Approved: <u>March 8, 2006</u>
Date

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairman Dwayne Umbarger at 10:40 A.M. on January 31, 2006, in Room 123-S of the Capitol.

All members were present except:
Senator Laura Kelly- excused
Senator Chris Steineger- excused

Committee staff present:
Jill Wolters, Revisor of Statutes Office
Michael Corrigan, Revisor of Statutes Office
Alan Conroy, Director, Kansas Legislative Research Department
J. G. Scott, Kansas Legislative Research Department
Reagan Cussimanio, Kansas Legislative Research Department
Audrey Dunkel, Kansas Legislative Research Department
Julian Efird, Kansas Legislative Research Department
Judy Bromich, Chief of Staff
Mary Shaw, Committee Secretary

Conferees appearing before the committee:
Glenn Deck, Executive Director, Kansas Public Employees Retirement System

Others attending:
See attached list.

Bill Introductions

Chairman Umbarger recognized Senator Roger Reitz who explained a bill that he requested to be introduced has to do with a problem regarding acquisition and disposal of property and the Kansas Department of Wildlife and Parks. <u>Senator Barone moved, with a second by Senator Emler, to introduce a bill concerning the department of wildlife and parks; prescribing certain procedures for acquisition of land by such department (5rs1845). Motion carried on a voice vote</u>.

<u>Senator Emler moved, with a second by Senator Teichman, to introduce a bill concerning individuals needing long term care; establishing a coordinated system for long term care services (5rs1551). Motion carried on a voice vote</u>.

Chairman Umbarger explained that originally **<u>SB 416</u>** had been scheduled for a hearing, but the committee meeting room was not large enough to accommodate the hearing so he delayed the hearing.

The Chairman acknowledged Alan Conroy, Director, Kansas Legislative Research Department, who explained that State General Tax Receipts Only through January 30, 2006, with one processing date left for the month of January 2006, were about $44 million dollars above the estimates. He noted that for year-to-date from the new estimates, November 2005 through January 2006, Taxes Only would be right at $73 million dollars above the estimates driven mainly by corporate income tax and individual income taxes. Mr. Conroy mentioned that a written copy of this information will follow.

Chairman Umbarger welcomed Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERS), who provided an overview of KPERS funding and initiatives (<u>Attachment 1</u>). Mr. Deck also distributed copies of the Kansas Public Employees Retirement System Annual Financial Report, Year Ended June 30, 2005. Copies of the annual financial report regarding KPERS will be on file with the Kansas Legislative Research Department. Mr. Deck addressed KPERS membership, benefits and services, assets and investments, retirement funding (background, current status and challenges), the death and disability program, the technology project and challenges and initiatives. He mentioned that KPER'S mission is to provide retirement, disability and survivor benefits to their members and beneficiaries.

The meeting adjourned at 11:35 a.m. The next meeting was scheduled for February 1, 2006.

SENATE WAYS AND MEANS
GUEST LIST

Date January 31, 2006

NAME	REPRESENTING
Julia Thomas	DOB
Alex Kotoyantz	Retired, KDOT
Bill Breed	KPERS
Scott Ryyard	KPERS
Ali Sultani	Intern for Sen. V. Schmidt
Andrew Couch	Federico Consulting
Chad Austin	KHA
Mark Borandak	Capitol Strategies
Barb Conant	Ks Dept on Aging
Derek Hein	Hein Law Firm
Mike Huttles	Huttles Gov't Relations
Beth Innes	Huttles Gov't Relations
Ronald Richey	ME
Kim Fowler	Judicial Branch

Kansas Public Employees Retirement System

KPERS Overview, Funding and Initiatives

Presented to the Senate Ways and Means Committee ▪ *January 31, 2006*

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Presentation Outline

- KPERS Overview
  - Membership
  - Benefits & Service
  - Assets & Investments
- Retirement Funding
  - Background
  - Current Status
  - Challenges
- Death and Disability Program
- Technology Project
- Challenges & Initiatives

KPERS Overview

KPERS' mission is to provide retirement, disability and survivor benefits to our members and their beneficiaries.

Administer three statewide, defined benefit plans for public employees.

- Kansas Public Employees Retirement System
- Kansas Police & Firemen's Retirement System
- Kansas Retirement System for Judges

Partner with 1,450 state and local government employers.

- State of Kansas
- 301 school districts
- 105 counties
- 400 cities & townships
- Other employers include libraries, hospitals, community colleges & conservation districts

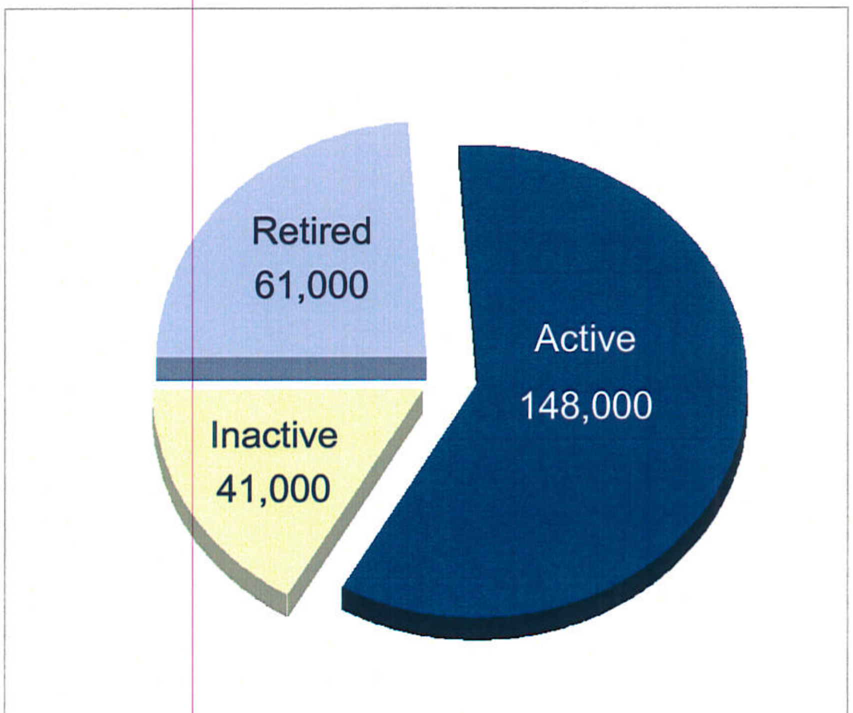
Governed by a nine-member Board of Trustees.

- 85-member staff.

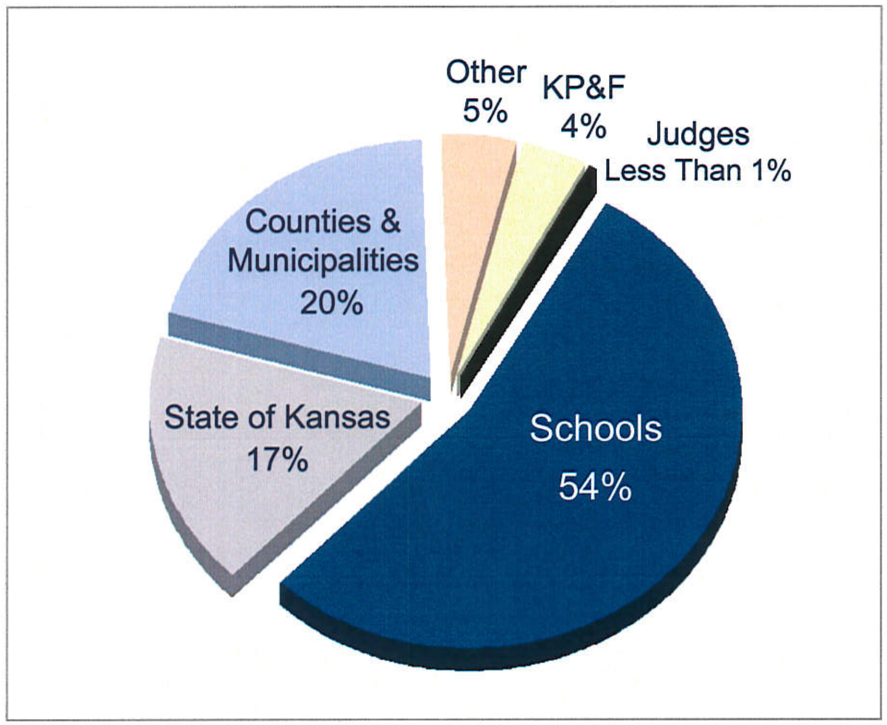
Membership

- Serve 250,000 members – approximately 1 in 12 Kansans.
- Largest participating employer = State of Kansas.
- More than half our active members employed by school districts.
  - State of Kansas pays the employer contributions for all school members.

Total Membership



Active Membership



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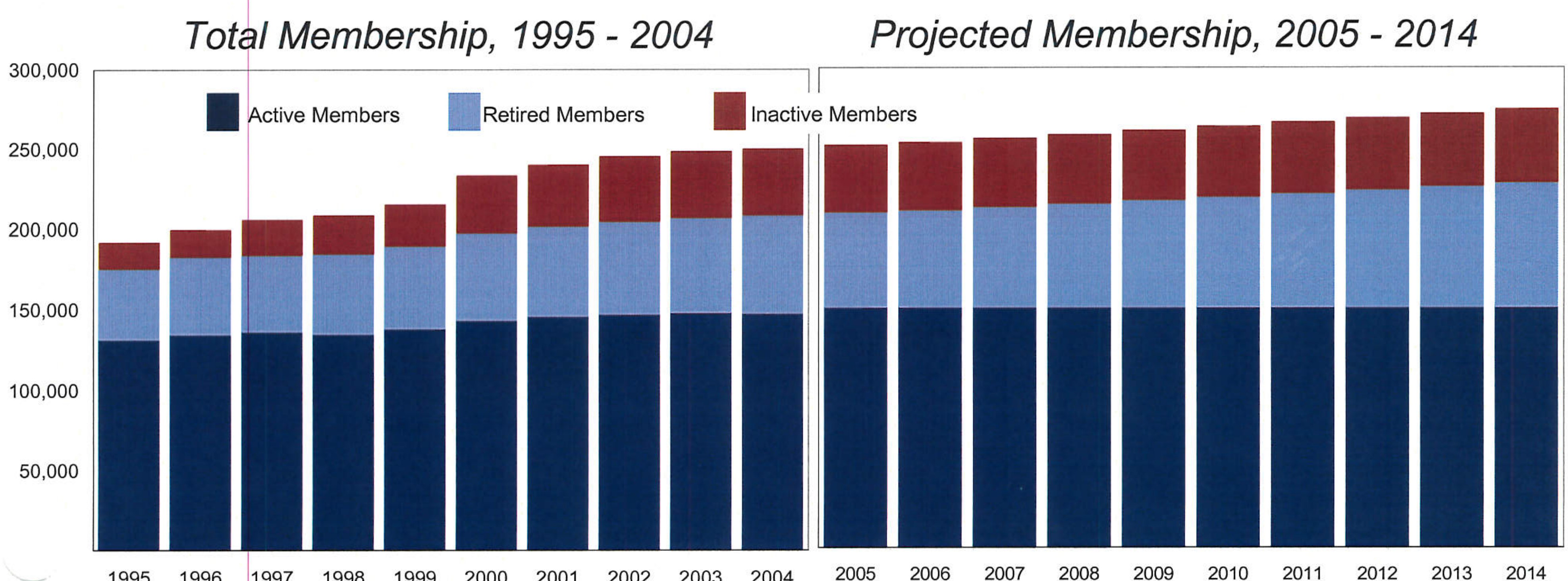
Membership Trends

For the next 10 – 15 years, retired members will account for the only significant growth in membership (as the “Baby Boomers” retire).

- The number of retirees will increase to approximately 80,000 by 2015, and 90,000 by 2020.
- Increase in retired membership will impact the System’s funding and workloads.



Benefits & Service

The Retirement System distributes approximately $780 million each year, with about 87 percent remaining in Kansas.

- Retirement benefits = $680 million
- Death & disability benefits = $50 million
- Retiree death benefits = $9 million
- Contribution refunds = $41 million

KPERS is committed to providing our members and participating employers with excellent service. During the last year we successfully:

- answered more than 83,000 calls – 98% of incoming calls;
- improved delivery time for 180,000 annual member statements;
- issued 61,000 retirement payments each month;
- updated web site with user-friendly design and expanded content;
- conducted pre-retirement seminars and employer workshops across the State;
- scored in the range of 95% or higher in customer satisfaction surveys;
- completed digital imaging of approximately 200,000 member records; and
- began major technology project to replace outdated systems and improve service.

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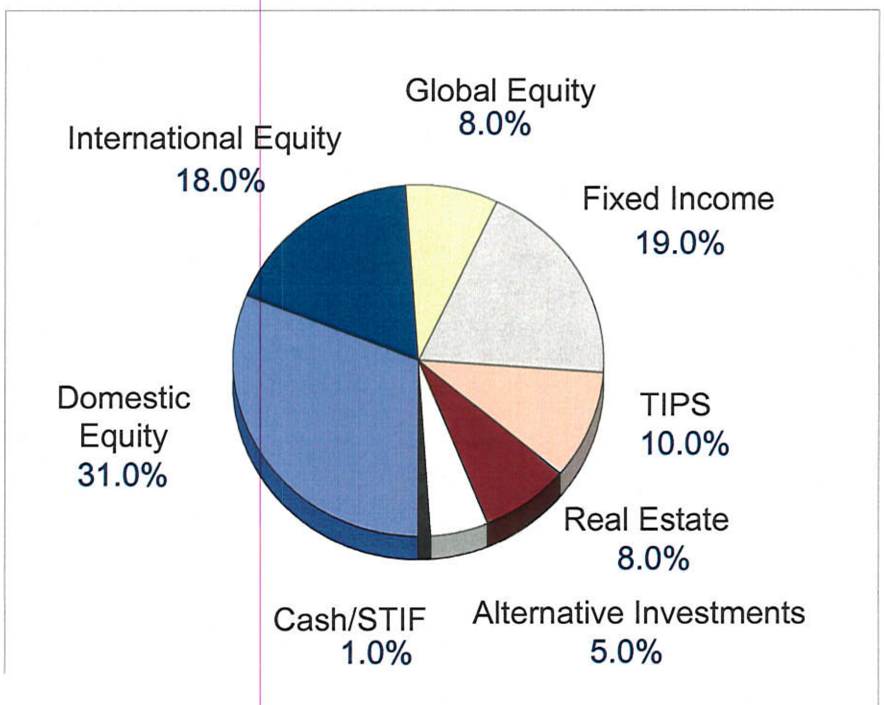
Assets

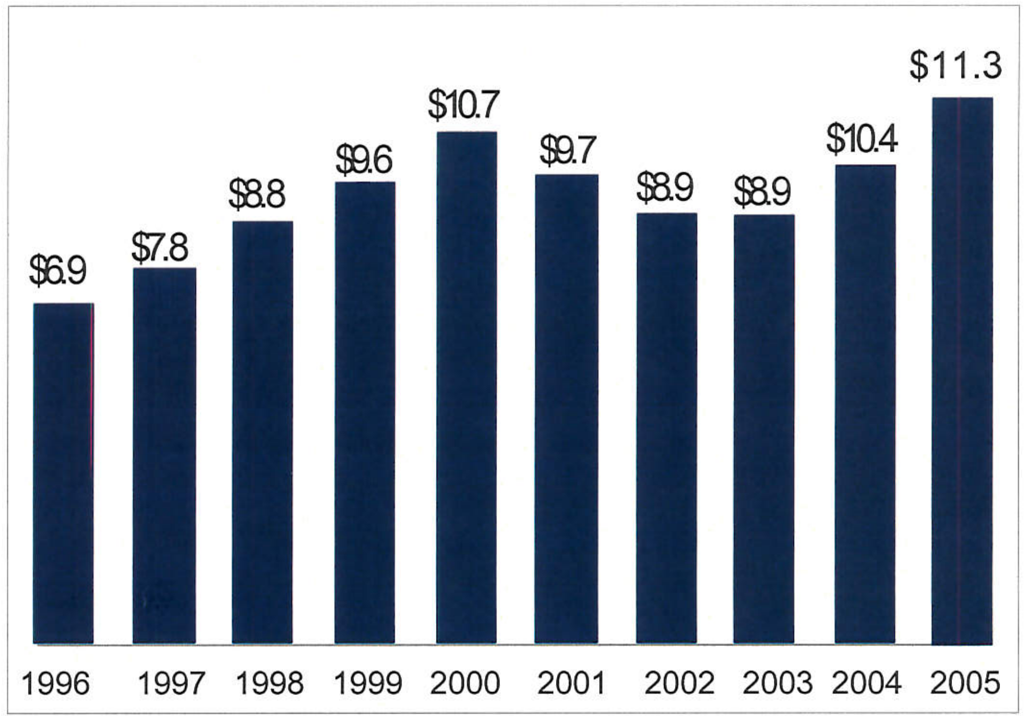
Manage the investment of more than $11 billion in trust fund assets in the U.S. and international markets.

- 101st largest pension fund in the United States.

Asset Allocation



Fund Growth FY1996 – 2005 (in billions)

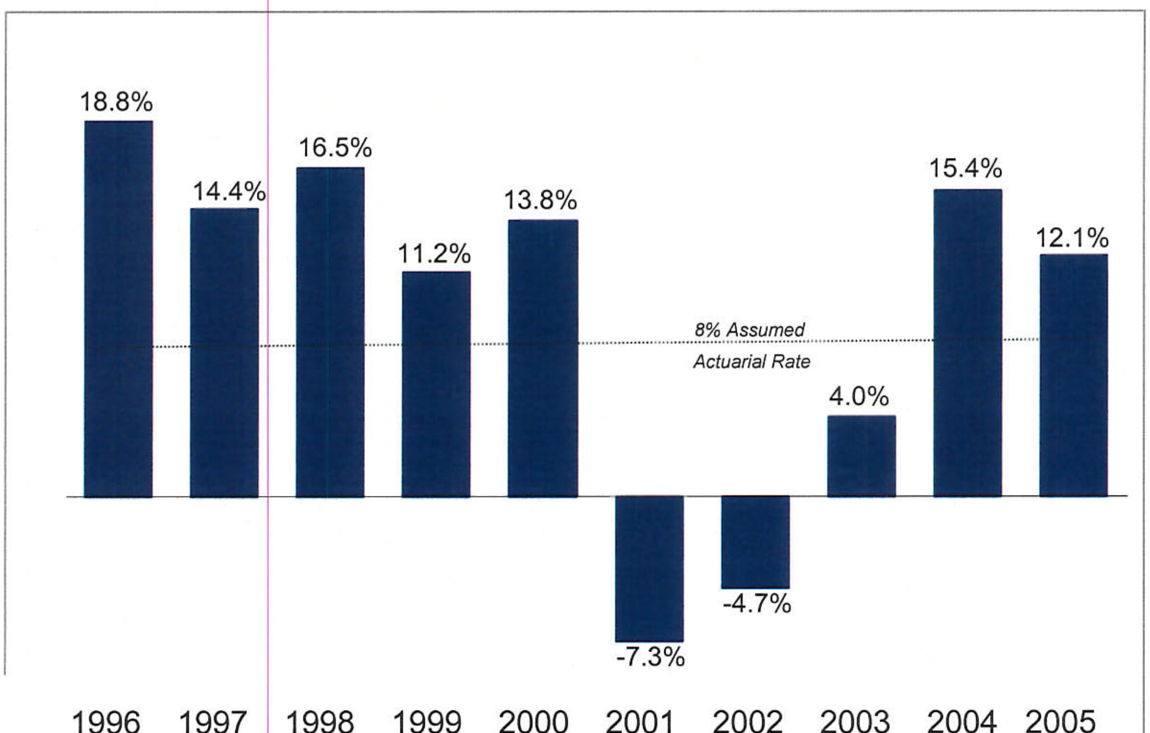


Investment Returns

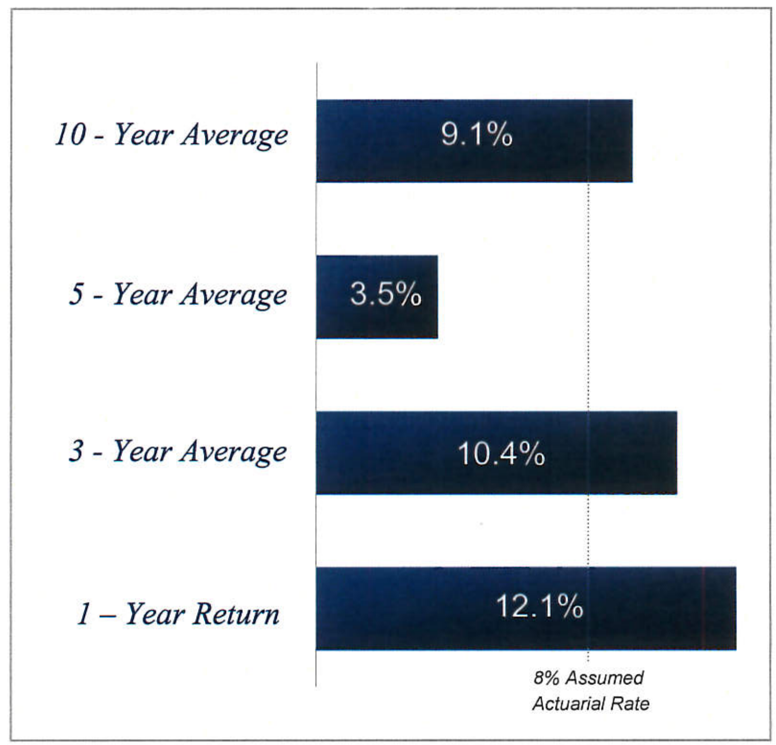
The System's investment return for fiscal year 2005 was 12.1%.

- Returns for fiscal years 2001-2003 were below 8% actuarial return assumption.
- Earned more than 11% each year from 1995 to 2000.

Investment Returns by Fiscal Year



Total Returns



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Funding Background

KPERS was out of actuarial balance in 2001 – 2002.

Significant progress on long-term retirement funding plan in last three years.

- 2003 legislation increased employer contribution rates for State/School Group and authorized pension obligation bond issue.
- $500 million in pension obligation bonds issued in February 2004.
- Joint Committee on Pensions, Investments and Benefits considered alternative plan design during 2004 interim. Senate Bill 281 introduced during 2005 legislative session.
- 2004 legislation increased employer contribution rates for Local Group, authorized KPERS Board of Trustees to make actuarial changes, and split the KPERS State/School Group for actuarial calculations.
- 2005 legislation clarified rate calculation for State and School Groups to eliminate negative funding impact on School Group.

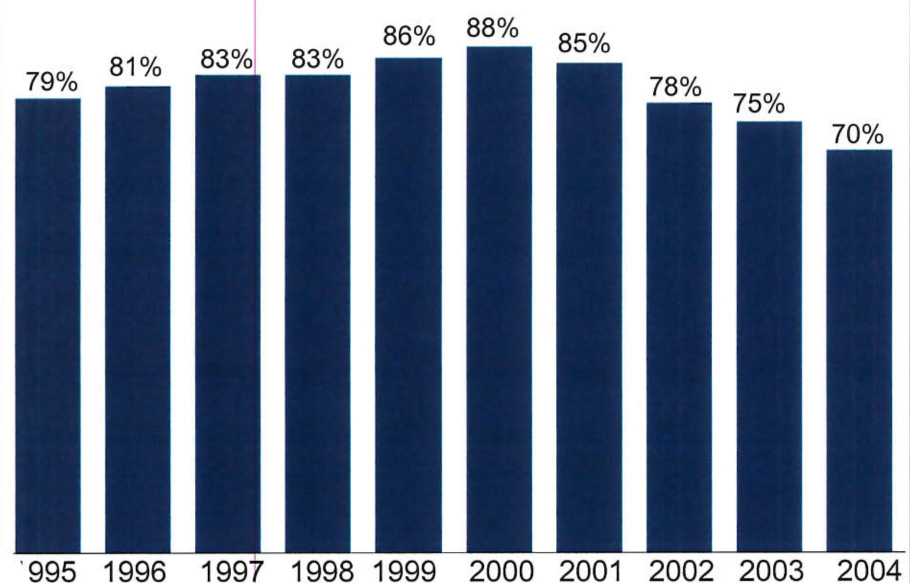
Funded Status

KPERS' overall funded ratio was 70% as of December 31, 2004.

- The funded ratio is the ratio of actuarial value of assets to actuarial liabilities.

Unfunded actuarial liability (UAL) is the difference or gap between actuarial value of assets and actuarial liability for service already performed by public employees.

Funded Ratios, 1995 - 2004



UAL, Funded Ratios, and Contribution Rates

	UAL	Funded Ratio	FY 2006 Employer Rate	Equilibrium
KPERS				
• State Group	$ 433 million	85%	5.27%	7.57% in 2010
• School Group	$ 3,151 million	63%	5.27%	13.30% in 2020
▪ Local Group	$ 824 million	67%	3.81%	8.69% in 2015
KP&F	$ 313 million	81%	11.99%[a]	*at actuarial rate*
Judges	$ 22 million	80%	21.97%	*at actuarial rate*
Total	$ 4,743 million	70%	-	-

(a) State KP&F rate.

Funding Challenges

With recent funding improvements, KPERS is in actuarial balance but significant funding challenges remain.

- UAL will continue to increase and funded ratio will decrease until statutory employer rates catch up with actuarially-required rates.
- Funding outlook volatile because of investment markets. Projections would deteriorate with significant market downturn.
- Budgeting for higher employer contributions and debt service payments will cost the State $30 to $40 million annually beginning in 2006.
- Local employers contributions to KPERS will increase by approximately $7 to $15 million for each of the next ten years.

Need to closely monitor funding progress and consider corrective action and plan design options to ensure financial stability.

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Death & Disability Program

KPERS has provided death and disability benefits for active employees since 1966. Benefits funded by **employer** contributions, historically set at 0.6% of payroll.

Contribution moratoriums during 2000 – 2004 resulted in multi-year budget savings for state and local governments.

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

Program became pay-as-you-go in FY 2004.

- FY 2005 Contributions = $32 million
- FY 2005 Expenditures = $48 million

2005 Legislation – Senate Substitute for House Bill 2037

- Contribution Rate Increase – Employer rate increased to 0.8% on July 1, 2005, and will increase to 1% beginning July 1, 2006.
- Plan Design – Authorized the KPERS Board to administer the program with funds available and adjust plan design as needed. Board's modified plan design became effective January 1, 2006.

Technology Project

In July 2003 KPERS began a three-phase $8 million project to replace and enhance core business information systems with emphasis on risk management and cost containment.

Currently implementing the core system replacement for member, employer, calculation and payment services.

- Phase 1 (risk mitigation and planning) complete.
- Phase 2 (core replacement) on time and on budget to be completed in December 2006.
- Estimated total cost of phases 1 & 2 is $5.4 million.

Phase 3 service expansion would allow for web-enabled applications, paper-less transactions, and employer contribution reporting by payroll period for an estimated cost of $2.6 million.

- KPERS seeking spending authority for Phase 3 during 2006 session.
- Projected completion date in December 2007.

Funding Challenges & Initiatives

Major challenges going forward are long-term retirement funding, investment management, and technology implementation and expansion.

Need to continue to improve member and employer service with emphasis on educational programs for our members throughout their careers.

- Completion of information systems project integral part of service enhancements.

Comprehensive review and analysis of KPERS current and future plan design and funding structure to be completed in fiscal years 2006 and 2007.

- Staff, actuary and Board of Trustees to review during Spring 2006.
- Legislative consideration of proposals to begin with review by the Joint Committee on Pensions, Investments and Benefits in August 2006.

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