MINUTES

JOINT COMMITTEE ON PENSIONS, INVESTMENTS, AND BENEFITS

February 26, 2010
Room 152-S—Statehouse

Members Present

Senator Steve Morris, Chairperson
Representative Rob Olson, Vice-chairperson
Representative Geraldine Flaharty, Ranking Minority Member
Senator Anthony Hensley
Senator Laura Kelly
Senator Ruth Teichman
Representative Margaret Long
Representative Richard Proehl
Representative Sharon Schwartz
Representative Jeff Whitham

Members Absent

Senator Jay Emler
Representative Richard Carlson
Representative Dale Swenson

Staff

Julian Efird, Kansas Legislative Research Department
Michael Steiner, Kansas Legislative Research Department
Gordon Self, Office of the Revisor of Statutes
Kristen Kellems, Office of the Revisor of Statutes
Florence Deeter, Committee Secretary

Conferee

Glenn Deck, Executive Director, Kansas Public Employees Retirement System

The Chairperson called the meeting to order at 1:37 p.m. and recognized Julian Efird, Kansas Legislative Research Department, who reviewed three documents as background information for the

Committee: a National Conference of State Legislatures study, “Sustaining State Retirement Benefits: Recent State Legislation Affecting Public Retirement Plans” (Attachment 1); a Pew Center report on “The Trillion-Dollar Gap: Underfunded State Retirement Systems and The Roads to Reform” (Attachment 2); and “Reviewing How the Recent Economic Downturn Has Affected the Kansas Public Employees Retirement System’s Funding Situation,” a February 2010 Legislative Post Audit report (Attachment 3).

Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERS), reviewed KPERS’ long-term funding status (Attachment 4). He also provided copies of a notebook, *KPERS Long-Term Funding Status*, to be available in legislative offices (Secretary of the Senate, Clerk of the House, Legislative Administrative Services) and online at the KPERS website: http://www.kpers.org/reports.htm, under *Special Funding Reports—Report to the Legislature's Joint Committee on Pensions, Investments, and Benefits.* He traced KPERS’ history through its 48-year existence and commented on various notable events, such as the 1993 15 percent *ad hoc* cost-of-living adjustment, the $4,000 increase in the death benefit, an extension of the amortization period for the unfunded actuarial liability (UAL), changes in the actuarial funding method, and a statutory cap on employer contribution rate increases of 0.1 percent. He noted the 2001 process for developing a comprehensive long-term funding plan to address funding shortfalls and bring KPERS into actuarial balance, a process which accomplished its goals through December 31, 2007.

Mr. Deck stated that the economic downturn of 2008 and 2009 has placed KPERS in actuarial jeopardy again, and he identified the key factors which need to be addressed: the UAL (currently $8.3 billion); the actuarially required contribution (ARC) rates, which presently are believed to be unsustainable for the school group; and the funded ratio (80 percent and rising is required, whereas it is currently 72 percent for the state and 52 percent for the school group).

Mr. Deck listed several options to correct these shortfalls in funding:

- Increase the statutory employer contribution rate cap (currently .6 percent annually);
- Increase employee contribution rates;
- Adjust the statutory multiplier for future service;
- Issue bonds; and
- Create a new mandatory defined contribution plan for future employees.

Mr. Deck distributed information previously provided to the Committee on December 14, 2009 (Attachment 5). He noted that a complete record of information on the issue is available at the offices of the Clerk of the House, the Secretary of the Senate, and Legislative Administrative Services. He concluded by emphasizing the importance of taking action to put KPERS on the road to actuarial health; the more that action is delayed, the more expensive it will be to remedy.

A motion was made by Senator Teichman and seconded by Representative Whitham to:

- *Increase the current cap on the maximum year-to-year increases in employer contributions from .6 percent to 1.0 percent;*

- *Increase the employee contribution rate .5 percent per year for four years to a maximum of 6 percent for KPERS Tier I and 8 percent for KPERS Tier II; and*

- *Increase the current multiplier for retirant benefits calculations from 1.75 percent to 1.85 percent for KPERS Tier I and II.*

Members discussed the motion. A member expressed concern that increasing the employee contribution rate without a commensurate increase in benefits might not pass court muster. Mr. Deck referenced Attachment 5 to illustrate the effect of two options. He replied that changes to Tier I are generally more costly to KPERS than changes to Tier II. A member expressed concern about the financial hardship of an 8 percent contribution for employees.

The motion passed.

By consensus, members agreed to have the bill addressing KPERS' shortfall introduced in the Senate.

The meeting was adjourned at 2:16 p.m. No further meetings were scheduled.

Prepared by Gary Deeter
Edited by Michael Steiner and Julian Efird

Approved by Committee on:

March 15, 2010
(Date)