Approved: March 14, 2000
Date

MINUTES OF THE SENATE WAYS & MEANS COMMITTEE.

The meeting was called to order by Chairperson Dave Kerr at 11:00 a.m. on March 13, 2000 in Room 123-S of the Capitol.

All members were present except: Senator Morris, who was excused

Committee staff present: Alan Conroy, Chief Fiscal Analyst, KLRD
Rae Anne Davis, KS Legislative Research Department
Debra Hollon, KS Legislative Research Department
Norman Furse, Revisor of Statutes
Michael Corrigan, Asst. Revisor of Statutes
Judy Bromich, Administrative Assistant to the Chairman
Ronda Miller, Committee Secretary

Conferees appearing before the committee:
Meredith Williams, Executive Secretary, KPERS
Don Rezac, State Employees Association of Kansas
Craig Grant, Kansas National Education Association
Duane Goossen, Director, Division of the Budget

Others attending: See attached list

SB 567: **No employer contributions for death and disability benefits for the period from April 1, 2000 to June 30, 2000**

SB 645: **KPERS, amount of employer contributions to system for retirement benefits and death and disability benefits**

Julian Efird, Kansas Legislative Research Department, distributed a Research Department memorandum which he reviewed (Attachment 1). He explained to members that **SB 567** is legislation that freezes the employer's contribution in the fourth quarter of FY 2000 to the insurance program. He said that **SB 645** parallels that provision for all four quarters of FY 2001 and, in addition, places a moratorium on step increase for KPERS retirement contributions. He added that **SB 645** does not have a provision on the retirement side to address local units being frozen at their current rate because they're on a calendar year.

Meredith Williams, Executive Secretary, KPERS, presented his written testimony regarding **SB 567** and **SB 645** (Attachment 2). In answer to the Chairman's questions, Mr. Williams stated that:

- the death and disability program is 100% funded at the end of the fifteen month moratorium and includes a smoothing mechanism which is designed to address adverse conditions
- if current year investment performance exceeds 8%, some of the litigation proceeds would be used in the smoothing methodology
- the reduction of $36 million from the SGF identified in Mr. William's testimony was based on assumptions that the employer's contribution rate would be .2% behind current projections through FY2034. He conceded that a different set of assumptions would result in a different final number.

Senator Downey requested that Executive Secretary Williams describe why the KPERS Board of Trustees has expressed opposition to these two bills. Secretary Williams stated that the Board's fear is that after the 15 month moratorium, there may be a downturn in market performance or an increase in the incidence of disabilities which may cause a reduction in benefits or an increase in employer contributions. He stated that the Board has more opposition to the freeze in the contribution rate to the Retirement Fund because of the precedent it sets. Senator Downey expressed her concern that a representative from the Board did not attend the meeting and address these bills. Secretary Williams stated that his comments and the Resolution state the Board's position on both of the issues (Attachment 3).

Don Rezac, speaking on behalf of the State Employees Association of Kansas, testified in opposition to **SB 567** and **SB 645** (Attachment 4). In answer to a question, staff indicated that there are employee contributions associated with the voluntary program, but this long term Death & Disability program is paid for by the employer. There was discussion about whether "sacred trust" mentioned in Mr. Rezac's testimony meant contributing a specified amount or paying full death and disability benefits.

Craig Grant, Kansas National Education Association, appeared before the Committee and reviewed his written testimony in opposition to **SB 645** (Attachment 5).

Duane Goossen, Director, Division of the Budget, told members that not implementing these two bills would leave a hole in the budget of $35 million in the SGF. He presented a new proposal from the Governor that would use lawsuit settlement monies to provide a 13th check for all retirees and for funding a portion of the unfunded liability (Attachment 6). Staff indicated that the 13th check would equate to approximately one-half of a regular check.

Senator Petty inquired what the cost to taxpayers would be in the out years by not applying the $31.3 million to the smoothing methodology of the unfunded liability. Mr. Goossen stated that he did not have that information with him.

It was noted that to be eligible for the 13th check, employees would have had to retire prior to July 1, 1999.

Senator Ranson moved, Senator Salmans seconded, that the provisions of **SB 567** be amended into **SB 645.** The motion carried on a voice vote.

In answer to Senator Ranson, Mr. Goossen stated that local units were not included in the retirement fund freeze because the state and local portions are different and it was decided to only enact the freeze on the state portion.

It was moved by Senator Ranson and seconded by Senator Jordan that **SB 645** be technically amended as suggested in Attachment 2. The motion carried on a voice vote.

A motion was offered by Senator Salmans and seconded by Senator Salisbury to further amend **SB 645** by including the Governor's recommendations regarding the lawsuit settlement monies. Senator Petty requested that the vote on the bill be delayed until information from KPERS about the impact on taxpayers in the out years could be calculated.

The Chairman agreed to Senator Petty's request to divide the question of using $18.9 million to fund a 13th check to all retirees and applying the remaining $12.4 million to the unfunded liability. The motion to use $18.9 million to fund a 13th check to all retirees carried on a voice vote. The motion to apply the remaining $12.4 million to the unfunded liability carried on a voice vote.

Senator Salisbury moved, Senator Lawrence seconded, that **SB 645 as amended** be recommended favorably for passage. The motion carried on a roll call vote. Senator Petty and Senator Feleciano asked that the record reflect that their "no" vote was in opposition to the original provisions of **SB 645** and not to the Governor's proposal for the use of the lawsuit settlement monies.

The Chairman adjourned the meeting at 12:15 p.m. The next meeting will be March 14, 2000.

SENATE WAYS & MEANS COMMITTEE GUEST LIST

DATE: March 13, 2000

NAME	REPRESENTING
Bill Henry	KS Gov't Consulting
Jack Hawn	KPERS
Rob Woodard	"
Stan Parsons	[illegible] & Associates
Don Cawley	DOB
Meredith Williams	KPERS
Leland Breedlove	"
Amy Lyons	Intern - Sen. Downey
Krista Gasperich	DOA/DPS
Don Ryan	S.E.A.K
Kelly Kultala	City of Overland Park
Lisa Becker	SRS
Pat Lehman	KFSA
Larry Kleeman	LKM
Tom Stafford	
Bill Brady	KS Gov't Consulting

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

Rm. 545N–Statehouse, 300 SW 10th A
Topeka, Kansas 66612-1504
(785) 296-3181 ◆ FAX (785) 296-3824

kslegres@klrd.state.ks.us

http://skyways.lib.ks.us/ksleg/KLRD/klrd.html

March 13, 2000

To: Senate Ways and Means Committee

From: Julian Efird, Principal Analyst

Re: Kansas Public Employees Retirement System (KPERS) Issues

The Governor has recommended two policy changes that would impact KPERS operations. The Governor's recommendations are part of the *Governor's Budget Report for FY 2001* that will be reviewed and considered by the 2000 Legislature. The Governor's FY 2001 recommendations propose for legislative consideration the following items:

1. To "freeze" the employers' state and school KPERS FY 2001 contribution rate at the FY 2000 rate of 3.59 percent. According to the *Governor's Budget Report*, the recommendation would reduce the state's employer contributions by $2.9 million, including $2.1 million from the State General Fund (SGF). Since the state also pays the school employer contributions, the recommendation reduces another $6.5 million of SGF expenditures in FY 2001 and $2.0 million in FY 2002.

2. To institute a moratorium on the death and disability insurance rate included in the annual KPERS state and school, local, judges, TIAA, and deferred compensation rates. According to the *Governor's Budget Report*, the recommendation would reduce state expenditures by $20.9 million, including $19.6 million of SGF expenditures. Local governments also would realize a $5.5 million reduction in local contributions.

The fiscal impact of the Governor's recommendation is summarized in the following tables. In addition, the Legislature accelerated the insurance moratorium to the fourth quarter of FY 2000. SB 645 implements the Governor's recommendations and SB 567 implements the Legislature's action (in SB 39 passed earlier this session). Statutory changes in each bill are required to insure budget adjustments will be implemented regarding FY 2000 and FY 2001 employer contributions which are required by law to be paid.

Senate Ways an d Means Committee

Date March 13, 2000

Attachment # 1

Financial Impact
Estimated Reductions in KPERS Employer Contributions
(In Millions)

	Retirement	Insurance	Totals
FY 2000			
State/School/Other	$ 0.00	$ 5.91	$ 5.91
Local	0.00	1.23	1.23
Totals	$ 0.00	$ 26.64	$ 26.64
State General Fund	0.00	$ 4.86	$ 4.86
FY 2001			
State/School/Other	$ 11.80	$ 21.10	$ 32.90
Local	0.00	5.54	5.54
Totals	$ 11.80	$ 26.64	$ 38.44
State General Fund[a]	$ 10.80	18.80	29.60

Source: KLRD; Division of the Budget and *Governor's Budget Report*.
a) GBR notes that $2 million of $10.8 million SGF may not be available until FY 2002.

Multiyear Financial Impact of the Governor's FY 2001 Recommendations
(In Millions)

Fiscal Year	Gov. Rec. Rate	Gov. Est. Funding	State Statutory Rate a)	Statutory Funding Est.	Difference in Funding
2001	3.59	231.55	4.58	243.45	(11.90)
2002	4.58	253.19	4.78	259.54	(6.35)
2003	4.78	269.92	4.98	276.52	(6.60)
2004	4.98	287.58	5.18	294.44	(6.86)
2005	5.18	306.22	5.30	310.52	(4.31)
2006	5.24	320.55	5.19	318.87	1.68

Source: KPERS estimates.
a) includes 0.6 percent for death and disability benefits.

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Senate Bill No. 567
Senate Bill No. 645

Testimony of Meredith Williams
Kansas Public Employees Retirement System

Senate Ways and Means Committee
March 13, 2000

Senate Bill No. 567 gives final effect to the moratorium on employer contributions to the KPERS Death & Disability Program for the fourth quarter of the current fiscal year. This action would reduce employer contributions by \$7.14 million; \$5.90 million in State contributions and \$1.23 million in local contributions.

Senate Bill No. 645 would, in part, provide a moratorium on employer contributions to the KPERS Death & Disability program for fiscal year 2001. This action would reduce employer contributions by \$26.53 million; \$20.99 million in State contributions and \$5.54 million in local contributions.

The death and disability program is funded by employer contributions. Due to extraordinary investment returns in recent years, the fund currently has a surplus. The two bills before the Committee today call for a 15-month moratorium on employer contributions to this program. Such a moratorium would save State and local governments \$33.67 million. However, the moratorium would also eliminate any cushion for future adverse experiences in the incidence of disability or in the markets. The proposals would not impact the Retirement System's ability to pay death or disability benefits.

A technical amendment is needed on page 9 of Senate Bill No. 645. The current language refers to the fiscal year ending June 30, 2001. Kansas local units of government are on a calendar year basis.

Senate Bill No. 645 would also freeze the State's fiscal year 2001 retirement plan employer contribution rate for the State and School member group at the fiscal year 2000 level. The freeze would reduce projected fiscal year 2001 State contributions by \$11.90 million. Reductions in projected State contributions over the next five years total \$36.0 million. Additional State contributions of a net \$112.51 million are estimated in the ensuing years through 2034.

Senate Ways and Means Committee
Date March 13, 2000
Attachment # 2

RESOLUTION

The Kansas Public Employees Retirement System is a multi-employer, defined benefit, public pension plan serving the needs of over 250,000 current and retired Kansas public servants, over 1,500 local units of Kansas government, and the State of Kansas. The Retirement System also administers life and disability insurance programs for its members. KPERS is funded on an actuarial reserve basis through member and employer contributions. Assets are accumulated and invested to provide benefits during employment and at retirement.

Today, 153,998 active KPERS members are providing services to the citizens of Kansas. These members include the police officer in Chanute, the hospital orderly in Larned, the correctional officer in Lansing, the school teacher in Oberlin, the sanitation worker in Garden City, and the court services officer in Rawlings County. The 52,905 retired members of the System receive an average monthly benefit of $767, based on an average of 22.3 years of public service. Over 85 percent of retired KPERS members continue to reside in Kansas.

The actuarial value of the System's assets, which are held in trust for the exclusive benefit of its members, totaled $8.6 billion at June 30, 1999. The actuarial retirement liabilities of the System totaled $10.0 billion at the same date. The $1.4 billion difference, the unfunded actuarial liability, is being paid off over a 40-year statutory amortization period through employer contributions that increase a prescribed amount each year. The KPERS System has always been funded on an actuarially sound basis; all scheduled amortization payments have been made on a timely basis.

The Retirement System also administers a death and disability coverage program for its members. The System holds assets with an actuarial value of $170.4 million for the package of death and disability benefits program that had an actuarial liability of $148.4 million at June 30, 1999. The program is funded by employer contributions that equal 0.6 percent of covered compensation. Actual costs for the program are currently at 0.62 percent of covered compensation. The $22 million excess funding is amortized over a 40-year period to bring costs down to 0.6 percent of covered compensation.

The Retirement System, as established by law, is governed by a nine-member Board of Trustees; four appointed by the Governor, one each appointed by the Speaker of the Kansas House of Representatives and the President of the Kansas Senate, two elected by the members of the System, and one, the State Treasurer, elected by the citizens of Kansas. Trustees are fiduciaries, requiring that their every decision be made exclusively in the best interests of the System's members. **Kansas law permits no exception to this fiduciary responsibility.**

(over)

Senate Ways and Means Committee

Date March 13, 2000

Attachment # 3

The State of Kansas needs to bring expenditures in line with projected revenues. Among the proposals advanced to solve this situation are two that impact the Retirement System. One proposal would lead to a 15-month moratorium on employer contributions to the life and disability program. Such a moratorium would cost the Retirement System $33.67 million; creating a short run savings of $6.77 million for local units of government and $26.9 million for the State of Kansas. The funding of the death and disability program would decline from its current level of 115 percent to 100 percent, leaving no safety net for adverse financial markets or any increases in the rate of disability.

Another proposal would freeze the State of Kansas' employer contribution to the Retirement Fund at its current level for one year. This action would save the State $11.9 million dollars in the first year and a total of $36.02 million over the first five years. However, over the statutory amortization period, this intergenerational liability shift will cost taxpayers an additional $112.51 million. (This concept is illustrated on the attached chart.) This proposal has no impact on local units of government.

The Board of Trustees takes great pride in the prudent, effective and efficient operation of the Retirement System. The current proposals, if implemented, would establish a new and imprudent precedent of reducing the contribution to the employer-sponsored plan while an unfunded liability exists and while existing contribution rates are less than actuarially required. Progress toward paying off the unfunded actuarial liability would not only be interrupted, it would take a step backward. As of June 30, 1999, $360 million of the unfunded liability had accrued over the past five years due exclusively to the lag in adjusting employer contribution rates and the statutory cap on those rates. While neither proposal would prevent the Retirement System from making current and future benefit payments, confidence in the continued sound financial status of the System would be severely undermined by the fear that every future budget challenge would be solved, in whole or in part, by looking to the trust funds of the Retirement System.

The Board of Trustees, while fully cognizant of the difficult choices facing Kansas public policymakers, is opposed to any proposal to halt or freeze employer contributions to the Retirement System. In its fiduciary capacity, the Board urges policymakers to seek out prudent alternatives. To that end, the Board directs the Retirement System staff and consultants to evaluate actions necessary to honor its fiduciary duty and to assist Kansas policymakers in analyzing and evaluating other alternatives.

Adopted by the KPERS Board of Trustees
January 21, 2000

STATE EMPLOYEES ASSOCIATION OF KANSAS

TESTIMONY OF THE STATE EMPLOYEES ASSOCIATION OF KANSAS RE KPERS
DEATH AND DISABILITY FUND, SENATE BILL NO. 567 and S.B. 645

MY NAME IS DON REZAC, SPOKESPERSON FOR STATE EMPLOYEES ASSOCIATION OF KANSAS. WE ARE OPPOSED TO S.B. 567 AND S.B. 645, BECAUSE THEY WITHHOLD FUNDING FROM KPERS DEATH AND DISABILITY FUNDS.

1) WE SIMPLY FEEL TO DENY FUNDING IS TO DENY A SACRED TRUST ENTERED INTO AT THE TIME OF THE EMPLOYMENT OF OVER 250,000 KPERS RETIREES AND MEMBERS. KPERS PARTICIPANTS FULFILL AND ARE FULFILLING THEIR SIDE OF THE EMPLOYMENT CONTRACT AND THE STATE OF KANSAS SHOULD FULFILL ITS SIDE.

2) THE BILLS PROPOSE TO BORROW FROM THE CITIZENS AND TAXPAYERS OF TOMORROW, AND IT IS A BAD PRECEDENT AND A BAD EXAMPLE. SHOULD THE MARKET OR ACTUARIAL POSITION OF THE FUND CHANGE FOR THE WORSE IN THE FUTURE, TAXPAYERS IN THE FUTURE WOULD BE OBLIGATED AND BURDENED TO MAKE UP THE UNDERFUNDING.

3) THE FUNDS WERE CONTRIBUTED BY AND ON BEHALF OF EMPLOYEES AND RETIREES, AND INVESTED IN BEHALF OF EMPLOYEES AND RETIREES, IT IS ONLY ETHICAL THAT THE FUNDS SHOULD STAY WITH EMPLOYEES AND RETIREES.

THANK YOU .

P.O. BOX 750131
TOPEKA, KS. 66675-0131

(785) 267-1515
seak@cjnetworks.com

Senate Ways an d Means Committee

Date March 13, 2000

Attachment # 4

KNEA
KANSAS NATIONAL EDUCATION ASSOCIATION / 715 SW 10TH AVENUE / TOPEKA, KANSAS 66612-1686

Craig Grant Testimony Before
Senate Ways and Means Committee
Monday, March 13, 2000

Thank you, Mr. Chairman. I am Craig Grant and I represent Kansas NEA. I appreciate this opportunity to visit with the committee about Senate Bill 645.

The topic of KPERS has been on the front burner with many of our KNEA members this session. I know that because of the number of calls I have received with concerns about what some members have termed "raids on our KPERS fund." I have tried always to correct the terminology when our members use it. We realize that this is not a "raid;" however, the concerns of our members certainly are real. I will try to deal with the issues separately.

I agree that the KPERS Death and Disability Fund appears to be overfunded at this present time. At least that is what the actuaries have stated to us and to the legislature. I can remember a time, however, when we changed our actuary and all of a sudden found ourselves in a large unfunded liability situation because of different methodology. I trust that this is not the case this year. The concerns of our members were not alleviated when the actuary stated that she could not recommend this policy to the legislature.

The other policy issue is to delay the scheduled increase of the regular KPERS payment to the fund from the employer. This does save money in the short run for the state. We then can use those funds for other important areas. But the action will increase the unfunded liability of the fund, increase the cost to the state, and delay the number of years until the unfunded liability is paid off. The reason we are usually given for not increasing benefits to the workers and retirees of the state is that "we can't because of our unfunded liability." SB 645 will only delay further our goal of improving our retirement system so we can reward the dedicated state and school employees of this state.

We express our concerns hoping that this committee and the legislature will do what is right for the state as well as for the public employees. Thank you for listening to the concerns of our members.

Senate Ways and Means Committee
Date March 13, 2000
Attachment # 5

Telephone: (785) 232-8271 FAX: (785) 232-6012

STATE OF KANSAS

DIVISION OF THE BUDGET
Room 152-E
State Capitol Building
Topeka, Kansas 66612-1575
(785) 296-2436
FAX (785) 296-0231

Bill Graves
Governor

Duane A. Goossen
Director

Governor's Recommendation
KPERS Lawsuit Settlement

Total Settlement Amount: $41.5 million
Net Settlement (After legal costs are subtracted) : $31.3 million

Use $18.9 million to fund a 13th check to all retirees

- Payment made in FY 2001
- 13th check equal to 4.17 percent of annual benefit

Apply the remaining $12.4 million to the unfunded liability

- More than offsets the freeze in the payment rate

Senate Ways and Means Committee
Date March 13, 2000
Attachment # 6

STATE OF KANSAS

DIVISION OF THE BUDGET
Room 152-E
State Capitol Building
Topeka, Kansas 66612-1575
(785) 296-2436
FAX (785) 296-0231

Bill Graves
Governor

Duane A. Goossen
Director

March 10, 2000

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

Dear Senator Kerr:

SUBJECT: Fiscal Note for SB 645 by Senate Committee on Ways and Means

In accordance with KSA 75-3715a, the following fiscal note concerning SB 645 is respectfully submitted to your committee.

SB 645 would place a moratorium on employer contributions to the Group Insurance Reserve Fund from July 1, 2000, to June 30, 2001. The moratorium would prohibit employers, including both state and local employers, from paying 0.6 percent of employee salaries to the fund that supports the Death and Disability benefits program administered by the Kansas Public Employees Retirement System (KPERS). SB 645 would also provide that the state will make employer contributions to the KPERS system in FY 2001 at the same rate it contributed in FY 2000. For FY 2001, that rate would be 3.59 percent of employee salaries.

Estimated State Fiscal Impact				
	FY 2000 SGF	FY 2000 All Funds	FY 2001 SGF	FY 2001 All Funds
Revenue	--	--	--	($5,540,000)
Expenditure	--	--	($27,802,217)	($29,946,025)
FTE Pos.	--	--	--	--

The Division of the Budget indicates that passage of SB 645 will reduce expenditures by $29.9 million from all funding sources, with $27.8 million from the State General Fund. The reductions related to the KPERS recommendations are included in *The FY 2001 Governor's Budget Report*. The resulting reduction in death and disability contributions from state sources would reduce state FY 2001 expenditures by $20.5 million, with $19.2 million coming from the State General Fund. The $20.5 million reduction not only reflects direct contributions made from salaries and wages to the Group Insurance Reserve Fund for state employees, but also includes an estimated $13.9 million reduction from the State General Fund amount that the state expends for providing KPERS employer contributions for school districts.

The Division of the Budget also indicates that the FY 2001 rate freeze on the state and school KPERS employer contributions would reduce expenditures by $9.4 million, with $8.6 million coming from the State General Fund. The resulting reduction for the KPERS school employers' contribution that the state pays for school districts from the State General Fund would be $9.1 million. However, only the first three of the four quarterly payments affected by the rate freeze would be made during FY 2001. The total reduction to the three payments in FY 2001 would be $6.5 million, with the remaining $2.6 million in savings from the final of the four KPERS school payments appearing in FY 2002.

KPERS estimates that passage of SB 645 would reduce local contributions to the Group Insurance Fund by $5.5 million for the Death and Disability program moratorium. Using this estimate, the Division of the Budget anticipates that the bill would reduce total revenues to the Group Insurance Fund by $26.4 million and total revenues to the KPERS Fund by $9.4 million.

Sincerely,

Duane A. Goossen

Duane A. Goossen
Director of the Budget

cc: Jack Hawn, KPERS