

Approved: 5-8-12  
Date

## MINUTES OF THE OF SENATE SELECT COMMITTEE ON KPERS

The meeting was called to order by Chairman Senator Morris at 4:20 p.m. on March 6, 2012, in Room 144-S of the Capitol.

All members were present except:

Senator Anthony Hensley  
Senator Ty Masterson

Committee staff present:

Julian Efird, Kansas Legislative Research Department  
Michael Steiner, Kansas Legislative Research Department  
David Wiese, Kansas Revisor of Statutes  
Daniel Yoza, Kansas Revisor of Statutes  
Connie Burns, Committee Assistant

Conferees appearing before the Committee:

Alan Conroy, Kansas Public Employees Retirement System  
Rick Poccia, KPERS Study Commission

Others attending:

See attached list.

### **SB 429—Enacting the Kansas public employees retirement system act of 2014**

Alan Conroy, Executive Director, Kansas Public Employees Retirement System, (KPERS) provided a review on the Cost Study and the effect of the legislation on the **SB 429**. (Attachment 1) The bill is based on the Study Commission bills and does not contain three elements found in those bills:

- No provision to remove the statutory cap on employer contribution increases
- Members of the new tier 3 would include future members on and after January 1, 2014, but nonvested members would not be transferred to the new Tier
- Does not contain any special provisions relating to legislators

Characteristics of Employer Annuity Account:

- Intent is to credit the actual earnings on the KPERS portfolio while a member – guaranteed interest credit is 0% - Final interest credit at retirement reflects actual KPERS return while employee was a member
- If member is vested upon termination of employment, employer annuity account value remains in the system
- At retirement (age 65 or later), employer annuity account is converted to a monthly benefit – based on investment return assumption and mortality table – use Pension Benefit Guaranty Corporation distress termination interest rates – mortality table set by Board

The purpose of modeling is to identify trends and compare alternatives; and is based on one set out of many possible assumptions. The impact of changing assumptions on different plan designs may be

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

## CONTINUATION SHEET

The minutes of the Senate Select Committee at 4:20 p.m. on March 6, 2012, in Room 144-S of the Capitol.

different, particularly if **SB 338/HB 2545** and **SB 429** are compared to **Sub for HB 2194**.

Cost impact unfolds over time as Tiers 1 and 2 leave or retire and are replaced with Tier 3 members. If Tier 3 cost is lower than Tier 2, more money can go to pay off the unfunded actuarial liability until full actuarial required rate is paid.

The actuarial assumptions for this cost study were generally same as 12/31/10 actuarial valuation. Retirement assumption had to be developed for **SB 338/HB 2545** and **SB 429**. The assumptions specific to **HB 2545** and **SB 429** are:

- Interest crediting rate is 8%
- Interest assumption for annuity conversion rate – 6.5% (based on long-term historical Pension Benefit Guaranty Corporation distress termination rates)
- Mortality table for annuity conversion rate: RP 2000 projected to 2035
- No payments until age 65 by plan design
- All benefits paid as monthly income (by plan design)

The cost information for these bills is derived from a cost study by Cavanaugh MacDonald, dated February 28, 2012.

The Committee requested a chart with the figures from **HB 2194**. Mr. Conroy stated that will be provided.

Rick Poccia, member, KPERS Study Commission, provided observations from serving on the KPERS Study Commission.

Julian Efird, Principal Analyst, Kansas Legislative Research Department, provided examples from a Cash Balance Plan that was presented to the KPERS Study Commission meeting in the September 22, 2011. (Attachment 2) On page 20, the chart reflects a hypothetical cash balance account value at 6%; and over six years of service, page 21 shows years of service and at 5%, 6%, 7%, and 8%; page 22 , shows the conversion of a cash balance account of \$350,000 to monthly income at different ages and percentages.

The meeting was adjourned at 5:12 p.m.