

Approved: February 17, 1994
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:10 a.m. on February 16, 1994 in Room 519-S of the Capitol.

Members present: Senator Langworthy, Senator Tiahrt, Senator Martin, Senator Bond, Senator Corbin, Senator Feleciano Jr., Senator Hardenburger, Senator Lee, Senator Reynolds, Senator Sallee, Senator Wisdom

Committee staff present: Tom Severn, Legislative Research Department
Chris Courtwright, Legislative Research Department
Bill Edds, Revisor of Statutes
Don Hayward, Revisor of Statutes
Elizabeth Carlson, Committee Secretary

Conferees appearing before the committee: Senator August Bogina, Jr.
Senator Anthony Hensley
Cedric Moege, KEPPT
Melville W. Gray, KPERS Retiree, KAPE member
Craig Grant, K-NEA
Joseph B. Wujcik, Kansas Federation of Federal Employees
Basil Covey, Kansas Retired Teachers
Keith Meyers, Human Resources Manager,
Department of Administration
Conrad Fisher, State Employee
Tom Young, Retired Teacher, Wichita
Bill Dirks, Wichita Retired Teachers

Others attending: See attached list

APPROVAL OF MINUTES

Senator Tiahrt moved to approve the minutes of February 15, 1994. The motion was seconded by Senator Martin. The motion carried.

SB 623--GOVERNMENTAL EMPLOYEE RETIREMENT BENEFIT INCOME TAX EXEMPTION REPEALED

SB 739--INCOME TAXATION OF RETIREMENT BENEFITS

Proponents

Senator August Bogina, Jr., introduced **SB 623**. (Attachment 1) He explained his reasons for introducing the bill. He said he wants everyone to be treated equally. He is not looking to generate revenue. He said the exemption of KPERS employees was done in the 1960's because the retirement benefits were extremely low. The federal civil service retirees were added later. Military retirees was exempted during the 1992 session. All other retirees are taxed at the prevailing rate. The KPERS retirement benefits have been enhanced and he said he sees no reason to continue the current discriminatory policies. He said **SB 623** cannot be considered a tax increase but it is closing a loophole.

Questions from the committee concerned KPERS retirees being double taxed, and Senator Bogina said it was not his intention to double tax and there are procedures available which would permit retirees to "reclaim" their already taxed contribution. He also said he had looked at other states and their laws vary. He reiterated that his reason for the bill is because he wants everyone to be treated equally and it is not intended to generate revenue. He also mentioned **SB 624** which is in a different committee and he said it is to enhance the KPERS retirement.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S
Statehouse, at 11:10 a.m. on February 16, 1994.

Senator Anthony Hensley said he was requested by a constituent to introduce SB 739. He said he does not support SB 623. He said he hoped the committee would pass SB 739 because it would do the same thing but would exempt retirees taxes paid on the first \$8 thousand of the retirement. He said it is an alternative to SB 623. He said this would put the public and private sectors on a level playing field. It does not affect an IRA.

Cedric Moege, KEPPT, testified in support of SB 739. (Attachment 2) He said the \$8 thousand base exemption will be revenue neutral. As more people retire on ever-increasing pensions there will be increased tax revenue above that now collected. He gave several reasons for using the basic exemption of \$8 thousand.

COMMENTS AND RECOMMENDATIONS

Melville W. Gray, said he looks on SB 623 with concern because of the financial impact on he and his family. (Attachment 3) He said KPERS retirees have received a severe income blow already this year because of the change in the state negotiated health contract which changed the prescription drug cost from \$10 to \$50. He suggested a compensatory COLA of 3 1/2 percent would help offset the financial impact of SB 623.

Craig Grant, K-NEA, spoke about SB 623 and SB 624. (Attachment 4) He said they realize the need to treat all retirees equally. Many good employees work in public service because of the retirement benefits not being taxed. Their concern is if SB 623 passes and SB 624 does not pass, the retirees would not be adequately compensated for the taxes levied.

OPPONENTS

Joseph B. Wujcik, Kansas Federation of Federal Retired Employees, said this is a drastic change from the total exemption allowed. (Attachment 5) He suggested some changes in SB 739 having to do with social security and the federal employees retirement which would make the \$8,000 more equal. He said he believed the exemptions granted in SB 739 would lead to more problems in the courts.

Basil Covey, Kansas Retired Teachers, said they oppose SB 623 and SB 739. (Attachment 6) The negative side of these bills hits the retired teachers. All pensions and retirement benefits are not equal. KPERS benefits do not include prescription drugs, surgery, doctors' bills and hospital costs, while some pensions do. These bills eliminate a long standing concept that has served retired teachers well.

Keith Meyers, Human Resources Manager, Department of Administration, spoke in opposition to SB 623. He said he provides pre-retirement counseling to the Department's employees. (Attachment 7) He said the major difference between the state pension plan and the federal military pension plan is that state employees put in 4 percent of their salary to fund their retirement benefits while the federal military retirement plan is entirely funded by the federal government. He emphasized concern over the fairness of such an action as SB 623.

Conrad M. Fisher, a state employee, appeared before the committee. (Attachment 8) He said when he entered the work force with the state, he entered into an agreement that should he become vested in KPERS, he would receive the benefits of that program tax free. He said the salaries of state employees have not kept up with the cost of living and KPERS does not pay for health insurance. This is not true in some private pensions. He said he has lived up to his contract, and he must ask the state to live up to their part of the bargain and not tax the KPERS pensions.

Tom Young, retired teacher from Wichita, said the 35 years he taught in Kansas he planned for his retirement with the understanding his benefits would not be taxed. (Attachment 9) He said his state taxes and his wife's state taxes would jump from about \$600 to \$700 to \$1700 to \$1800. This seems to be quite a hike in taxes. He urged the committee to seek other sources of revenue which share the burden more equitably.

Bill Dirks, Wichita Retired Teachers Association, spoke in opposition to SB 623. (Attachment 10) This would be a new tax on pensions for KPERS, government, and military retirees. He also said there is a vast difference between the private and public sector. Some private plans have far more generous benefits and are contributed to solely by the employer. If more revenue is needed to pay military retirees, all Kansans should share the responsibility, not just the public retirees.

The meeting adjourned at 12:07 p.m.

The next meeting is scheduled for February 17, 1994.

GUEST LIST (continued)

DATE: 2-16-94

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
RD CHARLTONS	TOPEKA 1951 SW MISSION AVE	PARALYZED VETS
HAROLD C. PITS	Topeka	AARP CTF
Matt Inell	Topeka	AP
Stan Amnutt	Topeka	CITIZENS
Imogene Davis	66604 1191 Webster Topeka	KDOT Retiree
Dick Steele	66611 1601 SW 29TH Topeka	KDOT Retiree
A. W. DIRKS	11403 W. DOUGLAS	Wichita Retired Teachers Ass.
Harold Frazer	1171 Oakley Topeka	Retired
Gebrie Maege	Topeka	Wannan for Equal Pension
Paul W Long	3513 Bryant	KDOT
VIRGINIA L. ROSS	2239 NW Polk	KDOT Retiree
GK GOODMAN	PO Box 968, Lawrence, KS 66044	KU Retiree
M. E. Dwyer	66047 1503 Cassette Dr. Lawrence	KU Retiree
J. C. BECHTOLD	4305 DRURY LANE	CITY RETIREE
Marie Hamm	9424 Hayes Drive O.P. Kans	Teacher Retiree
George E. HAMM	9424 Hayes O.P. Kc	Teacher-Retiree
Melvin Lynch	3311 W 31ST STREET TOPEKA KANSAS	CITY RETIREE
Jack Hawn	Ozaukee	KPERS
George Goebel	Topeka	KPERS Retiree
Tara Embanks	Manhattan	KSU
Willard Jantz	Prairie Village	Senior Citizen
Marie Walter	66204 6939 Dearborn O.P. Ks	Self Retiree
LORRAINE M. LOVE	58245 W 28TH ST	NARFE
Bert Strabmann	4012 S.W. 39TH	TOPEKA
Bert Strabmann	4012 S.W. 39TH	TOPEKA
Sam Reda	2518 SW Pepperwood Ct	Topeka
Cyle Cherry	1244 SW 31st Terr.	Topeka
Bob Morrissey	2100 Meadow Lane	Topeka Ret Fed Employee

Marv Bochner	2011 S.W. Webster	State Ret.
Bill Necht	5848 S.W. Smith Pl.	State Ret.
Lova L. Feldhauser	2934 S.W. Lydia #2040	State Employee
John Welch	4400 West 17th Terr	State Employee
Judy Gaumnauer	3112 SW Gishamere	Ret. Military
Elmer R Ketter	8830 SW 69th Auburn Ks	Fed Retiree
Raymond Maitner	5523 W 25 St. Topeka, Ks.	Fed Ret
FRANCIS RESO	5530 DRURY LA.	State Ret.
Phillip L. Stallard	1824 SW Brooklyn Ave	" "
MARY E. Beems	1618 SW Brooklyn Ave	State Employee
Jed & Vera Roberts	3835 Warwick Town R	St. Retiree
Arnold Rice	824 SW High, Topeka Ks	State Retiree
Verne L. Craig	5038 SW Shunga Dr Topeka	State Retired
DAN W. FETZEL	4536 S.E. 25 th ST. TOPEKA	FED RETIREE
BILL JORDAN	2856 MAE VICAR TOPEKA	FED RET.
Betty Kramer	3144 Happy Hollow	Topeka, KS.
Rudy Kramer	3144 Happy Hollow Rd	Topeka State RET.
Forrest Cowell	4611 SW West Dr. Top. KS	66606 Ret.
Eula Mae Cowell	4611 SW West Dr Topeka, Ks	Retired Teacher
Brian R. Thompson	5624 SW 15 Topeka, Ks	State Emp.
Clyde Wood	2951 SW Seabrook, Topeka, Ks	66614 ~ 3012
Neil Gray	RT 1 - Box 483 Perry KS	retired
Bill McAdoo	RR1 Box 528, Carbondale, Ks	KDOT Retired
Joe & Fern Martin	5806 Smith Place, Topeka	Retired Teacher Retired KDOT
Morris Hunt	3236 SE Paulen, Rd Topeka	State Employee
David Corkill	Rt. 1 Box 193 Nortonville, Ks	Retiree
Berton Bawser	402 NE 1st Scranton, Ks.	KDOT
Melvin Kroemer	3426 S.E. Adams Topeka	KDOT
Heather Jameson	660 Gateway Ct. Lawrence -	
Raymond E Olson	6719 SW Skateloek Rd	Topeka
Gordon P. Gustin	1235 NE 46th St	Topeka

(over)

Charles D. Day 849 Eastgate Dr Topeka
Phoebe Hudson " " "

KOOT

COMMENTS RE: SB 623

By
Senator Gus Bogina

**MADAM CHAIR AND MEMBERS OF THE ASSESSMENT AND TAXATION
COMMITTEE:**

The courts have ruled that it is unconstitutional and illegal to discriminate between classes of taxpayers. The Kansas income tax exemptions, in my opinion, continues that discrimination because all retirees are not treated equal. Currently, military and public sector retirees, which includes federal, state and local units of government and teachers, are exempt from Kansas income tax liabilities.

I am told that during the 60's the legislature decided to exempt KPERS employees from our income tax statute because the retirement benefits were extremely low. Sometime thereafter, the federal civil service retirees were added to this exempted class. As you are aware, the military retirees were added to that exempted class during the 1992 session. All other retirees are taxed at the prevailing rate. During recent sessions, the KPERS retirement benefits have been enhanced to the point where, in the words of the KPERS actuarial consultant John Makin, "the Kansas retirement benefits at full retirement are among the best of public sector plans." It is my opinion that the federal civil service and military retirement benefits are more than adequate. Therefore, I see no reason to continue the current discriminatory policies.

There is a positive fiscal note of \$27.5 million that is a by-product of this equity issue. According to Mr. Thomas A. Severn in his memo dated February 11, 1994 (copy attached), the KPERS retirees payments would be an aggregate of \$5.7 million. Because it is not possible to include two subjects into one bill, I have caused SB 624 to be introduced. That bill would return approximately \$8 million to the KPERS retirees through a thirteenth check.

Our older citizens and retirees are the fastest growing segment of our society. Therefore, income tax equity becomes more important to a greater portion of our taxpayers. I am convinced from my mail, calls and

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attach 1-1*

personal visits that a great majority of our taxpayers agree with the memo I recently received from a Topeka resident (copy attached). I believe your taxpayer constituents would likewise agree that preferential treatment of certain classes of taxpayers is acceptable.

Echoing words used a couple of years ago, SB 623 can not be considered a tax increase, but rather a removal of exemptions or "closing loopholes."

I urge your support of fair and equitable tax policy and passage of SB 623.

Thank you.

Attachments

MEMO

To: Kansas Legislators

Subject: Kansas Income Tax

I appeal to you to introduce or support legislation that would equalize the taxation of pension distributions.

Currently State income tax is as follows:

Public Pensions	Tax Exempt
Military Pensions	Tax Exempt
Private Pensions	Taxed at Prevailing Rate

Thank you.

attach 1-3

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

**300 S.W. 10th Avenue
Room 545-N -- Statehouse**

Phone 296-3181

February 11, 1994

TO: Senator August Bogina, Jr.

Office No. 120-S

RE: Taxation of Government Pensions

This memorandum is in response to your request for information on the taxation of government pensions, especially KPERS pensions.

Attachments 1, 2, and 3 are income tax simulations done to estimate the fiscal impact of taxing KPERS benefits, removing the add-back provision for KPERS contributions, and a combination of the two policies. The Department of Revenue produced these estimates using its microsimulation file of over 10,000 returns for tax year 1988 filed in 1989, and updated to reflect increases in personal incomes and prices, as well as changes in federal and state income tax law.

Attachment 1 (Simulation 3) shows the effect of removing the KPERS add-back provisions. This change would reduce state individual income tax receipts by approximately \$6.6 million for tax year 1994.

Attachment 2 (Simulation 4) shows the effect of taxing all KPERS retirement benefits, which would increase state income tax receipts by approximately \$5.7 million in tax year 1994.

Attachment 3 (Simulation 5) shows the effect of both changes. The estimated effect would be a net state income tax decrease of approximately \$0.9 million for tax year 1994.

However, since 1988, there have been changes in the KPERS law which probably would lead to a different result if data for a more recent tax year were available. The important changes include increases in total benefits and total contributions and number of retirants. A summary of the changes, taken from the KPERS FY 1993 Annual Report, is shown below.

attach 1-4

Three years ago we sent a brochure to all members of the Legislature suggesting enactment of legislation to tax all retiree pensions (public, private and military) above a \$6,000 annual base exemption. Failure to act on the fair and equal taxation of retiree pensions apparently will cost the State taxpayers millions of dollars for litigation, interest and refunds to the military while the taxation of retirees from private enterprise remains unsolved.

SB739 will, if enacted into law, create a level playing field for the equal taxation of pensions of the first time in Kansas.

The \$8,000 base exemption will be revenue neutral as to tax collected by the State and as more people retire on ever-increasing pensions there will be increased tax revenue above that now collected.

We recommend an \$8,000 basic exemption for the following reasons: 1) Persons with less than \$8,000 annual pensions probably have been retired for quite a few years; 2) Their pension may be low because of low earnings or they were under an inadequate pension plan; 3) Increased cost of living, higher taxes and utilities and ever increasing cost of medical care should preclude low income pensioners from State Income Tax.

I wrote Gov. Finney in July 1993 concerning equal taxation of pensions. Her reply letter of July 14 stated some points regarding the issue and she also mentioned, (quote) "I too believe that all pensioners should be treated equally. The taxation of all pensions above a certain threshold would appear to be one method of accomplishing that objective." (end quote)

I find it irritating and ironic that people whose wages were paid by taxpayers all their working years should be exempt on retirement from State income tax on the pensions they derived from the taxpayers of Kansas.

We know this committee and the Legislature will be besieged by special interest groups trying to retain their special tax treatment, but we ask and implore this committee and the Legislature to put aside these selfish requests and act for the fair, equal and non-discriminatory tax treatment of all Kansas retiree pensioners.

Kansans for Equal Property and Pension Taxes

Cedric Moege, Lobbyist

Also supported by Kansans for Fair Taxation and United We Stand America-Shawnee County Chapter.

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attach 2-1

TESTIMONY PRESENTED

TO

Senate Committee on Assessment & Taxation
Audrey Langworthy, Chairman

On

Senate Bill No. 623

AN ACT relating to income taxation; concerning the taxation of retirement benefits of governmental employees; and repealing the existing sections.

16 February 1994

Presented By

Melville W. Gray P.E.

Retired Under - Kansas Public Employees Retirement System
Member - Kansas Association of Public Employees

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Attach 3-1

Melville W. Gray

TESTIMONY ON SB623

I am Melville W. Gray and reside in Jefferson County, Kansas. I am retired under the Kansas Public Employees' Retirement System, and a member of the Kansas Assoc. of Public Employees.

I look on SB623 with considerable concern because of the financial impact it can have on me and my family. I am aware of the overall impact of this bill on those retirants not under KPERS and the state's tax concerns. The tax impact of SB623 will be variable on KPERS retirants depending on how well they were able to save and/or invest for their retirement. In most cases, the retirant depended on the fact that KPERS retirement pay would not be taxable under state income tax law.

Employees and retirants under KPERS believe they have a contract with the state. That contract stipulates that retirement pay would not be taxable for state income tax purposes. Passage of SB623 would effectively break the contract between the state and employees and retirants. I would urge you to not pass SB623 unless comparable compensation is provided by other means.

I would like to point out to the committee that KPERS retirants have received a severe income blow already this year. Without seeming maudlin, I would like to point out that on January 1 of this year, a large number of retirants lost as much as \$1000 to \$1500 per year when the state negotiated health contract changed the prescription drug retirant cost from \$10 to \$50 with an \$1800 per year cap. Coupled with the loss of tax exempt retirement pay this would effectively reduce monthly income by \$100 per month and in some cases by \$200 or more per month.

One possibility for equitable compensation would be to provide a compensatory COLA OF 3 1/2 % which for the most part would offset the financial impact of SB623.

I respectfully request the Committee and the legislature to give consideration to the above factors.

I appreciate very much the opportunity to appear before this committee and express my concerns and recommendations.



KANSAS NATIONAL EDUCATION ASSOCIATION / 715 W. 10TH STREET / TOPEKA, KANSAS 66612-1686

Craig Grant Testimony Before
Senate Assessment & Taxation Committee
Wednesday, February 16, 1994

Thank you, Madam Chair. I am Craig Grant and I represent Kansas NEA. I appreciate this opportunity to visit with the committee about SB 623, which would begin implementing a state income tax on state retirement benefits.

Kansas NEA has some concerns. We realize the background of this topic and also realize the need to treat all public retirement benefits equally. We also realize that SB 624, which is not assigned to this committee, is a benefit increase to state retirees which approximately equates to the tax revenue collected from state retirees. That motivation is laudable since many good employees are lured into public service because their retirement benefits are not going to be taxed.

The problem with the benefit enhancement is that not all of the school retirees will receive enough of a benefit enhancement to compensate for the tax levied. Because of the improved retirement benefits passed in recent years, school employees will be taxed sufficiently in SB 623 that SB 624 will not cover those taxes. If SB 624 had a percentage increase rather than a flat dollar amount per year, this would equate more equally with the taxes levied.

We realize that SB 624 is not in your committee and you have no control over its progress. Our two concerns are that SB 623 will pass without SB 624 and that SB 623 would pass and SB 624 would not be changed to adequately compensate retirees for the taxes levied.

We felt we should share our concerns with the committee and we thank you for listening to those concerns.

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attach 4-1*

TESTIMONY REGARDING SENATE BILLS S-623 AND S-739

Ladies and Gentlemen - My name is Joseph B. Wujcik. I am the Kansas Legislative Chairman for NARFE, the National Association of Retired Federal Employees. I appear before you in that capacity but speak for not only NARFE but also for the 16,295 Federal Employee Annuitants plus the 5,387 Survivor Annuitants residing in Kansas.

We note that Senate Bill S-623 eliminates all deductions from the Federal Adjusted Gross Income of City, State, Federal, and US Military annuities in arriving at the Kansas Adjusted Gross Income. This is a drastic change from the total exemption allowed to date. We Federal retirees are grateful for the exemption permitted in the past but can sympathize with the States need for additional revenue, however, we believe this change to be too drastic. Kansas permits a refund of some of the Sales Tax paid for food to Taxpayers with incomes of \$13,000 or less. Additionally the State allows at least a partial refund of Real Estate Taxes to Taxpayers with incomes of \$17,200 or less. We contend that in granting these tax refunds to Taxpayers with incomes of \$17,200 or less the State has, in effect, established a poverty level of \$17,200. We believe that some consideration of tax relief should also be given to Senior Taxpayers and ask that some such consideration be given.

If possible I would like to comment as to Senate Bill S-739. We believe that some change is necessary in the language beginning at line 10 thru 17 on page 3 of S-739. Under the language as stated Taxpayers who receive Social Security would have a distinct advantage over Taxpayers who do not. For example, let us say that the Taxpayer receives \$16,000 of Social Security. Under the Federal Income tax rules Taxpayers who do not receive a large amount of income, however, have income in excess of \$25,000 as a Single Taxpayer or \$32,000 as a Taxpayer filing Married Filing Jointly would exclude \$8,000 Social Security from their Federal return. Under this language they then would be able to exclude an additional \$8,000 on their Kansas return, for a total exclusion of \$16,000. The Taxpayer who does not receive any Social Security but receives some other annuity would be able to deduct only \$8,000, a much smaller amount. I would suggest the language in SB-739 be changed to read "Amounts received by any taxpayer as retirement benefits in whatever form from whatever source the amount of \$8,000 (if you desire to retain that amount) reduced by any amount of such annuity excluded from taxation on the Federal return." Stated in that manner the Social Security Taxpayer receiving the \$16,000 Social Security would not be able to deduct an additional \$8,000 since he/she had already deducted that amount on the Federal return. This would make the \$8,000 deduction more equal in the eyes of the Taxpayer who does not receive Social Security.

Returning to S-623 I note that that bill eliminates exemptions from Kansas Income Taxes beginning with lines 7 thru 9 of page 4; lines 29 thru 31 of page 5; lines 35 thru 37 on page 6; lines 13 and 14 of page 7; lines 4 and 5 of page 8; lines 21 thru 23 on page 9; lines 28 thru 30 on page 9; and lines 7 thru 9 of page 10. Senate Bill #739 permits the exemption from taxes of those various annuitants, pensions, and benefits. I have to ask if these exemptions permitted by S-739 are not in conflict with the US Supreme Court decision that has created the problem you are now grappling with. I believe that permitting the continuation of the exemptions granted by S-739 would lead to more problems in the courts.

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attach 5-1

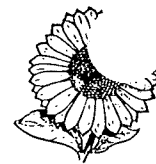
I have testified several times before bodies of this sort here in Topeka this past sixteen years on this subject. Things have changed since my first effort when I worked with Senator Ed Reilly and Representative Pat Hurley in 1978. I am now 80 years of age and the constant strain of attempting to counter changes such as you are now considering has taken its toll. I take pride in the results of my past efforts. I only hope that my request for consideration of some tax exemption will again be received with favor. Senate Bill S-739 would permit an \$8,000 deduction from the Federal Adjusted Gross Income. That would be helpful, however, we ask that you instead recommend that a deduction of \$18,000 be allowed in keeping with the already established Real Estate refund poverty level of \$17,200.

Thank you all. I have enjoyed working with the very gracious people who have represented the Leavenworth area here in this Legislature. I will be happy to attempt to answer any questions that you may have. I appreciate the opportunity to appear before you.



Kansas Retired Teachers Association.

"Caring Hearts - Helping Hands"
1993 - 1994



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February 16, 1994

Members of the Senate Assessment and Taxation Committee:

My name is Basil Covey and I represent the Kansas Retired Teachers Association. There are 19,000 of us in Kansas.

We oppose both SB 623 and SB 739. Personal opinions do not outweigh the opinions of the group you represent.

SB 623 eliminates a long standing concept that has served retired teachers well. History is being made here today. Like any event there is a positive and a negative side. The positive side favors the state and the negative side hits retired teachers.

Retired teachers during their careers were always in the low economic scale. With the exemption repealed, it places retired teachers in an unfair taxing situation. Retired teachers have been "taxed" over the years by the cost of living. Benefits have increased while the cost of living for the same period "ate up" the increases.

All pensions and retirement benefits are not equal, if they were taxing benefits would be fair and equal. KPERS benefits do not include prescription drugs, surgery, Dr. bills, and hospital costs, while some pensions do.

One group of taxpayers has already been hurt, and it should not be the intent of the legislature to add another group.

SB 739 takes over if the exemption is repealed. We took the bill to the State Internal Revenue Department and had two tax people explain it to us. They both read the bill and finally one said, "We can't tell what it means unless we know the intent of the legislature."

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1040 No. 11th
Independence, KS 67301

Senate Assessment & Taxation
February 16, 1994
attach 6-1

We quote from the bill, "Sect. 1.(c) There shall be subtracted from adjusted gross income: (vii) Amounts received by any taxpayer as retirement benefits in whatever form from whatever source to the extent included in federal adjusted gross income, but not exceeding \$8000." We believe this means the first \$8000 retirement benefits will not be taxed.

If this is true the older retired teachers who came into KPERS from KSRS with 1% times their service credits will not be hurt, only those receiving more than \$8000 in benefits.

The KSRS retirees now number about 2100 with an average benefit of \$200 a month or \$2500 a year. This is the group that companion bill SB 624 to SB 623 will help.

We ask members of the Committee to think seriously about terminating an exemption set by an earlier legislature which has served retired teachers so well.

Thank you,

Basil Covey
Basil Covey

**Testimony To The
SENATE COMMITTEE ON ASSESSMENT AND TAXATION**

BY

**D. Keith Meyers
Human Resources Manager
Department of Administration**

Ms. Chairperson, members of the committee, thank you for this opportunity to present testimony in opposition to Senate Bill 623. My name is Keith Meyers and I am the Human Resources Manager for the Department of Administration. In my capacity as Human Resources Manager, I provide pre-retirement counseling to Department of Administration employees.

Senate Bill 623 will make the retirement benefits currently received by state employees under the Kansas Public Employees Retirement System subject to state income tax.

KPERS is a defined benefit pension plan. Under a defined benefit pension plan, the retirement benefit is based on a formula which usually includes length of service and final average salary. Usually defined benefit plans are funded entirely by employer contributions. The federal military retirement plan is also a defined benefit pension plan. The major difference between KPERS and the federal military retirement plan is that state employees are required to pay 4% of their salary to fund their retirement benefit. The federal military retirement is paid for entirely by the federal government; there is no employee contribution.

*Senate Assessment + Taxation
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attach 7-1*

The mandatory 4% contribution that KPERS members pay is not considered taxable income for the federal government. However, it is considered taxable income for state of Kansas income tax purposes.

If Senate Bill 623 is passed, state of Kansas employees would be paying state income taxes twice, once when they make their mandatory contributions to the pension plan and again when the benefits are received. Federal military retirees on the other hand who are not required to make contributions to their pension plans are only taxed once; when benefits are received. The fairness and appropriateness of such an action should receive very serious attention.

As this bill would also affect the disposable income of current retirees on fixed incomes who have retired understanding that their benefits would not be subject to state income tax, I would again emphasize concern over the fairness and appropriateness of such an action. And remember, these retirees have already paid state income taxes when they made their contributions to KPERS.

Taxing retirement benefits of KPERS retirees does not "level the playing field" with federal military retirees. In fact, it penalizes KPERS retirees who, by law, must contribute to their pension plan and pay state taxes on those contributions. While on the surface the plans seem the same, there is a major difference between them.

Testimony presented to Senate Committee for Assessment and Taxation. February 16, 1994 RE: SB 623. Senator Audry Langworthy, Chairperson.

I am Conrad M. Fisher. I have been a state employee for 20 years. I am here today with no constituency save myself. Possibly, of the approximately 42,000 state employees there are those who would agree with what I say today, but more are probably are concerned about their work, the possibility of a 4.5% COLA, or are indifferent to the workings of the legislative process.

I stand before you to ask that you strike from SB 623 any attempt to tax the benefits from KPERS.

Twenty years ago when I began with the State I entered into an agreement that should I become vested in KPERS I would receive the benefits of that program tax free. Now after one half of my work life is over there is "a plan to change the rules of the game". Every year since I started receiving an annual statement I was told I would be able to expect so many dollars a month on my retirement. It does not say so many dollars less Kansas State Income Tax.

As I have become more aware of the fact that I may reach a retirement date I have planned for that time. Senators, I cannot replay the first half of my work life to attempt to soften the blow of this change in the way of doing business.

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attach 8-1

I can imagine the distress of the present retiree who would have no way of coping with this plan.

What we are dealing with is a contract and an expectation. Do we know if such a plan conforms with The Employee Retirement Security Act?

Several years ago, I testified before another committee and I was asked for recommendations. At that time I had none. Today I DO.

- 1) Strike taxing KPERS benefits from SB 623.
- 2) If you are compelled to tax the modest retirement benefits of employees under KPERS, then improve the benefit by having the governmental units involved put more into KPERS. Make the benefits large enough to absorb the cost of the levied income taxes.
- 3) If there is some motivation here that SB 623 will help the State tax military pensioners--two wrongs don't make a right.

In my time as a State employee I have seen more years of state employees being given the leftovers rather than be rewarded for their service. Please don't add this particular burden and insult to the State Employees lot.

Thank you.

FEBRUARY 16, 1994

SB 623 TAXING OF PENSIONS

SENATORS

MY NAME IS TOM YOUNG . I AM A RETIRED SCHOOL TEACHER FROM WICHITA AND I AM A RECIPIENT OF BENEFITS FROM THE KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM . DURING THE 35 YEARS I TAUGHT IN KANSAS I PLANNED FOR MY RETIREMENT WITH THE UNDERSTANDING THAT MY BENEFITS WOULD NOT BE TAXED. IT IS DIFFICULT TO COPE WITH A CHANGE IN THE RULES ONCE YOU HAVE RETIRED.

TO GIVE YOU AN EXAMPLE OF HOW THIS WOULD AFFECT A HUSBAND AND WIFE RETIRED ON KPERS AND SOCIAL SECURITY. WITH PERHAPS A LITTLE INTEREST INCOME SAY ABOUT \$1000 . THE STATE TAX DUE FROM THAT COUPLE WOULD JUMP FROM BETWEEN \$600 AND \$700 TO BETWEEN \$1700 AND \$1800 . THIS SEEMS TO ME TO BE A TREMENDOUSLY UNFAIR HIKE IN STATE INCOME TAX.

IN CONSIDERING THIS PROPOSED LAW MEMBERS OF THE COMMITTEE MAY THINK THAT A TAX ON ALL BENEFITS OF ALL RETIRES IS FAIR. DOING THAT DOESN'T TAKE INTO ACCOUNT THE FACT THAT THE YEARS SPENT AS TEACHERS AND SCHOOL DISTRICT EMPLOYEES, POLICE AND FIREMAN , JUSTICE EMPLOYEES AND JUDGES , MUNICIPAL AND COUNTY EMPLOYEES, AND STATE EMPLOYEES WHO WORKED FOR THE STATE OF KANSAS WERE WORKING IN JOBS WITH PAY SCALES LESS LUCRATIVE THAN THAT OF THE PRIVATE SECTOR. IF YOU CONSIDER THE INCOME WE COULD HAVE EARNED AGAINST WHAT WE DID EARN THE EXEMPTION OF KPERS BENEFITS FROM STATE INCOME TAX CAN ONLY BE LOOKED AT AS A DEFERRED BENEFIT THAT IS DUE KPERS RECIPIENTS ALMOST AS CLEARLY AS IF THEY HAD A CONTRACT TO THAT EFFECT.

I URGE THE COMMITTEE TO SEEK OTHER SOURCES OF REVENUE WHICH SHARES THE BURDEN MORE EQUITABLY.

Senate Assessment & Taxation
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attach 9-1

February 14, 1994

The Honorable Senator *Lanquarthy* ~~Begins~~

Members of the Committee

Thank you for the opportunity to speak before this Committee.
I am Bill Dirks speaking in opposition to Senate Bill 623 and representing the Wichita Retired Teachers Association. WRTA consists not only of teachers but also school personnel who are retirees whether they are secretaries or administrators.

Mr. Chairman, we appreciate your presentation at the AARP luncheon in January and your candid views. Among the items discussed were the need for additional revenue, the need to pay military retirees, and the need to balance retirement between the public and private sector. Senate Bill 623 raises serious concerns. First,

it would be a new tax on pensions of KPERS, Government, and Military Retirees. These Kansans having given a career and lifetime of public service would bear the full amount from their fixed pensions. Secondly, as for equity and parity between the public and private sector there are vast differences. Some private plans are contributed solely by the employer, others have far more generous benefits. Consider the formula that uses 1.0 for each year experience, others 1.25, 1.40 and in 1993 a much needed change to 1.75 per year experience for new retirees. Many earlier retirees had lower salaries and smaller formula.

If more revenue is needed to pay military retirees, this revenue should be the responsibility of all Kansans and not just public retirees. A small change in the State income tax formula would be equitable and produce the required revenue.

Thank you again for this opportunity to express our opposition to Senate Bill 623. I will be pleased to respond to your questions.

Bill Dirks

A. W. Dirks WRTA
Legislative Chairman
11403 West Douglas
Wichita, Kansas 67209

*Senate Assessment Tax
February 16, 1994
Attach 10*