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Kansas Legislator Briefing Book 2014

Retirement

S-3 Kansas Defined Contribution Retirement Plans

In addition to the Kansas Public Employees Retirement System (KPERS) and the three defined benefit plans its Board of Trustees administers for public employees, the State of Kansas also provides three other defined contribution pension plans for certain state employees designated by statute as eligible for membership in such programs.

Defined contribution plans, however, sharply differ from defined benefit plans and are more like retirement savings accounts. Generally, the employee and the employer make contributions into the individual member's account that is self-directed for investment purposes. The employee bears all of the investment risk during the period of employment, and the final annuity at retirement will be the result of the contributions plus earnings (and losses) over time. There is no obligation on the part of the employer or state to fund a retirement benefit at a particular level of pay for retirees under a defined contribution plan.

Three defined contribution plans authorized by statute have been implemented, with all three having active members. Enabling legislation is found for each plan separately in three statutory sections: KSA 74-4925; 74-49b01 *et seq.*; and 74-4911f.

Regents' plan (KSA 74-4925). This program was authorized in 1961 for the State Board of Regents to assist faculty and administrators, who are in the unclassified service, by providing a retirement plan under Internal Revenue Code (IRC) section 403(b). The plan generally is referred to as the Regents Mandatory Retirement Plan. Originally, the Regents contributed 5.0 percent of salary and the eligible unclassified staff (typically faculty and administrators) contributed 5.0 percent of salary to an individual retirement account offered by the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF). Members became vested immediately and the account, including the employer contributions, was portable (could be moved if the person took another similar position whether in-state or out-of-state at another institution or eligible post-secondary employer). During the 1980s, the Legislature increased the contribution rates to 8.5 percent for the employer and 5.5 percent for the employee.

The Regents have adjusted the number of vendors offering investment accounts to unclassified members who are eligible to participate. Today, in addition to original vendor, TIAA-CREF, the ING Financial Advisors also provides accounts for Regents faculty and administrators.

Previously, the Security Benefit Group of Topeka had a contract with the Regents, but that contract was discontinued.

The Regents retirement program is an individual savings account plan with assets under the control of the member. Investments are self-directed, and there is no guaranteed pension after retirement. All eligible faculty and administrators are required to participate after the first year of employment at a Regents institution, but under some conditions new employees, if they had prior membership in a similar retirement plan, might be able to participate in their first year of employment at a Regents institution. Regents employees also may participate in the state's voluntary deferred compensation plan described subsequently in the next section.

Other state plans (KSA 74-49b01, *et seq.*, and 74-4911f). One program is authorized under IRC section 457(b) and established by statute. In 1976, the Legislature enacted a voluntary deferred compensation program for state employees. The Director of Personnel Services, subject to approval by the Secretary of Administration, was authorized to establish a tax-deferred employee savings plan. Local units of government also were allowed to participate in the deferred compensation program beginning in 1982. The state originally contracted with Aetna Investment Services to provide a self-funded program for state employee accounts since the statute required the participating members to pay all of the operating costs to administer the plan. Because the state deferred compensation plan offered a voluntary savings account, employees had to sign up to become contributing members.

Until 2001, there was no provision for a match by the employer to encourage more state employee participation in the program. Despite enabling legislation passed in 2001 and the provision currently in statute that would allow a matching employer contribution, the implementation of this matching provision has not taken place.

The contract with the original service provider, Aetna Investment Services, evolved into the current contract with ING Financial Advisors, the firm which acquired the Aetna U.S. operations. In 2008, the program supervision was transferred from the Director of Personnel Services to the KPERS Board of Trustees to administer the plan.

In 1988, the Legislature established a second deferred compensation program under Section 401(a) of the IRS Code for certain state officers who are designated in statute and for whom the state contributes 8.0 percent of salary to the individual's self-directed savings account. This selective program was superimposed on the existing deferred compensation program to utilize the contract with the service provider for the other existing voluntary state deferred compensation plan. However, under this 1988 plan, the state makes an employer contribution, while no employee matching contribution is required. The Legislature gradually expanded membership in this plan to include more positions in state government, including legislative session-only employees in 1996 as the largest group. Eligible state officers and employees include many appointed members of the executive branch, the Governor and Lieutenant Governor's staff, unclassified staff in the House and Senate leadership offices, and Session-only legislative staff. Many members of this plan, if full-time employees, initially are offered membership in KPERS if eligible, but if they declined to join KPERS, then they may elect membership in this plan. Some legislators may be members of this plan. They are eligible to join if they are retired from KPERS, and become eligible for membership in this plan if they are members of the Legislature.

Summary of plan characteristics. Since 1961, some Kansas state government employees, originally at Regents institutions, and later at other state agencies, have been able to participate in defined contribution programs, often referred to as deferred compensation plans. Three current plans have active members.

The Regents' plan includes mandatory employer assistance (8.5 percent) and employee contributions (5.5 percent); the regular deferred compensation plan allows state employees to make voluntary contributions (subject to federal limitations) and has authorizing language for an employer match that has not been implemented;

and the selective deferred compensation plan has statutory language as to who may participate and receive employer assistance (8.0 percent). The Regents plan investments are managed in individual accounts and serviced by two different contractors. No aggregate data are available for these individually directed investments, unlike the state deferred compensation plan which is a unit trust and with reportable participation as well as investment information.

The voluntary and selective deferred compensation plans as of June 30, 2013, included 15,183 members who were state officers and employees from state agencies and Regents institutions. The number of actively participating state officers and employees totaled 7,794 who were either making voluntary contributions or having the state provide assistance in the form of employer contributions on their behalf, if a member were eligible for such assistance payments. Assets for state officers and employees in the unit trust administered by ING Financial Advisors were valued at $606.3 million as of June 30, 2010. No break-down on the number of voluntary and selective members was provided in the annual report from which the above data were derived.

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