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300 SW TENTH AVENUE ▪ SUITE 24-E ▪ TOPEKA, KS 66612 ▪ (785) 296-2321

MEMORANDUM

To: Chairman Kelly and members of the House Financial Institutions and Pensions Committee

From: David Wiese, Assistant Revisor

Date: March 13, 2019

Subject: **HB 2217; Enacting the Kansas thrift savings plan act.**

House Bill No. 2217 creates the Kansas thrift savings plan act. The plan is a defined contribution retirement plan similar to the thrift savings plan utilized by the federal government.

Section 1 provides that sections 1 through 14 shall be known and may be cited as the Kansas thrift savings plan act and shall be effective on and after July 1, 2022. The act shall not apply to members of KP&F, the retirement system for judges or KPERS except as specifically provided in the act (See section 6).

Section 2 contains definitions for terms used throughout the act.

Section 3 requires the KPERS board to establish a separate thrift savings plan and establish accounts for members of the plan. The plan shall also have a Roth contribution option. The board is authorized to enter into contracts with parties for the purpose of implementing and providing essential services for the plan. Contracts entered into under this act shall be subject to competitive bid requirements.

Section 4 provides that the legislature may prospectively change the statutory provisions governing the plan and gives the legislature the express right to do so. The state of Kansas shall not be responsible for any loss incurred by any member under the plan.

Section 5 authorizes any eligible employee of the defined benefit plan (defined as KPERS, KP&F or judges' retirement system) who is first employed on or after July 1, 2022, to make a one-time irrevocable election, within 14 days of beginning employment, to become a member of the thrift savings plan or to become a member of the defined benefit plan. If an employee fails to make an election, the employee becomes a member of the defined benefit plan.

Section 6 allows for an election for active defined benefit plan members on July 1, 2022, to become a member of the thrift savings plan subject to approval of such election by the IRS. An election to become a thrift savings plan member terminates membership in the defined benefit plan and the retirement system shall calculate the actuarial present value of such member's accrued retirement benefit for all credited service prior to July 1, 2022 and transfer a lump-sum amount equal to such present value to such member's rollover account in the thrift savings plan.

Section 7 requires the KPERS board to accept the rollover of contributions and the income on such contributions from another eligible retirement plan to the member's rollover account to the extent allowed under the federal internal revenue code.

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Section 8 provides the vesting schedule for the thrift savings plan. The member's contributions and the income on those contributions are vested from the date that the employee becomes a member of the plan. The member's rollover contributions are vested from the date that such contributions are credited to the rollover account. Employer contributions are vested when the member has a total of five years of participating service in the plan. If the member is not vested with regard to employer contributions upon termination of plan membership, the employer contributions are forfeited.

Section 9 establishes the contribution rates for the plan. Members are required to contribute 3% of compensation to the plan and may make additional voluntary contributions to the extent permitted under the federal internal revenue code. Employer contributions shall be 4% of compensation with an additional 0.5% if the member contributes 4% or an additional 1% if the member contributes 5% or more to the plan.

| Member contribution | Employer contribution | Total contribution |
|---------------------|-----------------------|--------------------------|
| 3% | 4% | 7% |
| 4% | 4.5% | 8.5% |
| 5% | 5% | 10% |
| More than 5% | 5% | Member contribution + 5% |

Section 10 establishes the investment alternatives for the plan. Alternatives include:

- (A) A government securities investment fund;
- (B) a fixed income index investment fund;
- (C) a common stock index investment fund;
- (D) a small capitalization stock index investment fund;
- (E) an international stock index investment fund; and
- (F) hybrid funds mixing and matching various investment funds, tailored to projected retirement years

The legislature from time to time may review the investment alternatives established by this section and may change the alternatives and expressly reserves the right to do so. The board shall notify affected plan members of potential changes before any changes become effective.

The default investment option for any member who does not select an investment alternative is the government securities investment fund. The board is required to make available to members an electronic means for investment allocation elections and elections shall be permitted daily.

Section 11 provides the procedures for termination of plan membership and payout options.

Section 12 governs distributions from the plan.

Section 13 provides that a plan member's beneficiary shall be determined as provided in the defined benefit plan regulations. Upon filing a written application with the board after the death of a plan member, the beneficiary is entitled to the member's vested account balance.

Section 14 states that before termination of service, a member may not receive a refund of any portion of the member's vested account balance.