

## HOUSE BILL No. 2288

By Committee on Pensions and Benefits

2-10

---

1 AN ACT concerning retirement and pensions; relating to the Kansas police  
2 and firemen's retirement system; enacting the Kansas deferred  
3 retirement option program act; providing terms, conditions,  
4 requirements, benefits and contributions related thereto; relating to  
5 member election; eligible employer affiliation; interest credits; account  
6 distribution.

7

8 *Be it enacted by the Legislature of the State of Kansas:*

9 Section 1. (a) The provisions of sections 1 through 8, and  
10 amendments thereto, shall be known and may be cited as the Kansas  
11 deferred retirement option program act.

12 (b) The provisions of this act shall be part of and supplemental to the  
13 provisions of K.S.A. 74-4901 et seq., and amendments thereto, subject to  
14 the limitations contained in this act.

15 Sec. 2. (a) As used in this act, unless otherwise provided or the  
16 context otherwise requires:

17 (1) "Act" means the Kansas deferred retirement option program act;

18 (2) "board" means the board of trustees of the Kansas public  
19 employees retirement system;

20 (3) "DROP" means the deferred retirement option program  
21 established by section 3, and amendments thereto;

22 (4) "DROP account" means the notional account to which is credited  
23 the monthly DROP accrual;

24 (5) "DROP period" means the period of time that a member  
25 irrevocably elects to participate in the DROP pursuant to section 5, and  
26 amendments thereto;

27 (6) "member" means a member in the Kansas police and firemen's  
28 retirement system who is eligible to participate in the DROP and who  
29 elects to participate in the DROP as provided in this act and who is: (A)  
30 Employed by the state of Kansas; or (B) employed by a participating  
31 employer other than the state of Kansas that affiliates with the DROP  
32 pursuant to section 4, and amendments thereto;

33 (7) "monthly DROP accrual" means the amount equal to the monthly  
34 retirement benefit that would have been payable to the member had the  
35 member terminated service and retired on the day the member elected; and

36 (8) "system" means the Kansas police and firemen's retirement

1 system.

2 (b) Unless specifically provided in this section or in this act, words  
3 and phrases used in this act shall have the meanings ascribed to them as  
4 provided under the provisions of K.S.A. 74-4901 et seq. and K.S.A. 74-  
5 4951 et seq., and amendments thereto.

6 Sec. 3. (a) The board shall establish within the Kansas police and  
7 firemen's retirement system a deferred retirement option program for  
8 members. The board shall administer the DROP in compliance with the  
9 federal internal revenue code and applicable treasury regulations,  
10 including, but not limited to, the incidental benefit and required minimum  
11 distribution requirements of section 401(a)(9) of the federal internal  
12 revenue code.

13 (b) The board shall establish a DROP account for each member. Each  
14 DROP account shall be credited annually with interest, as determined by  
15 the board in consultation with the actuary, in the range of 0% to 7%.  
16 Interest may only be credited in a year in which the actual rate of return on  
17 the market value on the investments of the DROP reach the system's  
18 assumed investment rate of return and such interest credit may not exceed  
19 50% of the actual rate of return.

20 Sec. 4. (a) Any eligible employer, as defined by K.S.A. 74-4952, and  
21 amendments thereto, may affiliate with the DROP established under this  
22 act. All such eligible employers shall make application for affiliation with  
23 the DROP in the manner provided by K.S.A. 74-4954, and amendments  
24 thereto, to be effective on the January 1 next following application.

25 (b) Each participating employer affiliating pursuant to the provisions  
26 of subsection (a) shall appropriate and pay to the system a sum sufficient  
27 to satisfy the obligations hereunder as certified by the board.

28 Sec. 5. (a) (1) A member who is appointed or employed prior to July  
29 1, 1989, and who did not make an election pursuant to K.S.A. 74-4955a,  
30 and amendments thereto, may elect to participate in the DROP by making  
31 application in such form prescribed by the system at the attainment of age  
32 55 and the completion of 20 years of credited service or at the completion  
33 of 32 years of credited service regardless of the age of such member.

34 (2) A member who is appointed or employed on or after July 1, 1989,  
35 or who made an election pursuant to K.S.A. 74-4955a, and amendments  
36 thereto, may elect to participate in DROP by making application in such  
37 form prescribed by the system at the attainment of age 55 and the  
38 completion of 20 years of credited service, age 50 and the completion of  
39 25 years of credited service or age 60 with the completion of 15 years of  
40 credited service.

41 (b) A member shall indicate on the application the DROP period such  
42 member wishes to participate in the DROP. A member may elect to  
43 participate in the DROP for a minimum of three years and may not

1 participate for more than five years from the effective date of the election  
2 to participate in the DROP. A member may participate in the DROP only  
3 once. An election under this section is a one-time irrevocable election.  
4 Once the application is accepted by the system, such member becomes a  
5 DROP participant. If a member fails to participate in DROP for a  
6 minimum of three years, all of the member's interest credits shall be  
7 forfeited, unless such member retires due to disability as defined in K.S.A.  
8 74-4952, and amendments thereto. A member who remains in active  
9 service at the expiration of the member's elected DROP period shall not be  
10 eligible for any additional interest credits.

11 (c) A member who makes an election under this section shall continue  
12 in the active service under the Kansas police and firemen's retirement  
13 system but shall not earn service credit under K.S.A. 74-4951 et seq., and  
14 amendments thereto, after the election's effective date. On and after the  
15 effective date of the member's election to participate, such member is  
16 ineligible to purchase service credit under K.S.A. 74-4901 et seq., and  
17 amendments thereto.

18 (d) Participation in the DROP by a member does not guarantee  
19 continued employment. During a member's participation in the DROP,  
20 employer contributions under K.S.A. 74-4967, and amendments thereto,  
21 and member contributions under K.S.A. 74-4965, and amendments  
22 thereto, shall be made to the retirement system. No member or employer  
23 contributions shall be applied to a member's DROP account.

24 Sec. 6. (a) For each DROP member, the board shall calculate a  
25 monthly DROP accrual. The system shall determine the DROP member's  
26 retirement benefit under K.S.A. 74-4958 or 74-4958a, and amendments  
27 thereto. In determining the retirement benefit, the system shall use the  
28 member's total service credit and final average salary as of the last day of  
29 the employer's payroll period immediately prior to the effective date of the  
30 member's election to participate in the DROP. Before entering DROP, a  
31 member may elect to have such member's retirement benefit determined  
32 under one of the options provided in K.S.A. 74-4964 or 74-4964a, and  
33 amendments thereto, in lieu of having it determined in the form stated in  
34 K.S.A. 74-4958 or 74-4958a, and amendments thereto, except such  
35 member may not elect the lump sum payment option. During the DROP  
36 period, an amount equal to the monthly DROP accrual shall be credited to  
37 the member's DROP account. The calculation of the monthly DROP  
38 accrual will be calculated using the member's age and, if the member  
39 elected a joint and survivor option, the age of the beneficiary as of the  
40 calendar year which contains the beginning of the DROP period. The  
41 monthly DROP accrual shall comply with the requirements of section  
42 401(a)(9) of the federal internal revenue code and treasury regulation §  
43 1.401(a)9-6, Q&A-2(c).

1 (b) A member shall not receive a monthly retirement benefit, as  
2 calculated pursuant to K.S.A. 74-4958 or 74-4958a, and amendments  
3 thereto, until termination of such member's DROP participation and  
4 commencement of retirement. A DROP member shall not have any claim  
5 to any funds in such member's DROP account until such member retires at  
6 the termination of such member's DROP participation. Upon terminating  
7 DROP participation, a member is entitled to such member's retirement  
8 benefit, including any postretirement benefit adjustment for which the  
9 member is eligible.

10 Sec. 7. (a) A member's participation in the DROP ceases on the  
11 occurrence of the earliest of the following:

12 (1) Termination of the member's active service with a participating  
13 employer;

14 (2) the last day of the member's elected DROP period that begins on  
15 the effective date of the member's election to participate in the DROP;

16 (3) retirement due to disability as defined in K.S.A. 74-4952, and  
17 amendments thereto; or

18 (4) the member's death.

19 (b) If a member dies before taking a distribution from such member's  
20 DROP account, the member's designated beneficiary shall receive a lump-  
21 sum payment equal to the member's DROP account balance. If the DROP  
22 member has not named a beneficiary for such member's DROP account,  
23 the amount in the DROP account shall be paid to the beneficiary of the  
24 member's retirement benefit.

25 Sec. 8. (a) A member, who satisfies the requirements of this act, shall  
26 be entitled to a distribution of such member's DROP account. Such  
27 distribution may be through any combination of the following payout  
28 options, each of which is subject to the applicable provisions of the federal  
29 internal revenue code and the applicable regulations of the internal  
30 revenue service:

31 (1) A direct rollover to an eligible retirement plan; or

32 (2) a lump-sum distribution.

33 (b) The board may specify minimum account balances for purposes  
34 of allowing benefit payment options and rollovers in accordance with  
35 federal law.

36 Sec. 9. This act shall take effect and be in force from and after  
37 January 1, 2016, and its publication in the statute book.