

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Chairperson Dave Kerr at 11:00 a.m. on January 22, 1998 in Room 123-S of the Capitol.

All members were present except:

Committee staff present: Alan Conroy, Legislative Research Department
Russell Mills, Legislative Research Department
April Holman, Legislative Research Department
Norman Furse, Revisor of Statutes
Michael Corrigan, Revisor of Statutes
Judy Bromich, Administrative Assistant
Ann Deitcher, Committee Secretary

Conferees appearing before the committee:

Meredith Williams, KPERS
Pat Beckham, Systems Actuary, Milliman & Robertson

Others attending: See attached list.

Meredith Williams of KPERS began by explaining what was included in the notebook handed out *the day before.*
(Attachment 1).

When asked if there were comparative numbers for the COLA over the years, Mr. Williams said that they would go back and price the COLAs that have been given over this time frame and present them to the committee.

Senator Kerr said that one of the reasons there is so much pressure for the COLA is because of the fine earnings experience there has been in the past few years. In 1995, 1996 and 1997 it exceeded the expected rate of return. He said that one of their problems would be solved if they would let the KPERS Board raise the assumed rate of return from 8% to 8.5%. *(Attachment 2.)*

Pat Beckham, Systems Actuary with Milliman and Robertson, said they couldn't do that because the viabilities for a retirement system are extremely long term. Any member who comes on at age 20 will potentially work for 40 or 45 years and then live until they're 85, 90 or 95, drawing benefits. You have a very long term horizon wherewith you're trying to cost equate viabilities and the rate of return is an underlying assumption when you're looking at viabilities. It's not just servicing what has happened in the last five years -- but what is likely to happen in the next twenty to fifty to seventy years.

Ms Beckham was asked if she still thought 8% was a reasonable assumed rate of return. Based on the excellent results of the last few years, couldn't it be something higher than that.

She said that she didn't think the results over the last two or three years would impact it as much as what we might expect to have in the future.

Senator Kerr asked Ms Beckham if in her actuarial work with other organizations, KPERS was on the low end of the assumed rate of return or did she have a lot of clients who are 9, 9 1/2 or 8 1/2. He asked if she could characterize where KPERS was in the assumed rate of return spectrum.

Ms Beckham said she had very few clients that are at 9% or above that. She said she believed KAPERS to be in the main stream. From surveys of public systems that are published, the average assumed rate of return is slightly below 8%.

Senator Kerr asked if giving a COLA without making a provision for paying for it, was tantamount to saying the expected rate of return was too low. Therefore a COLA can be given without making a provision for paying for it.

Ms Beckham said that it has to be paid sooner or later, either through higher earnings long term or higher contributions.

Meredith Williams said that the 3% Governor's proposal does not have an impact on employee contributions. It's totally funded by employers.

Chairman Kerr adjourned the meeting at 12:15.

The next meeting is scheduled for January 26, 1998.

SENATE WAYS AND MEANS COMMITTEE GUEST LIST

DATE: 1/22/98

NAME	REPRESENTING
Basil Covey	KRTA
Jerry Marlatt	KPCFF
Stacey Farnum	KASB
Don Ryan	S.E.A.K
Keith Hayton	S.E.A.K
Ron Wood	KPERS
Patrice Beckham	TKR
Meredith Williams	KPERS
Kes Babo	Ks. Environmental Consulting
Jeff Nichols	Sen. Ranson
Dave Wilson	KABE
Cindy Denton	DOB
Mark Tallman	KASB
Larry Sissor	Kearney Law office
Jeremy Anderson	Sen. Hensley
Tom Seyler	WSU



Kansas Public Employees Retirement System

January 23, 1998

Senator Dave Kerr, Chair
Senate Committee on Ways and Means
Room 123-S, Statehouse
Topeka, Kansas 66612.

Dear Senator Kerr:

I appreciated yesterday's opportunity to provide the Senate Ways and Means Committee with a brief overview of KPERs' operations and issues. The same materials were presented to the House Appropriations Committee yesterday afternoon. During the course of the House presentation, an error was detected in one of the cost figures we developed.

The KPERs' presentation materials indicated that the fifth year State/School (State & School) employee cost of the Joint Committee's automatic COLA proposal would be \$113.54 million and that the total fifth year employee cost of the proposal would be \$128.22 million. Both figures are wrong. The correct figures are \$33.44 million and \$48.12 million, respectively. Please be advised that the detailed supporting spreadsheets were accurate and remain unchanged.

I have enclosed copies of a revised employee cost estimate. The corrected numbers are indicated in bold face and by italics. These corrected estimates should replace the second page behind the first teal-colored divider in Tab G of KPERs' presentation materials.

I apologize for the inconvenience caused by this error.

Please let me know if you have any questions or if I can be of any further assistance. I am available at your convenience at 296-6880.

Sincerely,

Meredith Williams
Executive Secretary

enclosures
cc: Julian Efirid

S W+M

1/22/98

Attachment!

REVISED

*S w+M
1/22/98
Attachment 2*

2% Automatic COLA to all current and future retirants commencing five years after retirement, but not before age 70

**AUTOMATIC COLA ESTIMATES
EMPLOYEE**

	<u>Increase in Actuarial Liability</u>	<u>Increase in Contribution Rate Year 1</u>	<u>Additional First Year Employee Contribution</u>	<u>Increase in Contribution Rate Year 5</u>	<u>Additional Fifth Year Employee Contribution</u>	<u>Total Additional Employee Contributions Through 2014</u>
KPERS						
State/School	405,000,000	0.25%	7,150,000	1.00%	33,440,000 **	633,420,000
Local	73,000,000	0.25%	1,980,000	1.00%	9,280,000	175,680,000
TIAA	2,500,000	0.00%	-	0.00%	-	-
Judges						
Judges	5,000,000	0.38%	70,000	1.50%	320,000	6,050,000
KP&F						
KP&F-State	4,750,000	0.44%	140,000	1.75%	650,000	12,220,000
KP&F-Local	32,250,000	0.44%	950,000	1.75%	4,430,000	83,920,000
Totals	522,500,000		10,290,000		48,120,000 **	911,290,000

** Revised