



KANSAS

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Testimony on HB 2460 to the
House Committee on Pensions and Benefits
January 25, 2012

Chairman Holmes and Members of the Committee:

Thank you for the opportunity to appear today and provide testimony in support of HB 2460.

At the request of the Kansas Public Employee Retirement System (KPERS), the Joint Committee on Pensions, Investments, and Benefits introduced HB 2460, relating to the affiliation of public employers with KPERS. HB 2460 contains the following technical amendments that provide a less costly option for employers considering affiliation with KPERS and ensure that new employers pay the same employer contribution rate during their first year of affiliation.

“Future Service Only” Affiliation Option: Amends K.S.A. 74-4910 to permit public employers to affiliate with KPERS for future service only. The Retirement Act allows KP&F employers to affiliate for either “prior service and future service,” or for “future service only.” K.S.A. 74-4910 does not provide such an election to employers who affiliate with KPERS. Instead, they must affiliate for both prior and future service. As a result, they begin their KPERS affiliation with an actuarial liability for their employees’ prior service, which must be amortized on a flat dollar basis. Depending upon the demographic characteristics of their workforce (including the number of employees and their ages and years of service at the time of affiliation), this prior service actuarial liability may be significant relative to the employer’s capability to fund retirement benefits and may pose a deterrent to affiliation. HB 2460 would provide KPERS employers with the option of affiliating for future service only. Employers choosing this option would not assume prior service liabilities or the obligation to amortize that liability, thereby offering a less costly option for affiliation.

First-Year Employer Contribution Rate: Amends K.S.A. 74-4920 by deleting a provision that sets out a fixed, 7.0% contribution rate for first-year employers. The System’s actuary did not think there was any need for there to be a different employer contribution rate for the first year an employer is affiliated; the employer will be paying off any actuarial liability for prior service on a flat dollar amortization schedule. In addition, while the first-year rate of 7.0% historically has been higher than the statutory rate, it will actually be lower than the statutory rate beginning in CY 2012. For CY 2012, the statutory employer contribution rate for local units of government is 7.34%, with 0.6% increases anticipated each year through CY 2014. By deleting

the 7.0% rate for first-year employers, these new employers will be paying the full contribution rate required of other local government employers.

In addition to requesting favorable consideration of HB 2460 as introduced, I would also request your approval of several additional, technical provisions. Subsequent to KPERS' request to the Joint Committee for introduction of this legislation, KPERS received a series of proposed technical amendments from its tax counsel, Ice Miller LLP, related to changes in federal laws. Ice Miller has recommended additional legislation to bring the Retirement System in compliance with several post-EGTRAA (Economic Growth and Tax Relief Reconciliation Act of 2001) amendments. Federal law requires the Retirement Act's IRS guidepost section at K.S.A. 74-49,123 to be updated to reflect amendments to the Pension Protection Act of 2006 ("PPA"), Final 415 Regulations, the Heroes Earnings Assistance and Tax Relief Act of 2008 ("HEART"), and the Worker, Retiree, and Employee Recovery Act of 2008 ("WRERA"). The following amendments have been identified as necessary.

1. An amendment to the Required Minimum Distributions (401(a)(9)) provisions under K.S.A. 74-49,123(c)(3) to add reference to "good faith interpretation" in accordance with new regulations.
2. Amendments to K.S.A. 74-49,123(c)(10) to update for HEART.
3. An amendment to clarify the definition of "eligible rollover distribution" under K.S.A. 74-49,123(c)(7)(D)(i).
4. Amendments to K.S.A. 74-49,123(g)(4) to update the 415 provisions.

These amendments are essential to KPERS obtaining an IRS Determination Letter confirming the Plan's compliance with the Internal Revenue Code.

Thank you for your thoughtful consideration of HB 2460 and our request for addition of the EGTRRA provisions. I would be glad to respond to any questions you may have.

Elizabeth B. A. Miller, CFA
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