Approved January 21, 1983
Date

MINUTES OF THE House COMMITTEE ON Pensions, Investments and Benefits.

The meeting was called to order by Rep. Bob Ott at
Chairperson

9:20 a.m./~~p.m.~~ on January 20, 1983 in room 526-S of the Capitol.

All members were present except:
Representatives Dyck, Meacham and Whitaker

Committee staff present:

Richard Ryan, Legislative Research
Louis Chabira, Legislative Research
Gordon Self, Revisor's Office

Conferees appearing before the committee:

Ed Ahrens, Legislative Research

The meeting was called to order by the chairman, Rep. Bob Ott. The minutes of the January 18, 1983 meeting were approved.

Chairman Ott turned to meeting over to Ed Ahrens, Legislative Research, who supplied the committee members with three hand-outs (See Attachments A, B and C) regarding state employee fringe benefits other than retirement and disability benefits.

Rep. Patrick asked if there is a form for sick leave to be signed by the employee. Mr. Ahrens said that he assumed there is such a form used in larger agencies but that the state does not accumulate such data on state-wide use of sick leave. Rep. Patrick asked if a study of such data would be feasible; Mr. Ahrens said that he is not familiar with any such study but the state is going to a computerized employee records system. In regard to workmen's compensation, Rep. Ott asked if the state is self-insured; Mr. Ahrens said that it is. Rep. Wisdom asked if Kansas is a negative account employer. Mr. Ahrens said no, there is a large percentage increase in the rate; the state was behind but is not now. Rep. D. Miller asked why the 1982 assessment was .2%, the 1983 assessment is .4% and the projected 1984 rate is .7%. Mr. Ahrens said this projection is based on past experience. Rep. D. Miller asked if 1984 might also be a catch-up rate; Mr. Ahrens agreed that this is part of it. Rep. Patrick asked how many state employees filed for workmen's compensation. Mr. Ahrens said there are no figures now, but the Ways and Means Committee will get this information and that he will provide this information to this committee. Rep. Ott asked how much money is represented by .1%; Mr. Ahrens said about $6,000.00 per .1%. Rep. Sand asked if there is a significant amount of money in balance at all times in the workmen's compensation fund. Mr. Ahrens said that there is a pretty substantial amount. Rep. Sand asked if this is reinvested: It is not separately invested from other state monies. Rep. Wagnon asked if there is an exclusion of $600,000 as in private workmen's compensation. No, it is total payroll. Rep. Patrick asked how well the investments were doing; are they pro-rated back to the contributor; and is there a breakdown available? Mr. Ahrens said that he did not have the figures with him but he can provide this information.

Rep. Wisdom then told Chairman Ott that he thinks the Department of Human Resources and Workmen's Compensation staff should appear before this committee. He believes the workmen's compensation program is very costly and the committee needs more information.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Pensions, Investments and Benefits,

room 526-S, Statehouse, at 9:20 a.m./~~p.m.~~ on January 20, 1983.

Mr. Laird asked how much input had been received from state employees? Mr. Ahrens said there had been quite a lot of input, that state employees are very concerned with this. Rep. Sand asked when the study requested by Patrick Hurley, Secretary of Administration, (See Attachment C, fifth page) would be available. Mr. Ahrens replied that this should be ready sometime this month. Rep. Sand asked that this be forwarded to this committee as soon as possible.

Rep. Schweiker asked how long the state health insurance package had been with Blue Cross-Blue Shield. Mr. Ahrens said it had been with that company as a whole unit since 1971; during the 1960's some agencies had purchased that plan independently.

Chairman Ott reminded the committee that tomorrow's meeting would be briefing on the Pooled Money Investments Board. He then outlined the two subcommittees: Health Insurance: Reps. Ott, Meacham, Dyck, Sand, Whitaker, Laird, Wisdom and Wagnon; Social Security: Reps. Patrick, Schweiker, D. Miller, R.H. Miller, Brady, Branson and Francisco.

Meeting was adjourned at 10:00 a.m.

Bob Ott

Rep. Bob Ott, Chairman

GUEST LIST

COMMITTEE: Pensions & Investments DATE: Jan 20, 1983

PLEASE PRINT

NAME	ADDRESS	COMPANY/ORGANIZATION
John D McNeal	Topeka	—
KEITH R LANDIS	"	CHRISTIAN SCIENCE COMMITTEE ON PUBLICATION FOR KANSAS
Bill Deits	Wichita	U.S.D. 259
JACK ROBERTS	TOPEKA	BC-BS
Ruth Friedrich	Topeka	American Association of University Professors
JoAnn Klesath	Topeka	KAPE

Attachment A

MEMORANDUM

January 18, 1983

TO: House Committee on Pensions, Investments, and Benefits

FROM: Kansas Legislative Research Department

RE: State Employee Fringe Benefits Other Than Retirement and Disability Benefits

The following brief descriptions of state employee fringe benefits are presented for your Committee's information. Excluded are the major retirement, death, and disability benefit programs described in other presentations to the Committee.

Health Insurance

The state provides major medical health care benefits to state employees and pays the full cost of a single member premium. These premiums are $800 annually in the current fiscal year. If an employee chooses family coverage, he or she must bear the additional cost of $1,356 annually. All state employees (except temporary, student employees and those who work less than 1,000 hours each year) are eligible to participate. The single-member premium rate on which FY 1984 budgets are calculated is $1,134 annually, an increase of 41 percent.

Paid Time-Off

Vacations. Permanent, probationary and conditional employees earn vacation with pay at the following rates:

Years of Continuous Service	Full Time Employee, Paid Monthly	Maximum Accumulation
Less than 5 years	1 day per month	18 days (144 hours)
5 years and less than 10 years	1 1/4 days per month	22 days (176 hours)
10 years and less than 15 years	1 1/2 days per month	26 days (208 hours)
15 years and over	1 3/4 days per month	30 days (240 hours)

Employees who work less than full-time earn a proportional rate of vacation leave. New employees begin earning vacation credit immediately, but must serve a six-month probationary period before they are eligible to take vacation leave.

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Employees are paid for any accumulated vacation leave, subject to the maximum limits, upon termination unless that termination occurs during the initial six-month probationary period. However, if the termination during that period is due to a lay-off or abolishment of the position, accumulated vacation leave will be paid.

Holidays. The state currently observes seven official holidays for which employees are given leave with pay: New Year's Day, Memorial Day, Independence Day, Labor Day, Veterans Day, Thanksgiving and Christmas. The Governor can designate additional holidays and has, for example, designated the day after Thanksgiving as an official state holiday. When one of these legal holidays falls on a Saturday or Sunday, the preceding Friday or following Monday is considered the official holiday. Employees who are required to work on a holiday receive either compensation or subsequent time off at the rate of one and a half hours for each hour worked.

Jury Duty. Employees are granted leave with pay for required jury duty, as well as for required appearances before a court, the Civil Service Board, the Civil Rights Commission, the U.S. Equal Employment Opportunity Commission, a legislative committee or other public body.

Military Leave. Leave without pay is granted to permanent employees if the individual is drafted or ordered to active duty. If the individual returns to state service within 90 days of discharge, he or she is entitled to a position in the same class and on the same step of the same salary range as the position previously held.

Funeral Leave. Funeral leave may be granted to any state employee upon the death of a close relative. Such leave is limited to six days; the amount of leave granted is left to the discretion of the agency head based on the circumstances involved.

Sick Leave. Full-time state employees who are paid monthly earn sick leave at the rate of one day per month, with comparable provisions made for employees who are paid less than full-time or on a different schedule than monthly. Sick leave with pay is granted for illness or disability, pregnancy, childbirth, miscarriage, abortion, including recovery time and for appointments with a doctor or dentist. Additionally, an employee who becomes ill while on vacation may charge that time to sick leave rather than vacation leave.

Sick leave may also be used by employees who are injured on the job and receive worker's compensation to the extent that the combined worker's compensation and sick leave payments do not exceed the employee's regular salary. Unused sick leave at the time of separation from state employment is credited back to an individual if he or she is re-employed by the state within a year, unless the separation was due to retirement.

Finally, K.S.A. 75-5517 provides that certain employees shall be paid for accumulated sick leave upon retirement, as follows:

> 75-5517. Compensation for accumulated sick leave upon retirement from state service; limitations; employee retirement contributions deducted. (a) Each person retiring from the classified or unclassified service of the state of Kansas who has accumulated one hundred (100) days or more of sick leave shall receive at the time of retirement compensation for their accumulated sick leave as follows:

(1) Compensation for not more than thirty (30) days, if an employee has completed eight or more years of such service and has accumulated at least one hundred (100) but less than one hundred twenty-five (125) days of sick leave;

(2) compensation for not more than forty-five (45) days, if an employee has completed fifteen (15) or more years of such service and has accumulated at least one hundred twenty-five (125) but less than one hundred fifty (150) days of sick leave; and

(3) compensation for not more than sixty (60) days, if an employee has completed twenty-five (25) or more years of such service and has accumulated one hundred fifty (150) days of sick leave or more.

(b) Retirement employee contributions shall be deducted from all compensation for accumulated sick leave paid to each person who retires and benefit calculations for such person shall include all such compensation.

Unemployment Compensation

Beginning in calendar year 1972, the state became a covered employer under the State Employment Security Law with respect only to employees of state institutions of higher education and state hospitals. Effective with calendar year 1978, coverage was extended to employees of all state agencies. Such coverage is mandated by federal law.

The state is a reimbursing employer and makes quarterly payments to the Department of Human Resources from the proceeds of an assessment on state agencies' covered payrolls. The rate is certified by the Secretary of Administration each fiscal year and agencies budget and pay the assessment accordingly. Some state employees are exempted from the coverage. Exempt employees include, among others, the following: state elected officials, part-time policy advisors (e.g., board and commission members), members of the Legislature and judiciary, student employees, hospital patients and prison inmates, and members of the National Guard.

The assessment rate is .4 percent for FY 1983. It was .2 percent in FY 1982. In FY 1978 the rate was 1.0 percent, and for two early fiscal years the rate was zero. The most common rate has been .2 percent. At .2 percent, expenditures for FY 1982 are estimated (ten months actual) to total $1,224,000 from all funds, including $687,000 from the State General Fund. Agency budgets for FY 1984 are calculated on the basis of a .7 percent rate.

Workers' Compensation

Workers' compensation coverage was made mandatory by state law for all state workers effective July 1, 1974. Prior to that time, state workers in some agencies were covered due to the "hazardous" nature of their duties. Approximately five agencies, Fish and Game Commission and Department of Transportation being the largest, purchased coverage from private insurance carriers. Institutional employees of the Department of Social and Rehabilitation Services were covered under a self-insurance program.

Beginning with coverage of all state employees, the state became totally self-insured. The program is administered by the Department of Administration. Benefits and administrative costs are paid from the State Worker's Compensation Self-Insurance Fund which is financed by payroll assessments at a uniform annually fixed rate for all state agencies. Benefit coverage is the same as for employees of private firms as fixed by statute. For the first three years the assessment rate was fixed by the Secretary of Administration at .3 percent. Since FY 1977 and including 1984, the rate has been fixed at .4 percent. All employees and officers of state government, except federal agricultural extension employees, receive on-the-job coverage. The payroll base for assessment is larger, therefore, than for unemployment compensation. Payroll assessments for FY 1982 are estimated (ten months actual) to be $2,620,000, including $1,473,000 from the State General Fund.

Deferred Compensation

Beginning October 1, 1980, state employees who work at least 1,000 hours per year are allowed to defer a portion of their current salaries until after retirement or other times as specified by agreement. Minimum deferral is $300 per year. Maximum deferral is the lesser of $7,500 or 25 percent of gross salary. Deferred income is invested for the employee in one or more of several investment options. Federal and state income taxes are deferred until the employee actually receives the compensation and earnings thereon, ideally during retirement years when the employee is more likely to be in a lower tax bracket. The only direct cost to the state is withholding the earnings and paying the deferred earnings to the investment firm selected by the state (Aetna). On the other hand, definitely the timing and likely the eventual amount of state income tax collections are affected by the deferral. In FY 1982, the state placed with the investment firm $9,514,384 of employees' deferred compensation. Until paid to the employee, the deferred compensation and its earnings are "owned" by the state.

Attachment B

RE: PROPOSAL NO. 31 - EMPLOYEE FRINGE BENEFITS*

Proposal No. 31 directed the Special Committee on Ways and Means to:

> Review the fringe benefit programs available to state employees, including the current health insurance program and retirement contributions and benefits, and, specifically, the rate of state contributions to TIAA-CREF and the current restrictions on eligibility for such retirement plans.

Background

The Legislative Coordinating Council (LCC) received suggestions from several groups that a study of employee fringe benefits be undertaken. The Board of Regents urged a study of the TIAA-CREF program emphasizing its specific concern about the current rate of contribution by the state. This concern is one of longstanding. On several occasions in the past, institutions in the Regents' system have included funding in their budget requests to increase the rate of employer contribution.

A request was also received by the LCC from an organization of classified employees at the University of Kansas asking an interim committee to study employee fringe benefits generally, with emphasis on the current state employee health insurance program. The same group also urged that a study be made of the current restrictions on eligibility for participation in the TIAA-CREF retirement program.

In approving this study proposal the LCC broadened the topic to include a survey of all employee fringe benefit programs. The Special Committee reviewed the current state employee fringe benefit package and compared fringe benefits

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* S.B. 18 accompanies this report.

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offered by Kansas to those in selected other states. While some overlap of issues occured, the Special Committee generally divided its study into separate consideration of classified employee fringe benefits and those of the Regents' institutions.

Fringe Benefits/Classified Employees

Classified employees in Kansas receive a wide range of fringe benefits, including major medical health care; vacation; holidays; time-off for jury duty, military service and funerals; sick leave; retirement benefits both through the Kansas Public Employees Retirement System (KPERS) and Social Security; death and disability benefits; unemployment compensation; worker's compensation; and participation in group life insurance (optional) and a deferred compensation program (optional). A survey by staff of fringe benefits in 12 selected states revealed that Kansas was in the mid-range when compared to benefits offered by those states. It was noted, however, that the complexity and diversity of health insurance and retirement programs, in particular, made comparison difficult. The Special Committee focused this portion of its study on three areas: sick leave, health insurance and consequences of withdrawal from the Social Security System.

Sick Leave. Full-time state employees who are paid monthly earn sick leave at the rate of one day per month, with comparable provisions made for employees who are paid less than full-time or on a different schedule than monthly. Sick leave with pay is granted for illness or disability, pregnancy, childbirth, miscarriage, abortion, including recovery time and for appointments with a doctor or dentist. Additionally, an employee who becomes ill while on vacation may charge that time to sick leave rather than vacation leave.

Sick leave may also be used by employees who are injured on the job and receive worker's compensation to the extent that the combined worker's compensation and sick leave payments do not exceed the employee's regular salary. Unused sick leave at the time of separation from state employment is credited back to an individual if he or she is re-employed by the state within a year, unless the separation was due to retirement. Finally, K.S.A. 75-5517 provides that certain employees shall be paid for accumulated sick leave upon retirement, based on length of service and the amount of sick leave that has been accumulated.

Kansas falls slightly below the average of 13 days for the annual accrual rate for sick leave among the 12 states surveyed. However, one-half of the these states have the same accrual rate of 12 days per year that Kansas has. Only two states place a limit on the number of sick leave days an employee can accumulate. However, in one of these two, Oklahoma, accumulated sick leave in excess of the 45 day maximum is "banked." The agency head is then given the discretion to approve the use of any excess days for an employee with an extended illness.

Some rather innovative sick leave policies have also been adopted by area employers. St. Francis Hospital in Topeka established a "paid days off" program that combines vacation, holidays and sick leave. Employees receive 19 paid days off per year to accommodate all three types of leave. They are additionally credited with nine days of extended illness leave annually. The first two days of each occurrence of illness is charged to paid days off. If the illness exceeds two days, the third and following days are charged to extended illness leave. The program should discourage abuse of sick leave since frequent occurrences will reduce the number of days an employee has available for vacation and holidays. Further incentive to conserve accumulated leave is provided through a mechanism by which employees can sell back to the hospital hours they have accumulated above a fixed amount.

The Special Committee instructed staff to investigate possible incidences of sick leave abuse by state employees. Since there is no centralized collection of data on use of sick leave, staff examined individual sick leave records for a 12-month period in two state agencies. Although the results were inconclusive, it appeared that some abuse does occur and may occur more frequently among clerical employees. The study noted that under the "paid days off" plan offered at St. Francis, 366 of the 415 sick days taken in one year by the 55 employees who were subjects of the study would be charged to paid days off and only 49 days to extended illness leave.

USD 497, in Lawrence, uses a more direct incentive program by paying employees with five or more years of service for accumulated sick leave days upon retirement or resignation. The payment ranges from $5 to $15 for each day of unused sick leave, but only employees who retire with at least 15 years of service are eligible for the maximum amount.

Health Insurance. The state provides major medical health care benefits to state employees and pays the full cost of a single member premium. These premiums are $800 annually in the current fiscal year. If an employee chooses family coverage, he or she must bear the additional cost of $1,356 annually. All state employees (except temporary, student employees and those who work less than 1,000 hours each year) are eligible to participate and the vast majority do so.

All 13 states covered by the survey provide health insurance plans for their employees. Some states have a variety of optional medical plans available for employees, and in such cases data are reported for the basic plan that serves the largest group. As in Kansas, optional coverage is often available with health maintenance organizations. Separate plans are provided employees of higher education in 5 of the 12 states reporting.

The total costs of single member and family coverage indicated a wide variation among the states as to benefit levels. The cost of employee-only coverage varied from $29.82 per month to $149.83. The median plan cost was approximately $58. The cost of family coverage varied from $106.75 to $206.76. (Two states, Iowa and Nebraska, which are relatively low cost have higher option plans available). The median cost was approximately $152.

Eight of the reporting states, including Kansas, pay the entire employee-only premium for the health insurance plan in major use. Arizona requires a token employee contribution of

$1. At least two states pay a fixed percentage of plan cost — 60 percent in the case of New Mexico, 80 percent in the case of Utah.

With respect to family coverage, six states including Kansas, provide no state contribution beyond the employee-only amount. Nebraska is the only state reporting that the full family coverage cost is paid by the state, although a higher benefit plan is available at the cost of the employee. Minnesota requires only a $10 employee contribution for family coverage. Eight states pay more than half of family coverage at the present time.

The Committee requested staff to obtain information concerning plans covering an employee and one dependent, or other increments in number of dependents, as alternatives to family coverage. Two states, Idaho and Utah, reported the availability of an alternative coverage limited to the employee and one dependent. The total cost of such coverage in Idaho is $94.48 as compared to $73.08 for employee-only coverage and $130.81 for family. The Utah employee and one dependent cost is $121.94 per month as compared to $60.93 for employee only coverage and $160.94 for family. It should be noted that there is a wide variation between the two states in the ratio of employee-only cost to employee and one dependent cost. The actuary for Kansas — Blue Cross and Blue Shield — indicated to staff that coverage of an employee and one dependent in a separate plan is now very rare in Kansas, although they were more common in the past. He observed that such coverage tended to include young, yet childless couples and older, higher medical risk employees and spouses. Although no such practice was revealed by the survey, employer contributions to family coverage could be related to the number of dependents of a given employee.

Most states identified the major carrier for the states' health insurance plans. Three states have such alternatives available that no specific carrier was identified. The state's contribution rate may be a fixed amount, but the employee may be free to "shop" alternative plans (other than the prevalent health maintenance organization option). Three states — Montana, Oklahoma and Utah — report that they are self-insured for medical coverage. Utah is the only state which also self-administers its plan (direct claim payment).

Since health insurance was also the topic of another interim study by the Special Committee on State Health Insurance, staff reported on the activities of that Committee. The report reviewed principally the responsibilities and activities of the State Surety Bonds and Insurance Committee.

Social Security Withdrawal. As an exploratory means of studying the feasibility of state withdrawal from the Social Security system, the Committee received a report from staff on the retirement system in Colorado, a state that does not provide Social Security coverage for state and local government employees except those who participate in TIAA-CREF. The 1950 amendments to the Social Security Act of 1935, which did not provide coverage for state and municipal employees, contained permissive authority for state and local units to participate. That legislation also provided for voluntary withdrawal from Social Security by those governmental units, but once coverage has been terminated, it cannot be reinstated.

The Colorado Public Employees Retirement Association (PERA) was created before the availability of Social Security coverage and Colorado has never participated in Social Security. PERA offers a defined benefit plan with provisions for inflationary adjustment, survivor and disability benefits, limited medical benefits and opportunity to repurchase coverage for previous years of service. PERA cites major advantages of its system as one which provides a total benefit that is actuarially funded and from which the employee can always receive the amount invested. Principal disadvantages appear to be the lack of portability and a reduced health benefit package.

Conferee Testimony. Officials from the Department of Administration appeared on two separate issues. Darrell Hoffman addressed a number of concerns that have been discussed by an ad hoc committee on fringe benefits that he chairs. He stressed the need for a central oversight organization that would provide a comprehensive approach to employee fringe benefits, citing the current separate administration of retirement benefits, health insurance, unemployment benefits and worker's compensation as a situation that could be improved. He also advocated consideration of a "cafeteria-type" benefit package that allowed employees to choose the type of benefits that they most desired within a fixed dollar range.

George Welch, Department of Administration, appeared before the Committee to explain that the Department has recently contracted with a consultant to evaluate the state's health insurance program and explore the feasibility of self-insurance. He noted that the contract was initiated in response to rising insurance costs.

Jo Ann Klesath, Kansas Association of Public Employees (KAPE), endorsed the concept of the cafeteria-style approach to fringe benefits. She reported that a survey of KAPE members revealed the following concerns: early retirement, sick leave for dependent illness, increased vacation leave, dental insurance, flex-time and escalating health insurance costs.

Fringe Benefits - Regents' Employees

Background. Except for the retirement plan for unclassified employees, the fringe benefits for employees of Regents' institutions are the same as those provided for other state employees. Faculty members and certain administrators at Regents' institutions participate in a retirement program known as TIAA-CREF (Teachers Insurance and Annuity Association and College Retirement Equities Fund). These are two nonprofit companion organizations which, in contrast to KPERS, function as "defined contribution" plans, i.e., contribution rates are fixed and the amount of the benefit at retirement is based on the following factors: contribution rate levels, salary levels, years of participating service, and investment earnings. At the present time, employee and employer contribution rates are set by statute at 5 percent of covered payroll. Contributions commence after a waiting period of two years from the time of employment for persons not already members of TIAA-CREF. The employee may also make extra payment to TIAA-CREF annuities at any time. Such additional contributions may be made, subject to administrative rules and regulations, under a tax sheltered annuity program whereby the additional contributions would be tax deferred.

Participants can choose any percentage distribution of contributions between TIAA (a fixed dollar fund) and CREF (an equities fund) in order to enhance the amount of their retirement benefits. Participants also have a higher degree of flexibility (or portability) to move from one institution to another, in-state or out, and still maintain their plans. Participation can continue even if an employee moves to an institution not covered by TIAA-CREF or takes a job outside the field of education. The amounts already set aside in TIAA-CREF would continue to be credited with investment earnings without additional contributions. Further, if an employee terminates payment, upon a change in jobs, he or she could later resume payment without making the omitted payments.

It is the portability to most higher education institutions throughout the country which makes the TIAA-CREF program attractive to most Regents' faculty and unclassified staff. However, because the amount of retirement benefits are so directly linked to the amount contributed (unlike KPERS where the benefits are defined), concern has frequently been expressed over the size (5 percent) of the state's contribution.

<u>Committee Activities</u>. Because of the size of the Regents' institutions and the large number of both classified and unclassified employees, the Committee devoted one meeting day in August to hearing testimony relating to Proposal No. 31 from conferees representing the Board of Regents, the Regents' institutions, and their employees.

The initial presentation was made by Mr. James W. Pickert, Chairman, Kansas Board of Regents. Mr. Pickert spoke on behalf of the Board in emphasizing its judgment as to the importance of a review of fringe benefits for all state employees — including classified and unclassified staff at

Regents' institutions. He noted how fringe benefits for faculty and staff at Regents' institutions appeared to lag behind benefits offered to staff at other, similar institutions. Mr. Pickert discussed past Regents' requests for increasing the employer's contribution for unclassified staff retirement and indicated that for FY 1984 the Board was requesting that the employer's contribution be raised from the existing 5 percent of salary to 6 percent.

Dr. Clark Ahlberg, President, Wichita State University, spoke on behalf of the Presidents of the Regents' institutions. He reiterated Mr. Pickert's concerns as to how the levels of fringe benefits for employees at Regents' institutions are lower than those provided for employees at other institutions. He recommended that state contributions for retirement be increased, that an early retirement option be made available, that additional health insurance options be provided, and that equity in retirement benefits for classified and unclassified personnel be achieved.

Dr. James E. Seaver, Professor of History and President of the University of Kansas Faculty Senate, appeared representing the faculty senates at each of the Regents' institutions. He described faculty concerns over the level of fringe benefits provided by the state, particularly in the area of the employer's contributions to faculty retirement. Dr. Seaver identified the two areas of major concern to faculty senate presidents as increasing the state's contribution to employee's retirement funds and implementing an early retirement program. With regard to the former, he noted that the faculty senate presidents proposed to the Board of Regents that the state's retirement contribution be increased to 7.5 percent for faculty with zero through seven years of service and to 10 percent for faculty with more than seven years of service.

Ms. Gail Hamilton, President of the Classified Senate at the University of Kansas, appeared to represent the views of classified employees of the Regents' institutions. She expressed concerns over both the quality and variety of fringe benefit programs available and identified a number of recommended changes developed from a survey of classified employees at the University of Kansas. These recommendations were focused in the areas of retirement, health insurance, and sick leave. Included among the recommendations were such items as developing the same retirement program benefits for both classified and unclassified staff; shorter retirement vesting period; optional variable retirement contribution rates for employees; a cafeteria (multiple option) approach to health insurance; health insurance riders for dental, optical, and prescriptions; pro-rated health insurance premiums based on number of dependents; return on health insurance premiums for good health; use of sick leave for family illness; and excess sick leave accumulation plan with compensation.

Dr. Jerome Frieman, Kansas State University, testified on behalf of the Kansas Conference of the American Association of University Professors (AAUP). Dr. Frieman again emphasized the relatively low state retirement contribution for faculty and emphasized the need to significantly improve this aspect of faculty fringe benefits. He noted that the Faculty Sentate at Kansas State University endorsed an employer's retirement contribution of 10 percent of salary to be phased in with 1 percent increases per year.

Mr. James Hammer, Fort Scott, appeared to discuss the possibility of allowing Regents' faculty the option of participating in retirement programs other than TIAA-CREF. At present, the "base" retirement program of 5 percent employee/5 percent employer contribution is underwritten by TIAA-CREF. If an employee voluntarily wishes to contribute more than the 5 percent, the retirement program can be underwritten by TIAA-CREF or any life insurance company authorized to do business in the state. Mr. Hammer noted that while the Board of Regents currently has statutory authorization to contract with companies in addition to TIAA-CREF for the base program, he felt it was important for the Legislature to consider this matter as it involves substantial sums of state funds through the 5 percent employer's retirement contribution.

The Committee requested additional information on possible early retirement options and at its September meeting received additional testimony on this topic as it relates to unclassified staff at the Regents' institutions. Appearing on September 22, 1982 to represent the Board of Regents was Mr. William R. Kauffman, Staff Attorney.

Mr. Kauffman reviewed the activities of the Board of Regents relative to the development of early retirement proposals for unclassified staff under the Regents' retirement system. Mr. Kauffman noted that the Board had considered early retirement options since the mid-1970s but had been concerned over the actuarial impact of the proposals. The Board requested funds of the 1979 Legislature to finance a study and make recommendations on an early retirement system but the funds were not provided for the study until FY 1981. The Board contracted with the firm of Touche, Ross and Company and the study was received by the Board early in 1981. Under the contract, Touche-Ross not only considered actuarial projections associated with various early retirement options, but also undertook an attitudinal survey of faculty and staff regarding early retirement.

Mr. Kauffman discussed the findings of the consultant's report with the Committee but emphasized that the Board is not proposing any particular early retirement option at the present time. He reiterated earlier testimony as to the Board's concern with the overall adequacy of the basic retirement program for unclassified staff.

In reviewing the consultant's report, Mr. Kauffman noted that Touche-Ross recommended that any successful retirement plan should embody at least the following three characteristics: (a) it should encourage early retirement among a substantial percentage of unclassified staff over age 62; (b) it should provide net savings to the institutions involved; and (c) it should be relatively easy to understand and administer. Mr. Kauffman took this opportunity to add that another key factor the Regents' would find desirable in an early retirement option would be the possibility of increased institutional flexibility in the area of staffing. Most institutions throughout the country, and the Regents' institutions are no exception, are anticipating relative stability in the overall size of the faculty over the next decade. Mr. Kauffman suggested that an early retirement plan which allowed for some faculty to retire at an earlier age than now anticipated would increase institutional flexibility through making available resources to hire junior faculty which the institution might otherwise not be able to employ.

Dr. John Visser, President, Emporia State University, testified before the Committee and reemphasized the points made by Mr. Kauffman, particularly as they related to the effect of an early retirement program in increasing institutional staffing flexibility. He noted that some early retirement options might be made available to the institutions through modification of existing statutes regarding fringe benefits -- such as allowing for continued payment of health insurance premiums for employees who choose early retirement. In addition, if the universities could pay the employer's retirement contribution on full-time salaries for a specified period after an employee opted for part-time employment prior to full retirement, some savings could be realized which could be used for the employment of junior faculty members. Both Dr. Visser and Mr. Kauffman indicated that there might be several options available to the institutions which would allow them, within existing resources, to implement incentives for early retirement.

Committee Conclusions and Recommendations

The Committee concludes that a number of the issues that surfaced during this interim warrant further study and that the area of fringe benefits deserves careful and serious consideration by the Legislature. The Committee points to the testimony of one conferee, who estimated that the dollar value of state employee fringe benefits is roughly equivalent to 37 percent of the state's payroll, as evidence of the importance of this area. The Committee is deeply concerned about the rising cost of fringe benefits, particularly health insurance, the impact of those costs on both the state and the employee and the responsiveness of certain fringe benefit policies to individual employee needs as well as to the efficiency needs of the state. The Committee is also concerned about employee disability benefits. While the Committee is prepared to make specific recommendations in some areas, Committee members agree that the complexity of certain other issues requires more time and investigation in more depth than an interim study permits. The following recommendations, therefore, are intended to address both the immediate charge of this Committee and the on-going concerns expressed by both Committee members and conferees.

With regard to unclassified employees at Board of Regents' institutions the Committee recommends three items pertaining to retirement programs. The first recommendation is that the state's current contribution of 5 percent of salary to the base retirement program not be increased at this time. While the Regents have requested an increased contribution from 5 to 6 percent, the Committee feels that the constraints on the state's resources are such that this request should not be granted.

The Committee also recommends that the Board of Regents strongly consider increasing the base retirement program options available to unclassified employees at Regents' institutions. At present, the basic retirement program available to Regents' unclassified staff is through the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). The Committee endorses the Board of Regents contracting with other companies in addition to TIAA-CREF so as to give unclassified employees a variety of options regarding the basic retirement program.

Finally, the Committee recommends that the Board of Regents consider and develop proposals for implementing an early retirement plan and semi-retirement, part-time employment program for its unclassified employees. This recommendation is made with the intent of increasing institutional flexibility. The Committee further recommends that the plan(s) developed by the Board of Regents be submitted for legislative consideration and action.

It is also the consensus of the Committee that there be no change in the current method of determining KPERS contributions and benefits. Decisions regarding both contribution rate and retiree benefits should continue on an annual ad hoc basis to enable the Legislature to take into account the current investment earnings while still retaining an actuarially sound plan.

The Committee further concludes that, in addition to the foregoing specific recommendations, the seriousness of fringe benefit matters merits on-going study. The Committee recommends establishment of a standing Joint Committee on State Employee Compensation and Benefits, modeled after the Joint Committee on State Building Construction. S.B. 18 would create such a Committee composed of three members from the House and three from the Senate, would charge the new joint committee with study of compensation and benefit programs and would require the joint committee to report annual recommendations no later than the 40th calendar day of each legislative session. The Committee recognizes that compensation per se was not within the scope of this proposal, nor was it an area of Committee study. However, the Committee is convinced that a study of fringe benefits cannot be isolated from compensation issues and that both areas must be within the purview of the proposed joint committee if its work is to be meaningful. The Committee notes, for example, that a relatively small cost-of-living adjustment for classified employees in one year may be compensated for, in part, by significant benefit changes, to the advantage of both the employee and the state. The Committee concludes that a rational approach to the study of compensation and benefits is severely undermined if the two issues are separated.

The proposed joint committee would be authorized to study the entire range of compensation and benefit issues, but the Committee specifically recommends that the following areas be addressed by such a joint committee:

1. The Committee is concerned about the possible abuse of sick leave by state employees. There is no hard evidence by which to support or refute such abuse, but further investigation into this area could produce this data and provide a basis for a

change in the current policy if warranted. The Committee explored a number of options for discouraging abuse and believes there is a need for more information in this area.

2. The Committee also finds merit in the suggestion that state employees be allowed to use sick leave in the event of dependent illness. The Committee acknowledges that the current prohibition against such use may invite deception by working parents who must stay home with a sick child. On the other hand, the Committee is necessarily concerned about the possible loss of productivity under such a policy. The pros and cons of this change require more consideration than the Committee had time to devote.

3. The Committee recommends that further study be made of the advantages and disadvantages of opting out of the Social Security system. The Committee made some initial investigation, but the far-reaching implications of this proposal require detailed research of alternatives and costs. While the Committee is not necessarily convinced that state withdrawal from Social Security coverage is advisable, it does believe that the current size of combined employer-employee contributions and the apparent problems facing the Social Security system are such that alternatives should be studied.

Respectfully submitted,

December 10, 1982

Rep. William Bunten,
Chairperson
Special Committee on Ways and Means

Sen. Ron Hein, Vice-Chairperson	Rep. Ralph Bussman
Sen. Frank Gaines	Rep. Keith Farrar
Sen. Joseph Harder	Rep. Loren Hohman
Sen. Billy McCray	Rep. Rex Hoy
Sen. William Mulich	Rep. Ruth Luzzati
Sen. Edward Roitz	Rep. David Miller

Attachment C

RE: PROPOSAL NO. 29 - STATE HEALTH INSURANCE PROGRAM*

Proposal No. 29 directed the Special Committee on State Health Insurance to study the feasibility of the state initiating a direct pay health care insurance program to replace the current method of employee health care insurance provided by private vendors under contract, including possible economic savings to the state of such a program, the potential impact on hospital costs and other related health care cost containment issues and the benefits to employees and state versus contracted administration of such a program.

Background

Proposal No. 29 originated from a request by the Senate Committee on Ways and Means which had under its consideration 1982 S.B. 710. S.B. 710, briefly stated, would have established a "state health care self-insurance plan of health care benefits" under the authority of the Board of Trustees of the Kansas Public Employees Retirement System. The provisions of the bill raised issues concerning the state's employee health insurance program which could not be resolved in the time available to the Committee on Ways and Means. However, the Health Insurance Committee's charge under Proposal No. 29 was not limited to studying the provisions of S.B. 710.

Background materials reviewed by the Committee indicate that a broad spectrum of alternatives in financing employee health care benefits has evolved over the years, and these alternatives apply to public and private employers alike. For the purposes of this report, it is not necessary to elaborate all of these alternatives and the numerous permutations thereof. However, it is important to identify the two extremes in this spectrum of alternatives available to employers. At one extreme is conventional full insurance, under which all risks are assumed, at a price to the employer, by an

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* S.B. 12 accompanies this report.

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insurance carrier. At the other extreme is self-funding and self-administration by the employer who assumes all risk and pays employee health claims directly without a third party involvement. This Committee has construed the term "direct pay," as used in its charge, to refer to the self-funding and self-administering alternative or the alternative which is a step away, self-funding but administration through contract with a third party.

The state of Kansas has always been a fully insured employer with respect to its program of employee health benefits. The 1969 Session of the Legislature established the present system by delegating to the Surety Bonds and Insurance Committee the authority and responsibility to enter into group health insurance contracts on behalf of the state and authorized state payment of the single-member premium for active employees.

Only two major changes have taken place since the 1969 enactment. The Surety Bonds and Insurance Committee, in addition to the group health insurance contracts, has been authorized to contract with one or more health maintenance organizations. The 1975 Legislature mandated state payment of the single-member premium for active employees beginning with the 1975-76 policy year.

The Surety Bonds and Insurance Committee is an *ex officio* body composed of the Insurance Commissioner as chairperson, the Attorney General and the State Treasurer. The law requires that body, on or before July 15 of each year, to certify to the Director of the Budget the estimated amount of the single-member health insurance premium payable from agency budgets in the fiscal year commencing the next July 1, and each agency is directed to utilize such estimate in its budget request. The law obligates neither the Governor nor the Legislature to include the full estimated amount of state-payable health insurance premiums in the recommended or approved budgets, but not to do so would appear to express an intention that benefits should be adjusted, whether or not any such adjustments were explicitly identified. Since the 1975 amendment mandating state payment of the single-member premium, no such gubernatorial or legislative change in budgets has been made.

The state's initial contribution per employee per month for health insurance under the 1969 legislation was \$8.32. For the current fiscal year, the state monthly contribution for nearly identical benefit coverage is \$66.70, an eight-fold increase. The estimated fiscal 1984 cost per employee per month of \$94.49 is contained in agency budget requests, an increase of more than 40 percent over the current amount and a more than 11-fold increase above the original monthly state contribution. The cost to employees for coverage of their dependents has increased at approximately the same rates; the monthly cost to the employee in the current year is \$112.64.

Actual state expenditures from all funds for health insurance contributions totaled \$22.4 million in fiscal year 1982. Projecting fiscal year 1982 costs on the basis of known and estimated premiums, the fiscal year 1983 expenditures would be \$27.2 million and fiscal year 1984 expenditures would be \$38.5 million.

Testimony

The work of the Committee was greatly assisted by the testimony of its conferees, some of whom were specifically asked for their input while others responded to the opportunity to offer testimony. A wide variation of expertise and perspective was represented by the conferees who are listed in order of appearance before the Committee, as follows:

T. Lusk (Tom) Wands, Administrator of the Boilermakers National Health and Welfare Fund and Member of the Board of Trustees, Kansas Public Employees Retirement System (Committee made a site visitation of the Boilermakers' operation)

Richard D. Brock, Kansas Insurance Department, representing the Surety Bonds and Insurance Committee

Marshall Crowther, Executive Secretary, KPERS

John P. Mackin, Martin E. Segal Company, consulting actuaries

Linn J. Baker, Administrator, Public Employees Health Program, State of Utah (a self-funded and self-administered program for the last five years)

Wayne Johnston, President, Kansas Blue Cross and Blue Shield

Dennis Calvert, Agent, Continental National American (CNA) Insurance Group

Ronald B. Finney, Vice President, R. B. Jones Corporation (affiliate of Alexander and Alexander insurance brokerage firm)

George Welch, Director, General Services Division, Department of Administration

Jerry Slaughter, representing the Kansas Medical Society

JoAnn Klesath, Executive Director, Kansas Association of Public Employees

Patrick J. Hurley, Secretary of Administration

W. Keith Weltmer, Former Secretary of Administration and Legislative Post Auditor

As indicated by the diverse interests represented by conferees, the Committee heard testimony pertaining to national aspects of health care costs and experiences of other employers, both public and private, as well as testimony pertaining to the particular situation with respect to the state of Kansas' employee health benefit program.

The Committee heard testimony concerning the rapid increase nationwide in health care costs, about the concerns of both employers and employees as to the trend in health care costs, and about many alternatives being pursued to contain such costs. Among such alternatives are different ways that employers are organizing and financing employee benefit programs, a large variety of efforts to induce employees to restrict to essentials their use of the health care system, and efforts directed to the health care system itself in an effort to contain costs. Conferees, although expressing satisfaction that the many alternatives were worthwhile, did not purport to be offering for the Committee's consideration "The Solution" to what was perceived to be the burden of health care costs.

The Committee learned from the Secretary of Administration that concerns about the cost of the state's group health insurance plan had led him to contract with an actuarial consulting firm in the first part of October to study present contract performance and to recommend alternatives. The report is to be available in January.

Conclusions and Recommendations

The Committee concludes that the state of Kansas, as an employer, should make a much greater effort in the future to hold down the costs of the health benefits program which it makes available to its employees. In this effort, the state will need the help of its employees through their participation in programs for better health and avoidance of unwarranted use of benefits. Increased cost containment efforts are perceived to be needed in the long run, even in the absence of any short term financial difficulties in which the state may find itself. The Committee concludes that such efforts require legislation to change administrative responsibility for the program; to provide for the application of all reasonable options in the design, financing, and operation of the program, including latitude in purchase of services from specified or preferred providers of health care; and to provide enhanced opportunities for legislative oversight.

The Committee recommends passage of S.B. 12. The bill would carry out the following changes in existing law as recommended by this Committee:

1. Effective August 1, 1984, administrative authority for the design and implementation of the state employee health benefits program

would be vested in the Department of Administration on the basis that the program should be the responsibility of the state's agency for central management.

2. The Secretary of Administration is required to submit annually to the Legislature recommendations and alternatives with respect to the health benefits program for state employees together with cost estimates, including a five-year projection of the cost of the proposed program.

3. The Secretary of Administration may at his discretion establish an advisory committee for policy development with respect to all employee fringe benefits, except for those administered by KPERS. If the Secretary establishes such a committee, it should be broadly representative, including executive and legislative fiscal representation, employees, the Division of Personnel Services and other representation from the Department of Administration, and any other public or private representation deemed desirable by the Secretary; but membership is not prescribed in the bill.

4. To provide options for cost containment in the design of a health benefits program for approval by the Legislature, permissive authorization is provided as follows:

    a. optional self-funding;

    b. optional self-administration;

    c. contractual agreements with particular health care providers without competitive bidding restrictions (but competitive bidding in the case of insurance and administrative services contracts is required);

d. flexibility as to benefits provided and those payable by the state (e.g., removes present requirement that the state shall pay the single member premium; state program may offer optional benefits to employees); and

e. broad authority in determining eligibility for the state health benefits program.

Respectfully submitted,

September 16, 1982

Sen. Paul Hess, Chairperson
Special Committee on State Health Insurance

Rep. Harold Dyck, Vice-Chairperson
Sen. Jack Steineger

Rep. Don Mainey
Rep. Burr Sifers