

SELECT COMMITTEE ON PENSIONS

March 19, 2004

Room 519S - Statehouse

Members Present:

Chairman John Edmonds
Vice-Chair Bill McCreary
Ranking Member Geraldine Flaherty
Representative Melvin Neufeld
Representative Ray Cox
Representative Sharon Schwartz
Representative Clark Shultz
Representative Vaughn Flora
Representative Margaret Long

Staff Present:

Julian Efird, Research Department
Gordon Self, Office of the Revisor
Mike Corrigan, Office of the Revisor
Carol Doel, Committee Secretary

Committee Conferees:

Representative Ray Cox
Rob Woodward, KPERS Chief Investment Officer
Glen Deck - KPERS Chief Executive Officer
Sheila Frahm, Community College Association
Deborah Stern, Kansas Hospital Association
Carolyn Middendorf, Kansas Hospital Association
Marsha Lenheim, Retired school teacher
George Vega, Director of SRS Human Resources
Mark Desetti, KNEA
Mark Tallman, Kansas School Board Association

Others Attending:

See attached list

Chairman Edmonds opened the meeting.

The Chairman opened the public hearing on **HB 2517** and recognized as a proponent Representative Ray Cox. He related that he has been working this bill for about a year. The basics of the bill is to get rid of the \$15,000 cap. It has a three year sunset. It will only apply to teachers and nurses in hard to fill positions. The State Board of Education will determine hard to fill teaching positions. There are amendments to include community colleges. Some of the nurses wanted to remain part-time and it should be amended for that. Also, there was a clarification regarding retired teachers who are qualified to teach in hard to fill positions. (No written testimony)

Sheila Frahm, Executive Director, KAACT (Kansas Association of Community College Trustees) addressed the committee as a proponent of **HB 2517**. This organization is supportive of an amendment to include community colleges in the provision which would allow flexibility for retired

Vice-President of clinical and quality services at the Kansas Hospital Association, Deborah Stern presented testimony in support of **HB 2517** which she related amends current law by permitting retired LPNs and RNs to return to work at a KPERS-participating facility without being subject to an annual income cap of \$15,000. (Attachment 2)

Carolyn Middendorf, RN, MSN, representing the KSNA (Kansas State Nurses Association) addressed the committee in support of **HB 2517**. She related that they are in support of the bill which would lift the \$15,000 earning limitations from KPERS eligible employees returning to work in the same facilities or institutions and put a three year sunset on the exception. (Attachment 3)

Retired middle school teacher, Marsha Lenheim submitted testimony before the committee in support of **HB 2517** and **HB 2733**. She is currently working as a library aide and assistant to the vice principal of a middle school in Kansas City. Because of current law she will not be able to work the entire fall semester. She stated that when the number of days a retired teacher can work are limited, students are deprived of teachers with experience. (Attachment 4)

With there being no other proponents to address the bill, Chairman Edmonds recognized George Vega of the SRS/Human Resources Department as an opponent of **HB 2517**. He said nurses should be excluded from the \$15,000 annual earnings cap without additional contributions to KPERS. In their opinion, the bill as written leads them to believe it actually harms current operations. (Attachment 5)

Mark Desetti of the Kansas National Education Association also came before the committee as an opponent of **HB 2517**. This bill seems to come up in one form or another every year. They believe that the idea of allowing the retirees to return in shortage areas to the districts from which they retired is a good idea. This bill creates two classes of retired teachers, those that would have some rights when they go to a different district and those who stay in their district and lose certain rights. The problem they see under this bill is that it exempts those teachers who return to their districts from their continuing contract status or their due process status. The KNEA urges consideration of some of the provisions of this bill. (Attachment 6)

There were no other opponents on the bill and Mark Tallman of the Kansas Association of School Boards was recognized as taking a neutral stand on KPERS issues. In his testimony, he stated that the employers' cost of any retirement program or benefits mandated by the state should be fully and directly funded by the state. KASB opposes making KPERS a non-contributory system. The KASB Delegate Assembly adopted the following additional language regarding KPERS.

KASB believes the Legislature should consider changes in the KPERS system to reduce the need for state general fund support, providing that benefits remain appropriate to attract and retain qualified employees.

Mr. Tallman continued with his testimony addressing **HB 2502**, **HB 2517**, **HB 2733** and **HB 2788**. (Attachment 7)

Chairman Edmond closed the hearing on **HB 2517** and opened the public hearing on **HB 2733** recognizing Representative Bill Reardon in support of the bill. In his testimony he related that this bill would allow a Kansas retired teacher to return to a classroom in the district from which they retired provided they had been retired and not teaching for a minimum of one year.

([Attachment 8](#))

Mark Desetti returned before the committee with neutral testimony on both **HB 2733** and **HB 2788**. They urge the committee to make a very deliberate examination of the fiscal impact on KPERS before taking action on these bills. ([Attachment 9](#))

With no other person wishing to address **HB 2733** and **HB 2788**, the Chairman closed the hearing

Public hearing on **HB 2913** was opened with Major Courtney Dean of the Kansas Highway Patrol addressing the committee in support of the bill. This bill would bring “members of the capitol area security patrol” into the Kansas Police and Firemen’s Retirement System, or KP&F. They do recommend two amendments.

First, they recommend specifying that only *certified law enforcement officers* in the Capitol Police be eligible for the retirement system.

Second, they suggest offering KP&F membership to certified law enforcement officers in the Motor Carrier Inspection branch of the Patrol, i.e. Motor Carrier Inspector IIIs and sergeants.

([Attachment 10](#))

Stephen Crumpler with the Capitol Area Security Patrol, urges support of **HB 2913** which would allow the Capitol Police to join the Kansas Police and Fire Retirement System. ([Attachment 11](#))

Executive Director of KAPE, (Kansas Association of Public Employees) Andy Sanchez, delivered testimony in support of **HB 2913**. This organization has been seeking inclusion for all state law enforcement certified personnel into the KP&F system. This bill simply brings Kansas more inline with the national agenda and makes public safety a top priority. ([Attachment 12](#))

, Chairman Edmonds closed the hearing on the bill with this being the final person wishing to testify on **HB 2913**.

Public hearing on **HB 2500** was opened with Rob Woodard, Chief Investment Officer for KPERS presenting testimony. This bill would remove the 5% limitation and replace it with an annual limitation of 1% of total market value in new alternative investments. Over time, the passage of **HB 2500** is expected to have a positive net fiscal impact to the extent that it provides the opportunity for additional investment income. ([Attachment 13](#))

With no other person wishing to address **HB 2500**, the Chairman closed the hearing.

Public hearing on **HB 2501** opened once again with Chairman Edmonds recognizing Rob Woodard, Chief Investment Officer of KPERS who delivered testimony in support of the bill. He related that

this bill would allow the Retirement System Staff, rather than the System's Board of Trustees, to receive the final due diligence findings on each real estate investment before making the investment. Over time, the passage of **HB 2501** is expected to have a positive net fiscal impact to the extent that it provides the opportunity for additional investment income. (Attachment 14)

No other person wished to appear on **HB 2501** and the hearing was closed. Next the Chair opened the public hearing on **HB 2502**.

Chairman Edmond recognized Glenn Deck, Chief Executive Director of KPERS who presented testimony on **HB 2502**. This bill would allow the KPERS board of Trustees to establish the actuarial cost method and unfunded actuarial liability amortization method and period for all three retirement systems, administered by KPERS; increase the KPERS local group employer contribution rate caps to the same levels as the State/School group rate caps; and splint the KPERS State/School group for actuarial calculations and determination of employer contributions rates. (Attachment 15) Mr. Deck also presented the committee with charts and graphs on State/School Group Funding Projections as well as state and local funding projections. (Attachment 16)

Hearing was closed on **HB 2502** and hearing opened on **HB 2917**. Once again, Glenn Deck, Chief Executive Director of KPERS addressed the committee explaining the disability benefits will increase to 1.0 percent of compensation beginning in fiscal year 2006. Under current state law, the rate is equal to 0.6 percent of compensation. (Attachment 17)

Mark Desetti of KNEA (Kansas National Education Association) testified saying they support **HB 2917** which will begin to restore financial stability to the KPERS Death and Disability Fund. (Attachment 18)

With no other person wishing to address **HB 2917**, the Chairman closed the hearing.

Mr. Deck also presented for committee review the effects and fiscal impact on **HB 2517**, **HB 2733** and **HB 2788**. (Attachments 19, 20 and 21)

Chairman Edmonds directed the committee's attention to **SB 260**. He requested a motion that would delete the contents of the bill and turn add **HB 2517** as the new contents for **SB 260**.

Representative Cox made a motion to delete the contents of **SB 260** with a second by Representative McCreary. Vote was taken. Motion was adopted.

Representative Cox moved that the contents of **HB 2517** be amended into **SB 260**. Representative McCreary seconded the motion.

Representative Cox wished to refer to the revisor, Gordon Self regarding amendments to **SB 260**. He related that the first amendment was technical add the language *except as otherwise provided* on line 18 and a change on page 5 which would add the language *or were certified to teach in a hard-to-fill teaching discipline* as well as *and is employed to teach in a hard-to fill teaching discipline*.

Representative Cox made a motion to adopt the amendment received by the revisor. The motion was

seconded by Representative Neufeld. Vote was taken. Motion adopted.

The second amendment is on page 5, line 12 which is to provide clarification by adding *and subject to the provisions of subsection (5) (e)* and on page 5, line 40 the addition of *(e) For any retirant as described in subsection (5)(d) who is employed or appointed in or to any position for which compensation for service is paid, the participating employer shall designate whether the provisions of subsection (5) (e) or (5) (d) shall be applicable to such retirant.*

Representative Cox made a motion to accept the second amendment as received by the revisor. A second to the motion was made by Representative McCreary. Vote was taken and the balloon was adopted.

The third proposed amendment to **HB 2517** provided a change in language on page 4, line 18 (5) (a) with the addition of *except as otherwise provided* as well as on page 5, lines 16 and 17 inserting *or were certified to teach in a hard-to-fill teaching discipline* and *and is employed to teach in a hard-to-fill teaching discipline.*

Representative Cox made motion to amend the bill as per the third proposal. The motion was seconded by Representative Neufeld. Vote was taken. Motion carried.

The Chairman called attention to **HB 2500** and entertained a motion to amend the bill into **SB 260** preserving the contents.

Representative Flora moved that **HB 2500** be amended into **SB 260**. The motion was seconded by Representative Long. Vote was taken. Motion adopted.

Chairman Edmonds directed the committee's attention to **HB 2501**.

Representative Long made a motion that **HB 2501** be amended into **SB 260** preserving the contents. Representative Flaherty made a second to the motion. Vote was taken. Motion was adopted.

Next the Chairman directed attention to **HB 2502**.

Representative Cox made a motion that **HB 2502** be amended into **SB 260** preserving the contents. Representative McCreary made a second to the motion.

Representative Flaherty made a substitute motion to amend into **SB 260 HB 2502** except for the state and school group split. Representative Flora seconded the substitute motion. Vote was taken. The substitute motion failed.

Representative Cox made a motion that **HB 2502** be amended into **SB 260** preserving the contents. Vote was taken. Motion adopted.

Chairman Edmonds called attention to **HB 2917** and opened the floor for suggestions.

Representative Neufeld suggested that the bill not be passed this year.

Representative Cox moved that **HB 2917** be included in **SB 260**. Representative Flora seconded the motion. Vote was taken. Motion adopted.

Representative Flaherty made a motion to amend **HB 2917** to include only sworn officers. Representative Flora seconded the motion. Vote was taken. Motion failed.

Representative McCreary made a motion for an amendment that would cap the Kansas funds at \$40 million. Representative Neufeld seconded the motion. Vote was taken. Motion adopted.

Representative McCreary moved to include the \$40 million cap in **SB 260** and that money in excess of \$40 million be transferred to the State General Fund to pay for KPERS bonds and increased state employer contributions. Representative Neufeld seconded the motion. Motion passed.

Representative Flaherty moved that **HB 2012** be amended into **SB 260**. Representative Flora seconded the motion. Vote was taken. Motion passed.

Representative Cox made a motion to recommend **SB 260** favorable for passage as amended. Representative Neufeld seconded the motion. Vote was taken. Motion adopted.

With no further business before the committee, Chairman Edmonds adjourned the meeting.

Minutes approved: April 28, 2004



MEMO

TO: Representative John Edmonds
From: Sheila Frahm, Executive Director, KACCT
Date: March 19, 2004
RE: HB 2517

Representative Edmonds and members of the Select Pensions Committee:

Thank you for the opportunity to bring a community college perspective to HB 2517. We are supportive of an amendment to include community colleges in the provision which would allow flexibility for a retired faculty member to return to the college from which they retired to help address anticipated critical shortages.

In response to a question regarding need for this option and specific areas that may be addressed; responses for various colleges included:

1. Allied Health – Nursing and other health care programs
2. Technical, Career and Vocational Programs (Automotive, Mfg., Agriculture and Electrical Power)
3. Computer Science
4. Math
5. Science (Biology and Physical Sciences)
6. Speech
7. Social Studies

These responses are program specific and may actually reflect an anticipated retirement or a high demand program, where often recruitment of highly qualified professional staff make keeping current teaching and classroom leaders all the more beneficial.

While there are not indications of significant needs for retiring teachers to return to their profession, this added flexibility could be very important to a specific college for a particular high demand program or course of study. It also seems logical that the Kansas Board of Regents would be the agency best suited to help identify and to designate the hard-to-fill disciplines along with the community college leadership. These disciplines will likely vary from time to time to meet the rapidly changing education and training needs of Kansas citizens.

We request your favorable consideration of HB 2517 and the amendment to include community colleges.

SELECT PENSIONS
Attachment 1
Date 3-19-04



TESTIMONY ON HOUSE BILL 2517
Select Pensions Committee
March 19, 2004

Good afternoon. My name is Deborah Stern and I am vice president of clinical and quality services at the Kansas Hospital Association. I am here today to testify in favor of House Bill 2517 which amends current law by permitting retired LPNs and RNs to return to work at a KPERS-participating facility without being subject to an annual income cap of \$15,000.

Here is some background information as to how KHA became aware of the problem that exists with the current law. On November 1, 2002, several nursing leaders and educators from across the state were asked to testify before the Legislative Budget Committee regarding the nursing shortage in Kansas. At the conclusion of the presented testimony, the Budget Committee requested that a group comprised of those who testified meet and report back to the Committee those ways in which the legislature could assist with the nursing shortage without the expenditure of state funds.

In response to the above request, a group calling itself the Kansas Nursing Workforce Partnership, met and drafted several recommendations for the legislature to implement to assist with the nursing shortage in Kansas.

One of these recommendations is to lift the current KPERS restriction which applies to retirees returning to work for their former employer. The health care entities experiencing nurse shortages and impacted by this law are state hospitals such as Osawatomie and Larned, as well as 18 community hospitals that participate in the KPERS program.

The Kansas Nursing Workforce Partnership and the Kansas Hospital Association support House Bill 2517 which would exempt nurses from the statutory \$15,000 limit on earnings if they retire from a KPERS participating facility and wished to return to work at that facility.

SELECT PENSIONS
Attachment 2
Date 3-19-04

Last year, I testified that Osawatometie State Hospital had 7 registered nurses who retired from that facility and wanted to continue to work part-time at Osawatometie. Due to the income cap in our current law, all of these nurses had to find employment at other facilities. Currently, Osawatometie employs 4 registered nurses who work part-time but are held captive by the \$15,000 income restriction. Because the hospital has experienced a decrease in operating funds, resulting in the loss of RN positions, the need for the elimination of the income cap to allow these 4 nurses to work additional hours is more crucial than ever before. Currently, Osawatometie has to be careful as to how many times these trained nurses are called in to work so as not to exceed the \$15,000 income maximum under the current law. At the present time, Osawatometie needs every nurse it can employ, especially those possessing many years of clinical experience dealing with difficult, psychiatric patients.

Unable to get nurses from anywhere else, Geary Community Hospital in Junction City currently employs 3 contract nurses, also called traveling nurses, who go from hospital to hospital as independent contractors. These nurses are usually from out of state, are unfamiliar with the facility they go to, and must be put through several weeks of expensive orientation before they ever go near a patient.

On the other hand, Geary Community Hospital currently employs three registered nurses who retired from that facility. They include a house supervisor, an ER nurse, and a pre-operative orthopedic teaching nurse. If the current income cap was lifted, Geary Community Hospital could increase the number of hours these former retirees work and not have to depend on expensive outside nurses. Once again, the hours these experienced nurses can be employed must be carefully monitored to stay within the \$15,000 income limitation currently in place. Often these nurses, like the house supervisor, already very familiar with the hospital, can only work weekends for fear that they may exceed the income restriction in our current law.

According to data collected by the Kansas Hospital Association, twenty-eight per cent (28%) of the registered nurses in Kansas are over the age of 51. With the lack of enough young people entering the nursing field, it is imperative that we facilitate the ability of retired nurses to fill the vacant positions that exist at every hospital in the state.

The experience and knowledge that these retirees possess cannot be replaced. We must allow retirees to continue to be productive after retirement if they choose to return to the workforce.

Retired workers, be they nurses or teachers who are seasoned workers and possess invaluable experience should be given every opportunity to return to the workforce without the fear of earning more than \$15,000 per year. For this reason, the Kansas Hospital association and the Kansas Workforce Partnership are asking for your support of House Bill 2517. Thank you.

Kansas Nursing Workforce Partnership members:

Deborah Stern, Kansas Hospital Association, Facilitator;
Ann Abel, Health Careers Coalition;
Mary Blubaugh, Kansas State Board of Nursing;
Evelyn Bowman, Kansas Council of Associate Degree Educators;
Sheila Frahm, Kansas Association of Community Colleges;
Barbara Gibson, Kansas Department of Health & Environment; Cynthia
Hornberger, Kansas Association of Colleges of Nursing;
Tammy Hutchison, Gove County Medical Center;
Janice Jones, Kansas State Nurses Association;
Diane Lindeman, Kansas Board of Regents;
Karen Miller, University of Kansas Medical Center;
Carolyn Middendorf, Kansas State Nurses Association;
Mary Carol Pomatto, Pittsburg State University;
Terri Roberts, Kansas State Nurses Association;
Fran Seymour-Hunter, SRS
Vera Streit, Kansas Council of Practical Nurse Educators;
Jeanne Walsh, Johnson County Community College;
Debra Zehr, Kansas Association of Homes & Services for the Aging;
Dorothy Zook, Kansas Federation of Licensed Practical Nurses



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H.B. 2517 KPERS EARNINGS LIMITATIONS ELIMINATED

March 19, 2004

Representative Edmonds and members of the House Select Committee on Pensions, my name is Carolyn Middendorf, R.N., M.S.N., and I am here representing the KANSAS STATE NURSES ASSOCIATION (KSNA). KSNA is the professional organization for Registered Nurses in the state, we are a voluntary membership organization. There are over 27,000 RN's licensed in the state of Kansas, with about 82% of them employed part-time or full-time. KSNA is in support of H.B. 2517 which would lift the \$15,000 earnings limitations from KPERS eligible employees returning to work in the same facilities or institutions and put a three year sunset on the KPERS restriction lift.

HISTORY/BACKGROUND

In 2002 KSNA supported S.B. 530 which provided statutory language similar to the proposal here today, but applying only to registered nurses (RN's) employed by SRS facilities. The bill was introduced by a Senator at the request of his constituents, but SRS officials were present to provide technical advice during the hearing. There was support from the Personnel Division at SRS, but they were not able to get the Administrations approval to have the bill introduced as an agency bill under the former Governor. After the hearing, the Senate Ways and Means Committee KPERS Subcommittee amended the bill to include a 3-year sunset provision and specifically spelled out the institutions that would qualify. The Senate Ways and Means Committee passed the bill, but it never was put on General Orders in the Senate for Committee of the Whole debate.

During the summer of 2002 KSNA was contacted by RN's employed by County hospitals that participate in KPERS, and for whom the restriction also applies. There are 18 Kansas Community Hospitals that would be affected by the lifting of the provision. Additionally, local health departments, school nurses employed by school districts and registered nurses employed at the state institutions: Larned, Osawatomie, Parsons, KNI, Rainbow, and the Veterans Commission Homes will be affected by this provision. H.B. 2127 KPERS Earnings Limitations

The mission of the Kansas State Nurses Association is to promote professional nursing as a unified voice for nursing in Kansas and to advocate for the health and well-being of the people of Kansas.
CONSTITUENT OF THE AMERICAN NURSES ASSOCIATION

SELECT PENSIONS
Attachment 3
Date 3-19-04

Eliminated for RN's was introduced and heard in 2003 by the House Tax, Judicial, Transportation and Retirement Budget Committee (Chaired by Rep. McCreary). This bill also did not progress during the 2003 session.

H.B. 2517 was introduced as a result of 2003 Interim discussions about teachers and nursing hard to fill positions, and the bill contains much of the same language that provides a 3 year KPERS exception for the \$15,000 earning cap for RN's and LPN's working in KPERS institutions.

NURSING SHORTAGE STATISTICS

Kansas currently is experiencing the beginning of a nursing shortage projected to last through at least 2010, unless trends are reversed. Registered Nurse vacancies are on the rise and will reach severe levels by 2005 due to the increasing demand for these services. Up until last year, the previous 7 years nursing schools have experienced dramatic decrease in enrollment, 27% or more. The state of Kansas Department of Human Resources forecasts nursing in the top of professions with the largest growth in demand and in new positions through 2007.

SUPPORT FOR H.B. 2517

KSNA supports that as a matter of public policy this bill be passed out favorably. Most RN's currently eligible to retire in KPERS institutions (with 85 points) do not retire in order to retain their health insurance. This will not change with this bill.

We have not provided a lot of data about the nursing shortage, but we could if the Committee needs a greater demonstration of the need in Kansas communities.

A couple of observations regarding what opportunities this bill will provide:

- *Training and orientation costs for specialty nursing practice, such as the special populations served in the 5 SRS facilities would be reduced for previously employed nurses returning to their workforce.*
- *Registered nurses are in such high demand that those institutions covered by KPERS will be significantly disadvantaged from a recruitment perspective if the RN is going to return to the workforce and doesn't want to be limited to the \$15,000 earning restrictions and selects another employer. Their ability to compete is in some cases compromised now due to salary compression and lower than market wages, so this additional limitation becomes just another barrier to recruitment/retention that would be addressed by H.B. 2517 changes. Thank you for this opportunity to address the committee.*

Plan to Address the Kansas Nursing Shortage

The current and increasing demand for registered nurses in Kansas translates to a period of great employment opportunity. If we are to attract qualified persons into nursing, we must make it clear that healthcare/nursing is "work worth doing". A comprehensive strategy to address the shortage must include data collection, development of marketing/communication programs, increasing collaboration between nursing practice settings and schools of nursing, increased ongoing collaboration by employers of RN's.

The Kansas State Nurses Association Supports:

1. Increasing numbers and the availability of Registered Nurses.
2. Increasing enrollment in Nursing Education programs.
3. Improving education opportunities.
4. Increasing retention rates for Registered Nurses in the profession and workforce.
5. Improving workplace satisfaction levels among Registered Nurses.
6. Ongoing assessment and adjustment of the educational and practice environment to facilitate meeting demands for Registered Nurses today and in the future.

I. Nursing Education

- A. Expand the capacity of Kansas nursing schools to graduate more students.
- B. Develop new education and practice models to facilitate joint appointments for education/practice.
- C. Expand the Kansas Nursing Student Scholarship Program funding to its full statutory capacity.
- D. Support federal legislation for traineeships and grants for nursing education and the preparation of nursing faculty.
- E. Promote scholarship opportunities to nursing students.
- F. Support maximizing educational opportunities and make financial support available to prospective nursing students.
- G. Focus student recruitment efforts on minorities and men.

II. Work Environment

- A. Implement strategies to retain experienced nurses in the provision of direct patient care including
 - introducing greater flexibility into work environment structure
 - scheduling programs rewarding experienced nurses for serving as mentors and/or preceptors
 - implement appropriate salary and benefit programs

- B. Increase lifetime career earning patterns in nursing to:
 - eliminate serious salary compression
 - make nursing more competitive with other professions
 - encourage those who work part-time to return to full-time employment.
- C. Create an environment that advances the practice of nursing by:
 - establishing appropriate management structures within the health care system
 - ensure adequate nurse staffing
 - providing nurses with sufficient autonomy over their practice in all settings.
- D. Redesign work to enable an aging workforce to remain active in direct care roles.

III. Promotion and Data Collection

- A. Emphasize the positive aspects of nursing to other health care providers and to the public so that the "image" of nursing promotes the profession of nursing as a more attractive career option for both young men and women in the future.
- B. Inform the public about what they can expect from registered nurses and how nurses are educated to function effectively in today's complex health care system. This education needs to increase public awareness about the broad range of services, such as clinical management and case management, that nurses provide for the consumer's health care dollar.
- C. Oppose cutbacks in funding for hospitals, agencies and health programs that affects both the recruitment and retention of nurses. Nursing as a vital public resource requires that the state and federal governments continue invest in the profession.
- D. Promote consistent and timely data collection at the national and state level to enable appropriate workforce planning.

April 16, 2001 KSNA sponsored a Nursing Shortage Summit, in which participants received statistical information about the shortage and worked in small groups to prepare recommendations. This plan formalizes those recommendations and will serve as the framework for addressing nursing manpower needs.



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Perspective on Nursing Shortage

Trouble Now. Bigger Trouble Later.

Trouble Now

To understand the extent of the current nursing, one need only consider:

- Mandatory overtime is increasing
- Concern by RN's about inadequate staffing is rising
- Nurse satisfaction is down because of concerns about inadequate patient care
- Employment signing bonuses of \$2000-5000 are common.

Bigger Trouble Ahead

The immediate shortage is largely caused by market forces such as hospital cutbacks and flat salaries that occurred in the mid - 1990's. However, this "market" shortage will be followed immediately by another emerging shortage caused by changing demographics of the RN workforce and general population. This "demographics" shortage will differ dramatically from previous shortages and will be marked by declining supply of RN's and increasing demand for RN services. Just consider:

An aging workforce with an average age of 43 that will be retiring in 10-15 years
Fewer women choosing a nursing career
An unattractive workplace environment
An aging population requiring more care
Higher patient acuity

What is the Effect of a Serious Nursing Shortage

Patient care will suffer. Unless steps are taken to avoid or reduce its severity, the emerging "demographic" shortage is likely to result in RN staffing levels so low that patient care suffers.

What is the Solution?

KSNA believes that the emerging demographic shortage can only be solved by

- 1) increasing the supply of RNs by expanding the capacity of Kansas nursing schools to graduate more students,
and
- 2) improving recruitment to, and retention of, qualified individuals in nursing by improving the workplace environment to make nursing a more attractive career.

What are not Solutions?

Two solutions sometimes proposed are increasing the immigration of foreign-trained nurses and substituting non-nurses for RNs. KSNA opposes both as misplaced. Relying on foreign-trained nurses will not produce the numbers needed and will interfere with Kansas' increasing the capacity of its nursing schools to produce the RNs needed. Substituting non-nurses for RNs will reduce the quality of care at the very time patient acuity is increasing.

The mission of the Kansas State Nurses Association is to promote professional nursing, to provide a unified voice for nursing in Kansas and to advocate for the health and well-being of all people.

Constituent of The American Nurses Association

March 19, 2004

Marsha Lenheim

Retired Middle School Science Teacher (USD 500 Kansas City, Kansas)

Retired May 2001

Presently working part time as a library aide and assistant to the vice principal--West Middle School, Kansas City, Kansas, USD 500

I am here today because I have a concern about KPERS statute 74-4914 which puts a \$15,000.00 lid on the amount of money that can be earned in a calendar year if a retired teacher returns to the district where they were working before retirement.

In my case, I will not be able to work the entire fall semester even though I work only part time at a salary of \$12.88 an hour. If I have to take days off I may fail to meet the expectations of the adults and students that I work with because I won't be available to them. If I had again chosen to substitute this school year, beginning in January, I would be able to work less than 140 out of 180 school calendar days during 2004. If I was working an unassigned or long-term assignment, I would only be able to work approximately 100 of the 180 school calendar days. This means, I would either have to give up my KPERS or the school would have to get another teacher to finish the assignment, which certainly isn't in the best interest of the students.

Since I am a certified teacher, when I did substitute, teachers requested me for their classrooms because they knew they could expect the day to go just like it would if they were there. Students did not lose a day of instruction, which sometimes happens when non-certified substitutes are in the classroom. Finding certified substitutes in large school districts like Kansas City, Wichita, and Topeka might not be a real problem, but in smaller districts that have a limited number of substitutes, this might be a serious problem if you are limiting certified teachers by putting a lid on what they can earn.

When you limit the number of days a retired teacher can work for their district you deprive students of teachers with experience and district schools with personnel that can provide a safe and secure environment because they are most familiar with procedures and knowledge of their district.

SELECT PENSIONS
Attachment 4
Date 3-19-04

I don't know a retired teacher who has aspirations of returning to the classroom, but as in my case, many of us need to work because of high insurance rates and high co-pays on medications. Since my husband retired from teaching we pay \$615.00 a month out of pocket for health and dental insurance.

I also choose to work because I enjoy working with students and faculty members without having to put in the many hours that I used to put in away from the building. I think once you're a teacher you're always a teacher. I love going to my job everyday.

I hope that you seriously consider passing this bill, but if that is not possible I would hope that you would look at raising the lid on the amount of money retired teachers can earn. Since this statute was put into place on July 1, 1988, the cost of living increase in the last 16 years would surely justify raising this lid.

I thank you for your time and consideration in this problem. I appreciate getting to come and speak to this panel about the concerns I have.

Kansas Department of Social and Rehabilitation Services
Janet Schalansky, Secretary

Select Pensions Committee
March 19, 2004

HB 2517

Removing employment after retirement limitations for certain teachers and nurses

Mr. Chairman and members of the committee, I am George Vega, Director of Human Resources for the Department of Social and Rehabilitation Services. Thank you for the opportunity to appear today on HB 2517. We are very interested in the ability to rehire Registered Nurses after they retire without the usual \$15,000 earnings limitation. We appreciate your willingness to explore options or tools for the state hospitals and institutions to use in recruiting nurses.

Our preference is that nurses be excluded from the \$15,000 annual earnings cap without additional contributions to KPERS. This would assist the hospitals in hiring nurses with vast knowledge and experience. This idea was considered by the Legislature two years ago.

Our reading of HB2517 as written leads us to believe it actually harms our current operations. We already employ retired nurses in what we call PRN nurse positions. These nurses work, perhaps, one weekend a month or help us with infrequent gaps in nursing coverage. These nurses do not work beyond the \$15,000 annual earnings cap, and neither the hospital nor the employee contributes to KPERS. If this bill passes as written, we will be obliged to start paying the employer and employee contribution for nurses we already employ.

We know this is not the intent of the bill. We understand that KPERS is willing to explore an alternative that allows hospitals to identify positions in which the employee will not earn more than \$15,000 annually and no payment to KPERS will be made. However, the hospitals would also be able to designate a position where the employee is expected to earn more than \$15,000 annually and the hospital would then be responsible for the KPERS contribution from the date of hire. We would support this change. We would prefer to not pay for KPERS for anyone until they reach the \$15,000 cap, but we have been told this isn't possible.

With this change, the hospital will likely not use this tool unless they face severe problems in recruiting nurses. It does represent an option we do not now have.

Since we do not have any experience with this tool, we cannot state how helpful it can be. It has been suggested that we may be able to negotiate a lower salary with a nurse who already will receive retirement pay. If we can pay a nurse less after retirement, then we can make up for the increased contribution to KPERS. Our experience, however, is that when we experience severe problems in recruiting nurses, our negotiation position is weak. Currently, PRN nurses are paid up to \$30.00 an hour.

We recognize HB2517 is an attempt to respond to concerns we have raised and we appreciate the help and support.

Thank you for the opportunity to present. I would be happy to stand for questions.



Mark Desetti, testimony
Select Committee on Pensions
March 19, 2004
House Bill 2517

Mr. Chairman, members of the committee, thank you for the opportunity to appear before you on **House Bill 2517**.

This bill has been considered before and, while we believe the idea of allowing retirees in shortage areas to return to teaching in the school districts from which they retired, we have a few concerns with the bill as written.

Kansas currently allows retirees to teach or serve in an administrative position in a different district. While this is a good deal for those who live in densely populated areas where a district change does not involve a residential change, it burdens those who live in our rural areas where the next district might be many miles away. The current system creates two classes of retirees – those with opportunity and those with limited opportunity.

House Bill 2517 would provide expanded opportunity for retirees within limits. First they would be limited by the designation of their area as a shortage area. There is no such limitation under the current system for those willing to change districts. Secondly, they are limited in their rights. Under **HB 2517** these teachers would be exempted from both the continuing contract law and the due process law. It seems counterintuitive to take teachers in shortage areas and disallow both continuing contract status and due process. In addition, it once again creates a two-tiered teacher system – one tier with rights, another without rights. We believe that the denial of these rights is a mistake and will do more to discourage teachers from taking advantage of this provision than encourage it.

House Bill 2517 is a good idea in a flawed package. We would urge you to reconsider some of the provisions of this bill and make it a good idea for all.

SELECT PENSIONS
Attachment 6
Date 3-19-04

KANSAS
ASSOCIATION



OF
SCHOOL
BOARDS

1420 SW Arrowhead Road • Topeka, Kansas 66604-4024
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Testimony on **KPERS Issues**
before the
House Select Pensions Committee

by

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

March 19, 2004

Mr. Chairman members of the Committee:

Thank you for the opportunity to comment on several issues related to the **Kansas Public Employees Retirement System**. For many years, KASB has had a very simple position on KPERS, as adopted by our Delegate Assembly:

The employers' cost of any retirement program or benefits mandated by the state should be fully and directly funded by the state. KASB opposes making KPERS a non-contributory system.

The KPERS system is operated by the state; its terms and benefits are set by the state, and we believe the employer's cost of KPERS should be funded by the state. Shifting that responsibility to local school districts would create another significant funding obligation on school districts; and would create another cost over which they have little or no control. Because we believed funding was the state's responsibility, KASB has not taken positions on issues of benefits.

Over the past year, however, our membership has become increasingly aware of and concerned about the long-term financial situation facing KPERS. We are concerned for two reasons. First, because we know that the increasing cost of the actuarially appropriate employers contribution for retirees will compete with current salaries, benefits and educational program needs. Second, our concern is that some legislators may take the attitude that "the problem is in the school district employees group; so the school districts should solve the problem."

Therefore, the KASB Delegate Assembly in November 2003, adopted the following additional language regarding KPERS:

SELECT PENSIONS
Attachment 7
Date 3-19-04

KASB believes the Legislature should consider changes in the KPERS system to reduce the need for state general fund support, providing that benefits remain appropriate to attract and retain qualified employees.

We applaud the efforts the Legislature has made so far to address the unfunded liability of the KPERS system, although we remain concerned about the projected increase in the cost of the employers share from less than 5 percent to over 12 percent in 2018. KASB believes the Legislature should consider ways to reduce the rising cost of the system.

HB 2502: KPERS, employer contributions

Based on this position, KASB would support the provisions **HB 2502** that would address the actuarial cost method and unfunded actuarial liability amortizations in the KPERS systems. However, we are very concerned about the provision that would split the school group from the state employees group. We are not sure that step is necessary to address KPERS long-term funding, and we would oppose making it a first step to transferring the responsibility for payment of the school district employers share from the state to school districts.

Teachers working after retirement

HB 2517 would allow teachers in “hard-to-fill” positions to be rehired by the same school district after retirement. During the past several sessions, KASB has not taken a position on this bill for the reasons listed above. However, as we review the bill, it appears that teachers who take advantage of this change would be exempted from the continuing contract law and the Teacher Tenure Act. However, it does not appear that these teachers are removed from the collective bargaining unit. As a result, it is unclear whether boards could negotiate a lower salary with those teachers individually (recognizing that these teachers will be receiving retirement benefits, and the school district will be paying both the employee and employer share). Unless that change is made or clarified, we think very few districts would take advantage of this proposal.

HB 2733 and **HB 2788** appear to be very similar. Both would exempt retired teachers from the \$15,000 cap on annual earning after a one-year separation from their employing school district. It appears that these bills could negatively impact the unfunded actuarial liability of the system. Also, they do not address the issue of whether the rehired teacher is subject to the teacher tenure and continuing contract laws and would remain in the bargaining unit. Unless these issues are clarified, we believe few districts would be willing to reemploy such teachers.

Thank you for your consideration.

HOUSE OF REPRESENTATIVES
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TOPEKA

COMMITTEE ASSIGNMENTS
RANKING DEMOCRAT: EDUCATION
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SELECT COMMITTEE ON REDISTRICTING

WILLIAM J. REARDON
REPRESENTATIVE, THIRTY-SEVENTH DISTRICT

**Testimony before the
Pensions Committee
Regarding
House Bill 2733
on
March 19, 2004**

Mr. Chairman and Members of the Committee.

The intention of HB 22733 is to address the teacher shortage in Kansas. In this school year in Kansas over 300 teaching positions are unfilled. HB 2733 would allow a Kansas retired teacher to return to a classroom in the district from which they retired provided they had been retired and not teaching for a minimum of one year.

Kansas law allows you to continue teaching in your current district after retirement but you are limited to earnings of \$15,000 per year. Teaching after retirement in an adjoining district is permitted without any monetary cap. In the past, fiscal notes on bills similar to HB 2733 discouraged legislators from pursuing this remedy.

HB 2733 includes a key provision to address these costs to the KPERS fund. The requirement that you must be retired from teaching for one year will prevent teachers who have earned 85 points from collecting KPERS while they continue teaching without interruption. While a law without restrictions would help with teacher shortages, admittedly it would be costly to KPERS.

I believe HB 2733 is a reasonable compromise that could benefit many districts in Kansas, but the greatest benefit would accrue to rural districts where retired teachers may live many miles from an adjoining district.

Respectfully submitted,

Wm. J. Reardon
District 37

SELECT PENSIONS
Attachment 8
Date 3-4-04



Mark Desetti, Testimony
Select Committee on Pensions
March 19, 2004
House Bills 2733 and 2788

Mr. Chairman, members of the committee, thank you for the opportunity to appear before you on **House Bills 2733 and 2788**.

Kansas currently allows retirees to teach or serve in an administrative position in a different school district. While this is a good deal for those who live in densely populated areas where a district change does not involve a residential change, it burdens those who live in our rural areas where the next district might be many miles away. The current system creates two classes of retirees – those with opportunity and those with limited opportunity.

These bills would eliminate this two class system and allow the same opportunity for all retired teachers although **HB 2733** would require that the teacher spend at least 12 months in full retirement before returning to work.

We support the idea of eliminating the difference between teachers returning to work in their own district and those returning to a different district. We are sensitive however to the potential impact on the KPERS system. The fiscal note on **HB 2788** is especially troubling. At the very time we are using pension obligation bonds to begin addressing the unfunded actuarial liability, adding \$232 million additional dollars to that liability is obviously not a good idea. While the fiscal note on **HB 2733** is significantly less, the impact is still considerable.

Before this committee takes any action on these bills we would urge you to make a very deliberate examination of the fiscal impact on KPERS. It is imperative that we do our utmost to make sure that the retirement system is there for those who follow the potential beneficiaries of **HB 2788 or HB 2733**.

SELECT PENSIONS
Attachment 9
Date 3-4-04



KANSAS

WILLIAM R. SECK, SUPERINTENDENT

KANSAS HIGHWAY PATROL

KATHLEEN SEBELIUS, GOVERNOR

**Testimony on HB 2913
to
House Select Committee on Pensions**

**Presented by
Major Courtney Dean
Kansas Highway Patrol**

March 19, 2004

Good afternoon, Mr. Chairman and members of the committee. My name is Major Courtney Dean, and I appear before you on behalf of Colonel William Seck and the Kansas Highway Patrol to comment on HB 2913.

This bill would bring "members of the capitol area security patrol" into the Kansas Police and Firemen's Retirement System, or KP&F. The capitol area security patrol is also known as the Capitol Police and is a branch of the Kansas Highway Patrol.

While the Patrol largely supports this bill, we recommend two amendments.* First, we recommend specifying that only *certified law enforcement officers* in the Capitol Police be eligible for the retirement system. That would include Capitol Police officers, sergeants, and lieutenants. As HB 2913 is currently written, KP&F membership could potentially be extended to the Capitol Police's non-certified guards and even the clerical staff. Second, we respectfully suggest offering KP&F membership to certified law enforcement officers in the Motor Carrier Inspection branch of the Patrol, i.e. Motor Carrier Inspector IIIs and sergeants.

Within the Patrol, different groups of certified law enforcement officers perform different duties for the public's safety. Two of these groups, certified officers in the Capitol Police and Motor Carrier Inspection, are not currently covered under the retirement system specifically designed for Kansas' law enforcement officers and firefighters, KP&F. This enhanced retirement system offers additional benefits to its retirees because their jobs are considered high stress, physically demanding, and potentially dangerous, carrying the risk of serious injury and death.

Capitol Police officers, sergeants, and lieutenants have full police powers throughout Shawnee County, and they are responsible for providing police services, enforcing statutes, and making arrests as necessary. They patrol state facilities and respond to calls for assistance that require police

* These amendments would make HB 2913 more closely resemble HB 2124, which was referred to this committee in March 2003.

priority. They also provide a wide range of police services that include, but are not limited to, responding to terrorist threats, enforcing protection from abuse orders, making DUI arrests, conducting armed money escorts and traffic patrols, and conducting complex criminal investigations.

They are assisted by Capitol Police guards, Patrol employees who are not certified law enforcement officers. These individuals perform basic security functions that, while very important to the operation of the Capitol Police, do not involve the risks and responsibilities that Capitol Police officers' duties do. Because of this distinction, the Patrol recommends amending HB 2913 to only extend membership in KP&F to the *certified law enforcement officers* in the Capitol Police.

Our second recommended amendment is to extend KP&F membership to Motor Carrier Inspector IIIs and sergeants. These certified law enforcement officers also have full police powers and jurisdiction throughout Kansas. These officers are responsible for patrolling our state's highways, responding to emergencies, and enforcing motor carrier safety regulations. While their primary focus is on motor carrier safety and weight enforcement, they regularly assist other state and local law enforcement officers, arrest intoxicated drivers, and make felony arrests, including seizing shipments of illegal drugs. Law enforcement agencies across the nation have found drug traffickers using commercial vehicles, and since September 11, 2001, concerns about commercial vehicles carrying hazardous materials have become more distinct.

Motor Carrier Inspector IIIs and sergeants are assisted by Motor Carrier Inspector I and IIs, who have limited law enforcement powers and work at fixed inspection stations across the state. These inspectors do not carry firearms and are not state-certified law enforcement officers. Motor Carrier Inspector IIIs and sergeants do carry firearms and are state-certified.

In closing, the Kansas Highway Patrol supports HB 2913. It would extend KP&F membership to a portion of the Patrol's certified law enforcement officers who are not currently participating in KP&F, a retirement system that was originally designed for individuals performing the very work they do. It is the Patrol's position that Capitol Police officers, sergeants, and lieutenants are entitled to all the benefits that come from serving the citizens of Kansas as law enforcement officers. In addition, the Patrol also firmly believes that certified officers within Motor Carrier Inspection are equally entitled to such benefits as well.

The Kansas Highway Patrol appreciates the opportunity to address you today, and I will be happy to stand for any questions you might have.

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Testimony on House Bill No. 2913
By Committee on Appropriations

Select Committee on Pensions:

Chairperson- John Edmonds
Ray Cox
Sharon Schwartz

Vice-Chairperson-Bill McCreary
Melvin J. Neufeld
Clark Shultz

Stephen L. Crumpler
Kansas Highway Patrol / Capitol Police
Police Officer

Dear Chairperson and committee members,

My name is Stephen Crumpler and I have been employed with the Capitol Area Security Patrol also known as the Capitol Police for 20yrs. I have seen many changes in my job over that time. The responsibilities are increasing every day with the threat of terrorism and the rise in crime. With these increased responsibility we are seeking higher qualified employees to work in our agency. Employees of this caliber are not easy to find and retain. Retirement is one of the biggest concerns in the law enforcement field. The Kansas police and fire retirement system was developed for the extra responsibilities associated with such a career. We are always improving the quality of police protection throughout our state. These improvements should also include retirement to retain quality employees within the Capitol Police. Homeland Security has given money to our state for possibly such improvements. I would hope that the State of Kansas feels that the money is well spent improving it's already qualified Police agency.

House Bill 2913 was written to address the concerns that Capitol Police and others have had in the past. I have been told numerous times that everyone believes we should be allowed to join the Kansas police and fire retirement system. Concerns expressed in the other bills were that other agencies may not be eligible. This bill removes those concerns and address the Capitol Police alone. The police officers within the Capitol Police are fully sworn law enforcement officers. They have full police powers within Shawnee County. We meet all the requirements necessary to join the Kansas police and fire retirement system. To not allow us this opportunity to join is the same as saying that we are not law enforcement officers. The standard has been set please allow us to meet that standard. My hope is that you consider giving this bill favorable consideration and attention.

SELECT PENSIONS
Attachment 11
Date 3-19-04



KAPE
FPE / AFT / AFL-CIO

The Kansas Association of Public Employees

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Kenneth McKenzie, KDOT
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Scott Stone, Association Attorney
Lisa Worley, Director of Public Relations
Bill Gonzalez, Service/Grievance Rep.
Dawn Fiedler, KAPE Account Specialist
Monica Shane, AFT Account Specialist
Cindy Lovell, Data Control

Working Together,
We Make A Difference!

Testimony on HB 2913 Before the House Select Pensions Committee March 19, 2004

Presented by Andy Sanchez, Executive Director
Kansas Association of Public Employees

Thank you Mr. Chairman and members of the committee. I am thankful for the opportunity to appear before this committee today and express our support for HB 2913. For some time now KAPE has been interested in seeking inclusion for all statewide law enforcement certified personnel into the KP&F system. Currently, only three state employee groups are eligible for KP&F and that is the Highway Patrol Troopers, KBI Agents, and the Campus Police at the state universities.

Of the groups in which we have sought inclusion into KP&F, one group left out known as the Capitol Area Security Patrol is particularly puzzling. It is puzzling for several reasons but here are just a few: First, because they are required to complete the same in-state academy training that the 3 groups mentioned above must complete. Second, they have arresting powers that expand well beyond the Capitol Complex. In fact SB 389 is a bill that grants statewide authority and has passed the Senate. Third, we depend on a professional who can respond to emergencies, often of a dangerous nature.

Because of 9-11, we have entered an era of "heightened awareness" that may never end. We are asking more out of security and we should expect to pay more. This bill offers no more in wages, but it does offer a commitment. Our commitment will insure a stable workforce with less turnover. While we may not like to think about it, this group plays an integral part of homeland security. HB 2913 simply brings Kansas more inline with the national agenda and makes public safety a top priority. I ask this committee for your favorable support.

Thank you.

SELECT PENSIONS
Attachment 12
Date 3-19-04

Kansas Public Employees Retirement System

Legislative Data Sheet

2004 House Bill 2500

Sponsored by Joint Committee on Pensions, Investments and Benefits

Effects of Bill

Under current law, KPERS' alternative investments are limited to 5 percent of the total portfolio. HB 2500 would remove this 5 percent limitation and replace it with an annual limitation of 1 percent of total market value in **new** alternative investments. Alternative investments are investments that are not publicly traded on an exchange. Because they are typically less liquid and potentially more risky than more traditional investments, there have historically been limits on the percentage of the portfolio that may be invested in this asset class. The current restriction hinders the effective management of the portfolio. As market values move, KPERS has been forced out of the alternative investment market for extended periods of time. This inability to invest across varying market and business cycles reduces the diversification of the portfolio and limits the Retirement System's ability to manage a consistent exposure.

The proposed restriction would continue to limit alternative investments to a small percentage of the total portfolio but would allow for greater flexibility in the timing of those investments, thus potentially improving the investment outcome. If HB 2500 is enacted, KPERS would continue to follow a prudent diversification strategy, following a strategic asset allocation policy designed to maximize returns while mitigating risk. The current asset allocation policy targets 5 percent of the portfolio for alternative investments. The System also would continue to use detailed processes and controls that incorporate statutory requirements to assure that any strategic allocation to alternative investments receives the same level of risk/reward scrutiny as the balance of the portfolio.

Fiscal Impact

Over time, the passage of HB 2500 bill is expected to have a positive net fiscal impact to the extent that it provides the opportunity for additional investment income. The amount and timing of that impact will depend on long-term market conditions. The bill could be implemented within currently approved staffing and operating expenditure levels.

SELECT PENSIONS

Attachment 13

Date 3-19-04

Date: January 26, 2004

Source: Mary Beth Green, Planning and Research Officer



Kansas Public Employees Retirement System

Legislative Data Sheet

2004 House Bill 2501

Sponsored by Joint Committee on Pensions, Investments and Benefits

Effects of Bill

HB 2501 would allow the Retirement System, rather than the System's Board of Trustees, to receive the final due diligence findings on each real estate investment before making the investment. Under current law, the Board of Trustees must receive and consider the due diligence findings on each potential investment before investing in any property. The real estate market's ever-increasing efficiency and liquidity places the System's current process at a distinct disadvantage. Due to intense competition among institutional investors for quality real estate investments, the closing process (negotiation and agreement to terms) typically moves very quickly. By allowing the Board to provide approval contingent upon the System receiving the final due diligence package, the closing process will be expedited and the System's ability to effectively compete as an efficient buyer will be improved.

As part of KPERS' real estate acquisition procedures, the Board has adopted extensive written policies that specify detailed information regarding the types, amounts, locations and required returns for real estate investments. In addition, the System receives an independent expert's opinion on each property before investment. If HB 2501 is enacted, the Board will continue to effect all other statutory requirements but the Retirement System staff, rather than each Board member, will be required to physically receive the final due diligence package from the manager prior to closing.

Fiscal Impact

Over time, the passage of HB 2501 is expected to have a positive net fiscal impact to the extent that it provides the opportunity for additional investment income. The amount and timing of that impact will depend on long-term market conditions. HB 2501 could be implemented within currently approved staffing and operating expenditure levels.

SELECT PENSIONS
Attachment 14
Date 3-19-04

Kansas Public Employees Retirement System

Legislative Data Sheet

Updated 3-18-2004

2004 House Bill 2502

Sponsored by Joint Committee on Pensions, Investments and Benefits

Effects of Bill

HB 2502 would (a) allow the KPERS Board of Trustees to establish the actuarial cost method and unfunded actuarial liability amortization method and period for all three retirement systems administered by KPERS; (b) increase the KPERS local group employer contribution rate caps to the same levels as the State/School group rate caps; and (c) split the KPERS State/School group for actuarial calculations and determination of employer contribution rates.

(a) KPERS Board of Trustees Authority for Actuarial Methods

HB 2502 would allow the KPERS Board of Trustees to adopt changes in the System's actuarial methods for the Kansas Public Employees Retirement System, the Kansas Police and Firemen's Retirement System, and the Retirement System for Judges. As we recommended to the Joint Committee on Pensions, Investments and Benefits during the 2003 interim, if HB 2502 is enacted it would be the Board's intention to change to the entry age normal (EAN) actuarial cost method for all three systems and to potentially reamortize the UAL for the School group at some optimal point in the future pending actual conditions at that time.

Actuarial cost method changes. In recent years, both the Retirement System's consulting actuary (Milliman USA) and an actuary retained by the Legislature (William M. Mercer) have recommended changes in the System's actuarial cost methods. Milliman has strongly recommended adoption of the entry age normal actuarial cost method, and Mercer recommended adoption of a single actuarial cost method for all three systems. The EAN method is a cost allocation method used by about 74 percent of state retirement systems. It assumes annual costs are equal to level premiums, expressed as a percent of payroll, needed from the member's entry age until retirement to fund the ultimate retirement benefit. This results in level contributions over time, as a percent of pay.

Because the EAN method shifts costs from normal cost rates payable in the future to the actuarial liability (cost from the past), in the short-term it will increase UAL amounts and employer UAL contribution rates. However, the normal cost rate will decline and the overall employer contribution rates will remain essentially the same as those produced using the current actuarial valuation method (credit method).

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Date 3-19-04

Changing to the EAN method will not materially impact the long-term funding issue. The change will provide more stability because contribution rates are not dependent on attained age of our membership and will provide more flexibility in plan design in future years.

Actuarial method and period changes. At this time, the Retirement System’s unfunded actuarial liability (UAL) is amortized over a 40-year period from June 30, 1993. Given the magnitude of the funding shortfall and the benefits of potential reamortization, if HB 2502 is enacted, the KPERS Board of Trustees would consider reamortizing the School group’s UAL at some future date, pending actual conditions at that time. The optimal reamortization date and impact will vary depending on decisions made regarding other funding components such as future employer contributions and pension obligation bond alternatives.

Reamortizing the UAL will not reduce the ultimate costs but will extend the time period and level out the required payments to make them affordable. As with any alternative that defers payments to later years, total costs will be higher with reamortization. The provision should have no fiscal impact for fiscal years 2005 through 2008 because it appears the optimal date for reamortizing the School group’s UAL will occur near fiscal year 2015.

(b) Local Employer Rate Cap Increases

HB 2502 would increase the KPERS local group employer contribution rate caps to the same levels established for the State/School group by the 2003 Legislature. The local group employer rate caps would increase from the current level of 0.15 percent annually to 0.4 percent for calendar year 2006, 0.5 percent for calendar year 2007, and 0.6 percent for calendar year 2008 and subsequent years.

Under HB 2502, receipts into the KPERS Fund are expected to increase by the amounts shown in the following table, with corresponding increases in expenditures for local governmental employers.

Projected Impact of Local Employer Rate Cap Increases^(a)			
	Pre-HB 2502 Contributions	Post HB 2502 Contributions	Increase
Calendar Year 2005	\$43.05 million	\$43.05 million	—
Calendar Year 2006	\$46.88 million	\$50.17 million	\$3.29 million
Calendar Year 2007	\$50.95 million	\$59.19 million	\$8.24 million
Calendar Year 2008	\$55.25 million	\$70.27 million	\$15.03 million

(a) Projections based on results of 12-31-2002 actuarial valuation, investment returns of 20 percent for calendar year 2003 and a flat 8 percent for calendar year 2004 and beyond, the Entry Age Normal actuarial cost method and a five-year asset smoothing method. Projections do not include changes in the amortization method or period or issuance of pension obligation bonds.

Without employer contribution increases, the local group's statutory and actuarial rates are not projected to converge, and the group's funded ratio will decline significantly. With the HB 2502 increases shown above, the local rates are projected to reach equilibrium at approximately 8.72 percent in 2015, and the group's long-term financial health is maintained.

(c) Splitting the KPERS State/School Group

HB 2502 would split the KPERS State/School group into two separate groups—the State group and the School group—for actuarial calculations and determination of employer contribution rates. The impacts of this change are summarized in the following table.

	State/School Combined	HB 2502 Proposed Split	
		State Group	School Group
FY 2005 Employer Contributions	\$172.06 million	\$42.55 million	\$129.51 million
FY 2006 Employer Contributions	\$200.2 million	\$47.42 million	\$152.60 million
FY 2007 Employer Contributions	\$228.36 million	\$53.43 million	\$174.95 million
Total Employer Contributions & Debt Service to 2034	\$19.8 billion	\$2.9 billion	\$17.7 billion
Equilibrium Rate	12.30%	6.84%	15.96%
Equilibrium Date	FY 2018	FY 2009	FY 2024
2033 Actuarial Employer Rate	11.11%	5.96%	14.95%
2033 Funded Ratio	98%	99%	97%
2033 UAL	\$368.31 million	\$23.3 million	\$482.6 million
Maximum Actuarial Employer Rate	12.58% in 2021	7.69% in 2005	16.18% in 2027
Minimum Funded Ratio	65% in 2008	83% in 2005-2010	60% in 2010-2018

(a) Projections based on results of 12-31-2002 actuarial valuation, investment returns of 20 percent for calendar year 2003 and a flat 8 percent for calendar year 2004 and beyond, the Entry Age Normal actuarial cost method and a five-year asset smoothing method. Projections do not include changes in the amortization method or period. Includes issuance of \$500 million of pension obligation bonds, with \$440.2 million proceeds to KPERS. For the split State and School Groups, POB proceeds were allocated based on the 12-31-2002 UAL with \$20.8 million allocated to State Group and \$419.4 million allocated to School Group.

HB 2502 would split the KPERS State/School group for actuarial calculations and determination of employer contribution rates only. The State of Kansas would continue to be responsible for making employer contributions for the School Group.

Fiscal Impact

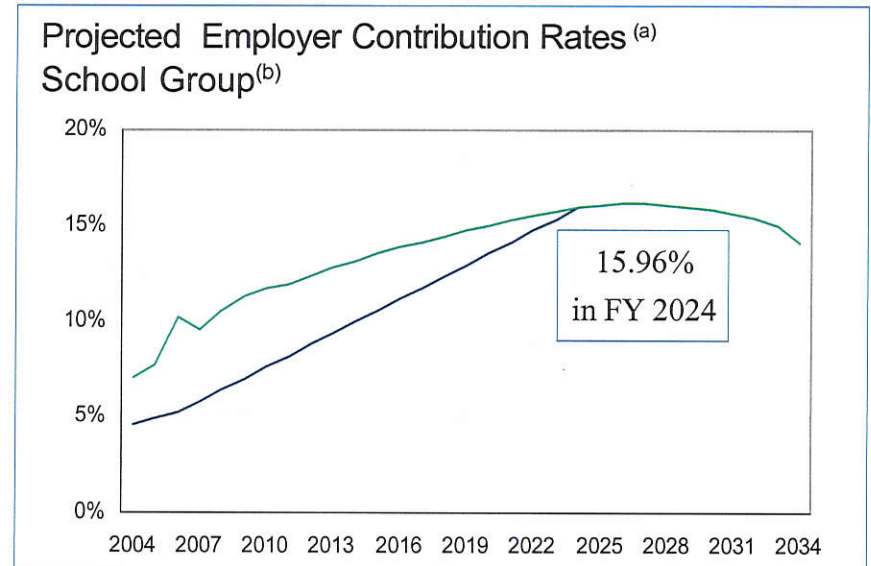
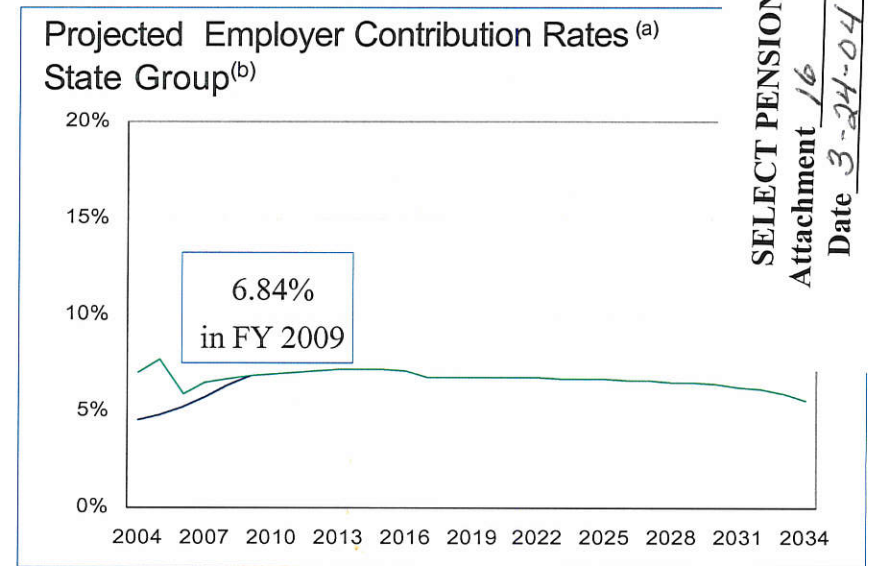
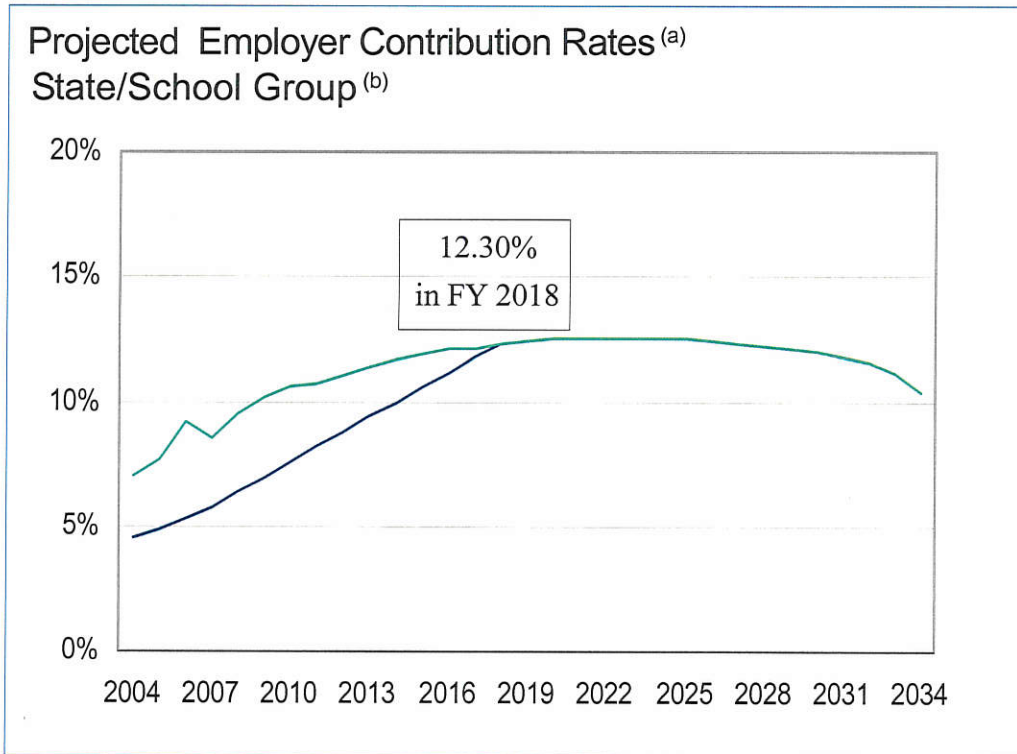
Allowing the KPERS Board of Trustees to establish the actuarial cost method and unfunded actuarial liability amortization method and period for the retirement systems administered by KPERS and splitting the State/School group for actuarial calculations and determination of employer contribution rates should have no material budgetary or fiscal impact on KPERS for fiscal years 2005 through 2008. Increasing the local employer contribution rate caps would increase receipts into the KPERS Fund by the amounts shown in the table at the bottom of page 2. The HB 2502 provisions could be implemented within KPERS currently approved staffing and operating expenditure levels.

State/School Group Funding Projections

HB 2502 splits the KPERS State/School Group for actuarial purposes and calculation of employer contribution rates.

State/School Group Equilibrium = 12.30% in FY 2018

- State Group Equilibrium = 6.84% in FY 2009
- School Group Equilibrium = 15.96% in FY 2024



SELECT PENSIONS
 Attachment 16
 Date 3-24-04

(a) Funding projections are long-term and volatile. Actual results may vary.

(b) Projected actuarial rates based on results of 12-31-2002 valuation, investment returns of 20% for calendar year 2003, investment returns of a flat 8% for calendar year 2004 and beyond, the Entry Age Normal actuarial cost method, five-year asset smoothing and POB proceeds of \$440.2 million.

16-2

State/School Group Combined Funding Projections (Detail)

State/School Group Combined Estimate of Additional Contributions, Rates, Funded Ratios, and UAL (millions)

Fiscal Year	Total KPERS Contributions	Debt Service Payments	Total State Payments	Statutory Contribution Rate	Actuarial Contribution Rate	Funded Ratio	UAL
2004	\$ 155.97	\$ -	\$ 155.97	4.58%	7.05%	76%	\$ 2,243.21
2005	\$ 172.06	\$ -	\$ 172.06	4.87%	7.69%	73%	\$ 2,776.25
2006	\$ 190.02	\$ 10.00	\$ 200.02	5.27%	9.15%	69%	\$ 3,360.81
2007	\$ 213.36	\$ 15.00	\$ 228.36	5.77%	8.54%	66%	\$ 3,812.66
2008	\$ 241.41	\$ 26.08	\$ 267.49	6.37%	9.49%	65%	\$ 4,078.63
2009	\$ 271.74	\$ 36.15	\$ 307.89	6.97%	10.21%	66%	\$ 4,143.38
2010	\$ 303.47	\$ 36.15	\$ 339.61	7.57%	10.64%	66%	\$ 4,333.55
2011	\$ 336.73	\$ 36.14	\$ 372.87	8.17%	10.75%	66%	\$ 4,509.53
2012	\$ 371.69	\$ 36.14	\$ 407.83	8.77%	11.08%	66%	\$ 4,667.34
2013	\$ 408.49	\$ 36.14	\$ 444.63	9.37%	11.39%	66%	\$ 4,806.46
2014	\$ 448.10	\$ 36.14	\$ 484.24	9.97%	11.68%	66%	\$ 4,923.57
2015	\$ 490.74	\$ 36.14	\$ 526.88	10.57%	11.92%	67%	\$ 5,014.72
2016	\$ 535.21	\$ 36.13	\$ 571.34	11.17%	12.14%	67%	\$ 5,075.43
2017	\$ 576.06	\$ 36.13	\$ 612.20	11.77%	12.13%	68%	\$ 5,100.14
2018	\$ 626.49	\$ 36.13	\$ 662.62	12.30%	12.30%	69%	\$ 5,086.04
2019	\$ 654.96	\$ 36.13	\$ 691.09	12.44%	12.44%	70%	\$ 5,028.75
2020	\$ 682.66	\$ 36.13	\$ 718.79	12.53%	12.53%	71%	\$ 4,935.22
2021	\$ 709.51	\$ 36.12	\$ 745.63	12.58%	12.58%	73%	\$ 4,811.82
2022	\$ 734.66	\$ 36.11	\$ 770.77	12.58%	12.58%	74%	\$ 4,658.49
2023	\$ 760.70	\$ 36.11	\$ 796.81	12.57%	12.57%	76%	\$ 4,474.25
2024	\$ 787.81	\$ 36.11	\$ 823.92	12.55%	12.55%	78%	\$ 4,256.94
2025	\$ 814.43	\$ 36.10	\$ 850.54	12.51%	12.51%	79%	\$ 4,004.47
2026	\$ 840.37	\$ 36.09	\$ 876.47	12.44%	12.44%	81%	\$ 3,713.13
2027	\$ 867.58	\$ 36.09	\$ 903.67	12.37%	12.37%	84%	\$ 3,380.09
2028	\$ 893.11	\$ 36.08	\$ 929.19	12.27%	12.27%	86%	\$ 3,003.58
2029	\$ 917.82	\$ 36.07	\$ 953.88	12.14%	12.14%	88%	\$ 2,579.37
2030	\$ 942.48	\$ 36.05	\$ 978.53	12.00%	12.00%	91%	\$ 2,104.95
2031	\$ 961.69	\$ 36.03	\$ 997.73	11.79%	11.79%	93%	\$ 1,578.97
2032	\$ 976.45	\$ 36.02	\$ 1,012.46	11.52%	11.52%	96%	\$ 999.28
2033	\$ 978.08	\$ 36.00	\$ 1,014.09	11.11%	11.11%	98%	\$ 368.31
2034	\$ 950.18	\$ 35.98	\$ 986.16	10.38%	10.38%	101%	\$ (310.80)
Totals	\$ 18,814.04	\$ 989.69	\$ 19,803.74				

Funding Method: Entry Age Normal.

Amortization: No change was made to the amortization method. Fixed with 30 years remaining.

Pension Obligation Bonds: \$500 million sold March 2004 with net proceeds to KPERS of \$440.2 million.

Investment Returns: Assume 20% in 2003 and 8% in future years.

Contribution Cap Increases: 0.4% in FY2006; 0.5% in FY 2007; 0.6% in FY 2008.

State Group Funding Projections (Detail)

State Group Estimate of Additional Contributions, Rates, Funded Ratios, and UAL (millions)

Fiscal Year	Total KPERs Contributions	Debt Service Payments	Total State Payments	Statutory Contribution Rate	Actuarial Contribution Rate	Funded Ratio	UAL
2004	\$ 38.68		\$ 38.68	4.58%	7.05%	96%	\$ 109.92
2005	\$ 42.55		\$ 42.55	4.87%	7.69%	83%	\$ 460.95
2006	\$ 46.95	\$ 0.47	\$ 47.42	5.27%	5.90%	83%	\$ 483.46
2007	\$ 52.71	\$ 0.71	\$ 53.42	5.77%	6.53%	83%	\$ 504.03
2008	\$ 59.69	\$ 1.23	\$ 60.92	6.37%	6.69%	83%	\$ 521.05
2009	\$ 66.03	\$ 1.70	\$ 67.74	6.84%	6.84%	83%	\$ 533.16
2010	\$ 69.11	\$ 1.70	\$ 70.81	6.95%	6.95%	83%	\$ 539.85
2011	\$ 72.31	\$ 1.70	\$ 74.01	7.06%	7.06%	83%	\$ 542.83
2012	\$ 75.24	\$ 1.70	\$ 76.95	7.13%	7.13%	84%	\$ 543.19
2013	\$ 77.98	\$ 1.70	\$ 79.69	7.17%	7.17%	84%	\$ 541.13
2014	\$ 81.10	\$ 1.70	\$ 82.81	7.22%	7.22%	85%	\$ 537.35
2015	\$ 83.56	\$ 1.70	\$ 85.27	7.19%	7.19%	85%	\$ 531.12
2016	\$ 86.00	\$ 1.70	\$ 87.70	7.16%	7.16%	86%	\$ 522.33
2017	\$ 83.41	\$ 1.70	\$ 85.11	6.79%	6.79%	87%	\$ 511.36
2018	\$ 86.89	\$ 1.70	\$ 88.59	6.79%	6.79%	87%	\$ 500.69
2019	\$ 89.51	\$ 1.70	\$ 91.22	6.76%	6.76%	88%	\$ 490.38
2020	\$ 92.45	\$ 1.70	\$ 94.15	6.74%	6.74%	88%	\$ 477.97
2021	\$ 95.79	\$ 1.70	\$ 97.49	6.74%	6.74%	89%	\$ 463.50
2022	\$ 99.26	\$ 1.70	\$ 100.96	6.74%	6.74%	89%	\$ 446.93
2023	\$ 102.78	\$ 1.70	\$ 104.48	6.73%	6.73%	90%	\$ 427.37
2024	\$ 106.36	\$ 1.70	\$ 108.06	6.71%	6.71%	91%	\$ 404.65
2025	\$ 109.87	\$ 1.70	\$ 111.57	6.68%	6.68%	92%	\$ 378.75
2026	\$ 113.57	\$ 1.70	\$ 115.27	6.65%	6.65%	92%	\$ 349.17
2027	\$ 117.27	\$ 1.70	\$ 118.97	6.61%	6.61%	93%	\$ 315.99
2028	\$ 120.67	\$ 1.70	\$ 122.37	6.55%	6.55%	94%	\$ 278.55
2029	\$ 124.46	\$ 1.70	\$ 126.16	6.50%	6.50%	95%	\$ 236.89
2030	\$ 127.59	\$ 1.70	\$ 129.29	6.41%	6.41%	96%	\$ 190.51
2031	\$ 130.53	\$ 1.70	\$ 132.22	6.31%	6.31%	97%	\$ 139.48
2032	\$ 132.70	\$ 1.70	\$ 134.40	6.17%	6.17%	98%	\$ 83.77
2033	\$ 133.21	\$ 1.70	\$ 134.90	5.96%	5.96%	100%	\$ 23.30
2034	\$ 129.73	\$ 1.70	\$ 131.43	5.58%	5.58%	101%	\$ (40.50)
Totals	\$ 2,847.97	\$ 46.64	\$ 2,894.61				

Funding Method: Entry Age Normal.
 Amortization: No change was made to the amortization method. Fixed with 30 years remaining.
 Pension Obligation Bonds: Sold March 2004 with \$20.8 million net proceeds to KPERs.
 Investment Returns: Assume 20% in 2003 and 8% in future years.
 Contribution Cap Increases: 0.4% in FY2006; 0.5% in FY 2007; 0.6% in FY 2008.

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School Group Funding Projections (Detail)

School Group Estimate of Additional Contributions, Rates, Funded Ratios, and UAL (millions)

Fiscal Year	Total KPERs Contributions	Debt Service Payments	Total State Payments	Statutory Contribution Rate	Actuarial Contribution Rate	Funded Ratio	UAL
2004	\$ 117.29	\$ -	\$ 117.29	4.58%	7.05%	68%	\$ 2,133.28
2005	\$ 129.51	\$ -	\$ 129.51	4.87%	7.69%	68%	\$ 2,491.57
2006	\$ 143.08	\$ 9.53	\$ 152.60	5.27%	10.23%	64%	\$ 2,929.50
2007	\$ 160.65	\$ 14.29	\$ 174.95	5.77%	9.59%	61%	\$ 3,281.56
2008	\$ 181.72	\$ 24.85	\$ 206.57	6.37%	10.52%	60%	\$ 3,511.67
2009	\$ 204.45	\$ 34.44	\$ 238.89	6.97%	11.27%	61%	\$ 3,610.22
2010	\$ 228.20	\$ 34.44	\$ 262.64	7.57%	11.75%	60%	\$ 3,794.35
2011	\$ 253.05	\$ 34.44	\$ 287.49	8.17%	11.97%	60%	\$ 3,971.26
2012	\$ 279.14	\$ 34.44	\$ 313.57	8.77%	12.38%	60%	\$ 4,138.23
2013	\$ 306.58	\$ 34.44	\$ 341.02	9.37%	12.78%	60%	\$ 4,295.52
2014	\$ 336.10	\$ 34.44	\$ 370.54	9.97%	13.19%	60%	\$ 4,440.37
2015	\$ 367.90	\$ 34.43	\$ 402.33	10.57%	13.56%	60%	\$ 4,570.70
2016	\$ 401.04	\$ 34.43	\$ 435.47	11.17%	13.91%	60%	\$ 4,683.68
2017	\$ 431.48	\$ 34.43	\$ 465.91	11.77%	14.09%	60%	\$ 4,775.22
2018	\$ 471.75	\$ 34.43	\$ 506.18	12.37%	14.43%	61%	\$ 4,843.74
2019	\$ 511.12	\$ 34.43	\$ 545.55	12.97%	14.76%	62%	\$ 4,884.79
2020	\$ 553.20	\$ 34.42	\$ 587.62	13.57%	15.05%	63%	\$ 4,895.05
2021	\$ 597.80	\$ 34.42	\$ 632.22	14.17%	15.33%	64%	\$ 4,868.79
2022	\$ 645.03	\$ 34.41	\$ 679.44	14.77%	15.57%	65%	\$ 4,801.35
2023	\$ 695.43	\$ 34.41	\$ 729.84	15.37%	15.79%	67%	\$ 4,687.35
2024	\$ 748.90	\$ 34.41	\$ 783.31	15.96%	15.96%	69%	\$ 4,519.79
2025	\$ 783.34	\$ 34.40	\$ 817.74	16.10%	16.10%	71%	\$ 4,292.46
2026	\$ 816.20	\$ 34.39	\$ 850.59	16.17%	16.17%	74%	\$ 4,008.31
2027	\$ 847.74	\$ 34.39	\$ 882.13	16.18%	16.18%	77%	\$ 3,672.91
2028	\$ 876.37	\$ 34.38	\$ 910.75	16.12%	16.12%	80%	\$ 3,285.78
2029	\$ 904.98	\$ 34.37	\$ 939.34	16.03%	16.03%	83%	\$ 2,843.81
2030	\$ 931.72	\$ 34.35	\$ 966.07	15.89%	15.89%	86%	\$ 2,344.24
2031	\$ 954.64	\$ 34.33	\$ 988.98	15.68%	15.68%	90%	\$ 1,785.38
2032	\$ 974.11	\$ 34.32	\$ 1,008.43	15.40%	15.40%	94%	\$ 1,164.65
2033	\$ 982.01	\$ 34.30	\$ 1,016.32	14.95%	14.95%	97%	\$ 482.65
2034	\$ 965.63	\$ 34.29	\$ 999.91	14.14%	14.14%	101%	\$ (260.17)
Totals	\$ 16,800.14	\$ 943.05	\$ 17,743.18				

Funding Method: Entry Age Normal.
 Amortization: No change was made to the amortization method. Fixed with 30 years remaining.
 Pension Obligation Bonds: Sold March 2004 with \$419.4 million net proceeds to KPERs.
 Investment Returns: Assume 20% in 2003 and 8% in future years.
 Contribution Cap Increases: 0.4% in FY2006; 0.5% in FY 2007; 0.6% in FY 2008.

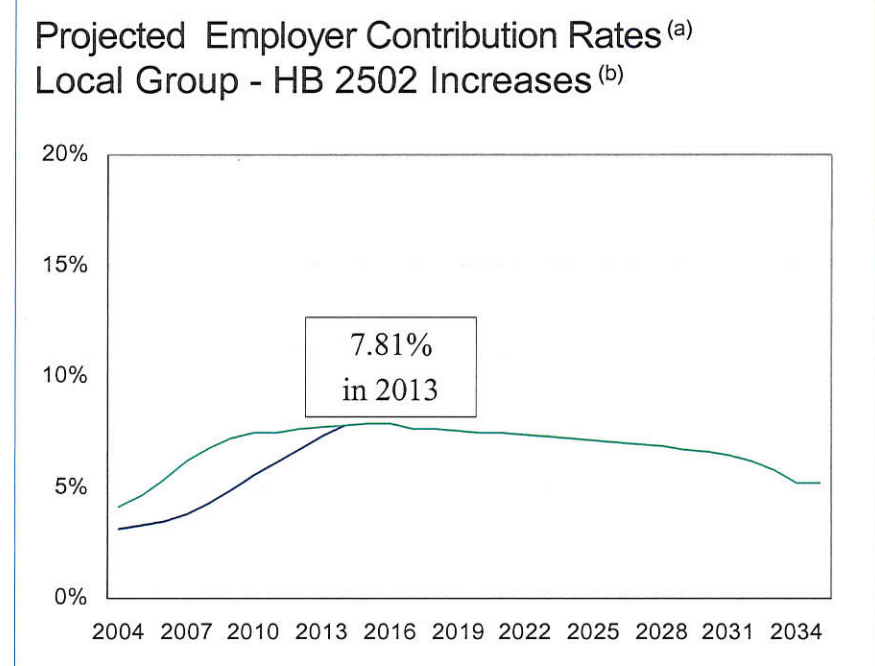
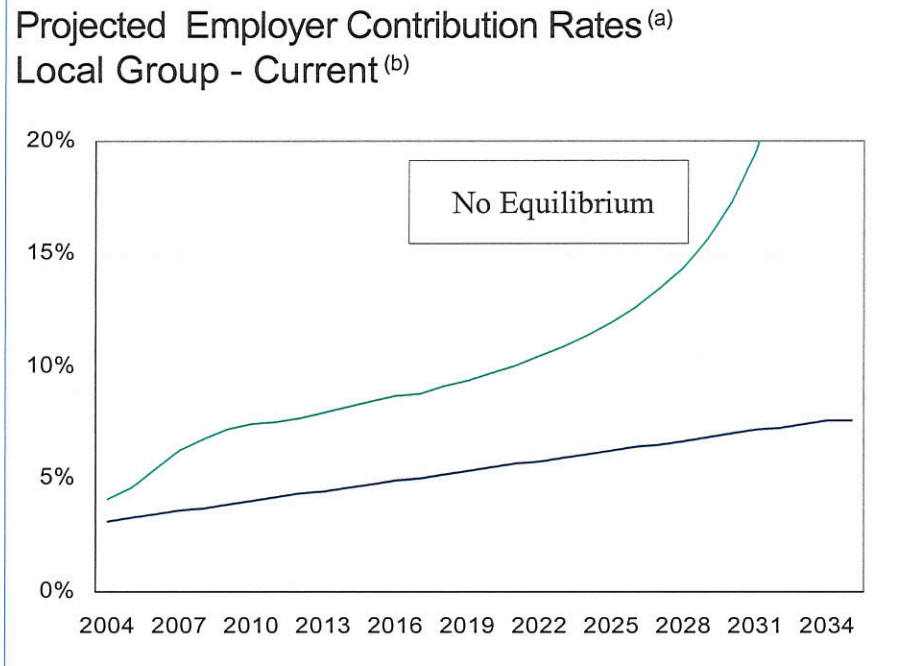
Local Group Funding Projections

HB 2502 would increase the KPERS Local Group employer contribution rate caps to the same levels established for the State/School Group.

Local employer rates would increase from the current level of 0.15% annually to 0.4% for calendar year 2006, 0.5% for calendar year 2007 and 0.6% for calendar year 2008 and subsequent years.

Estimated Local Employer Contribution Increases

- Calendar Year 2006: \$3.3 million
- Calendar Year 2007: \$8.2 million
- Calendar Year 2008: \$15.0 million



(a) Funding projections are long-term and volatile. Actual results may vary.

(b) Projected actuarial rates based on results of 12-31-2002 valuation, investment returns of 20% for calendar year 2003, investment returns of a flat 8% for calendar year 2004 and beyond, the Entry Age Normal actuarial cost method, five-year asset smoothing and POB proceeds of \$440.2 million.

Kansas Public Employees Retirement System

Legislative Data Sheet

2004 HB 2917

Sponsored by Committee on Appropriations

Effects of Bill

House Bill 2917 provides that the statutory employer contribution rate for death and disability benefits will increase to 1.0 percent of compensation beginning in fiscal year 2006. Under current state law, the rate is equal to 0.6 percent of compensation. Employer contributions to the death and disability fund have been suspended for a total of 14 quarters during the last four fiscal years but are scheduled to return to 0.6 percent for fiscal year 2005.

Fiscal Impact

The estimated fiscal impact of resuming 0.6 percent contributions in fiscal year 2005 and increasing to 1.0 percent in fiscal year 2006 are summarized in the following table.

Projected Employer Contributions to Death and Disability Fund

	<u>FY 2005 Contributions (0.6% Rate)</u>	<u>FY 2006 Contributions (1.0% Rate)</u>	<u>Increase</u>
State of Kansas	\$ 24.8 million	\$ 42.5 million	\$ 17.7 million
Local Employers	<u>7.2 million</u>	<u>12.3 million</u>	<u>5.1 million</u>
Total Employer Contributions	<u><u>\$ 32.0 million</u></u>	<u><u>\$ 54.8 million</u></u>	<u><u>\$ 22.8 million</u></u>

The contribution moratoriums approved the past four legislative sessions have reduced the Death and Disability Fund balance from a high of \$193.7 million in fiscal year 2000 to an estimated \$26.3 million at the end of the current fiscal year. Effective with fiscal year 2004, the Fund is no longer maintained on an actuarial reserve basis, but is essentially a "pay-as-you-go" program. Current annual expenses from the Fund are approximately \$50 million versus the \$32 million in revenue from the statutory 0.6 percent employer contribution rate. Absent an increase in the employer contribution rate, the Fund's balance is projected to be depleted during fiscal year 2006.

HB 2917 could be implemented within currently approved staffing and operating expenditure levels.

SELECT PENSIONS
Attachment 17
Date 3-19-04

Date: March 15, 2004

Source: Mary Betl

NRU

Kansas Public Employees Retirement System

Death and Disability Fund

Report to the House Select Committee on Pensions

March 19, 2004

Death and Disability Funding

Death and long-term disability benefits funded by employer contributions of 0.6 percent of payroll since 1975.

Fourteen quarter moratorium on contributions:

- April 1, 2000 through December 31, 2001
- July 1 through December 31, 2002
- April 1, 2003 through June 30, 2004

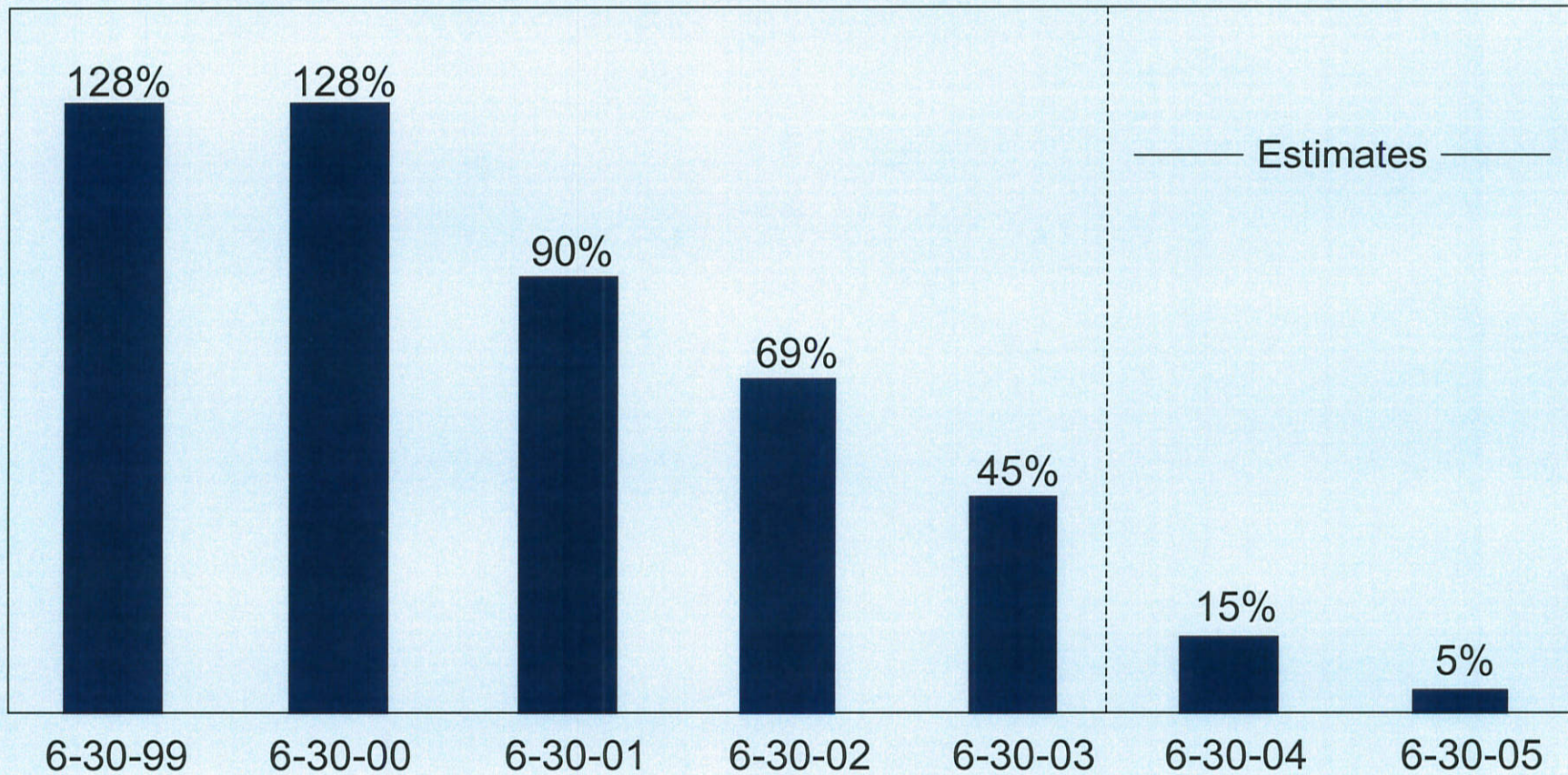
Impact of Contribution Moratoriums — Multi-Year Budget Savings

- State — \$ 78.5 million
- Local — \$ 21.8 million
- Total — \$100.3 million

Death and Disability Fund

17-4

Funded Ratios



Fund Balance (in millions)

\$189.6	\$193.7	\$140.1	\$108.8	\$73.1	\$26.3	\$8.7
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Fund Outlook

Projected ending fund balance for FY 2004 is \$26.3 million.

If the FY 2005 employer contribution rate returns to 0.6 percent, the ending fund balance projection for FY 2005 is just under \$9 million.

Our preliminary estimate is that the minimum cash flow reserve needed to prudently operate the program on a pay-as-you go basis through FY 2005 is approximately \$9 - \$10 million.

Projected employer contribution rate for FY 2006 is approximately 1.0 percent to maintain the \$10 million reserve level.

Estimated budgetary impact of these contributions is as follows:

	FY 2005	FY 2006
State	\$24.8 million	\$42.5 million
Local	<u>7.2 million</u>	<u>12.3 million</u>
Total	<u>\$32.0 million</u>	<u>\$54.8 million</u>

Disability Program Review

KPERS currently evaluating options to identify plan design changes and claims management practices that could help contain costs.

Review includes these areas:

- Statutory and contractual benefit provisions
- Claims procedures
- Rehabilitation and return to work procedures
- Funding methods and cost containment opportunities

Next Steps

Death and disability program actuarial valuation scheduled to be presented to the KPERS Board of Trustees in March 2004.

Preliminary findings indicate items to be considered include:

- Adoption of “industry standard” disability plan with modifications to statutory and contractual benefit provisions.
- Increased focus on claims management, emphasizing the length of claims, rehabilitation and return to work.
- Consider new funding options such as insured plan.

KPERS’ goal is for the Joint Committee on Pensions, Investments and Benefits to study this topic during the 2004 interim with recommendations for legislative action submitted during the 2005 session.

**Kansas Public Employees Retirement System
Death and Disability Program
Group Insurance Reserve, Cash Flow Analysis**

	Fiscal Year 2003	Fiscal Year 2004	<i>Estimates</i> Fiscal Year 2005	Fiscal Year 2006
Group Insurance Reserve Beginning of Year	\$ 108,817,519	\$ 73,072,511	\$ 26,331,026	\$ 8,685,916
Additions:				
Employer Contributions	\$ 8,581,558	\$ -	\$ 31,970,133	\$ 32,929,237
Investment Income	\$ 1,231,901	\$ 330,643	\$ 158,023	\$ 8,797
Total Additions	<u>\$ 9,813,459</u>	<u>\$ 330,643</u>	<u>\$ 32,128,156</u>	<u>\$ 32,938,034</u>
Deductions:				
Disability	\$ (32,958,791)	\$ (35,355,907)	\$ (37,824,520)	\$ (40,465,937)
Basic Group Life Insurance	\$ (12,599,676)	\$ (11,716,221)	(11,948,745)	\$ (12,995,920)
Total Deductions	<u>\$ (45,558,467)</u>	<u>\$ (47,072,128)</u>	<u>\$ (49,773,265)</u>	<u>\$ (53,461,857)</u>
Group Insurance Reserve End of Year	<u>\$ 73,072,511</u>	<u>\$ 26,331,026</u>	<u>\$ 8,685,916</u>	<u>\$ (11,837,907)</u>



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

Mark Desetti, Testimony
Select Committee on Pensions
March 19, 2004
House Bill 2917

Mr. Chairman, members of the committee, thank you for the opportunity to appear before you on **House Bill 2917**.

Kansas NEA supports this bill which will begin to restore financial stability to the KPERS Death and Disability Fund. The moratorium on contributions has depleted the fund and led us to "pay as you go" status. We believe it is imperative that we have a stable system including death and disability provisions.

We thank the committee for your consideration of this bill and we would urge you to pass it favorably for passage.

SELECT PENSIONS
Attachment 18
Date 3-19-04

Kansas Public Employees Retirement System

Legislative Data Sheet

2004 House Bill 2517

Sponsored by Joint Committee on Pensions, Investments and Benefits

Effects of Bill

HB 2517 would exempt certain retired teachers and nurses from the \$15,000 cap on annual earnings. Under current law, if a KPERS retiree returns to work with the same employer from which he or she retired, the retiree's annual earnings are limited to \$15,000. Upon reaching that threshold, the retiree must either stop working to continue to receive KPERS retirement benefits, or continue working and have the benefit payments suspended for the remainder of the year. HB 2517 would eliminate the earnings cap for two specific groups: (a) licensed professional and practical nurses employed by KPERS participating employers, and (b) teachers who return to teach in hard-to-fill positions in the district from which they retired.

The State Board of Education would determine which teaching positions qualify as "hard-to-fill" positions. The proposed legislation would require employers to pay both the actuarial employer contributions and employee contributions to KPERS and would sunset on June 30, 2007.

Fiscal Impact

Assuming that the KPERS members who qualify for the exemption come from the ranks of teachers and nurses who would have retired absent the HB 2517 provisions, or from those retired in previous years, enactment of HB 2517 would have no significant fiscal impact on the KPERS Fund. Employer payments of the employer and member contributions for any re-employed retiree are designed to offset any potential costs of the bill. However, there could be a cost associated with the bill if it encourages members to retire who otherwise would have remained active KPERS members, or if a relatively high number of members retire and qualify for the exemption between 2004 and 2007. If HB 2517 is enacted, the Retirement System would monitor the subsequent retirement rates and patterns carefully to determine whether changes have occurred.

There would be no administrative costs to KPERS with enactment of HB 2517.

SELECT PENSIONS
Attachment 19
Date 3-29-04

Kansas Public Employees Retirement System

Legislative Data Sheet

2004 HB 2733

Sponsored by the Committee on Education.

Effects of Bill

HB 2733 would eliminate the \$15,000 earnings limitation for certified teachers who have a separation of service of at least 12 months and return to work for their former employers. Under current law, if a KPERS retiree returns to work with the same employer from which he or she retired, the retiree's annual earnings are limited to \$15,000. Upon reaching that threshold, the retiree must either stop working to continue to receive KPERS retirement benefits, or continue working and have the benefit payments suspended for the remainder of the year.

Fiscal Impact

Over a period of years, HB 2733 is expected to reduce the number of new entrants to the Retirement System as re-employed retirees fill positions that would otherwise be filled by new entrants. This is expected to "age" the demographic profile of the System's active membership and increase the normal cost rate as the number of new entrants declines. The normal cost rate is the contribution rate for the current year of service for active members.

At the same time, HB 2733 is expected to reduce the System's covered payroll and increase the contribution rate necessary for payment of the unfunded actuarial liability (UAL). This rate increase will occur even if the UAL amount does not change because the existing UAL will be spread over a lower covered payroll. According to our consulting actuary, Milliman USA, if the number of re-employed retirees remains a small percentage of total active membership, the changes in the normal cost rate and UAL rate will also be small.

HB 2733 is expected to impact the System gradually over a number of years before reaching a stable number of re-employed teachers. At our request, Milliman USA estimated the impact at 1 year, 5 years and 10 years after the proposed effective date for HB 2733. Assuming a total of 100 teachers would be re-employed each year for each of the next five years then level off, the cumulative impact would be to reduce the active KPERS School membership by 500 members. Using this assumption, the cost impacts of HB 2733 are summarized in the table at the top of page 2.

SELECT PENSIONS
Attachment 20
Date 3-19-04

Date: February 23, 2004

Source: Mary Beth C

KPERS

— Estimates for Actuarial Valuation dated December 31 —

	<u>2005</u>	<u>2009</u>	<u>2014</u>
Decrease in Payroll	\$ 3,400,000	\$ 18,800,000	\$ 22,100,000
Increase in UAL	\$ 200,000	\$ 3,800,000	\$ 13,800,000
Changes in Dollar Amounts			
Normal Cost	\$ (110,000)	\$ (620,000)	\$ (700,000)
Amortization of UAL	<u>10,000</u>	<u>260,000</u>	<u>1,080,000</u>
Total Dollar Change	<u>\$ (100,000)</u>	<u>\$ (360,000)</u>	<u>\$ 380,000</u>
Changes in Actuarial Contribution Rate			
Normal Cost Rate	0.00%	0.01%	0.01%
UAL Rate	<u>0.01%</u>	<u>0.03%</u>	<u>0.06%</u>
Total Actuarial Rate Change	<u>0.01%</u>	<u>0.04%</u>	<u>0.07%</u>

As you can see, the assumption of re-employing 100 retirees a year for five years then leveling off at 500 re-employed retirees results in estimates for lower covered payroll, higher UAL, lower dollar amounts for normal costs, higher UAL payments, lower total contributions for the first few years, and higher total contributions in later years.

For purposes of this cost estimate, we assumed HB 2733 would not influence the retirement patterns of our active members. If the proposed legislation results in active members retiring sooner than would otherwise be expected, there could be significant additional costs that are not reflected in this estimate. For this reason, Milliman USA recommends consideration of a sunset provision for HB 2733 so any negative impact would not become an ongoing issue.

It is important to note that it is challenging to estimate the cost impact of HB 2733 for several reasons, including difficulties predicting the number of retirees who will be re-employed each year and the duration of their re-employment. The potential impacts of these difficulties are discussed in more detail in the attached actuarial cost study completed by Milliman USA.

HB 2733 could be implemented within currently approved staffing and operating expenditure levels.

Kansas Public Employees Retirement System

Legislative Data Sheet

2004 HB 2788

Sponsored by the Committee on Taxation.

Effects of Bill

House Bill 2788 would exempt KPERs retirees employed as teachers from the \$15,000 earnings limitation for retirees who return to work for their former employers. Under current law, retired teachers who return to work for the school district from which they retired are limited to annual earnings of \$15,000. Upon reaching that threshold, the retiree must either stop working to continue to receive KPERs retirement benefits, or continue working and have the benefit payments suspended for the remainder of the year.

Fiscal Impact

Milliman USA, the Retirement System's consulting actuary, projects that HB 2788 would influence the retirement behavior of KPERs members in future years. Consequently, the actuarial costs associated with HB 2788 could be significant. Projected fiscal impacts of HB 2788, using two utilization scenarios, are summarized in the table below.

	<u>Alternative 1 Estimates^(a)</u>		<u>Alternative 2 Estimates^(b)</u>	
	<u>Increase</u>	<u>Additional Fiscal Year 2005 Contributions</u>	<u>Increase</u>	<u>Additional Fiscal Year 2005 Contributions</u>
Unfunded Actuarial Liability (UAL)	\$ 134 million	n/a	\$ 232 million	n/a
Normal Cost Rate & Contributions	0.20%	\$ 7,100,000	0.36%	\$ 12,900,000
UAL Payment Rate & Contributions	0.22%	\$ 7,900,000	0.39%	\$ 13,900,000
Employer Rate & Contributions	<u>0.42%</u>	<u>\$15,000,000</u>	<u>0.75%</u>	<u>\$26,800,000</u>

- (a) When compared with the System's existing retirement rate assumptions, Alternative 1 assumes approximately twice as many teachers retire when they first become eligible.
- (b) When compared with existing retirement rate assumptions, Alternative 2 assumes approximately three times as many teachers retire when they first become eligible at earlier retirement ages and assumes approximately twice as many retire when first eligible at later retirement ages.

These estimates are based on membership data and assumptions from the December 31, 2002, actuarial valuation with the retirement rate assumptions modified to reflect the expectation that more teachers will retire when they first become eligible for unreduced benefits.

Milliman indicates the actual cost of HB 2788 is "heavily dependent" on which members retire earlier than they would have absent the HB 2788 provisions and how long those retirees continue working after their retirement. To develop more accurate estimates of fiscal impact, the Retirement System and Milliman USA would need to refine the retirement assumptions by monitoring actual experience under HB 2788 for several years.

HB 2788 would be expected to have a negative impact on the System's long-term funding because some of the teachers retiring and returning to work would remain in their current positions, thereby reducing the number of new Retirement System members. By stabilizing the normal cost rate and increasing the System's covered payroll and employer contributions, new members tend to have a positive impact on the System's total cost. These fiscal projections do not reflect the long-term funding impact because such projections would require the use of sophisticated population modeling techniques.

There would be no administrative costs to KPERS with enactment of HB 2788.