Approved: February 09, 2016

MINUTES OF THE HOUSE APPROPRIATIONS COMMITTEE

The meeting was called to order by Chairperson Ron Ryckman at 9:00 am on Monday, February 01, 2016, 112-N of the Capitol.

All members were present except:
Representative Marc Rhoades – Excused
Representative Sharon Schwartz – Excused

Committee staff present:
Kathy Holscher, Kansas Legislative Committee Assistant
David Fye, Legislative Research Department
Jennifer Ouellette, Legislative Research Department
Jill Wolters, Office of Revisor of Statutes
Daniel Yoza, Office of Revisor of Statutes
J.G. Scott, Legislative Research Department
Melinda Gaul, Administrative Assistant

Conferees appearing before the Committee:
No conferees present

Others in attendance:
See Attached List

Opening Remarks
Chairman Ryckman called the meeting to order and reviewed the meeting agenda. He stated that committee members received a copy of the Emergency Medical Services Board report, as statutorily required (Attachment 1) .

Update on:
Alan Conroy, Executive Director, Kansas Public Employees Retirement System (KPERS), provided an update and system overview of KPERS (Attachment 2) . Primary topics included KPERS overview; actuarial impact of reduction in active members; final average salary and 457(f). He stated that KPERS administers three statewide, defined benefit plans for public employees, police and firemen, and judges. KPERS partners with state and local government employers. KPERS is a prefunded defined benefit plan with 27 percent contributed by the employer, 17 percent by the employee and 56 percent through investments. He noted that the fund is improving and on target to be fully funded in 2033. Attributing factors to the improved trust fund were the sale of bonds in August 2015 and 2012 legislation which increase employer contributions. The unfunded actuarial liability in 2014 was $9.4 billion, he added. In 2015, the legislature approved $1 billion in pension obligation bonds, which was credited to the KPERS State/School unfunded actuarial liability. A review of the total active and retired KPERS members and workforce factors affecting the actuarial impact followed. The contribution rate considers both normal cost rates and the unfunded actuarial liability contribution rate. Mr. Conroy provided an

overview of formula used for determining the final average salary. The state has limits on sick and annual leave payouts. For members employed pre-1993, also referred to as the closed declining group, the calculation uses either the highest 3 years of compensation without add-on payments or the higher 4 years of compensation with add-on payments. Based on the December 31, 2014 valuation, the projected exposure for total elimination of add-ons would reduce KPERS unfunded actuarial liability by $52 million, he noted. The 1997 legislature required the employer to pay the cost for the final average salary that increased over 15 percent due to add-ons and the spiking provision applied to one school district retirement and one state agency retirement from KPERS, he stated. A review on the limits for accruing sick and annual leave payouts followed. Policies are determined or negotiated by specific state agencies or state functions. State employees benefits are capped and based on the number of years of service up to 15 or more years with a cap of 240 hours of vacation leave and employees of 25 or more years would have a cap of 60 days of sick leave. He reviewed the 457(f) plan which is a deferred compensation plan, and the 457 (b) plan used to retain certain employees.

Mr. Conroy responded to questions from committee members. Regarding the funding ratio prior to 2012, it was noted that Kansas was in the low 50 percent ratio and in the bottom 10 in comparison to other states. The impact on the unfunded liability is affected when employer contributions are less that the actuary. For 2014 the funding ratio is 62%. It was noted that approximately $375 million from State General Funds (SGF) has been put in to the fund since 2012. Benefit enhancements, that are provided by the legislature, are reflected in annual actuarial valuation and are factored in to the employer contribution to the pre-funded concept. The lower employer contribution rate is statutorily set, he stated. A review of the various funded retirement systems included the following: Judges at 93.5 percent, Police, and Fire at 74 percent, which have plan designs different than regular KPERS. The total KPERS is funded at 60.6 percent and includes the following: Local city and counties at 67 percent; state group at 75 percent, schools at 54 percent. By statute, the state and school groups are at a blended rate of 59 percent funded. There are approximately 22,000 state KPERS members and 85,000 school members. Regarding concerns for the market volatility, Mr. Conroy stated that the higher the funded ratio, the better the position to absorb market losses. The KPERS board of trustees reviews and monitors various studies regarding asset liabilities, risk factors and investments. The annual actuarial valuation, which is based on experience, will be provided to the board in July and actuarial experience study is conducted every three years, he stated. The KPERS groups have separate contribution rates. As requested, additional information regarding the administrative and operational costs, and fund managers' investment related expenditures will be provided to committee members. The impact on the fund with a substantial number of employees electing early retirements would require satisfying the unfunded liability by increasing the employer contribution. The death and disability benefit is self-funded and paid by the employee, he stated. A review of the 1993 legislation and the impact which under-funded KPERS followed. As requested, information on the exposure of inactive vested employees will be provided. Discussion followed regarding privatizing KPERS Death and Disability benefit. It was noted that a third party contractor reviews claims for benefit payment. Final salaries over 15 percent is the responsibility of the employer to pay, which refers to the tax payer in this case, he added. The normal retirement trend is between 5,000 to 6,000 per year. In 1993, the multiplier was changed from 1.4 percent to 1.75 percent, and the 85 point provisions based on age and years of service was implemented. Approximately $100 million in retirement benefits is paid each month to 90,000 retirees, which is pre-taxed. As requested, additional information on non-taxable contributions will be provided in conjunction with data from the Department of Revenue. Concern was expressed by committee members regarding spiking benefits and the impact on the state's obligation as well as the taxpayers of Kansas.

Committee members acknowledged Mr. Conroy's for maintaining low expenses, the initiatives that are in place that have turned into strong investments and for the information provided.

Meeting adjourned at: 10:40 a.m.