

MINUTES

JOINT COMMITTEE ON PENSIONS, INVESTMENTS AND BENEFITS

December 15, 2006
Room 123-S—Statehouse

Members Present

Senator Steve Morris, Chairperson
Representative John Edmonds, Vice-Chairperson
Senator Laura Kelly
Senator Ruth Teichman
Senator Dwayne Umbarger
Representative Richard Carlson
Representative Margaret Long
Representative Bill McCreary

Staff

Alan Conroy, Director, Kansas Legislative Research Department
J. G. Scott, Kansas Legislative Research Department
Julian Efird, Kansas Legislative Research Department
Gordon Self, Office of the Revisor of Statutes
Mike Corrigan, Office of the Revisor of Statutes
Shirley Jepson, Committee Secretary

Conferees

Carol Foreman, Deputy Director, Department of Administration
Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERS)

Chairperson Morris indicated continuing concerns with an issue of state taxation on rollover lump sum distributions made to public retirees. He said there needs to be introduction of legislation to address this problem discussed during the 2005 Interim by this Committee. Chairperson Morris noted that it was not the intent of the Legislature that these rollover lump sum distributions would be taxed by the state and that hearings had been held during the 2005 Interim on the matter pertaining to two Department of Revenue notices that would impact both KPERS' retirees and Regents' retirees.

Representative Edmonds moved to introduce legislation for rollover lump sum distributions to be state tax-exempt for KPERS and Regents retirement plans, with the legislation to be retroactive to July 1, 2005, when the distributions had the tax status changed. The motion was seconded by Senator Teichman. Motion carried.

Next, Chairperson Morris recognized Carol Foreman, Deputy Director, Department of Administration, who presented testimony concerning the Kansas Public Employees Deferred Compensation Plan (Attachment 1). Ms. Foreman provided the following information on:

- Awarding a contract to Segal Advisors for consulting services relating to the deferred compensation plan.
- Selecting the audit firm of Allen, Gibbs & Houlik to perform a financial audit of the deferred compensation plan for plan years 2003, 2004, and 2005, plus the first six months of 2006.
- Recommending that the administration of the deferred compensation plan be transferred from the Department of Administration to KPERS.

Chairperson Morris recognized Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERS), who presented additional information on the deferred compensation plan and the proposed transfer of administration to KPERS (Attachment 2). Mr. Deck noted that the KPERS Board of Trustees and the Secretary of Administration support the recommendation for the transfer of the administration. The transfer would provide state and local employees with coordinated retirement education and planning information and increase the emphasis on the personal savings portion of retirement planning.

Senator Teichman moved to introduce legislation transferring the administration of the deferred compensation plan from the Department of Administration to KPERS. The motion was seconded by Representative McCreary. Motion carried.

Mr. Deck continued with a review of the Retirement Plan Design Project, modifications to the current plan, and possible legislation to be introduced during the 2007 Legislative Session (Attachment 3).

The modifications generally agreed to by the Committee include:

- First-day membership for all members.
- Vesting in five years.
- Defined benefit multiplier of 1.75 percent.
- Normal retirement at age 65 with 5 years service.
- Early retirement at age 55 with 10 years service.
- Early retirement subsidy with 30 years of service.
- Final average salary to be average of five highest years.
- Employee contributions at 6.00 percent.
- A 2.00 percent automatic cost-of-living adjustment at age 65 and each year after.

Other issues needing Committee review included items for the proposed new plan:

- Retirement eligibility.
- Early retirement for correctional officers.
- New plan membership.
- Employer and employee cost sharing.
- Compensation cap issues.
- Lump sum payment options.
- Joint survivor factors.

Also identified to review were issues associated with modifying the current plan:

- Providing first-day membership for state and local members.
- Reducing the vesting period to five years.

Modifications specifically agreed to by the Committee and to be included in the legislation as recommended by the Committee:

- Legislation directing that the employers contribution shall not drop below the employee contribution rate.
- Include options for retirement at age 65 with five years of service and retirement at age 60 with 30 years of service.
- Cost-sharing to be set at 50/50 for members and employers.
- Compensation cap to be set at 7.5 percent.
- Lump-sum payment option to be set at 10, 20, and 30 percent.
- Providing first-day membership for state and local members.
- Reducing the vesting period to five years.

Representative Edmonds moved to introduce legislation to incorporate the generally agreed to recommendations as proposed by KPERS with modifications as agreed to by the Committee. The motion was seconded by Senator Teichman. Motion carried.

Mr. Deck presented recommendations for COLA options (Attachment 3, Pages 25-29). Committee members voiced concern that the COLA applies only to current employees and that the unfunded actuarial liability is increased significantly for the 2.00 percent plan.

Senator Umbarger moved to introduce separate legislation to implement an automatic annual 2.00 percent COLA. The motion was seconded by Representative Edmonds. Motion carried.

The Committee indicated that there should be further discussion at a later date on the subjects of including an option to rollover 100.0 percent of lump sum distributions to another qualified plan and of ways to encourage personal savings accounts.

Mr. Deck requested consideration of an earlier KPERS proposal to increase the KP&F Tier II earnings limitation from the current \$10,000 (Attachment 4).

Representative McCreary moved to increase the KP&F Tier II earnings limitation from the current \$10,000 level to \$20,000. The motion was seconded by Representative Carlson. Motion carried.

Senator Teichman moved to approve the minutes of the November 15 meeting, as presented. The motion was seconded by Representative Carlson. Motion carried.

The meeting was adjourned at 12:00 p.m.

Prepared by Shirley Jepson
Edited by Julian Efirid

Approved by Committee on:

December 22, 2006

(Date)