Approved: ______5-8-12_______
Date

MINUTES OF THE SENATE SELECT COMMITTEE ON KPERS

The meeting was called to order by Chairman Senator Morris at 4:15 p.m. on January 31, 2012, in Room 548-S of the Capitol.

All members were present except:
Senator Terrie Huntington

Committee staff present:
Julian Efird, Kansas Legislative Research Department
Michael Steiner, Kansas Legislative Research Department
Gordon Self, Kansas Revisor of Statutes
Connie Burns, Committee Assistant

Conferees appearing before the Committee:
Elizabeth Miller, Acting KPERS Executive Director
Rebecca Proctor, KPERS Study Commission

Others attending:
See attached list.

Elizabeth Miller, Acting KPERS Executive Director, provided an overview of the Kansas Public Employees Retirement System. (Attachment 1) The KPERS mission is to provide retirement, disability and survivor benefits to all their members and beneficiaries. Administer three statewide, defined benefit (DB) plans for public employees:

- Kansas Public Employees Retirement System
- Kansas Police & Firemen's Retirement System
- Kansas Retirement system for Judges.

KPERS is governed by a nine-member Board of Trustees; and has an 88-member staff. The Kansas Legislature enacts statutes defining benefits and how they are funded:

- Membership eligibility
- Employee and employer contributions
- Service credit
- Vesting
- Benefit formula
- Retirement eligibility

The Defined Benefit Formula is the final average salary X years of service X multiplier = Annual Benefit; benefits are a fixed monthly amount, paid for the remainder of the retiree's life. The average monthly benefit for KPERS retirees as of 12/31/10 was $1024.

The retirement funding formula is: Contributions + Investments – Expenses = Benefits.

Contributions
KPERS' total contributions for FY 2011 were over $860 million. Employee contributions for Tier 1 is 4% of pay, Tier 2 is 6% of pay. Employer contributions is set by annual actuarial valuation as a percent of member payroll; the cap on annual rate increase is set at 0.6% by statute, and the State pays employer contributions for state and school employees.

Investments
Contributions are invested in a diversified portfolio to grow over time; investment earnings make up the largest portion of assets available for benefits, and KPERS has a long-term investment return assumption of 8%. The Board reviewed the long term investment and will leave it at 8% and revisit the amount in one year

Expenses
FY 2011 investment management fees were 0.30% of total assets; and FY 2011 benefit administration fees = 0.07% of total assets.

Benefits
KPERS' FY 2011 benefit payments were over $1.26 billion; benefits are paid from the KPERS Retirement Trust Fund, which is required by the IRS to be used for the exclusive benefit of members, and approximately 85% to 90% of benefits remain in Kansas.

KPERS' manages the investment of $13.5 billion in trust fund assets in the U.S. and international markets; the investment returns declines due to unprecedented market declines. KPERS' investment returns for FY 2009 were -19.6%; subsequent returns reflect the market's rebound beginning March 2009, FY 2010 +14.9%, and FY 2011 +22.6%.

Despite strong investment returns the past two years, the 12/31/10 actuarial valuation shows a modest funding decline, and that the long-term funding shortfall will continue to grow in the near term. The additional employer and employee contributions and plan design changes included in **Sub HB 2194** are a meaningful step toward improving the System's long-term funding outlook and reaching actuarially required contribution levels The impact of these additional contributions in improving the funded ratio and other measures of the funded status will be limited in the next 10 years. Consequently, the System is vulnerable to future economic downturns that cause investment returns to decline. The KPERS' Board and staff has assisted the KPERS Study Commission as it reviewed alternatives and developed a plan for consideration by the Legislature, KPERS will continue working with the Legislature to ensure the long-term sustainability of KPERS benefits for its members.

Julian Efird, Kansas Legislative Research Department, provided a review of **Senate Sub for HB 2194** and Long-term funding of KPERS. (Attachment 2) The 2011 Legislature passed **Senate Sub for HB 2194** which would make fundamental changes in the Kansas Public Retirement System (KPERS) plan on July 1, 2012. Implementation of the funding and plan design provisions was delayed in order for the KPERS Study Commission that was created by the bill to make recommendations to the 2012 Legislature that may modify the funding and other provisions in the 2011 legislation. The bill established a 13 member KPERS Study Commission to review alternate plan designs and to make recommendations for long-term sustainability of the System; the recommendations report was due to the Legislature by January 6, 2012. The report recommendations must have a vote in each chamber of the 2012 Legislature for the other parts of 2011 **Senate Sub for HB 2194** to become effective, unless amendment or repeal of those provisions are recommended by the KPERS Study Commission. Mr. Efird covered the employer contribution increases, Tier 1 Members, Tier 2 Members, and decrease or loses COLA (future service only except COLA), inactive members, surplus property, and the Fiscal Note.

Mr. Efird addressed questions from the committee.

Rebecca Proctor, KPERS Study Commission member, provided an overview of the KPERS Minority Report. (Attachment 3) Ms. Proctor stated that as a member of the KPERS Study Commission, the Study Commission never discussed or voted on the general concept of breaking out one group of KPERS participating employees into a separate plan. The Study Commission also never received information or testimony regarding 403(b) plans. The Study Commission had specific discussion that ALL State Employees, including legislators, should be treated the same. The **SB 338** plan does not hold to that principle.

Under the new plan, public school employees and community college employees are treated differently than other state employees. These employees will participate in a different defined contribution plan, with different investment options, different rules, and potentially higher administrative costs. The costs are very relevant; because the new plan charges all administrative fees for the defined contribution accounts back to the employees (this was not discussed by the Study Commission). The new plan will also allow the public school and community college employees to make additional elective deferrals to their defined contribution accounts; state employees in the 414(k) plan will not have this option.

The new plan increases costs to the system and reduces employee benefits while doing nothing to address the UAL. The new plan adds yet another benefit plan for the State to administer, while also adding costs to the system and not addressing the UAL. There is no logical reason to adopt either of these plans, and neither plan fulfills the charge the Study Commission was given to recommend a viable plan to insure the long-term sustainability of the KPERS system.

Ms. Proctor addressed questions from the committee members.

The next meeting is scheduled for February 2, 2012. The meeting was adjourned at 5:25 p.m.