Approved January 27, 1987
Date

MINUTES OF THE HOUSE COMMITTEE ON PENSIONS, INVESTMENTS AND BENEFITS.

The meeting was called to order by REPRESENTATIVE VERNON WILLIAMS at
Chairperson

9:00 a.m./p.m. on Tuesday, January 27, 1987 in room 527-S of the Capitol.

All members were present except:

Representatives Duncan, Justice and Wisdom - excused.

Committee staff present:
Richard Ryan
Alan Conroy
Gordon Self
Rosalie Black

Conferees appearing before the committee:

Alan Conroy, Kansas Legislative Research Department
Gordon Self, Revisor's Office

The meeting was called to order by Representative Williams, Chairman, for a staff review of interim committee bills.

Alan Conroy, Kansas Legislative Research Department, reviewed retirement issues of Proposal No. 38 from the Interim Special Committee on Ways and Means.

Mr. Conroy also briefed the committee on testimony during the interim by Dr. John Mackin, Senior Vice-President, Martin E. Segal Company and the KPERS consulting actuary; a KP&F study done by the Legislative Division of Post Audit; testimony by Susan Irza, Director of the State Division of Personnel Services, concerning early retirement programs; and testimony by Marshall Crowther, Executive Secretary of KPERS, involving an appropriate rate for employers to contribute for employees' retirement and concerns that retirants have for health insurance. Attachment 1.

Gordon Self, Revisor's Office, pointed out changes in the bills recommended during the interim. Also he told committee members they could refer to the interim committee report or to the legislative summary done by Marshall Crowther whenever they need a synopsis of a committee bill.

The six bills reviewed by Mr. Self and Mr. Conroy are as follows: House Bills 2029, 2030, 2031 and 2033 sponsored by Special Committee on Ways and Means. Senate Bills 6 and 8 sponsored by Special Committee on the Court System.

The meeting adjourned at 9:35 a.m.

Vern Williams

Please PRINT Name, Address, the organization you represent, and the Number of the Bill in which you are interested. Thank you.

1-27-89

NAME	ADDRESS	ORGANIZATION	BILL NO.
HAROLD PITTS	Topeka	KCOA	
Basil Covey	Topeka	KRTA	
Jim Kaup	Topeka	League of Kansas Municipalities	
BERNIE HAVEN	TOPEKA	" " "	
Capt. Don Pickert	Topeka	K.H.P.	
TROOPER RAY BAILIFF	LEAVENWORTH	KSTA	
Craig Grant	Topeka	K-NEA	

RE: PROPOSAL NO. 38 -- RETIREMENT ISSUES*

Proposal No. 38 directed the Special Committee on Ways and Means to review the early retirement options for Kansas Public Employees Retirement System (KPERS) members, including work restrictions and also review the death and disability benefits for members of the Kansas Police and Fire Retirement System (KP&F).

During the 1986 Legislature considerable discussion was held on providing additional early retirement options for KPERS members. The discussions included providing an early retirement option at age 55 with a full actuarial reduction, or allowing a two-year window for retirement with 35 or 40 years of service, regardless of age, and a one-year window for retirement with 30 years of service, regardless of age. Attention during the session also focused on whether those individuals who retire should have some type of restrictions on returning to the work force. Given the magnitude of the policy issues and the far reaching effect on the retirement system if permanent early retirement enhancements were enacted, the Legislature recommended that both issues be studied further during the 1986 interim. In addition, the 1986 Legislature held discussions on the adequacy and equity of death and disability coverage of KP&F and KPERS-Correctional members.

Background

Kansas statutes regarding early retirement currently provide for normal KPERS retirement at 65 years of age and early retirement at 60 with ten years of credited service. Those individuals who retire prior to age 65 are subject to a reduced benefit of 0.3 percent per month for each month prior to attainment of age 65. For example, an individual who retires at age 60 would receive a monthly benefit that is reduced by 18

* H.B. 2029, H.B. 2030, and H.B. 2031 accompany this report.

Attachment I

percent. Prior to 1981, the reduction for early retirement was 0.6 percent per month under age 65. Effective July 1, 1981, early retirement benefits were increased temporarily by cutting the reduction factor in half -- from 0.6 percent to 0.3 percent per month under 65. The early retirement reduction factor of 0.3 percent per month, which originally was to expire in 1984 was extended to 1987 by legislation enacted in 1982 and made permanent by legislation enacted in 1984.

The 1986 Session of the Legislature provided for full retirement benefits during the period July 1, 1986 to July 1, 1988 to those individuals who retire at age 60 with at least 35 years of service and to any individual with 40 years of service, regardless of age. Kansas statutes provide exceptions for certain state correctional employees who are members of KPERS-Correctional. These exceptions provide a normal retirement age of 55 and an early retirement option at age 50 for correctional officers, unit team personnel, and supervisors. Power plant operators, correctional industries personnel, food service employees, and maintenance supervisors, who have regular contact with inmates, have a normal retirement age of 60 and an early retirement option at age 55. The early retirement option is subject to an actuarial reduction.

Currently, there are no restrictions on post-retirement earnings for retirants of KPERS, which is similar to the Judges' Retirement System. However, retirants of KP&F may not be employed by the same department for more than 30 days in any calendar year. The 1978 Session of the Legislature abolished all employment restrictions on retirees who were receiving benefits from KPERS. The change permitted a retiree to work and experience no reduction in KPERS benefits. However, a retiree is restricted from making contributions to the retirement system or from receiving service credit for service following the date of retirement. Prior to 1978, Kansas law provided that a retirant could not receive a retirement benefit for any month for which he or she was employed by the state, city, county, or other political subdivision of the state. Several exceptions were made for retirants to be employed and still receive their retirement benefits. The exceptions included serving as a juror; as a witness in any legal proceeding or action; as a school crossing guard or a school crossing patrol officer; as an election board judge or clerk; employment by the state, city, county, or other political subdivision for a period not to exceed 90 days in any one calendar year; and a retirant who was elected or appointed to any office of the state, city, county, or other political subdivision for which the annual rate of compensation did not exceed $2,400.

KP&F is composed of approximately 5,200 active, inactive, and retired members and over 41 employers. The employer contributes an amount required to pay current service liabilities and to fund prior service costs. Each employer has a separate rate which for local units of government in FY 1987 averages 16.4 percent; Kansas Bureau of Investigation, 14.3 percent; and the Kansas Highway Patrol, 15.9 percent. The employee contributes 7 percent of gross compensation until after 35 years of credited service or attainment of age 60 and 20 years of credited service at which time the rate drops to 2 percent. The KP&F duty-caused death benefits definition includes any service-connected accident, and for members with five or more years of credited service, heart and lung disease is presumed to be service-connected. The actual KP&F duty-caused death benefits include 50 percent of the member's final average salary to the surviving spouse until death or remarriage, 10 percent for each child, until the youngest attains age 18, with a 75 percent final average salary family maximum. If the deceased member had no spouse or children, the member's contributions plus interest credited after June 30, 1982, go to the beneficiary. KP&F nonduty-caused death benefits provide return of the member's actual contributions, with interest credited after June 30, 1982, to the beneficiary if the member had less than five years of service. For those individuals with five or more years of service the surviving spouse receives a lump sum benefit of 100 percent of the member's final average salary (FAS) plus 2 percent FAS per year of service (payable at spouse's age 50 unless there are unmarried children under age 18). If the member had no spouse or children, the member's actual contributions without interest would be paid to the beneficiary.

KP&F duty-caused disability benefit definition is, totally and permanently disabled as a police officer or firefighter, which may be physical or mental, but must be caused by a service-connected accident. For members with five or more years of credited service, heart and lung disease is presumed to be service-connected. The actual duty-caused disability benefits provide 50 percent FAS for the employee, 10 percent FAS for each held, with a family maximum of 75 percent. Disability benefits for nonduty causes provide return of the member's actual contributions (with interest credited after June 30, 1982) for members with less than five years of service. For those individuals with five years or more of service the benefit is 2 percent FAS per year of service, after 180 days disability, with a benefit limit of 50 percent FAS.

Committee Activity

Committee hearings provide all interested parties the opportunity to appear before the Committee. The following is a summary of the principal testimony and recommendations of the conferees.

KPERS Consulting Actuary. Dr. John Mackin, Senior Vice-President, Martin E. Segal Company and the KPERS consulting actuary, appeared before the Committee to review early retirement options, retirement work restrictions, and death and disability benefits for members of KP&F. Dr. Mackin testified that early retirement is a broad question of public policy that can affect many things including productivity, personnel, salary costs, and retirant health care. He stated that there has been an increase in the number of individuals retiring before age 65 in Kansas. Dr. Mackin indicated there are many factors that can determine when an individual retires, including social and temporary early retirement provisions. He indicated that the Committee could consider several types of changes to the existing early retirement provisions including retirement based on years of service (20, 25, 30, or 35 years) regardless of age; a combination of the individual's age and years of service; reduction of the normal retirement age from age 65 to 62 or 60; and provision for a full actuarial reduction for each month the individual is less than age 60. Dr. Mackin also testified that some states have attempted to use early retirement incentives to avoid layoffs of the state work force. These programs, according to Dr. Mackin, have met with mixed results.

Dr. Mackin next addressed work restrictions and indicated that any type of retirement restriction was difficult to deal with since it is usually unclear as to what level of work activity is permitted. He stated that some states have imposed an earnings rule which permits individuals to retire and still earn up to a certain level of income without any loss of retirement benefits. Other states have permitted the retirant to substitute for active employees without any retirement benefit penalty. However, Dr. Mackin stated that there have been cases of abuse concerning post-retirement earnings, for example, where an individual will retire one day and return to the same position the next day. Dr. Mackin recommended that the Committee consider either continuing with no restrictions on post-retirement earnings or give KPERS the authority to enforce any restrictions that might be put in place.

Dr. Mackin reviewed the existing KP&F death and disability benefits. He also contrasted the differences in death and disability benefits between KPERS and KP&F. He suggested that the KP&F nonduty-disability benefit service requirement (five years) could be eliminated and some type of minimum disability benefit of 20 to 25 percent for nonduty-caused disability could be granted. He also recommended placing an earnings restriction on KP&F disabled members. In terms of a death benefit, Dr. Mackin stated one always needs to evaluate the individual's own responsibility for a death benefit. He did suggest that the nonservice-connected death benefit requirement of five years of service be removed. Dr. Mackin also suggested moving KPERS-Correctional members back into regular KPERS.

Study

Legislative Division of Post Audit. The Legislative Division of Post Audit conducted a study on the KP&F Retirement System including membership, contributions, and retirement and disability benefits. The study concluded that membership in KP&F had grown significantly during the last ten years. As a result, total contributions made to KP&F by both employers and employees have also increased, although the contribution rate for individual employers has declined. The study pointed out that employers contribute more to KP&F than do the employees. The study also indicated that the average benefits paid to retired members of KP&F are about three times as large as the average benefits paid to nonschool retirants from KPERS. Post Audit stated that several factors account for the difference, including KP&F members have higher benefit levels, higher salaries, and more years of service. The study concluded that provisions of KP&F are similar to public safety personnel retirement plans in other states and in the four localities in Kansas that maintain their own retirement plan.

State Division of Personnel Services. Susan Irza, Director of the State Division of Personnel Services, appeared before the Committee to discuss early retirement programs. She indicated that early retirement programs may increase mobility within the work force, respond to employee requests for early retirement, avoid layoffs, improve morale, enhance affirmative action programs, and possibly save salary and wage costs. She urged the Committee to have clear objectives of what is to be accomplished with an early retirement program before any changes are made.

KPERS. Marshall Crowther, Executive Secretary of KPERS, appeared before the Committee and indicated that one of the biggest issues facing KPERS was the appropriate rate for the employers to contribute for employees' retirement. He noted for FY 1987 the employer would contribute 3.9 percent versus the 4.0 percent that the employee will contribute. Mr. Crowther also discussed the concerns that retirants have for health insurance.

Conclusions and Recommendations

The Committee acknowledges the importance of providing a fair and equitable early retirement option for those members of KPERS who elect to retire prior to the normal retirement age of 65. Early retirement can provide a proper opportunity for those individuals who wish to retire and at the same time strike a balance with the needs of KPERS. The action of the 1986 Session of the Legislature established a two-year "window" of eligibility for certain individuals to retire early at full benefits. During the first four months of the program 147 individuals have taken advantage of the special retirement program.

To address the Committee concerns on providing a permanent early retirement option for KPERS members the Committee recommends H.B. 2031 which will provide a new early retirement option effective July 1, 1987. The enhancement would allow early retirement for KPERS members at age 55 with 30 years of service. However, there would be actuarial reductions of .6 percent per month for each month the individual is less than 60 years of age and .3 percent per month for each month the individual is less than age 65. The early retirement enhancement would not have any actuarial cost since the .6 percent per month reduction represents the full actuarial cost to KPERS and the .3 percent per month reduction is already part of the existing early retirement program. The Committee believes this change will permit those individuals with 30 years of service who wish to retire early the option to make that choice.

The Committee notes the need for certain adjustments in the death and disability benefits of KP&F members and disability benefits for members of KPERS and the Judges' Retirement System. To address these concerns the Committee recommends that H.B. 2030 be introduced during the 1987 Session of the Legislature. Currently members of KP&F must serve five years before receiving nonduty-caused disability benefits or before the member's survivors would receive nonduty-caused death benefits. The Committee notes that often during the beginning years of a police officer's or firefighter's career their obligations to family members or the effects of a nonduty-caused disability may have the greatest impact on the member. The Committee recommends the elimination of the current requirement that KP&F members, with less than five years, receive only their contributions back, with interest credited after June 30, 1982 for nonduty-caused death benefits or nonduty-caused disability benefits. The Committee further recommends that a minimum nonduty-caused disability benefit of 25 percent be established for KP&F members and that KP&F members be allowed to participate in the KPERS group life insurance program. The estimated actuarial cost to remove the KP&F five-year minimum service requirement for nonduty death and disability benefits in conjunction with a minimum nonduty disability benefit of 25 percent is an additional employer's contribution of 0.2 percent. The increase would require additional estimated state employer contributions of $27,538 (of which $22,856 would be from the State General Fund) and additional estimated local employer contributions of $168,072. The Committee believes that these changes will provide equity in benefits to the newly hired police officer or firefighter.

The Committee also recommends that within H.B. 2030 an offset on the KP&F disability benefits be established for additional income earned by the member. The bill would provide an offset of $1 in disability benefits for every $2 of outside income earned by the disabled member. The offset reduction could not exceed 50 percent of the disabled member's benefits. The Committee believes that the current situation where outside income for a KP&F disabled member is not restricted is one area that needs to be changed. The Committee bill would address this area and help insure that those individuals on KP&F disability truly need the benefit.

During the Committee's review of disability benefits, the need for adjustment in the regular KPERS program and the Judges' Retirement System became evident. The Committee notes that judges who become disabled after two years of service would only receive a benefit of 10 percent of their final average salary. The Committee recommends that a minimum disability benefit of 25 percent of the judge's final average salary be established to help ensure an acceptable level of financial security for a disabled judge. The Committee also recommends that the regular KPERS program needs to provide a higher level of benefit for KPERS members who become disabled. The Committee recommends that, subject to the KPERS Board of Trustees determination of the adequacy of funds, the KPERS disability benefit be increased from 60 percent of the member's annual rate of compensation to 65 percent.

The Committee reviewed the provisions of the KPERS-Correctional program for selected individuals within the Kansas Department of Corrections. The Committee notes the testimony of Dr. John Mackin, KPERS consulting actuary, which indicated few individuals from KPERS-Correctional were taking advantage of the accelerated early retirement dates available in the program. The Committee discussed how many of the KPERS-Correctional members were either young security officers or retired individuals from federal service who had become security officers. Given the relatively low utilization of the KPERS-Correctional program the Committee recommends H.B. 2029 be introduced which will close the enrollment in the KPERS-Correctional program effective June 18, 1987. All existing correctional personnel in the program as of that date will continue membership, while all new correctional employees would belong to the regular KPERS program. The Committee notes that a cost savings to the state will be generated by closing the KPERS-Correctional program. The employer contributions for the two large KPERS-Correctional groups in FY 1987 are 5.6 percent and 4.8 percent, while the contribution rate for regular KPERS is 3.9 percent.

Respectfully submitted,

November 24, 1986

Rep. Edward Rolfs, Chairperson
Special Committee on Ways and Means

Sen. August Bogina, Vice-Chairperson
Sen. Ross Doyen
Sen. Frank Gaines
Sen. Richard Gannon
Sen. Dave Kerr

Rep. William Brady
Rep. J. Santford Duncan
Rep. Wanda Fuller
Rep. Lee Hamm
Rep. Bob Ott

MINORITY REPORT

The KP&F Retirement System has primary responsibility to adequately provide disability benefits for disabled law enforcement officers or firefighters. The action by the Committee to limit these types of benefits should have been carefully reviewed. However, the proposal to have a bill drafted to limit KP&F disability benefits was made on the last day of the last meeting of the Committee. There were no hearings held on the bill draft and there was no opportunity to receive public testimony on the proposed statutory change.

Respectfully submitted,

Rep. William Brady