Approved February 17, 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.a.m./p.m. on Tuesday, February 17, 1987 in room 257-S of the Capitol.

All members were present except:

Representatives Dyck, Sader, Wisdom and Duncan

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

Conferees appearing before the committee: Richard A. Mills, Secretary of Corrections; Wayne Wianecki, American Federation of State, County and Municipal Employees; Marshall Crowther, Executive Secretary, KPERS; Walter Woods, Dean of Agricultural Experiment Station; Lyell Ocobock, Pooled Money Investment Board; James Maag, Kansas Banker's Association.

The meeting was called to order by Representative Williams, Chairman, for hearings on House Bills 2029, 2033 and 2250; and to introduce a proposal concerning private death and disability coverage for local government employees.

HOUSE BILL 2029 (Fiscal Note attached - Attachment 1)

Richard A. Mills, Secretary of Corrections, recommended that Corrections Officers be allowed to remain in KPERS correctional retirement system (established in July, 1982) rather than becoming regular KPERS members. If HB 2029 passes, KPERS correctional retirement program would be closed June 17, 1987. He added that overcrowded prison conditions have increased the potential for violence against Corrections Officers. Deleting correctional KPERS would deter incentive of prospective applicants ages 23-25 which is the preferable age group the Department wishes to attract into the correctional system. Attachment 2.

Committee members requested Secretary Mills to supply statistics on the number of Corrections Officers who have taken stress related disability and are employed elsewhere.

Wayne Wianecki, American Federation of State, County and Municipal Employees, representing 50,000 correctional employees in the United States, discussed stress and physical danger to such employees.

The Chairman asked for written comments regarding stress disability

CONTINUATION SHEET

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

room 527-S, Statehouse, at 9:00 a.m./p.m. on February 17, 1987

House Bill 2029 (continued)

figures from Mr. Wianecki to be presented at a future meeting.

In answer to a question, Marshall Crowther, Executive Secretary, KPERS, said that KPERS did not ask for the bill but that it was pre-filed by the Special Committee on Ways and Means. The only involvement of KPERS during the Interim was testimony by Dr. John Mackin, KPERS actuary.

HOUSE BILL 2033

Walter Woods, Dean of Agriculture, Director of Agricultural Experiment Station, KSU, urged the committee to defeat HB 2033 which would no longer allow county extension agents to be members of TIAA-CREF. They would instead become members of KPERS. He added the University wanted to continue providing the opportunity for extension faculty to shift to teaching or research positions without loss of benefits. Attachment 3.

HOUSE BILL 2250

Lyell Ocobock, Executive Officer, Pooled Money Investment Board, stated the Board requested HB 2250 to allow the Department to transact repurchase agreements direct with national primary dealers. Current law limits such investment by the Board to be made through Kansas banks. HB 2250 would allow the Board the choice of a national primary dealer or a Kansas bank. Attachment 4.

James Maag, Kansas Banker's Association, indicated the Association has no objection to the passage of HB 2250.

PROPOSAL

Representative Laird moved to introduce a proposal to allow private death and disability coverage for local government employees; seconded by Representative Wilbert. The motion carried.

Minutes were approved for January 21, January 27, January 28 and February 10, 1987.

The meeting adjourned at 9:58 a.m.

Rep. Vern Williams

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

Tuesday, 2-17-87

| NAME | ADDRESS | ORGANIZATION | BILL NO. |
|---|---|---|---|
| Charles Dodson | TOPEKA | KAPE | |
| E J Peterson | Manhattan | KSU | 2033 |
| Joe Mynne | DPS | Topeka | 2029 |
| Walter Woods | Manhattan | KSU | 2033 |
| Roger [illegible] | Topeka | KDOC | 2029 |
| [illegible] | [illegible] | | |
| Phil Anderson | BUDGET DIV | | 2250 |
| Jim [illegible] | Topeka | KBH | 2250 |
| Lyell Overbrook | Topeka | PMIB | 2250 |
| Larry Cowgar | Topeka | KDOC | 2029 |
| Wayne Kuwawecki | TOP | AFSCME | 2029. |
| Jack Hawn | Topeka | KPERS | |
| [illegible] | Lawrence | " | |
| Mike Johnson | Manhattan | KSU | 2033 |

Williams 4-31 N

| 67 | 2029 |
|---|---|
| Fiscal Note | Bill No. |

1987 Session
February 10, 1987

The Honorable Vern Williams, Chairperson
Committee on Pensions, Investments and Benefits
House of Representatives
Third Floor, Statehouse

Dear Representative Williams:

SUBJECT: Fiscal Note for House Bill No. 2029 by Special Committee on Ways and Means

In accordance with K.S.A. 75-3715a, the following fiscal note concerning House Bill No. 2029 is respectfully submitted to your committee.

Enactment of this legislation would amend K.S.A. 74-4914a and K.S.A. 1986 Supp. 74-4914e to provide that security officers, as defined in K.S.A. 74-4914a (a), who are first hired after June 17, 1987, by the Department of Corrections, would become members of KPERS with normal retirement and disability benefits as all other KPERS members.

Under current law, certain employees of the Department of Corrections can retire with unreduced benefits at age 55 (group A) while others can retire with unreduced benefits at age 60 (group B) and others (group C), as well as the aforementioned groups, have the same disability benefits as KP&F members with an offset for social security. Individuals currently in these respective groups on the effective date of House Bill No. 2029 would continue to receive these special provisions. However, newly-hired security officers would have the same retirement and disability benefits as all other regular KPERS members.

By closing the special KPERS-correctional retirement program to individuals hired after June 17, 1987, House Bill No. 2029 would result in a cost savings to the state. The certified employer contribution rates for the two large KPERS-correctional groups for FY 1988 are 5.6 percent for group A and 4.8 percent for group B, while the employer contribution rate for regular KPERS members is 3.9 percent. The future savings to the state, which would reflect cost avoidance of the higher employer contributions, cannot be estimated, due to factors which are unknown at this time, i.e. the number of new hires which will take place after June 17, 1987, and the respective groups these individuals would have been members of under the KPERS-correctional retirement program.

Gary L. Stotts

Gary L. Stotts
Acting Director of the Budget

GLS:DW:sr

Attachment 1
2/17/87

KANSAS DEPARTMENT OF CORRECTIONS

**INTERDEPARTMENTAL MEMORANDUM**

February 17, 1987

TO: Representative Vernon Wiliams, Chairman
House Committee on Pensions, Investments & Benefits

FROM: Richard A. Mills, Secretary of Corrections

SUBJECT: HB 2029, Correctional KPERS

Correctional KPERS was established for a select group of correctional employees effective in July, 1982. This system, administered by the Kansas Public Employees Retirement System (KPERS), differs from regular KPERS in three major areas: The age at which a member is eligible for retirement; disability benefits; and cost to the employer.

The correctional employees covered by the Correctional KPERS program are composed of three groups:

GROUP A

Corrections - specific classifications that have intensive contact with inmates.

Classes in this group are Corrections Officers; Corrections Supervisors; Corrections Counselors; Unit Team Managers; Classification Administrators, Corrections; and certain specified promoted employees. Employees in this group are entitled to normal retirement at age 55, early retirement at age 50, death benefits the same as regular KPERS, and disability benefits substantially the same as Kansas Police and Firemen's Retirement System (KP&F).

GROUP B

Classifications of employees in this group includes power plant, correctional industries, food service, and maintenance personnel who have regular contact with inmates. Individuals are certified to this group by the Secretary of Corrections. These employees are entitled to normal retirement at age 60, early retirement at age 55, death benefits the same as regular KPERS, and disability benefits substantially the same as KP&F.

Attachment 2
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GROUP C

This group includes other employees of the Department of Corrections who have regular contact with inmates. Retirement ages and death benefits for this group are the same as for members of regular KPERS. The disability benefits for this group are the same as for Groups A and B. The Department has yet to certify classes or positions into this group.

IMPACT OF HB 2029

The discontinuance of Correctional KPERS for those persons hired into the above classifications after July 1, 1987, would effect the age at which future employees could retire with full benefits and the disability benefits they would receive for a duty-related disability.

Let us first look at the effects of going from full retirement benefits at age 55 versus age 65. Corrections is a particularly stressful occupation. Studies have shown that Correctional employees are subjected to high levels of work-related stress and also suffer from increased rates of stress-related illnesses. Their divorce rate is twice the rate of blue collar workers.[1] The Federal Bureau of Prisons acknowledged the physical danger and mental stress experienced by prison employees by declaring all employees that work in correctional facilities as law enforcement personnel. They were given corresponding benefits and an early retirement system. (See, Stewart vs. Smith No. 77-0298, Mar. 9, 1982, USCt of Appeals, D.C. circuit.)

Correctional Officers in Kansas have been recognized as law enforcement officers by statute since 1975 (K.S.A. 75-5247a). Their jobs are becoming more difficult and stressful because of the increasing inmate population and corresponding overcrowded conditions. Because of this, I feel it is now more important than ever that officers have the option to retire at age 55 through Correctional KPERS.

The second issu I would like to address is "disability-duty caused." Correct nal KPERS defines duty caused disability as: "Totally and perma tly disabled as a correctional employee. 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 service connected." This states the disability in terms of occupation and provides

1 Cheek, Frances E. and Miller, Marie A., 1983. "The Experience of Stress for Correctional Officers: A Double-bind Theory of Correctional Stress," Journal of Criminal Justice, Vol. 11, No. 2.

for the disability retirement of employees who due to injury or disabilitating illness can no longer perform the duties of a correctional employee without endangering themselves or their fellow employees. Our overcrowded prison conditions have increased the potentialfor violence against our Corrections Officers. These increasing occupational hazards more than justify the need for the duty-caused disability benefits provided by Correctional KPERS. If an employee is injured and can no longer function as a Corrections Officer due to the requirements of the job, compensation through disability benefits is appropriate. Sixteen employees to date have utilized this portion of the retirement program, nine of which have been in the last 24 months..

Thirdly, I feel this bill would adversely affect the management of our institutions. A negative effect on the morale of employees hired after the effective date of this bill is expected as there would exist differing terms and conditions of employment for similarly situated employees. Employee morale is a definite factor in the operational efficiency and control of our institutions. Employee discontent leads to poor job performance, increased absenteeism and turnover, all of which have a negative impact on the management of our institutions. Recruitment efforts would also be impacted as the availability of early retirement is a positive recruitment tool.

In summary, Correctional KPERS has only been in affect for four years. I feel it would be premature to say the program is a failure at this time. Modifications may need to be made to the program so it will reach its maximum benefit. Continuation of Correctional KPERS at this time is strongly recommended.

RAM:dja

2-16-87

# Testimony for House Bill 2033

I am Walter Woods, Dean of Agriculture, Director of Agricultural Experiment Station and Director of Cooperative Extension Service at KSU. Last year we requested the Regents allow a change in the retirement system for Extension employees (faculty members). The process was followed through the system. The request was:

Request:

Effective July 1, 1986:

1. All "new hires" in the Cooperative Extension Service including administrators, state and area specialists and county extension agents, participate in the Regents Retirement Plan, the State of Kansas Health/Hospitalization Plan and the State of Kansas Unemployment and Workers Compensation Plan in lieu of the Federal Civil Service Retirement Plan, Federal Health Insurance Options and Federal Unemployment and Workers Compensation.

   Individuals hired or rehired with a history of participation in the Federal benefits system would be given the option to continue in this system.

2. Extension employees hired on or after January 1, 1984, currently covered by an interim Federal retirement plan, be provided the option of selecting the Regents Retirement Plan or remaining in the new retirement plan that is being considered by the Congress.

Objectives:

1. Provide the opportunity for extension faculty to shift to teaching and/or research positions, and vice versa, without loss of retirement benefits.

2. Alleviate problems associated with joint appointments in extension, research and/or teaching.

3. Broaden the pool of candidates from other states for Kansas extension positions. All research/teaching faculty in Kansas and other states are on a state retirement system. Many states[1], since 1984, are providing either the Federal or State option to new hires in Extension or have eliminated the Federal option entirely.

4. Reduce employer costs of fringe benefits since the projected future costs of the Federal Civil Service Plan is projected to be substantially more than the Regents Retirement System.

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Explanation of Request:

Allowing new hires in Extension to participate in the Regents Retirement System would enhance Kansas State University's capabilities to more effectively manage the resources available for research, extension and resident instruction. As stated in the objectives, it would provide opportunities to shift faculty to other responsibilities without loss of retirement benefits, alleviate problems associated with joint appointments, potentially broaden the pool of applicants available for recruiting from other states and minimize retirement costs of the system.

Cost

The four retirement systems (state and federal) in which Extension faculty might participate and the cost of each to employee and employer are:

| | Employee | Employer | Total |
|---|---|---|---|
| Civil Service Retirement - Old | | | |
| Retirement | 7.0 | 7.0 | 14.0 |
| Medicare | 1.45 | 1.45 | 2.9 |
| | **8.45** | **8.45** | **16.9** |
| Federal Employees Retirement System - New | | | |
| Retirement | 1.3 | 14.8 | 16.1 |
| Social Security | 7.15 | 7.15 | 14.3 |
| Thrift Savings | - | 1.0 | 1.0 |
| Subtotal | 8.45 | 22.95 | 31.4 |
| Optional- Thrift Savings | 10.00 | 4.00 | 14.0 |
| | **18.45** | **26.95** | **45.4** |
| Board of Regents Retirement System | | | |
| Retirement | 5.0 | 7.0 | 12.0 |
| Social Security | 7.15 | 7.15 | 14.3 |
| | **12.15** | **14.15** | **26.3** |
| Kansas Public Employees Retirement System | | | |
| Retirement | 3.9 | 3.9 | 7.8 |
| Social Security | 7.15 | 7.15 | 14.3 |
| | **11.05** | **11.05** | **22.10** |

[1] Nebraska, since January 1, 1984, put all new hires in Extension on state retirement (includes TIAA-CREF) with no Federal option; Oklahoma provides the new hire with the option of Federal or State (including TIAA-CREF) retirement; Missouri provides the option of State (no TIAA-CREF) or Federal; Colorado provides Federal retirement to extension agents and state retirement (including TIAA-CREF) to extension specialists.

Summary:

The transition from the Federal system to the Regents system would occur over a period of 30 years or more. Each year as new hires are shifted from the Federal to the State retirement system, the fringe benefits on their base salary would continue to be paid from the current year's base budget. The continuing impact to the State of Kansas would be the proportional costs of fringe benefits on approved salary increases.

I request that agents by able to participate in the Board of Regents Retirement System. They are faculty members in Extension.

do

DATE: February 17, 1987

TO: House Committee on Pension and Investments

FROM: Lyell D. Ocobock, Executive Officer, Pooled Money Investment Board

RE: Testimony on HB 2250

Mr. Chairman and Members:

I appreciate this opportunity to explain why we have requested this change which would allow us to transact repurchase agreements direct with the national primary dealers. Current law limits such investments by the board to be made through a Kansas bank.

A repurchase agreement (commonly called repo) is a short term investment wherein the investor buys securities which the seller agrees to buy back on a specified date for the same price, plus paying a specified interest rate of return. All such investments by this board are in securities guaranteed by the U.S. Government or agencies thereof, which are delivered versus payment to our state active account bank (currently Merchants National Bank, Topeka) through the Federal Reserve wire and book entry system. Upon receipt by our active account bank, the securities are then transferred into the state treasurer custodial account at the Federal Reserve Bank of Kansas City, where they are held until the repurchase date, then reversed through the active account bank for delivery versus payment.

Current policy of the Pooled Money Investment Board limits the term of repo investments to one day except for multiple day terms for weekends and holidays. Board policy also provides that securities purchased shall have a final maturity date of no more than three years and have a market value of at least equal to 100% for maturities up to one year and 103% for maturities from one to three years. Furthermore, board policy provides that the Kansas bank may transact our repo business only with a prime dealer.

A prime dealer is a firm dealing in U.S. Government securities that has been approved by, and reports daily to, the market reports division of the Federal Reserve Bank of New York.

Repurchase agreement investment authority has proven to be a very valuable and necessary investment instrument in our cash management. Two repos are transacted every day which allows us to have all moneys available for investment to be invested at all times, and the yields have consistently run higher than the yields on 91-day U.S. T-bills. Interest earnings from repos for the general fund only, in FY 86 were $6,839,000.00.

It is my understanding that at the time the law authorizing investments in repos was enacted in 1975, it was the perception of many that by limiting such investments to only with Kansas banks the effect would be to keep the money in the Kansas economy. In truth, except for very small portions, due to the nature of the investment the only market is with the large securities dealers primarily in New York City. Consequently when we currently transact a repo with a Kansas bank, the state moneys move through the Kansas bank to the New York securities market. The

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state's earnings on the transaction are reduced by the spread on the interest rate taken by the bank to cover its costs and profit margin.

During the eleven years we have been transacting repurchase agreements, the board has had an open invitation for the Kansas banks to participate in our competitive bid program. Most of the largest banks in the state have from time to time participated, with as many as six participating at one time. In recent years, however, there has been a declining interest demonstrated and expressed by the banks, primarily due to their lower earnings ratio compared to other earnings of the bank, to the point that as of January 1st of this year, we have only one bank bidding on our large daily repo, obviously negating our opportunity for maximizing earnings through the competitive process. Our real concern, however, is the fact that the possibility exists that we could, at some time in the future have no banks participating. This is to take nothing away from the tremendous service the Kansas banks have provided us over the past eleven years, and we would hope the banks would be able to continue to compete for our repurchase agreements.

One last item of importance is the Federal Reserve Bank has proposed some policy changes pertaining to daylight overdrafts which they plan to make effective in March 1988 that would nearly negate the possibility of transacting our repos through an intermediary.

I have estimated that the proposed amendments would provide additional income to the general fund only, in an amount of at least $150,000.00 annually.

LDO:rk