Approved: April 8, 1999
Date

MINUTES OF THE HOUSE KANSAS 2000 SELECT COMMITTEE.

The meeting was called to order by Vice Chairperson Deena Horst at 1:30 p.m. on March 22, 1999 in Room 526-S of the Capitol.

All members were present except: Representative Kenny Wilk - excused

Committee staff present: Alan Conroy, Legislative Research Department
Gordon Self, Revisor of Statutes
Janet Mosser, Committee Secretary

Conferees appearing before the committee: William Sneed, Legislative Counsel, University of Kansas Hospital Authority
Bobbi Mariani, Assistant Director, Division of Personnel Services, Department of Administration

Others attending: See attached list

Vice Chairperson Horst opened the hearing on **SB 324 on University of Kansas hospital authority; certain employee benefit plans; retirement annuities**.

The Fiscal Note was distributed for **SB 324** (**Attachment 1**).

William Sneed, Legislative Counsel, University of Kansas Hospital Authority, proponent, was recognized by Vice Chairperson Horst and reviewed the technical corrections the bill addresses and also requested that **SB 56** be considered as an amendment to **SB 324** since it too contains several technical changes for the Authority (**Attachment 2**).

Bobbi Mariani, Assistant Director, Division of Personnel Services, Department of Administration, was recognized by Vice Chairperson Horst and pointed out that there was one other statute missed in the technical clean-up of areas where the Authority should be excluded from state employee benefits. It is K.S.A. 44-575 dealing with the state self-insurance fund on worker's compensation. Ms. Mariani noted that **SB 137**, currently in the House Appropriations Committee, will address that correction if it passes.

William Sneed was again recognized by Vice Chairperson Horst and noted the correction noted by Ms. Mariani was not requested because of an understanding that the House Appropriations Committee was going to look at **SB 137**. He requested that the Committee look at only **SB 324** and **SB 56**.

Vice Chairperson Horst closed the hearing on **SB 324**.

Representative Carmody, Chairperson of the Kansas 2000 Subcommittee on Retirement Benefits, presented the subcommittee report on retirement options (**Attachment 3**).

Representative Lane moved to accept the subcommittee report and note the minority opinion. The motion was seconded by Representative Campbell. The motion carried.

Representative Sloan moved to introduce all of the recommendations presented in the subcommittee report and ask that bills be drafted. The motion was seconded by Representative Campbell. The motion carried.

Vice Chairperson Horst opened the meeting to discussion of **HB 2522** on a performance-based compensation plan for state agencies. The discussion focused on the pilot project. Vice Chairperson Horst recognized Bobbi Mariani, Assistant Director, Division of Personnel Services, Department of Administration, to answer questions on the number of individuals employed by various Kansas departments and universities. Vice Chairperson Horst gave an update on discussions that have taken place among Chairperson Wilk, staff from the the Revisor of Statutes and the Legislative Research Department, and herself. Representative Sharp, Ranking Minority, was not available at the time to join in the discussions. After considering the Committee's comments as well as those of individuals and groups, a revision of the last substitute bill is being prepared and should be available, along with an explainer, at tomorrow's meeting. Vice Chairperson Horst explained the revisions being proposed and asked that the Committee look at the revisions with a critical eye but an open mind.

Vice Chairperson Horst adjourned the meeting at 2:45 p.m.

The next meeting is scheduled for March 23, 1999.

KANSAS 2000 SELECT COMMITTEE GUEST LIST

DATE: 3-22-99

NAME	TITLE	REPRESENTING
Don Rezac		S.E.A.K
Keith Haxton		S.E.A.K
Bill Sneed		UKHA
Ron Gaches		McGill, Gaches & Asso.
Nancy Bryant		SOS
[illegible]		
Amber Gatewood		
Leland Breedlove		KPERS
Meredith Williams		"
Terry Sloan		OJA
R. Kraudle		KGC

STATE OF KANSAS

Kansas 2000 Select

DIVISION OF THE BUDGET
Room 152-E
State Capitol Building
Topeka, Kansas 66612-1575
(785) 296-2436
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Bill Graves
Governor

Duane A. Goossen
Director

February 22, 1999

The Honorable Dave Kerr, Chairperson
Senate Committee on Ways & Means
Statehouse, Room 120-S
Topeka, Kansas 66612

Dear Senator Kerr:

SUBJECT: Fiscal Note for SB 324 by Senate Committee on Ways and Means

In accordance with KSA 75-3715a, the following fiscal note concerning SB 324 is respectfully submitted to your committee.

SB 324 would clarify that the state's employee benefit plans do not apply to employees of the University of Kansas Hospital Authority. It would also clarify that retirement benefits paid to KU Hospital Authority employees who remain members of the Kansas Public Employees Retirement System are exempt from any state or local tax.

According to the University of Kansas Medical Center, the bill would have no fiscal impact on the Medical Center. As the KU Hospital is no longer a state agency, the bill would have no impact on state expenditures.

Sincerely,

Duane A. Goossen

Duane A. Goossen
Director of the Budget

cc: Marlin Rein, KUMC
Pat Higgins, Department of Administration

Kansas 2000 Select Committee
Meeting Date 3-22-99
Attachment 1

MEMORANDUM

TO: The Honorable Kenny Wilk, Chairman
Kansas 2000 Select Committee

FROM: William W. Sneed, Legislative Counsel
University of Kansas Hospital Authority

DATE: March 22, 1999

RE: S.B. 324

Mr. Chairman, Members of the Committee: My name is Bill Sneed and I represent the University of Kansas Hospital Authority. We appreciate the opportunity to address S.B. 324, a bill that the Authority requested for introduction. We believe that this bill represents several technical corrections that we would ask the Legislature to make on our behalf. In order of simplicity, allow me to direct your attention to the proposed changes.

1. Section 1 of the bill (as amended by the Senate) found on page 1 proposes additional language in lines 24-25. The inclusion of this language, coupled with the additional language found on page 2, lines 27-28, clarifies that the Authority may establish employee benefit plans <u>after</u> the transfer date, or October 1, 1998, in addition to its authority to have it established <u>by</u> the transfer date. This will clarify that the Authority has the flexibility to adopt employee benefit plans on an ongoing basis.

2. Next, on page 3, lines 14-16, a sentence has been added that again clarifies that the Authority is not a contributing employer for purposes of the state leave payment reserve fund.

3. On page 4, line 11, the word "of" is stricken and the word "or" is inserted. We believe this is simply a correction of a typographical error in last year's bill.

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4. Section 4, as amended by the Senate, found on page 4, includes the reference to K.S.A. 1998 Supp. 75-4362 in those state statutes from which the Authority is exempt. K.S.A. 1998 Supp. 75-4362 is the state drug testing statute. As with the other references to state personnel issues, we simply want to make it clear that the Authority is to have its own drug testing program in lieu of the state program.

5. Finally, the language found in Section 5 (as amended by the Senate), lines 41-43, and on page 5, lines 1-3 and 8-10, deals with retirement plans. The Legislature will recall that the legislation that transferred the hospital to its free-standing Authority status transferred our employees out of the Board of Regents/KPERS programs that our employees were at that time eligible to participate in, and provided that the Authority would establish its own employee benefit plans. This language clarified the decision to adopt such replacement plans.

The language that we proposed and was stricken by the Senate Committee on page 1, lines 16-21, also deals with the Authority's retirement plans. In evaluating what type of tax entity the Authority should file under, they were faced with the decision to file as either a 501(c)(3) or as an instrumentality of the State of Kansas. For reasons unrelated to this issue, the Board decided to seek tax exemption as an instrumentality of the State of Kansas. Had we chosen to file under 501(c)(3), the Authority could have continued under the KPERS/Board of Regents plan and our employee distributions would have continued to be exempt from Kansas taxes. This proposed amendment would have allowed us to keep our IRS status and allow our employees to continue to retain a benefit they had prior to the transfer from a state agency to the Authority. We believe this coincides with the legislative intent to protect all of the Authority's employees who, prior to the transfer date, would be held harmless as it relates to their benefits. We would urge the Committee to reconsider the Senate's action.

Finally, we would request that S.B. 56, which is currently in House Appropriations, be considered as an amendment to S.B. 324. As you might well imagine, House Appropriations has its hands full, and this bill also contains several technical changes for the Authority. On page 1, line 17, since the Authority has been established we are inserting the term "shall be" to demonstrate the ongoingness of the Authority.

On page 2, lines 8-11, 16-17, 25-28 and 31-32 place the Authority language dealing with Board appointment in language consistent with all other statutory language dealing with appointed Boards.

Finally, the changes on page 3 are various clean-up changes.

Both S.B. 324 and S.B. 56 passed the Senate unanimously.

As stated earlier, we believe the proposed changes are administrative in nature, and as such, we respectfully request your favorable consideration.

If you have any questions regarding this or any other matter, please feel free to contact me.

Respectfully submitted,

William W. Sneed

Attachments: 1

Session of 1999

SENATE BILL No. 56

By Committee on Federal and State Affairs

1-14

AN ACT concerning the university of Kansas hospital authority; relating to members thereof; amending K.S.A. 1998 Supp. 76-3304 and repealing the existing section.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 1998 Supp. 76-3304 is hereby amended to read as follows: 76-3304. (a) There is hereby established a body politic and corporate, with corporate succession, to be known as the university of Kansas hospital authority. The authority ~~is hereby established as~~ *shall be* an independent instrumentality of this state. Its exercise of the rights, powers and privileges conferred by this act shall be deemed and held to be the performance of an essential governmental function.

(b) The authority shall be governed by a fourteen-member board of directors. Eight of the members shall be representatives of the general public who are recognized for outstanding knowledge and leadership in the fields of finance, business, health-care management, health care providers, legal affairs, education or government. Of the eight members representing the general public, there shall be at least one member from each congressional district. Three members shall be ex officio voting members consisting of the chancellor of the university of Kansas, the executive vice chancellor of the university of Kansas medical center and~~,~~ the executive dean of the university of Kansas school of medicine. Three members shall be nonvoting ex officio members consisting of, the chief of staff of the university of Kansas hospital medical staff, the president of the authority and the dean of the university of Kansas school of nursing.

(c) The eight members representing the general public appointed to the initial board shall be appointed by the governor subject to senate confirmation as provided in K.S.A. 75-4315b, and amendments thereto. Any member whose nomination is subject to confirmation during a regular session of the legislature shall be deemed terminated when the senate rejects the nomination. No such termination shall affect the validity of any action taken by such member prior to such termination. Of the eight members appointed to the initial board, two shall be members of the Kansas board of regents and two members shall be members of the Kansas legislature. The two legislative appointees shall be appointed by the governor from a panel of four nominees composed of (1) one member of the legislature nominated by the speaker of the house of representatives, (2) one member of the legislature nominated by the minority leader of the house of representatives, (3) one member of the legislature nominated by the president of the senate, and (4) one member of the legislature nominated by the minority leader of the senate.

(d) Of the members appointed to the initial board by the governor, two members shall be appointed for a term ~~of one year~~ *which expires March 15, 1999*, three members shall be appointed for a term ~~of two years~~ *which expires March 15, 2000,* and three members shall be appointed for a term ~~of three years~~ *which expires March 15, 2001.*

(e) After the initial board of directors is appointed, members other than ex officio shall be appointed for a term of three years each, except in the event of a vacancy the appointment shall be for the remainder of the unexpired portion of the term. Each member shall hold office for the term of appointment and until the successor has been ~~nominated and approved~~ *confirmed*. Any member is eligible for reappointment, but members shall not be eligible to serve more than two consecutive three-year terms.

(f) Except for appointment of the initial board, when a vacancy occurs or is announced regarding a member or members representing the general public, a nominating committee of the board shall forward a slate of candidates to the governor for consideration. Appointment to the board shall be made by the governor subject to senate confirmation as provided in K.S.A. 75-4315b, and amendments thereto. *Except as provided by K.S.A. 1998 Supp. 46-2601, and amendments thereto, no person appointed to the board shall exercise any power, duty or function as a member of the board until confirmed by the senate.*

(g) The terms of members serving by virtue of their office shall expire immediately upon termination of their holding such office.

(h) The board ~~shall~~ annually *shall* elect one of their number as chairperson and another as vice-chairperson. The board ~~shall~~ also *shall* elect a secretary and treasurer for terms determined by the board. The same person may serve as both secretary and treasurer. The board shall establish an executive committee, nominating committee and other standing or special committees and prescribe their duties and powers, and any executive committee may exercise all such powers and duties of the board as the board may delegate.

(i) Members of the board of directors of the authority shall serve without compensation. Members of the board attending meetings of the board, or attending a subcommittee meeting thereof authorized by the board, shall be paid subsistence allowances, mileage and other expenses as provided in K.S.A. 75-3223, and amendments thereto.

(j) No part of the funds of the authority shall inure to the benefit of, or be distributed to, its employees, officers or members of the board, except that the authority may make reasonable payments for expenses incurred on its behalf relating to any of its lawful purposes and the authority shall be authorized and empowered to pay reasonable compensation for services rendered to or for its benefit relating to any of its lawful purposes including to pay its employees reasonable compensation.

(k) Any member of the board of directors other than an ex officio member may be removed by an affirmative vote of seven of the members of the board for malfeasance or misfeasance in office, ~~failure to~~ regularly *failing to* attend meetings, or for any cause which renders ~~said~~ *the* member incapable of or unfit to discharge the duties of director.

(l) The board shall meet at least six times per year and at such other times as it deems appropriate, or upon call by the president or the chairperson, or upon written request of a majority of the directors. The board may adopt, repeal and amend such rules, procedures and bylaws, not contrary to law or inconsistent with this act, as it deems expedient for its own governance and for the governance and management of the authority. A majority of the total voting membership of the board shall constitute a quorum for meetings~~, and~~. The board may act by a majority of those at any meeting where a quorum is present, except upon such issues as the board may determine shall require a vote of seven members for approval. The initial board shall meet for the initial meeting upon call by the chancellor of the university of Kansas who shall act as temporary chairperson until officers of the board are elected pursuant to subsection (h).

(m) The board shall appoint a president who shall serve at the pleasure of the board. The president shall serve as the chief executive officer of the authority. The president's salary shall be set by the board. The board may negotiate and enter into an employment agreement with the individual selected as president of the authority which may provide for compensation allowances, benefits and expenses as may be included in such agreement. The president shall direct and supervise administrative affairs and the general management of the authority. The president shall be a nonvoting ex officio member of the board.

(n) The board may provide to the president of the authority and other employees designated by the board supplemental benefits in addition to the benefits provided in K.S.A. 1998 Supp. 76-3322, and amendments thereto.

(o) The authority shall continue until terminated by law, except that no such law shall take effect so long as the authority has bonds outstanding, unless adequate provision has been made for the payment or retirement of such debts or obligations. Upon any such dissolution of the authority, all property, funds and assets thereof shall be vested in the state, university of Kansas medical center or other hospital entity as designated by the board and approved by act of the Kansas legislature.

Sec. 2. K.S.A. 1998 Supp. 76-3304 is hereby repealed.

Sec. 3. This act shall take effect and be in force from and after its publication in the Kansas register.

SUBCOMMITTEE ON RETIREMENT BENEFITS

REPORT TO KANSAS 2000 SELECT COMMITTEE

March 18, 1999

Kansas public employees are covered by a number of different retirement plans. The plan types include defined contribution (DC) and defined benefit (DB) arrangements. Following the background section of this report, the Subcommittee addresses the DC and DB arrangements, and makes a number of recommendations for bills to be introduced for additional legislative study.

Background

KPERS State and Local Plans. The Kansas Public Employees Retirement System(KPERS) is an umbrella organization with a Board of Trustees responsible for administering three pension groups that include as members most state and local Kansas public employees. The three systems are defined benefit, contributory, cost-sharing plans: regular KPERS for state, school and local employees; the Kansas Police and Firemen's (KP&F) Retirement System for state and local employees; and the Kansas Retirement System for Judges. The latter system is a single employer plan, while the former two are multi-employer plans. KPERS is a governmental plan as defined in Section 3(32) of ERISA and Section 414(d) of the federal Internal Revenue Code. The June 1, 1998, membership is reported in the following table:

Plan	Active	Inactive	Retired	Total
KPERS	137,080	20,059	47,096	204,235
KP&F	6,201	374	2,729	9,304
Judges	246	15	138	399
Totals	143,527	20,448	49,963	213,938

The regular KPERS plan includes state, public school, and local employees. The state group also includes a subgroup of certain state correctional employees who can retire with unreduced benefits as early as age 55 or 60. The cost of this benefit is paid by the state contributing at the regular KPERS employer rate and also paying at a special additional rate for this subgroup of employees. The FY 1999 total state contribution rate for this correctional subgroup is 6.28 percent, compared with 3.99 percent for the regular KPERS employer contribution rate. Included in the state's KPERS contribution is 0.6 percent for a death and disability program. All KPERS employees, including correctional, pay a statutory 4.0 percent contribution for regular KPERS.

Because the KP&F and Judges plans have greater benefits, the employer and employee contributions are higher than for regular KPERS. Each participating KP&F employer is assigned

Kansas 2000 Select Committee
Meeting Date 3-22-99
Attachment 3

a separate contribution rate. The state's rate for the Judges plan is 15.67 percent in FY 1999. For most eligible employees, the contribution rate is 7.0 percent for KP&F and 6.0 percent for Judges. Some employees only contribute 2.0 percent after earning the maximum accrued service credit. There is no separate KP&F actuarial rate for death and disability coverage. A rate of 2.0 percent for Judges represents the cost of death benefits. No separate actuarial rate is established for disability since the Judges group is very small and has not experienced recent disability claims.

Regents Plan. The State Board of Regents Retirement Plan, authorized in 1962, is a defined contribution (money purchase) plan in which contributions are applied to the development of individual employee account balances and possible purchase of annuities from companies authorized by the Board of Regents to participate in the plan to provide for future retirement income needs of the employees. This plan includes most unclassified employees at Regents institutions who are allowed by statute to participate. For Regents institutions, the state contributes 8.5 percent and the employee contributes 5.5 percent of gross salary. The state also pays an additional 0.6 percent for participation in the KPERS-sponsored death and disability benefits program.

Voluntary State Plan. Eligible classified and unclassified state employees may participate in a voluntary tax-sheltered annuities program. The state does not pay a matching amount for participants in this voluntary program. The program began in 1980 as a deferred compensation plan under Section 457 of the federal Internal Revenue Code.

Alternative State Plan. In addition, a limited number of statutorily identified state employees are permitted to elect out of regular KPERS coverage, and as an alternative, to select coverage in a deferred compensation program in which the state contributes 8.0 percent. No employee contribution is required. The amount paid by the state represents an employer-paid fringe benefit. The employees in this group generally are cabinet officers and other executive branch appointees. Some legislative branch employees also participate.

Local Plans. Several local units of government maintain local retirement plans for their employees, most notably the City of Wichita and the Kansas City Kansas Board of Public Utilities. These plans are defined benefit. A majority of local units participate in the KPERS plans. Most local employees, including public safety personnel, are members of regular KPERS. Only 59 city and county governmental unit employers, as of June 30, 1997, participated in KP&F. An actuarial rate for each KP&F participating governmental unit is calculated for employer contributions and ranges from 7.4 percent to 20.2 percent in CY 1999 depending upon the workforce and service credit being purchased. Because of the higher cost for the KP&F enhanced benefits, many local units do not elect KP&F participation and opt for the regular KPERS benefits to cover their public safety personnel.

The regular KPERS contribution rate for local units is 2.93 percent in CY 1999 for all employees, including public safety personnel. Death and disability benefit coverage costing 0.6 percent is included in the regular KPERS rate for local employees. KP&F members are covered by separate death and disability provisions in that plan and the enhanced benefits are financed by high rates. The KP&F employees are required to contribute 7.0 percent, while regular KPERS employees contribute 4.0 percent of gross salary.

Federal Social Security. Most state and local government employees in Kansas participate in the federal Social Security program. Some public safety employees do not participate in Social Security. A majority of the public safety employees covered by KP&F, for instance, do not have Social Security coverage.

Early Retirement Plans. There are several groups of public employees that enjoy add-on early retirement plans. Local units of government, school districts, and community colleges have established special early retirement incentive plans to supplement KPERS. Local governmental units, including Kansas City, Prairie Village, El Dorado and Wyandotte County used home rule powers to establish early retirement incentive programs. State statutes dating from the 1980s permit school districts and community colleges to establish early retirement incentive plans. More than half of the school boards and community college boards have authorized these programs. The 1980 legislative intent for such plans was to restore, in whole or part, any reduction in retirements benefits that an employee would incur under Social Security or KPERS if retiring before the normal retirement age of 65.

A recent Attorney General's Opinion No. 99-14 has addressed the status of early retirement incentive plans, who may participate, and under what circumstances employers may remain within the authority conferred by K.S.A. 1998 Supp 72-5395. The synopsis notes that: "A school district exceeds its statutory authority if it confers a benefit under an early retirement incentive program to an employee who has not incurred a penalty under FICA or KPERS for retiring early."

Retirement Plan Design Alternatives

The Subcommittee reviewed the differences between DC and DB plans. Information was presented to assist the Committee in this effort. The Subcommittee used the three interim reports on design plans alternatives as a starting point in its deliberations. These three reports were prepared under contract to the Legislature by Gabriel, Roeder, Smith and Company, actuarial consultants, for the Joint Committee on Pensions, Investments and Benefits. Material presented in this report is taken from those three 1998 and 1999 studies.

Defined Benefit Plan (current KPERS plan)

A defined benefit pension plan is one in which a participant's retirement income is defined by a formula. The formula usually takes into account the participant's service and salary history with the employer. The employer, in essence, guarantees the benefit level to the employee and makes the necessary contributions to adequately finance the benefits. The most common approach is to provide an accrual rate for each year of service and determine a salary amount, called final average salary, based on a short period of time (1-5 years) that produces the highest amount for each participant. KPERS uses a three or four-year average for certain employees.

Example. A KPERS participant with 25 years of service and a final average salary of $40,000 retires from a defined benefit plan with an annual accrual rate of 1.75% of pay. This member's annual lifetime benefit is calculated as follows:

.0175 x 25 years x $40,000 salary = $17,500 annual benefit

Advantages and Disadvantages. The DB plan may be viewed from two perspectives, that of the employer and of the employee, in addressing this question.

EMPLOYER		EMPLOYEES	
Pros	Cons	Pros	Cons
• funding flexibility • reward older and longer service employees • past service credit can be financed • known benefit level	• investment risk • mortality risk • unfunded accrued liabilities • difficult employee communications	• cost-of-living adjustments can be included in design • no investment risk • no mortality risk • subsidized early retirement • past service credit	• lack of portability • no control over investments • relatively small benefit for termination before retirement

Pension Equity Plan

A defined benefit plan structured to resemble a defined contribution plan. Unlike a cash balance plan that uses career earnings in calculating the benefit, a pension equity (PE) plan uses the final average salary concept of a typical defined benefit plan. This is accomplished by crediting each participant with a specified percent of final average salary for each year worked (typically, the accrual rates increase over ranges of age in recognition of the decreasing time until retirement). The sum of the accrual rates credited each year is multiplied by final average salary to determine a participant account value. The account value is either paid at termination in a lump sum or converted to a monthly benefit based upon factors stated in the plan.

Example. The following illustrates how the lump sum amount would be calculated for a participant hired at age 30 who retires at age 65 with a $40,000 final average salary, and the accrual rates shown:

Cumulative Percent to Age 65

Age	% Credited	If Hired at Age 30
Under 30	4	0
30-39	6	60
40-49	8	140
50-59	10	240
60 and over	12	300

Lump sum = 300% x $40,000 = $120,000

Advantages and Disadvantages. The PE plan may be viewed from two perspectives, that of the employer and of the employee, in addressing this question.

EMPLOYER		EMPLOYEES	
Pros	Cons	Pros	Cons
• funding flexibility • past service credit can be financed • employees understand account balance concept	• investment risk • mortality risk • unfunded accrued liabilities	• no pre-retirement investment risk • no mortality risk unless lump sum elected • past service credits can be granted • cost-of-living adjustments can be included in design	• no control over investments

3-5

Defined Contribution Plan

A defined contribution (DC) plan is one in which the employer (and possibly employee) annual contributions are defined by a formula. The contributions are credited to individual participant accounts. Usually (but not always) participants direct how their account balances are invested among the investment choices offered by the plan. The account is paid at termination in a lump sum unless the participant directs that it be converted into a monthly benefit.

Example. The following illustrates the account balance growth over five years given the annual investment earnings rate shown, and a 6% of pay employer contribution:

Year	Pay	C.B. Account BOY	Employer Contribution	Interest Credit (%)	C.B. Account EOY
1	$ 30,000	$ 0.00	$ 1,800	$ 90.00 (10%)	$ 1,890.00
2	32,000	1,890.00	1,920	342.00 (12%)	4,152.00
3	34,000	4,152.00	2,040	413.76 (8%)	6,605.76
4	36,000	6,605.76	2,160	(153.72) (2%)	8,612.04
5	38,000	8,612.04	2,280	682.64 (7%)	11,574.68

Advantages and Disadvantages. The DC plan may be viewed from two perspectives, that of the employer and of the employee, in addressing this question.

EMPLOYER		EMPLOYEES	
Pros	Cons	Pros	Cons
• no investment risk • stable contribution level • no unfunded accrued liability • employees understand account balance concept	• cannot grant past service credits • more benefits paid at termination than with defined benefit plan • restrictive benefit design flexibility	• portability • investment choices • understandable account balances	• investment risk • mortality risk unless converted to monthly benefit • benefits are based on career earnings • no past service credits

Deferred Compensation Plans

Both the private and public sectors offer deferred compensation plans. The following table presents a comparison of two public sector plans with the most referenced private sector plan type.

COMPARISON OF DEFERRED COMPENSATION PLANS

	401(k)	403(b)	457
Eligibility	All employees if Plans adopted by 5/5/86	Generally, employees of educational institutions and hospitals	All employees
Maximum yearly deferral by employee	Lesser of 20% of pay or $10,000 (1998 amount)	Lesser of 16-2/3% of pay or $10,000 (1998 amount)	Lesser of 25% of pay or $8,000 (1998 amount)
FICA withholding	Yes	Yes	Yes
Vesting	Fully vested	Fully vested	Fully vested
Money held by	Qualified trust	Insurance Company	Qualified trust
Withdrawals in active service	Permitted in case of hardship or after age 59-1/2	Permitted in case of hardship or after age 59-1/2 (fund balance as of 12/31/88 is unrestricted)	Permitted in case of hardship only
Non-taxable loans from plan to participants	Allowed, if plan permits	Allowed, if plan permits	No (but there is some debate)
Income tax on payouts	Lump sum distribution treatment available for individuals attaining age 50 before 1/1/86	Ordinary income	Ordinary income
IRA rollover	Yes, or to another qualified plan	Yes, or to another 403(b)	No, but to another 457
Excise tax on early withdrawal	Yes	Yes	No

Conclusions and Recommendations

The Subcommittee makes a number of recommendations for bills to be introduced for further study by the Legislature.

Recommendation No. 1. There are approximately 9,500 participants in the State of Kansas Deferred Compensation Plan. In order to establish a defined contribution (DC) plan in which all state employees may participate, the Subcommittee recommends that the State of Kansas provide up to a 1.0 percent match for the current 457 plan. Based on the Governor's FY 2000 Budget Report, the maximum cost of this proposal could be $15 million if each state employee were to participate at a maximum contribution level. State employees would include both Regents and non-Regents, classified and unclassified, part-time and full-time, from the executive, judicial and legislative branches. Excluding Regents unclassified, for instance, would reduce the fiscal note.

Local units of government covered by 457 plans would have the option of participating. Many local units already provide some form of match for their public employees. School districts and other educational entities do not participate in 457 plans. Instead, plans are established under section 403(b) for employees of educational institutions and hospitals. Many school districts already provide some form of match for their public employees.

Tim Carmody
Representative Tim Carmody, Chairperson

Melany Barnes
Representative Melany Barnes*

Lynn Jenkins
Representative Lynn Jenkins

Bonnie Sharp
Representative Bonnie Sharp

Tom Sloan
Representative Tom Sloan

*Please refer to Representative Barnes' statement on page 9.
Also, see other subcommittee recommendations on page 10.

.IELANY BARNES
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STATE OF KANSAS

TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS

MEMBER: BUSINESS, COMMERCE AND LABOR
KANSAS 2000 SELECT COMMITTEE
GOVERNMENT ORGANIZATION & ELECTIONS
LOCAL GOVERNMENT
WORKER'S COMPENSATION FUND OVERSIGHT COMMITTEE

March 19, 1999

To: Julian Efird

From: Melany Barnes *Melany Barnes*

Subject: Comments on Sub-Committee Report

I am only able to support recommendation No. 1 due to the adverse effect to K.P.E.R.S. by fundamental changes imposed by a defined contribution plan. These changes would put the Kansas Public Employee Retirement System at risk for the approximately 70,000 school district employees, the disabled and current retirees under the plan.

Recommendation No. 2. The Subcommittee considered the pension equity plan presented by the legislative actuarial consultant and believes that a bill should be introduced with this option. All regular KPERS members would be covered by this legislation. KP&F members and members of the Judges Retirement System would not be targeted for participation.

Recommendations Nos. 3 and 4. The Subcommittee takes special note of the Vermont DC plan. The Committee heard a presentation by the State Treasurer of Vermont about the newly implemented program. The Vermont General Assembly passed enabling legislation in 1998 that authorizes the State Treasurer to offer a DC plan to all state employees in the executive branch who are not members of the classified system. Present employees on January 1, 1999, were offered a one-time option of transferring to the new DC plan, or remaining in the current DB plan. Newly hired employees will have the same option as present members to elect either the traditional (old) DB plan or to opt into the new DC plan.

The Subcommittee recommends two options be incorporated into different bills. In the first bill, the elective DC plan should be made available only to employees in the judicial branch. In the second bill, the elective DC plan should be made available only to unclassified employees in the executive, judicial and legislative branches. Both bills would be modeled after the Vermont legislation.

Recommendation No. 5. The Subcommittee also recommends a bill be introduced with a variation of the Vermont DC plan in which present employees will have a one-time election, and all new employees will be placed in the DC plan without an election. All regular KPERS members would be covered by this legislation. KP&F members and members of the Judges Retirement System would not be targeted for participation.

Tim Carmody

Representative Tim Carmody, Chairperson

Representative Melany Barnes

Lynn Jenkins

Representative Lynn Jenkins

Bonnie Sharp

Representative Bonnie Sharp

Tom Sloan

Representative Tom Sloan

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