

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Chairperson Steve Morris at 9:05 a.m. on April 26, 2001 in Room 123-S of the Capitol.

All members were present except: All Present

Committee staff present:

Debra Hollon, Kansas Legislative Research Department
Amory Lovin, Kansas Legislative Research Department
Julian Efird, Kansas Legislative Research Department
Michael Corrigan, Assistant Revisor, Revisor of Statutes Office
Julie Weber, Administrative Assistant to the Chairman
Mary Shaw, Committee Secretary

Conferees appearing before the committee:

Jim Conant, Kansas Department of Revenue
Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERS)
Jack Hawn, Kansas Public Employees Retirement System (KPERS)

Others attending: See attached guest list

The Chairman turned the Committee's attention to review of the minutes of the meetings of March 1, March 2, March 5 (joint meeting with the House Appropriations Committee), March 5 (full committee meeting), March 6 and March 7, 2001. Senator Adkins moved, with a second by Senator Jackson, to approve the minutes of the meetings as listed above. Motion carried by a voice vote.

Chairman Morris opened the public hearings on:

SB 364--Fees for certificate of titles

Staff briefed the committee on the bill.

Chairman Morris acknowledged Jim Conant, Kansas Department of Revenue, was present for questions and explained portions of **SB 364** with the Committee.

There being no further conferees to appear before the committee, the Chairman closed the public hearing on **SB 364**.

Senator Salmans moved, with a second by Senator Schodorf, to pass **SB 364** as favorable. Motion carried by a roll call vote.

SB 365--Certain employer contributions for death and disability benefits

Staff briefed the committee on the bill.

Copies of a letter addressed to Senator Stephen Morris, dated April 23, 2001, from Jarold Boettcher, Chairman, KPERS Board of Trustees, was distributed (Attachment 1).

Chairman Morris acknowledged Glenn Deck, Executive Director, KPERS, and Jack Hawn, KPERS, who were available for questions. Mr. Deck and Mr. Hawn explained portions of **SB 365** and answered various questions from the Committee.

Committee questions and discussion followed.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS on April 26, 2001 in Room 123-S of the Capitol.

There being no further conferees to appear before the committee, the Chairman closed the public hearing on **SB 365**.

Senator Kerr moved, with a second by Senator Huelskamp, to amend the bill and to substitute a new bill, **Substitute for SB 365**, that would have as its title an act concerning certain employer contributions and move the bill favorably. Motion carried by a roll call vote.

The meeting was adjourned at 9:55 a.m. The next meeting is scheduled for April 27, 2001.

Kansas Public Employees Retirement System

April 23, 2001

Senator Stephen Morris, Chair
Senate Ways & Means Committee
Statehouse, Room 120-S
Topeka, KS 66612

Dear Senator Morris:

During the 2000 legislative session, the Legislature adopted a five quarter moratorium on payments by employers into the Death and Disability Fund (Fund). As you know, one of the options that is being considered to help address the current revenue shortfall is an extension of this moratorium. At its April 20, 2001 meeting, the Board of Trustees discussed this matter and adopted a motion that I send a letter summarizing the Board's discussion on this option which, if adopted, would create a new unfunded liability for the Fund. Recognizing that a short-term problem might be relieved for Fiscal Year 2002, such action does have longer term consequences.

The Fund ended Fiscal Year 2000 with a funded ratio (assets to liabilities) of 113.7 percent. Based on investment returns through March, staff projects that the Fund will end Fiscal Year 2001 with a funded ratio in the low to mid 90's. If the moratorium is extended for two quarters as is currently being discussed, staff projects the Fund would end Fiscal Year 2002 with a funded ratio in the low to mid 80's. Were the moratorium extended for four quarters, the Fund is projected to end Fiscal Year 2002 with a funded ratio in the low to mid 70's. Both of these projections assume the Fund will earn its 8 percent actuarial assumed investment return in Fiscal Year 2002. The same assumed rate is used for all projections of future returns.

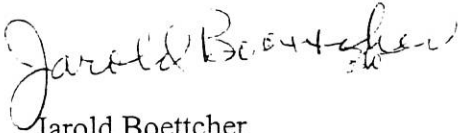
While the Fund will have sufficient assets to pay death and disability claims in Fiscal Year 2002, if one of these moratorium options is chosen, the decline of the funded ratio significantly below 100 percent does have longer term financial consequences. To eliminate this unfunded liability, it will be necessary for a) the Fund to earn a premium above the assumed actuarial investment rate of return of 8 percent, and/or b) the employer contribution rate (now 0.6 percent of payroll) will need to be increased. There is no statistical reason to expect that investment performance will exceed the actuarial assumption. It is therefore likely that future actuarial valuations for the Fund will show a need to increase the contribution rate beyond the current statutory rate in order to maintain the current benefit level provided by the plan over the long term.

Senator Stephen Morris
April 23, 2001
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If you have any questions or need additional information as you consider options in your budget deliberations, the Board, staff and our actuary stand ready to assist you. We understand that difficult choices must be made in this or any year. We are equally confident that legislative leadership understands that our fiduciary responsibility as Trustees of KPERS requires that we make our judgments known on issues which have a potential financial impact on the funds we manage.

Thank you for your consideration.

Sincerely,



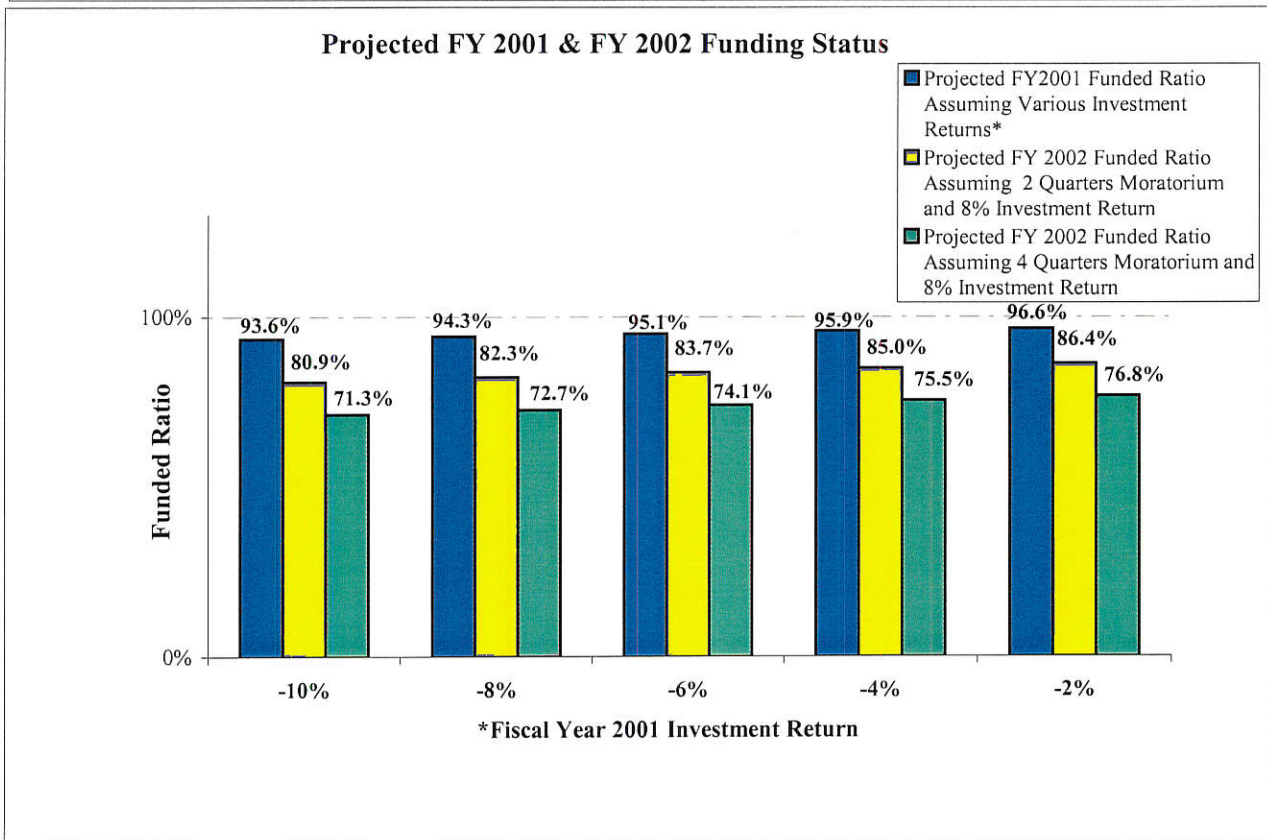
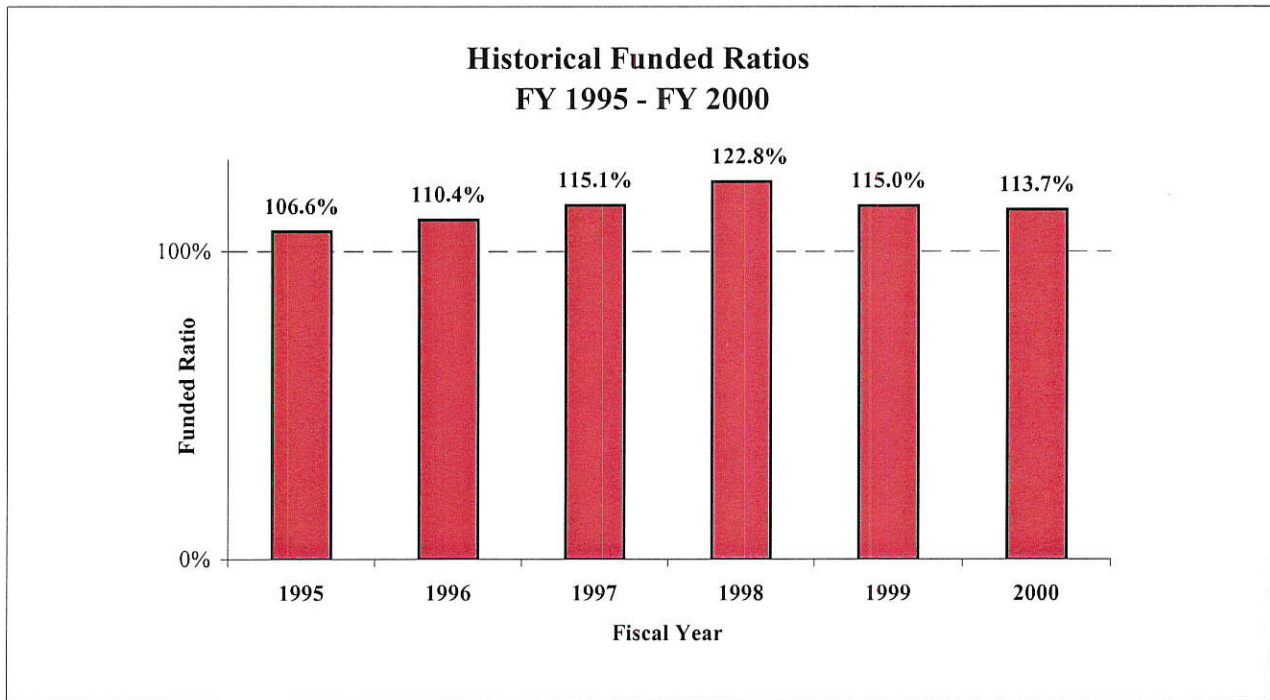
Jarold Boettcher
Chair, Board of Trustees

cc: Senator David Adkins, Vice Chair
Senate Ways & Means Committee

Senator Paul Feleciano, Ranking Minority Member
Senate Ways & Means Committee

Enclosure

**KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
ANALYSIS OF HISTORICAL AND PROJECTED FUNDING STATUS
DEATH AND DISABILITY FUND**



April 18, 2001