Approved: March 31, 1994
Date

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Chairperson August Bogina at 11:00 a.m. on March 28, 1994 in Room 123-S of the Capitol.

All members were present except:

Committee staff present: Alan Conroy, Legislative Research Department
Julian Efird, Legislative Research Department
Gordon Self, Revisor of Statutes
Judy Bromich, Administrative Assistant
Ronda Miller, Committee Secretary

Conferees appearing before the committee:

Others attending: See attached list

The Chairman told members that the KPERS subcommittee had taken into consideration all the bills that had been filed, the House Committee action on KPERS issues, and additional issues that had been brought to the subcommittee's attention and now submits the KPERS Omnibus Retirement Bill for Committee consideration. He stated that the House has not passed its version of the KPERS bill to date, so this report will be amended into another bill and the two houses will need to reconcile the differences.

Alan Conroy, Legislative Research Department, reviewed the subcommittee recommendations found in Attachment 1. Discussion was held on the following items:

Kansas Public Employees Retirement System

KPERS -- Post-Retirement Benefit Increase. Senator Kerr acknowledged that those who had previously retired were unhappy with the 1993 legislative action on post retirement benefits, but questioned building in additional expenses which will have to be funded in future years. The Chairman noted that the House had recommended only the 1.5% post-retirement benefit increase. The Senate subcommittee's recommendation would provide a choice between the 1.5% increase and $.50 for each year of service and $.50 for each year since retirement in an attempt to address persons who have been retired for a long time and whose benefits are minimal.

Inflated Final Average Salary. In reviewing the subcommittee's recommendation, staff distributed copies of Attachment 2 which illustrates how members who buy service credit in the same year they are retiring can inflate their final average salary from 3% to 19%. It was noted that the subcommittee's recommendation does not address this issue of paying accumulated sick and annual leave immediately prior to retirement which can also escalate a member's final average salary. Staff told members that the 1993 KPERS Omnibus Bill excluded sick and annual leave for all new employees in the calculation of final average salary. Under provisions of that bill, existing employees under KPERS as of January 1, 1993 can choose between a calculation of the average salary over 3 years excluding sick and annual leave or over 4 years including lump sum payments for sick and annual leave.

Senator Salisbury pointed out that constituents had voiced concern about the effective date of the recommendation. It was noted that the House Committee had recommended that the effective date be the next quarter which would allow local and state employees to sign up to purchase service credit one more time. Senator Salisbury expressed concern that employees had no part in the policy decision, but made decisions based on the policy that was in place. Members of the subcommittee unanimously supported that the effective date be upon publication in the *Kansas Register*, and stated that they believed this was a deliberate effort to manipulate the system, not an agency policy to encourage abuse of the system.

Senator Salisbury moved, Senator Moran seconded, that recommendation 8(d) be amended by changing the effective date to July 1, 1994 for local employees and to August 18, 1994 for state employees. The motion failed on a voice vote.

KPERS School Employee Representative Membership. The Chairman informed members that there are six union representatives; all but one are under KPERS. This recommendation holds the Union, not the state, responsible for the employer contribution.

Kansas Police & Fire (KP&F) Retirement System

City of Emporia Employees -- Settlement of Fair Labor Standards Lawsuit. Senator Kerr asked whether the subcommittee's recommendation would result in an inflated final average salary for City of Emporia KP&F Employees who retire within two years. Staff answered that retiring employees would be under last year's KP&F provisions which is the average highest 3 of the last 5 years. For new employees, lump sum payment is excluded; for those employees employed prior to 1993, lump sun payment would be included in final average salary calculations.

Judges Retirement System

Regents

County Extension Agents to Receive Retirement Annuities Purchased by the Board of Regents. There was discussion about the criteria for membership in TIAA/CREF. Senator Petty offered a motion which was seconded by Senator Vancrum that item 2 be deleted from the subcommittee report. The Chairman told members that the universities consider the extension agents as faculty because of their teaching role and desire to place them under TIAA/CREF like campus faculty. Concern was expressed that inclusion under TIAA/CREF had expanded beyond the original intent which was to keep unclassified faculty from transferring out of state. In answer to Senator Karr, staff stated that area specialists are under TIAA/CREF. Under this recommendation of the subcommittee, the 97 existing and any new extension agents in the counties would be under TIAA/CREF.

With the consent of Senators Petty and Vancrum, Senator Rock requested that the motion to amend the report include an interim review of qualifications for membership in TIAA/CREF. The motion to amend by deleting section 2 and including an interim review of TIAA/CREF membership qualifications passed on a voice vote.

It was moved by Senator Rock and seconded by Senator Morris that the subcommittee report as amended be adopted. The motion carried on a voice vote.

Senator Rock offered a motion to strike the provisions of HB 2597 and provide the KPERS subcommittee report as amended as a Senate Substitute for HB 2597. The motion carried on a roll call vote.

The Chairman adjourned the meeting at 12:20 P.M.

The next meeting is scheduled for March 29, 1994.

GUEST LIST

COMMITTEE: SENATE WAYS AND MEANS DATE: March 28, 1994

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Basil Covey	Topeka	KRTA
Jess Danner	"	KCRA
Bo Mariani	Topeka	DofA
Tom Young	Topeka	AARP
Craig Grant	Topeka	KNEA
Susan Peterson	Manhattan	Kansas State
Lilly Quaif		AP
Diff Easton	Lawrence	KU
James A. Todd	Wichita	KS77A
JERRY MARLATT	TOPEKA	KSCFF
Kelly Jennings	Topeka	KAPE
Tess Banion	TOPEKA	KAPE
Millie Martin	Wichita	Sedgwick Co.
Alan Steppat	Topeka	Pete McGill & Assoc.
Jim Allen	"	F.O.P.
Denise Apt	"	U.S.D. #500 - KCK
Helen Stephens	"	KPOA + BV 229
Jon Josserand	Lawrence	KU

Senate Sub. for H.B. 2597

KPERS Omnibus Retirement Bill

Senate Subcommittee Report*

Senator August Bogina, Jr.
Subcommittee Chairperson

Senator Stephen R. Morris

Senator Richard R. Rock

* Note the legislative bills referenced in this document may have been only partially included or amended in the Subcommittee's recommendations.

SWAM
March 28, 1994
Attachment 1

SUBCOMMITTEE REPORT

Agency: Retirement Issues **Bill No.** S.Sub. H.B. 2597 **Bill Sec.** --

Analyst: Conroy/Efird **Analysis Pg. No.** -- **Budget Page No.** --

The Senate Subcommittee on Retirement consisting of Senators Bogina, Morris, and Rock conducted meetings on the Kansas Public Employees Retirement System (KPERS) budget, specific retirement bills, and general retirement policy issues. Information was received from Mr. Meredith Williams, Executive Secretary of KPERS, and from various other interested parties concerning retirement issues. The Subcommittee held public hearings on retirement bills assigned to it by the Chairman of the Senate Ways and Means Committee, and general retirement issues.

Based on the available information, the Committee recommends the following changes and enhancements for retirants and active members of KPERS, Kansas Police and Fire (KP&F), and the Judge's Retirement System. The changes have a net annual actuarial cost to the state of $3,098,837, of which approximately $2.5 million will be from the State General Fund and will first be reflected in FY 1997. The bill would also require increased state contributions of $139,437 in FY 1995, all from the State General Fund. The changes will also require an annual increase to the local units of government of $1,005,334 in calendar year 1996. The Committee recommends that the current provisions of H.B. 2597 be stricken and that all of the changes be placed in Senate Substitute for H.B. 2597 to form an omnibus retirement bill.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

1. KPERS -- Post-Retirement Benefit Increase. Effective July 1, 1994, for all members who retired prior to July 1, 1993, a post-retirement benefit increase of 1.5 percent in their retirement benefit or $0.50 for each year of service and $0.50 for each year since retirement, whichever is greater. This increase would also be applicable to all KPERS special members, KPERS disability recipients as well as retirants of the local Kansas City, Kansas School Retirement System. The Committee notes the substantial post-retirement benefit increase granted to KPERS retirees by the 1993 Legislature. The 1993 increase provided a 15 percent increase in monthly benefits (with a $200 a month maximum) or a $50 per month minimum increase, whichever was greater, for retirees with 15 or more years of service who retired prior to July 1, 1993; and a 5 percent or $10 a month increase, whichever is greater, for retirees with less than 15 years of service who retired prior to July 1, 1993. Legally, there is no contractual right to any increase once the individual is retired. In the last decade, the KPERS retired members have received ad hoc increases on an almost annual basis. In fact, retired members have received increases greater than the increase in the Consumer Price Index. The increased cost for the post retirement benefit increase would be first reflected in FY 1997 for state/school employers and calendar year 1996 for local units of government.

Coverage Group	Additional Employer Rate	Additional Employer Contribution
KPERS State/School	0.09%	$ 2,830,500
KPERS Local	0.07	424,550

2. KPERS -- Raise Earnings Limitation for Certain Retirants (H.B. 2857). Raise from $10,560 to $11,160 the calendar year earnings limitation applicable to retirants under KPERS who are subject to an earnings limitation. The increased amount is the same as the Social Security limit for 1994 for beneficiaries whose ages are 65 through 69. Currently, there is no earnings limitation for KPERS retirants who retired before July 1, 1988. For those who retired after June 30, 1988, there also is no limitation unless the retirant is employed by the same employer for whom he or she worked during the last two years of KPERS participation. In such cases, retirants may receive KPERS benefits until earnings equal $10,560 in a calendar year, and at that point may elect to terminate employment and continue to receive benefits, or continue employment with benefits suspended, or revoke their retirement and again become a participating member of KPERS. Currently exempted from the earnings restriction are substitute teachers, elected officials, and officers, employees and appointees of the Legislature.

COST: No actuarial cost.

3. KPERS -- Extend Special KPERS-Correctional Class. Extend for one year (Until June 30, 1995) the special disability coverage for KPERS-Correctional. The current special disability KPERS-Correctional benefits are scheduled to expire on June 30, 1994. The Department of Corrections did propose several changes concerning the KPERS-Correctional class.

The Subcommittee notes that the special KPERS-Correctional class was established by the 1982 Legislature and the special disability provisions have been extended on an annual basis every year since 1982. The Subcommittee recommends that the Joint Committee on Pensions, Investments and Benefits and the KPERS Retirement Study Commission review and make recommendations to the 1995 Legislature concerning the future of the special KPERS-Correctional class. The study should review the original premise for creation of the special class and the following options:

1. Should the members be moved into the Kansas Police and Fire Retirement System?

2. Should the special KPERS-Correctional class be made permanent with a complete review of the employee classifications in the various correctional groups and the requirements for belonging to the special class?

3. Should the members be moved back into regular KPERS?

4. Should other employee classes in similar agencies be considered for inclusion with the KPERS Correctional class (*e.g.*, Larned State Hospital)?

The Subcommittee notes that a similar recommendation was made during the 1993 Session and because of time constraints the Joint Committee and the Study Commission were not able to make a recommendation. The Subcommittee recommends very strongly that the Joint Committee and the Study Commission should make this issue a priority item during the interim period and report back to the 1995 Legislature.

COST: None above the currently budgeted amount.

4. KPERS, Disability Payment Offset, Death Benefit Setoff, Withdrawal Rollovers, Employer Underpayments, and Affiliation Procedures (H.B. 3066). The Subcommittee recommends the following technical changes be made to the Retirement Act.

(a) Disability Payment Offset. Recommend that disability benefits shall accrue from the later of the 181st day of total disability or the first day upon which the member ceases to draw compensation from the employer. If the Social Security benefit, Workers Compensation benefit, other income or wages, or other disability income benefit by reasons of employment, or any part thereof, is paid in a lump sum, the amount of the reduction shall be calculated on a monthly basis over the period of time for which the lump sum is given (*i.e.*, a year's salary shall be offset over 12 months).

Current law provides that KPERS disability benefits are subject to an offset for amounts the member may receive from Social Security, one-half workers compensation, or <u>a disability benefit from any source by reason of employment</u> (emphasis added). From 1966 to 1991, members receiving payments for accumulated sick leave after becoming eligible for disability benefits had their benefits offset for such sick leave payments. The Attorney General has indicated that sick leave is compensation, not a disability benefit, and as such is not subject to an offset. He also opined that an employee could not receive a disability benefit and a payroll warrant at the same time.

COST: No actuarial cost.

(b) Death Benefit Offset. Recommend that any overpayment because of the nonreported death of a retirant be an offset obligation against the $4,000 death benefit. Occasionally, a member's death goes unreported and benefit payments are continued after death. When a member has selected the maximum benefit amount (no survivor option), an overpayment may occur if the death of the retirant is not reported in a timely manner. The death benefit offset is currently the practice of KPERS, but the Subcommittee recommends that the procedure be set in statute.

COST: No actuarial cost.

(c) Employer Underpayments. Recommend that <u>any</u> delinquencies owed the Retirement System may be offset against <u>any</u> other revenues of the agency. Occasionally, a participating employer will not remit the full amount due the Retirement System and will subsequently refuse to pay the balance. Current law allows KPERS to collect delinquent amounts by setting off against other revenues of the employer. However, this provision is only applicable when the delinquency relates to the employment of retired KPERS members.

COST: No actuarial cost.

(d) Withdrawal Rollovers. Recommend technical language to ensure that KPERS is in compliance with Internal Revenue Service guidelines concerning members who leave covered employment and wish to withdraw their contributions. Such withdrawals are subject to federal withholding unless the withdrawal amount is paid directly to the member's designated financial institution. In turn, the transferred sum is placed in an Investors Retirement Account or other tax-sheltered vehicle.

COST: No actuarial cost.

(e) Affiliation Procedure. Recommend the elimination of the publication requirement for those employers wishing to participate in the Optional Group Life Program. Participating employers may choose to participate in the KPERS Optional Group Term Life Insurance Program. Unlike other coverages administered by KPERS, the Optional Group Term Life Insurance Program has no financial implications for the participating employer; all costs are borne through payroll deductions charged to the employee who elects to purchase such coverage. Current affiliation procedures are applicable to all coverage options and require formal published notices of the participating employer's proposed action.

Cost: No actuarial cost.

5. KPERS Service Connected Death Benefit -- Reduction for Workers Compensation. Clarify if the workers compensation benefit is paid in a lump sum, the amount of the reduction shall be calculated on a monthly basis over the period of time for which workers compensation would have been payable. For any recipient already in receipt of benefits on the effective date of this act there would be no change in the original reduction for workers compensation benefits paid prior to this change.

Cost: No actuarial cost.

6. Veterans' Credit for Certain Military Service. Delete the prohibition that prevents members from purchasing active-duty and certain reserve-duty military service which is the basis for military pension rights. Currently, KPERS statutes deny the right to purchase service credit for military service which is the basis for a military pension. Members may purchase up to six years of military service credit as long as it is not also being used for a military pension. Current litigation in California indicates that the existing KPERS position would not be upheld if challenged in court. The Subcommittee also recommends that if a member does purchase military service credit which is the basis for a military pension that the individual pay the full actuarial cost basis and that it be paid in one lump sum.

Cost: No actuarial cost.

7. Qualified Domestic Relations Orders (QDROs) (H.B. 2993). Provide that KPERS members' benefits are subject to qualified domestic relations orders for agreed to property division. Currently, members' benefits are only subject to decrees for child support or maintenance, or both. In addition, the Subcommittee recommends several additional clarifying changes to the current Senate version of H.B. 2993 before it is amended into this KPERS omnibus bill. These clarifications include: (1) Make clear that KPERS itself cannot be made a party to a domestic relations case; (2) KPERS could accept orders which have been filed prior to July 1, 1994, not just those filed or amended after July 1, 1994; and (3) KPERS should be able to accept a QDRO from any jurisdiction (*i.e.*, out-of-state) not just a Kansas domestic relations court.

COST: No actuarial cost.

8. Unretiring; Spousal Consent; Court Reporters; Inflated Final Average Salary (H.B. 3067). The Subcommittee recommends the four following changes to KPERS:

(a) Unretiring. Prohibit KPERS members from unretiring and becoming participating members again. Currently, KPERS members who retire and return to work with the **same employer**, can unretire and become active contributing members again once they the meet the current Social Security earnings limitation ($10,560). With the passage of 1993 H.B. 2211 the benefit formula was significantly enhanced. Retirees could return to work and unretire and work a short period of time and then retire a second time at a greatly improved retirement benefit.

COST: No actuarial cost.

(b) Spousal Consent. Require the written consent of the spouse of a member who is retired, if the member's benefit selection would provide less than one-half of what the spouse would be entitled to after the death of the member. The spouse would have 90 days in which to consent and members would receive benefits as though they had selected the joint and one-half survivor option. If no consent were given after 90 days, the member would be reverted back to the original benefit option selected and paid any retroactive benefits due for that 90-day period.

COST: No actuarial cost.

(c) Court Reporters. Provide that the current active members of the old Court Reporters System (who are currently special members of KPERS) could retire at a reduced benefit at age 55 with ten years of service, or have normal retirements at 85 points (a combination of age and years of service), at age 62 with ten years of service, or age 65. Currently, court reporters can retire only upon attainment of age 65. The Committee also recommends that benefits paid under the old Court Reporters System shall be subject to decrees for child support or maintenance and qualified domestic relations orders for property division. Currently, such member's benefits are exempt from all such court orders.

COST: No actuarial cost.

(d) Inflated Final Average Salary. Provide that effective upon publication in the *Kansas Register* members who purchase or repurchase service credit would only receive the additional service credit and the purchase would have no affect on their final average salary. This change would not impact individuals who are currently in the process of purchasing or repurchasing service credit. However, no additional individuals could sign-up to purchase or repurchase service and still impact their final average salary calculation.

The Subcommittee spent considerable time discussing the impact of the preceding recommendation. The Subcommittee also notes that this particular item has received a great deal of attention and concern from KPERS-State members. The merger of the old Kansas School Retirement System (KSRS) with KPERS in 1971 marked the first time members were allowed to purchase or repurchase service credit. Originally, members could only purchase by means of a lump-sum payment, but this was later changed to a double deduction method in 1977 and later to a triple deduction in 1988. When KPERS first allowed double deductions, an administrative decision was made that not only did members receive additional service credit for the time being purchased, but they were to also receive additional quarters of compensation at their salary level during the period of purchase. This has the effect of escalating a member's final average salary to more closely mirror their current salary. This situation balloons when members are paid for accumulated sick and annual leave immediately prior to retirement as they are completing a buy back. This has the effect of doubling or tripling the last quarter of compensation.

In 1993, close to 450 members retired in the same year they were buying service credit, which had the impact of inflating their final average salary from 3 to 17 percent. The KPERS actuary has indicated that this has increased the pension liability by over $6.8 million for just that year and it will be compounded in future years. The Subcommittee would point out that the KPERS actuary is not aware of any other retirement system that credits compensation for members who are purchasing service credit. Attached to this Subcommittee report are several examples, prepared by KPERS, that indicate the effect that this practice is having on the monthly benefits of individuals who are aware of this loophole. The largest example on the attached sheet indicates that a school member was able to manipulate the final average salary to increase the monthly KPERS benefit by $552.97 or 17 percent.

COST: None currently; however, if the proposed change is not made, there would be an actuarial cost.

9. KPERS Board of Trustees -- Salary Determination for Attorney in Unclassified Service (S.B. 453). Recommend that the KPERS Board of Trustees be permitted to set the salary of the KPERS Attorney. Currently, the salary is established by the Governor, while all other unclassified positions within the agency have their salary set by the Board of Trustees.

COST: No actuarial cost.

10. KPERS School Employee Representative Membership. Allow KPERS-School members who are elected or appointed to a full-time position as an employee representative the option to retain membership in KPERS if they continue to make the employer and employee contributions. Payments would be based on their last covered salary and payments would be made monthly to local school district. If the employee elects to continue to participate, their employer must carry out the necessary administrative actions to allow the individual to continue membership in KPERS.

COST: No actuarial cost.

11. Review of Legislative Session Only Employees Retirement Plan. The Subcommittee does note with concern that the legislative session only retirement plan is an unfunded pension plan, which is in effect a pay-as-you-go system. The Subcommittee recommends the Director of Legislative Administrative Services and KPERS explore other retirement benefit alternatives and report to the 1995 Legislature. One option recommended for consideration would be a private annuity plan which would not have the pitfalls of the current unfunded program. The Subcommittee recommends that any changes to the current system safeguard the interest and expectations of the current members of the legislative session only retirement plan.

COST: No actuarial cost.

12. Confidentiality of Employers' Contributions. The Subcommittee recommends that the records of KPERS employers for contributions made on behalf of employees for social security, workers compensation, FICA, unemployment insurance, and retirement be made confidential. The employers would be permitted to make public the lump sum amounts paid for any group, division or section of an agency, but not individual employees. Currently, individual KPERS records including retirement contributions made by an individual are confidential.

COST: No actuarial cost.

13. Exemptions from 1993 H.B. 2211 on Refilling Vacant Positions Due to Retirement (H.B. 3065). Recommend that direct care staff of the Department of Social and Rehabilitation Services mental health and mental retardation institutions and unclassified health care workers of the University of Kansas Medical Center shall not be subject to the provisions of 1993 H.B. 2211 concerning refilling vacant positions due to retirement. Under current law, when a person retires in an Executive Branch agency, the FTE position limitation of the agency must be reduced and the remaining funding of the position eliminated. The Governor is authorized to restore 75 percent of the FTE positions and 75 percent of the funding of positions that retire in agencies of the Executive Branch, unless otherwise approved by the State Finance Council.

COST: There would be some savings amount that would not be realized, because of the exemption.

14. Relating to the Transfer of Certain Employees Between Local Units of Government. (S.B. 810) Recommend that retroactive to January 1, 1994, any employee of a local government, which has its own pension plan, and who later becomes an employee of a participating employer through a merger or consolidation, may use service with the local governmental unit to meet minimum requirements under KPERS for membership, normal retirement and vesting. Certain "911" emergency employees with the City of Wichita (which has its own pension plan) were transferred to employment with Sedgwick County which is affiliated with KPERS.

COST: No actuarial cost.

15. Merger of the Kansas City, Kansas School Retirement System with KPERS. Recommend that the Kansas City, Kansas School Retirement System may affiliate with KPERS-School on July 1, 1994 or on July 1 of any year. An actuarial study to determine the assets and liabilities of the Kansas City system would be required prior to any merger. Any liability of the Kansas City system would be amortized and paid by the local system over a period not to exceed 39 years. This time period is the same as the current amortization period for the KPERS-School unfunded liability. All active and retired members or any person who is a joint annuitant or beneficiary of any member would become a special member of KPERS. According to the latest information there are four active and 195 retired members of the Kansas City, Kansas School Retirement System.

COST: No actuarial cost.

16. Closing of Additional Loopholes that Inflate Members Retirement Benefits. The Subcommittee recommends the following three areas that present the opportunity for knowledgeable individuals to manipulate the existing retirement benefit laws be changed to prevent the possibility of inflating a member's retirement benefit.

(a) Payment of Early Retirement Incentive Bonuses. Require that the payment of early retirement incentive bonuses by KPERS-School employers (local school districts and community colleges) shall not be made until the individual actually retires. Payment of early retirement incentive bonuses immediately prior to retirement could inflate the member's final average salary. The Subcommittee also recommends that such early retirement incentive bonuses shall not be subject to KPERS contributions and are not to be included in final average salary computations.

COST: No actuarial cost.

(b) Failure to Report a Covered Employee By KPERS-School Employer. Require the KPERS-School participating employer to pay the total actuarial cost beyond the mandated member contribution when an employer fails to report membership of a covered employee. Currently, several school districts have attempted to establish membership after many years of not reporting the employee as being in a covered retirement position. This usually happens when the member is at or near retirement age. This action prevents KPERS from investing the employer and employee contributions over the career of the member.

COST: No actuarial cost.

(c) Exclude Compensation Under an IRS 125 Plan From KPERS Compensation. Require that any reimbursements under the U.S. Internal Revenue System are not subject to KPERS contributions and are not to be included in final average salary computations. The inclusion of compensation under an IRS 125 plan could inflate a member's final average salary.

COST: No actuarial cost.

KANSAS POLICE AND FIRE (KP&F) RETIREMENT SYSTEM

1. KP&F -- Post-Retirement Benefit Increase. Effective July 1, 1994, for all members, retired prior to July 1, 1993 a post-retirement benefit increase of 1.5 percent in their retirement benefit or $0.50 for year of service and $0.50 for each year of retirement, whichever is greater. The Subcommittee notes the substantial post-retirement benefit increase granted to KP&F retirees by the 1993 Legislature. The 1993 increase provided a 15 percent increase in monthly benefits (with a $200 a month maximum) or a $50 per month minimum increase, whichever was greater, for retirees with 15 or more years of service who retired prior to July 1, 1993; and a 5 percent or $10 a month increase, whichever is greater, for retirees with less than 15 years of service who retired prior to July 1, 1993. Legally, there is no contractual right to any increase once the individual is retired. In the last decade, the KP&F retired members have received ad hoc increases on an almost annual basis. In fact, KP&F retired members have received increases greater than the increase in the Consumer Price Index. The increased cost for the post retirement benefit increase would be first reflected in FY 1997 for the state and calendar year 1996 for local units of government.

Coverage Group	Additional Employer Rate	Additional Employer Contribution
KP&F State	0.30%	$ 82,320
KP&F Local	0.30	580,784

2. Elimination of Age 60 Service-Credit Cutoff for KP&F Personnel. Recommend repeal of the age 60 service-credit cutoff provision and amend the contribution adjustment provision to provide that the employee's contribution rate remains at 7 percent and will be lowered to 2 percent only for those KP&F members who have reached the maximum allowable credit of 35 years. Current law provides that no service credit is allowed for time worked by KP&F members after they reach age 60 (unless the credit is needed to fulfill the 20 years required for eligibility to retire). At the same time, KP&F members who work beyond age 60 after achieving 20 years of service are subject to lower contribution rates (2 percent as opposed to 7 percent). KPERS has recently learned that a preliminary report of the U.S. Equal Opportunity Commission will cite KP&F's age 60 cutoff as being in violation of the federal Age Discrimination in Employment Act.

COST: No actuarial cost.

3. Veterans' Credit for Certain Military Service (H.B. 2928). Delete the prohibition that prevents members from purchasing active-duty and certain reserve-duty military service. Currently, KP&F statutes deny the right to purchase service credit for military service. The Subcommittee recommends that members may purchase up to six years of military service credit as long as it is purchased in a lump-sum payment which represents the full actuarially determined cost.

COST: No actuarial cost.

4. Election for Active Members of Local Police and Fire Pension Plans to Join KP&F System (H.B. 2927). Provide a six-month window of opportunity (July 1, 1994 to December 31, 1994) for each active member of a local police and fire pension plan that has previously affiliated with KP&F. Cities of the first and second class had their own police and fire pension plans prior to the establishment of KP&F in 1967. Many of these cities have elected to participate in KP&F and members of the local plans were given an election to participate in KP&F or stay under the local provisions. Today there are 140 special members who remain under these local provisions which for the most part provide 50 percent benefit after 22 years of service. The Subcommittee recommends that those special members who elect KP&F coverage, the years in which they contributed at the lower employee contribution rate under the local plan must be accounted for by either a single lump-sum payment or an actuarially reduced benefit at the time of retirement. The Subcommittee also recommends for those individuals that elect to remain under the provisions of a local plan that the maximum benefit be increased from 50 percent to 55 percent for those individuals who retire on and after July 1, 1994. In addition, the Subcommittee recommends that any special members who elect in to KP&F will not be able to include any lump sum payments for sick and annual leave in their final average salary calculations. This policy would be consistent with the provisions of the 1993 KPERS omnibus bill (1993 H.B. 2211).

COST: No actuarial cost.

5. Death Benefit Setoff, Withdrawal Rollovers (H.B. 3066).

(a) Death Benefit Offset. Recommend that any overpayment because of the nonreported death of a retirant be an offset obligation against the $4,000 death benefit. Occasionally, a member's death goes unreported and benefit payments are continued after death. When a member has selected the maximum benefit amount (no survivor option), an overpayment may occur if the death of the retirant is not reported in a timely manner. The death benefit offset is current the practice of KPERS, but the Subcommittee recommends that the procedure be set in statute.

COST: No actuarial cost.

(b) Withdrawal Rollovers. Recommend technical language to ensure that KPERS is in compliance with Internal Revenue Service guidelines concerning members who leave covered employment and wish to withdraw their contributions. Such withdrawals are subject to federal withholding unless the withdrawal amount is paid directly to the member's designated financial institution. In turn, the transferred sum is placed in an Investors Retirement Account or other tax-sheltered vehicle.

COST: No actuarial cost.

6. Unretiring, Spousal Consent, Inflated Final Average Salary (H.B. 3067).

(a) Unretiring. Prohibit KP&F members from unretiring and becoming participating members again. In addition, change the post-retirement earnings restriction to dollar limitation ($11,160) which is the same as the Social Security limit for 1994 for beneficiaries whose ages are 65 through 69. Currently, KP&F members who retire and return to work with the **same employer**, can unretire and become active contributing members again once they work 30 days in any calendar year. With the passage of 1993 H.B. 2211 the benefit formula was significantly enhanced. Retirees could return to work and unretire and work a short period of time and then retire a second time at a greatly improved retirement benefit.

COST: No actuarial cost.

(b) Spousal Consent. Require the written consent of the spouse of a member who is retired, if the member's benefit selection would provide less than one-half of what the spouse would be entitled to after the death of the member. The spouse would have 90 days in which to consent and the member would receive benefits as though the joint and one-half survivor option had been selected. If no consent were given after 90 days, the member would be reverted back to the original benefit option selected and paid any retroactive benefits due for that 90-day period.

COST: No actuarial cost.

(c) Inflated Final Average Salary. Provide that effective upon publication in the *Kansas Register* members who purchase or repurchase service credit would only receive the additional service credit and the purchase would have no affect on their final average salary. This change would not impact individuals who are currently in the process of purchasing or repurchasing service credit. However, no additional individuals could sign-up to purchase or repurchase service and still have it impact their final average salary calculation.

7. Request a Review of Qualifications for Membership in the KP&F System. The Subcommittee recommends that the Joint Committee On Pensions, Investments and Benefits and the KPERS Retirement Study Commission review the qualifications for membership in the KP&F System and report back to the 1995 Legislature. Currently, there is a great deal of inequity by local employers in determining whether or not support personnel should be affiliated with KP&F. For example, Highway Patrol dispatchers are enrolled as KPERS members while some local law enforcement agencies enroll secretarial personnel in KP&F. One option would be to consider that KP&F membership is only available to public safety personnel who have a minimum number of hours of special training.

8. City of Emporia Employees -- Settlement of Fair Labor Standards Lawsuit. Authorize the City of Emporia KP&F employees to include the payment of back salaries and wages as a result of a Fair Labor Standards Act lawsuit. For the individual to receive the additional salary credit, a lump sum payment must be made to the City of Emporia that represents the employee's share of salary and wage average for the additional salary credit.

COST: No actuarial cost.

JUDGES' RETIREMENT SYSTEM

1. Judges' Retirement System -- Post-Retirement Benefit Increase. Effective July 1, 1994, for all members, retired prior to July 1, 1993 a post-retirement benefit increase of 1.5 percent in their retirement benefit or $0.50 per year of service and $0.50 per year of retirement, whichever is greater. The Subcommittee notes the substantial post-retirement benefit increase granted to Judges' Retirement System retirees by the 1993 Legislature. The 1993 increase provided a 15 percent increase in monthly benefits (with a $200 a month maximum) or a $50 per month minimum increase, whichever was greater, for retirees with 15 or more years of service who retired prior to July 1, 1993; and a 5 percent or $10 a month increase, whichever is greater, for retirees with less than 15 years of service who retired prior to July 1, 1993. Legally, there is no contractual right to any increase once the individual is retired. In the last decade, the Judges' Retirement System retired members have received ad hoc increases on an almost annual basis. In fact, retired members have received increases greater than the increase in the Consumer Price Index. The increased cost for the post retirement benefit increase would be first reflected in FY 1997 for the state.

Coverage Group	Additional Employer Rate	Additional Employer Contribution
State	0.30%	$ 45,580

2. Spousal Consent (H.B. 3067). Require the written consent of the spouse of a member who is retired, if the member's benefit selection would provide less than one-half of what the spouse would be entitled to after the death of the member. The spouse would have 90 days in which to consent and the member would receive benefits as though the joint and one-half survivor option had been selected. If no consent were given after 90 days, the member would be reverted back to the original benefit option selected and paid any retroactive benefits due for that 90-day period.

COST: No actuarial cost.

3. Death Benefit Setoff; Withdrawal Rollovers (H.B. 3066).

(a) Death Benefit Offset. Recommend that any overpayment because of the nonreported death of a retirant be an offset obligation against the $4,000 death benefit. Occasionally, a member's death goes unreported and benefit payments are continued after death. When a member has selected the maximum benefit amount (no survivor option), an overpayment may occur if the death of the retirant is not reported in a timely manner. The death benefit offset is current the practice of KPERS, but the Subcommittee recommends that the procedure be set in statute.

COST: No actuarial cost.

(b) Withdrawal Rollovers. Recommend technical language to ensure that KPERS is in compliance with Internal Revenue Service guidelines concerning members who leave covered employment and wish to withdraw their contributions. Such withdrawals are subject to federal withholding unless the withdrawal amount is paid directly to the member's designated financial institution. In turn, the transferred sum is placed in an Investors Retirement Account or other tax-sheltered vehicle.

COST: No actuarial cost.

4. Purchase of Additional Benefits by Certain Judges (H.B. 2926). Recommend that on and after July 1, 1994, a judge, who first became a member of the Judges System after attaining age 60, could purchase service credit by making a lump-sum payment equal to the present value of benefits being purchased. The members' credited service and purchased service could not exceed 15 years.

COST: No actuarial cost.

5. Qualified Domestic Relations Orders (QDROs). Provide that benefits of members of the Judge's Retirement System shall be subject to decrees for child support or maintenance and qualified domestic relations orders for agreed to property division. Currently, such member's benefits are exempt from all such court orders.

COST: No actuarial cost.

REGENTS

1. Regents Institutions Phased-Retirement Programs (H.B. 2982). The Subcommittee recommends the establishment of the Phased-Retirement Program for Regents institutions and elimination of the current Reduced Service Program. The Phased-Retirement Program would permit Regents institutions to provide full-time health insurance benefits and retirement contributions to certain unclassified employees who agree to accept a reduced appointment of at least one-quarter time. The unclassified employees would have to meet the Board of Regents' criteria for minimum age and service requirements. Unclassified health care workers would not be eligible to participate. The current Reduced Service Program extends this benefit only to faculty members between the ages of 60 and 65. Under the Phased-Retirement Program the minimum age for participation would be lowered to age 55.

2. County Extension Agents to Receive Retirement Annuities Purchased by the Board of Regents (H. B. 2853). The Subcommittee recommends that county extension agents employed by Kansas State University would be eligible for assistance by the Board of Regents and covered under TIAA/CREF for retirement purposes. Presently, these extension agents are covered under KPERS. Members contribute 4.0 percent of their compensation under KPERS and in FY 1995 the state's contribution rate is 3.2 percent. Under TIAA/CREF, the member contributes 5.5 percent and the state 8.5 percent. KPERS has been advised there are 97 individuals who would be affected by this change in retirement systems.

COST: FY 1995 cost is $139,437 (State General Fund).

SWAM
March 28, 1994
Attachment 2

SAMPLE SERVICE PURCHASES

Employer	Type	Retirement Date	Annual Rate	Final Average Salary	Final Average Salary without purchase salary	Benefit	Benefit Without Purchase	Difference	Percentage Increase
State	DOUBLE	9/1/93	$29,544.00	$41,180.18	$37,909.25	$2,076.16	$1,911.25	$164.91	9%
State	DOUBLE	12/1/93	35,051.00	40,385.25	36,734.63	1,623.82	1,361.84	261.98	19%
State	TRIPLE	9/1/93	33,540.00	37,386.63	33,676.50	1,581.15	1,435.33	145.82	10%
State	TRIPLE	9/1/93	28,144.00	31,639.63	27,308.13	1,015.10	876.13	138.97	16%
State	DOUBLE	12/1/93	30,473.00	35,619.75	33,126.06	1,662.27	1,545.89	116.38	8%
State	DOUBLE	9/1/93	34,346.00	40,865.88	37,456.44	2,256.13	2,067.91	188.22	9%
Local	DOUBLE	7/1/93		32,300.75	29,143.50	1,271.84	1,147.52	124.32	11%
Local	TRIPLE	7/1/93	39,296.00	42,731.50	38,362.44	1,246.33	1,118.90	127.43	11%
Local	DOUBLE	7/1/93		36,339.50	33,228.56	1,695.84	1,550.67	145.17	9%
Local	DOUBLE	7/1/93		41,277.31	39,871.32	1,745.68	1,686.23	59.45	4%
Local	TRIPLE	7/1/93		39,553.58	37,247.08	1,788.16	1,683.87	104.29	6%
Local	TRIPLE	1/1/94	28,679.11	30,658.69	28,338.44	983.64	909.19	74.45	8%
School	DOUBLE	7/1/93	40,673.65	40,320.17	39,129.42	1,705.20	1,654.84	50.36	3%
School	DOUBLE	8/1/93	38,374.04	37,223.50	35,636.92	1,636.28	1,566.55	69.73	4%
School	TRIPLE	7/1/93	42,223.75	40,747.50	38,488.25	1,578.96	1,491.41	87.55	6%
School	DOUBLE	9/1/93	38,531.92	39,182.33	37,252.17	1,714.22	1,629.78	84.44	5%
School	TRIPLE	8/1/93	70,406.86	78,900.25	67,700.33	3,895.69	3,342.72	552.97	17%
School	TRIPLE	9/1/93	38,587.88	41,516.68	38,356.67	1,885.55	1,742.03	143.52	8%