

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS

The meeting was called to order by Senator August "Gus" Bogina at
Chairperson

11:00 a.m./p.m./on January 21, 1986 in room 123-S of the Capitol.

All members were present except: Senators Gaines and Talkington

Committee staff present:

Research Department: Robin Hunn, Scott Rothe, Alan Conroy
Committee Office: Judy Bromich, Doris Fager

Conferees appearing before the committee:

Marshall Crowther, Executive Secretary, Kansas Public Employees Retirement System

INTRODUCTION OF BILLS

The Chairman explained that the committee needs to make a formal motion to introduce all appropriations bills originating in the Senate. Motion was made by Senator Johnston and seconded by Senator Werts to introduce those bills. The motion carried by voice vote.

Senator Bogina then explained that there are several bills carried over from the 1985 session which have either been incorporated into other measures or are no longer needed. Those bills are listed below.

SB 180 - Concerning the time for payment of taxes by insurance Companies

SB 296 - Limiting construction, modification or establishment of hospitals prior to July 1, 1987

SB 370 - Taxes on sales of alcoholic beverages by clubs, etc.

SB 392 - Authorizing establishment of a work release center in Wyandotte County.

HB 2017 - Retirement benefits for local school annuitants

HB 2220 - KP&F Retirement System: employer affiliation thereto

Motion was made by Senator Johnston and seconded by Senator Gannon to report all of the above bills adversely. The motion carried by unanimous voice vote.

The Chairman introduced Mr. Crowther and asked that he review pertinent information concerning KPERS.

Mr. Crowther stressed that the word "public" is important when speaking of KPERS, since it includes not only state employees, but county, city, special district, schools, etc. He added that his office also handles the Kansas Police and Fire retirement system, providing benefits for police, firefighters, and emergency medical technicians; and the Kansas Judges Retirement System. He continued by explaining that the retirement systems administered by his office are "defined benefit plans" as opposed to "defined contribution plans." The benefit philosophy attempts to provide a basic level of income for career employees. He noted that years of service and level of income are factors in determining retirement benefits. He explained that there are varying retirement ages in the systems. He further reminded the committee that benefit levels are set by the Legislature and can be changed.

Mr. Crowther distributed the KPERS Comprehensive Annual Financial Report for the fiscal year ended June 30, 1985; and the May, 1985 issue of KPERS PAPERS. He referred to these attachments during his review of the organization.

Mr. Crowther stated that KPERS is based on sound actuarial principles, and is probably one of three or four funded public retirement systems in the United States.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS

room 123-S, Statehouse, at 11:00 a.m./p.m./ on January 21, 1986

Mr. Crowther stated that employees have an annual fixed contribution into the retirement fund, and employers' contributions are determined actuarially as needs of the system are revealed. At the present time, employer contributions for non-school employees are 4.3% of annual salary; school, 4.0%; and judges, 8.7%. He added that KP&F contributions vary with each employer.

At this point, Mr. Crowther reminded the committee that employer contributions for retirement benefits for school employees come from the State General Fund. He said that, assuming the employers' rate is 4% and there is a \$1 billion school payroll, it means that \$40 million from the SGF is being used for employer contributions and is, in effect, something the state is doing for schools at the local level.

Mr. Crowther referred to the KPERS report as he reviewed the sources of earnings from the fund (See Page 4, Attachment A). He said that, if there are not too many adverse happenings to affect the fund balances, there should be a further lowering of the rate.

Mr. Crowther said that the KPERS Board made a policy decision last year concerning investments in companies doing business in South Africa. The policy adopted is as follows: (1) the Board has great concern and disapproval of disregard for basic human rights; (2) as trustees of the fund, the highest responsibility is to the members of the fund; and (3) in light of the first two points and after consulting with counsel, they decided that it was not appropriate to conduct business with companies in South Africa who have not signed the "Sullivan Principal" regarding fair treatment of all people.

At the time the above policy decision was made by the KPERS Board, there was an investment of \$26 million in eight companies. Sales of these investments were to take place in the normal process of investing. This was done, and there are now no investments in those companies.

Mr. Crowther then commented on the KPERS investments in Kansas, noted in the annual report on pages 8 and 62. He explained the various methods used for investments in the state.

At Senator Bogina's request, Mr. Crowther commented on the Governor's proposal for a non-contributory retirement plan for state and school employees. He suggested that the employee's dollar has less value to a retirement system than an employer's dollar. He explained that an employee may terminate employment and withdraw his contribution to the system, but employers' dollars stay in the system, in spite of the fact that an individual resigns and withdraws. Thus, according to Mr. Crowther, the retirement system would benefit by having all employers' dollars invested.

Mr. Crowther reiterated the Governor's reasoning for the proposal, stating that it would take less state dollars to provide the same amount of money to each employee by paying the retirement contribution than it would to provide salary increases. From the employees' standpoint, they would end up with the same amount of take-home pay with one percent less paid out of the state general fund if the KPERS contributions were made solely by the employer. He warned the committee that there would be opposition to the Governor's proposal. One reason would be the philosophy that employees should pay something into their retirement; another that employees should make the decision; and another that employees may feel they would lose control if they do not make contributions or that their contribution should be raised to provide better benefits.

In answer to a question from Senator Bogina, Mr. Crowther said KPERS did not lose money when they divested from companies doing business in South Africa. There were questions from other committee members, also.

APPROVAL OF MINUTES

Motion was made by Senator Doyen and seconded by Senator Winter to approve the minutes for January 15, 1986. The motion carried by voice vote.

The meeting was adjourned by the Chairman.