

SESSION OF 2022

**SUPPLEMENTAL NOTE ON SENATE BILL NO. 553**

As Amended by Senate Committee on  
Assessment and Taxation

**Brief\***

SB 553, as amended, would enact the Kansas Thrift Savings Plan Act (Act).

***Plan Establishment (Section 3)***

The bill would require the Kansas Public Employees Retirement System Board of Trustees (KPERS) to establish a separate Thrift Savings Plan (Plan) pursuant to Sections 401(a) and 414(d) of the Internal Revenue Code for the primary objective of providing a share of the retirement income needed to replace a member's preretirement standard of living throughout retirement following a full career of employment. KPERS would be required to establish a retirement account for each Plan member.

KPERS would be required to establish a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code to allow for additional elective contributions of Plan members.

For both the 457 plan and the Thrift Savings Plan, KPERS would be required to establish Roth contribution options.

The bill would provide for all employees first employed on and after July 1, 2024, to be members of the Plan.

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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>

### ***Member Election (Section 5)***

The bill would permit, on or after July 1, 2024, any active member or inactive vested member of the KPERS defined benefit plan to make a one-time, irrevocable election to become a member of the Plan within a 90-day period established by KPERS. The election would be for the entirety of such member's credited service and would require KPERS to calculate the actuarial present value of such member's accrued retirement benefit prior to July 1, 2024, and transfer a lump-sum amount equal to this value to the member's rollover Plan account.

Such election would terminate the membership of the electing member in the KPERS defined benefit plan. Any member not electing to transfer membership would remain in the defined benefit plan.

This provision would only be effective if approval is granted by the Internal Revenue Service and would be severable from the remainder of the Act.

### ***Rollovers (Section 6)***

The bill would require KPERS to accept rollover contributions to the Plan from other eligible retirement plans to the extent allowed by the Internal Revenue Code.

### ***Vesting (Section 7)***

The bill would provide for employee contributions and rollover contributions and the income on those contributions to be vested immediately upon being credited to the member's account. Member's deferred compensation contributions and income on such contributions would be vested upon the employee becoming a member of the Plan. Employer contributions and income on such contributions

would be vested when the member has a total of five years participating in the Plan.

If the member's employer contributions are not vested upon termination of plan membership, such contributions and income on such contributions would be forfeited to be used to meet KPERS administrative and startup costs for the Plan.

### ***Contribution Rates (Section 8)***

The bill would require members to contribute 6.0 percent of compensation to the member's Plan account. Employers would be required to contribute 4.0 percent of compensation to the member's account.

Members would be permitted to contribute up to 10.0 percent of compensation to the deferred compensation account. The bill would provide for members to initially contribute 1.0 percent of compensation to the deferred compensation account, which would increase annually by 1.0 percent until it reaches 10.0 percent. However, members would be permitted to annually adjust the amount of contributions to the member's deferred compensation account in 1.0 percent increments.

Employers would be required to contribute an additional 0.5 percent of contribution to the member's account if the member contributes 1.0 percent to the member's deferred compensation account and would be required to contribute an additional 1.0 percent to the member's account if the member contributes 2.0 or more percent to the member's deferred compensation account.

### ***Plan Investment Alternatives (Section 9)***

The bill would require KPERS to create an investment policy structured to meet the retirement objectives of the

Plan. The following non-exclusive types of funds would be required to be offered to members:

- A governmental securities investment fund;
- A fixed income index investment fund;
- A common stock index investment fund;
- A small capitalization stock index investment fund;
- An international stock index investment fund;
- A fund designed to mirror the performance of the KPERS Trust Fund; and
- Hybrid funds mixing and matching various investment funds, tailored to projected retirement years.

#### ***Plan Distribution Options (Section 11)***

The bill would provide that upon termination of service, members would be permitted to leave their vested account balance in the Plan for distribution as provided in the bill.

KPERS would be required to offer lifetime annuity options from an insurer to include options for single-life, joint and survivor, period certain, qualified longevity annuity contracts, and other annuity forms chosen by KPERS.

Distributions would be required to comply with minimum distribution requirements established in the Internal Revenue Code, and the Plan could specify minimum account balances.

#### ***Plan Membership Termination and Payout (Section 10)***

The bill would provide that upon termination of service, a member would be permitted to terminate membership in the

Plan and remove the member's vested account balance by the following options, as allowed by the Internal Revenue Code and Internal Revenue Service:

- Direct rollover to eligible retirement plan;
- Regular rollover to eligible retirement plan;
- Lump-sum distribution of vested account balance;  
or
- Distribution options provided by the Plan.

***Other Provisions and Definitions (Sections 2, 4, 12-15)***

The bill would provide for members to designate beneficiaries to be entitled to the member's vested account balance on the member's death.

The bill would prohibit members from receiving a refund of any portion of the member's account balance prior to termination of service.

Plan members would be eligible for disability benefits provided to members of the KPERS defined benefit plan.

For purposes of establishing payroll for KPERS contribution rates, the bill would provide for the inclusion of members of the Plan.

The bill would provide that the Legislature may prospectively change the statutory provisions governing the Plan and provide the Legislature the express right to do so. The bill would state that the State of Kansas would not be responsible for any loss incurred by any member under the Plan.

The bill would define terms necessary for the implementation of the Act. The term "first employed" would be

defined to mean an employee who has not been a KPERS-covered employee prior to July 1, 2024; is a former member of KPERS who withdrew contributions prior to July 1, 2024; or was an inactive, nonvested member of KPERS who is again employed in a covered position on or after July 1, 2024.

## **Background**

The bill was introduced by the Senate Committee on Assessment and Taxation at the request of Senator Tyson.

### ***Senate Committee on Assessment and Taxation***

In the Senate Committee hearing, **proponent** testimony was provided by Representative Highland and a representative of Qualified Plan Advisors, stating the bill would create a defined benefit plan for most state and local employees, which would provide for employee control over the investments in their retirement plan.

**Opponent** testimony was provided by representatives of American Federation of Teachers-Kansas, Kansas Association of Chiefs of Police, Kansas Coalition of Public Retirees, Kansas Organization of State Employees, Kansas Peace Officers Association, Kansas Sheriffs Association, and United School Administrators of Kansas, stating the bill would add costs to the KPERS system without improving benefits for current active or retired members. Written-only opponent testimony was provided by a representative of the Kansas State Council of Fire Fighters.

Neutral testimony was provided by representatives of KPERS and the Reason Foundation.

The Senate Committee amended the bill to require the investment alternatives within the Plan to include a fund designed to mirror the performance of the KPERS Trust Fund.

## **Fiscal Information**

According to the fiscal note prepared by the Division of the Budget on the bill, as introduced, KPERS estimates enactment of the bill would require 3.0 FTE positions and \$182,000 in FY 2023 and 15.0 FTE positions and \$971,000 in FY 2024 and FY 2025 for transitioning to the Thrift Savings Plan. These costs would reduce to 7.0 FTE positions and \$705,000 in annual costs beginning in FY 2026.

KPERS indicates enactment of the bill would increase actuarial costs for KPERS. If 10.0 percent of existing KPERS members elect into the Thrift Savings Plan, the actuarial cost over 30 years is projected to be \$6.7 billion. If 50.0 percent of existing KPERS members elect into the Thrift Savings Plan, the actuarial cost over 30 years is projected to be \$9.1 billion.

Any fiscal effect associated with enactment of the bill is not reflected in *The FY 2023 Governor's Budget Report*.

Pensions; KPERS; Thrift Savings Plan Act; defined contribution plan