

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS.

The meeting was called to order by Chairperson Representative Kenny Wilk at 9:30 a.m. on January 16, 2002 in Room 514-S of the Capitol.

All members were present except: Representative Bill Light

Committee staff present: Alan Conroy, Legislative Research
Amy Kramer, Legislative Research
Becky Krahl, Legislative Research
Julian Efrid, Legislative Research
Jim Wilson, Revisor of Statutes
Mike Corrigan, Revisor of Statutes
Nikki Feuerborn, Committee Secretary

Conferees appearing before the committee: Dr. Gary George, Superintendent, Olathe School District
Craig Grant, KNEA, Topeka
Mark Tallman, KASB, Topeka
Mike Taylor, City of Wichita
Glenn Deck, Executive Director of KPERS
Bobbi Mariani, Department of Administration

Others attending: See Attached

Julian Efrid, Legislative Research, presented a summary of the bills under review that were considered by the Joint Committee on Pensions, Investments and Benefits during the interim (Attachment 1).

Hearing on HB 2619—Employer contributions for tax sheltered annuities for certain school district and community college employees

Dr. Gary George, Superintendent of the Olathe School District, presented testimony in support of school districts being permitted to contribute to deferred compensation and tax sheltered investment plans on behalf of employees (Attachment 2). He viewed this as a possible recruitment tool and an incentive for longevity among teachers for his district.

Craig Grant, legislative spokesperson for Kansas National Education Association, explained that the concept indicates that a school board may by choice use some of its compensation for employees to contribute a matching amount to a tax sheltered mechanism on behalf of its employees (Attachment 3).

Mark Tallman, Assistant Executive Director of the Kansas Association of School Boards, explained that currently schools do not have home rule authority to provide contributions to annuities as a benefit for their employees (Attachment 4). He urged the passage of this proposed legislation.

As there were no opponents to the bill, Chairman Wilk closed the hearing on **HB 2619**.

Hearing on HB 2622—Contribution rates for local police and fire pension plans

Mike Taylor, representing the City of Wichita, explained in his supporting testimony that unfunded actuarial accrued liability does not represent a debt that is payable today (Attachment 5). What is important is the ability to amortize the unfunded actuarial accrued liability and the trend in its amount. The current statute hurts Wichita as the Police and Fire Retirement System of Wichita is a mature pension system which does not need the currently required contribution rate.

There were no opponents to the bill and Chairman Wilk closed the hearing on **HB 2622**.

Hearing on HB 2621—Benefits and eligibility of members of KPERS

Glenn Deck, Executive Director of the Kansas Public Employees Retirement System, explained the four technical amendments proposed in the bill (Attachment 6).

There being no opponents to the bill, Chairman Wilk closed the hearing on **HB 2621**.

CONTINUATION SHEET

Hearing on HB 2626—Rollover of certain retirement distributions for the purpose of the purchase of service credit in KPERS

Glenn Deck, Executive Director of KPERS, explained that the new federal tax and pension law, the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), provides for trustee-to-trustee transfers from 457 deferred compensation plans and 403(b) tax sheltered annuity plans to a defined benefit plan to purchase service credit (Attachment 7). There would be no cost to the employer or KPERS because these purchases would be from employee funds.

Bobbi Mariani, Division of Personnel Services, spoke in support of the bill which would allow state employees who are participating in the state's deferred compensation program to transfer a lump sum out of their deferred compensation account to KPERS to purchase allowable service credit under KPERS (Attachment 8).

There were no opponents to the bill and Chairman Wilk closed the hearing on **HB 2626**.

Representative Neufeld moved to introduce the Governor's Budget Report Recommendations for FY 2002 and FY 2003 into legislation. Motion was seconded by Representative Bethell. Motion carried.

Alan Conroy, Legislative Research, distributed copies of the 2002 House Budget Committee report due dates (Attachment 9).

The meeting was adjourned at 10:30 a.m. The next meeting is scheduled for Tuesday, January 22, at 1:30 p.m.

APPROPRIATIONS COMMITTEE GUEST LIST

DATE: 1-18-02

NAME	REPRESENTING
Mike Taylor	city of Wichita
Glenn Deck	KPERS
Elizabeth Schelcher	Federico Consulting
Jack Hawn	KPERS
Mark Tallman	KASB
Mary George	Olathe Dist. Schools
Ashley Sherard	Johnson County
Aaron Dunkel	DN of the Budget
JEFF ARPIN	Division of the Budget
Melinda Gaul	POB
Craig Grant	KWBA
Michael White	Kearney Law/KSTA/FOP
Kyle L. Wendt	DPS
BOBBY MARIANI	DPS
Jeff Botkin	Kansas Peace Officers
Natalie Fenecko	Intern Rep. Feuerborn
Bill Brady	Security Benefit
Kelleen Brennan	Security Benefit
HAL HARRISON	SECURITY BENEFIT

Don M. Ryan

S.E.A.K

APPROPRIATIONS COMMITTEE GUEST LIST

DATE: 1-16-02

NAME	REPRESENTING
Roger Viola	SIBG
John Peterson	SIBG
Pat Lehman	KS FIRE SERVICE ALLIANCE
Mike Huttles	Ks. Governmental Consulting

Summary of Bills Under Review
By the House Committee on Appropriations
on January 16, 2002
That Were Considered by the
Joint Committee on Pensions, Investments and Benefits
During the 2001 Interim

HOUSE APPROPRIATIONS

DATE 1/16/02
ATTACHMENT 1

Review of Carryover Bills and Proposed New Legislation

The Joint Committee on Pensions, Investments and Benefits held a series of public hearings on some of the carryover bills during the 2001 Interim. In addition, other topics requiring new legislation to be introduced in 2002 also were discussed during the Committee's meetings. Some of that legislation is scheduled for hearing in House Appropriations Committee today and reviewed below.

SB 340—Contribution Rates for Local Police and Fire Pension Plans. SB 340 would impact only local pension plans, not the Kansas Police and Fireman's Retirement System (KP&F). It would change the minimum contribution rate for cities that maintain local police and fire pension plans, such as the City of Wichita. It would provide that the minimum contribution rate shall be the sum of the normal cost rate plus the amortization of any unfunded actuarial liability over a rolling 20 year period.

SB 340 also would eliminate the current requirement that until the plan has no unfunded actuarial liability, the local unit of government must contribute an amount not less than the total amount of pension payments paid in the prior plan year. There would be no actuarial or administrative cost for KPERS.

The City of Wichita's Pension Manager supported SB 340. The City of Wichita operates its own Police and Fire Retirement System. The City recognizes the necessity for adequate funding measures to ensure the availability of pension benefits to the active police and fire employees as well as to retirees and beneficiaries.

It is the City's belief that revision of the statute will ensure its funding requirements to meet the needs of local police and fire pension plans while allowing a reduction in funding requirements if the plan is fully funded.

The Committee adopted a motion that the content of 2001 SB 340 be introduced as a House bill (HB 2622).

KPERS Proposed Legislation. The KPERS Board of Trustees requested legislation to be introduced or indicated that some bill might be needed in the following areas:

- **Technical Legislation.** A series of technical amendments was requested to be included in one bill.
- (A) **Service Credit Purchase.** In 2001, legislation was passed that allows former employees of Regents institutions to purchase service credit for the waiting period, even if they never attained membership in the Regents retirement plan. Corrective language is needed to clarify that anyone employed fulltime as a Regents unclassified employee would be eligible to purchase service credit for the period of time when waiting to become a member of the Regents retirement plan, even if they did not remain long enough to gain membership.
- (B) **Multi-Employer Employment.** Clarifying language is needed to allow local employers in a region of the state to share an employee to perform a particular function (e.g., county appraiser) and for that employee to participate in KPERS, if working the minimum number of

hours. This would allow an employee who does not work the minimum 1,000 hours for KPERS coverage with any single employer to meet the minimum requirement when employment with all of the employers is combined.

(C) **Hire Date Before July 1, 1993.** Legislation passed in 1993 provided for a three year final average salary which could not include “add-ons” such as annual and sick leave payments. Members hired before July 1, 1993 had the option of either the higher of a four-year average with add-ons or the three-year average without, whichever was produced the higher monthly benefit. To protect employees who were in their year of waiting for KPERS coverage, the 1993 legislation provided that if an employee was hired prior to the effective date but became a member afterwards, they were entitled to either the four or three year option. Thus, the use of the term “hire date”. In many cases employers do not know an employee’s hire date. Language needs to be drafted to use membership date for this eligibility determination while still protecting that group that was in their year of waiting in 1993.

(D) **Brazelton Partial Lump Sum Options.** The Brazelton group is a closed group of police and firemen who have their retirement benefits offset for any Social Security they receive. Their lump-sum option is based on their monthly benefit after this offset. Language is needed to clarify that the actuarial calculation of their benefit assumes that members start receiving payments under Social Security at an age for which

they are eligible for unreduced Social Security benefits or their actual retirement age, whichever is later.

The Committee recommends introduction of a House bill to include the KPERS technical amendments (HB 2621).

● **Other KPERS Legislation.** The KPERS Chief Investment Officer indicated that additional state legislation may be required to address recent changes in federal law. The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 was cited as an attempt to address deficiencies in the qualified retirement plan market. The following changes are included in the federal law:

- A. Increased contribution limits.
- B. Increased portability among plans.
- C. Enhanced service purchase alternatives.
- D. Tax credits.
- E. Enhanced contributions to IRAs.

Among the most significant impacts on plan sponsors such as KPERS are the following:

- A. New allowance to voluntarily accept and hold rollover balances from other qualified accounts, including 401(k), 403(b), and 457 plans.
- B. New allowance to voluntarily accept and hold IRA contributions of either regular or Roth variety.
- C. New allowance for trustee-to-trustee transfers for qualified purchases.

that mandatory provisions are being drafted to include changes in state law, but the draft bill will not be available for the Joint Committee to review. As a result, the Joint Committee took no action.

HB 2626 was introduced by Representative Stone and this prefiled bill was requested by KPERS to implement one of the federally mandate provisions that needs incorporation into state law. The bill would allow exchanges between qualified retirement plans for the purpose of buying service credit. Specifically, the bill allows trustee to trustee transfers (in order to avoid tax consequences) in order for persons with 401(k), 403(b) or 457 retirement annuity accounts or retirement savings accounts to buy KPERS service credit.

LCC Assigned Topic 1—Teachers Working After Retirement, Matching Employer Contributions for Retirement Plans, and Early Retirement Incentive Plans

The LCC assigned three interrelated items to the Committee for Interim study, including HB 2218 and HB 2352. The topic included study of school district and community college board contributions to employees' tax sheltered annuities, of work after retirement, and of early retirement incentive plans offered by school districts.

Employer Contributions for 403(b) Plans. A bill being heard by the Committee today address one item of Interim study for which the Joint Committee made a recommendation.

A representative of the Kansas National Education Association spoke in favor of employers being able to contribute to 403(b) plans on behalf of their

employees.

The Assistant Executive Director for the Kansas Association of School Boards indicated support of authorizing school districts authority for matching contributions for employee 403(b) plans.

The Assistant Superintendent for the Olathe School District USD 233 asked for legislation to be introduced that would permit school districts to contribute to deferred compensation and tax sheltered investment plans on behalf of employees. He pointed out the 2000 SB 191 had been killed and that it was the only bill last Session that would have authorized schools boards to make matching contributions.

An Attorney General's Letter Opinion was reviewed. The letter was in response to a State Department of Education request about matching annuity contributions for school employees to be paid by the school district. The Attorney General's letter indicated that "statutes fail to provide any reasonable implication that a board of education may match contributions made into a tax sheltered annuity by an employee through a reduction in compensation paid by the school district. A board of education, there for, may not use its funds to match contributions paid into an employee's tax sheltered annuity."

The Joint Committee adopted a motion to introduce a House bill that would allow school boards to make matching contributions to an employee's tax sheltered annuity (HB 2610).

CONCLUSIONS AND RECOMMENDATIONS

The Joint Committee made the following recommendations regarding bill being heard today:

- HB 2622 should be introduced to allow the City of Wichita more flexibility in funding its police and fire pension plans since the actuarial funding ratio exceeds 100 percent. This change will allow a reduction in employer contribution that will save taxpayers from over contributing to a well-finance pension plan.
- HB 2621 should be introduced to make a number of technical changes in the KPERS laws that were recommended by the KPERS Board of Trustees. None of the provisions have a

fiscal impact and all resolve current problems in administering KPERS laws.

- HB 2619 should be introduced to allow school boards to make matching contributions for an employee's tax sheltered 403(b) annuity plan. The Senate passed SB 191 last Session, but the bill died in the House when it became one of the school finance vehicles with numerous amendments.

Report of the
Joint Committee on Pensions,
Investments, and Benefits
to the
2002 Kansas Legislature

CHAIRPERSON: Representative Lloyd Stone

VICE-CHAIRPERSON: Senator Dave Kerr

RANKING MINORITY MEMBER: Representative Geraldine Flaharty

OTHER MEMBERS: Senators Jim Barone, Anthony Hensley, Stephen R. Morris, and Ruth Teichman; Representatives Ray L. Cox, Vaughn L. Flora, Cindy Hermes, Al Lane, Joe Shriver, and Clark Shultz

STUDY TOPICS

Statutorily Assigned Topic—Pensions, Investments and Benefits
LCC Assigned Topic 1—Work After Retirement
LCC Assigned Topic 2—Management of Actuarial Studies

December 2001

Joint Committee on Pensions, Investments, and Benefits

STATUTORILY ASSIGNED TOPIC—PENSIONS, INVESTMENTS AND BENEFITS LCC ASSIGNED TOPIC 1—WORK AFTER RETIREMENT LCC ASSIGNED TOPIC 2—MANAGEMENT OF ACTUARIAL STUDIES

CONCLUSIONS AND RECOMMENDATIONS

- The KPERS staff should conduct additional research into a long-term funding option that involves issuing pension obligation bonds to refinance the KPERS unfunded actuarial liability and to restructure employer contribution rates.
- A House bill (HB2620) should be introduced to eliminate from statute any reference to judges and justices having to retire at any specific age or range of ages.
- A House bill (HB2622) should be introduced to allow the City of Wichita more flexibility in funding its police and fire pension plans since the actuarial funding ratio exceeds 100 percent.
- HB 2540 establishing an additional retirement plan for certain employees at Kansas State University should be passed by the 2002 Legislature.
- A House bill (HB2621) should be introduced to make a number of technical changes in the KPERS laws that were recommended by the KPERS Board of Trustees.
- A Senate bill (SB 375) should be introduced to eliminate the statutory requirement that local school boards must submit actuarial valuations and to replace that provision with a requirement that districts with early retirement incentive plans must submit a budget report instead.
- A House bill (HB 2619) should be introduced to allow school boards to make matching contributions for an employee's tax sheltered 403(b) annuity plan.
- In regard to the LCC assigned topic of managing the work of the legislative actuary, the Committee notes that the actuarial audit will be presented at the start of the 2002 Session for review at that time. A preliminary report was received at the end of the 2001 Interim with no significant findings at that time.

Proposed Legislation: HB 2619, 2620, 2621, 2622, and SB 375 be introduced.

BACKGROUND

The Joint Committee on Pensions, Investments, and Benefits is directed by KSA 46-2201 to monitor, review, and make recommendations relative to investment policies and objectives formulated by the Kansas Public Employees Retirement System (KPERS) Board of Trustees; to review and make recommendations related to KPERS benefits; and to consider and make recommendations on the confirmation of members nominated by the Governor to serve on the KPERS Board of Trustees. In addition, both the Legislature and its committees may assign other specific topics for the Committee to review. For the 2001 Interim, the Legislative Coordinating Council (LCC) assigned two study topics: one topic is related to management of the actuarial audit of KPERS and the other topic includes subject matter related to working after retirement, authorizing school district and community college board contributions to employees' tax sheltered annuities, and early retirement incentive plans offered by school districts.

KPERS administers three statewide coverage groups: KPERS state/school and local (for regular state and local public employees, school and community college employees, and state correctional

officers), the Kansas Police and Fireman's Retirement System, and the Kansas Retirement System for Judges. All coverage groups are defined benefit, contributory retirement plans and have as members most public employees in Kansas. KPERS also administers several other employee benefit and retirement programs: a public employee death and long-term disability benefits plan for active employees; an optional term life insurance program; a Kansas City Kansas annuitant program; and a legislative session-only employees retirement program.

COMMITTEE ACTIVITIES

The Committee met on June 26-27, August 21, October 23-24, and December 4, 2001. The minutes and attachments for all meetings are available from the Division of Legislative Administrative Services.

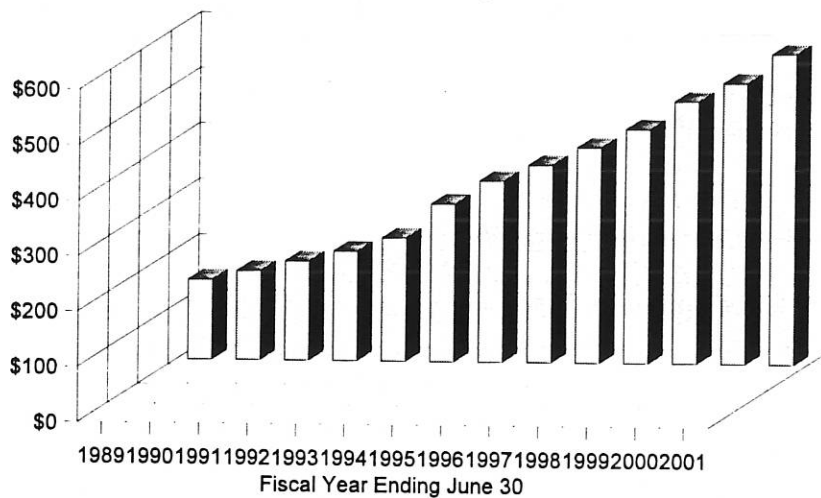
Governor's Nominations

There were no vacancies on the KPERS Board of Trustees that required the Committee to review any gubernatorial nominees.

KPERS Post-Retirement Benefits

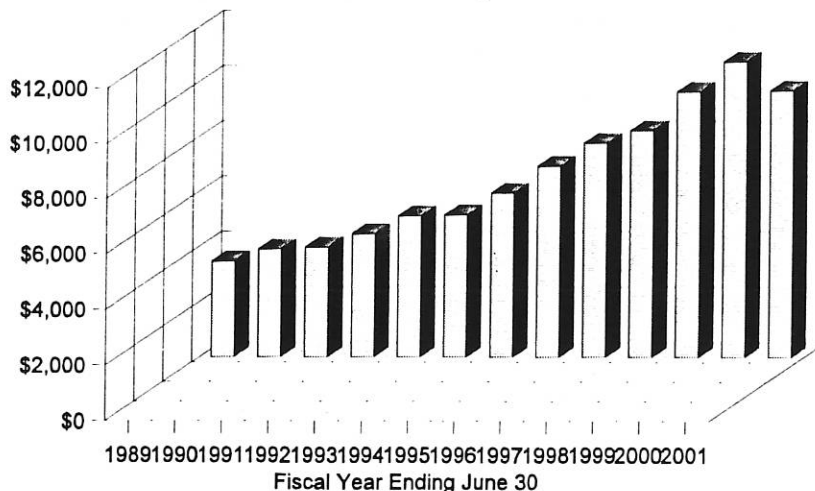
The number of retired members increased from 38,243 in FY 1989 to 54,302 in FY 2001. Benefits paid to retirants and their beneficiaries increased from \$145.2 million in FY 1989 to \$558.9 million in FY 2001. The average monthly benefit amount increased from \$316 to \$810 between FY 1989 and FY 2001. The increase in the number of retired members and the higher average monthly post-retirement benefits resulted in the growth in annual payments from FY 1989 to FY 2001 as shown in the following chart. Of particular note is the increase reflected first in FY 1994 following substantial enhancement in benefit calculations for retirees after July 1, 1993, and post-retirement adjustments for members who retired prior to that date.

KPERS Retirement Benefits Paid
(In Millions)



KPERS Investments 2001

KPERS Net Asset Value of Investments
(In Millions)



The fiscal year that ended June 30, 2001, reversed many years of double-digit gains when investment income in the KPERS portfolio declined \$804.6 million. Earnings reported in FY 2001 indicated that investments had an overall annual rate of return equal to negative 7.3 percent. The investment portfolio declined in value from \$10.69 billion on June 30, 2000, to \$9.63 billion on June 30, 2001. Investment performance for most of the past 13 fiscal years has helped increase the KPERS net asset value from \$3.45 billion in FY 1989 as shown in the following chart. Growth of 5.5 percent was achieved for the latest three years, and 9.4 percent for the latest five years, in large measure due to four previous years of double-digit investment gains.

Asset Allocation Policy. The KPERS Board of Trustees adopted on September 21, 2001, a new investment policy to guide the proportion of the portfolio that is allocated to different types of investments. The previous target allocation policy was adopted by the KPERS Board of Trustees on July 17, 1998. The KPERS Board on October 19, 2001, decided to delay implementation of the new 2001 policy until April of 2002 because of market conditions.

A comparison of the asset allocations is presented in the following table. The primary change is a shift from domestic equity to international equity investments, with a new category of fixed income known as TIPS (Treasury Inflation Protection Securities) broken out separately, reflecting a reduction in the fixed income category. A slight increase in real estate also is noted.

KPERS Asset Allocation

<u>Portfolio</u>	<u>Actual (8/31/01)</u>	<u>Target (Old)*</u>	<u>Target (New)**</u>
Cash	1.8%	1.0%	1.0%
Fixed Income	34.2%	32.0%	24.0%
US Equity	39.9%	40.0%	33.0%
International Equity	13.1%	15.0%	19.0%
Real Estate	6.7%	7.0%	8.0%
Alternative Investments	5.3%	5.0%	5.0%
TIPs (Treasury Inflation Protection Securities)	(Included in Fixed Income)	(Included in Fixed Income)	10.0%

* Adopted by KPERS Board of Trustees on July 17, 1998.

** Adopted by KPERS Board of Trustees on September 21, 2001.

KPERS Actuarial Valuation

The KPERS actuary completed the annual System valuation report for the fiscal year ending December 31, 2001, reflecting the KPERS Board of Trustees decision to change from a June 30 ending date that was used previously for valuations through June 30, 2000.

At the Committee's June meeting, the National Director of Pensions for Milliman USA and the KPERS Actuary from Milliman USA discussed that proposed change in ending date. They addressed some of the issues that arose from the most recent actuarial valuation of June 30, 2000, and provided a review of other actuarial work performed for KPERS. Concerns about the quality of data and estimates prepared from such data that are collected at the end of a calendar year, but not applied until June 30, were cited as the root of problems in performing the valuation. The Committee considered the actuary's recommendation of changing the date for valuation of assets and liabilities from June 30 to December 31.

The Committee adopted at its June meeting a motion to concur with chang-

ing the valuation date from June 30 to December 31. Subsequent to the Committee action, the KPERS Board of Trustees adopted the proposed change in date at its meeting of July 20, 2001.

The December 31, 2000, actuarial report determined, based upon the KPERS Board of Trustees' adopted assumptions and the methodology employed by the actuary, that the unfunded actuarial liability was \$1.305 billion. The unfunded actuarial liability (UAL) for all plans increased from \$1.233 billion originally reported as of June 30, 2000. In an adjusted valuation showing the full impact of a change in valuation procedures, the KPERS actuary reported that the June 30, 2000 unfunded actuarial liability was adjusted to \$1.535 billion, or \$302 million more than the original figure when factoring in the adjustment.

One issue raised by the Committee during review of the valuation concerned the funding method for KPERS state/school. Although entry age normal is the most common method used by 70 percent of public systems, KPERS uses the projected unit credit (which is the second most employed method with 13 percent of public system using it). The KPERS

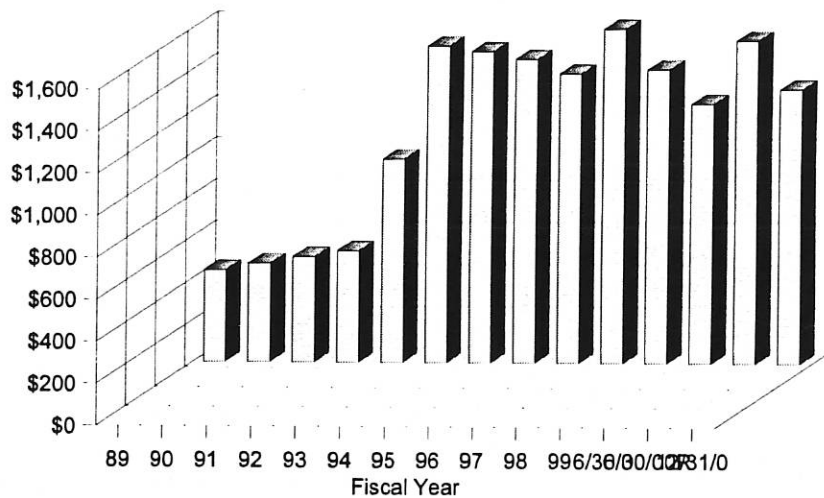
actuary indicated that the method was under review and that the KPERS Board of Trustees had requested additional study of the issue.

The Mercer actuary employed by the Legislature for reviewing the KPERS actuary's work, including an audit of the December 31, 2000 valuation, indicated that a single funding method applied to all three plans under KPERS would make results more comparable. The Kansas Police and Fireman's (KP&F) and Judges plans employ an aggregate method with supplemental unfunded actuarial liability

in the case of the former, and a frozen entry age method for the latter.

The following chart shows a multiyear period portraying the relationship of KPERS actuarial assets to actuarial liabilities, based on the actuarial valuations as of June 30 and December 31, and expressed as the difference between resources available and resources needed to pay future benefits to retired members and their beneficiaries. The revised June 30, 2000 valuation estimates and December 31, 2000 results are not entirely comparable with previous results.

KPERS Unfunded Liability
(In Millions)



The total KPERS unfunded actuarial liability is apportioned among the different KPERS groups and plans. The following table shows the liability for the different groups and plans since the 1993 legislation raised benefits substantially and changed the actuarial methods for performing valuations.

As stated previously, the revised June 30, 2000 valuation estimates and December 31, 2000 results are not entirely comparable with previous results. The KPERS actuary emphasized that the impact of the change in valuation date must be taken into account when comparing previous results.

KPERS Unfunded Actuarial Liability (UAL)

By Groups and Plans (In Millions)

UAL as of	Judges	KP&F	State/ School	Local	TIAA	Total*
June 30, 1993	\$4.9	\$271.6	\$573.1	\$94.4	\$23.8	\$967.7
June 30, 1994	5.2	275.6	1,058.6	142.4	23.5	1,505.2
June 30, 1995	5.2	279.5	1,050.9	123.1	21.5	1,480.0
June 30, 1996	5.1	283.5	1,014.1	120.7	21.0	1,444.4
June 30, 1997	5.1	288.3	933.4	130.6	18.7	1,376.1
June 30, 1998	8.2	313.4	1,141.8	104.3	23.7	1,591.5
June 30, 1999	8.1	317.4	972.6	76.0	23.3	1,397.4
June 30, 2000	8.1	306.6	859.7	36.1	22.6	1,233.1
June 30, 2000 revised	8.1	306.6	1,126.8	70.7	22.6	1,534.8
December 31, 2000	10.2	62.1	1,119.4	90.4	22.7	1,304.8

* may not add due to rounding.

As may be noted in the preceding table, the state/school group has the most significant unfunded actuarial liability. The June 30, 2000 revised estimates and December 31, 2000 valuation results demonstrate the impact of recent changes that increased the UAL, especially for state/school.

KPERS Contribution Rates and Funding

The issue about long-term effects of actual contribution rates lagging behind the actuarial rates was discussed. As a result, the unfunded actuarial liability is adversely impacted by under-contributions from employers, most notably the state, for the regular KPERS plan involving the state/school group. For a number of years since 1993, the state and other employers (local units) have been contributing less than the actuarially recommended rates for regular KPERS members. The Legislature had provided for increasing statutory employer contribution rates gradually over a number of

years to phase-in payment for a major adjustment in benefits that was granted by the 1993 Legislature, rather than for immediately contributing at the actuarial rates. Based on previous valuations, progress was being made in reaching a point where the actuarial rates and statutory rates were projected to be the same, and that point was referred to as equilibrium. The original June 30, 2000, valuation had caused concern when modeling the results of that study indicated that the equilibrium date had moved from 2005 to 2016.

The December 31, 2000, valuation and the resulting projection of contribution rates suggested that the equilibrium point will not be reached prior to plan year 2033. The KPERS actuary stated that "Under current projections, with a level active population, the actuarial and statutory rates for the state/school group are not projected to converge before 2033, if all actuarial assumptions are met." The actuarial and statutory contribution rates are projected to converge before 2033 for

the local group, however.

For the state/school group, the estimated shortfall in employer contributions may be calculated as the difference between the actuarial and statutory contribution rates multiplied by the estimated coverage payroll. The KPERS actuary supplied at the December meeting three different versions of projections. It was pointed out that projects are less valuable farther out in time.

The actuarial projections are based on a number of assumptions, and the investment rate of return set at 8.0 percent is based on the KPERS Board of Trustee's

adopted policy. In recent years when double digit gains were common, projections reflected such windfalls. However, with a declining market reflected in recent months, negative gains impact the modeling.

The following table demonstrates the results of that shortfall in state contributions projected under the third scenario until 2016, the date of equilibrium under the original June 30, 2000 valuation result. The third scenario recognizes investment returns of negative 9.0 percent in FY 2001 and assumes 8.0 percent over 20 years.

**Projection of Contribution Rates for KPERS State/School
Scenario 3**

<u>Fiscal Year Impact</u>	<u>Actuarial Rate</u>	<u>Statutory Rate</u>	<u>Rate Shortfall</u>	<u>Contributions Shortfall</u>
2004	7.64%	5.18%	2.46%	\$85,400,000
2005	8.54%	5.38%	3.16%	\$113,900,000
2006	9.40%	5.58%	3.82%	\$143,200,000
2007	9.99%	5.78%	4.21%	\$163,800,000
2008	10.29%	5.98%	4.31%	\$174,200,000
2009	10.56%	6.18%	4.38%	\$183,800,000
2010	10.79%	6.38%	4.41%	\$192,400,000
2011	10.95%	6.58%	4.37%	\$198,500,000
2012	11.22%	6.78%	4.44%	\$209,700,000
2013	11.44%	6.98%	4.46%	\$219,500,000
2014	11.71%	7.18%	4.53%	\$232,700,000
2015	12.11%	7.38%	4.73%	\$253,600,000
2016	12.37%	7.58%	4.79%	\$268,300,000

Response to Projections. The KPERS Executive Director, in responding to the estimates, indicated that the actuarial projections show a long-term funding issue and that employer contribution levels will need to be increased long-term

to close the gap between the actuarial rate and statutory rate. The KPERS actuary concurred that a new funding plan was needed to address the shortfall, either increasing the statutory cap or some other options.

1-14

Several other funding options were presented by the KPERS Executive Director as examples. One anticipated that a small KPERS group known as TIAA, with an unfunded liability to be paid off by FY 2006, could be "absorbed" as special members and the unfunded liability incorporated into KPERS. Contributions of \$9.3 million estimated in FY 2004 could be redirected to KPERS.

Another option involved reducing the employee contribution rate from 4.0 percent to 1.0 percent, and having the state pick-up the 3.0 percent in lieu of giving employees a 3.0 percent pay increase. The net gain would be increased employee take home pay and a cost to the state of an additional 2.64 percent to replace the employee contribution revenue stream to KPERS.

A third option was issuing pension obligation bonds that would be used to refinance the unfunded actuarial liability. The proceeds from taxable bonds would be deposited in the KPERS Fund, and then invested with other assets. The state liability would be to make periodic payments for principal and interest to bond holders. The net effect would be to lower and restructure annual employer contributions for pensions. Projected "savings" would be the difference between the assumed actuarial investment rate of negative 8.0 percent and bond costs.

The Committee endorsed pursuing more research into the bond option and asked KPERS to report at a later meeting on the subject of pension obligation bonds.

Review of Carryover Bills and Proposed New Legislation

The Committee held a series of public

hearings on some of the carryover bills that may be considered during the 2002 Legislature. In addition, other topics requiring new legislation to be introduced in 2002 also were discussed during the Committee's meetings.

SB 46—Mandatory Retirement Age of 75 for Judges. SB 46 would provide that members of the Retirement System for Judges must retire upon attaining age 75. Under current law, a judge can continue as an active judge through the term in which age 70 is reached. There would be no fiscal impact.

The Office of Judicial Administration supported the bill. It was pointed out that under current law, after a judge reaches the age of 70, then at the conclusion of that term of office, a judge must retire. Of all state retirement groups administered by the KPERS, judges are the only group with a predetermined statutory retirement. The original SB 46 would change the date of retirement to age 75.

The Committee adopted a motion there be no mandatory age for retirement of judges and that a bill be introduced in the House to eliminate statutory requirements referring to any retirement age.

SB 340—Contribution Rates for Local Police and Fire Pension Plans. SB 340 would impact only local pension plans, not the Kansas Police and Fireman's Retirement System (KP&F). It would change the minimum contribution rate for cities that maintain local police and fire pension plans, such as the City of Wichita. It would provide that the minimum contribution rate shall be the sum of the normal cost rate plus the amortization of any unfunded actuarial liability over a rolling 20 year period.

SB 340 also would eliminate the current requirement that until the plan has no unfunded actuarial liability, the local unit of government must contribute an amount not less than the total amount of pension payments paid in the prior plan year. There would be no actuarial or administrative cost for KPERS.

The City of Wichita's Pension Manager supported SB 340. The City of Wichita operates its own Police and Fire Retirement System. The City recognizes the necessity for adequate funding measures to ensure the availability of pension benefits to the active police and fire employees as well as to retirees and beneficiaries.

It is the City's belief that revision of the statute will ensure its funding requirements to meet the needs of local police and fire pension plans while allowing a reduction in funding requirements if the plan is fully funded.

The Committee adopted a motion that the content of 2001 SB 340 be introduced as a House bill.

HB 2507—8.0 Percent Deferred Compensation Plan. The bill would add four elected state officers and employees of four legislative agencies to the list of eligible state employees who may opt out of participation in KPERS, and as an alternative, have the state contribute an additional 8.0 percent of compensation to an individual's deferred compensation account.

The Deputy Legislative Post Auditor testified on behalf of the Post Auditor in support of HB 2507. It was noted that the plan is seen as a recruiting tool to attract qualified staff to work in legislative agencies. This bill would allow the unclassi-

fied employees of the four staff agencies to choose between KPERS and the 8.0 percent Deferred Compensation Program.

No action was taken on this bill.

HB 2540—Supplemental Retirement Plan for Certain Kansas State University Employees. HB 2540 would establish a second defined contribution option administered by the State Board of Regents. The bill would prescribe as eligible for membership a limited group of unclassified employees working for Kansas State University. The new plan would require that eligible employees who elect membership to contribute 4.0 percent and the employer to contribute 4.0 percent to an individual retirement account authorized under section 403(b) of the Internal Revenue Code. The current Regents defined contribution plan requires employees (most unclassified Regents faculty and staff are eligible to participate) to contribute 5.5 percent and the employer to contribute 8.5 percent to individual accounts.

The bill would define the group of employees at Kansas State University who are eligible for the new option as county extension agents, extension specialists, and extension administrators. A further defining characteristic of eligible staff would be a requirement that only employees who currently are members of the federal Civil Service Retirement System could choose to participate. Participation in the new plan would be required for all eligible employees.

The fiscal note indicates that less than 120 current employees would be eligible to participate in the new plan, and that there would be no new staff that would be eligible in the future to participate. The maximum first year cost for a closed group would be \$278,765 if all 119 eligi-

ble staff participated. The University plans to make up the funding from existing budget resources. Over time, as employees retire, the costs would decline since this is a closed group.

Two representative of KSU appeared in support of the bill. The Dean of the College of Agriculture and Director of the Kansas State University Agricultural Experiment Station and Cooperative Extension Service stated that the Board of Regents had endorsed this plan to provide equity in retirement benefits for one group of employees not covered by the regular Regents retirement plan. Also appearing before the Committee in support of HB 2540 was one of the staff from the Kansas State University Research and Extension Service who stated that the bill would restore equity for those who had stayed enrolled in the federal Civil Service Retirement System (CSRS) throughout their careers and who had not elected to go under the Regents retirement plan. It was noted that all new employees after a certain date have been enrolled under the Regents plan.

The Committee adopted a recommendation that 2001 HB 2540 be passed as introduced in the 2001 Session since the bill carried over in House Appropriations Committee.

KPERS Proposed Legislation. The KPERS Board of Trustees requested legislation to be introduced in the following areas, or, in the case of the first item, for a bill already introduced to be passed.

1. **HB 2536—Interest on KPERS Funds in State Treasury.** The bill was introduced during the 2001 Legislature and will carry over to next Session. HB 2536 would provide that any KPERS funds in the State Treasury would be

credited with interest. Currently, funds deposited in the State Treasury for the purpose of paying retirement benefits, withdrawals, deaths and operation expenses generate interest earnings that are credited to the State General Fund. Passage of HB 2536 is estimated to reduce SGF interest earnings by \$580,000 annually.

2. **Technical Legislation.** A series of technical amendments was requested to be included in one bill.

- (A) **Service Credit Purchase.** In 2001, legislation was passed that allows former employees of Regents institutions to purchase service credit for the waiting period, even if they never attained membership in the Regents retirement plan. Corrective language is needed to clarify that anyone employed fulltime as a Regents unclassified employee would be eligible to purchase service credit for the period of time when waiting to become a member of the Regents retirement plan, even if they did not remain long enough to gain membership.

- (B) **Multi-Employer Employment.** Clarifying language is needed to allow local employers in a region of the state to share an employee to perform a particular function (e.g., county appraiser) and for that employee to participate in KPERS, if working the minimum number of hours. This would allow an employee who does not work the minimum 1,000 hours for KPERS coverage with any single employer to meet the minimum requirement when employment with all of the employers is combined.

(C) Hire Date Before July 1, 1993. Legislation passed in 1993 provided for a three year final average salary which could not include "add-ons" such as annual and sick leave payments. Members hired before July 1, 1993 had the option of either the higher of a four-year average with add-ons or the three-year average without, whichever was produced the higher monthly benefit. To protect employees who were in their year of waiting for KPERS coverage, the 1993 legislation provided that if an employee was hired prior to the effective date but became a member afterwards, they were entitled to either the four or three year option. Thus, the use of the term "hire date". In many cases employers do not know an employee's hire date. Language needs to be drafted to use membership date for this eligibility determination while still protecting that group that was in their year of waiting in 1993.

(D) Brazelton Partial Lump Sum Options. The Brazelton group is a closed group of police and firemen who have their retirement benefits offset for any Social Security they receive. Their lump-sum option is based on their monthly benefit after this offset. Language is needed to clarify that the actuarial calculation of their benefit assumes that members start receiving payments under Social Security at an age for which they are eligible for unreduced Social Security benefits or their actual retirement age, whichever is later.

The Committee recommends introduction of a House bill to include the KPERS technical amendments. The Committee took no action on HB 2536 since it

was a carryover bill in the House Appropriations Committee. The Chairman announced that he would ask Representative Wilk to schedule a hearing for HB 2536 during the 2002 Session.

3. Other KPERS Legislation. During the December Committee meeting, the KPERS Chief Investment Officer indicated that additional state legislation may be required to address recent changes in federal law. The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 was cited as an attempt to address deficiencies in the qualified retirement plan market. The following changes are included in the federal law:

- Increased contribution limits.
- Increased portability among plans.
- Enhanced service purchase alternatives.
- Tax credits.
- Enhanced contributions to IRAs.

Among the most significant impacts on plan sponsors such as KPERS are the following:

- New allowance to voluntarily accept and hold rollover balances from other qualified accounts, including 401(k), 403(b), and 457 plans.
- New allowance to voluntarily accept and hold IRA contributions of either regular or Roth variety.
- New allowance for trustee-to-trustee transfers for qualified purchases.

The Chief Investment Officer reported

that mandatory provisions are being drafted to include changes in state law, that permissive elements are being considered if changes in state law are needed, and that the KPERS Board of Trustees would be considering such changes that might be presented to the Legislature in the next months and years as KPERS staff comes to understand the new federal law more fully.

Review of State-Sponsored Deferred Compensation Plan

The Director of Personnel Services, Department of Administration, explained the state's Section 457 Deferred Compensation Program which allows deferral of taxes on employee contributions until distributions. The Managing Director of ING Aetna Financial Services which has the state contract to provide services associated with deferred compensation made a presentation on the investment options and the administrative services provided, as well as an update on recent federal law changes that will affect the Deferred Compensation Program.

The Committee took no action on this topic.

Review of Death and Long-Term Disability Benefits Plan

The KPERS Executive Director reported on the Death and Disability Program that is administered by KPERS. He provided a history of the program, benefits, eligibility provisions, administration of the program, update on the funding and organizational options, as well as a copy of the most recent actuarial report from Milliman USA.

The Committee took no action on this topic.

Review of KPERS Related Litigation

Goodell, Stratton, Edmonds & Palmer, LLP was retained by the Attorney General's office to represent the interest of the State of Kansas in a lawsuit filed by Rodney L. Albright, *et al*, plaintiff, concerning Kansas Police and Firemen's (KP&F) Retirement System membership for certain state employees. The matter is pending before the District Court in Shawnee County, with the first hearing on December 5, 2001 to address a motion to dismiss filed on behalf of the state.

The Committee took no action on this topic.

LCC Assigned Topic 1—Teachers Working After Retirement, Matching Employer Contributions for Retirement Plans, and Early Retirement Incentive Plans

The LCC assigned three interrelated items to the Committee for Interim study, including HB 2218 and HB 2352. The topic included study of school district and community college board contributions to employees' tax sheltered annuities, of work after retirement, and of early retirement incentive plans offered by school districts.

The Deputy Commissioner of Education reported on teacher vacancies at the start of the 2001-2002 school year. A total of 512.4 teacher vacancies were reported as of August 1, 2001, in 125 school districts. Another 144.2 certified positions were filled on a temporary basis at that time.

A post audit report was reviewed by the Legislative Division of Post Audit.

The report addressed *Early Retirement Incentive Programs in Kansas School Districts: Reviewing Their Funding and Effects on the Supply of Teachers*. Two recommendations were made to the Joint Committee on Pensions, Investments, and Benefits. Both would require legislation—changing the early retirement plan reporting requirements for school districts to budget reports (from actuarial reports), and amending current law to make it consistent with federal law relative to retirement age (from age 65 in KSA 72-5395).

The Committee adopted a motion to introduce a Senate bill concerning early retirement incentive plans that would direct school districts to submit a budget report and to repeal the requirement of submitting an actuarial valuation.

The Vice President for Retirement Plans, Security Benefit Group, provided a summary of retirement changes in the Economic Growth and Tax Relief Reconciliation Act of 2001 as they relate to Internal Revenue Code Section 403(b) and Section 457 plans. The changes take effect January 1, 2002, and will expire on December 31, 2012, unless Congress takes further action. Contribution limits for public employees in 457 and 403(b) plans are increased, and catch up provisions will allow even greater contributions for certain persons. Portability between plans will be allowed. Assets may be transferred from 457 and 403(b) accounts to purchase service credit in KPERS. A tax credit for low and moderate income workers who make salary reduction contributions into 457 and 403(b) plans applies to the first \$2,000 of contributions. This provision is scheduled to terminate after December 31, 2006. It was pointed out that the state might need to adopt implementing legislation in order for

employees to take advantage of new federal law. The KPERS Executive Director responded that an Indianapolis law firm was conducting a review of the new federal law and the KPERS Board of Trustees would make recommendations if state legislation were required.

A representative of the Kansas National Education Association addressed retirees returning to work in the same school district (HB 2218 and HB 2352); early retirement incentive programs; and employers being able to contribute to 403(b) plans on behalf of their employees. His testimony was in favor of all three.

The Director of Personnel Services, Department of Administration, addressed HB 2218 and HB 2352. The State of Kansas is experiencing the same problems as school districts with respect to an aging workforce and a shrinking applicant pool. She suggested that the proposed bills fall short of what is needed to address the issues facing the State of Kansas.

The Assistant Executive Director for the Kansas Association of School Boards addressed the issues of authorizing school district and community college boards to make contributions to employees' tax sheltered annuities, school district early retirement incentive plans, and working after employment. His testimony indicated support of authorizing school districts authority for matching contributions for employee 403(b) plans.

The Executive Director for United School Administrators of Kansas testified as a proponent for HB 2218 and HB 2352, asking that an amendment to these bills be considered. The term "teacher" should be changed to "educator" in order to allow other school employees, such as administrators, to be able to return and work for the same school district after

retirement without penalty.

The Assistant Superintendent for the Olathe School District USD 233 asked for legislation to be introduced that would permit school districts to contribute to deferred compensation and tax sheltered investment plans on behalf of employees. He pointed out the 2000 SB 191 had been killed and that it was the only bill last Session that would have authorized schools boards to make matching contributions.

An Attorney General's Letter Opinion was reviewed. The letter was in response to a State Department of Education request about matching annuity contributions for school employees to be paid by the school district. The Attorney General's letter indicated that "statutes fail to provide any reasonable implication that a board of education may match contributions made into a tax sheltered annuity by an employee through a reduction in compensation paid by the school district. A board of education, there for, may not use its funds to match contributions paid into an employee's tax sheltered annuity."

The Committee adopted a motion to introduce a House bill that would allow school boards to make matching contributions to an employee's tax sheltered annuity. The Committee took no action on either HB 2218 or HB 2352.

LCC Assigned Topic 2—Management of Legislative Actuary Performing a Actuarial Audit and Study of Post Retirement Benefits Adjustments

The Committee regrets that the final audit report will not be available until after the 2002 Session starts, but a delay from September to October in the KPERS actuary completing the December 31,

2002 valuation delayed the work of the legislative actuary.

Actuarial Audit. A preliminary report was presented to the December Committee meeting by the legislative actuary from William M. Mercer, Inc.

The Committee took no action on this item and expects the final report to be available in January 2002.

Post Retirement Benefits Adjustment Study. A report from the legislative actuary on a Post-Retirement Benefit Adjustment Study was presented by the legislative actuary from William M. Mercer, Inc.

It was noted that inflation influences income replacement after retirement, and a series of projections was provided to demonstrate the influence of inflation on persons retiring under different circumstances. Comparisons of Kansas to other states also were provided, with emphasis on neighboring states. The report was divided into two parts noted below.

Analysis of Current KPERS Benefits. The conclusions presented by the KPERS actuary regarding an analysis of current KPERS benefits cited three items when compared to other states:

The age at which KPERS members can receive benefits is comparable to other states.

- The average benefit level in KPERS is somewhat below the median of other states.
- KPERS members contribute more than those in neighboring states, but less than the median for a nationwide comparison.

The legislative actuary's report includes a series of recommended policy statement items relative to initial income replacement for retirees.

The Committee took no action regarding the recommendations relative to suggested policy statements. Members of the Committee asked that it be noted that the legislative actuary recommends that "If a choice must be made in allocating additional funds to KPERS, then the primary goal in employer funding should be to reach the actuarially computed level of contributions rather than providing for additional plan benefits."

Analysis of COLAs. Next, the analysis of cost-of-living adjustments (COLAs) presented three conclusions:

- While most state plans provide for automatic COLAs, there are a significant number of state plans that rely on ad hoc increases.
- The ad hoc increases given to KPERS retirees generally have kept pace with inflation as measured by the consumer price index (CPI) minus 1.0 percent.
- The ad hoc KPERS increases in recent years have become much less frequent compared to the years prior to 1994.

In general, KPERS retirees have kept up with inflation as measured by CPI minus 1.0 percent for the past five, 10, 15, and 20 years when adding KPERS post retirement ad hoc increases granted by the Legislature.

However, those retired 25 years ago have significant reduced purchasing power and the adjusted ad hoc increases have not matched inflation.

The legislative actuary's report includes a series of recommended policy statement items relative to post retirement benefit increases. Members of the Committee asked that it be noted that the legislative actuary recommends that "If a choice must be made in allocating additional funds to KPERS, then the primary goal in employer funding should be to reach the actuarially computed level of contributions rather than providing for additional plan benefits such as COLA increases."

The Committee took no action regarding the report and adopted no recommendations relative to suggested policy statements. A final report is expected to be delivered in January 2002 that incorporates Committee discussion at the December 2001 meeting.

CONCLUSIONS AND RECOMMENDATIONS

The Committee makes the following recommendations:

- The KPERS Board of Trustees should change the date for actuarial valuations from June 30 to December 31, based on a recommendation from the KPERS actuary. (Note: The KPERS Board approved the change effective for the December 31, 2000 valuation.)
- The KPERS staff should pursue additional research into a long-term funding option that involves issuing pension obligation bonds to refinance the unfunded actuarial liability and to restructure employer contribution rates. Information should be presented to the Committee after additional research is completed and the KPERS Board has developed a recommendation.

- HB 2620 should be introduced to eliminate from statute any reference to judges and justices having to retire at any specific age or range of ages. The Committee rejected the concept in SB 46 that would set age 75 as the mandatory retirement age, replacing current law which allows retirement after age 70 and the conclusion of a term of office in which age 70 is reached.
- HB 2622 should be introduced to allow the City of Wichita more flexibility in funding its police and fire pension plans since the actuarial funding ratio exceeds 100 percent. This change will allow a reduction in employer contribution that will save taxpayers from over contributing to a well-finance pension plan.
- HB 2540 establishing an additional retirement plan for certain employees at Kansas State University should be passed by the 2002 Legislature. This bill carried over from the 2001 Legislature and no additional bill needs to be introduced.
- HB 2621 should be introduced to make a number of technical changes in the KPERS laws that were recommended by the KPERS Board of Trustees. None of the provisions have a fiscal impact and all resolve current problems in administering KPERS laws.
- SB 375 should be introduced to eliminate the statutory requirement that local school boards must submit actuarial valuations and to replace that provision with a requirement that districts with early retirement incentive plans must submit a budget report instead. Most school boards have paid for two actuarial valuations over the past four or five years, and this change will reduce future costs to the boards. This recommendation is based on a Legislative Post Audit study with a similar recommendation about budget reports replacing actuarial valuations.
- HB 2619 should be introduced to allow school boards to make matching contributions for an employee's tax sheltered 403(b) annuity plan. The Senate passed SB 191 last Session, but the bill died in the House when it became one of the school finance vehicles with numerous amendments.
- In regard to the LCC assigned topic of managing the work of the legislative actuary, the Committee notes that the actuarial audit will be presented at the start of the 2002 Session for review at that time. A preliminary report was received at the end of the 2001 Interim with no significant findings at that time.

**Olathe District School USD 233
Gary George**

**Testimony on Tax Sheltered Investment Plans
January 16, 2002**

Mr. Chairman and members of the committee, thank you for allowing me to appear before you today. We would like to propose that school districts be permitted to contribute to deferred compensation and tax sheltered investment plans on behalf of employees. State staff has advised us that legislation is needed to move forward in this area. This point was reinforced by an informal written opinion issued by the Attorney General's office on October 22, 2001. In view of this opinion, we would urge adoption of enabling legislation that would permit a partial match by school districts to the tax sheltered investment plans of employees.

Approximately 26% of Olathe School District employees participate in a tax-sheltered plan. We believe the number of participating employees could be much higher if the district were allowed to contribute to these plans. We are requesting that you consider legislation that would allow a school district to contribute to tax sheltered plans. In our case, the contribution would have to be a partial match with a cap on our participation to make it feasible. We see several advantages for the employees and the school district.

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- 1. There are tax advantages to the employee.**
- 2. More employees would no doubt participate in such tax sheltered plans thereby helping employees be more prepared for retirement.**
- 3. With the shortage of teachers and administrators, this arrangement would give us another benefit to attract new employees and retain existing staff.**

Some language that we suggest for a bill would be:

“The board of education of any school district may contribute to an employee’s tax sheltered annuity up to an amount set by the board of education”.

We are seeking authority to move forward in this area. We are requesting that you consider this concept and hope that appropriate legislation can be enacted in this legislative session.



Craig Grant Testimony
House Appropriations Committee
January 16, 2002

Thank you, Mr. Chairman. I am Craig Grant and I represent Kansas NEA. I appreciate this opportunity to visit with the House Appropriations Committee about House Bill 2619. Kansas NEA supports HB 2619.

The policy change contained in HB 2619 would allow districts to contribute some amount of funds to a 403(b)-plan put into effect by the district for employees. This seemed to be a policy that was not controversial last session; however, I believe that misinformation about such plans and what implications it might have to the state surfaced and that was the reason it was not included in the final version of the education bill.

All this concept indicates is that a school board may, if it chooses to do so, use some of its compensation for employees to contribute a matching amount to a tax sheltered mechanism on behalf of the employee. Nothing in the bill mandates the state to match anything; nothing requires a school district to set this up; nothing requires an employee to participate in the matching program.

Some districts see this as a benefit enhancement for employees. Our state retirement benefits are not very generous – we rank in the lower third for benefits to our state employees when compared to other states – and most every school employee needs to have some supplemental retirement plan if he/she is to have the financial resources to maintain his/her standard of living at retirement. If one thinks about it, this is a way to experiment with a defined contribution plan without the state putting in any additional money.

Kansas NEA would encourage the state to allow districts to use this tool to retain employees in their district. It will not, by itself, solve the teacher shortage problem. KNEA thinks it will help. We would ask that the committee allow school districts to have as many tools as possible to attract and hold the quality teachers for the classrooms of Kansas. We urge the favorable consideration of HB 2619. Thank you for listening to our concerns.

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KANSAS
ASSOCIATION



OF
SCHOOL
BOARDS

1420 SW Arrowhead Road • Topeka, Kansas 66604-4024
785-273-3600

Testimony on HB 2619
“Authorizing School District and Community College Board
Contribution to Employees’ Tax Sheltered Annuities”
before the
House Appropriations Committee

by

Mark Tallman, Assistant Executive Director/Advocacy
Kansas Association of School Boards

January 16, 2002

Mr. Chairman, members of the Committee:

We appreciate the opportunity to appear before the Committee as proponents of HB 2619.

KASB supported this legislation in the 2001 session. We believe this is a clear case where local boards should be given the choice to provide contributions to annuities as a benefit. We do not believe this action would increase state liability, which was the concern raised in the House. Such a benefit would be allocated from a school district’s available resources just as salary, insurance, and other benefits are provided.

We urge the Committee to recommend this legislation favorably. Furthermore, we believe this is the type of local policy choice that should be allowed under school board home rule without the need for special legislation.

Thank you for your consideration.

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TESTIMONY

City of Wichita

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House Bill 2622

Local Police & Fire Pension Plans

Delivered January 16, 2002

House Appropriations Committee

House Bill 2622 amends K.S.A. 12-5002 regarding minimum funding standards for local police or fire pension plans. The bill was introduced last session as Senate Bill 340 and was later amended into House Bill 2040. Hearings were held by the Joint Committee on Pensions, Benefits and Investments during the 2001 Interim. The Joint Committee recommended the issue be drafted and introduced as a House Bill. That bill is House Bill 2622.

The Current Law

K.S.A. 12-5002 was enacted on January 1, 1978 and requires the funding of actuarial accrued liabilities (the difference between the actuarial assets available and the liabilities of a retirement system) to be amortized over a declining forty-year period. That is, the first year over forty years, the second year over thirty-nine years, etc. Most retirement systems have unfunded actuarial accrued liabilities. They arise each time new benefits are added and each time an actuarial loss is realized.

The existence of unfunded actuarial accrued liability is not in itself bad, any more than a mortgage on a house is bad. Unfunded actuarial accrued liability does not represent a debt that is payable today. What is important is the ability to amortize the unfunded actuarial accrued liability and the trend in its amount.

The current statute requires local police and fire pension plans to amortize any unfunded actuarial accrued liability over a period of forty years beginning January 1, 1978. The Police & Fire Retirement System of Wichita, Kansas has seventeen years remaining in this amortization period.

The statute also requires such pension plans having no unfunded actuarial accrued liability to make annual contributions not less than the amount of benefits paid during the year.

How the Current Statute Hurts Wichita

As those unfunded liabilities are paid off, much as house payments reduce the amount owed, the potential impact of a large unexpected expense is increased because there are fewer years over which to spread the expense. This is similar to escrow accounts established for homeowners to accrue funds for insurance and property taxes. An increase or decrease in the cost of one of these items may result in an adjustment to the required payment for the accruing liability.

As reported in the December 31, 2000 actuarial valuation, the Police & Fire Retirement System of Wichita, Kansas is in an excess funded position (114.6%) and has no unfunded actuarial accrued liability.

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The stated funding objective of the Police & Fire Retirement System of Wichita, Kansas is "to establish and receive contributions expressed as a percent of active member payroll, which will remain approximately level from year to year and will not have to be increased for future generations of citizens in the absence of benefit improvements." As the amortization period approaches its close, any existing unfunded liabilities must be paid for in a declining number of years. A spike (unanticipated increase) in such liabilities could alter the required contribution of the City, thus defeating the stated objective.

Due to the exercise of excellent fiduciary responsibility, Wichita's required annual contribution to the Police and Fire Pension Plan of Wichita, Kansas has reduced from a high of 37.5% in 1980 to 11.7% in 2001 while also providing additional plan benefits. Future decreases are possible.

The Police & Fire Retirement System of Wichita, Kansas is a "mature" pension system. That is, because it has existed for an extended period of time the total of employee and employer contributions is not sufficient alone to meet annual benefit payments. Investment income provides the "third leg" of the funding stool.

In its current form, K.S.A. 12-5002 would require the City of Wichita to make contributions equal to total annual benefit payments, approximately \$15 million. The City's actuarially required annual contribution for 2000 was approximately \$6 million. The statute, as written, would more than double the required contribution for a pension plan with excess funding. This would be an unnecessary expense to the taxpayers of Wichita.

How Will House Bill 2622 Benefit Wichita?

This legislation will remove the mandatory forty-year amortization period beginning January 1, 1978 and establish a twenty-year amortization period that could be reset by the Police & Fire Retirement Board. The City of Wichita believes that the implementation of a twenty-year rolling amortization period will be a positive stride towards insuring that the System's funding objectives are met. Utilization of a twenty-year rolling period (unfunded liabilities are always amortized over a twenty-year period) lessens the impact of any unexpected liability. Examples of such liabilities are a larger number of retirements than anticipated, a larger number of employee deaths than anticipated, fewer employees leaving City employment, or a reduction in the expected investment rate of return.

House Bill 2622 also removes the requirement that a fully funded pension plan sponsor make annual contributions equal to total annual benefits paid. For the City of Wichita it means that annual contributions to the Plan must equal funding requirements, as determined by the actuary.

Our Responses to Expected Objections

The Kansas Public Employees' Retirement System has reviewed the legislation and is not opposed to its enactment.

Closing

The City of Wichita and the Police & Fire Retirement System of Wichita, Kansas recognize the necessity for adequate funding measures to ensure the availability of pension benefits to the more than 1,000 active police and fire employees and 800 retirees and beneficiaries.

We believe that revision of the statute now will bring its funding requirements current to meet the needs of local police and fire pension plans while insuring adequate controls are in place to prevent future funding difficulties.

I ask for your support on House Bill 2622. Thank you.

**Testimony on HB 2621
House Appropriations Committee
January 16, 2002**

**Glenn Deck, Executive Director
Kansas Public Employees Retirement System (KPERS)**

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear today to testify in favor of HB 2621. Each year KPERS proposes various technical amendments to the KPERS statutes. These amendments are proposed to clarify statutory language or improve KPERS' ability to administer benefits. HB 2621 provides for the following four technical amendments:

- **Purchase service credit in KPERS for waiting period under Regents Retirement Plan** – 2001 legislation was passed that allows former unclassified employees of Regents institutions, who joined and then withdrew from the Regents retirement plan, to purchase KPERS credit for the Regents plan waiting period. This amendment was made on the floor of the House, and the proposed amendment clarifies the intent of this 2001 legislation, which meant to include the right to purchase credit for the waiting period even though the person may never have attained membership in the Regents retirement plan.

- **Multiple-Employer Employment** - It is not uncommon for local employers in a region of the state to share an employee to perform a particular function (e.g., county appraiser). While the employee does not work the minimum 1,000 hours for KPERS coverage with any single employer, they do meet the minimum requirement when employment with all of the employers is combined. The proposed amendment addresses this situation by allowing such an employee to be eligible for KPERS membership if they meet the following conditions:
 - 1) combined, non-seasonal employment totaling 1,000 or more hours;
 - 2) perform similar or related tasks for the employers; and
 - 3) the involved employers agree to the arrangement.

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- **Hire Date Before July 1, 1993** - 1993 legislation provided for a three-year final average salary which could not include "add-ons" such as annual and sick leave payments. Members hired before July 1, 1993 received the higher of a four-year average with add-ons or the three-year average without, whichever was higher. To protect employees who were in their year of waiting for KPERS coverage, the legislation provided that if an employee was hired prior to the effective date but became a member afterwards they were entitled to the four or three year option. Thus, the use of the term "hire date". In many cases employers do not know an employee's original hire date under KPERS because the employee has changed employers. The proposed amendment uses membership date for this eligibility determination while still protecting that group that was in their year of waiting in 1993.

- **Brazelton Partial Lump Sum Option** - The Brazelton group is a closed group of police and firemen who have their retirement benefits offset for one-half of any Social Security they receive. Their lump-sum option is based on their monthly benefit after this offset. The proposed amendment clarifies that the actuarial calculation of this benefit assumes the member starts receiving their payments under Social Security at the age they are eligible for unreduced Social Security benefits or their actual retirement age, whichever is later.

The proposed amendments do not have any fiscal impact to the State or KPERS. We appreciate your consideration of this bill and would be pleased to answer any questions.

Testimony on HB 2626
House Appropriations Committee
January 16, 2002

Glenn Deck, Executive Director
Kansas Public Employees Retirement System (KPERs)

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear today to testify in favor of HB 2626.

Under current State law there are a number of options available for KPERs members to purchase service credit to improve their ultimate KPERs retirement benefit by increasing their years of service used in the retirement benefit calculation. Examples of this eligible service credit include: the one year of service prior to KPERs eligibility, forfeited KPERs service, state and local government service in other states, and military service. KPERs members purchase this service credit through either lump-sum payments or payroll deduction plans.

In June 2001, the new federal tax and pension law, the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) went into effect. This new law has extensive provisions that improve the opportunity for individuals to increase their savings for retirement. There is one provision of EGTRRA that became effective January 1, 2002 that could provide immediate benefits to KPERs members to help them make purchases of service credit. This new provision provides for trustee-to-trustee transfers from 457 deferred compensation plans and 403(b) tax sheltered annuity plans to a defined benefit plan to purchase service credit. For example, a state employee who is participating in the State's 457 plan would be able to direct the plan administrator to transfer a lump-sum of a portion of their account to KPERs to purchase any eligible service. Similarly a school employee participating in a 403(b) annuity plan could direct the same type of transfer from the 403(b) to KPERs for the purpose of purchasing eligible service.

The benefit of this new provision would be that these employees could use tax-sheltered assets accumulated in their 457 or 403(b) to make service purchases to help improve their KPERs benefit levels. There would be no cost to the employer or KPERs because these service purchases would be from employee funds at the actuarially required amount to fund the benefit generated by this additional service credit. HB 2626 provides for the amendment to State law necessary to implement the new EGTRRA provision allowing trustee-to-trustee transfers while the participant is still actively employed.

We appreciate your consideration of this bill and would be pleased to answer any questions.

HOUSE APPROPRIATIONS

DATE 1/16/02

ATTACHMENT 7

**Testimony to the
House Appropriations Committee
By
Bobbi Mariani, Division of Personnel Services**

**January 16, 2002
HB 2626 – KPERS; purchase of service credit and rollover of distributions**

Thank you for the opportunity to speak to you in support of House Bill 2626. This bill includes a provision that would allow state employees who are participating in the state's deferred compensation program to transfer a lump sum out of their deferred compensation account to KPERS to purchase allowable service credit under KPERS.

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) included numerous changes to federal pension law. EGTRRA includes a provision that would allow governmental employees in a 457 or 403(b) plan to transfer a lump sum from these defined contribution plan types to purchase service credits under a governmental defined benefit plan. This provision was effective January 1, 2002.

House Bill 2626 would amend the statute necessary to allow KPERS members to benefit from this EGTRRA provision immediately by allowing KPERS to accept a plan transfer as described above. Such action would improve the benefit level of participants under KPERS if they have a need and should choose to exercise this option.

This provision has no cost impact to the state. The credit is purchased with money from the employee's deferred compensation account and the service credit is purchased at an actuarial determined amount.

Thank you for your time. We would appreciate your favorable consideration of HB 2626. I will be happy to answer any questions you may have.

HOUSE APPROPRIATIONS
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ATTACHMENT 8

2002 HOUSE BUDGET COMMITTEES

Education Budget Committee:**Committee Chairperson:** Representative Clark Shultz**Committee Members:**

Representative Bob Grant
 Representative Bill Reardon
 Representative John Toplikar
 Representative Tim Owens

Representative Bill Light
 Representative Rocky Nichols
 Representative Ralph Tanner
 Representative Kenny Wilk

Agency	Fiscal Staff	Final Appropriations Committee Action
Regents Systemwide	West	February 19
Wichita State University	West	February 19
University of Kansas	West	February 19
University of Kansas Medical Center	West	February 19
Kansas State University	West	February 19
KSU-Extension Systems and Agricultural Research Program	West	February 19
KSU-Veterinary Medical Center	West	February 19
Fort Hays State University	West	February 19
Emporia State University	West	February 19
Pittsburg State University	West	February 19
Board of Regents	West	February 19
Board of Healing Arts	Krahl	February 25
Behavioral Sciences Regulatory Board	Steinert	February 25
Kansas Historical Society	Rampey	March 18
Kansas Arts Commission	Krahl	March 18
School for the Blind	Steinert	March 18
School for the Deaf	Steinert	March 18
State Library	Krahl	March 18
Department of Education	Rampey	March 13

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1-16-02

Public Safety Budget Committee:

Committee Chairperson: Representative Larry Campbell

Committee Members:

Representative Doug Gatewood
Representative Kathe Lloyd
Representative Bill Feuerborn

Representative Steve Huebert
Representative Melvin Minor
Representative Dean Newton

Agency	Fiscal Staff	Final Appropriations Committee Action
Department of Corrections	Dorsey	February 21
Ellsworth Correctional Facility	Dorsey	February 21
El Dorado Correctional Facility	Dorsey	February 21
Hutchinson Correctional Facility	Dorsey	February 21
Lansing Correctional Facility	Dorsey	February 21
Larned Correctional Mental Health Facility	Dorsey	February 21
Norton Correctional Facility	Dorsey	February 21
Topeka Correctional Facility	Dorsey	February 21
Winfield Correctional Facility	Dorsey	February 21
Juvenile Justice Authority	Kramer	March 14
Atchison Juvenile Correctional Facility	Kramer	March 14
Beloit Juvenile Correctional Facility	Kramer	March 14
Larned Juvenile Correctional Facility	Kramer	March 14
Topeka Juvenile Correctional Facility	Kramer	March 14
Adjutant General	Waller	March 14
Kansas Bureau of Investigation	Waller	March 14
Ombudsman of Corrections	Dorsey	March 14
Emergency Medical Services Board	Waller	March 14
State Fire Marshal	Waller	March 14
Kansas Highway Patrol	Waller	March 14
Kansas Parole Board	Waller	March 14
Sentencing Commission	Waller	March 14
Board of Technical Professions	Chapman	February 25
Abstracters Board of Examiners	Steinert	February 25

Agriculture and Natural Resources Budget Committee:

Committee Chairperson: Representative Sharon Schwartz

Committee Members:

Representative Vaughn Flora
Representative Tom Klein
Representative Bill McCreary

Representative Carl Holmes
Representative Bruce Larkin
Representative Don Myers

Agency	Fiscal Staff	Final Appropriations Committee Action
Department of Agriculture	Kramer	February 7
Kansas State Fair	Kramer	February 7
State Conservation Commission	Kramer	February 7
Kansas Water Office	Kramer	February 7
Animal Health Department	Kramer	February 7
Department of Wildlife and Parks	Efird	March 5
Kansas Corporation Commission	Chapman	March 12
Citizens Utility Ratepayer Board	Chapman	March 12
Bank Commissioner	Steinert	February 25
Securities Commissioner	Steinert	February 25
Department of Credit Unions	Steinert	February 25
Board of Nursing	Dorsey	February 25
Board of Veterinary Examiners	Kramer	February 25

Social Services Budget Committee

Committee Chairperson: Representative Melvin Neufeld

Committee Members:

Representative Barbara Ballard
Representative Jerry Henry
Representative Patricia Lightener
Representative Dennis Pyle

Representative Bob Bethell
Representative Brenda Landwehr
Representative Larry Powell
Representative Jerry Williams

Agency	Fiscal Staff	Final Appropriations Committee Action
Department of Social and Rehabilitation Services (including the Division of Mental Health and Developmental Disabilities)	Nogle	March 19
Department on Aging	Nogle	March 8
Parsons State Hospital and Training Center	Krahl	March 15
Kansas Neurological Institute	Krahl	March 15
Larned State Hospital	Krahl	March 15
Osawatomie State Hospital	Krahl	March 15
Rainbow Mental Health Facility	Krahl	March 15
Department of Health and Environment	Hollon	February 14

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General Government and Human Resources Budget Committee:

Committee Chairperson: Representative Jo Ann Pottorff

Committee Members:

Representative Ralph Ostmeyer
Representative Lloyd Stone
Representative Annie Kuether

Representative Joe Shriver
Representative Lee Tafanelli

Agency	Fiscal Staff	Final Appropriations Committee Action
Department of Commerce and Housing	Hollon	February 26
Kansas, Inc.	Hollon	February 26
Kansas Technology Enterprise Corporation	Hollon	February 26
Kansas Lottery	Efird	February 26
Racing and Gaming Commission	Efird	February 26
Governor	Robinson	March 7
Lt. Governor	Robinson	March 7
Legislative Coordinating Council	Conroy	March 7
Legislative Research Department	Conroy	March 7
Revisor of Statutes	Conroy	March 7
Legislative Division of Post Audit	Conroy	March 7
Legislature	Conroy	March 7
Kansas Public Employees Retirement System (issues)	Efird	February 15
Optometry Board	Krahl	February 25
Board of Hearing Aid Examiners	Steinert	February 25
Board of Mortuary Arts	Waller	February 25
Board of Pharmacy	Steinert	February 25
Kansas Dental Board	Krahl	February 25
Board of Barbering	Krahl	February 25
Board of Cosmetology	Krahl	February 25
Kansas Public Employees Retirement System (budget)	Efird	March 12
Department of Administration (including Public Broadcasting)	Robinson	March 12
Governmental Ethics Commission	Steinert	March 12
Department of Human Resources	Steinert	March 12
Commission on Veterans Affairs/Homes	Steinert	March 12
Attorney General	Rampey	March 7
Secretary of State	Steinert	March 7
Insurance Department	Krahl	March 7
Health Care Stabilization Board of Governors	Krahl	March 7
State Treasurer	West	March 7

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Tax, Judicial, and Transportation Budget Committee:

Committee Chairperson: Representative Jeff Peterson

Committee Members:

Representative Cindy Hermes
Representative Doug Spangler

Representative Ward Loyd
Representative Dan Thimesch

Agency	Fiscal Staff	Final Appropriations Committee Action
Department of Revenue	Efird	February 26
Board of Tax Appeals	Krahl	February 26
Real Estate Commission	Krahl	February 25
Real Estate Appraisal Board	Krahl	February 25
Board of Accountancy	Steinert	February 25
Homestead Property Tax Refunds	Steinert	February 26
Judicial Council	Rampey	March 15
Board of Indigents' Defense Services	Rampey	March 15
Judicial Branch	Rampey	March 15
Department of Transportation	Waller	February 12
Kansas Guardianship Program	Krahl	February 14
Human Rights Commission	Krahl	March 12

Agency	Fiscal Staff	Final Appropriations Committee Action
Capital Improvements (all agencies)	All Analysts	March 20

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