

AN ACT relating to retiree beneficiary payments in the Kentucky Retirement Systems.

Be it enacted by the General Assembly of the Commonwealth of Kentucky:

➔Section 1. KRS 61.542 is amended to read as follows:

- (1) Prior to the first day of the month in which the member receives his or her first retirement allowance and prior to the member filing a notification of retirement or a request for refund:
 - (a) Each member may designate on the form prescribed by the board a principal beneficiary and contingent beneficiary for his or her account. The principal beneficiary or contingent beneficiary designated by the member shall be:
 1. One (1) or more persons; or
 2. The member's estate; or
 3. A trust;
 - (b) If multiple persons are designated as provided by paragraph (a)1. of this subsection, the member shall indicate the percentage of total benefits each person is to receive.
 1. If percentages are not indicated, payments will be disbursed equally to the named beneficiaries.
 2. If the percentages indicated do not total one hundred percent (100%), each beneficiary shall receive an increased or decreased percentage which is proportional to the percentage allotted him or her by the member.
 3. If any of the multiple beneficiaries die prior to the member's death, the remaining beneficiaries shall be entitled to the deceased beneficiary's percentage of the total benefits, and each shall receive a percentage of the deceased's share which is equal to the percentage allotted them by the member; and

- (c) The principal and contingent beneficiary designation established by the member pursuant to paragraph (a) of this subsection shall remain in full force and effect until changed by the member, except:
1. A final divorce decree terminates an ex-spouse's status as beneficiary, unless the member has on file in the retirement office a beneficiary designation that redesignates the ex-spouse as beneficiary subsequent to the issuance of the divorce decree;
 2. If a beneficiary or beneficiaries are convicted of any crime which prohibits that person or persons from receiving the benefits under KRS 381.280, the beneficiary or beneficiaries shall not be eligible for any of the benefits and the remaining beneficiary or beneficiaries or, if none, the member's estate, shall become the beneficiary;
 3. When a notification of retirement has been filed at the retirement office, the designation of beneficiary on the notification of retirement, which shall be at least one (1) but not more than (4) persons~~[person]~~, his estate, or a trust, shall supersede the designation of all previous beneficiaries, unless the notification of retirement is withdrawn, invalid, or voided. If the notification of retirement is withdrawn, invalid, or voided, the prior beneficiary designation on file with the system shall remain in full force and effect until changed by the member; and
 4. When a request for refund has been filed at the retirement office, the member's estate shall become the member's beneficiary if the member dies.
- (2) If the member dies prior to the first day of the month in which the member would have received his or her first retirement allowance and prior to filing a notification of retirement or a request for refund, any retirement benefits shall be payable to the principal beneficiary, except that:

- (a) If the death of the principal beneficiary or beneficiaries precedes the death of the member, or if the principal beneficiary is terminated by a divorce decree, the contingent beneficiary or beneficiaries become the principal beneficiary or beneficiaries;
 - (b) If the principal beneficiary is one (1) person and is the member's spouse and they are divorced on the date of the member's death, the contingent beneficiary or beneficiaries become the principal beneficiary or beneficiaries;
 - (c) If the member is survived by his or her principal beneficiary or beneficiaries who subsequently die prior to having on file at the retirement office the necessary forms prescribed under authority of KRS 61.590, the contingent beneficiary shall become the principal beneficiary or beneficiaries; and
 - (d) If the deaths of all the principal beneficiaries and all of the contingent beneficiaries precede the death of the member, the estate of the member becomes the beneficiary.
- (3) Prior to the first day of the month in which the member would have received his or her first retirement allowance, a monthly benefit payable for life shall not be offered if the beneficiary designated under subsection (1) of this section is ~~more than one~~ ~~(1) person,~~ the member's estate~~, or a trust~~.
- (4) When a notification of retirement has been filed at the retirement office:
- (a) The designation of beneficiary on the notification of retirement shall supersede the designation of all previous beneficiaries;
 - (b) The beneficiary designated by the member on the member's notification of retirement shall be at least one (1) but not more than (4) persons ~~person~~, the member's estate, or a trust; and
 - (c) If the death of the beneficiary named on the notification of retirement precedes the first day of the month in which the member receives his or her first retirement allowance, the member may designate another beneficiary on the

member's notification of retirement.

(5) After the first day of the month in which the member receives his or her first retirement allowance and subsequent thereto, a member shall not have the right to change his **or her** beneficiary, except that:

(a) The estate of the retired member becomes the beneficiary if the date of death of the beneficiary precedes or coincides with the date of death of the retired member, **provided the retired member has not made an election pursuant to paragraph (d) of this subsection;**

(b) The estate of the retired member becomes the beneficiary if the retired member had designated a person as beneficiary who was the spouse ~~for who later married the member~~ and they were divorced on the date of the retired member's death, **provided the retired member has not made an election pursuant to paragraph (d) of this subsection;** ~~[- An ex-spouse who was the named beneficiary on the member's notification of retirement shall be reinstated as the member's beneficiary for the payment options provided by KRS 61.635(2), (3), (4), and (8)(b) if they are remarried to each other as of the date of the retired member's death; and]~~

(c) The estate of the member shall not receive monthly payments if the member selected one (1) of the payment options provided by KRS 61.635(2), (3), (4), and (8)(b); **and**

(d) If the death of the beneficiary named at retirement precedes the death of the retired member, or if the retired member marries or remarries after retirement, the member may elect to change his or her beneficiary designation and have his or her retirement allowance recalculated to reflect the change in beneficiary designation, provided the election is filed on a form prescribed by the systems within ninety (90) days of the date of the beneficiary's death or the member's marriage or remarriage. The retirement

allowance recalculated pursuant to this paragraph shall be actuarially equivalent to the retirement allowance that the retired member was receiving prior to the change in beneficiary designation. A member making an election under this paragraph shall not be eligible to change the payment option that he or she had elected to receive at the time of retirement. This paragraph shall not apply if at the time of retirement, the retired member:

1. Designated a trust as beneficiary; or
2. Selected the option payable under subsection (2)(b) of Section 2 of this Act, except in the case of marriage or remarriage.

➔Section 2. KRS 61.635 is amended to read as follows:

- (1) Each member shall have the right to elect to have his or her retirement allowance payable under any one (1) of the options set forth in this section in lieu of the retirement allowance otherwise payable to him or her upon retirement under any of the provisions of KRS 16.505 to 16.652, 61.510 to 61.705, and 78.510 to 78.852. The amount of any optional retirement allowance shall be actuarially equivalent to the amount of retirement allowance otherwise payable to him or her.

- (2) Survivorship one hundred percent (100%).

(a) Single beneficiary. The member may elect to receive a decreased retirement allowance during his or her lifetime and have the retirement allowance continued after the member's~~his~~ death to his or her beneficiary during the lifetime of the person.

(b) Multiple beneficiaries. The member may elect to receive a decreased retirement allowance during his or her lifetime and have the retirement allowance continue after his or her death to his or her beneficiaries during the lifetime of each person designated as a beneficiary, based upon the applicable percentage of the member's retirement allowance that the member assigns to each beneficiary prior to retirement.

- (3) Survivorship sixty-six and two-thirds percent (66-2/3%). The member may elect to receive a decreased retirement allowance during his or her lifetime and have two-thirds (2/3) of the retirement allowance continue after the member's~~[his]~~ death to his or her beneficiary during the lifetime of the person.
- (4) Survivorship fifty percent (50%). The member may elect to receive a decreased retirement allowance during his or her lifetime and have one-half (1/2) of the retirement allowance continued after the member's~~[his]~~ death to his or her beneficiary during the lifetime of the person.
- (5) Life with ten (10) years certain. The member less than age seventy-six (76) may elect to receive a monthly retirement allowance during his or her lifetime which shall guarantee payments for one hundred twenty (120) months. If the member dies before receiving payments for one hundred twenty (120) months, his or her beneficiary shall receive the remaining payments monthly, for the duration of the one hundred twenty (120) months' period. However, if the trust is designated as beneficiary, the trustee of the trust may elect to receive a lump-sum payment which shall be the actuarial equivalent to the remaining payments, or the trustee may elect to continue the remaining monthly payments to the trust of the member. If the estate is designated as beneficiary, the estate shall receive a lump-sum payment which shall be the actuarial equivalent to the remaining payments.
- (6) Life with fifteen (15) years certain. The member less than age sixty-eight (68) may elect to receive a monthly retirement allowance during his or her lifetime which shall guarantee payments for one hundred and eighty (180) months. If the member dies before receiving payments for one hundred and eighty (180) months, his or her beneficiary shall receive the remaining payments monthly for the duration of the one hundred and eighty (180) months' period. However, if the trust is designated as beneficiary, the trustee of the trust may elect to receive a lump-sum payment which shall be the actuarial equivalent to the remaining payments, or the trustee may elect

to continue the remaining payments to the trust of the member. If the estate is designated as beneficiary, the estate shall receive a lump-sum payment which shall be the actuarial equivalent to the remaining payments.

- (7) Life with twenty (20) years certain. The member less than age sixty-two (62) may elect to receive a monthly retirement allowance during his or her lifetime which shall guarantee payments for two hundred and forty (240) months. If the member dies before receiving payments for two hundred and forty (240) months, his or her beneficiary shall receive the remaining payments for the duration of the two hundred and forty (240) months period. However, if the trust is beneficiary, the trustee of the trust may elect to receive a lump-sum payment which shall be the actuarial equivalent to the remaining payments, or the trustee may elect to continue the remaining payments to the trust of the member. If the estate is designated as beneficiary, the estate shall receive a lump-sum payment which shall be the actuarial equivalent to the remaining payments.
- (8) Social Security adjustment options. These options shall be available to any member who has not attained age sixty-two (62) as follows:
- (a) No survivor rights. The member may elect to receive an increased retirement allowance from his or her effective retirement date through the month he or she attains age sixty-two (62) at which time his or her retirement allowance shall be decreased for the remainder of his or her lifetime;
- (b) Survivor rights. The member may elect to receive an increased retirement allowance from his or her effective retirement date through the month he or she attains age sixty-two (62) based on the option payable under subsection (2) of this section, if the retirement allowance shall be decreased in the month following the month he or she attains age sixty-two (62), or the month following the month he or she would have attained age sixty-two (62), in event of his death, and have the retirement allowance continue after his or her

death to his or her beneficiary during the lifetime of the person.

- (9) Beneficiary Social Security adjustment option. This option is available to the beneficiary of a deceased member if the beneficiary, who is a person, has not attained age sixty (60), and is eligible to receive Social Security payments at age sixty (60). The beneficiary may elect to receive during his or her lifetime an increased retirement allowance based on the beneficiary's~~[his]~~ annual benefit payable for life. The payment shall begin on his or her effective retirement date and continue through the month he or she attains age sixty (60) at which time his or her retirement allowance shall be decreased for the remainder of his or her lifetime.
- (10) Pop-up option. The member may elect to receive a decreased retirement allowance during his or her lifetime and have the retirement allowance continued after his or her death to his or her beneficiary during the lifetime of the person. If the beneficiary dies prior to the member, or if the beneficiary is the member's spouse and they divorce, the member's retirement allowance shall increase to the amount that would have been payable as a single life annuity.
- (11) Actuarial equivalent refund. A member who began participating in the system prior to January 1, 2014, may elect to receive a one (1) time lump-sum payment which shall be the actuarial equivalent of the amount payable for a period of sixty (60) months under KRS 61.595 (1).
- (12) Partial lump-sum option.
- (a) No survivor rights. A member retiring on or before January 1, 2009, may elect to receive a one-time lump-sum payment equal to twelve (12), twenty-four (24), or thirty-six (36) monthly retirement allowances payable under the applicable retirement formula for the system and receive a reduced monthly retirement allowance payable for his or her lifetime. The lump-sum payment shall be paid in the month the first monthly retirement allowance is payable.
- (b) Survivor rights. A member retiring on or before January 1, 2009, may elect to

receive a one-time lump-sum payment equal to twelve (12), twenty-four (24), or thirty-six (36) monthly retirement allowances payable under subsection (2) of this section and receive a reduced monthly retirement allowance payable for his or her lifetime. The lump-sum payment shall be paid in the month the first monthly retirement allowance is payable. The reduced retirement allowance shall be continued after the member's death to his or her beneficiary during the lifetime of the person.

- (13) The other provisions of this section notwithstanding, the beneficiary of a retired member of the General Assembly shall, after the member's death, receive sixty-six and two-thirds percent (66-2/3%) of the member's retirement allowance during his or her lifetime if the member of the General Assembly began participating in the system prior to January 1, 2014, and has elected this option and has made contributions in accordance with subsection (14) of this section and of KRS 61.560. The retirement allowance of the retired member of the General Assembly shall not be actuarially reduced to provide for this survivor benefit.
- (14) A member of the General Assembly who began participating in the system prior to January 1, 2014, who wishes to obtain the survivorship option specified in subsection (13) of this section shall so notify the Kentucky retirement systems:
- (a) Within thirty (30) days after first becoming a member of the General Assembly if he or she is not a member of the General Assembly on July 15, 1980; or
 - (b) Within thirty (30) days after July 15, 1980, if he or she is a member of the General Assembly on July 15, 1980.
- (15) The system shall forward to members of the General Assembly a form on which a member who began participating in the system prior to January 1, 2014, may elect the option provided for in subsections (13) and (14) of this section.
- (16) The options described in subsections (2)(a), (3), (4), (8)(b), (10), (12)(b), and (13)

of this section shall be extended to the member only if the designated beneficiary is one (1)[a] person or a trust naming one (1) person. In the case of a trust naming one (1) person, the age of the one (1) beneficiary of the trust shall be utilized in determining the applicable payment, and payments shall be made to the trust until the date of death of the one (1) beneficiary of the trust named by the retired member at the time of retirement.

(17) The option described in subsection (2)(b) of this section shall be extended to the member only if the designated beneficiaries are two (2) to four (4) persons or a trust naming two (2) to four (4) persons as beneficiaries. The age of the beneficiaries of the trust shall be utilized in determining the applicable payments payable under subsection (2)(b) of this section, and payments shall be made to the trust on behalf of each trust beneficiary named at the time of the member's retirement until the date of death of the individual trust beneficiary.

➔Section 3. KRS 61.630 is amended to read as follows:

- (1) If a retired member who did not elect an optional retirement plan dies at any time on or after the first day of the month in which the member received or would have received his or her first retirement allowance but before receiving total retirement allowances provided in KRS 16.510 to 16.652, KRS 61.515 to 61.705, and KRS 78.520 to 78.852 at least equal to his or her accumulated contributions as of the date of his or her retirement, the difference between the accumulated contributions and the total allowances shall be payable in a lump sum to the properly designated beneficiary. If a living person designated as the beneficiary predeceases the retired member, the estate shall become the beneficiary, except as provided by subsection (5)(d) of Section 1 of this Act. If a spouse designated as the beneficiary is divorced from the retired member as of the member's death, the estate shall become the beneficiary.
- (2) If a retired member who elected an optional retirement plan and his or her

beneficiary both die at any time on or after the first day of the month in which the member received or would have received his or her first retirement allowance but before receiving total retirement allowances provided in KRS 16.510 to 16.652, KRS 61.515 to 61.705, and KRS 78.520 to 78.852 at least equal to the retired member's accumulated contributions as of the date of his or her retirement, the difference between the accumulated contributions and the total allowances shall be payable in a lump sum to the estate of the last deceased, except that the retired member's estate shall receive the payment if the beneficiary was the spouse and they were divorced as of the date of the member's death. If the retired member and beneficiary die simultaneously, the estate of the retired member shall become the beneficiary.

- (3) If a beneficiary receiving a lifetime retirement allowance under KRS 16.578 or 61.640 dies before receiving total retirement allowances provided in KRS 16.510 to 16.652, KRS 61.515 to 61.705, and KRS 78.520 to 78.852 at least equal to the member's accumulated contributions as of the date of the member's death, the difference between the accumulated contributions and the total allowances shall be payable in a lump sum to the estate of the beneficiary.
- (4) If a beneficiary receiving a retirement allowance for sixty (60) or one hundred twenty (120) months certain under KRS 16.576, 16.578, or 61.640, or a beneficiary receiving a retirement allowance under KRS 61.635(5), (6), or (7), dies before receiving all payments under the plan, the executor or administrator of his or her estate shall receive a lump sum payment which shall be the actuarial equivalent to the remaining payments.
- (5) If the system is unable to verify a recipient's whereabouts or whether the recipient is living, the system shall suspend the recipient's retirement allowance. If the recipient is located, the system shall restore to the recipient all suspended retirement allowances.

➔Section 4. KRS 61.640 is amended to read as follows:

- (1) If a member dies prior to the first day of the month in which the member would have received his or her first retirement allowance, the member's beneficiary shall be eligible for the benefits provided by this section if the member had on file a written designation of a beneficiary with the retirement office as provided by KRS 61.542 and the member met the following conditions at the date of his or her death:
 - (a) The member was eligible to retire under KRS 61.559(2) or (3) or 61.597(6)(a) or (b);
 - (b) The member was in active employment or on authorized leave of absence with five (5) or more years of service credit and died prior to his or her normal retirement date or was normal retirement age or older and had at least four (4) years of service credit; or
 - (c) The member was not in active employment or on authorized leave of absence with twelve (12) or more years of service credit and died prior to his or her normal retirement date.
- (2) If the beneficiary eligible for benefits as provided in subsection (1) of this section is a single person, then the beneficiary may elect to receive:
 - (a) A monthly benefit payable for the life of the beneficiary that is equal to the benefit that would have been paid had the member retired immediately prior to his or her date of death and elected to receive benefits payable under the survivorship one hundred percent (100%) option as provided in KRS 61.635(2)(a);
 - (b) A monthly benefit payable for the life of the beneficiary under the beneficiary Social Security adjustment option as provided in KRS 61.635(9) that is the actuarial equivalent to the amount computed under paragraph (a) of this subsection;
 - (c) A monthly benefit payable for a period of sixty (60) months that is the

- actuarial equivalent to the amount computed under paragraph (a) of this subsection;
- (d) A monthly benefit payable for a period of one hundred twenty (120) months that is the actuarial equivalent to the amount computed under paragraph (a) of this subsection;
- (e) If the member began participating in the system prior to January 1, 2014, a monthly benefit payable for a period of one hundred twenty (120) months that is equivalent to the benefit the member would have been entitled to receive based on his or her years of service and final compensation at the date of his or her death reduced by the survivorship fifty percent (50%) factor as provided for in KRS 61.635(4), then reduced by fifty percent (50%), and that is the actuarial equivalent to the amount computed under paragraph (a) of this subsection; or
- (f) The higher of a refund of the member's accumulated account balance as described in KRS 61.625(1) or one (1) time lump-sum payment which shall be the actuarial equivalent of the amount payable under paragraph (a) of this subsection for a period of sixty (60) months.
- (3) If the beneficiary eligible for benefits as provided by subsection (1) of this section are multiple beneficiaries or a trust, then the multiple beneficiaries by consensus or the trustee may elect to receive the actuarial equivalent amounts payable under subsection (2)(c), (d), (e), or (f) of this section using the assumption that the beneficiary's age is the same as the member's age, except that:
- (a) If the trust names only one (1) beneficiary, then the trustee may elect to receive the amount payable under subsection (2)(a) of this section, but the age of the one (1) beneficiary of the trust shall be utilized in determining the applicable payment, and payments shall be made to the trust until the date of death of the beneficiary named in the trust; and

(b) Multiple beneficiaries, if they include two (2) to four (4) specific persons, by consensus may elect to receive a monthly benefit that is equal to the benefit that would have been paid had the member retired immediately prior to his or her date of death and elected to receive benefits payable under the survivorship one hundred percent (100%) option as provided in subsection (2)(b) of Section 2 of this Act.

- (4) If the beneficiary eligible for benefits as provided in subsection (1) of this section is the member's estate, then the beneficiary shall receive the higher of a refund of the member's accumulated account balance as described in KRS 61.625(1) or the one (1) time lump-sum payment payable under subsection (2)(f) of this section, using the assumption that the beneficiary's age is the same as the member's age.
- (5) Payments of taxable distributions made pursuant to this section shall be subject to state and federal income tax as appropriate.

➔Section 5. KRS 16.578 is amended to read as follows:

- (1) If a member dies prior to the first day of the month in which the member would have received his or her first retirement allowance, the member's beneficiary shall be eligible for the benefits provided by this section if the member had on file a written designation of a beneficiary with the retirement office as provided by KRS 61.542 and the member met the following conditions at the date of his or her death:
- (a) The member was eligible to retire under KRS 16.576, 16.577, or 16.583(6);
 - (b) The member was in active employment or on authorized leave of absence with five (5) or more years of service credit and died prior to his or her normal retirement date; or
 - (c) The member was not in active employment or on authorized leave of absence with twelve (12) or more years of service credit and died prior to his or her normal retirement date.
- (2) If the beneficiary eligible for benefits as provided in subsection (1) of this section is

a single person, then the beneficiary may elect to receive:

- (a) A monthly benefit payable for the life of the beneficiary that is equal to the benefit that would have been paid had the member retired immediately prior to his or her date of death and elected to receive benefits payable under the survivorship one hundred percent (100%) option as provided in KRS 61.635(2)(a);
- (b) A monthly benefit payable for the life of the beneficiary under the beneficiary Social Security adjustment option as provided in KRS 61.635(9) that is the actuarial equivalent to the amount computed under paragraph (a) of this subsection;
- (c) A monthly benefit payable for a period of sixty (60) months that is the actuarial equivalent to the amount computed under paragraph (a) of this subsection;
- (d) A monthly benefit payable for a period of one hundred twenty (120) months that is the actuarial equivalent to the amount computed under paragraph (a) of this subsection;
- (e) If the member began participating in the system prior to January 1, 2014, a monthly benefit payable for a period of one hundred twenty (120) months that is equivalent to the benefit the member would have been entitled to receive based on his or her years of service and final compensation at the date of his or her death reduced by the survivorship fifty percent (50%) factor as provided for in KRS 61.635(4), then reduced by fifty percent (50%), and that is the actuarial equivalent to the amount computed under paragraph (a) of this subsection; or
- (f) The higher of a refund of the member's accumulated account balance and interest as described in KRS 61.625(1) or a one (1) time lump-sum payment which shall be the actuarial equivalent of the amount payable under paragraph

- (a) of this subsection for a period of sixty (60) months.
- (3) If the beneficiary eligible for benefits as provided in subsection (1) of this section are multiple beneficiaries or a trust, then the multiple beneficiaries by consensus or the trustee may elect to receive the actuarial equivalent amounts payable under subsection (2)(c), (d), (e), or (f) of this section using the assumption that the beneficiary's age is the same as the member's age, except that:
- (a) If the trust names only one (1) beneficiary, then the trustee may elect to receive the amount payable under subsection (2)(a) of this section, but the age of the one (1) beneficiary of the trust shall be utilized in determining the applicable payment, and payments shall be made to the trust until the date of death of the beneficiary named in the trust; and
- (b) Multiple beneficiaries, if they include two (2) to four (4) specific persons, by consensus may elect to receive a monthly benefit that is equal to the benefit that would have been paid had the member retired immediately prior to his or her date of death and elected to receive benefits payable under the survivorship one hundred percent (100%) option as provided in subsection (2)(b) of Section 2 of this Act.
- (4) If the beneficiary eligible for benefits as provided in subsection (1) of this section is the member's estate, then the beneficiary shall receive the higher of a refund of the member's accumulated account balance and interest as described in KRS 61.625(1) or the one (1) time lump-sum payment payable under subsection (2)(f) of this section, using the assumption that the beneficiary's age is the same as the member's age.
- (5) Payments of taxable distributions made pursuant to this section shall be subject to state and federal tax as appropriate.