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 February 21, 2012, in Room 152-S of the Capitol.

All members were present.

Committee staff present:
Julian Efird, Kansas Legislative Research Department
Michael Steiner, 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:
Phyllis Chambers, Nebraska Public Employees Retirement System

Others attending:
See attached list.

Phyllis Chambers, Executive Director, Nebraska Public Employees Retirement System, provided an overview on the Nebraska Cash Balance Plan. (NPERS) (Attachment 1) NPERS administers six retirement plans with 115,000 members and $9.6 billion in assets. The plans were established starting in 1946 thru 1976. The Cash Balance Plan was introduced in mid 1980 in the corporate sector; the defined benefits hybrid – IRS considers it a defined benefits plan because of the guaranteed credited rate. Individual account consists of EE and ER contributions, interest credits and dividends. Members' account value never goes down, and the pooled asset is managed by professionals. The Plan requires an annual actuarial valuation, and the annuity is based on account value and member's age, not a formula.

A Nebraska Benefit Adequacy Study was done in 2000. The study compared State and County with the School Defined Benefit (DB) plan; the average annual investment return, for a 5-year period was 7% for the Defined Contribution (DC) plans and 11% for the School DB plan. The retirement income replacement was 5 to 8% higher for the DC plans to maintain the same standard of living.

Features of the Nebraska Cash Balance Plan:

- The plans are mandatory for new hires. DC members one-time option to transfer in 2003 – 1/3 transferred, another 1/3 transferred again in 2007, when the offer to transfer was again offered
- The contributions rates for NPERS are – State - 4.8% EE, 156% ER – 7.48% = 12.28%
  County – 4.5% EE, 150% ER – 6.75% = 11.25%
- Credited rate based on Federal mid-term rate +1.5% with 5% minimum guarantee by the State. January 2012 the federal mid-term rate was 1.17%
- The credited rate is adjusted quarterly and credited daily

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- The annuity rate is 7.75% that is paid on retirement and this is determined by the Board
- Three year vesting for employer portion
- Distribution options for termination, retirement (age 55) or disability – refund, rollover , annuity, or combination
- Death – beneficiaries receive refund or rollover; spouse may also receive annuity; if already receiving a benefit, determined by the annuity option
- Optional dividend granted by Board

Some of the benefits of the NPERS Cash Balance plan:

- Member has individual account
- Employer submits the employee and employer contributions to accounts every payroll
- Member accounts credited daily, monthly, quarterly, annually with credited rate
- Member can view account balance online and receive quarterly statements
- Members are charged an expense fee and recordkeeping fee

The account accumulates until retirement; at retirement the employee can choose annuity, rollover or refund of account balance. The annuity is based on 7.75% factors, age and account balance. Account is liquidated with the trust and transferred to a subset annuity account that pays the benefit. The self-annuitize – money stays in the plan and continues to be invested. Less than 10% Cash Balance members annuitize.

The Board may grant a dividend if the actuarial contribution rate is at least 90% of the actual contribution per statute. The Board added policy that the funded ration must be 100% and the dividend is based on account value at previous calendar year end. There has been a statute and policy change, in that once an account is paid out; it will no longer receive interest on dividends, or late contributions.

The advantage of a Cash Balance plan is that it is a good compromise between Defined Benefit and Defined Contribution plans; it minimized state/employer liability. The assets are pooled and the plan is professionally managed. The CB plan is less complex and is lower in cost than DC plans. An optional 2.5% COLA is paid by the employee, the plan is portable, and an optional transfer to DCP for systematic withdrawals, and record keeping and reconciliation are easier than a DC plan.

The NPERS's website has an estimator and examples of plans. https://npers.ne.gov

Upon the conclusion of Ms. Chamber's testimony, a question and answer session followed.

The next meeting is scheduled for March 6, 2012. The meeting was adjourned at 5:09 p.m.