Approved: ____5-8-12_________
Date

MINUTES OF THE JOINT MEETING OF SENATE SELECT COMMITTEE ON KPERS
AND
HOUSE COMMITTEE ON PENSIONS AND BENEFITS

The meeting was called to order by Chairman Senator Morris at 12:05 p.m. on January 24, 2012, in Room 346-S of the Capitol.

All members were present.

Committee staff present:
Julian Efird, Kansas Legislative Research Department
Michael Steiner, Kansas Legislative Research Department
J.G. Scott, Kansas Legislative Research Department
Gordon Self, Kansas Revisor of Statutes
David Wiese, Kansas Revisor of Statutes
Daniel Yoza, Kansas Revisor of Statutes
Connie Burns, Committee Assistant

Conferees appearing before the Committee:
Pat Beckham, Cavanaugh Macdonald Consulting, LLC

Others attending:
See attached list.

Senator Morris opened the meeting with how the procedural process will work for the bill introductions.

Senator Morris moved to introduce bills for each Chamber and convene into Joint session.

*Senator King moved to introduce KPERS Study Commission legislation. Senator Longbine seconded the motion. The motion carried.*

Pat Beckham, Cavanaugh Macdonald Consulting, LLC, provided an actuarial review of the KPERS Study Commission conclusions.(Attachment 1) Ms. Beckham went over the basic retirement funding equation and the current basic plan provisions for Tier 1 and Tier 2.

The slide covered:

- Actuarial funding process and unfunded actuarial liability
- Amortization of unfunded actuarial liability
- Key 12/31/10 valuation measurements.

**Senate Sub for HB 2194** increases in the Statutory Cap on Employer Contributions for FY 2014 from current of 0.6% to 0.9% under the bill, and in 2017 the bill would be 1.2%. The benefit changes to Tier 1 and Tier 2 under **HB 2194** for member contribution rate and Benefit provisions were provided. The impact of **HB 2194** on 12/31/10 valuation measurement, while there was little change to the December 31, 2010 UAL, **HB 2194** did not make significant changes to the future funding of KPERS. The employer actuarial contribution rate declined due to the change in the benefits and employee contribution rates. The bill significantly lowered the employer normal cost rate for both Tier 1 and Tier 2 members. The lower normal cost rate permits more of the total contributions to be directed to pay off the UAL.

A chart was provided to reflect the Study Commission plan between the DC plan (EE directed acct) and Cash Balance Plan (ER annuity acct). Unique feature of Cash Balance Plan (ER 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
- Upon termination of employment, ER annuity account value remains in the system
- At retirement (age 65 or later) ER annuity account is converted to a monthly benefit
    - Based on investment return assumption and mortality table
    - Use PBGC distress termination interest rates
    - Mortality table set by Board

The letter from Cavanaugh Macdonald provided to the committee on the Cost Study for Study Commission Plan is the basis for the cost projections. (Attachment 2)

Cost Projections of Study Commission Plan Design the Tier 3 (Hybrid Plan) covers all new hires after 1-1-14, all non-vested active and inactive will transfer to Tier 3, and all vested legislators will have the value of their accrued benefit transferred to Tier 3 plan. Estimated transfer amounts for non-vested members around $225 million and vested legislators around $22 million. Tier 3 will have minimal impact on the existing UAL (only due to moving non-vested and vested legislators). Real cost impact is removal of statutory cap and creation of Tier 3 for new hires.

Graphs and charts reflecting PBGC distress termination interest rates and impact of interest rates. A benefit comparison of the Study Commission plan and **HB 2194** was also provided.
**HB 2194** made significant changes to the future funding of KPERS:

- More employer money goes into the system sooner
- Lower employer normal cost for both Tier 1 and 2
- Ultimate employer cost is 0.50% to 0.75% under 8% assumption
- Significant savings are realized
- Total cost for years 2012 through 2060: $22.14B
- Actual cost is dependent on future experience

Study Commission Plan is combination DB and DC plan:

- Employee money into DC
- Employer money into DB (Cash Balance Plan)
- Ultimate employer cost under is 2.5% to 3% of pay under 8% assumption
- Total cost for years 2012 through 2060: $33.04B – higher cost is due to larger benefits for many employees
- Actual cost is dependent on future experience

The minutes of the Senate Select Committee at 12:05 p.m. on January 24, 2012, in Room 346-S of the Capitol.

Differences in Plan Design:

- **HB 2194** is traditional DB plan that provides benefits related to pay at retirement. Most of the cost is for benefits for those who retire from active employment
- Study Commission (SC) plan is combination DC and Cash Balance plan design which provides proportionately more benefits to employees who terminate employment before retirement
- Costs under **HB 2194** are more sensitive to contribution changes if actual experience differs from assumed
- SC plan design adjusts benefit amounts for adverse economic conditions, but some risk still exists. If returns are higher than expected, much of the actuarial gain is given away to members (assets and liabilities increase).
- SC plan provides less retirement security to employees as benefit amounts are dependent on multiple factors. Much of the investment risk is transferred to employees.

Policy considerations were included in the slide presentation.

Ms. Beckham addressed questions from the committee members.

Future meetings for the Senate Select Committee on KPERS would be Tuesday and Thursday of next week, and information will be forth coming.

The next meeting is scheduled for January 31, 2012. The meeting was adjourned at 1:15 p.m.