Approved March 5, 1991
Date

MINUTES OF THE HOUSE COMMITTEE ON PENSIONS, INVESTMENTS AND BENEFITS

The meeting was called to order by Don Rezac at
Chairperson

7:37 a.m./p.m. on February 27, 1991 in room 521-S of the Capitol.

All members were present except: Representative Bill Wisdom (excused)
Representative Tom Love (excused)
Representative Ed McKechnie (excused)

Committee staff present: Richard Ryan - Legislative Research
Alan Conroy - Legislative Research
Juanita Blasdel - Committee Secretary

Conferees appearing before the committee:

Douglas Bach - City of Kansas City, Kansas
E. A. Mosher - League of Kansas Municipalities
Charles Dodson - Kansas Association of Public Employees

Others attending: See attached list

Chairman Rezac called the meeting to order at 7:37 a.m. He then called on Richard Ryan of staff to present HB 2170 for hearings.

HB 2170 - concerning creating the Kansas public employee retirement study commission.

The first proponent of HB 2170 was Douglas Bach of the City of Kansas City, Kansas. He testified from material previously handed out (Attachment #1). He felt this commission was needed because Kansas has one of the worse benefit formulas among the states.

Questions were then asked of Mr. Bach by the Committee members.

The next proponent was Ernie Mosher of the League of Kansas Municipalities who testified from material previously handed out (Attachment #2). He felt there should be some policy rationale guiding the granting of post-retirement benefits, and that a group is needed to define what is to be accomplished.

Mr. Mosher then responded to questions asked by the Committee members.

Marshall Crowther of KPERS asked if he could make a few comments and answered one of the previously asked questions.

Hearings on HB 2170 were then closed.

The Chairman then opened hearings on HB 2206.

HB 2206 - concerning state employees in military being restored to former position and location.

Mr. Charles Dodson of Kansas Association of Public Employees testified as a proponent of this bill from material previously handed out (Attachment #3). He felt this was necessary especially in small rural communities where it would be more difficult for an employee to sell his house and move.

Questions were then asked of Mr. Dodson. There being no further discussion, hearings were then closed on HB 2206.

CONTINUATION SHEET

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

room 521-S, Statehouse, at 7:37 a.m./~~p.m.~~ on February 27, 1991

The Chairman called on Richard Ryan of staff to then present HB 2433.

HB 2433 - concerning conflict resolutions regarding KPERS.

Richard Ryan explained that the purpose of this bill was to replace an old section in HB 2200 and put in a new section. HB 2200 has the same material as this new HB 2433.

Representative Allen made a motion to report HB 2200 adversly, seconded by Representative Hendrix. Discussion followed. Motion carried.

Representative Amos made a motion to pass HB 2433 favorably, seconded by Representative Grotewiel, motion carried.

Representative Wells made a motion to pass HB 2206, seconded by Representative Allen. Discussion brought out that this bill should probably be transferred to the Public Register, due to not knowing how quickly the war situation could be over. Representative Ensminger made a substitute motion to change effective date to Kansas Register, seconded by Representative Flottman, motion carried.

Representative Wells made a motion to pass HB 2206 as amended, Representative Allen seconded, motion carried.

Chairman Rezac asked for a motion to approve the minutes of the two previous meetings. Motion made by Representative Flottman, seconded by Representative Macy, motion carried.

Meeting adjourned at 8:25 a.m.

GUEST LIST

COMMITTEE: PENSIONS, INVESTMENTS AND BENEFITS DATE: February 27, 1991

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATI(
Charles Dodson	TOPEKA	KAPE
HAROLD PITTS	"	KRTA
Basil Covey	Topeka	KRTA
[illegible]	[illegible]	League of the [illegible]
Day Bond	~~[illegible]~~ Kansas City, Ks	City
[illegible]	Lawrence	KPERS
[illegible]	Topeka	"

CITY OF KANSAS CITY, KANSAS

DAVID T. ISABELL
City Administrator

EXECUTIVE CHAMBER
ONE MCDOWELL PLAZA

KANSAS CITY, KANSAS 66101
PHONE (913) 573-5030

February 27, 1991

Representative Don M. Rezac
Chairman, House Committee of Pensions,
Investments and Benefits
State Capitol, Room 521-S
Topeka, Kansas 66612

Dear Chairman Rezac and Members of the
House Pensions, Investments and Benefits Committee:

According to Compensation '88, developed by the International City Manager's Association, the state of Kansas ranked 39th out of 44 states in percent benefit for participants in defined retirement plans. The average participating service benefit in Kansas was 1.4% compared to a 1.84% average for all state systems. The League of Kansas Municipalities supports a modest increase to 1.5%. Kansas was one of only ten state retirement systems that required an age of 65 to receive full benefits. Only four states had higher early retirement age requirements. In 1988, Kansas was one of only five states to have a larger percentage for employee contributions than employer contributions. The average number of years to vest in all state retirement systems was 7.18; in Kansas it was 10. (Federal law recently reduced the vesting period for the private sector to five years). In 1988, Kansas was one of 14 states that required a 5-year average of an employee's highest salary to compute a basic benefit formula. That is now a 4-year average. Most require a 3-year average. With a low benefit return of 1.4% coupled with a 4-year salary average, Kansas had one of the worst benefit formulas. Adjustments are needed to correct our poor showing nationally. In addition, participating service benefits should be increased, since the employee contribution rate is more than twice as much as actuarially required.

KPERS has been quite successful in recent years in its investment strategy and it has prospered as a fund. However, the employees in the system have not reaped their share of that success in increased benefits. The members who contribute to the system should be rewarded as well. After all, it is also their money. Perhaps it is time to explore the possibility of "self-directed" KPERS accounts. Also, discussions about "risky venture capital" and "junk bond" endeavors by KPERS still gravely concern us.

Pensions, Investments & Benefits
Attachment #1
2-27-91

We believe the Legislature should establish a permanent pension review commission, composed of state and local employers and employees as well as state legislators to analyze the benefits, costs, and problems of KPERS on an ongoing basis and to make recommendations for state legislative action. Currently 21 states have permanent retirement commissions. Back in 1985 the Committee on Pensions of the National Conference of State Legislatures recommended the establishment of such permanent bodies in all states. We oppose any effort to place a "buy-out" cap on KPERS or KP&F.

Therefore, the City of Kansas City, Kansas supports House Bill 2170.

Respectfully submitted,

Douglas G. Bach
City Administrator's Office

DGB/ms

Attachment

Public Pensions

A Legislator's Guide

NCSL Committee on Pensions
Minnesota State Senator
Donald M. Moe
Chairman, 1983-1984

edited by
Sharon Bjorkman

National Conference of State Legislatures
Earl S. Mackey, Executive Director

1125 17th Street, Suite 1500
Denver, Colorado 80202

444 North Capitol Street, N.W., Suite 203
Washington, D.C. 20001

June 1985

Attachment #1-3

ıcing the authority in the legislature rather than on the ıs boards of trustees or local governments makes it possible to pursue a consistent pension policy that can be applied to all public employees. If pension decisions are made by several bodies, the inevitable result is that some public employees receive better benefits than others, and some plans are better financed than others. Such a fragmented system aggravates the whipsaw effect of one group of employees seeking improved benefits on the grounds that another group's benefits were increased. The process results in rapidly escalating costs with scant opportunity to develop a consistent and coherent pension system. Since irresponsible pension programs reflect adversely on the financial soundness of the state as a whole, the legislature should insist on a manageable, understandable, and fair pension system that is consistent throughout the state.

2. Pension Review Commissions

An important step toward responsible and effective supervision of public pension plans is the creation of a knowledgeable, respected, and adequately staffed legislative body with responsibility to review all pension legislation and to recommend legislative changes. (See Table 2.) Such legislative commissions/committees are necessary because pension laws demand continuous supervision and attention. A single, ill-conceived provision in a single act could have significant fiscal consequences that are not fully apparent for many years. Worse still, such action might be irreversible since there are serious constitutional impediments in most st s to legislation that would reduce an individual's prospective pe..ıon benefits.

Legislative commissions/committees can focus public attention and gain a public consensus on pension matters to a degree unattainable at a local level. To the extent that public exposure produces better results, the legislature is best able to raise the public visibility of pension problems.

Another reason for review bodies is the complexity of pension legislation. It rarely is possible to foresee the ultimate fiscal consequences of a piece of legislation upon first reading. It is important, therefore, that the reviewing body have staff and independent actuarial and economic assistance to make informed analyses and jı nts about proposed changes in the pension system.

Because of their expertise and perspective on the total pension system, commissions/committees are in a good position to recommend reform measures that reflect consistent, sound principles of pension policy, rather than isolated responses to pressures and crises.

Many states, including Arkansas, Louisiana, Massachusetts, Minnesota, Nebraska, New York, North Carolina, North Dakota, Ohio, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, West Virginia, and Wisconsin, have permanent legislative bodies with responsibility for screening retirement bills and recommending reform measures. The authority of the bodies varies, but most groups review pension and retirement bills and prepare fiscal impact notes. Most also conduct comprehensive studies of the retirement systems that lead to recommendations for change and reform.

The appropriate membership of such review bodies is the subject of some debate. Some pension review commissions are composed entirely of legislators, but Massachusetts' commission is comprised of nonlegislators. In Tennessee, representatives of employee groups serve on the commission but do not vote. In still other states, employee representatives and others are voting members. The number of regular members assigned to a commission/committee ranges from six to 18, averaging approximately 10 members.

Critics of review commissions made up of legislators contend that it is easier for nonlegislators to resist political pressure from powerful interest groups. They claim a nonlegislative commission/committee can more easily bear the brunt of criticism about failure to liberalize benefits. A group of legislators who become experts in pension matters, however, can more effectively gain and keep the respect of the legislature as a whole than a group of advisers who are less familiar with the legislative process. In either case, continuity of policy and a full appreciation of the complexity of pension system management are improved by infrequent turnover.

3. Advance Funding

No responsible justification exists for the common practice of deferring pension costs to a future generation of taxpayers. Advance funding on a sound actuarial basis should always be required because of the ease with which benefit improvements can be prom-

Attachment #1-4

League of Kansas Municipalities

Municipal Legislative Testimony

PUBLISHERS OF KANSAS GOVERNMENT JOURNAL 112 W. 7TH TOPEKA, KS 66603 (913) 354-9565 FAX (913) 354-4186

TO: House Committee on Pensions, Investments and Benefits
FROM: E.A. Mosher, Executive Director, League of Kansas Municipalities
RE: HB 2170--Public Employee Retirement Study Commission
DATE: February 27, 1991

On behalf of the League and its member cities, I appear in support of HB 2170, to establish a permanent Kansas Public Employee Retirement Study Commission.

The League has been in support of creating such a study commission for some years. Our current, convention-adopted Statement of Municipal Policy provides:

> "We believe there is need for creating a continuing KPERS legislative advisory commission, representative of state and local employers and employees as well as state legislators, to monitor the benefits and costs of KPERS, to receive and consider proposed changes, and to present to the legislature such recommendations as it deems advisable, including long term policy objectives. Such an advisory commission should be created by law, with staff support provided by KPERS."

I will be frank and observe that some of our strong support for such a continuing study commission, representative of local governments, results from a growing level of frustration. Each year, numerous bills are introduced to modify the KPERS system in some way, some major and some minor. The 1991 legislative session is no exception, since there are about 30 bills relating to KPERS, a few of which are identical. We find it difficult to influence what happens to local government employers and employees under the present process, and are well aware of the traditional "omnibus" KPERS bill which emerges in the waning days of each session under sponsorship of the Senate Committee on Ways and Means.

Perhaps more significantly, we are concerned about the absence of some commonly accepted long-term objectives for KPERS which would provide a policy framework under which individual bills could be considered. For example, last Friday the League's State Legislative Committee took a position against HB 2386, which would significantly increase the benefits under KP&F. This opposition resulted from the belief that KP&F benefits are presently adequate in comparison to the benefits under the general KPERS system, and that the bill

PENSIONS, INVESTMENTS & BENEFITS
Attachment #2
2-27-91

would increase local government costs by 6.0% of payroll--an increase alone which would exceed by three times the total contribution now made by local employers for non-KP&F employees. While we can defend our position on this bill, we think that bills like this should be considered in some context as to what we--state and local governments--are trying to achieve in our retirement system.

Similarly, our Public Personnel Committee has taken a position in the past in opposition to any more increase in the benefits of current KPERS retirants. This action was not taken with the belief that the present post-retirement benefits are excessive, although our committee is well aware of the retirant increases that had been granted at nearly every session in recent years, while the benefit level of participating employees has been frozen. We simply think there should be some policy rational guiding the granting of post-retirement benefits, beyond the considerable political pressures which are brought to bear on this issue at each legislative session. We think the matter of fairness as to participating benefits needs to be addressed, not just post-retirement benefits.

As we read HB 2170, it would be advisable only, to the governor and the legislature. The commission would deal with policy matters only. Under section 4, the study commission is specifically prohibited from intervening in the management and administration of KPERS, including the investment of funds, vested by law in the board of trustees.

We believe the proposed commission is reasonably balanced. In addition to the four legislators, there would be three representatives of employees and three representatives of employers. The employee representatives would include a state employee, a teacher and a local employee. The employer representatives would include a city official, a county official, and the secretary of administration. The remaining eleventh member would be the executive secretary of KPERS, as an ex-officio non-voting member. There are no doubt other groups which could well be represented on the commission. However, we think eleven members is the maximum, optimum size for such a commission.

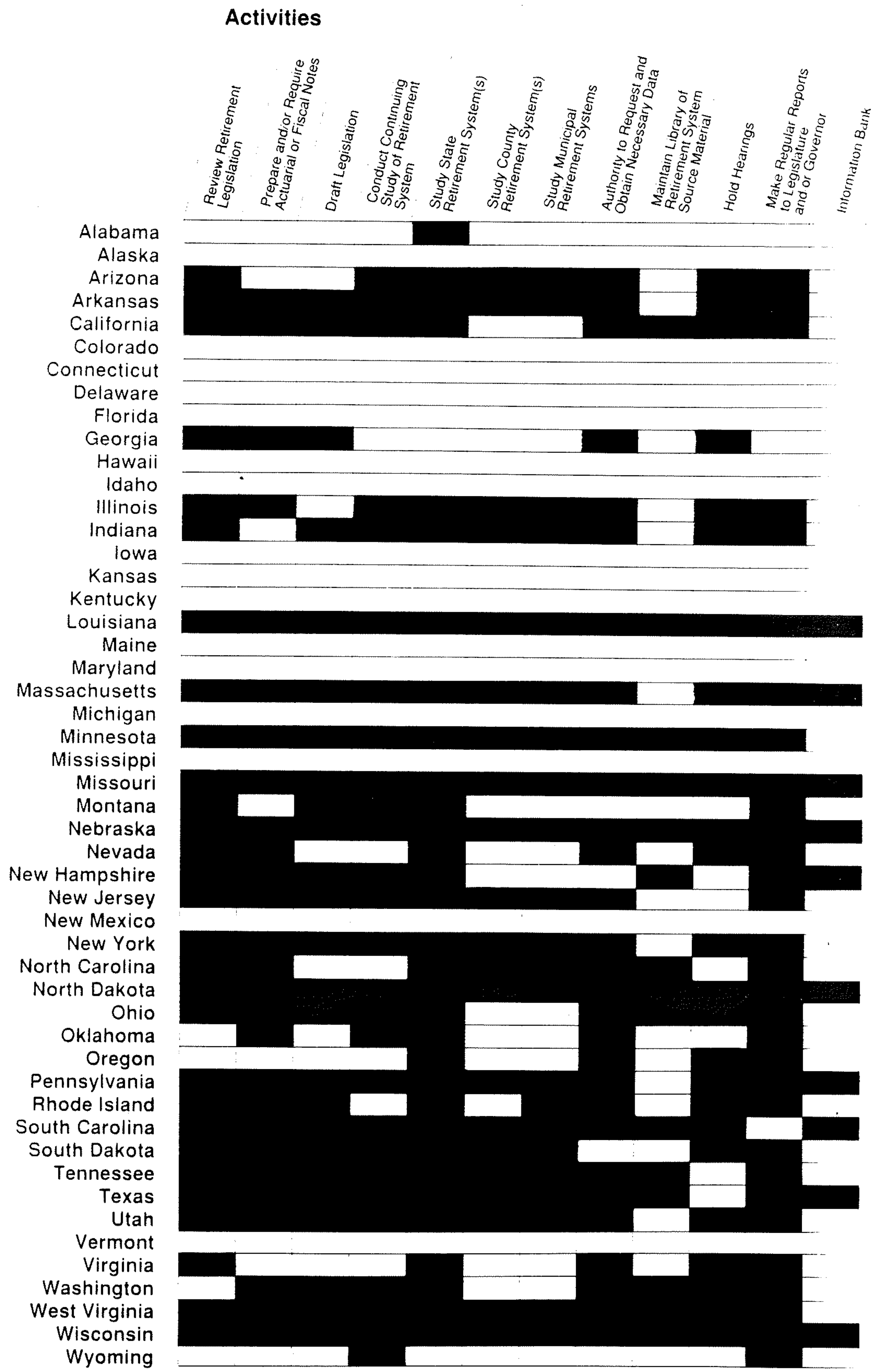
There are a number of other states which have some kind of a continuing employee retirement commission. They exist in a variety of forms, with some apparently having certain administrative authority. In our judgment, HB 2170 is well crafted to meet what we think are the needs in Kansas. It leaves the final decision-making in the Kansas legislature, where we think it belongs. It can provide some policy guidance to our state and local retirement systems, without intervening in the administrative operations charged by law to the KPERS board and management. With staffing from KPERS, it should not be an expensive activity. But we do think it will make a significant contribution to KPERS, and to state and local government in Kansas. At the very least, it will provide an opportunity for input by local governments--employers and employees--and alleviate some of the frustrations that now exist. We urge its favorable recommendation.

1990 Overview of Pension Commission Characteristics and Activities

	Status							Membership					
	Permanent Retirement Commission	Established Retirement Committee/Board	Current Proposal to Create Permanent Commission	Recent Temporary or Interim Commission/Committee	Legislative Committee(s)	Separate Appropriation	Has Legal Enforcement Powers	Includes Legislative Members	(Some) Members Appointed by Legislature	(Some) Members Appointed by Governor	Local and/or State Government Representative(s)	Public Employee Representative(s)	Retirement System(s) Administration Representative(s)
Alabama				■				■	■				
Alaska		■								■		■	
Arizona		■								■			
Arkansas	■				■			■					
California		■				■			■	■	■	■	
Colorado													
Connecticut													
Delaware													
Florida													
Georgia					■			■					
Hawaii													
Idaho													
Illinois													
Indiana	■			■				■	■				
Iowa													
Kansas													
Kentucky													
Louisiana	■				■			■	■				
Maine													
Maryland													
Massachusetts	■					■				■			■
Michigan													
Minnesota	■				■	■		■	■				
Mississippi													
Missouri	■			■	■	■		■	■		■		
Montana								■	■	■	■		
Nebraska	■				■			■	■				
Nevada	■			■	■			■	■				
New Hampshire					■	■				■	■	■	■
New Jersey			■										
New Mexico													
New York	■					■			■	■			
North Carolina	■				■			■					
North Dakota	■				■			■	■				
Ohio	■					■		■	■	■	■	■	■
Oklahoma	■							■			■		■
Oregon				■				■	■				
Pennsylvania	■				■	■	■	■	■	■	■	■	
Rhode Island					■			■	■				
South Carolina	■				■	■		■	■				■
South Dakota	■				■	■		■	■				
Tennessee	■				■			■	■	■	■		■
Texas	■				■	■		■	■	■	■	■	■
Utah					■			■					
Vermont													
Virginia	■					■				■			
Washington	■			■				■					
West Virginia	■				■	■		■	■	■			
Wisconsin	■				■	■		■	■	■	■	■	■
Wyoming		■								■			

Attachment #2-3

Excerpt from "1990 Pension Commission Clearinghouse Report on State Pension Commissions", published by the Forster Higgins Corporation.



Attachment #2-4

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KPERS and Fairness

Kansas local governments got some good news and some bad news in November. The good news was that the regular employer contribution rate for membership in the Kansas Public Employees Retirement System (KPERS) in 1992 will be only 1.8% of the gross compensation of local employees. The bad news was more subtle. The continuing drop in the employer contribution rate, with the employee contribution rate fixed at 4.0%, means that the KPERS system is becoming increasingly unfair to employees.

A KPERS memorandum sent to the designated agents of 105 counties, 299 cities and 376 other local governments that are members, reported that the regular contribution rate in 1992 would be 1.2%, with the employer's contribution for the group life and long-term disability insurance program fixed at 0.6%, for a total of 1.8%. Not reported was that within the regular employer rate of 1.2%, is the actuarial requirement that employers need contribute only 0.115% for the future benefits paid to current, participating employees, with the amount of 1.059% needed to fund prior service—the costs of benefits for past, non-contributing service.

The effect of all this is that in 1992 the employee will contribute 4.0% of salary while the employer will contribute 1.8%, of which only .115% is for the participating service benefits of contributing employees. Put another way, for every $1 the employee pays for retirement benefits from participating, contributing service, the employer will pay less than three cents. Considering only current service benefits (excluding the group life and disability special program), KPERS is gradually becoming a non-contributory plan, but with the costs paid by the employee, not by the employer!

The original concept of KPERS was that the employer and employee contribution rate for participating service benefits should be approximately equal, with the employer picking up the cost of administration and prior service benefits. When the group life and long-term disability insurance program was added in 1966, it was clearly understood that this was to be paid by the employer—it is separately identified as an employer contribution. The "matching concept" of equal contributions for participating service benefits has become only an expectation of the past.

Continued on page 313.

Attachment #2-5

KPERS and Fairness

Continued from page 303.

The League of Kansas Municipalities, which served as the secretariat and principal lobbying group for the formation of KPERS in 1961, has attempted to respond to this concern about fairness. The League's convention-adopted *Statement of Municipal Policy* on this issue, which was adopted in October 1990 and cites available 1991 rates, provides as follows: "We support improvements to the Kansas Public Employees Retirement System (KPERS) retirement benefits schedule, including an increase in the participating service benefit from 1.4% to 1.5% of final average salary. As a matter of fairness and equity, an increase in current, participating service benefits is merited since the employee contribution rate of 4.0% substantially exceeds the actual as well as the actuarially-required employer contribution rate for such benefits; the 1991 total local employer contribution rate of 2.4% includes only .87% for participating benefits. This disparity is in conflict with the basic principle that both the employer and employee contribution rates to finance normal, participating service benefits should be approximately equal. While equity, under this matching contribution principle, may justify a substantial reduction in employee contributions under the current level of benefits, we believe benefits should be increased before employee contributions are decreased."

As previously noted, the disparity between the employer contribution rate and the employee 4.0% rate for participating service will be even more dramatic in 1992. For every $4.00 the employee contributes for current benefits in 1992, the employer will be pay 11.5 cents.

To be fair in this analysis of the equity of the employer and employee contribution rate, it must be noted that, in past years, the employer participating service rate was considerably higher. In the 1960s, the employer participating service rate was generally in the 2% range, with the total rate in the 4.0% to 5.0% range. The employer rate for participating service peaked in 1976 at 5.55%, with a total employer contribution of 7.30%. However, with a few exceptions, the employer participating service rate has consistently declined since 1976. The rate for 1992 of 0.115% was preceded by the rate of 0.873% in 1991 and 1.280% in 1990. The 1989 rate was fixed by statute at 2.00%.

To be fair about it, we must also note that the combined *total* employer contribution rate, including the contribution for participating service, prior service, administration and group insurance, equaled or exceeded the 4.0% employee contribution for the years 1962 through 1986. And for a few years (1974, 1975 and 1976), the total employer rate exceeded 7.0%. But beginning in 1985, when the employer paid a total of 4.9%, the disparity has grown, both as to the amount for participating service as well as the total employer rate.

Presuming the legitimacy of growing concerns about the fairness and equity of KPERS, there are three basic responses that can be taken by the Kansas Legislature: 1) do nothing; 2) increase participating service benefits; or 3) reduce the employee contribution rate. Given the status of state general fund finances, and recognizing that the state government picks up the employer costs of local teacher retirement benefits, there is a high probability that the 1991 legislature will do nothing about the matter.

The League has supported the second option in the past, and continues to do so, as noted in the policy statement quoted above. Increasing current service benefits while retaining the employee contribution at 4.0% would result in the employer rate becoming closer to the employee rate.

The third option, that of reducing the employee contribution if benefit levels are to remain frozen, is a potential action which needs public debate. Since KPERS is a fixed benefit system, the cost of benefits *not* paid by the employee must be paid by the employer, either in the form of contributions or from interest earnings. Thus, if the employee contribution rate was reduced from 4.0% to 3.0%, for example, the employer contribution rate must go up to make up the difference needed to fund the benefits. (Since the employer contribution stays in the KPERS fund in the case of separated employees, the increase in the employer contribution would be less than 1.0% if the employee's contribution was reduced 1.0%.)

There are obviously many factors that must be considered in addressing concerns about fairness and KPERS. Accurate actuarial estimates which reflect realistic future expectations are needed, including future interest earnings. Further, there is no surplus of public moneys available at the state and local levels which would make an increase in the employer costs easily achievable. But with nearly three decades of KPERS experience, it is time for a reappraisal of both benefits and contributions. The public policy objective of achieving fairness ought to receive great consideration.

—EAM

Attachment #2-6

KANSAS
ASSOCIATION OF
PUBLIC EMPLOYEES

Presentation to
Committee on Pensions, Investments and Benefits
by
Charles Dodson
Kansas Association of Public Employees

Mr. Chairman, members of the Committee, thank you for allowing me the opportunity to speak in support of HB 2206.

KAR 1-9-7a is the administrative regulation which covers military leave. Subsections (a) and (b), provide that an employee shall "be restored to a former position or to a similar position with like status and salary" or "to be offered a position comparable in status and salary to the former position" in the event of disability.

HB 2206 does not alter the regulation except to require that the offered position be in the same geographic location.

In metropolitan areas there would be little, if any, problem with the existing regulations. However, our concern is that in rural areas the returning serviceman may not be reemployed unless he/she is willing to relocate. This would create serious problems for the returning serviceman or woman.

HB 2206 makes it clear that the same or similar position must be in the same location the employee worked prior to being called to active duty.

Pensions, Investments & Benefits
Attachment #3
2-27-91