A future online system will be capable of making recommendations for meeting retirement goals and needs. A representative of the League of Kansas Municipalities also spoke in favor of the bill, stating the legislation would provide a greater array of options for retirement benefits.

There was no opponent or neutral testimony.

The House Committee amended the original bill to add the language of HB 2541 and delete language the Committee determined to be obsolete.

The House Committee of the Whole amended the bill to specify a moratorium on death and disability contributions begins on April 1, 2016, which is the start of the fourth quarter of FY 2016, and ends on June 30, 2017, which is the end of FY 2017. The bill which would reflect the appropriations made during the 2015 Legislative Session in House Sub. for SB 112 and the 2016 Legislative Session in House Sub. for SB 161.

According to the fiscal note prepared by the Division of the Budget, in consultation with KPERS, the provisions of HB 2489 would have no fiscal effect. According to the fiscal note on HB 2541, which was prepared in consultation with KPERS and the Department of Revenue, the expenses of the 457 Plan are equal to 0.04 percent of the value of assets in the deferred compensation accounts. KPERS anticipates the same percentage charge will be applied to Roth and 401(a) accounts. The costs for sharing member data with the 457 plan service provider would be negligible and absorbed within current expenses. According to the Department of Revenue, HB 2451 would have no effect on revenues to the State General Fund.