



Kansas Public Employees Retirement System

Kansas Voluntary Defined Contribution Plans

House Committee on Pensions & Benefits

▪ March 7, 2012

Kansas Voluntary Defined Contribution Plans

- In addition to three defined benefit plans (KPERs, KP&F and Judges), there are three voluntary, supplemental defined contribution plans for State of Kansas employees. Most Kansas school and local governments also sponsor voluntary, supplemental defined contribution plans for their employees.
- **Voluntary Deferred Compensation Plan (457 Plan)** — Established in 1976 for state employees.
 - In 1982, local governments were allowed to adopt the state plan.
 - Employees can make voluntary pre-tax contributions to a deferred compensation account and self-direct investments.
 - Current service provider is ING, and the plan was transferred under the administration of KPERs in 2008.
- **Deferred Compensation Plan for State Officials**—Established in 1988 for certain state officials, legislative session employees, and legislative leadership staff.
 - Eligible employees are offered a one-time option of joining KPERs or this plan.
 - Employer contribution is 8%, and there is no mandatory employee contribution.
 - These accounts are managed as part of the State’s voluntary 457 plan.

Voluntary Defined Contribution Plans

- **Regents Retirement Plan**—Established in 1961 for unclassified faculty and administrators.
 - Mandatory employer contribution of 8.5%, and employee contribution of 5.5%.
 - Members become vested immediately in all employee and employer contributions and self-direct investments.
 - Currently, two service providers offer a wide range of investment options—TIAA-CREF and ING.
 - The Regents offer a voluntary plan to which an employee can make additional contributions, and employees can also contribute to the State's 457 plan.
- **School District and Local Government Voluntary Plans**
 - As a general rule, school districts in the State provide one or more voluntary, supplemental 403(b) defined contribution plans to their employees.
 - Employees make voluntary pre-tax contributions.
 - Most cities and counties that do not adopt the State Deferred Compensation Plan have a separate voluntary deferred compensation plan (457 Plan).
 - KPERS does not have comprehensive data about these separate local unit plans.

457 Plan Basics

- Deferred compensation plans described in Internal Revenue Code Section 457 are available for state and local governments and certain tax-exempt, non-governmental entities.
- There are significant tax advantages for participants in a 457(b) plan:
 - Contributions to a 457(b) plan are tax-deferred.
 - Earnings on the retirement money are tax-deferred.
- Employers or employees through salary reductions can contribute up to the lesser of –
 - \$17,000 for 2012.
 - 100% of the participant's includible compensation.
- 457(b) plans of state and local governments may allow catch-up contributions for participants who are aged 50 or older.
- Special 457(b) catch-up contributions, if permitted by the plan, can be made during the three years prior to the normal retirement age (as specified in the plan).

403(b) Plan Basics

- A 403(b) plan, also known as a tax-sheltered annuity plan, is a retirement plan for certain employees of public schools, employees of certain tax-exempt organizations, and certain ministers.
- Individual accounts in a 403(b) plan can be any of the following types.
 - An annuity contract, which is a contract provided through an insurance company.
 - A custodial account, which is an account invested in mutual funds.
- Generally, contributions to an employee's 403(b) account are limited to the lesser of:
 - The annual additions limit – For CY 2012, total employer and employee contributions (including 15-year catch-up contributions) cannot exceed the lesser of \$50,000 or 100% of includible compensation, plus age 50 catch-up contributions.
 - The elective deferral limit – \$17,000.
- Taxes are not paid on contributions and earnings until withdrawn.
- If an employee has more than one 403(b) account, the contributions made to all accounts count toward the contribution limits.
- If an employer offers both a 403(b) and a 457 plan, the contribution limits for each plan apply separately. An employee contributing at the 403(b) elective deferral limit may also contribute to a 457 plan, up to the 457 plan limits.

State 457 Plan

- The State's 457 Plan is a voluntary plan available to all State employees.
 - Includes individuals performing services by appointment or election for which compensation is paid.
 - There are no age or service requirements.
- As of December 31, 2011 –
 - State 457 plan assets: \$523 million
 - Year-to-date deferrals: \$ 33 million
 - State participants: 15,404
 - Actively deferring participants: 8,052
- ING, the third-party record keeper for the State 457 Plan was selected through a competitive “request for proposal” process.
 - ING provides 10 registered representatives throughout the state, including two dedicated to participants nearing or in retirement.
- Participants self-direct their account among 21 investment options selected and monitored by KPERS, including –
 - Options in a range of core asset classes and risk profiles.
 - Active and passive investment options.
 - Six “target date” funds.

State 457 Plan (Continued)

- The 457 Plan has an open architecture – its investment options are not limited to funds under ING’s management. The State 457 Plan offers investment options from a range of managers other than ING.
- All plan administrative and investment costs are bundled through the investment expense ratio applied to each investment option.
 - The investment option’s expense ratio is netted from its gross returns.
 - With two exceptions, there are no separate administrative or investment charges assessed against individual participant accounts, either as a percent of assets or a flat dollar amount.
 - There are no shareholder-type fees, such as sales loads, redemption fees, exchange fees, account fees, or purchase fees.
- By law, no significant costs may be incurred by the State in administering the 457 Plan, unless costs are recovered through a service charge collected from all participants or a credit allowance or reimbursement of plan expenses is provided under the third-party record keeper contract.
 - ING pays an annual service credit to KPERS to cover the expenses of the State in overseeing and administering the 457 Plan.


Local Employers Using the State 457 Plan

- Employers that are eligible to participate in KPERS may use the State 457 plan service provider agreement contract and investment line-up if they –
 - Adopt the State’s plan document as their own.
 - Execute a joinder agreement approved by KPERS.
- There are 245 local employers that offer one or more plans using the State 457 Plan. (Total 248 plans)
 - A list of local employers is attached.
- Of those 245 employers, two are school districts (Lakin and Hays). These school districts are likely to be offering the 457 plan in addition to a 403(b) plan.
- Local employer plans using the State 457 Plan, as of December 31, 2011 –

▪ 457 plan assets:	\$230 million
▪ Year-to-date deferrals:	\$ 19 million
▪ Local participants:	10,595
▪ Actively deferring participants:	7,854
- Approximately 20 employers that offer the State 457 plan are not affiliated KPERS employers.

Employer Matches to Voluntary Plans

- Kansas law provides authority for KPERS to establish a qualified plan under Internal Revenue Code Section 401(a) under which the State may contribute a specified amount as a match for state employees participating in the State 457 plan.
 - The employer match is subject to appropriations and has never been implemented.
- Use of a 401(a) plan for employer contributions is preferred over directing employer contributions to the State 457 Plan.
 - Employer contributions count toward 457 contribution limits. Therefore, employer contributions to a 457 plan limit employee voluntary deferrals.
 - Employer social security taxes apply to employer contributions to a 457 plan, but not to employer contributions into a 401(a) plan.
- Local employers using the State 457 plan or their own 457 plan could independently choose to provide an employer match.
 - Eleven local employers using the State 457 plan also offer a matching contribution through one or more 401a plans. (Total 13 plans).
 - KPERS does not have comprehensive data about local units' use of employer matches beyond those using a 401(a) plan paired with the State 457 plan.



Local Employers Using State 457 Plan

Local Employers in State's Deferred Comp Plan

City Of Eudora	City Of Eureka	City Of Osage City
Board Of Public Utilities	Brd Of Pub Util Clerical Bargaining	City Of Osborne
Center For Counseling & Consultation	City Of Fairway	City Of Oswego
City Of Arkansas City	City Of Garden City	City Of Overland Park
City Of Douglass	City Of Garden Plain	City Of Overland Park Ks 401A
City Of Goodland	City Of Garnett	City Of Park City
City Of Seneca	City Of Glen Elder	City Of Parsons
City Of Shawnee	City Of Goddard	City Of Phillipsburg
City Of Spring Hill	City Of Greensburg	City Of Pittsburg
County Of Reno	City Of Harveyville	City Of Plainville
Housing Ahrty-City Of Atchison	City Of Haysville	City Of Prairie Village
Wstn Prairie Care Home Of Grant Cnty	City Of Herington	City Of Pratt
Allen County	City Of Hill City	City Of Rose Hill
Allen County Conservation Dist	City Of Holton	City Of Rossville
Anderson County	City Of Howard	City Of Russell
Atchison County	City Of Hoxie	City Of Scott City
Barber County	City Of Humboldt	City Of Sharon Springs
Barton County	City Of Iola	City Of Smith Center
Board Of Public Utilities	City Of Jetmore	City Of South Hutchinson
Bpu/City Of Mcpherson	City Of Johnson City	City Of St Francis
Chautauqua County	City Of Junction City	City Of St Mary'S
Cherokee County	City Of Kanopolis	City Of Stockton
Cheyenne County	City Of Kechi	City Of Syracuse
Cimarron Basin Comm Corrections	City Of Kingman	City Of Topeka
City Of Alma	City Of Kinsley	City Of Ulysses
City Of Anthony	City Of Lacrosee Ks	City Of Valley Center
City Of Ashland	City Of Lebanon	City Of Victoria
City Of Atwood	City Of Lenexa	City Of Wakeeney
City Of Auburn	City Of Lenexa 401A Plan	City Of Wamego
City Of Augusta	City Of Leoti	City Of Wellington
City Of Basehor	City Of Lyndon	City Of Westwood
City Of Bel Aire	City Of Maize	City Of Winfield
City Of Burlington	City Of Manhattan	City Of Winfield 401A
City Of Caldwell	City Of Mcpherson	Clark County
City Of Cawker City	City Of Medicine Lodge Kansas	Coffey County Library
City Of Chetopa	City Of Mission	Coffeyville Public Library
City Of Coffeyville	City Of Mission Hills	Consolidated Fire District #2
City Of Colby	City Of Moran	County Of Grant
City Of Council Grove	City Of Moundridge	County Of Leavenworth
City Of Dighton	City Of Nickerson	County Of Mcpherson
City Of Dodge City	City Of Norton	County Of Pawnee
City Of Elkhart	City Of Oakley	County Of Wallace
City Of Ellis	City Of Oberlin	Cowley County
City Of Ellsworth	City Of Olathe	Crawford County

Decatur County	Meade County	Sherdan County
Delaware Watershed Jt Dist No 10	Mitchell County	Sherdan County Extension Council
Delaware Watershed Jt Dist No 10 401A	Montgomery County	Sherman County
Doniphan County Conservation District	Morton County	Sherman County Extension Council
Doniphan County Rural Fire District 2	Morton County Conservation District	Smith County
Douglas County	Morton County Library	Soldier Township
Edwards County	Ness City Public Library	Southeast Kansas Area On Aging
Elk County	Ness County	Southeast Kansas Library System
Elk County Extension Council	Newman Memorial County Hospital	Stafford County
Ellis County	Northeast Kansas Library System	Stanton County
Ellis County Conservation District	Northeast Kansas Library System 401A	Stanton County Hospital
Finney County	Northwest Consolidated Fire District	Stevens County
Ford County	Northwest Kansas Area Agency On Aging	Stevens County Extension Council
Franklin County	Norton County	Sumner County
Gove County	Nw Kansas Planning & Development Commission	Thomas County
Graham County	Oakley Public Library	Topoka Housing Authority
Hamilton County	Olathe Public Library	Topoka Township
Harper County	Osage County	Trego County
Harper Hospital Dist No 5	Osage County Conservation District	Unified Greeley County
Harvey County	Osborne County	Usd 489
Haskell County	Ottawa County	Wabunsee County
Hays Recreation Commission	Ottawa Library	Wabunsee County 401A
Hodgeman County	Phillips County	Wakarusa Township
Hodgeman County Extension Council	Pottawatomie County	Walnut Creek Extension District #2
Jayhawk Area Agency On Aging	Pottawatomie County 401A	Washington County
Jetmore Municipal Library	Prairie Village 401A Plan	Water District No 1 Of Johnson County
Jewell County Hospital	Pratt County	Wichita County
Johnson County Conservation District	Ransom Hospital Physicians 401A	
Johnson County Fire Department #2	Ransom Memorial Hospital	
Kansas Public Health Association	Ransom Memorial Hospital 401A	
Kansas Turnpike Authority	Rice County	
Keary County	Riley County	
Kingman County	Rooks County	
Kiowa County	Rural Water District No 4 Shawnee County	
Labette County	Rush County	
Lakin Usd 215	Russell County	
Lane County	Russell County Extension Council	
Lane County Library	Russell Regional Hospital	
Lawrence Douglas Health Dept	S Central Kansas Regional Medical Center	
Lawrence Public Library	Sallina Housing Authority	
League Of Ks Municipalities	Salline County	
Lincoln County	Scott County	
Lincoln City Economics Dvlpmt Foundatin	Se Kansas Library System	
Logan County	Seward County	
Lyon County	Seward County Extension Council	
Manhattan Public Library	Shawnee County	
Marion County	Shawnee County Conservation District	
Mcperson Area Solid Waste Utility	Shawnee County Fire District #1	