

MINUTES

JOINT COMMITTEE ON PENSIONS, INVESTMENTS, AND BENEFITS

August 20, 2008
Room 545-N—Statehouse

Members Present

Senator Steve Morris, Chairperson
Representative Richard Carlson, Vice-Chairperson
Representative Geraldine Flaharty, Ranking Minority Member
Representative Sharon Schwartz
Representative Arlen Siegfried
Representative Rob Olson
Representative Vaughn Flora
Senator Dwayne Umbarger
Senator Ruth Teichman
Senator Laura Kelly

Staff

Alan Conroy, Kansas Legislative Research Department
Julian Efird, Kansas Legislative Research Department
Kimbra Caywood McCarthy, Kansas Legislative Research Department
Gordon Self, Office of the Revisor of Statutes
Gary Deeter, Committee Secretary

Conferees

Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERS)
Pat Beckham, KPERS Actuary, Milliman USA
Vince Smith, Chief Investment Officer, KPERS
Kraig Knowlton, Division of Personnel Services, Department of Administration
Representative Jill Quigley
Representative Ann Mah
Bryan Rosner, Shawnee, Kansas
Dennis Phillips, Kansas State Council of Firefighters
Ed Klumpp, Kansas Peace Officers' Association; Kansas Association of Chiefs of Police
Ray Beaumont
Duane Mathes
Bruce Miller
Jane Carter, Executive Director, Kansas Organization of State Employees
Ray Roberts, Warden, El Dorado Correctional Facility
Kenneth McGovern, Sheriff, Douglas County
Charles Simmons, Deputy Secretary, Department of Corrections

Morning Session

The Chairman called the meeting to order at 10:00 a.m.

Staff reviewed the interim study topics ([Attachment 1](#)). The cost-of-living adjustment (COLA) for KPERS members and working after retirement topics will be covered during the September meeting. The other three topics are on the August agenda:

- Increased earnings limitation for disabled Kansas Police and Firemen (KP&F) Retirement System members;
- Membership of other employees and groups in KP&F; and
- Establishment of a correctional tier for local employees who are members of KPERS.

Glenn Deck, Executive Director, KPERS, introduced Pat Beckham, KPERS Actuary, Milliman USA, to review the annual valuation. Ms. Beckham noted that an independent review is conducted annually to assess the financial health of KPERS ([Attachment 2](#)). She summarized the valuation's findings, indicating that the Unfunded Actuarial Liability (UAL) increased by \$188 million, from \$5.364 billion on December 31, 2006, to \$5.552 billion on December 31, 2007. She noted that any return that is above or below 8.0 percent is allocated evenly over five years, and that the unallocated reserve for the next four years totaled \$735 million in deferred investment gain.

Ms. Beckham stressed that KPERS is in actuarial balance over the long term, if all actuarial assumptions are met. The difference between the actuarial and statutory contributions, however, create a shortfall in what should be contributed in the short run, and as a result, Ms. Beckham indicated that the UAL will continue to increase until the actuarial and statutory contribution rates are the same.

Answering questions, Ms. Beckham said that the KPERS Board of Trustees determines the actuarial methods and assumptions. She explained that even with a 13.2 percent investment return, salary contributions were insufficient to offset the increase in the UAL. The timing of when the actuarial and statutory contribution rates will coincide depends on which group is addressed. The KP&F and Judges groups are in actuarial balance, while the state group of KPERS should reach that equilibrium shortly. For the local and school groups of KPERS, however, the statutory contribution rates must rise for a number of years before reaching equilibrium with the actuarial rates.

Vince Smith, KPERS Chief Investment Officer, provided an investment report review for KPERS ([Attachment 3](#)). He stated that global growth rates are falling, interest rates are down, and the stock market has dropped. KPERS investments, however, have shown resilience, with the three and five-year average annual returns remaining above 8.0 percent, although the ten-year average was slightly less than 8.0 percent. He said he anticipates higher energy and credit costs, slower economic growth, and that the stock market is showing some indication of correcting its slide. Responding to a question, he said a thorough evaluation of investment strategy is conducted every three years.

Glenn Deck, KPERS Executive Director, reported on actions to divest the KPERS' Sudan investment holdings as required by 2007 HB 2457 which is found in KSA 74-4921c ([Attachment 4](#)). He said the KPERS Board of Trustees contracted with Institutional Shareholder Services to provide a monthly listing of companies that have significant business operations in Sudan. The Board sent

22 letters to the identified companies in which KPERS holds investments, and, based upon responses or non-responses, the Board directed KPERS' investment managers to divest certain companies from the KPERS portfolio. He said the Board will maintain the ongoing monitoring to determine if any companies need to be added to the list. Answering a question, Mr. Deck said the monitoring services costs \$9,500 per year and that, although no staff was added for the Sudan initiative, some internal staff time was allocated to the monitoring process.

Afternoon Session

Kraig Knowlton, Division of Personnel Services, Department of Administration, reviewed the new compensation system adopted by the 2008 Legislature for state employees in the classified service ([Attachment 5](#)). He said five new pay plans were created, including the Basic Vocational, General Classified, Management, Professional, and Protective Services, which will be implemented over a five-year period from FY 2009 to FY 2013. He explained that the Protective Services Plan, which includes law enforcement officers from various agencies, has been assigned to begin implementation in FY 2011. Answering a question, Mr. Knowlton said the intent is to equate state salaries with market rates and that some salaries are 25.0 percent out of market range.

Representative Jill Quigley expressed gratitude that Legislative Coordinating Council asked the Committee to review increasing the limitation for disabled members of KP&F. She noted that the current limitation of \$10,000 was established in 1989 and needs updating. Representative Ann Mah, addressing the same topic, recommended that the earnings cap be raised.

Bryan Rosner, Shawnee, Kansas, testified in favor of raising the cap for disabled KP&F members ([Attachment 6](#)). As a disabled firefighter, he cited rising costs in providing for his family and some inequities in the present system. He recommended that, instead of an arbitrary cap, the Committee allow a disabled retiree to earn up to 50 percent of his disability amount before reducing his benefit.

Dennis Phillips, Kansas State Council of Firefighters, also spoke in support of raising the KP&F cap for disabled members. He recommended at least a \$20,000 cap ([Attachment 7](#)). He noted that 2007 HB 2076 would have accomplished this.

Ed Klumpp, representing the Kansas Peace Officers Association and the Kansas Association of Chiefs of Police, also recommended raising the cap for KP&F members, suggesting an increase to \$25,000. He said an even better alternative would be to eliminate the cap completely or to make the cap a percentage of the person's final average salary ([Attachments 8 and 9](#)).

Next, the Committee considered the study topic of including other groups in KP&F. Representative Mah encouraged members to consider moving the firefighters of the 190th Kansas Air National Guard at Forbes Field from their current status as KPERS members into KP&F membership. She said doing so would cost the state nothing, since the 190th members are paid from federal funds ([Attachment 10](#)). Ray Beaumont also asked Committee members to consider expanding KP&F membership to include the 190th Air National Guard ([Attachment 11](#)). He said the Forbes Field firefighters, by training and job requirements, qualify for KP&F membership.

Duane Mathes, a safety security officer at Larned State Hospital, stated that the Safety Security Officers at Larned function as law enforcement officers and therefore qualify for membership in the KP&F ([Attachment 12](#)). Bruce Miller, a corrections officer at Hutchinson Correctional Facility,

also spoke in favor of expanding the KP&F membership to include correctional officers in KP&F (Attachment 13).

Jane Carter, Executive Director, Kansas Organization of State Employees, testified on behalf of corrections officers who desire to be included under KP&F (Attachment 14). She stated that KP&F enrollment should not be limited to corrections officers, but should include all those who have daily contact with inmates. She also cited employees under the Department of Wildlife and Parks and under the Kansas Racing and Gaming Commission who have law enforcement duties should be included in KP&F.

Ray Roberts, Warden, El Dorado Correctional Facility, spoke in support of expanding the membership of KP&F to include corrections officers, noting such a move would be an incentive in hiring and would reduce turnover.

Kenneth McGovern, Sheriff of Douglas County, testified in favor of creating a correctional tier in KPERs for correctional employees, modeled after the state correctional officer group (Attachment 15).

Charles Simmons, Deputy Secretary, Department of Corrections, appeared on behalf of Roger Werholtz, Secretary of Corrections (Attachment 16). Noting the value of corrections officers in keeping Kansans safe while facing daily dangers, he said the officers deserve to be included in KP&F. He added that including these employees would reduce turnover rates and offer respect to corrections officers.

The following written-only testimony was offered in support of expanding KP&F membership: Gerald Dennison, Corrections Officer, Hutchinson Correctional Facility (Attachment 17); Dennis Phillips, Kansas State Council of Firefighters (Attachment 18); and Mike Hayden, Secretary, Department of Wildlife and Parks (Attachment 19).

The minutes for the June 17, 2008, meeting were approved. (Motion by Representative Olson, seconded by Representative Carlson)

Prepared by Gary Deeter
Edited by Julian Efird

Approved by Committee on:

September 16, 2008

(Date)