SESSION OF 2017

SUPPLEMENTAL NOTE ON SENATE BILL NO. 205

As Amended by House Committee on Financial Institutions and Pensions

Brief*

SB 205, as amended, would make numerous changes to the Kansas Public Employees Retirement System (KPERS or Retirement System) pertaining to participating service; Kansas Police and Firemen's (KP&F) death benefits for certain surviving spouses; the Board of Regents Retirement Plan, as it relates to working after retirement; and the administration of KPERS.

Participating Service

The bill would expand the definition of participating service for members of KPERS and KP&F. Any period of time away from work or normal duties while in paid status authorized and approved by a participating employer would constitute service credit. Any administrative, vacation, sick, or personal leaves—including Worker's Compensation or light or temporary duty assignments—would qualify as service credit without limitation. This provision would apply retroactively, starting on July 1, 2014.

If a member does not return to work for the participating employer at the conclusion of the leave, except for death or disability, the service credit would be removed. If a member voluntarily quits employment, the period of leave exceeding 365 days would be removed from the service credit. In either case, the Retirement System would reimburse the employer and employee for contributions made during that period.

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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

Under current law, the credit for leave types is addressed administratively by KPERS without specific statutory language. Some forms of leave, such as sick and annual, qualify for service credit. If paid administrative leave extends beyond a calendar quarter, service credit is not earned. Some alternative forms of work assignment, such as light duty, may receive service credit while others, such as temporary duty, do not.

KP&F Death Benefits

The bill would revise death benefits for certain surviving spouses covered by KP&F. Upon the service-connected death of a KP&F member, the member's spouse would receive an immediate lump-sum benefit equal to 100 percent of the member's final average salary and an annual spouse's benefit equal to the greater of:

- Fifty percent of the member's final average salary; or
- The amount the member would have been paid had the member elected the joint and survivor retirement benefit option and retired as of the first day of the month following the date of death.

Under current law, a surviving spouse receives an annual benefit equal to 50 percent of the member's final average salary plus an additional 10 percent for each child under the age of 18, or 23 if the child is a full-time student, capped not to exceed 75 percent of the member's final average salary. The bill would increase the cap to 90 percent.

The benefits would apply retroactively, starting on July 1, 2016. KPERS would have the administrative authority to implement the provisions of the bill.

Board of Regents Retirement Plan

The bill would also exempt from the working-after-retirement earnings cap those retirees who are reemployed by the Board of Regents and covered by the Regents Retirement Plan, which is not administered by KPERS.

Administration of KPERS

The bill would delete reference to 8.0 percent as the Retirement System's actuarial assumed rate of return and insert language referring to the actuarial assumed rate of return established by the KPERS Board of Trustees.

Background

On April 6, the House Committee on Financial Institutions and Pensions amended into the bill:

- The contents of HB 2111, as it had been passed previously by the House, dealing with KP&F death benefits for certain surviving spouses;
- A provision exempting the Board of Regents' Retirement Plan from working-after-retirement provisions, which had been a recommendation of the Joint Committee on Investments, Pensions and Benefits made during the 2016 Interim; and
- A technical amendment which deleted reference to an 8.0 percent actuarial assumed rate of return and inserted language referring to the rate established by the KPERS Board of Trustees.

The following provides the background on SB 205 and HB 2111.

SB 205

During the hearing before Senate Committee on Financial Institutions and Insurance, representatives of the League of Kansas Municipalities, the Kansas State Council of Fire Fighters, Shawnee County, and various law enforcement officer associations spoke in favor of the bill, stating the legislation would not penalize employees from accruing service credit for legitimate, unexpected, and extended limited-term absences from work.

A representative of KPERS provided neutral testimony, stating the agency has been made aware of instances where the Retirement System has been used to solve personnel matters. Rather than go through termination proceedings, a participating employer may place an employee on paid leave until that member is eligible to retire. KPERS staff concluded the bill would allow employers, in some situations, to use KPERS as a personnel management tool, which would be a foundational shift in policy.

There was no opponent testimony.

The Senate Committee amended the bill to:

- Remove service credit if the member does not return to work for the same employer after the leave period; and
- Reimburse the employee and employer for contributions previously made for service that subsequently was not credited.

The House Committee did not hold a hearing on this bill.

According to the fiscal note prepared by the Division of the Budget, in consultation with KPERS, the cost of SB 205, as introduced, would be negligible.

HB 2111

During the hearing before the House Committee on Financial Institutions and Pensions, representatives from the Kansas State Council of Fire Fighters, the Kansas Association of Chiefs of Police, the Kansas Sheriffs' Association, and the Kansas Peace Officers Association, and the Kansas State Lodge of the Fraternal Order of Police spoke in support of the bill. Proponents said the bill would provide for surviving spouses and children when a member with a career of public service dies in the line of duty. An example was given of a law enforcement officer with a young family that was killed in Kansas City in 2016.

A representative of KPERS provided neutral testimony, explaining that over the past five years there have been two to three service-connected fatalities annually.

There was no opponent testimony.

The House Committee amended the bill to:

- Allow the survivor benefits specified in the bill to apply retroactively, starting on July 1, 2016; and
- Authorize administrative authority for KPERS to implement the bill.

According to the fiscal note prepared by the Division of the Budget, in consultation with KPERS, HB 2111, as introduced, would increase the unfunded actuarial liability (UAL) of the Retirement System by an estimated $605,453, resulting in an increase of 0.02 percent to the KP&F employer contribution rate, which would include a 0.01 percent increase in the UAL and a 0.01 percent increase to the normal cost of benefits. KPERS estimated the increase to the employer contribution rate would have a small fiscal effect on revenues to the KPERS Trust Fund.