

MINUTES OF THE HOUSE COMMITTEE ON PENSIONS, INVESTMENTS & BENEFITS

The meeting was called to order by Representative Don Rezac at
Chairperson

5:07 a.m./p.m. on February 19, 1992 in room 521-S of the Capitol.

All members were present except: (all were excused)
Representative Elaine Wells Representative Robert Watson
Representative Walker Hendrix Representative Tom Love
Representative Aldie Ensminger Representative Ken Grotewiel
Committee staff present:
Alan Conroy - Legislative Research
Richard Ryan - Legislative Research
Juanita Blasdel - Committee Secretary

Conferees appearing before the committee:
Craig Grant - Kansas National Education Association
Basil Covey - Retired Teachers Association
Meredith Williams - Executive Director of KPERS

Meeting was called to order at 5:07 p.m. This meeting was a conclusion of the meeting held at noon.

Craig Grant of KNEA was the first to testify on SB 526. He spoke from material previously handed out (Attachment #1). He felt that this bill places some logical and reasonable restrictions on investments and also changes the structure of operation. Questions were then asked of Mr. Grant.

Basil Covey of Retired Teachers Association then testified from material previously handed out (Attachment #2). His group supports this bill which is designed to improve the working business of KPERS in preventing future losses from the pension fund. They have no opinion on how the members of the board of trustees are selected, only that trustees must be qualified, competent, and free from financial conflict of interest.

Several technical points were brought up by Richard Ryan of Legislative Research that might require some technical amendments. He and Alan Conroy would talk about these points and inform the committee regarding this later.

Meredith Williams, Executive Director of KPERS, then answered questions previously asked and spoke from material handed out (Attachment #3). He briefly covered each section of the bill. Questions were asked by the committee members during his testimony.

Hearings were then closed on SB 526.

The chairman asked for action to be taken on HB 2773. Additional information that had been requested on this bill was presented in a balloon (Attachment #4) and some information sheets from Research Department (Attachment #5) for the committee to consider.

Representative Wisdom moved that the technical amendment in the balloon be adopted. Motion was seconded by Representative Macy. Questions were then asked after which motion carried. Discussion followed.

Representative Hensley made a motion to support HB 2773 favorably as amended; seconded by Representative Macy. Questions were then asked. Motion carried.

Meeting adjourned at 6:15 p.m.



KANSAS NATIONAL EDUCATION ASSOCIATION / 715 W. 10TH STREET / TOPEKA, KANSAS 66612-1686

Craig Grant Testimony Before
House Pensions, Investments, & Benefits Committee
Wednesday, February 19, 1992

Thank you, Mr. Chairman. I am Craig Grant and I represent Kansas-NEA. I appreciate this opportunity to visit with the committee about SB 526.

I probably followed the proceedings of the Joint Committee on KPERS Investment Practices as closely as any other organization lobbyist. For those of you who did not serve, I can assure you that these legislators worked extremely hard this past year. The hours were long, the topic was sensitive, yet it was obvious that the legislators were willing to do the job they were assigned--to get as much as possible to the root cause of the KPERS investment problem. I might go so far as to say that if an equal amount of "due diligence" had been exercised by the people charged with the responsibility of handling our retirement moneys as the joint committee exercised, there probably would have been no problem.

But there was a problem. Members of KPERS lost over \$200 million of moneys which could have helped us improve what is some of the lowest benefits in the nation. I know from my calls all last year that my members--and we represent about 24,000 members of the fund plus a number of retired members--were worried and angry about what had happened to "their" retirement money.

Our members wanted something done to guarantee that this situation did not happen again. SB 526 places some logical and reasonable restrictions on investments and also changes the structure of operation. We support these changes.

We don't support the change in the KPERS Board because we are unhappy with the present trustees. On the contrary, we believe there are very good

members on the Board presently who are doing good things. But we must remember that the close scrutiny will eventually fade. We must not relax our guard once again and not keep the proper oversight on the board. Participating members on the board will help insure that the oversight continues.

We would ask that you designate that one participating member on the board be a school member and one a nonschool member. It is fine in subsection (12) of KSA 74-4909 that the board adopt the rules and regulations for the election of members; however, we would appreciate it if you amended KSA 74-4905 (A) (2) to make one member from both systems. I realize that other fund participants would not be eligible, but these two groups comprise the vast majority of participants.

Kansas-NEA supports the changes proposed in SB 526. We want the safeguards and the structural changes in statute. Those changes will, hopefully, guarantee that even a slight hint of a warning will not be ignored in the future.

We thank those of you who served on the joint committee for your hard work and would ask that the committee pass SB 526 favorably. Thank you for listening to our concerns.



Kansas Retired Teachers Association

"All Things Excellent"

1991 - 1992



ELECTIVE OFFICERS

President

Ralph Ruhlen
P.O. Box 269
Baldwin City, KS 66006
Phone 913-594-3413

President Elect

Floyd Pope
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Vice President

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APPOINTIVE OFFICERS

Editing & Publishing Committee Chairman

Elsie Klemp
608 E. Price
Garden City, KS 67846
Phone 316-275-5322

February 19, 1992

Members of the House Pensions & Investments Committee:

My name is Basil Covey and I am chairman of the Kansas Retired Teachers legislative committee.

We support SB 526 which is designed to improve the working business of KPERS in preventing future losses from the Pension Fund.

SB 526 grew out of information learned by the Joint Committee Investigating KPERS practices during the summer of 1991.

Citizens attending the summer long meetings soon picked up the need for new guidelines to protect the Pension Fund.

The Joint Committee made twelve recommendations for improvement in KPERS to be embodied in legislation. The 12th recommendation was removed before SB 526 was introduced.

The bill creates a new board of trustees starting July 1, 1993. There is some controversy over this section between the governor and legislature. We have no opinion on how the members are selected, only that trustees must be qualified, competent, and free from financial conflict of interest.

Many sections of the bill are technical in nature expressing safe and sound methods of reporting and of investments.

The bill sets up the KPERS fund in the state treasury. A strength in the bill states the fund is a trust fund and shall be used solely for the exclusive purpose of providing benefits to members and member beneficiaries and defraying reasonable expenses of administering the fund. Investments are to preserve the fund to provide benefits to members and member beneficiaries.

The bill prevents the KPERS funds from being invested and reinvested if the sole or primary investment objective is for economic development or social purposes or objectives.

Pensions, Investments & Benefits
Attachment #2
2-19-92

APPOINTIVE OFFICERS (Continued)

Legislative Chairman Dist. Basil Covey 2

3119 W. 31st St. Ct.
Topeka, KS 66614
Phone 913-272-5914

Community Service Chairman:

Robert D. Carey
P.O. Box 187
Moline, KS 67353
Phone 316-647-3619

Informative &

Protective Services Chairman
Frank E. Wilson, Ed. D
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Topeka, KS 66611
Phone 913-267-1422

Retirement Planning Chairman:

Dale Relihan
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Phone 913-922-6474

Membership Chairman

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1040 N. 11th
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Historian Chairman

Alma Gall
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Necrology Chairman

Wilda Novotny
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Phone 913-527-2964

NRITA Coordinator

James H. Nickel
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Colby, KS 67701
Phone 913-462-2293

Parliamentarian

Mary E. Plank
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Baldwin City, KS 66006
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Corresponding Secretary and Publicity

Loren K. Litteer
Rt. 3, Box 88
Baldwin City, KS 66006
Phone 913-594-3734

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District 3

Ralph E. Chalender
7227 Hemlock
Overland Park, KS 66204

District 4

Russel Lupton
2008 Hart
Dodge City, KS 67801

District 5

A. W. Dirks
11403 Douglas
Wichita, KS 67209

District 6

Ruth M. Lyon
1040 No. 11th
Independence, KS 67301

SB 526 creates a Joint Committee on Pensions, Investments, and Benefits on January 1, 1993. The committee will be composed of five senators and eight members of the House. The bill spells out what committee chairpersons will be on the Joint committee. In the original bill the House Pensions Committee chairperson was on the committee, but the Senate amended the Pensions chairperson out.

We feel that the House Pensions chairperson should be a member of the Joint Committee.

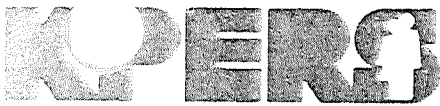
SB 526 sets the tone for confidence-building in the future of KPERS. The word must go out to the public that the reins of good government is now in control by qualified, capable people.

We are confident that SB 526 will prevent KPERS losses from never, ever happening again.

We urge Committee approval of SB 526.

Thank you,


Basil Covey



Kansas Public Employees Retirement System

February 19, 1992

Representative Don M. Rezac, Chairman
House Pensions, Investments and Benefits Committee
Room 278-W, Statehouse
Topeka, Kansas 66612

Dear Representative Rezac:

I appreciate the opportunity to comment on the provisions of Senate Bill No. 526 as passed by the Senate. Outlined below are my comments on the proposed legislation.

Section 1

Subsection (a) calls for the expansion of the Board of Trustees from its current seven members to nine. This enlarged Board would have a fiscal impact, although not significant. The election of two Trustees by active and retired members of the Retirement System would also entail some new expenditures. Based on the membership of the Kansas Retirement System and the experience of other public pension systems that elect trustees, we estimate that a trustees' election would cost \$73,600. The majority of these costs involve postage.

Subsections (f) and (g) both contain restrictions on the investment and employment activities of members and former members of the Board of Trustees. These restrictions may be too broad, particularly those in Subsection (f). Given the wide-ranging Retirement System portfolio, including, over time, substantial portions of the publicly traded stock universe, Board membership could be severely limited. The added language in Subsection (g) eliminates the employment restriction from those publicly traded securities acquired for the Retirement System by an investment manager. However, this language does not take into account the universal plans to have a portion of the System's publicly traded portfolio managed on an in-house basis. Both subsections would be workable if language were added to each making it clear that the restrictions were applicable only to the Retirement System's non-publicly traded holdings.

Section 2

Subsection (6) calls for the creation of a five-member investment advisory committee. As no provisions are included for compensating or reimbursing the members of this advisory committee, no measurable fiscal impact is anticipated.

Section 3

Subsection (3) establishes a new, higher level of compensation for Trustees. The Retirement System estimates that the new, higher level of compensation and the addition of two Trustees would result in additional annual expenditures of \$13,139.

Pensions, Investments & Benefits
Attachment #3

2-19-92

Capitol Tower ■ 2nd Floor ■ 400 W. 8th ■ Topeka, Kansas 66603-3911 ■ Phone (913) 232-6665

KPERS Telephone Facsimile (913) 232-3041

In Kansas, Call Toll Free 1-800-228-0366

Section 4

Subsection (2) contains new language calling for the Retirement System to prepare its *Annual Report* in accordance with generally accepted accounting principles. This commendable addition should provide great assurance to System members and Kansas citizens that the annual results of the System's operations are fairly and consistently presented.

Additional language in the same subsection calls for the Retirement System to annually report for every individual alternative investment the cost and the lower of cost or market value for each such alternative investment. This additional language raises a significant public policy issue. The requirement that the market value of individual alternative investments be publicly disclosed can come into conflict with the Retirement System's statutory and fiduciary responsibility to maximize the value, income, and safety of the System's assets. The problem with the public disclosure of such information relates solely to those direct placement and real estate investments in the System's current portfolio where the System currently holds the controlling interest in a non-publicly traded investment. I trust that the problem is of a temporary and declining nature as the Board of Trustees has placed a moratorium on future investments of this nature, the direct placement portfolio is being restructured and liquidated to eliminate such controlling interests, and legislation seems likely to prohibit such investments in the future. During this period of adjustment, consideration should be given to allowing the Retirement System to report the lower market values on an aggregate basis through the establishment of a loss reserve, reporting on individual investments when the loss is actually recognized and a writedown is charged against the previously established loss reserve. In the alternative, the required reporting of individual market values could be made applicable to those investments initiated after a specified date.

If the language remains unchanged, the laudable public disclosure will come at a cost. That cost could well include the abrupt closing of companies in Kansas and the loss of Kansas jobs.

Section 5

Subsection (3)(a) contains new language stating that employer contribution rates will be based only on the needs of the System. Similar language is contained in following sections of the proposed legislation. This language is most welcome as it serves to preserve and strengthen the actuarial funding basis of the Retirement System.

Section 6

Subsection (11) calls for the Board of Trustees to develop a plan to manage a portion of the System's assets using Retirement System staff. Such a move will have a fiscal impact and that impact may well be a positive one. As you know, the Board of Trustees has already initiated actions in this arena, beginning with the recent hiring of the System's first Investment Officer. The State Finance

Council has provided additional resources to facilitate the same goals. Most recently, the Retirement System, with the endorsement of the Board of Trustees, has submitted a proposal for consideration by a House Appropriations Subcommittee.

Section 8

Subsection (1) contains new language stating that employer contribution rates will be based only on the needs of the System. Similar language is contained in following sections of the proposed legislation. This language is most welcome as it serves to preserve and strengthen the actuarial funding basis of the Retirement System.

Section 9

Subsections (2) and (3) discuss the investment purposes of the Board of Trustees. Subsection (3) in particular specifies that "economic development" and "social purposes or objectives" are not sufficient stand-alone investment objectives. This language is in accord with Board of Trustee's current procedures and practices.

Subsection (4) adds new language containing the prudent expert standard. The Board has already initiated actions to incorporate the prudent expert standard in its contractual relationships with managers and consultants.

Subsection (5)(a) increases the common stock limitation to 60 percent of the value of the fund. This additional discretionary authority will serve the Retirement System well in future years.

Subsection (5)(b)(1) caps the System's total "alternative" investments at ten percent of the total. The System's current size would place this cap at approximately \$440 million. Language is provided to cover the contingency that such investments exceed the cap at the effective date of the cap or if subsequent market forces cause the cap to be exceeded.

Subsection (5)(b)(2) would require at least two other "sophisticated investors" involvement in any "alternative" investment. The requirement for institutional coinvestors provides additional safeguards against the abuses that have taken place in the past by ensuring that each potential investment is subjected to a minimum of three independent due diligence reviews.

Subsection (5)(b)(3) places a 20 percent limit on the System's interest in any one investment. This restriction should ensure that the Retirement System would not have a majority interest in a particular "alternative" investment.

Subsections (5)(b)(4), (5), (7) and (8) require that "alternative" investments be preceded by several determinations, all in keeping with the prudent expert standard of care.

Subsection (5)(b)(6) restricts the Retirement System from investing more than 2.5 percent of its "alternative" investments in any one "alternative" investment. Additional language provides that the limitation will be applicable to the underlying individual assets of a multi-investor pool rather than the pool itself. The remaining language in this subsection is confusing and suggests that the Retirement System would be restricted to holding no more than 20 percent of its alternative investments in multi-investor pools. Such a restriction seems contrary to many other provisions of this legislation.

Subsection (5)(b)(8) also contains language defining "alternative" investments. This is a most important definition given the many confusing definitions in this area.

Subsection (6) requires the Board of Trustees to develop specified policies and objectives to govern the System's investment practices. Generally, these requirements seem quite reasonable.

Subsection (7) requires the Retirement System to compensate its investment managers and others subject to legislative appropriations. The same subsection calls for the System's managers and others to obtain errors and omissions coverage in an amount equal to the funds entrusted to the manager. This level of mandated coverage is unrealistic. Without exception, the Retirement System's current investment managers have indicated that the mandated levels of coverage are not available in the marketplace. Indications are that such coverages are most generally found in a range up to \$25-30 million and, in some instances, could be obtained in an amount up to \$100 million. The best estimate of the cost of the mandated coverage, if it were available, is one percent of funds under management. Given the current assets of the Retirement System, this additional annual cost would approach \$45 million and would be passed on to the System. Equally important is the fact that the mandated errors and omissions coverage would not generally provide coverage for those losses resulting from deliberate, fraudulent acts. Given that the System's recent losses appear to be the result of intentional acts, it appears that the cure offered by this mandated level of coverage may be almost as bad as the disease it purports to prevent.

Retirement System staff were unable to locate any large, public pension fund that had a similar mandated level of coverage. Retirement System staff asked the System's investment managers to comment on the proposed coverage. Their responses are enclosed with this letter.

Finally, the Retirement System supports the addition of language specifying the principal-agent relationship that has always existed between the Retirement System and its managers and others.

Subsection (12) specifies annual audit coverage for the Retirement System. I would only comment on the provision calling for the Retirement System to reimburse the Legislative Division of Post Audit for the expenses associated with the annual financial-compliance audit. Traditionally, that expense, estimated at \$26,000 per year, has been borne by the State General Fund. This legislation would shift the expense to the Retirement System, increasing the System's

Representative Don M. Rezac
February 19, 1992
Page 5

administrative costs and reducing the investment earnings available to cover current and future benefit payments.

I appreciate the opportunity to comment on Senate Bill No. 526. In the event I have overlooked some element of this legislation, please let me know. All of us on the Retirement System staff are available at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. Williams', written in a cursive style.

Meredith Williams
Executive Secretary

enclosures
cc: Members, Board of Trustees

Delaware Management Company, Inc.

DELAWARE
GROUP

February 11, 1992

VIA TELECOPY

Mr. Jack L. Hawn
Deputy Executive Secretary
Kansas Public Employees
Retirement System
Capitol Tower, Second Floor
400 W. 8th
Topeka, KS 66603

Dear Mr. Hawn:

Attached is a file memorandum dated November 14, 1991 which outlines the errors and omissions coverage, as well as the fidelity bond coverage, currently maintained by the Delaware Group. Generally speaking, the coverage described on the attached memorandum is available for any claims against Delaware's investment advisory operation, its mutual fund operation and its related service and support operations.

As the memo describes, we carry a total of \$15 million of errors and omissions coverage and pay annual premiums of approximately \$560,000 for that coverage. As you know, Delaware manages approximately \$350 million in assets for KPERS. We do not believe we could obtain \$350 million of errors and omissions coverage at any price. To our knowledge, there is simply no market for investment manager errors and omissions coverage at that level. We believe the coverage we currently maintain is at least consistent with, and probably exceeds, the coverage maintained by other investment management firms of similar size. If \$350 million of errors and omissions coverage were available to us in the market (again we do not believe such coverage is available at any price), we estimate that the annual premiums for such coverage would be in the range of \$5 million to \$10 million. That coverage would cost about five to ten times the total investment management fees KPERS pays Delaware each year.

We recently assisted another major state employees retirement system (Pennsylvania State Employees Retirement System or "PSERS") in analyzing this precise issue. PSERS polled many of its investment managers, talked to consultants in the industry and then

Attachment #3-6

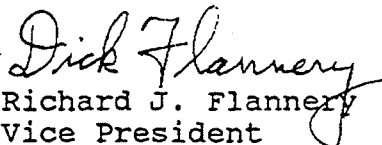
Mr. Jack L. Hawn
February 11, 1992
Page Two

established new insurance coverage guidelines for its investment managers. I enclose a copy of a letter I wrote to PSERS concerning this issue and a copy of SEC Rule 17g-1 referred to in my letter. I also enclose a copy of the revised insurance coverage standards which PSERS recently adopted. As you can see, PSERS adopted an insurance coverage requirement generally equal to 1% of PSERS assets under management (versus the 100% proposed in the Kansas legislation!).

It is our sincere belief that the proposed Kansas legislation is completely unrealistic in light of established practices and standards in the industry, as well as in light of insurance coverage available in today's market. As I indicated on the phone, I will call the ICI Mutual Insurance Company today (the captive insurer of the investment company/investment management industry), to request immediate assistance from their staff on this issue.

I would be happy to discuss this matter further with you at your convenience.

Sincerely,


Richard J. Flannery
Vice President

RJF:pmk
Attachment

cc: Mr. Timothy J. Riddle
Mr. Donald O'Connor (Executive Vice President,
ICI Mutual Insurance Company)
Natalie Shirley, Esq. (General Counsel,
ICI Mutual Insurance Company)

RJF001Q5/021192

Attachment #3-7

02-11-92 04:54PM P03

MEMORANDUM

TO: FILE
FROM: RJ FLANNERY
RE: INSURANCE COVERAGE AND PREMIUM INFORMATION
DATE: NOVEMBER 14, 1991

Our insurance coverage in the D&O/E&O and Fidelity Bond area is currently as follows:

I. Directors & Officers/Errors & Omissions Insurance

- (a) Basic Coverage: \$10,000,000 D&O/E&O policy written by ICI Mutual Insurance Company. The one-year premium (including taxes) for this policy is \$405,489.
- (b) Excess Coverage: \$5,000,000 Excess D&O/E&O policy written by Reliance Insurance Company. The one-year premium (including taxes) for this policy is \$155,000.

II. Investment Company Blanket Bond (a/k/a Fidelity Bond)

- (a) Basic Coverage: \$15,000,000 Investment Company Blanket Bond written by ICI Mutual Insurance Company. The one-year premium (including taxes) for this policy is \$86,114.
- (b) Excess Coverage: \$15,000,000 Excess Investment Company Blanket Bond written by Gulf Insurance Company. The one-year premium (including taxes) for this policy is \$70,354.

RJF:pmk

RJF001QQ/11/14/91

Delaware Management Company, Inc.

**DELAWARE
GROUP**

September 25, 1991

VIA TELECOPIER

Mr. John C. Lane
Investment Administrator
Commonwealth of Pennsylvania
Public School Employees Retirement System
5 North Fifth Street
Harrisburg, PA 17101

Re: Insurance Coverage for Investment Managers

Dear John:

As a follow-up to our telephone conversation earlier this afternoon, I am enclosing a copy of the relevant sections of SEC Rule 17g-1. As you can see, this Rule sets forth a "sliding scale" of required fidelity bond coverage for registered investment companies (i.e., "mutual funds"). You can see from the enclosed table that the SEC's sliding scale at the lowest asset levels requires fidelity bond coverage equal to 10% of the assets in the fund (e.g., a \$50,000 bond is required for up to \$500,000 in assets). At intermediate levels (e.g., \$25 million in assets), approximately a 1% fidelity bond is required. At larger levels (e.g., \$1.5 billion in assets), the fidelity bond is only required to equal 1/10 of 1% of the assets. In no event is a mutual fund required to have a fidelity bond larger than \$2,500,000 regardless of the total assets in the fund.

While this Rule is obviously not applicable to the funds your investment advisory firms manage for the Commonwealth of Pennsylvania, the sliding scale concept on which the Rule operates may be of some utility. We also recognize that fidelity bond coverage presents somewhat different considerations than directors and officers/errors and omissions (D&O/E&O) coverage. Perhaps a D&O/E&O "sliding scale" starting at 3 or 4% of assets managed for smaller accounts, which slides down to 1% of assets managed for larger accounts is an idea worth considering.

Attachment #3-9

Mr. John C. Lane
September 25, 1991
Page 2

As I mentioned to you on the telephone, I am sure that Donald E. O'Connor of ICI Mutual Insurance Company would be happy to discuss insurance coverage with your other money management firms. Don's number in Washington is (202) 293-7700. Don is the Executive Vice President and Chief Operating Officer of The ICI Mutual Insurance Company. He is quite knowledgeable about the insurance requirements of the investment management industry.

If we can be of any further assistance to you as you formulate your requirements, please do not hesitate to call.

Sincerely,

Dick Flannery
Richard J. Flannery
Vice President

RJF:pmk
Enclosure

cc: Mr. Richard G. Unruh

Attachment #3-10

02-11-92 04:54PM P06

Rule 17g-1. Bonding of Officers and Employees of Registered Management Investment Companies.

(a) Each registered management investment company shall provide and maintain a bond which shall be issued by a reputable fidelity insurance company, authorized to do business in the place where the bond is issued, against larceny and embezzlement, covering each officer and employee of the investment company, who may singly, or jointly with others, have access to securities or funds of the investment company, either directly or through authority to draw upon such funds or to direct generally the disposition of such securities, unless the officer or employee has such access solely through his position as an officer or employee of a bank (hereinafter referred to as "covered persons").

(b) The bond may be in the form of: (1) an individual bond for each covered person or a schedule or blanket bond covering such persons, (2) a blanket bond which names the registered management investment company as the only insured (hereinafter referred to as "single insured bond"), or (3) a bond which names the registered management investment company and one or more other parties as insureds (hereinafter referred to as a "joint insured bond"); such other insured parties being limited to: (i) persons engaged in the management or distribution of the shares of the registered investment company, (ii) other registered investment companies which are managed and/or whose shares are distributed by the same persons (or affiliates of such persons), (iii) persons who are engaged in the management and/or distribution of shares of companies included in (b)(3)(ii) hereinabove, (iv) affiliated persons of any registered management investment company named in the bond or of any person included in (b)(3)(i) or (b)(3)(iii) hereinabove who are engaged in the administration of any registered management investment company named as insured in the bond, and (v) any trust, pension, profit-sharing or other benefit plan for officers, directors or employees of persons named in the bond.

(c) A bond of the type described in paragraph (b)(1) or (b)(2) hereinabove shall provide that it shall not be cancelled, terminated or modified except after written notice shall have been given by the acting party to the affected party and to the Commission not less than 60 days prior to the effective date of cancellation, termination or modification. A joint insured bond described in paragraph (b)(3) hereinabove shall provide that (1) it shall not be cancelled, terminated or modified except after written notice shall have been given by the acting party to the affected party, and by the fidelity insurance company to all registered investment companies named as insureds and to the Commission, not less than 60 days prior to the effective date of cancellation, termination or modification and (2) the fidelity insurance company shall furnish each registered management investment company named as an insured with: (i) a copy of the bond and any amendment thereto promptly after the execution thereof, (ii) a copy of each formal filing of a claim under the bond by any other named insured promptly after the receipt thereof, and (iii) notification of the terms of the settlement of each such claim prior to the execution of the settlement.

(d) The bond shall be in such reasonable form and amount as a majority of the board of directors of the registered management investment company who are not "interested persons" of such investment company as defined by Section 2(a)(19) of the Act shall approve as often as their fiduciary duties require, but not less than once every 12 months, with due consideration to all relevant factors including, but not limited to, the value of the aggregate assets of the registered management investment company to which any covered person may have access, the type and terms of the arrangements made for the custody and safekeeping of such assets, and the nature of the securities in the company's portfolio; *provided, however*, that (1) the amount of a single insured bond shall be at least equal to an amount computed in accordance with the following schedule:

Amount of Registered Management Investment Company Gross Assets—at the end of the most recent fiscal quarter prior to date of determination (In Dollars)	Minimum Amount of Bond (In Dollars)
Up to 500,000	50,000 ← 10%
500,000 to 1,000,000	75,000
1,000,000 to 2,500,000	100,000
2,500,000 to 5,000,000	125,000
5,000,000 to 7,500,000	150,000
7,500,000 to 10,000,000	175,000
10,000,000 to 15,000,000	200,000
15,000,000 to 20,000,000	225,000
20,000,000 to 25,000,000	250,000
25,000,000 to 35,000,000	300,000 ← APPROX. 1%
35,000,000 to 50,000,000	350,000
50,000,000 to 75,000,000	400,000
75,000,000 to 100,000,000	450,000
100,000,000 to 150,000,000	525,000
150,000,000 to 250,000,000	600,000
250,000,000 to 500,000,000	750,000
500,000,000 to 750,000,000	900,000
750,000,000 to 1,000,000,000	1,000,000
1,000,000,000 to 1,500,000,000	1,250,000
1,500,000,000 to 2,000,000,000	1,500,000 ← NOT MORE THAN 1/10 OF 1%
Over 2,000,000,000	1,500,000

plus 200,000 for each 500,000,000 of gross assets up to a maximum bond of 2,500,000

PSERS

Insurance

Each manager must maintain Fidelity Bond coverage of a minimum of \$5 million and Error & Omissions coverage equal to 1% of the market value of the Fund's portfolio under management with a minimum requirement of \$500,000 and a maximum required of \$5 million.

RECEIVED

FEB 12 1992

KANSAS PUBLIC EMPLOYEES
RETIREMENT SYSTEM

Meredith
Alliance Capital
Management Corporation
1345 Avenue of the Americas
New York, NY 10105
(212) 969-1337

AllianceCapital

Mark R. Manley
Compliance Officer and
Counsel

February 11, 1992

Federal Express

Mr. Jack L. Hawn
Deputy Executive Secretary
Kansas Public Employees
Retirement System
Capitol Tower
400 West 8th - 2nd Floor
Topeka, Kansas 66603-3911

Dear Mr. Hawn:

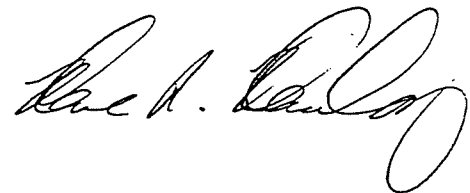
In response to your letter of February 6, 1992, you have requested information on Alliance's current Errors & Omissions (E & O) Insurance and our best estimate of the additional cost in obtaining insurance coverage equal to the value of the portfolio we manage for the Retirement System.

Alliance currently maintains \$10,000,000 of investment advisers E & O coverage. As of January 31, 1992, Alliance managed approximately \$167 million on behalf of the Retirement System. Based on my discussions with several E & O professionals at Marsh & McLennan and my experience in obtaining E&O insurance, we do not believe that it is currently possible to have coverage limits of \$167 million written by the group of insurer that currently write E & O insurance.

If a program of this magnitude could be assembled, we would give a very rough estimate that it would cost an investment adviser in excess of \$4 to \$6 million a year.

I hope this is responsive to your request, should you have any questions, please do not hesitate to let me know.

Sincerely,



MRM:lz
639L

JULIUS BAER INVESTMENT MANAGEMENT INC.

Jay A. Dimberger
Managing Director

Sent Via Telefax

February 13, 1992

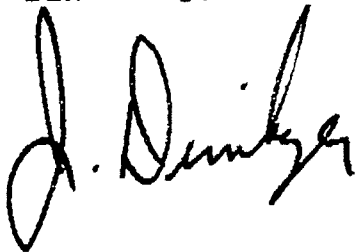
Mr. Jack L. Hawn
Deputy Executive Secretary
Kansas Public Employees Retir. Sys.
400 W. 8th
Topeka, KS 66603

Dear Jack:

This letter is in response to your request for information regarding errors and omissions coverage for your portfolio managed by us. Our insurance agent estimates that the premium would be \$750,000 per year. We have maintained insurance at a much lower level which is described in the attached letter.

I am sorry that I can't give you a lower number, but your request is quite unusual and well outside the normal business practice as we understand it. Please feel free to call me with any questions you may have.

Sincerely,



Attachment

 JULIUS BAER INVESTMENT MANAGEMENT INC.

Jay A. Dirnberger
 Managing Director

June 21, 1991

Mr. Marshall Crowther
 Executive Secretary
 Kansas Public Employees Retir. Sys.
 Capitol Tower, 2nd Fl
 400 West 8th Street
 Topeka, KS 66603

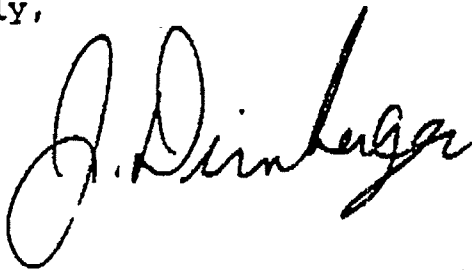
Dear Marshall:

This letter details the insurance coverage on Julius Baer Investment Management, Inc.

Name of Carrier:	Swiss Insurance Zurich, Switzerland
Type of Coverage:	1. Bankers Blanket Board - 20mm Swiss Francs (approx. \$15mm) 2. Fidelity Bond - 10mm Swiss Francs (approx. \$7.5mm)
Amount Specific to KPERS:	None
Special Provisions:	None

Please feel free to call with any questions.

Sincerely,



330 Madison Avenue • New York, New York 10017
 Telephone (212) 297-3850 • Telex RCA 238128 • Telefax (212) 557-7839

PACIFIC INVESTMENT
MANAGEMENT COMPANY

February 10, 1992

Mr. Jack L. Hawn
Deputy Executive Secretary
Kansas Public Employees Retirement System
400 West 8th, 2nd Floor
Topeka, KS 66603-3911

Dear Mr. Hawn:

In response to your letter of February 6, 1992, regarding legislation introduced by the Kansas Legislature which prescribes certain investment practices and standards, specifically in regard to Errors and Omissions insurance coverage for persons "entrusted" with the plan's assets, I offer the following.

Current E&O Coverage:

\$10 million

Estimated Cost of Additional E&O Coverage:

PIMCO currently serves as the investment advisor to approximately \$755 million of KPERS assets. Based upon the preliminary findings of our insurance broker, the existing capacity in the market from the limited number of carriers that offer Investment Advisors E&O is \$80 million to \$100 million, and the cost for that lesser level of coverage is roughly estimated to be between \$2 million and \$5 million annually.

Comments:

While all of those involved in the management of pension plan assets must adhere to the highest fiduciary standards, there is an important distinction between the legal responsibilities/functions of a "trustee" and the responsibilities/functions of an investment advisor; the trustee has physical control of the assets, while the investment advisor does not. Based upon the tone of your brief letter, it is not clear whether this important distinction is recognized within the language of the proposed legislation. It is PIMCO's strong opinion that, should the proposed legislation be adopted, that it would be both inappropriate and uneconomic to apply the insurance coverage requirement to investment advisors.

While PIMCO does not have direct access to, nor have custody of any client assets, PIMCO does maintain \$10 million in combined limits of Investment Advisors Errors and Omission Liability insurance coverage for the benefit of our clients. This insurance is relatively expensive, and most importantly its year-to-year availability and cost, are highly dependent upon the cycles of the insurance industry in general.

P.O. Box 9000
640 Newport Center Drive
Newport Beach, California 92658-9030
(714) 840-3031 • Fax (714) 720-1376

Attachment #3-16

02-10-92 02:32PM P02

Mr. Jack L. Hawn
 February 10, 1992
 Page Two

Even in a relatively "soft" insurance market the annual premium for this coverage is almost \$360,000, and coverage limits in the \$30 million to \$50 million range are generally not available. In the next "hard" insurance market, to be expected within the next several/couple years, the annual premium for PIMCO's existing \$10 million in coverage could easily triple, and coverage limits beyond the \$30 million to \$50 million range could be virtually impossible to obtain.

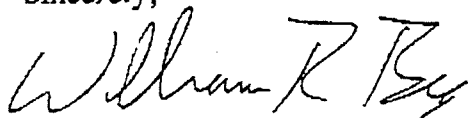
Each year we review the adequacy/appropriateness of our this level of coverage with outside insurance brokers and the insurance underwriters themselves. The factors considered are PIMCO's management style, recent performance history, type/nature of our client base, and the levels of coverage maintained by similar investment management firms. While some other investment managers (typically equity managers with highly volatile or recently poor performance), may maintain somewhat higher insurance limits on a relative basis, the insurance brokers have generally concurred with PIMCO's \$10 million combined coverage limit.

The specifics of PIMCO's existing coverage follow:

Coverage Limits:	Primary	\$ 5 million
	Excess	<u>5 million</u>
	TOTAL	\$10 million
Deductibles:	Primary	\$250,000
	Excess	\$5 million (underlying policy)
Carriers:	Primary	AI Surplus (AIG)
	Excess	Gulf (Primerica)
Policy Period	3/31/91 to 5/1/92	

Please advise if we may be of additional assistance.

Sincerely,



William R. Benz, CFA
 Vice President

WRB:dv

LOOMIS - SAYLES & COMPANY
 INCORPORATED
 INVESTMENT COUNSEL

BOSTON
 CHICAGO
 DETROIT
 MEMPHIS
 MILWAUKEE
 NEW YORK
 PASADENA
 SAN FRANCISCO
 WASHINGTON

CHARLES J. FINLAYSON
 VICE PRESIDENT
 AND
 GENERAL COUNSEL

ONE FINANCIAL CENTER, BOSTON, MASS. 02111
 (617) 403-2170

February 10, 1992

BY FACSIMILE - 913-232-1829

Mr. Jack L. Hawn
 Deputy Executive Secretary
 Kansas Public Employees
 Retirement System
 Capitol Tower, 2nd Floor
 400 W. 8th
 Topeka KS 55503-3911

Dear Mr. Hawn:

Loomis, Sayles & Company, Incorporated ("Loomis Sayles") is an investment manager to the Kansas Public Employees Retirement System ("KPERs"). Through its Los Angeles office and Fixed Income Management Division in Boston, Loomis Sayles manages approximately \$675 million of KPERs assets. I am responding to your letter of February 6, 1992 concerning the introduction of legislation which would require errors and omissions coverage in an amount at least equal to the amount of money entrusted to a person under contract with KPERs.

Loomis Sayles currently carries errors and omissions coverage for \$5 million with a \$250,000 deductible. The premium for this policy is \$207,500. If the proposed legislation were passed, we would be required to secure an errors and omissions policy in excess of \$675 million. We have discussed this situation with our insurance agent who has informed us that world capacity for this amount of coverage does not exist. Our insurance agency informs us that the best estimate they can make would be maximum coverage of \$100 million which would cost more than \$600,000 in annual premium.

It is evident that if this legislation were passed, no investment manager could satisfy its requirement. It appears that the legislation is based upon a false assumption, i.e. that investment managers have custody of the plan's assets which subjects it to a risk of 100% loss. However, the investment managers do not have custody and the only foreseeable loss would be as a result of a violation of investment guidelines or applicable investment laws. If a guideline or statute were inadvertently violated, it would probably be covered under an E&O policy to the extent that the plan suffered losses as a result of that violation. It is inconceivable that the plan would be totally at risk for such a violation — at most only a small fraction of the plan would be at risk. In fact, the greatest risk that the plan has in hiring an investment manager is poor investment selection by the manager which would not be covered by an E&O policy.

LOOMIS · SAYLES · & · COMPANY
INCORPORATED

Mr. Jack L. Hawn
February 10, 1992
Page No. 2

In sum, we would like to point out the following deficiencies in the proposal: (1) there is not enough supply in the marketplace to cover the entire portion of the plan managed by Loomis Sayles and, presumably, by other investment managers; (2) even if we did secure \$675 million in coverage, it would be subject to claims of other clients and, carrying the concept to an extreme, that would mean we should carry \$26 billion in coverage; (3) if we were to get the largest amount which we have been told is possible (i.e., \$100 million) the cost would be prohibitive, in excess of \$600,000; (4) it is extremely unlikely that even a significant fraction of the plan's assets would be at risk as a result of a covered "error" by the investment manager — errors and omissions policies do not cover poor investment performance per se; (5) the proposed legislation would effectively preclude the Board from retaining investment advisers to manage more than an insignificant amount of the pension plan assets.

Sincerely,

Charles J. Finlayson
Charles J. Finlayson

cc: Carol McMurtrie
Diarmuid O'Connell
CJF/lmg

RECEIVED
FEB 11 1992
KANSAS PUBLIC EMPLOYEES
RETIREMENT SYSTEM

February 7, 1992

Mr. Jack L. Hawn
Deputy Executive Secretary
Kansas Public Employees Retirement System
Capitol Tower, 2Nd Floor
400 W. 8th
Topeka, Kansas 66603-3911

Dear Jack:

As we discussed yesterday, Pilgrim Baxter maintains a \$1 million Errors & Omissions policy with an annual premium of \$36,565. We have submitted an application to increase the face amount of this policy to \$4 million. It is our understanding that our present carrier, First State Insurance Company, is willing to absorb the first \$3 million at an estimated premium of \$70,000. If they do not increase their limits of coverage, a second carrier will assume the next \$1 million at a premium not yet determined.

Insurance professionals claim that clients of managers such as PBG (i.e., investors in fully marketable, listed securities) should think of E&O insurance only in the terms of a very small percentage of their assets under management. When applying for this insurance in the past, we have been asked to submit the client's written request for such coverage to confirm our reason for applying for such coverage because of us not being a brokerage house. In turn, we have inquired as to the claims history against such coverage and repeatedly been informed that no claims have been made by investment managers for this insurance.

You might wish to speak with Kenneth G. Mertz II, Chief Investment Officer of the Pennsylvania State Employees' Retirement System. Ken recently worked on the subject of E&O insurance in regard to his Fund and I am sure he would be more than happy to share his findings with you. Ken's phone number at SERS is 717/787-8540.

Mr. Jack L. Hawn

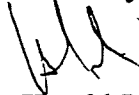
February 7, 1991

Page 2

I am not qualified to answer your question concerning an estimate of the additional cost in obtaining coverage equal to the value of our portfolio. If we were able to obtain such coverage, it would involve numerous carriers and most likely cost in excess of 1% of assets. Therefore, the annual premium for PBG would be in the neighborhood of \$3 million. Obviously, this cost would have to be passed on directly to KPERs should such become mandatory.

If we may provide you with additional information, please do not hesitate to contact us.

Sincerely,

A handwritten signature in black ink, appearing to read 'HJB', is written over the typed name.

Harold J. Baxter



RECEIVED

FEB 10 1992

KANSAS PUBLIC EMPLOYEES
RETIREMENT SYSTEM

February 10, 1992

BY FACSIMILE TRANSMISSION

Mr. Jack L. Hawn
Deputy Executive Secretary
Kansas Public Employees Retirement System
Capitol Tower, 2nd Floor
400 West Eighth Street
Topeka, Kansas 66603-3911

RE: Errors and Omissions Insurance

Dear Jack:

With regard to your February 6, 1992, letter dealing with insurance, we have contacted our agent to assist us in an estimate with regard to Errors and Omissions insurance to cover the portfolio we manage for KPERS. He just provided us with information that may be helpful.

First, the highest total amount of Errors and Omissions insurance written that they are aware of was for Drexel, which had a limit of \$60 million per occurrence at their height of success and was spread over four companies. We understand that Drexel could not obtain more insurance. Therefore, there does not seem to be a way to obtain insurance to cover the KPERS fund that we manage, not even if Loyds of London and all avenues are utilized.

If it was available, the "rule of thumb" is 1% of the amount covered; thus, in our case, the policy would cost over \$4 million annually. Of course, 1% could be negotiated, but the general concept of this type of large E & O coverage is not possible.

As you may recall, we currently carry \$5 million in Errors and Omissions insurance. We are concerned that there is misunderstanding as to what E & O insurance covers. It seems essential to review in each case what is the type of money being managed and what is the potential for errors and omissions. The potential areas for errors in the portfolios we manage are funds uninvested, forgetting to sell a security, going outside of guidelines, and having either an unacceptable credit or maturity in the portfolio. In most cases, the potential loss deals with market fluctuations that occur before the error is spotted.

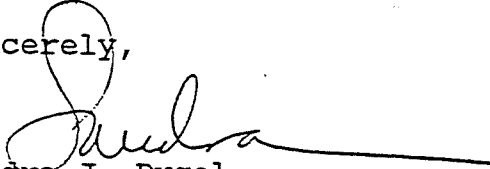
Mr. Jack L. Hawn
Kansas Public Employees Retirement System
February 10, 1992
Page two

For example, if the total portfolio of over \$400 million was covered, E & O insurance means one occurrence could be \$400 million, which would not occur. If there was an error or omission on a \$40 million dollar transaction, and it was on a security that had the maximum five-year maturity and it was not discovered for one month, a \$5 million error would mean interest rates move over 3% in 30 days (i.e., in today's environment, rates going from 6.35 to 9.65%.

We have several checks to avoid such errors and omissions, and of course the KPERS system can monitor the portfolios from the monthly reports. Actually, if there was a need, a daily listing of both transactions and assets is available. Given an overall average maturity of two years, the interest rate risk is not large like it would be with a long bond portfolio. Also, the KPERS funds we manage are heavily weighted in U.S. Treasuries and Agencies. Currently, only 10% is invested in non-government securities, but they are all rated single A or higher. Even in a very different environment where we emphasize sectors, we would not typically have less than 50% in Treasuries Agencies.

Please let me know if you have any questions.

Sincerely,



Sandra J. Rygel

SJR/cl

cc: Ms.Elizabeth B.A. Miller

CHEMICALBANK

Banking and Corporate Finance Group
277 Park Avenue, New York, NY 10122
Tel: (212) 310-6075 / Fax: (212) 839-1567

Brian P. Murphy
Associate

February 10, 1992

Jack L. Hawn
Deputy Executive Secretary
KPERs
Capitol Tower, 2nd Floor
400 W. 8th
Topeka, KS 66603-3911

Dear Jack:

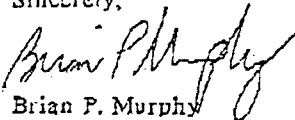
In response to your letters of February 6 and February 10, I am providing you with the following information:

Chemical Bank is currently covered by a \$30 million Bankers Professional Liability policy which costs \$2.5 million per year. Errors and omissions insurance is extremely expensive and therefore only a few New York money center banks have purchased this type of insurance.

If Chemical Bank were required to purchase coverage equal to the \$150 million to \$200 million portion of the Direct Placement Portfolio which we are currently managing, our policy costs could increase by \$10 million. We are currently being paid \$1.44 million per year for our services.

I hope this brief note addresses the Legislature's questions. If it does not, please feel free to call me at (212) 310-6075.

Sincerely,


Brian P. Murphy
Associate



NOMURA CAPITAL MANAGEMENT, INC.

TO : KPERS	DATE:	PAGE:
	2 . 10 . 92	1 / 1
DEPT:	FROM: John F. Wallace	
ATTN: Jack L. Hawn Deputy Executive Secretary	FAX NO.: (212) 609-8835	

As discussed, Nomura Capital Management, Inc. presently does not have Errors and Omissions insurance coverage.

Our insurance broker stated that coverage for all NCM accounts should be approximately \$15 million; not the total amount of funds under management.

Such coverage (\$15 million), on an annual basis was estimated to be \$189,000 with a \$150,000 deductible and \$160,000 with a deductible of \$1 million.

If additional information is required, please contact me directly.

07551/1

THE
O'CONNOR
GROUP

Benjamin G. Gifford
Executive Vice President

February 10, 1992

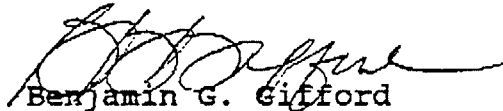
Mr. Jack L. Hawn
Deputy Executive Secretary
Kansas Public Employees Retirement System
Capitol Tower
2nd Floor
400 West 8th
Topeka, Kansas 66603-3911

Re: Errors and Omissions Coverage

Dear Jack:

We currently carry errors and omissions coverage in the amount of \$2,000,000. If we were to carry coverage equal to the value of the portfolio we manage (\$320 million) the annual premium is estimated to be approximately \$2,000,000. Our insurance broker, Willis Coroon, has indicated that in their opinion it is doubtful that coverage in the amount of \$320 million is commercially available. The cost of such insurance would significantly exceed the annual investment advisory fee we receive from KPERS.

Very truly yours,


Benjamin G. Gifford

BGG/mg

**Lehndorff & Babson Real Estate Counsel**

February 10, 1992

Mr. Jack Hawn
Deputy Executive Secretary
Kansas Public Employees Retirement System
Capitol Tower, 2nd Floor
400 W. 8th
Topeka, Kansas 66603-3911

Re: Errors and Omissions Coverage

Dear Mr. Hawn:

Lehndorff and Babson currently carries errors and omissions coverage with limits of \$1,000,000. We are currently investigating the National Council of Real Estate Investment Fiduciaries (NCREIF) Professional Liability Program which has increased limits. We will keep you informed of our progress.

If I can be of additional assistance, please let me know.

Sincerely,

Marilyn Hatfield
Vice President
Risk Management

MH/vlt

cc: G. Andrews Smith

RECEIVED

92 FEB 7 P1:58

**Commerce
Bank and Trust**

KANSAS
PUBLIC EMPLOYEES
RETIREMENT SYSTEM

February 7, 1992

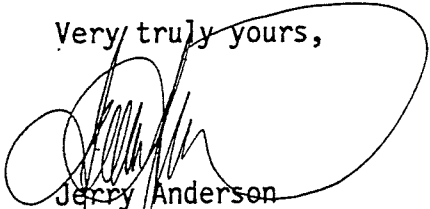
Jack L. Hawn
Deputy Executive Secretary
Kansas Public Employees Retirement System
Capitol Towers, Second Floor
400 W 8th street
Topeka, Kansas 66603-3911

Dear Jack:

This letter is in response to your letter of February 6, 1992. Your letter makes reference to language in legislation recently introduced in the Kansas Legislature regarding errors and omissions insurance and the extent of coverage required in certain situations. The legislation apparently refers to coverage in an amount at least equal to the amount of monies of the fund entrusted to such person. As you know, Commerce Bank and Trust, as Investment Custodian, has no monies entrusted to it. Your letter also asks for a best estimate of the additional cost in obtaining coverage equal to the value of the portfolio managed. As you know, Commerce Bank and Trust, as Investment Custodian, does not manage a portfolio of assets for KPERS.

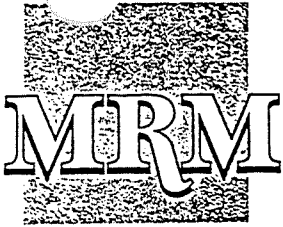
For the reasons stated above, we can not respond precisely to the request in your February 6 letter. In an attempt to provide you with information, we are however, seeking to determine what additional errors and omissions coverage we could obtain as the Investment Custodian and the approximate of any additional coverage obtainable. We will provide this information as soon as possible.

Very truly yours,



Jerry Anderson
Senior Vice President and
Comptroller
Commerce Bank and Trust
3035 S Topeka Blvd.
Topeka, Kansas 66611
913/267-430

JA:mt



RECEIVED
February 7, 1992
02 FEB 10 9:35
PUBLIC KANSAS
EMPLOYEES
RETIREMENT SYSTEM

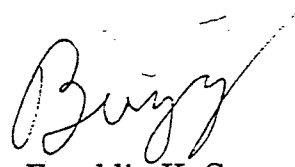
Jack Hawn
Deputy Executive Secretary
KPERS
400 West Eighth Street
Capitol Tower, Second Floor
Topeka, Kansas 66603

Dear Jack,

At this time MRM has errors and omissions coverage of \$500,000. This coverage is deemed adequate as we manage only publicly traded stocks and bonds and do not accept custody of any client funds.

Preliminary quotes for errors and omissions coverage equal to the total of assets that we manage for you range from perhaps \$500,000 - \$1,000,000 per year. We are told that a policy of this size would require a special effort, probably with Lloyd's of London. Please let me know if you will need a more precise quote figure.

Best Regards,


Franklin K. Crews



Bankers Trust Company

280 Park Avenue, New York, New York 10017

Robert W. Betz
Vice President
Public Funds Division
Telephone: 212-454-4672
Facsimile: 212-454-2647

February 10, 1992

Mailing Address:
P.O. Box 318, Church Street Station
New York, New York 10008

Mr. Jack L. Hawn
Deputy Executive Secretary
Kansas Public Employees Retirement System
Capitol Tower
400 W. 8th Street, 2nd Floor
Topeka, Kansas 66603-3911

Dear Jack:

It is not clear to me as to whether or not the proposed legislation would impact us acting as Custodian. In any event, the following information is provided with respect to our existing coverage.

Bankers Trust Blanket Bond

Bankers Trust maintains the broadest Bankers Blanket Bond coverage available in the marketplace. This coverage includes employee dishonesty, computer crime, on-premises theft and burglary, in-transit loss (while in possession of our employees or designated messengers), destruction, or forgery. The limit of liability is \$125 million, excess of a \$10 million deductible. The lead primary underwriter is Lloyds of London.

Excess Premises and Transit Coverage

Additional coverage for physical loss of securities while being held on premises or while being transported by our employees or designated messengers is provided in the amount of \$375 million. This applies in excess of the Bankers Blanket Bond coverage noted above.

The top \$10 million of this coverage includes a "Lost Instrument Bond" (LIB) feature, which equates to an estimated \$1 billion of "indemnities on demand."

Errors and Omissions

We have chosen to self-insure our Errors and Omissions risk. Our ongoing monitoring of conventional insurance availability indicates that the market has not offered Errors and Omissions coverage of reasonable breadth and terms to warrant the necessary expenditure of premium dollars.

If you need any further information, please do not hesitate to contact me.

Sincerely,

02/10/92

16:31
02/10/92

10:01

02/10 081 1200

PDF 1AA

NO. 419

P002/003



MARINE MIDLAND BANK, N.A.

One Marine Midland Center
Buffalo, New York 14203

Insurance Management Department

February 10, 1992

Mr. Jack L. Hawk
Deputy Executive Secretary
Kansas Public Employees Ret. Sys.
Capital Tower 2nd floor
400 W. 8th
Topeka, Kansas 66603-3911

re: Certificate of Insurance
Custodial Services

Dear Mr. Hawk:

The certificate of insurance for Bankers Blanket Bond coverage that was sent to you in mid-December 1992 (copy enclosed) provides coverage for acts of fraud. It does not provide errors or omissions coverage.

Due to present insurance market conditions, and the inability to secure proper limits of Bankers Professional Errors and Omissions Insurance, Marine Midland is self insured for this risk.

Should you have any questions, feel free to call me at (716) 841-4113.

Regards,

A handwritten signature in cursive script, appearing to read 'M.D. Baumgartner'.

Marlene D. Baumgartner
Assistant Vice President

02/10/92

16:31

02/10/92 16:31

NO. 419

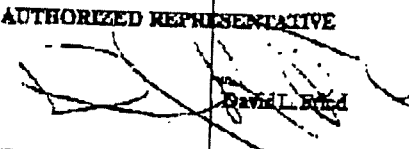
P003/003

PRODUCER GIC FINANCIAL INSTITUTIONS INSURANCE SERVICES LTD. BISHOPS COURT, 25, ARSHELLY LANE, LONDON E14 7LJ		ISSUE DATE 30/11/91
INSURED MAERNE MIDLAND BANKS INC. One Marine Midland Center, Jersey NEW YORK, 10022		THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT ALTER, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW.
COMPANIES AFFORDING COVERAGE		
COMPANY A. LLOYD UNDERWRITING MEMBER OF LLOYD'S UNDERWRITING COMPANY LETTER		
COMPANY B. Centennial International Reinsurance Limited LETTER (Certain Underwriting Member of Lloyd's Underwriting Company)		
COMPANY LETTER		
COMPANY LETTER		

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT ALTER, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE DOES NOT ALTER, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES.

TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE	POLICY EXPIRATION DATE	LIMIT OF LIABILITY
A. BANKERS BLANKET BOND WITH LECCP	JBB9100176	30/11/91	30/11/92	\$ 11,000,000 in the aggregate each section
B. BANKERS BLANKET BOND WITH LECCP	JBB9100030 JBB9100032 JBB9100033 JBB9100034 JBB9100035	30/11/91	30/11/92	\$ 127,000,000 in the aggregate each section

DESCRIPTION OF OPERATIONS
 Re : Custodial Services

Mr. Marshall Crowther Executive Secretary of the Retirement System Kansas Public Employees Ret. Sys. Capitol Tower 3rd Floor 400 W. 8th Topeka, Kansas 66603-3911	SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, THE ISSUING COMPANY WILL ENDEAVOR TO MAIL 90 DAYS WRITTEN NOTICE TO THE CERTIFICATE HOLDER NAMED TO THE LEFT. BUT FAILURE TO MAIL SUCH NOTICE SHALL IMPOSE NO OBLIGATION OR LIABILITY OF ANY KIND UPON THE COMPANY, ITS AGENTS OR REPRESENTATIVE.
(51)	AUTHORIZED REPRESENTATIVE  DAVID L. BIRD

02-10-92 03:44PM P03

Susan K. Freund
Compliance Officer &
Counsel

April 30, 1991

Ms. Nancy Watts
Kansas Public Employees' Retirement System
Capitol Tower, 2nd Floor
400 West 8th Street
Topeka, KS 66603-3911

Re: WFITC Fidelity and Bankers' Blanket Bond Coverage

Dear Ms. Watts:

This is in response to your questions concerning the Fidelity and Bankers' blanket bond coverage applicable to Wells Fargo Institutional Trust Company ("WFITC"). Fidelity and blanket bond coverage is provided by the Wells Fargo & Company ("WF&Co.") Comprehensive Crime Policy. This policy insures WFITC as an affiliate of WF&Co. against risks of loss or damage resulting from various illegal acts. While it is not the purpose of this letter to fully describe all the terms and conditions of the policy, I will attempt to summarize the sections that describe coverage, limits and carriers. In addition, I will briefly describe some other coverages that may be of interest to you.

The Comprehensive Crime Policy provides coverage for loss occasioned by employee dishonesty, burglary, robbery, theft, mysterious disappearance or damage, and acceptance in good faith of forged, counterfeit or stolen securities. The limit of coverage for each loss under the policy is \$105 million subject to a \$15 million deductible provision with a 20% participation in any loss in excess of \$15 million.

There are a number of factors that may impact policy response. Losses under the policy may be subject to exclusions which are defined by the terms of the policy. In addition, coverage may be subject to exhaustion of annual aggregate limits from prior claims of others insured under the policy. Customer losses may be subject to further proration, reduction or priority based on other insurance policies or similar documents covering all or a portion of the claim.

As is often the case in a policy of this size, there is a group of carriers providing coverage. These carriers include: Lloyds of London, Federal Insurance Company, The Aetna Casualty and Insurance Company, Continental Insurance Company and United Pacific Insurance Company.

45 Fremont Street
San Francisco, CA 94105
(415) 597-2607
Fax (415) 597-2698

Ms. Nancy Watts
April 30, 1991
Page 2

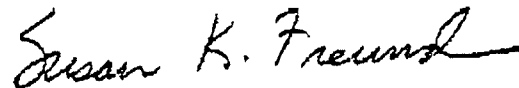
In addition to the Comprehensive Crime Policy, there are other policies which may apply to assets custodied with WFITC. Errors and omissions coverage relates to losses resulting from negligence and other unintentional acts. The Bankers Professional Liability policy protects WFITC assets from losses in this regard. The coverage limit is \$15 million with a \$5 million self-insured retention, and a 20% participation in any claim. The carrier is National Union Fire Insurance Company. Assets custodied with WFITC are also covered by a Pension Trust Liability policy with coverage limits of \$20 million and a \$50,000 deductible. Like the Bankers Liability Policy, this policy is also through National Union.

In addition to the coverages discussed above, there are several liability policies insuring against losses arising from matters which may not be covered under the Comprehensive Crime policy or the error and omissions coverages. I will not summarize the details of these policies because they do not specifically relate to your question. If you would like further information about these policies, please advise.

This summary relates to policies currently in effect. Insurance policies are reviewed on a regular basis and are renewed, modified or terminated. Consequently, the information provided by this letter is subject to change. We would be happy to provide you with information at a later date, if you have need of it.

I hope that this information is helpful. Please contact me if I can be of further assistance.

Sincerely,



SKF/ab

1 and amendments thereto, shall be included in the amount of com-
 2 pensation of such member used in determining such member's final
 3 average salary and shall not be subject to the 15% limitation provided
 4 in this subsection. Any contributions by such member on the amount
 5 of such increase which exceeds 15% which is not included in com-
 6 pensation shall be returned to the member. Unless otherwise pro-
 7 vided by law, beginning with the employer's fiscal year coinciding
 8 with or following July 1, 1985, compensation shall include any
 9 amounts for tax sheltered annuities or deferred compensation plans.
 10 Beginning with the employer's fiscal year which begins in calendar
 11 year 1991, compensation shall include amounts under sections 403b,
 12 457 and 125 of the federal internal revenue code of 1986 and any
 13 other section of the federal internal revenue code of 1986 which
 14 defers or excludes amounts from inclusion in income;

15 (10) "credited service" means the sum of participating service
 16 and prior service and in no event shall credited service include any
 17 service which is credited under another retirement plan authorized
 18 under any law of this state;

19 (11) "dependent" means a parent or child of a member who is
 20 dependent upon the member for at least 1/2 of such parent or child's
 21 support;

22 (12) "effective date" means the date upon which the system be-
 23 comes effective by operation of law;

24 (13) "eligible employer" means the state of Kansas, and any
 25 county, city, township, special district or any instrumentality of any
 26 one or several of the aforementioned or; any noncommercial public
 27 television or radio station located in this state which receives state
 28 funds allocated by the Kansas public broadcasting commission whose
 29 employees are covered by social security; *or any nonprofit area*
 30 *agency on aging, any nonprofit community mental health center and*
 31 *any nonprofit community facility for individuals with mental retar-*
 32 *dation, developmental disabilities and physical disabilities, which*
 33 *receives state or local funds or grants to provide the services offered*
 34 *by such organization. If a class or several classes of employees of*
 35 *any above defined employer are not covered by social security, such*
 36 *employer shall be deemed an eligible employer only with respect*
 37 *to such class or those classes of employees who are covered by social*
 38 *security;*

39 (14) "employee" means any appointed or elective officer or em-
 40 ployee of a participating employer whose employment is not seasonal
 41 or temporary and whose employment requires at least 1,000 hours
 42 of work per year, but not including: (A) Any person covered by or
 43 eligible for or who will become eligible for a retirement annuity

, as provided in K.S.A. 19-4001 et seq. and amendments thereto,

for the mentally retarded, as provided in K.S.A. 19-4001 et seq. and amendments thereto and any nonprofit independent living agency, as defined by K.S.A. 65-5101 and amendments thereto

Pensions, Investments & Benefits
 Attachment #4
 2-19-92

HOUSE BILL No. 2773

By Representative Reinhardt

1-24

8 AN ACT concerning the Kansas public employees retirement system;
9 relating to eligible employers; amending K.S.A. 1991 Supp. 74-
10 4902 and repealing the existing section.

participating service credit for certain members;

11 sections
12 *Be it enacted by the Legislature of the State of Kansas:*

46-1302 and

13 Section 1. K.S.A. 1991 Supp. 74-4902 is hereby amended to read
14 as follows: 74-4902. As used in K.S.A. 74-4901 to 74-4929, inclusive,
15 and amendments thereto, unless the context otherwise requires:

16 (1) "Accumulated contributions" means the sum of all contribu-
17 tions by a member to the system which are credited to the member's
18 account, with interest allowed thereon;

19 (2) "acts" means K.S.A. 74-4901 to 74-4929, inclusive, and
20 amendments thereto;

21 (3) "actuarial equivalent" means an annuity or benefit of equal
22 value to the accumulated contributions, annuity or benefit, when
23 computed upon the basis of the actuarial tables in use by the system;

24 (4) "actuarial tables" means the actuarial tables approved and in
25 use by the board at any given time;

26 (5) "actuary" means the actuary or firm of actuaries employed or
27 retained by the board at any given time;

28 (6) "agent" means the individual designated by each participating
29 employer through whom system transactions and communication are
30 directed;

31 (7) "beneficiary" means any natural person or persons or estate
32 named by a member to receive any benefits as provided for by this
33 act. Designations of beneficiaries by a member who is a member of
34 more than one retirement system made on or after July 1, 1987,
35 shall be the basis of any benefits payable under all systems unless
36 otherwise provided by law. Except as otherwise provided by sub-
37 section (33) of this section, if there is no named beneficiary living
38 at time of member's death, any benefits provided for by this act
39 shall be paid to: (A) The member's surviving spouse; (B) the mem-
40 ber's dependent child or children; (C) the member's dependent par-
41 ent or parents; (D) the member's nondependent child or children;
42 (E) the member's nondependent parent or parents; (F) the estate of
43 the deceased member; in the order of preference as specified in this

1 and amendments thereto, shall be included in the amount of com-
 2 pensation of such member used in determining such member's final
 3 average salary and shall not be subject to the 15% limitation provided
 4 in this subsection. Any contributions by such member on the amount
 5 of such increase which exceeds 15% which is not included in com-
 6 pensation shall be returned to the member. Unless otherwise pro-
 7 vided by law, beginning with the employer's fiscal year coinciding
 8 with or following July 1, 1985, compensation shall include any
 9 amounts for tax sheltered annuities or deferred compensation plans.
 10 Beginning with the employer's fiscal year which begins in calendar
 11 year 1991, compensation shall include amounts under sections 403b,
 12 457 and 125 of the federal internal revenue code of 1986 and any
 13 other section of the federal internal revenue code of 1986 which
 14 defers or excludes amounts from inclusion in income;

15 (10) "credited service" means the sum of participating service
 16 and prior service and in no event shall credited service include any
 17 service which is credited under another retirement plan authorized
 18 under any law of this state;

19 (11) "dependent" means a parent or child of a member who is
 20 dependent upon the member for at least 1/2 of such parent or child's
 21 support;

22 (12) "effective date" means the date upon which the system be-
 23 comes effective by operation of law;

24 (13) "eligible employer" means the state of Kansas, and any
 25 county, city, township, special district or any instrumentality of any
 26 one or several of the aforementioned or; any noncommercial public
 27 television or radio station located in this state which receives state
 28 funds allocated by the Kansas public broadcasting commission whose
 29 employees are covered by social security; ~~or any nonprofit area~~
 30 ~~agency on aging, any nonprofit community mental health center and~~
 31 ~~any nonprofit community facility for individuals with mental retar-~~
 32 ~~dation, developmental disabilities and physical disabilities, which~~
 33 ~~receives state or local funds or grants to provide the services offered~~
 34 ~~by such organization. If a class or several classes of employees of~~
 35 any above defined employer are not covered by social security, such
 36 employer shall be deemed an eligible employer only with respect
 37 to such class or those classes of employees who are covered by social
 38 security;

39 (14) "employee" means any appointed or elective officer or em-
 40 ployee of a participating employer whose employment is not seasonal
 41 or temporary and whose employment requires at least 1,000 hours
 42 of work per year, but not including: (A) Any person covered by or
 43 eligible for or who will become eligible for a retirement annuity

and any nonprofit countywide economic development corporation or organization

; or any community action agency established by the economic opportunity act of 1964 and the omnibus budget reconciliation act of 1981

1 be amended;

2 (31) "social security" means the old age, survivors and disability
3 insurance section of the federal social security act;

4 (32) "total disability" means a physical or mental disability which
5 prevents the member from engaging, for remuneration or profit, in
6 any occupation for which the member is reasonably suited by ed-
7 ucation, training or experience; and

8 (33) "trust" means an express trust, created by a trust instrument,
9 including a will, designated by a member to receive payment of the
10 insured death benefit under K.S.A. 74-4927 and amendments thereto
11 and payment of the member's accumulated contributions under sub-
12 section (1) of K.S.A. 74-4916 and amendments thereto. A designation
13 of a trust shall be filed with the board. If there is a designated trust
14 at the time of the member's death, the insured death benefit for
15 the member under K.S.A. 74-4927 and amendments thereto and the
16 member's accumulated contributions under subsection (1) of K.S.A.
17 74-4916 and amendments thereto shall be paid to the trust in lieu
18 of the member's beneficiary. If no will is admitted to probate within
19 six months after the death of the member or no trustee qualifies
20 within such six months or if the designated trust fails, for any reason
21 whatsoever, the insured death benefit under K.S.A. 74-4927 and
22 amendments thereto and the member's accumulated contributions
23 under subsection (1) of K.S.A. 74-4916 and amendments thereto shall
24 be paid in accordance with the provisions of subsection (7) of this
25 section as in other cases where there is no named beneficiary living
26 at the time of the member's death and any payments so made shall
27 be a full discharge and release to the system from any further claims.

28 ~~Sec. 2.~~ K.S.A. 1991 Supp. 74-4902 ~~is~~ hereby repealed.

29 ~~Sec. 3.~~ This act shall take effect and be in force from and after
30 its publication in the statute book.

46-1302 and
are

New Sec. 2. Notwithstanding the provisions of K.S.A. 74-4913 and amendments thereto, any person who is a member of the Kansas public employees retirement system and who did not receive a refund of such accumulated contributions upon termination of employment with a participating employer shall receive participating service credit for service after January 1, 1991, as an employee of the legislative branch of the state of Kansas. Any person receiving participating service credit pursuant to this section shall not be entitled to any benefit provided in K.S.A. 46-1302 and amendments thereto.

Sec. 3. K.S.A. 1991 Supp. 46-1302 is hereby amended to read as follows: 46-1302. (a) Every person employed by the legislative branch of the state of Kansas on and after January 1, 1984, shall receive a monthly retirement benefit commencing on the first day of the month after the person has (1) attained age 65; (2) been employed by the legislative branch of the state of Kansas for 50 or more days in 10 or more calendar years; and (3) made application for such monthly retirement benefit to the Kansas public employees retirement system in the form and manner required by the retirement system. Such monthly retirement benefit shall be equal to the amount determined by multiplying \$15 by the total number of years in which such person was employed by the legislative branch of the state of Kansas for 50 or more days. No benefit shall include service with the legislative branch of the state of Kansas which is credited under the Kansas public employees retirement system or any other retirement system of the state of Kansas, however, such service may be used in determining whether the person has been employed for 10 or more calendar years.

(b) The service described in subsection (a) may be used by members of the Kansas public employees retirement system in determining whether such individuals meet any service requirements under such system. Except as provided in section 2, no benefit for service described in subsection (a) shall be the basis of any benefit paid under the Kansas public employees retirement system.

(c) No person's monthly retirement benefit under this section shall be increased for any period of employment with the legislative branch of the state of Kansas after applying for and commencing to receive such benefit, nor shall any benefit be forfeited for subsequent employment by the legislative branch of the state of Kansas, except as provided by section 2. All benefits shall be paid from the Kansas public employees retirement fund. As soon as practical after the close of each fiscal year, the executive secretary of the Kansas public employees retirement system shall certify to the chairperson of the legislative coordinating council the amount of benefits paid under this section during the preceding fiscal year. The legislature shall pay to the Kansas public employees retirement fund from moneys appropriated to the legislature a sum equal to the amount of any benefits payable in the preceding fiscal year under the provisions of this section.

(d) In accordance with the provisions of this subsection, the legislative coordinating council may terminate the benefits under this section. If the legislative coordinating council decides to terminate benefits under this section, the chairperson of the council shall notify, in writing, the executive secretary of the Kansas public employees retirement system of such termination. Upon notification of termination of benefits under this section, no further benefits will be payable under the provisions of this section in any fiscal year which commences after the fiscal year in which notification of termination is given. Termination of benefits under this section shall not constitute a claim against the state of Kansas or the Kansas public employees retirement system by any person receiving a benefit under the provisions of this section or who would have been eligible to receive a benefit under the provisions of this section in the future.

(e) This section shall take effect and be in force from and after July 1, 1984.

MEMORANDUM

Kansas Legislative Research Department

Room 545-N – Statehouse
Topeka, Kansas 66612-1586
(913) 296-3181

February 19, 1992

To: House Committee on Pensions, Investments, and Benefits

Re: Requested Information on H.B. 2773

The Committee requested information concerning the estimated payrolls of selected nonprofit organizations that are referenced in H.B. 2773. Staff contacted the Kansas Department of Social and Rehabilitation Services and the Kansas Department on Aging to provide an estimate concerning the nonprofit organizations in their respective areas.

According to the Department of Social and Rehabilitation Services, the total estimated covered payroll for local mental health and retardation facilities is \$91,645,597. This estimate reflects the gross salaries and wages and does not exclude any part-time employees who might not be eligible for membership in KPERS.

The Department on Aging estimated the total covered payroll for area agencies on aging at \$1,297,656. These agencies employ 63.6 full-time equivalent positions. The agency also indicated that of the ten area agencies on aging, four currently offer a retirement plan.

The 1990 *KPERS Annual Report* (the latest available) states that the unfunded prior service liability for KPERS Local is \$29,471,400, all of which will be amortized by 2002. The current KPERS Local rate of 1.8 percent is composed of 0.9 percent for prior service costs and 0.9 percent for participating service costs, which includes 0.6 percent for death and disability benefits. Any increase in the unfunded liability for KPERS Local would depend on the number of agencies that would take advantage of the option to affiliate with KPERS and then the exact number of prior service years that individual employees would bring to KPERS. The KPERS Board of Trustees does have the ability to certify specific employer rates, rather than a composite rate for all local employers.

92-0216/ADC

Pensions, Investments & Benefits
Attachment #5
2-19-92

MARTIN E. SEGAL COMPANY

CONSULTANTS AND ACTUARIES

ONE PARK AVENUE
NEW YORK, NEW YORK 10016-5895
(212) 251-5000
FAX: (212) 251-5490

JOHN P. MACKIN, Ph.D.
SENIOR VICE PRESIDENT
GOVERNMENTAL DIVISION
DIRECT DIAL: (212) 251-5311

Mr. Jack L. Hawn
Deputy Executive Secretary
Kansas Public Employees Retirement System
Capitol Tower - 2nd Floor
400 West 8th
Topeka, Kansas 66603

Re: House Bill 2773

Dear Jack:

House Bill 2773 would amend the definition of eligible employer to include any non-profit area agency on aging, community mental health center, and community facility for individuals with mental retardation, development disabilities, and physical disabilities. Are the employees of these non-profit employers public employees or private sector employees? Does House Bill 2773 raise legal questions regarding the implications of covering employees of such non-profit employers under KPERS?

If House Bill 2773 were enacted, the new eligible employers that join KPERS will contribute an actuarially-determined rate of contribution. Because of the large number of employees involved (in relation to the total number of local government employees covered under KPERS), we would want to examine the characteristics of the new group of employees to determine if a separate contribution rate should be certified by the Board for this group of eligible employers.

If the actuarially-determined rate of contribution for this new group of eligible employers differed significantly from the contribution rate for all other local participating employers, we would propose that either the Board certify a separate additional rate or that the KPERS Act be amended to provide for a longer amortization period for this new group of eligible employers.

Sincerely,



John P. Mackin

JPM:ns