MINUTES

JOINT COMMITTEE ON PENSIONS, INVESTMENTS, AND BENEFITS

June 26-27, 2001
Room 123-S—Statehouse

Members Present

Representative Lloyd Stone, Chairperson
Senator Dave Kerr, Vice Chairperson
Senator Jim Barone
Senator Anthony Hensley (June 26 only)
Senator Steve Morris
Senator Ruth Teichman
Representative Ray Cox
Representative Geraldine Flaharty
Representative Vaughn Flora
Representative Cindy Hermes
Representative Al Lane
Representative Clark Shultz

Staff Present

Julian Efird, Kansas Legislative Research Department
Alan Conroy, Kansas Legislative Research Department
Gordon Self, Revisor of Statutes Office
Mike Corrigan, Revisor of Statutes Office
Carol Doel, Committee Secretary

Committee Conferees

Jarold Boettcher, Chairperson, Kansas Public Employees Retirement System Board of Trustees
Glenn Deck, Executive Director, Kansas Public Employees Retirement System
Jack Hawn, Deputy Executive Director, Kansas Public Employees Retirement System
Robert Woodard, Chief Investment Officer, Kansas Public Employees Retirement System
Thomas Custis, National Director of Pensions, Milliman USA
Pat Beckham, KPERS Actuary, Milliman USA
Bobbi Mariani, Director of Personnel Services, Department of Administration
Bernie Heffernon, Managing Director for Aetna
Kathy Porter, Office of Judicial Administration
Bob Lancaster, Pension Administrator, City of Wichita

Leo Hafner, Deputy Post Auditor, Division of Legislative Post Audit
Dr. Marc Johnson, Dean, College of Agriculture/Director of Research and Extension, Kansas State University
David Schafer, Professor of Animal Science, Kansas State University

June 26, 2001
Morning Session

Chairperson Stone opened the meeting with introduction of staff and committee members. He stated that he wished to study teachers retiring and going back into the district without penalty, lump sum benefits for retirees, interest on Kansas Public Employees Retirement System's (KPERS) funds while in the State Treasury, qualifications of people who are police and fire personnel, and COLAS as a regular feature of KPERS.

The Chairperson announced the tentative dates of the future interim meetings as August 21-22, October 23-24, and December 4-5.

Julian Efird, Kansas Legislative Research Department, presented a review of the agenda topics for the June meeting and reviewed the recommendations for interim studies and duties of the Committee. Mr. Efird stated the Committee's three main duties are to monitor, review and make recommendations relative to investment policies and objectives formulated by the KPERS Board of Trustees; to review and make recommendations related to KPERS benefits; and to consider and make recommendations on the confirmation of members nominated by the Governor to serve on the KPERS Board of Trustees (Attachment 1).

Glen Deck, Executive Director of KPERS, reviewed a brief summary of legislative issues and provided an update on the partial lump sum option (PLSO) that the 2000 Legislature authorized to begin July 1, 2001. Mr. Deck noted that one-third of the people about to retire in July have chosen the PLSO, with 63 percent choosing the 50 percent option which is the maximum amount allowed by law.

Next, Mr. Deck summarized the status of litigation. It was reported that currently there are six outstanding cases, with only three cases having recent activity, namely those cases involving Emblem Graphics, Sharoff Food Service, and Mobile Traveler (Attachment 2).

Next to appear before the Committee was Robert Woodard, Chief Investment Officer, KPERS, with an investment report. He indicated that the fiscal year-to-date return is estimated to be negative 6.55 percent, compared with an assumed rate of 8.0 percent. The KPERS assets value declined from $l0.7 billion to $9.5 billion as a result of negative growth. Mr. Woodard provided a number of graphs and charts depicting the KPERS investment report (Attachment 3).

Afternoon Session

Jarold Boettcher, Chairperson, KPERS Board of Trustees, presented a draft of guidelines for board commentary on legislative issues (Attachment 4).

The Committee next held a series of public hearings on carry over bills that will be active during the 2002 Legislature.

SB 46—Mandatory Retirement Age of 75 for Judges. SB 46 would provide that members of the Retirement System for Judges must retire upon attaining age 75. Under current law, a judge can continue as an active judge through the term in which age 70 is reached. There would be no fiscal impact (see Attachment 1 for background on this bill).

Appearing before the Committee in support of SB 46 was Kathy Porter, Office of Judicial Administration. Ms. Porter stated in her testimony that retaining the experience and wisdom of seasoned judges was a consideration noted by most judges who indicated support for the bill. Current law provides that after a judge reaches the age of 70, then at the conclusion of that term of office, a judge must retire. Of all state retirement groups administered by the KSERS, judges are the only group with a predetermined statutory retirement (Attachment 5). The proposed bill would change the date of retirement to age 75.

A motion was made by Senator Kerr that SB 46 be recommended favorably. The motion was seconded by Representative Hermes.

A substitute motion was made by Representative Flaharty that a recommendation be made there be no mandatory age for retirement of judges and that appropriate legislation be drafted. This was seconded by Representative Cox. Motion carried.

SB 340—Contribution Rates for Local Police and Fire Pension Plans. SB 340 would impact only local pension plans, rather than the Kansas Police and Fireman's Retirement System (KP&F). It would change the minimum contribution rate for cities that maintain local police and fire pension plans, such as the City of Wichita. It would provide that the minimum contribution rate shall be the sum of the normal cost rate plus the amortization of any unfunded actuarial liability over a rolling 20 year period (see Attachment 1 for background on this bill).

SB 340 also would eliminate the current requirement that until the plan has no unfunded actuarial liability, the local unit of government must contribute an amount not less than the total amount of pension payments paid in the prior plan year. There would be no actuarial or administrative cost for KPERS.

Representing the City of Wichita was Mr. Robert L. Lancaster, Pension Manager, who supported SB 340. The City of Wichita operates its own Police and Fire Retirement System. The City recognizes the necessity for adequate funding measures to ensure the availability of pension benefits to the active police and fire employees as well as to retirees and beneficiaries.

It is the City's belief that revision of the statute will ensure its funding requirements to meet the needs of local police and fire pension plans while allowing a reduction in funding requirements if the plan is fully funded (Attachment 6).

After discussion by the Committee, any decision or other action regarding SB 340 was deferred until the August meeting.

HB 2507—8.0 Percent Deferred Compensation Plan. The bill would add four elected state officers and also employees of four legislative agencies to the list of eligible state employees who may opt out of participation in KPERS, and as an alternative, have the state contribute an additional 8.0 percent of compensation to an individual's deferred compensation account (see Attachment 1 for background on this bill).

Leo Hafner, Deputy Legislative Post Auditor, testified on behalf of the Post Auditor concerning HB 2507. He noted that its significance is seen as a recruiting tool for qualified staff to work in legislative agencies. This bill would allow the unclassified employees of the four staff agencies to choose between KPERS and the 8.0 percent Deferred Compensation Program.

No action was taken on this bill. Discussion considered the possibility of using the legislative actuary to review this topic as part of a study.

HB 2540—Supplemental Retirement Plan for Certain Kansas State University Employees. HB 2540 would establish a second defined contribution option administered by the State Board of Regents. The bill would prescribe as eligible for membership a limited group of unclassified employees working for Kansas State University. The new plan would require that eligible employees who elect membership to contribute 4.0 percent and the employer to contribute 4.0 percent to an individual retirement account authorized under section 403(b) of the Internal Revenue Code. The current Regents defined contribution plan requires employees (most unclassified Regents faculty and staff are eligible to participate) to contribute 5.5 percent and the employer to contribute 8.5 percent to individual accounts. The bill would define the group of employees at Kansas State University who are eligible for the new option as county extension agents, extension specialists, and extension administrators. A further defining characteristic of eligible staff would be a requirement that only employees who currently are members of the federal Civil Service Retirement System could choose to participate. Participation in the new plan would be required for all eligible employees. The fiscal note indicates that less than 120 current employees would be eligible to participate in the new plan, and that there would be no new staff who would be eligible in the future to participate. The maximum first year cost for a closed group would be $278,765 if all 119 eligible staff participated. Over time, as employees retire, the costs would decline since this is a closed group (see Attachment 1 for background on this bill).

Appearing before the Committee as a proponent for HB 2540 was Dr. Marc Johnson, Dean of the College of Agriculture and Director of the Kansas State University Agricultural Experiment Station and Cooperative Extension Service. Dr. Johnson stated that the Board of Regents had endorsed this plan to provide equity in retirement benefits for one group of employees not covered by the regular Regents retirement plan (Attachment 7).

Also appearing before the Committee in support of HB 2540 was David Schafer, Kansas State University Research and Extension Service. Mr. Schafer stated that the bill would restore equity for those who had stayed enrolled in the federal Civil Service Retirement System (CSRS) throughout their careers (Attachment 8) and who had not elected to go under the Regents retirement plan. It was noted that all new employees after a certain date have been enrolled under the Regents plan.

The Committee took no action regarding this bill.

June 27, 2001
Morning Session

First on the agenda was a presentation by Thomas Custis, National Director of Pensions, Milliman USA and Pat Beckham, KPERS Actuary, Milliman USA. Mr. Custis and Ms. Beckham addressed some of the issues that arose from the most recent actuarial valuation of June 30, 2001, and provided a review of the actuarial work performed for KPERS. Some of the areas covered were reasons for a review, historical perspective, background on the valuation process, what was included in a valuation, peer review findings, and recommendations (Attachment 9).

There was Committee discussion regarding the recommendation of changing the date for valuation of assets and liabilities from June 30 to December 31.

Representative Cox made a motion to concur with changing the valuation date from June 30 to December 31. Representative Lane seconded the motion. Motion carried.

There was discussion regarding late reporting by a few employers and the possibility of imposing a penalty for late reporting. Mr. Deck recommended that a review be made as to what other states are doing and to report at the August meeting.

Next, Mr. Efird presented a status report on the process of selecting an actuarial firm to perform an audit of KPERS actuary (Attachment 10).

Mr. Deck reported on the Death and Disability Program. He provided a history of the program, benefits, eligibility provisions, administration of the program, update on the funding and organizational options, as well as a copy of the actuarial report from Milliman USA (Attachment 11).

Afternoon Session

On the afternoon agenda, Bobbi Mariani, Director of Personnel Services, Department of Administration, explained the Deferred Compensation Program which allows deferral of taxes on contributions until distributions.

Ms. Mariani introduced Bernie Heffernon, Managing Director of ING Aetna Financial Services which has the state contract to provide services associated with deferred compensation. Mr. Heffernon made a presentation on the investment options and the administrative services provided, as well as an update on recent federal law changes that will affect the Deferred Compensation Program (Attachment 12).

Prepared by Carol Doel
Edited by Julian Efird

Approved by Committee on:

August 21, 2001
(Date)