MINUTES

JOINT COMMITTEE ON PENSIONS, INVESTMENTS AND BENEFITS

November 28, 2005
Room 519-S—Statehouse

Members Present

Representative John Edmonds, Chairperson
Senator Anthony Hensley
Senator Laura Kelly
Senator Ruth Teichman
Senator Dwayne Umbarger
Representative Richard Carlson
Representative Geraldine Flaharty
Representative Vaughn Flora
Representative Margaret Long
Representative Bill McCreary
Representative Melvin Neufeld

Staff Present

Alan Conroy, Director, Kansas Legislative Research Department
J.G. Scott, Chief Fiscal Analyst, Kansas Legislative Research Department
Julian Efird, Principal Analyst, Kansas Legislative Research Department
Gordon Self, Office of the Revisor of Statutes
Michael Corrigan, Office of the Revisor of Statutes
Carol Doel, Committee Secretary

Conferees

Glenn Deck, Executive Director, Kansas Public Employees Retirement System
John Oliver, Kansas Public Employees Retirement System, Chief Investment Officer
Scott Peppard, Kansas Public Employees Retirement System, Acting Chief Investment Officer
Dale Dennis, Deputy Commissioner of Education
Leo Lake, Executive Director, Kansas Association of Retired School Personnel
Carl Hill, Kansas Association of Public Employees

Morning Session

Glenn Deck, Kansas Public Employees Retirement System (KPERS) Executive Director, described the agency's Information Systems Replacement Project as one of the top operational priorities. Much of the present information system was developed more than 20 years ago, with some components dating back to the 1960s. Records are managed for more than one-half million individuals and typically must be maintained over a 75-year life span. The new system is an $8.0 million project that will replace the current information system.

John Oliver, KPERS Chief Information Officer, reported on the KITS project (KPERS Integrated Technology System) which will update 20 to 40-year-old information system components. The project began in March 2005 and is half complete. The new system is necessary because the current system is difficult to use, data has to be entered manually, the volume of transactions increased dramatically, and information was scattered among several different component subsystems. This resulted in inefficient customer service. KITS will insure the long-term viability of a new system (Attachment 1).

Scott Peppard, KPERS Acting Chief Investment Officer, reviewed investment performance for the period ending September 30, 2005. The total asset value on that date was $11.687 billion. For that nine months of calendar year 2005, the portfolio has returned 7.3 percent.

Mr. Peppard provided charts showing that the total portfolio policy index has been outperformed by 80 basis points. All assets classes have outperformed their benchmark, with the exceptions of global equity which was only implemented during this year and of the TIPS component which matched its benchmark. He also provided a review of each asset category (Attachment 2).

An unaudited interim investment report as of November 21, 2005, was provided for the Committee, and it showed the total market value of the portfolio to be $11,758,025,412.80 and the total return calendar year-to-date to be 7.9 percent (Attachment 3).

Next, Mr. Deck presented the impact of increasing statutory employer contribution caps in response to a request by Chairperson Edmonds at the October 4, 2005 meeting. Two alternatives were presented, one increasing the statutory employer contribution cap by an additional 0.25 percent, and the other one with an additional 0.5 percent enhancement (Attachment 4).

Dale Dennis, Deputy Commissioner of Education, presented the results of a survey of early retirement incentive programs for school districts. This survey showed that 182 districts have an early retirement program and 118 did not have one on July 1, 2005. The survey also showed the number of employees eligible for early retirement (but who had not retired) and the number of retirees currently receiving early retirement payouts. The estimated cost in FY 2006 to the 182 school districts is $31.4 million (Attachment 5).

Leo Lake, representing the Kansas Association of Retired School Personnel (KARSP), requested a statutory change to permit acquiring the KPERS mailing list for retirees. KARSP offers additional benefits to retirees, but they face a problem of identifying and contacting retirees due to the privacy rules. The organization proposes to pay all costs for materials and mailing if KPERS is permitted to cooperate in this endeavor (Attachment 6).

Carl Hill, Kansas Association of Public Employees (KAPE), supported the proposal by the Kansas Association of Retired School Personnel.

Mr. Deck was asked to respond to the request and he indicated that there are a number of factors such as privacy and confidentiality which would have to be considered before approving the proposal by KARSP. He indicated that all costs would have to be covered by the KARSP organization and that KPERS would have the right to approve the content of material.

Afternoon Session

Chairperson Edmonds asked for approval of minutes. The name "Flaharty" was found to be misspelled. *Representative Flaharty made a motion to adopt the minutes of the October 4-5, 2005, meeting as corrected. Representative Long seconded. Motion was adopted.*

A copy of the proposed Board of Trustees technical amendments for the 2006 Legislative Session was provided by Mr. Deck (Attachment 7). Also provided was material concerning the correctional officers group (Attachment 8).

Julian Efird, Legislative Research Department, presented a review of the first of three draft Committee reports (Attachment 9). The review covered the Committee's general statutory study topics, including the Governor's nominations for the KPERS Board, KPERS investment performance, the KPERS actuarial valuation, rate increases for state correctional officer group, 2005 HB 2293 concerning local detention officers, the death and disability funding issue, and KPERS legislative requests. Gordon Self, Office of the Revisor Statutes, presented copies of bill draft 5rs1404 (Attachment 10) dealing with the correctional officer rate adjustment and bill draft 5rs 1407 (Attachment 11) reflecting technical changes requested by KPERS that will accompany the first Committee report based on its recommendations for bill introductions.

Senator Teichman made a motion to adopt the first draft report. Senator Kelly seconded the motion. Motion adopted.

Mr. Efird presented the second of the three draft Committee reports, this one on KPERS retirement issues, including state taxation policy on state employee retirement contributions and state employee contributions and state employee retirement benefits and the long-term fiscal impact of changes in the KPERS plans previously adopted and other changes proposed but not adopted by the Legislature (Attachment 12).

Senator Teichman made a motion to adopt the second draft report. Senator Umbarger seconded the motion. Motion adopted.

Mr. Efird presented the third of three draft Committee reports, this one focusing on the issue of working after retirement limitations for KPERS retirees and the potential consequences of removing the limitations, including interaction with the school districts' early retirement incentive plans (Attachment 13).

Senator Teichman made a motion to approve the third draft report. Senator Kelly seconded the motion. Motion adopted.

Next, the Chairperson asked if any other business was to come before the Committee.

Representative McCreary moved to recommend introduction of a bill that would require participating KPERS employers to pay the actuarial cost for hiring KPERS retirees in order for KPERS to recover contributions from the school districts that hire KPERS retirees. Representative Carlson seconded the motion. Motion passed.

With no further business, Chairperson Edmonds adjourned the meeting.

Prepared by Carol Doel
Edited by Julian Efird

Approved by Committee on:

December 20, 2005
(date)