

February 15, 2013

The Honorable Ty Masterson, Chairperson
Senate Committee on Ways and Means
Statehouse, Room 545-S
Topeka, Kansas 66612

Dear Senator Masterson:

SUBJECT: Fiscal Note for SB 204 by Senate Committee on Ways and Means

In accordance with KSA 75-3715a, the following fiscal note concerning SB 204 is respectfully submitted to your committee.

SB 204 contains several clarifying and technical amendments to 2012 Senate Substitute for House Substitute for HB 2333.

Tier 2 benefit structure

Under 2012 HB 2333, the COLA for any Tier 2 member retiring on or after July 1, 2012 was eliminated. Current law also provides Tier 2 members with a 1.85 multiplier for all years of service, beginning with retirements on and after January 1, 2014. As a result, any Tier 2 member retiring in the 18-month period between July 1, 2012, and January 1, 2014, would receive neither a COLA nor the higher 1.85 multiplier. In order to prevent this result, SB 204 would amend current law to retroactively extend the application of the higher 1.85 multiplier to retirements on and after July 1, 2012. Additionally, it would direct the Kansas Public Employees Retirement System (KPERS) to re-determine the annual retirement benefit of any Tier 2 member who retired on or after July 1, 2012, but prior to the effective date of the act, by applying the 1.85 multiplier to all periods of the member's service. Any resulting underpayment of benefits to the point the benefit is recalculated would be paid to the member as a one-time redetermination benefit payment, in a form and manner prescribed by the KPERS Board of Trustees.

Tier 1 member contribution increases

Currently, Tier 1 members are to be provided with a one time, irrevocable election between two options. The first is an increase in the benefit formula multiplier from 1.75 to 1.85 for all future service, beginning January 1, 2014, plus an increase in the member contribution rate from 4.0 percent to 5.0 percent on the same date and from 5.0 percent to 6.0 percent on and

after January 1, 2015. The second option would be to retain the 4.0 percent member contribution rate, in which case the benefit formula multiplier would be reduced from 1.75 to 1.40 for future service, beginning January 1, 2014. This election is subject to approval of the IRS; however, if the IRS does not approve the election, or the member does not make an election, the default would be the 1.85 multiplier and higher contribution rates. SB 204 would amend current law to conform this phased increase in contributions with other similar provisions.

Tier 3 “grace period” rule

Current law applies the new Tier 3 cash balance plan to members who are “first employed” by a participating employer on or after January 1, 2015. The term “first employed” is defined to include any employees who become inactive, nonvested members and, on or after January 1, 2015, are again employed by a participating employer in a covered position. SB 204 clarifies the application of the definition of “first employed” by providing a modest period of time during which non-vested members who leave Tier 1 or 2 covered employment may return to covered employment without forfeiting Tier 1 or 2 status. For KPERS members other than school employees, HB 2213 provides a 30-day window in which they may return to employment and retain membership in Tier 1 or 2. For school employees, the grace period preserves a teacher’s Tier 1 or 2 membership when transferring from one school district to another between school years, in particular, during the summer months.

Technical amendments of internal references and terminology

The bill makes a number of technical amendments as follows:

1. Corrects internal references in statute relating to a member failing to make an election as previously described, rather than to a non-existent subsection (d)(2);
2. Clarifies that the higher 1.85 multiplier applies to Tier 2 members retiring under early retirement provisions, as well as those retiring on or after their normal retirement date;
3. Conforms the term “additional interest rate” to match the term “additional interest credit” as used elsewhere in the bill;
4. Clarifies that a member who terminates with 10 years of service without withdrawing his or her contributions and interest may retire under early retirement provisions at age 55;
5. Changes a reference to the “pre-2014 act” (Tiers 1 and 2) to the “pre-2015 act” to reflect the effective date of the Tier 3 cash balance plan; and
6. Corrects internal references to ensure that members retiring under early retirement provisions as well as normal retirement are eligible for the \$4,000 retiree death benefit.

The Honorable Ty Masterson, Chairperson

February 15, 2013

Page 3—SB 204

KPERS indicates that most of the provisions in SB 204 are clarifying or technical amendments and would have no fiscal effect. The changes to the Tier 2 benefit structure would result in a small benefit increase for a limited number of Tier 2 members; however, the fiscal effect is expected to be negligible. Also, according to the consulting actuary, the bill is not expected to increase KPERS' actuarial liabilities or required contributions beyond the costs anticipated for 2012 HB 2333. Any fiscal effect associated with SB 204 is not reflected in *The FY 2014 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", with a long horizontal flourish extending to the right.

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Faith Loretto, KPERS