

KPERS PENSIONS AND BENEFITS COMMITTEE
Testimony on House Bill 2545
February 13, 2012

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Good afternoon Senators. My name is Doug Wolff and I am President of Security Benefit Life Insurance Company ("Security Benefit"). I would like to thank this Committee for the opportunity to appear here today to present testimony in support of House Bill No. 2545.

While Security Benefit supports the full funding of the KPERS defined benefit plan, defined benefit plans are not our line of business, and I am not a qualified pension actuary, so my testimony will not focus on the specific proposed changes to that system. Security Benefit is in the business of defined contribution retirement plans. My comments will be focused on the portion of the bill dealing with the 403(b) provisions as this is one of our primary businesses.

Security Benefit has been doing business in Kansas for over 120 years. Our company is one of the five largest defined contribution providers in the United States specializing in public education retirement plans. Security Benefit is the largest public education defined contribution provider in the United States working with independent financial representatives. With more than 250 plans under administration here in Kansas, Security Benefit is also the largest single provider of retirement plan services for Kansas K-12 public schools and community colleges (jointly referred to in several places during the remainder of this written testimony as "public education employees") providing third party administration and investments for 403(b), 457 and 401(a) retirement plans. Security Benefit provides these types of plans to public schools on a nationwide basis. Our plans are administered through our offices here in Topeka, Kansas where we currently employ more than 650 people.

We believe that our specialization in public education and national experience combined with the insight gained from more than 35 years of working with KPERS members and their spouses on

why they need to save for retirement, qualifies Security Benefit to provide this Committee with the insight and guidance on the best defined contribution plan design for KPERS public education employees. Security Benefit supports House Bill 2545, which establishes a good defined contribution system framework, including a 403(b) plan program for public education employees. Public education employees are already familiar with the 403(b) plan and many currently utilize their 403(b) plan for personal retirement savings contributions. 403(b) plans are currently offered in almost every school district in Kansas. At this time Security Benefit has more than 15,000 active 403(b) accounts for public education employees. That's about 30% of the total number of current Kansas public education employees. Security Benefit recommends you maintain this part of the House Bill No. 2545 plan for education employees.

While House Bill No. 2545 also sets forth the goal of providing a variety of investment options for the state employees, you may hear testimony that suggests that 403(b) plan participants have limited investing options. This simply is not accurate. In reality, 403(b) participants have a large choice of investment options. 403(b) participants have two categories of investment products- annuities (variable and fixed) as well as mutual fund options in custodial accounts. Mutual fund choices and variable investment funds in 403(b) plans cover a virtual universe of investment options in numerous categories from money market to emerging markets to target date funds to various bond funds and everything in between. In Security Benefit's current 403(b)(7) product we offer approximately 100 different fund choices- that can hardly be described as limited.

403(b) plans can be either mutual funds or variable / fixed annuities. An annuity can provide key downside protection that participants' value greatly especially in the volatile and difficult investing climate that exists today. One of these features is a death benefit. Often times, annuities provide a death benefit either built into the base product or offered as an additional rider or both. The death benefit typically guarantees a return of premium or something greater that can be ratcheted up with positive market performance (but then will not fall with any subsequent decrease in the account value). Another example of an important and safe product feature of annuities is the fixed account. This serves as an investment with a guaranteed interest

crediting mechanism that can be very valuable to a participant looking for a safe and predictable investment return. Another product feature of an annuity is the guaranteed annuitization rate. This is the minimum rate and mortality factors used when the participant desires to move into an income phase. With an interest rate environment that has seen steady decreases, these guaranteed minimum annuitization factors can be very important and provide a piece of mind for the participant who will sometime in the future want to turn an accumulated account value into a regular monthly or annual income stream.

You also heard that 403(b) plans are problematic because they allow additional voluntary pre-tax and/or after-tax contributions from public education employees. We believe this is an overwhelming positive feature of 403(b) plans. The fact that the 403(b) code section benefits public education employees should be celebrated, not criticized. Since the most important factor in maximizing retirement savings is investing as much as you can as early on as you can, the 403(b) code section helps education employees do exactly that and you should support this option.

Lastly, a significant benefit in a defined contribution 403(b) is its portability function. Portability allows for the possibility of moving the defined contribution account to a new employer's retirement plan or even to an IRA once the employee is no longer employed with the district. This is a feature that has been available to private sector employees for decades and is viewed as a win-win situation for both the employee and the employer. The employee has personal choice and control of their account and the employer is no longer responsible for administering the account.

Security Benefit proposes a few amendments to House Bill 2545 to provide additional structure to the 403(b) retirement plan for public education employees. These amendments are set forth in the attachment and the proposed changes are highlighted for your convenience. The purpose of these amendments is to guarantee that public education employees have access to a wide variety of investment options while also insuring they have access to the investment advice they may need and want to make these investment choices.

The most substantive proposed amendments are in New Section 6 of the bill, on page 5 starting on line 16. The inserted language supports competition in the 403(b) market where Security Benefit, a Kansas company, would have an equal opportunity to compete to become a provider. This language is written to clarify that public education employees have the benefit of advice, choice and local control in their public retirement plan.

Public employees need and deserve this advice and guidance. As you know, the KPERS serves a decentralized populace that deserves and requires equity of service for all and the ability to get individualized financial advice.

The Case for Advice

When we speak of professional financial advice, we are referring to the fact that there are a wide variety of KPERS members who have an equally wide variety of retirement needs. They deserve an option for professional help developing investment strategies like how much to invest in stocks or bonds or even picking the "right" mutual fund option. We are focused on the personal professional advice that encourages people to increase their contributions for retirement. We speak of the professionals that sit across the kitchen table on a weekday evening to help a KPERS member create their personal retirement goals and then show that member and their spouse why they should invest an extra \$50 or \$100 a month to meet these goals.

To illustrate our point, a recent survey by Charles Schwab showed that workers who received personal professional advice on creating a retirement savings plan increased their average monthly deferral percentage by 5.42% and their savings rates nearly doubled from 5% to 10% as a result of receiving and implementing the advice. Additionally, the same study showed that 51% of those retirement plan participants preferred one-on-one consultation. This tells us that a majority of workers, including KPERS members, both prefer personal advice and save more, when they have access to personal advice.

For context, given the current economy, job uncertainty, market volatility and low interest rates it is not surprising that we have a national retirement savings problem. The primary job of professional financial advisors working with retirement plan participants is building the trust and confidence for people to create a plan for the future and then forgo a portion of their paycheck now in order to meet that plan. As a CFA and FSA, I can confidently say that the most important factor in maximizing retirement savings is not just picking the right investments, the overall investment returns or even expenses, but investing as much as you can as early on as you can.

The bottom line is that independent studies prove that people invest more when they have a personal investment advisor.

The Case for Choice

Access to and choice of a personal investment advisor and investment provider go hand in hand. In fact, in the K-12 education market, research shows that participation in 403(b) defined contribution plans dramatically declined when the number of available investment providers and access to professional investment advice was reduced.

A study by the American Society of Pension Professionals and Actuaries (ASPPA) of school districts in Southern California, discovered over 50% of workers stopped contributing to their 403(b) plans when their existing provider was no longer available for ongoing contributions. Although there was a slight decline in overall participation rates, participants that retained access to their investment advisor and investment provider of choice maintained much higher participation rates over all.

Another example can be found across the border in Colorado. In 2004, Jefferson County School District in Golden, Colorado decided to adopt a single investment provider model for its 403(b), 457 and 401 (a) plans. The objectives were to reduce the administrative burden on the district and achieve lower investment expenses for participants. These are appropriate and understandable objectives for any retirement plan sponsor.

The model they implemented was with one of the largest 457 defined contribution providers in the country. There are a number of large companies that provide similar models in the public sector market. The lower cost, limited choice, no personal investment advice model seemed like a good solution. What the district found was that 403(b) defined contribution participation rates declined steadily each year since the implementation of the new model. The number of contributing 403(b) participants dropped by over 54% from 4,762 participants in 2004 to 2,177 contributing participants at the end of 2009, the latest year for which participation data is publically available. The unfortunate part of this story is that JEFSCO could have addressed both the administration issue and the expense issue if it would have selected an independent third-party administrator to manage the plan and implemented a uniform fee disclosure regimen that would allow the market to work.

JEFSCO may have achieved its goal to simplify the administrative process, and lower some expenses to participants, but it is hard to argue that less people saving for retirement is a good outcome for anyone.

Another case similar to Jefferson County Public Schools further illustrates this point. When the Indiana Area School District in Indiana County, Pennsylvania switched to a single investment provider, limiting access to investment advice and choice, nearly 40 percent of participants ceased participation in the plan. Generally speaking, a one-size-fits-all approach for public employees, like KPERS members, will not work.

The Case for Local Control

Given the demonstrated benefit of local advice, and given the geographic dispersion of KPERS education members, equity of service becomes a critical consideration. By equity of service, we mean that the same level of personal, face-to-face service should be available for KPERS members in the smallest communities of Kansas to the same degree that they can get in Johnson County or another large population center. Kansas employees work in buildings and other worksites scattered throughout the state, including some fairly remote areas. We do not believe

it is in their best interest to be left essentially on their own when it comes to retirement planning decisions.

Consider Kansas' K-12 employees. Think of the "boots on the ground" required to meet the needs of the 294 Kansas school districts, from Kansas City and Topeka to USD 405 in Lyons to USD 413 in Chanute. Individual public schools simply do not have the resources to develop a "culture of savings" in the same way as the private sector.

If Kansas goes to a one-size-fits-all plan, participants who need more one-on-one help to learn about how the plan works, how much to save for retirement, and how to invest their money in the plan are not given the time or professional help they need. To make personal planning part of the service for KPERS participants, it would take hundreds of people to serve every area of Kansas equally.

An example of the unintended consequences of limiting local control can be found in the Iowa Department of Administrative Services (DAS) Retirement Investors Club. The Iowa DAS plan is a centralized 457, 403(b) and 401(a) plan sponsored by the state that covers all state employees, eligible municipal and county government workers and all of Iowa's K-12 public schools and community colleges.

The positive aspects of the Iowa DAS plan include maintaining a multiple code section defined contribution plan including 457, 403(b) and 401(a) and also maintaining a multiple provider system which allows all plans to minimize concentration risk, encourage competition and allow participants to simplify their investments by aggregating all plan assets with their provider of choice. As one of the 6 selected investment providers for the Iowa DAS plan, the concern Security Benefit has is that the state focused on investment expenses as the primary tool for evaluating investment providers. This led to the unfortunate result of pricing local personal financial advisors out of the plan. The practical result is that personal, face-to-face help is essentially not available for rural Iowa. It is primarily available only in the large population centers of Iowa such as Des Moines.

While not perfect, the path toward a better model may lie in the Florida Model Plan. Again, this is a multi-Code multiple provider defined contribution plan that offers 403(b), 457 and 401(a) plans. This plan offers five providers and does include both direct and full service advice models. This plan uses an independent third party administrator that manages all of the plan and provider details very effectively. Other than the varied service models offered under this plan, the primary differentiator between the Florida Model Plan and the Iowa DAS plan is that the Florida Model allows each local employer, in this case a school district, to select additional investment providers in addition to the five core providers offered by the plan. Our experience and the data shows a multiple provider and local employer option plan is beneficial to business competition in this market and thus, also to providing the employees better savings options.

This plan design feature recognizes that local control and choice is important in maintaining healthy plan participation rates and maximizing savings. As a reference point, remember the 50% drop in participation rate experienced in California when plan participants no longer have access to their choice of investment provider and advisor. The qualification here is that any investment provider selected by the local employer must meet the administrative requirements of the third party administrator and share in the plan administration expenses. This model is a very good example of a centralized offering combined with an appropriate level of local control. Our proposed amendments to New Section 6 would implement the strengths of the Florida plan.

Another area of concern raised in prior testimony regarding House Bill 2545 has been the administrative burdens and cost associated with a defined contribution plan, especially one containing multiple code options.

Our proposed amendment to New Section 4, on page 4 line 35, establishes the use of an independent third-party administrator which is a sound way to address these concerns. Our testimony today has included several examples of the benefits of utilizing an independent third party administrator (TPA) to administer the 403(b) plan. These examples illustrate that other states have successfully implemented the independent TPA model. It has been Security

Benefit's experience that virtually all 403(b) investment providers in today's market are willing to pay reasonable compliance fees for TPA services on behalf of their participants. In fact, of the nearly 600 403(b) plans that Security Benefit administers for school districts across the country, 99% of those plans have the investment provider paying the monthly account compliance fee, not the employer. I am aware that you will be hearing expert testimony from a Florida based independent TPA, TSA Consulting. They are fully qualified to answer your questions regarding administrative costs and procedural questions.

If you are concerned about the potential increase in fees associated with the use of a TPA or independent local advisors, we recommend you focus on disclosure rather than limiting options to employees. We have demonstrated that choice and advice are good and promote healthy savings practices. We believe that these principles of a well-regulated free and open market work even better when the plan participants, the KPERS members, are fully informed, and can easily make comparisons among options and have all of the information they deserve when making such an important decision.

The Case for Disclosure

The Paradox of Choice is something that this Committee will likely hear reference to in testimony considering the KPERS defined contribution plan design. Simply put, the paradox of choice suggests that too many options can be bad because people become paralyzed when they must choose between too many options. The argument as it relates to defined contribution plan design is that given too many options, plan participants will simply choose not to act. Therefore the number of choices, investment provider, investment options, etc. should be limited.

We do not know what the right number of choices is for retirement plans. However, simply reducing choices may not work. Remember, plan participation in California public schools dropped when choices were eliminated. The real problem we may need to solve is not the number of choices for participants but providing the right information and professional help for participants to make choices. Full disclosure may be a better solution than fewer choices.

Plan participants should know exactly what they are paying for, the services they receive and who is being paid for those services. Security Benefit fully supports the joint retirement plan disclosure initiative endorsed by the Association of School Business Officials, the National Education Association, the National Tax-Sheltered Accounts Association and the American Society of Pension Professionals and Actuaries and we strongly recommend that this Committee make the uniform disclosure required for any KPERS defined contribution plan providers. (See testimony of Brian Graff with American Society of Pension Professionals and Actuaries and National Tax Sheltered Accounts Association.)

Where retirement plan and investment fees are a concern the temptation is to make the mistake of racing to the bottom to find the lowest possible fee. It is not in KPERS best interest to follow this path. Pricing vital services out of the plan design in pursuit of the lowest fee possible arguably creates larger issues and liabilities of a workforce not prepared for retirement. It can easily lead to inequality in levels of service and in levels of available financial advice especially in a wide-spread and rural area like the western 2/3rds of the state of Kansas.

Full fee disclosure and participant education are a much better option for dealing with the question of plan expenses. Participants can make informed choices when all fees and services are clearly documented for the plan sponsor, investment provider and financial advisor.

Our final proposal on amendments can be found in New Section 2, on page 3 line 12 and New Section 3 on page 4 lines 6 and 32. These proposed amendments are based on the advice of our 403(b) plan legal counsel for compliance purposes and not intended to change the intent of the current language in House Bill No. 2545.

Best Practices in Governmental Retirement Plan Design

In summary, Security Benefit's experiences in other public retirement systems demonstrate that the optimal public defined contribution plan must:

1. Integrate local professional advice for all worksites irrespective of location or investable assets in order to maximize personal retirement savings behaviors which includes a 403(b) plan which is already utilized in almost every school district in Kansas;
2. Use a flexible plan design which is quite common in public schools and municipalities across

the country that includes multiple IRS Code sections (403(b), 457, 401(a)) administered by an independent third party administrator to maximize flexibility and savings options for participants;

3. Allow participant choice and control of investment options with the ability to consolidate all plan assets with a single provider for increased ease of use for the participant leading to increased savings rates;
4. Allow each public education employer to add investment providers for all plan types;
5. Require all providers meet established administrative requirements which will materially help control costs; and
6. Utilize disclosure of fees, services and payments as the best practice for the plan sponsor and investment providers rather than restricting the free market and potentially forcing public employees into do-it-yourself programs.

Security Benefit's business will be impacted by a change to the state retirement system that creates a defined contribution plan. A defined contribution plan that includes the 403b plan option with multiple providers, including at least one, like Security Benefit, with local independent investment providers will allow Security Benefit to remain a vital part of this business delivering services and best-in-class retirement products throughout the state. A defined contribution plan that does not include these options could significantly and negatively impact our ability to do business in Kansas.

Not only is this plan good for Kansas business but it is also good for Kansas public education employees. Specifically, these employees gain advantages by: (1) investing in a plan they currently know and use—their 403(b) plans; (2) consolidating retirement savings to improve accumulation; (3) having the option to supplement the 6% retirement savings amount; and, (4) continuing to use their local and trusted financial advisor for individualized retirement planning advice.

One of your tasks is to create an environment that leads to greater retirement readiness for Kansas public employees. House Bill No. 2545, with our proposed amendments will incorporate the six standards documented above for the public sector defined

contribution plan that will encourage state workers to save for the retirement they have earned and the retirement they deserve. House Bill 2545 encourages public employees to take personal responsibility for their own retirement while providing investment programs and access to financial advice that make retirement success a legitimate goal within reach.

Security Benefit encourages you to support our amendments and the 403(b) plan established in House Bill No. 2545.

Thank you for the opportunity to testify.

HOUSE BILL No. 2545

By Committee on Pensions and Benefits

1-25

1 AN ACT concerning retirement and pensions; enacting the Kansas public
2 employees retirement system act of 2014; providing terms, conditions,
3 benefits and requirements related thereto for certain new members and
4 existing members; relating to benefits and contributions; election for
5 certain existing members; elimination of cap on increase in employer
6 contributions and service credit purchases; amending K.S.A. 2011
7 Supp. 74-4914d and 74-4920 and repealing the existing sections; also
8 repealing K.S.A. 74-4919a, 74-4919g, 74-4919i, 74-4919k, 74-4919n,
9 74-4919p, 74-4919q, 74-4919r and 74-4919s and K.S.A. 2010 Supp.
10 74-4914d, as amended by section 1 of chapter 98 of the 2011 Session
11 Laws of Kansas and 74-4920, as amended by section 4 of chapter 98 of
12 the 2011 Session Laws of Kansas and K.S.A. 2011 Supp. 74-4919h, 74-
13 4919j, 74-4919l, 74-4919m, 74-4919o, 74-4919u and 74-4919v.

14
15 *Be it enacted by the Legislature of the State of Kansas:*

16 New Section 1. (a) The provisions of sections 1 through 19, and
17 amendments thereto, shall be known and may be cited as the Kansas
18 public employees retirement system act of 2014.

19 (b) This act applies to any individual who is:

20 (1) First hired on and after January 1, 2014, by a participating
21 employer and who would otherwise qualify for membership in the Kansas
22 public employees retirement system, K.S.A. 74-4901 *et seq.*, and
23 amendments thereto;

24 (2) any active or inactive nonvested member of the Kansas public
25 employees retirement system on January 1, 2014, including a member of
26 the legislature. Such active nonvested members are required to become
27 members of the plan established under section 3, and amendments thereto,
28 and shall make an election as provided in section 17, and amendments
29 thereto. Such inactive nonvested members are required to become
30 members of the plan established under section 3, and amendments thereto,
31 and shall make an election as provided in section 17, and amendments
32 thereto, only after reemployment in a covered position;

33 (3) any individual:

34 (A) Who was a member of the Kansas public employees retirement
35 system prior to January 1, 2014, but was not an active or inactive member
36 of the Kansas public employees retirement system on January 1, 2014;

- 1 (B) who is hired on or after January 1, 2014, by a participating
2 employer; and
- 3 (C) who would otherwise qualify for membership in the Kansas
4 public employees retirement system, K.S.A. 74-4901 *et seq.*, and
5 amendments thereto;
- 6 (4) (A) a vested member of the legislature who filed an election
7 pursuant to the provisions of K.S.A. 74-4992, and amendments thereto,
8 prior to July 1, 2013;
- 9 (B) a vested member of the legislature who failed to file an election
10 pursuant to the provisions of K.S.A. 74-4992, and amendments thereto,
11 prior to July 1, 2013; and
- 12 (C) a member of the legislature who first serves in such position on or
13 after July 1, 2013.
- 14 (c) This act does not apply to members of the Kansas police and
15 firemen's retirement system, K.S.A. 74-4951 *et seq.*, and amendments
16 thereto, and the retirement system for judges, K.S.A. 20-2601 *et seq.*, and
17 amendments thereto.
- 18 (d) A system member may not simultaneously be a member of the
19 pre-2014 plan and the plan established pursuant to this act. A period of
20 service may not be credited in more than one retirement plan within the
21 system.
- 22 (e) The board of trustees of the Kansas public employees retirement
23 system shall administer the provisions of this act in the same manner as the
24 board administers the provisions of K.S.A. 74-4901 *et seq.*, and
25 amendments thereto, except as specifically provided in this act.
- 26 (f) Unless specifically provided in this act, the provisions of K.S.A.
27 74-4901 *et seq.*, and amendments thereto, shall be applicable to this act. In
28 an event that a conflict exists between the provisions of this act and the
29 provisions of K.S.A. 74-4901 *et seq.*, and amendments thereto, the
30 provisions of this act shall control, and to that end, no legal or contractual
31 rights shall inure to the benefit of members or participating employers
32 under this act with regard to the provisions of K.S.A. 74-4901 *et seq.*, and
33 amendments thereto, when the provisions of this act control.
- 34 (g) Each participating employer as provided in this act and each
35 employee as defined by this act shall be subject to the provisions of this
36 act as specified in this act and subject to the provisions of K.S.A. 74-4901
37 *et seq.*, and amendments thereto, as appropriate as to terms, conditions and
38 requirements not specifically covered in this act. The provisions of this act
39 shall not apply to members of the Kansas public employees retirement
40 system as provided in K.S.A. 74-4901 *et seq.*, and 74-49,201 *et seq.*, and
41 amendments thereto, employed by a participating employer prior to
42 January 1, 2014, unless otherwise provided in this act.
- 43 (h) The provisions of this act shall be part of and supplemental to the

1 provisions of K.S.A. 74-4901 *et seq.*, and amendments thereto, subject to
2 the limitations contained in this act.

3 New Sec. 2. (a) Terms that are used in this act have the meanings set
4 forth for them in K.S.A. 74-4902, and amendments thereto, unless
5 otherwise provided or the context otherwise requires.

6 (b) As used in this act, unless otherwise provided or the context
7 otherwise requires:

8 (1) "2012Act" means the Kansas public employees retirement system
act

9 of 2014, section 1 *et seq.*, and amendments thereto;

10 (2) "2012active member" means a member who is actively employed by
a

11 participating employer;

12 (3) "2012403(b) plan" means **an investment alternative a**
retirement plan offered to

13 qualifying public school, community college employees and other
14 eligible employees as allowed under section 403(b) of the internal revenue
15 code. The 403(b) plan shall be comprised of tax deferred annuities
16 described in section 403(b) of the internal revenue code, including
17 custodial accounts described in section 403(b)(7) of the internal revenue
18 code;

19 (4) "2012employee directed account" means the account established for
a

20 member under section 3, and amendments thereto;

21 (5) "2012employer annuity account" means the account established for
a

22 member under section 3, and amendments thereto;

23 (6) "2012member" means an individual who is required by section 1,
and

24 amendments thereto, to be a member of the plan. The term also includes
25 any survivor or beneficiary of such member;

26 (7) "2012normal retirement age" means the attainment of age 65,
except

27 that for security officers, normal retirement age means the attainment of
28 age 55;

29 (8) "2012plan" means the plan established within the Kansas
public

30 employees retirement system by section 3, and amendments thereto;

31 (9) "2012pre-2014 plan" means the plan established pursuant to
K.S.A.

32 74-4901 *et seq.*, and amendments thereto, and K.S.A. 74-49,201 *et seq.*,
33 and amendments thereto; and

34 (10) "2012system" means the Kansas public employees retirement
system.

35 New Sec. 3. (a) The board shall establish within the Kansas public
36 employees retirement system a plan in accordance with the provisions of
37 this act. In addition to other options provided under such plan, for

38 qualifying public school employees, community college employees and
39 other eligible employees, the plan shall include all plan options as allowed
40 under section 403(b) of the internal revenue code. For all other
41 employees, the plan must be established as part of the pension plan
42 pursuant to K.S.A. 74-4920, and amendments thereto, for the exclusive
43 benefit of members and their beneficiaries, and as a qualified

1 governmental plan pursuant to sections 401(a), 414(d), and 414(k) of the
2 federal internal revenue code and its implementing regulations. The plan is
3 established in addition to any retirement, pension, deferred compensation
4 or other benefit plan currently administered by the state or a political
5 subdivision thereof. Assets of the plan must be held in the trust for the
6 Kansas public employees retirement system, other than those assets held
in the 403(b) Plan which may be held in annuities or custodial accounts
as provided by section 403(b) of the federal internal revenue code and
implementing regulations.

7 (b) (1) For members who are qualifying public school employees,
8 community college employees and other eligible employees, the board
9 shall establish separate accounts for employee contributions of each
10 member. These separate accounts shall be administered as a defined
11 contribution plan as provided by section 403(b) of the federal internal
12 revenue code and implementing regulations.

13 (2) For all other members, the board shall establish separate accounts
14 for the mandatory contributions of each member. These separate accounts
15 shall be administered in the nature of a defined contribution plan as
16 provided by section 414(k) of the federal internal revenue code and
17 implementing regulations.

18 (3) Accounts described in both subsection (b)(1) and (b)(2) shall be
19 referred to as the employee directed accounts.

20 (c) The board shall establish for each member an employer annuity
21 account, which shall be credited with employer credits as provided
22 pursuant to section 10, and amendments thereto, and interest credits on
23 those employer contribution credits as determined by the board under
24 section 11, and amendments thereto. The employer annuity account shall
25 be used to determine a lump-sum distribution or an annuity for the
26 member upon retirement as provided in section 13, and amendments
27 thereto.

28 New Sec. 4. (a) The board has the powers and shall perform the
29 duties regarding the plan as provided in K.S.A. 74-4909, and amendments
30 thereto, as applicable. The board may exercise the powers and shall
31 perform the duties provided in this act.

32 (b) The board may contract for any aspect of plan administration,
subject to subsection (c) and

33 must use a competitive proposal process when contracting for consulting,
34 educational, investment, recordkeeping or other administrative services for
35 the plan.

(c) The board shall administer the plan through a third party
administrator/recordkeeper selected by the board based on a
competitive proposal process established by such specifications and
considerations as are deemed appropriate by the board. The
administrator/recordkeeper shall be independent of any of the
retirement plan provider or investment providers selected by the
board or by any participating employer.

36 New Sec. 5. (a) For participants in the 403(b) plan, up to the

37 amount allowed by the internal revenue code, each participating employee
38 shall make a mandatory contribution of 6% of an eligible employee's
39 compensation to the 403(b) plan for participants in such plan. Eligible
40 employees for the 403(b) plan may contribute an additional, discretionary
41 contribution through payroll deductions on a pre-tax or after-tax basis.
42 The 403(b) plan shall comply with all applicable provisions of the internal
43 revenue code.

1 (b) For all other members, up to the amount allowed by the internal
2 revenue code, each active member shall make a mandatory contribution of
3 6% of the member's compensation to the member's employee directed
4 account in the 401(a) plan. These contributions shall be picked up by the
5 employer via a salary reduction as provided in section 414(h)(2) of the
6 federal internal revenue code. An employer may not pick up these
7 contributions without a corresponding salary reduction as provided in
8 section 414(h)(2) of the federal internal revenue code. A member under
9 this subsection may not make voluntary contributions to the plan. The
10 401(a) plan shall comply with all applicable provision of the internal
11 revenue code.

12 (c) A member's employee directed account includes the member's
13 mandatory contributions under this section, and the gains and losses on
14 those contributions. The member's employee directed account is vested
15 from the date the employee becomes a member of the plan.

16 New Sec. 6. (a) A wide range of investment alternatives shall be
17 established for the employee directed accounts. ~~For qualifying public
18 school employees, community college employees and other eligible
19 employees, such investment alternatives shall include, but not be limited
20 to, investment alternatives allowed under section 403(b) of the federal
21 internal revenue code.~~ For all employees, there also shall be offered an
22 investment alternative that is similar to the investment portfolio of the
23 Kansas public employees retirement system.

(b) Each eligible employee in the 403(b) plan shall select one or
more investment options for the contributions made on his or her
behalf and may transfer his or her employee directed account plan
balance among those investments, as allowed under the Internal
Revenue Code and the rules, regulations and policies established by
the board, from among the section 403(b) annuities and section
403(b)(7) custodial accounts made available under the 403(b) plan:

- (1) By the board. The board shall make available section 403(b) options from no less than three annuity or investment providers, reviewed and selected by the board based on a competitive proposal process established by such specifications and considerations as are deemed appropriate by the board; and
- (2) By the employee's employer. In addition to the options made available by the board, each participating employer shall use all reasonable efforts to make available to its eligible employees section 403(b) options from no less than three annuity or investment providers, reviewed and selected by the employer based on a competitive proposal process established by such specifications and considerations as are deemed appropriate by the employer. The board shall establish procedures for incorporating these options into the operation and administration of the 403(b) plan.

All materials relating to the 403(b) plan that are provided by the board to participating employers or eligible employees, or by a participating employer to its eligible employees, including but not limited to summaries of the 403(b) plan and plan marketing materials, shall not favor specific annuity or investment providers or products.

(c) The section 403(b) options selected by the board shall:

(1) Encompass a broad range of investment alternatives, including one or more alternatives that provide asset management, one or more alternatives that provide asset protection, and one or more alternatives that provide income guarantees;

(2) Include a low fee or self service alternative;

(3) Include an independent local financial advisor alternative; and provide eligible employees with a reasonable opportunity to materially affect the potential return on his or her retirement investment, to choose among diversified investments that in the aggregate minimize the risk of the employee's overall retirement investment, and to achieve a retirement investment portfolio with the varying risk and return characteristics in the aggregate that are normally appropriate for plan participants.

24 (d) The board shall from time to time review the suitability and
25 management of investment alternatives under the employee directed
26 accounts, including those 403(b) options chosen by the board, and may
change the alternatives to be offered. The board shall

27 notify affected members of potential changes before any changes become
28 effective, except if the board determines there is a compelling need to
29 change an alternative immediately.

30 (e) The default option for any member or beneficiary who does not
31 have an effective investment direction shall be the fund that is similar to
32 the investment portfolio of KPERS.

33 (f) Assets within each employee directed account must be invested as
34 directed by the member within the investment alternatives established by
35 the board, unless the board determines there is a compelling need to
36 remove assets from an investment alternative. In such a case, the asset will
37 be moved to the default alternative until the member elects another
38 investment alternative.

39 New Sec. 7. (a) With respect to the employee directed accounts, the
40 board may:

41 (1) Assess fees on member employee directed accounts to pay the
42 reasonable administrative costs of the accounts, which fees may be
43 reasonable or asset based fees, or both, as determined by the board;

1 (2) negotiate with a vendor or vendors for vendor reimbursement of
2 board administrative expenses for the accounts;

3 (3) assess fees on employers to pay reasonable administrative costs of
4 the accounts; and

5 (4) assess specific fees on an individual member employee directed
6 account to pay specific expenses attributable to that member.

7 (b) All fees assessed must be fully disclosed to members and treated
8 as public information.

9 (c) Costs for the board to secure investment advice, recordkeeping,
10 contract oversight, educational materials for members, performance
11 evaluations and other appropriate information and services are included as
12 part of the administrative expenses of the plan.

13 New Sec. 8. The board shall establish a rollover account for each
14 member and shall accept the rollover of contributions and the income on
15 those contributions from another eligible retirement plan to the member's
16 rollover account only to the extent allowed under applicable federal law.
17 The board shall establish policies with respect to the rollover accounts as
18 to investments, distributions and other administrative matters.

19 New Sec. 9. (a) An employer credit shall be made to the member's
20 employer annuity account at the end of each calendar quarter according to
21 the following schedule:

22 (1) One percent of compensation for each member who has up to one
23 year of service;

24 (2) one and one-half percent of compensation for each member who
25 has one but less than two years of service;

26 (3) two percent of compensation for each member who has two but
27 less than three years of service;

28 (4) two and one-half percent of compensation for each member who
29 has three but less than four years of service;

30 (5) three percent of compensation for each member who has four but
31 less than five years of service;

32 (6) three and one-half percent of compensation for each member who
33 has five but less than six years of service;

34 (7) four percent of compensation for each member who has six but
35 less than seven years of service;

36 (8) four and one-half percent of compensation for each member who
37 has seven but less than eight years of service; and

38 (9) five percent of compensation for each member who has eight or
39 more years of service.

40 (b) An active member's employer shall contribute a percentage of
41 compensation, determined by the board, which must be allocated to the
42 death and long-term disability plan under K.S.A. 74-4927, and
43 amendments thereto.

1 (c) Any credited service accrued by a member under the provisions of
2 the pre-2014 plan shall be credited for the purpose of computing such
3 member's years of service under this section.

4 New Sec. 10. (a) A member's employer annuity account is the sum of
5 all employer credits to the account plus the interest credits on the account,
6 which shall be determined at the end of each year. The interest credits shall
7 be determined under section 11, and amendments thereto.

8 (b) If the member's employer annuity account is not vested upon the
9 member's termination of plan membership, as provided in section 13, and
10 amendments thereto, the employer credits and interest credits are forfeited
11 as provided in section 13, and amendments thereto. If the member's
12 employer annuity account is vested upon the member's termination of plan
13 membership, as provided in section 13, and amendments thereto, but the
14 member dies prior to attaining normal retirement age without a spouse
15 eligible for the employer annuity account under section 13, and
16 amendments thereto, the employer credits and interest credits are forfeited.
17 Forfeitures may not be used to increase a member's account, but instead
18 will be used to pay administrative expenses of the accounts or to reduce
19 employer contributions.

20 New Sec. 11. At the end of each calendar year, the board shall credit
21 each employer annuity account with a zero percent interest credit. At the
22 end of each calendar year, the board shall also credit each employer
23 annuity account with a supplemental interest credit rate, which will equal
24 the net investment return on the KPERS portfolio, which may be negative
25 or positive, in that particular calendar year. If the member retires in the
26 middle of a calendar year, the board shall credit that member's employer
27 annuity account with a supplemental interest credit rate that equals the net
28 investment return on the KPERS portfolio, which may be negative or
29 positive, for that portion of that calendar year. For the purposes of
30 determining the member's annuity benefit amount pursuant to section 13,
31 and amendments thereto, a member's employer annuity account shall not
32 be less than the total amount of employer credits to the account.

33 New Sec. 12. (a) Any time after termination of service or death, a
34 member or the member's beneficiary may file a written application with
35 the board and take a distribution of the member's employee directed
36 account from the plan through any combination of the following payout
37 options, each of which is subject to the applicable provisions of the federal
38 internal revenue code and the applicable regulations of the internal
39 revenue service:

- 40 (1) A direct rollover to an eligible retirement plan;
- 41 (2) a lump-sum distribution; or
- 42 (3) an optional form of periodic distribution offered by the board by
43 official action.

1 (b) The board by official action may specify minimum account
2 balances for purposes of allowing benefit payment options and rollovers in
3 accordance with federal law.

4 New Sec. 13. (a) A member is vested, but subject to forfeiture, in the
5 member's employer annuity account upon completion of five years of
6 service. A member's benefit is nonforfeitable upon the attainment of
7 normal retirement age and the completion of at least five years of service,
8 whichever is later.

9 (b) Except as provided in subsection (d), a member who has a
10 nonforfeitable interest in the member's employer annuity account, at any
11 time after termination from service and the attainment of normal
12 retirement age, shall receive an annuity that may be provided by employer
13 credits and income credits in the employer annuity account, using factors
14 established by the board by official action as of the member's annuity start
15 date, and based on the pension benefits guaranty corporation distress
16 termination interest rates. The normal form of benefit shall be a single life
17 annuity with five-year certain. The member may elect any joint and
18 survivor option described in K.S.A. 74-4918, and amendments thereto.

19 (c) Except as provided in subsection (d), in the case of an active or
20 inactive member:

21 (1) Who is vested in the member's employer annuity account;

22 (2) who has 10 or more years of service at death; and

23 (3) who dies before attaining normal retirement age, with their spouse
24 at time of death designated as their sole primary beneficiary, the member's
25 surviving spouse on and after the date the member would have attained
26 normal retirement age had they not died, shall receive an annuity that may
27 be provided by employer credits and income credits in the employer
28 annuity account, using factors established by the board by official action as
29 of the beneficiary's annuity start date and taking into consideration the
30 pension benefit guaranty corporation distress termination interest rates.
31 The normal form of benefit shall be a single life annuity with five-year
32 certain. The beneficiary may elect any joint and survivor option as
33 described in K.S.A. 74-4918, and amendments thereto.

34 (d) If a member's vested employer annuity account is less than \$1,000
35 upon separation from service, the account balance shall be mandatorily
36 distributed to the member in accordance with section 401(a)(31)(B) of the
37 federal internal revenue code. If the member does not elect to have such
38 distribution paid directly to an eligible retirement plan specified by the
39 participant in a direct rollover or to receive the distribution directly, then
40 the board will pay the distribution to the member directly.

41 New Sec. 14. A member's beneficiary must be determined as
42 provided in the pre-2014 plan regulations. Upon filing a written
43 application with the board after the death of a member, the member's

1 beneficiary is entitled to the member's employee directed account.

2 New Sec. 15. (a) Members of the retirement system under the
3 Kansas public employees retirement system act of 2014 shall be covered in
4 the death and disability plan in accordance with K.S.A. 74-4927, and
5 amendments thereto, but subject to the provisions of this section.

6 (b) (1) In the event that a member becomes eligible for and begins
7 receiving a long-term disability benefit under the plan, such member shall
8 be given participating service credit for the entire period of such disability.
9 Such member's employer annuity account shall be credited with the
10 amount of credits and interest prescribed in this act for the entire period of
11 such disability.

12 (2) The salary upon which credits to such member's employer annuity
13 account are based shall be the employee's salary at the time of disability,
14 which shall be adjusted once each year on January 1, but only after 5 years
15 of disability, by the lesser of: (A) The percentage increase in the
16 consumer price index for all urban consumers as published by the bureau
17 of labor statistics of the United States department of labor measured in the
18 prior November, minus 1%; or

19 (B) 4% per annum.

20 (3) All credits to the employer annuity account shall cease upon the
21 earliest of: (A) Death; (B) attainment of normal retirement age; or
22 (C) the date the member is no longer entitled to receive disability
23 benefits pursuant to law.

24 New Sec. 16. The provisions of K.S.A. 74-49,122, 74-49,123 and 74-
25 49,124, and amendments thereto, apply to this act, except the definitions of
26 "actuarial equivalent" and "actuarial computation" are not applicable to
27 this act.

28 New Sec. 17. (a) The election provisions of this section and any
29 related provisions shall not be implemented until the board of trustees of
30 the Kansas public employees retirement system has obtained approval for
31 the election and related provisions specified in this section from the federal
32 internal revenue service. The election provisions of this section and any
33 related provisions are severable from the remainder of this act and shall be
34 repealed if the federal internal revenue service refuses to grant such
35 approval or issues an adverse decision.

36 (b) Except as otherwise provided in this act, a nonvested member of
37 the system under the provisions of K.S.A. 74-4901 *et seq.*, and 74-49,201
38 *et seq.*, and amendments thereto, on July 1, 2013, shall elect to transfer
39 such member's employee contributions and interest earnings credited
40 thereon to an: (1) Employee directed account; or (2) employer annuity
41 account. As part of this election, a member may designate all or part of
42 such member's employee contributions and interest earnings to be
43 allocated to each account. Members shall make such election within a 90-

1 day period established by the board. Elections made pursuant to this
2 section shall be made on a form and in a manner prescribed by the board.
3 An election under this section, including the provisions of subsection (c),
4 is a one-time irrevocable election.

5 (c) If a member fails to make an election pursuant to this section or if
6 the federal internal revenue service refuses to grant approval of such
7 election or issues an adverse decision, such member's employee
8 contributions and interest earnings shall be transferred to an employee
9 directed account.

10 New Sec. 18. (a) Any member of the legislature who has earned a
11 vested retirement benefit under the provisions of K.S.A. 74-4901 *et seq.*,
12 and amendments thereto, or K.S.A. 74-49,201 *et seq.*, and amendments
13 thereto, shall have the present value of such vested retirement benefit,
14 including all employee and employer contributions, earned before January
15 1, 2014, converted to a lump-sum amount and shall have such lump-sum
16 amount transferred to the employer annuity account of such member.

17 (b) On and after January 1, 2014, any benefit earned or accrued by a
18 member of the legislature under the provisions of this act shall be
19 calculated based only upon all compensation received: (1) As per diem
20 compensation for service during a regular or special session of the
21 legislature pursuant to subsection (a) of K.S.A. 46-137a, and amendments
22 thereto; (2) as per diem compensation for attendance at in-state or out-
23 of-state meetings pursuant to K.S.A. 75-3212, 75-3215, or 75-3223, in the
24 amount prescribed under subsection (a) of K.S.A. 46-137a, and
25 amendments thereto; (3) as additional compensation for legislative officers
26 as provided in K.S.A. 46-137b, and amendments thereto; and (4) as any
27 other additional compensation provided by law, excluding any allowances
28 or reimbursements for any expenses incurred.

29 New Sec. 19. The provisions of sections 1 through 16 and section 18
30 and 19 shall be effective on and after January 1, 2014.

31 Sec. 20. K.S.A. 2011 Supp. 74-4914d is hereby amended to read as
32 follows: 74-4914d. Any additional cost resulting from the normal
33 retirement date and retirement before such normal retirement date for
34 security officers as provided in K.S.A. 74-4914c, and amendments thereto,
35 and disability benefits as provided in K.S.A. 74-4914e, and amendments
36 thereto, shall be added to the employer rate of contribution for the
37 department of corrections as otherwise determined under K.S.A. 74-4920,
38 and amendments thereto, ~~except that the employer rate of contribution for~~
39 ~~the department of corrections including any such additional cost added to~~
40 ~~such employer rate of contribution pursuant to this section shall in no~~
41 ~~event exceed the employer rate of contribution for the department of~~
42 ~~corrections for the immediately preceding fiscal year by more than the~~
43 ~~following amounts expressed as a percentage of compensation upon which~~

1 ~~security officers contribute during the period: (a) For the fiscal year~~
2 ~~commencing in calendar year 2006, an amount not to exceed more than~~
3 ~~0.5% of the amount of the immediately preceding fiscal year; and (b) for~~
4 ~~the fiscal year commencing in calendar year 2007, and in each subsequent~~
5 ~~calendar year, an amount not to exceed more than 0.6% of the amount of~~
6 ~~the immediately preceding fiscal year.~~

7 Sec. 21. K.S.A. 2011 Supp. 74-4920 is hereby amended to read as
8 follows: 74-4920. (1) (a) Upon the basis of each annual actuarial valuation
9 and appraisal as provided for in subsection (3)(a) of K.S.A. 74-4908, and
10 amendments thereto, the board shall certify, on or before July 15 of each
11 year, to the division of the budget in the case of the state and to the agent
12 for each other participating employer an actuarially determined estimate of
13 the rate of contribution which will be required, together with all
14 accumulated contributions and other assets of the system, to be paid by
15 each such participating employer to pay all liabilities which shall exist or
16 accrue under the system, including amortization of the actuarial accrued
17 liability as determined by the board. The board shall determine the
18 actuarial cost method to be used in annual actuarial valuations, to
19 determine the employer contribution rates that shall be certified by the
20 board. Such certified rate of contribution, amortization methods and
21 periods and actuarial cost method shall be based on the standards set forth
22 in subsection (3)(a) of K.S.A. 74-4908, and amendments thereto and shall
23 not be based on any other purpose outside of the needs of the system.

24 (b) (i) For employers affiliating on and after January 1, 1999, upon
25 the basis of an annual actuarial valuation and appraisal of the system
26 conducted in the manner provided for in K.S.A. 74-4908, and amendments
27 thereto, the board shall certify, on or before July 15 of each year to each
28 such employer an actuarially determined estimate of the rate of
29 contribution which shall be required to be paid by each such employer to
30 pay all of the liabilities which shall accrue under the system from and after
31 the entry date as determined by the board, upon recommendation of the
32 actuary. Such rate shall be termed the employer's participating service
33 contribution and shall be uniform for all participating employers. Such
34 additional liability shall be amortized as determined by the board. For all
35 participating employers described in this section, the board shall determine
36 the actuarial cost method to be used in annual actuarial valuations to
37 determine the employer contribution rates that shall be certified by the
38 board.

39 (ii) The board shall determine for each such employer separately an
40 amount sufficient to amortize all liabilities for prior service costs which
41 shall have accrued at the time of entry into the system. On the basis of
42 such determination the board shall annually certify to each such employer
43 separately an actuarially determined estimate of the rate of contribution

1 which shall be required to be paid by that employer to pay all of the
2 liabilities for such prior service costs. Such rate shall be termed the
3 employer's prior service contribution.

4 (2) The division of the budget and the governor shall include in the
5 budget and in the budget request for appropriations for personal services
6 the sum required to satisfy the state's obligation under this act as certified
7 by the board and shall present the same to the legislature for allowance and
8 appropriation.

9 (3) Each other participating employer shall appropriate and pay to the
10 system a sum sufficient to satisfy the obligation under this act as certified
11 by the board.

12 (4) Each participating employer is hereby authorized to pay the
13 employer's contribution from the same fund that the compensation for
14 which such contribution is made is paid from or from any other funds
15 available to it for such purpose. Each political subdivision, other than an
16 instrumentality of the state, which is by law authorized to levy taxes for
17 other purposes, may levy annually at the time of its levy of taxes, a tax
18 which may be in addition to all other taxes authorized by law for the
19 purpose of making its contributions under this act and, in the case of cities
20 and counties, to pay a portion of the principal and interest on bonds issued
21 under the authority of K.S.A. 12-1774, and amendments thereto, by cities
22 located in the county, which tax, together with any other fund available,
23 shall be sufficient to enable it to make such contribution. In lieu of levying
24 the tax authorized in this subsection, any taxing subdivision may pay such
25 costs from any employee benefits contribution fund established pursuant to
26 K.S.A. 12-16,102, and amendments thereto. Each participating employer
27 which is not by law authorized to levy taxes as described above, but which
28 prepares a budget for its expenses for the ensuing year and presents the
29 same to a governing body which is authorized by law to levy taxes as
30 described above, may include in its budget an amount sufficient to make
31 its contributions under this act which may be in addition to all other taxes
32 authorized by law. Such governing body to which the budget is submitted
33 for approval, may levy a tax sufficient to allow the participating employer
34 to make its contributions under this act, which tax, together with any other
35 fund available, shall be sufficient to enable the participating employer to
36 make the contributions required by this act.

37 (5) (a) The rate of contribution certified to a participating employer as
38 provided in this section shall apply during the fiscal year of the
39 participating employer which begins in the second calendar year following
40 the year of the actuarial valuation.

41 (b) (i) ~~Except as specifically provided in this section, for fiscal years~~
42 ~~commencing in calendar year 1996 and in each subsequent calendar year,~~
43 ~~the rate of contribution certified to the state of Kansas shall in no event~~

- 1 ~~exceed the state's contribution rate for the immediately preceding fiscal~~
2 ~~year by more than 0.2% of the amount of compensation upon which~~
3 ~~members contribute during the period.~~
- 4 ~~(ii) Except as specifically provided in this subsection, for the fiscal~~
5 ~~years commencing in the following calendar years, the rate of contribution~~
6 ~~certified to the state of Kansas and to the participating employers under~~
7 ~~K.S.A. 74-4931, and amendments thereto shall in no event exceed the~~
8 ~~state's contribution rate for the immediately preceding fiscal year by more~~
9 ~~than the following amounts expressed as a percentage of compensation~~
10 ~~upon which members contribute during the period: (A) For the fiscal year~~
11 ~~commencing in calendar year 2005, an amount not to exceed more than~~
12 ~~0.4% of the amount of the immediately preceding fiscal year; (B) for the~~
13 ~~fiscal year commencing in calendar year 2006, an amount not to exceed~~
14 ~~more than 0.5% of the amount of the immediately preceding fiscal year;~~
15 ~~and (C) for the fiscal year commencing in calendar year 2007 and in each~~
16 ~~subsequent calendar year, an amount not to exceed more than 0.6% of the~~
17 ~~amount of the immediately preceding fiscal year.~~
- 18 ~~(iii) Except as specifically provided in this section, for fiscal years~~
19 ~~commencing in calendar year 1997 and in each subsequent calendar year,~~
20 ~~the rate of contribution certified to participating employers other than the~~
21 ~~state of Kansas shall in no event exceed such participating employer's~~
22 ~~contribution rate for the immediately preceding fiscal year by more than~~
23 ~~0.15% of the amount of compensation upon which members contribute~~
24 ~~during the period.~~
- 25 ~~(iv) Except as specifically provided in this subsection, for the fiscal~~
26 ~~years commencing in the following calendar years, the rate of contribution~~
27 ~~certified to participating employers other than the state of Kansas shall in~~
28 ~~no event exceed the contribution rate for such employers for the~~
29 ~~immediately preceding fiscal year by more than the following amounts~~
30 ~~expressed as a percentage of compensation upon which members~~
31 ~~contribute during the period: (A) For the fiscal year commencing in~~
32 ~~calendar year 2006, an amount not to exceed more than 0.4% of the~~
33 ~~amount of the immediately preceding fiscal year; (B) for the fiscal year~~
34 ~~commencing in calendar year 2007, an amount not to exceed more than~~
35 ~~0.5% of the amount of the immediately preceding fiscal year; and (C) for~~
36 ~~the fiscal year commencing in calendar year 2008 and in each subsequent~~
37 ~~calendar year, an amount not to exceed more than 0.6% of the amount of~~
38 ~~the immediately preceding fiscal year.~~
- 39 ~~(v) As part of the annual actuarial valuation, there shall be a separate~~
40 ~~employer rate of contribution calculated for the state of Kansas, a separate~~
41 ~~employer rate of contribution calculated for participating employers under~~
42 ~~K.S.A. 74-4931, and amendments thereto, a combined employer rate of~~
43 ~~contribution calculated for the state of Kansas and participating employers~~

1 under K.S.A. 74-4931, and amendments thereto, and a separate employer
2 rate of contribution calculated for all other participating employers.

3 ~~(vi)~~(ii) There shall be a combined employer rate of contribution
4 certified to the state of Kansas and participating employers under K.S.A.
5 74-4931, and amendments thereto. There shall be a separate employer rate
6 of contribution certified to all other participating employers.

7 ~~(vii)~~(iii) If the combined employer rate of contribution calculated for
8 the state of Kansas and participating employers under K.S.A. 74-4931, and
9 amendments thereto, is greater than the separate employer rate of
10 contribution for the state of Kansas, the difference in the two rates applied
11 to the actual payroll of the state of Kansas for the applicable fiscal year
12 shall be calculated. This amount shall be certified by the board for deposit
13 as additional employer contributions to the retirement benefit
14 accumulation reserve for the participating employers under K.S.A. 74-
15 4931, and amendments thereto.

16 (6) The actuarial cost of any legislation enacted in the 1994 session of
17 the Kansas legislature will be included in the June 30, 1994, actuarial
18 valuation in determining contribution rates for participating employers.

19 (7) The actuarial cost of the provisions of K.S.A. 74-4950i, *and*
20 *amendments thereto*, will be included in the June 30, 1998, actuarial
21 valuation in determining contribution rates for participating employers.
22 The actuarial accrued liability incurred for the provisions of K.S.A. 74-
23 4950i, *and amendments thereto*, shall be amortized over 15 years.

24 (8) Except as otherwise provided by law, the actuarial cost of any
25 legislation enacted by the Kansas legislature, except the actuarial cost of
26 K.S.A. 74-49,114a, and amendments thereto, shall be in addition to the
27 employer contribution rates certified for the employer contribution rate in
28 the fiscal year immediately following such enactment.

29 (9) Notwithstanding the provisions of subsection (8), the actuarial
30 cost of the provisions of K.S.A. 74-49,109 *et seq.*, and amendments
31 thereto, shall be first reflected in employer contribution rates effective with
32 the first day of the first payroll period for the fiscal year 2005. The
33 actuarial accrued liability incurred for the provisions of K.S.A. 74-49,109
34 *et seq.*, and amendments thereto, shall be amortized over 10 years.

35 (10) The cost of the postretirement benefit payment provided
36 pursuant to the provisions of K.S.A. 2011 Supp. 74-49,114b, and
37 amendments thereto, for retirants other than local retirants as described in
38 subsection (11) or insured disability benefit recipients shall be paid in the
39 fiscal year commencing on July 1, 2007.

40 (11) The actuarial accrued liability incurred for the provisions of
41 K.S.A. 2011 Supp. 74-49,114b, and amendments thereto, for the KPERS
42 local group and retirants who were employees of local employers which
43 affiliated with the Kansas police and firemen's retirement system shall be

1 amortized over 10 years.

2 (12) The cost of the postretirement benefit payment provided
3 pursuant to the provisions of K.S.A. 2011 Supp. 74-49,114c, and
4 amendments thereto, for retirants other than local retirants as described in
5 subsection (13) or insured disability benefit recipients shall be paid in the
6 fiscal year commencing on July 1, 2008.

7 (13) The actuarial accrued liability incurred for the provisions of
8 K.S.A. 2011 Supp. 74-49,114c, and amendments thereto, for the KPERS
9 local group and retirants who were employees of local employers which
10 affiliated with the Kansas police and firemen's retirement system shall be
11 amortized over 10 years.

12 (14) The board with the advice of the actuary may fix the contribution
13 rates for participating employers joining the system after one year from the
14 first entry date or for employers who exercise the option contained in
15 K.S.A. 74-4912, and amendments thereto, at rates different from the rate
16 fixed for employers joining within one year of the first entry date.

17 (15) For employers affiliating on and after January 1, 1999, the rates
18 of contribution certified to the participating employer as provided in this
19 section shall apply during the fiscal year immediately following such
20 certification, but the rate of contribution during the first year following the
21 employer's entry date shall be equal to 7% of the amount of compensation
22 on which members contribute during the year. Any amount of such first
23 year's contribution which may be in excess of the necessary current service
24 contribution shall be credited by the board to the respective employer's
25 prior service liability.

26 (16) Employer contributions shall in no way be limited by any other
27 act which now or in the future establishes or limits the compensation of
28 any member.

29 (17) Notwithstanding any provision of law to the contrary, each
30 participating employer shall remit quarterly, or as the board may otherwise
31 provide, all employee deductions and required employer contributions to
32 the executive director for credit to the Kansas public employees retirement
33 fund within three days after the end of the period covered by the
34 remittance by electronic funds transfer. Remittances of such deductions
35 and contributions received after such date are delinquent. Delinquent
36 payments due under this subsection shall be subject to interest at the rate
37 established for interest on judgments under subsection (a) of K.S.A. 16-
38 204, and amendments thereto. At the request of the board, delinquent
39 payments which are due or interest owed on such payments, or both, may
40 be deducted from any other moneys payable to such employer by any
41 department or agency of the state.

42 New Sec. 22. Any purchase of service credit which was commenced
43 prior to July 1, 2013, is not subject to the provisions of this act.

1 Sec. 23. K.S.A. 74-4919a, 74-4919g, 74-4919i, 74-4919k, 74-4919n,
2 74-4919p, 74-4919q, 74-4919r and 74-4919s and K.S.A. 2010 Supp. 74-
3 4919d, as amended by section 1 of chapter 98 of the 2011 Session Laws of
4 Kansas and 74-4920, as amended by section 4 of chapter 98 of the 2011
5 Session Laws of Kansas and K.S.A. 2011 Supp. 74-4914d, 74-4919h, 74-
6 4919j, 74-4919l, 74-4919m, 74-4919o, 74-4919u, 74-4919v and 74-4920
7 are hereby repealed.

8 Sec. 24. This act shall take effect and be in force from and after July
9 1, 2013, and its publication in the statute book.

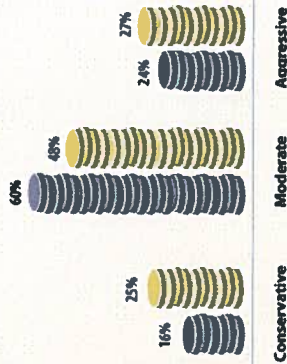
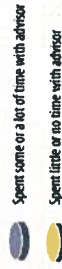
TEACHERS WANT CHOICE

Impact of Teacher Participation in 403(b) Plans

403(b) plans provide school choice savings with an important means to save for retirement. However, state legislation is necessary to eliminate any tax treatment options, which would likely result in lower participation in 403(b) plans.

EMPLOYEES PERFORM BETTER WITH FINANCIAL ASSISTANCE

Investment style based on time working with a financial advisor



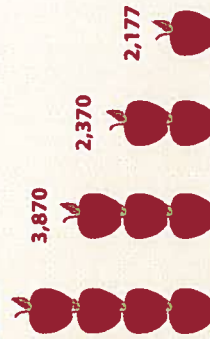
+ A study by Charles Schwab found that professional guidance had a positive impact on retirement plan participants.

5-10 percent They found that their savings rates nearly doubled from 5% to 10% as a result of receiving and implementing advice

SCHOOL DISTRICT EMPLOYEES PARTICIPATE LESS WHEN THE NUMBER OF PROVIDERS IS REDUCED

Participation in Colorado school district's 403(b) plan dropped by 54% when they switched to a single investment provider

4,762



The number of participants in a Pennsylvania school district's 403(b) plan declined by nearly 40% when they went to a single provider



Participants in September 2008

Participants in September 2010

Source: Charles Schwab, Inc., L.L.C., D. Gordon Miller, Ph.D., and Judy Miller, Ph.D., 10/08, "Measuring Participation: The Impact of Provider Choice on Participation by School District Employees in 403(b) Plans," 10/08, Pension Education and Research Foundation, available at <http://www.pesrf.org>

TEACHERS WANT ADVICE

Study by TIAA-CREF showed that 60% of near-retirement higher education employees had consulted with a financial professional within the past two years regarding retirement.



NO CHOICE VS CHOICE



An analysis of employees in

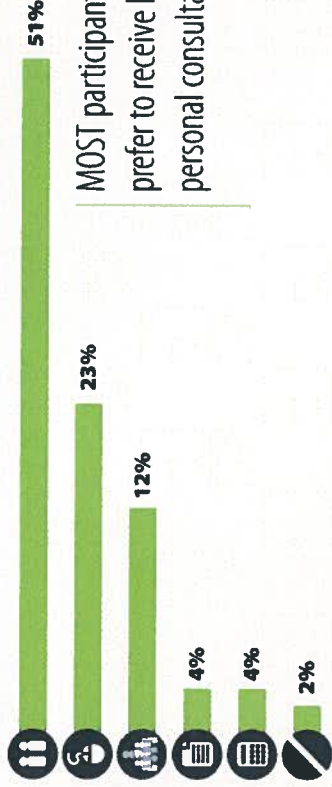
55

school districts shows that

over 50%

of workers stopped contributing to their 403(b) plans when their existing provider was no longer available

PARTICIPANTS HAVE VARIED PREFERENCES FOR HOW THEY RECEIVE HELP



MOST participants would prefer to receive help via personal consultation



One-on-One Consultation



Online Tool



Written brochure or info packet



Educational Seminars in the Workplace



Online Retirement Savings Calculator



None of the above

Additional Resources for Committee Members

PROTECTING PARTICIPATION

The Impact of Reduced Choice on Participation by School District Employees in 403(b) Plans

[http://savemy403b.org/wp-content/uploads/2011/10/ASPPAWhitePaper-](http://savemy403b.org/wp-content/uploads/2011/10/ASPPAWhitePaper-ProtectingParticipation.pdf)

[ProtectingParticipation.pdf](http://savemy403b.org/wp-content/uploads/2011/10/ASPPAWhitePaper-ProtectingParticipation.pdf)

403(B) TASKFORCE ON FEE DISCLOSURE

[http://savemy403b.org/news-releases/asbo-nea-ntsaa-form-joint-403b-taskforce-to-offer-fee-](http://savemy403b.org/news-releases/asbo-nea-ntsaa-form-joint-403b-taskforce-to-offer-fee-disclosure-solution)

[disclosure-solution](http://savemy403b.org/news-releases/asbo-nea-ntsaa-form-joint-403b-taskforce-to-offer-fee-disclosure-solution)

STATE LEGISLATION TO CONSOLIDATE RETIREMENT PLANS MAY IMPACT TEACHERS' CHOICES

<http://savemy403b.org/wp-content/uploads/2011/09/StateLegislationConsolidation.pdf>

IRS PLAN FEATURE COMPARISON CHART

<http://www.retirementplans.irs.gov/plan-comparison-table/>

THE VALUE OF THE 401(K) SYSTEM

<http://www.asppa.org/document-vault/pdfs/mediaroomnlASPPAissueBrief401kSystemValue.aspx>