MINUTES

JOINT COMMITTEE ON PENSIONS, INVESTMENTS, AND BENEFITS

December 2, 2008
Room 545-N—Statehouse

Members Present

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

Staff Present

Julian Efird, Kansas Legislative Research Department
Michael Steiner, Kansas Legislative Research Department
Dylan Dear, Kansas Legislative Research Department
Gordon Self, Office of the Revisor of Statutes
Melissa Doeblin, Office of the Revisor of Statutes
Gary Deeter, Committee Secretary

Conferees

Glenn Deck, Executive Director, Kansas Public Employees Retirement System
Vince Smith, Chief Investment Officer, Kansas Public Employees Retirement System

Vince Smith, Chief Investment Officer, Kansas Public Employees Retirement System (KPERS), provided an investment update on KPERS investments (Attachment 1). Reporting on the current financial crisis, he said that the action of central banks has created some liquidity and confidence in the markets, that governmental action has relieved some pressures on the economic system, and that chances of inflation are decreasing. Nevertheless, 2008 has been the worst year for the stock market since 1931. He noted, however, that the social safety net makes a long-term downturn unlikely, and that future corporate earnings offer some prospect for economic stability.

Mr. Smith acknowledged the current negative KPERS investment returns, stating that as of October 31, 2008, assets totaled about $10 billion, with fiscal year returns of a negative 22.0 percent and calendar year returns of a negative 26.8 percent. He explained that the System will maintain liquidity (currently, $500 million in cash), monitor assets, and watch for opportunities for investments in the market.

Glenn Deck, Executive Director, KPERS, reviewed the agency's long-term funding (Attachment 2). Commenting that the 2003 legislation brought the Actuarially Required Contribution (ARC) rate into balance over the long term, he stated that the actuarial loss for CY 2008 is estimated to be $4.6 billion, although "smoothing" will make the losses less dramatic. Nevertheless, he said the Unfunded Actuarial Liability (UAL) will increase from $5.6 billion (December 31, 2007) to $6.4 billion on December 31, 2008, lowering the funding ratio from 71 percent to 68 percent. He outlined several scenarios for the State/School Group ARC in the long term, and he suggested that the Legislature will be required to raise the present annual statutory contribution increase rate of 0.6 percent to at least 1.0 percent per year, no later than FY 2012.

Answering questions, Mr. Deck said that KPERS funding of future benefits is safe, unless, following another precipitous decline similar to the 1930s, the state becomes unable to meet its funding obligations.

Legislative Research staff reviewed the Committee's interim topics (Attachment 3). Considering the first proposal assigned by the Legislative Coordinating Council, a cost-of-living adjustment (COLA) for retirees, the Chairperson noted that the Expanded Lottery Act Revenue Fund (ELARF), which had been anticipated to be a source of new revenue, would not yield much revenue from only one casino rather than the original four casinos anticipated, and that in the light of current economic conditions, there would be no other source of funding to pay a COLA for KPERS retirees. Senator Hensley distributed a proposal by a coalition of interested KPERS members advocating a COLA beginning the third year after retirement with a graduated increase (Attachment 4).

Senator Hensley made a motion, seconded by Senator Teichman, to recommend a prospective COLA financed by future new members of both the Kansas Police and Firemen's (KP&F) Retirement System and the Retirement System for Judges, effective July 1, 2010. Such action would parallel previous legislative action to establish a future COLA for regular KPERS members that takes effect July 1, 2009, for new employees only. Answering a question, Mr. Deck provided a summary of the issues addressed by the proposed legislation (Attachment 5). The motion passed.

Members discussed the option of a voluntary, self-funded COLA for current public employees. Mr. Deck noted the difficulties inherent in a voluntary COLA, but suggested that an option could be added at the time of retirement for a member to elect a reduced benefit payment, and the COLA would be self-funded.

Regarding Proposal 2, a motion was made by Senator Kelly, seconded by Representative Flora, to increase the earnings limitation to $20,000 for disabled members of the KP&F Retirement System. Mr. Deck said the fiscal impact on KPERS would be about $400,000. Mr. Deck referenced (Attachment 6) to explain details of the proposal. The motion passed.

Legislative Research staff, commenting on Topic 1 of the general proposal selected by the Committee for study, pointed out that the KPERS State/School Group's ARC rate, because of current economic conditions, is now out of long-term balance. However, it was noted that next interim might be a more appropriate time to deal with the issue after the December 31, 2008 actuarial valuation is completed in July of 2009. Members discussed possible responses to the issue and, *by consensus, agreed to alert the Senate Ways and Means and the House Appropriations Committees* *to the long-term funding issue and the need to raise the contribution rate increase by no later than FY 2012.*

A member, discussing Topic 2, retirees working after retirement, expressed concern regarding the practice of employing teachers through a private contractor. Another member noted that school districts presently use private contractors and expressed reluctance to unnecessarily hamper small school districts from obtaining teachers. A member suggested changing the waiting period after retirement from 30 days to six months, which might resolve the private contractor issue. *By consensus, members agreed to seek further information and discuss the topic at a January 9, 2009, meeting.*

Considering Topic 3, expanding employee groups into the KP&F Retirement System, noting that a possible 2,800 employees might be affected and recognizing the complexity of the issue, *agreed by consensus to make no recommendation.*

Members discussed Topic 4, allowing local units of government to elect coverage under KPERS similar to state correctional officer groups. It was noted that similar legislation failed to pass in the previous legislative sessions. Mr. Deck said that the proposal would have no fiscal impact on KPERS, but that any new groups would need to conform to the new KPERS plan. He said if such legislation were passed, he recommended that county employees desiring to enter the system reach 500 before the group be admitted to KPERS. He acknowledged that KPERS would bear some one-time administrative work were the proposal to be passed. He said that the proposal would add to a county's budget, but would be good for recruiting correctional personnel. *A motion was made, seconded, and passed to recommend new permissive legislation be drafted and introduced. (Motion by Senator Teichman, seconded by Senator Kelly)*

The Committee minutes for October 14, 2008, were approved. (Motion by Senator Kelly, seconded by Representative Siegfried)

Prepared by Gary Deeter
Edited by Julian Efird

Approved by Committee on:

December 31, 2008
(Date)