Approved: March 15, 2007
Date

MINUTES OF THE HOUSE SELECT COMMITTEE ON KPERS

The meeting was called to order by Chairman Richard Carlson at 5:00 P.M. on March 8, 2007, in Room 234-N of the Capitol.

All members were present except:
Representative Margaret Long - excused
Representative Clark Shultz - excused

Committee staff present:
Julian Efird, Legislative Research Department
Gordon Self, Revisor of Statutes
Shirley Jepson, Committee Assistant

Conferees appearing before the committee:
Mark Tallman, Assistant Executive Director/Advocacy, Kansas Association of School Boards (KASB)
Terry Forsyth, Kansas National Education Association (KNEA)

Others attending:
See attached list.

- Attachment 1 Fiscal Note on **HB 2558**
- Attachment 2 Testimony in support of **HB 2558** by Mark Tallman
- Attachment 3 Written testimony in support of **HB 2558** by Cheryl L. Semmel
- Attachment 4 Testimony in opposition to **HB 2558** by Terry Forsyth
- Attachment 5 Fiscal Note on **HB 2557**

Hearing on HB 2558 - Enacting the Kansas Public Employees Retirement System Act of 2009.

The fiscal note on **HB 2558** was distributed to the Committee (Attachment 1).

Proponents:

Chairman Carlson recognized Mark Tallman, Assistant Executive Director, Kansas Association of School Boards (KASB), who presented testimony in support of **HB 2558** (Attachment 2). Mr. Tallman stated that KASB supports the legislation because they see it as step forward in addressing the unfunded liability of the Kansas Public Employees Retirement System (KPERS); provides for long-term cost of the KPERS system; and provides retirees with an adequate level of benefits upon retirement. Mr. Tallman indicated that the new plan is a positive step forward in keeping qualified teachers in the education field.

Written testimony in support of **HB 2558** was received from Cheryl L.. Semmel, Executive Director, United School Administrators of Kansas (Attachment 3).

Opponents:

The Chairman recognized Terry Forsyth, Kansas National Education Association (KNEA), who appeared in opposition to **HB 2558** (Attachment 4). Mr. Forsyth stated that KNEA opposes the legislation because of three specific changes to the current plan:
- The final average salary calculation going from three years to five years;
- The increase in the employee contribution rate;
- The elimination of the 85 point rule for retirement.

Mr. Forsyth noted that these objections are in order of importance to the Association.

Responding to a question from the Committee, Mr. Forsyth indicated that he did not have calculations available on how many teachers retire early under the 85 point rule. In addition, Mr. Forsyth stated that the increased employee contribution rate will decrease the amount of teacher's take-home pay. He felt the new plan will require teachers to work longer for less retirement benefits.

The hearing on HB 2558 was closed.

Hearing on HB 2557 - Permanent COLA for certain KPERS retirants and increase in employee and employer contributions related thereto.

The fiscal note on **HB 2557** was distributed to the Committee (Attachment 5).

There were no conferees to appear before the Committee, either proponent or opponent.

The hearing on HB 2557 was closed.

Chairman Carlson informed the Committee that it is his intent to work the bills at the next meeting on March 12, 2007.

The meeting was adjourned at 5:20 p.m.

Richard Carlson, Chairman

SELECT COMMITTEE ON KPERS

March 8, 2007
5:00 P.M.

NAME	REPRESENTING
TERRY FORSYTH	KNEA
Stephen G. Burnett	
Katie Firebaugh	Kearney & Associates
Dodie Wellshear	USA/Kansas
Sandy Braden	AIG
Val DeFever	SQE
Mark Tallman	KASB

March 6, 2007

The Honorable Richard Carlson, Chairperson
House Select Committee on KPERS
Statehouse, Room 411-S
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2558 by House Committee on Appropriations

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2558 is respectfully submitted to your committee.

HB 2558 would modify retirement benefits for KPERS members first employed on or after July 1, 2009. The new plan also would apply to former members who withdraw from the system before July 1, 2008, and then again commence membership after that date. The new plan also would apply to former non-vested members who commence membership on or after July 1, 2009. Former non-vested members are members who left KPERS-covered positions with less than ten years of credited service, but have not withdrawn their KPERS contribution accounts. The retirement benefit provisions for future employees, along with the corresponding current provisions, are summarized in the following table:

House Select Committee on KPERS
Attachment 1
Date 3-08-2007

Component	Current Plan	SB 362 Plan
Membership	Employed before 7-1-2009	Employed on or after 7-1-2009
First-Day Membership	School Group Only	School, State, and Local Groups
Vesting	10 Years	5 Years
Retirement Multiplier	1.75%	1.75%
Normal Retirement Eligibility	Age 65 Age 62 w/ 10 Years Service 85 Point Rule	Age 65 w/ 5 Years Service Age 60 w/ 30 Years Service NA
Early Retirement Eligibility	Age 55 w/ 10 Years Service	Age 55 w/ 10 Years Service
Early Retirement Reduction Factors	Subsidized for Ages 55-64	Subsidized w/ 30+ Years Service
Final Average Salary Definition	Average of 4 Highest Years	Average of 5 Highest Years
Compensation Caps	15.0%	7.5%
Partial Lump-Sum Option	10, 20, 30, 40, or 50%	10, 20, or 30%
Joint-Survivor Factors	By Statute	Actuarial Set by KPERS
Cost-of-Living Adjustments	Ad Hoc Only	Automatic Annual 2.0% at Age 65
Employee Contributions	4.0%	6.0%
Future Cost Increases	Employer Paid	May Be Shared Equally with Employers and Employees Once Actuarially-Required Contribution Rate Is Achieved

The HB 2558 retirement plan design is anticipated to produce savings for both state and local government agencies, resulting from reduced employer contribution rates. The following table summarizes total employer contributions under the current plan, along with HB 2558, as well as the anticipated estimated savings:

	KPERS State & School Groups		KPERS Local Group	
	Current Plan	SB 362	Current Plan	SB 362
Total Employer Contributions (through FY 2033, estimated)	$16.4 billion	$13.8 billion	$4.4 billion	$3.4 billion
Savings vs. Current Plan (through FY 2033, estimated)		$2.6 billion		$1.0 billion

Although employer contribution rates are expected to be lower over time, the savings would be gradual as employees are hired under the new plan, contribute to the new plan, and ultimately retire. The savings would begin after the statutory employer contribution rates for the current KPERS plan reach the actuarially-required employer contribution rates. For the KPERS State and School groups, this would be in approximately FY 2019 and for the Local Group in FY 2014.

HB 2558 would give first-day KPERS membership for state and local members employed between July 1, 2008, and June 30, 2009. Current school members already have immediate membership. Also, for all KPERS members regardless of hire date, the bill would give five-year vesting as of July 1, 2009. Based on salary data included in *The FY 2008 Governor's Budget Report*, KPERS estimates the cost of these two benefit enhancements in the following table:

	Estimated Increase in: Unfunded Actuarial Liability	Estimated Increase in: Employer Contribution Rate	Est. Additional 1st Year Employer Contributions
KPERS State Group	$ 2,000,000	0.14%	$ 1,400,000
KPERS School Group	7,000,000	0.09%	2,800,000
Subtotal	$ 9,000,000		$ 4,200,000
KPERS Local Group	4,000,000	0.09%	2,600,000
Total State & Local	$ 13,000,000		$ 6,800,000

In order to accommodate changes provided by HB 2558, KPERS would incur additional one-time costs of approximately $250,000 for software modifications. Of this amount, $50,000 would be incurred in FY 2008 and $200,000 in FY 2009. The agency may also incur additional costs for communication, education, and training initiatives for designated agents working for KPERS-participating employers. However, the agency cannot estimate these additional costs.

All costs and savings estimates for HB 2558 have been based on the December 31, 2005 actuarial valuation for KPERS. Any fiscal effect resulting from the enactment of HB 2558 is not included in *The FY 2008 Governor's Budget Report.*

Sincerely,

Duane A. Goossen

Duane A. Goossen
Director of the Budget

cc: Mary Beth Green, KPERS

KANSAS ASSOCIATION OF SCHOOL BOARDS

1420 SW Arrowhead Road • Topeka, Kansas 66604-4024
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Testimony on **HB 2558**
before the
House Select Committee on KPERS

by

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

March 8, 2007

Mr. Chairman, Members of the Committee:

The Kansas Association of School Boards appreciates the opportunity to comment on **HB 2558**, which would create a new system of retirement benefits for school districts and other public employees beginning in 2009.

KASB members have adopted the following position on KPERS issues: *"The employers' cost of any retirement or program benefits mandated by the state should be fully and directly funded by the state. KASB opposes making KPERS a non-contributory system. 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."*

It has become clear the cost of addressing both the "unfunded actuarial liability" of the current KPERS system and the future costs of providing the current level of benefits will be very high. KASB believes the employers' cost should be borne by the state, rather than local school districts, because school district have no ability to control the cost of benefits set by the state. But we recognize this cost requires the state to spend dollars not available for other state expenditures, including support for current school districts operations. In effect, we face a trade-off between future retirement benefits and current expenditures including salaries and benefits. Furthermore, the option to retire at a relatively early age contributes to the educator shortage facing Kansas schools.

The state is already committed to a substantial increase in KPERS contributions. It seems reasonable to expect that new employees entering the system pay a higher contribution rate and somewhat later retirement age in order to maintain benefit levels similar to the current plan. We trust the KPERS Board of Trustees has found a balance is competitive with other public and private sector retirement plans.

Thank you for your consideration.

House Select Committee on KPERS
Attachment 2
Date 3-08-2007

USA|Kansas
United School Administrators of Kansas
515 S. Kansas Avenue Suite 201
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Web: www.usa-ks.org

Testimony on HB 2558
House Select Committee on KPERS
March 8, 2007

Submitted by
Cheryl L. Semmel, Executive Director, United School Administrators of Kansas

Thank you for the opportunity to present written comments on HB 2558, which would make changes to the Kansas public employees retirement system (KPERS).

The mission of United School Administrators of Kansas (USA|Kansas*), through collaboration of member associations, is to serve, support, and develop educational leaders and to establish USA|Kansas as a significant force to improve education.

First and foremost, administrators share concerns about the KPERS unfunded liability issue and recognize that certain measures must be taken to maintain the solvency of the retirement system. We appreciate your efforts to identify potential solutions and support the intent of SB 362. Specifically, administrators support maintaining the funding commitments for individuals currently enrolled in KPERS and support implementing changes to the program at a specified future date. We also recognize that increasing the points for retirement may be a viable strategy to maintain solvency as the number of individuals retiring continues to increase.

However, if Kansas is going to attract and retain highly qualified professionals in the public sector – including teachers and administrators – we must openly recognize that the retirement program is often a critical recruitment tool when competing with the salaries offered in the private sector.

We feel compelled to raise certain unintended consequences that may arise as a result of the changes proposed in SB 362. We offer this information for consideration as you deliberate on KPERS reform.

Kansas, not unlike other states throughout the country, is struggling with the teacher and administrator shortage. Recruiting and retaining quality teachers and administrators into the education profession remains a challenge. Making changes to the retirement program at a specified date in the future, for new employees entering the system, is a prudent action and is consistent with supporting efforts to ***retain*** teachers and administrators currently in the profession.

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Attachment 3
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However, a clear dilemma that SB 362 presents is, that in the midst of the growing teacher and administrators shortage in Kansas, the proposed changes will not likely help ***recruit*** new teachers and administrators – in fact, certain provisions may exacerbate the problem. Small and rural school districts struggling with declining enrollment and recruiting and retaining teachers continue to struggle. Increasing the KPERS contribution from four (4) to six (6) percent would likely impact their budgets and their ability to remain competitive may impact those districts most.

While we realize that the increased contribution may be necessary, increasing the contribution by one (1) percent [to five percent] instead of two (2) percent would be a more prudent course of action.

As the teacher and administrator shortage increases, the "marketplace" for teachers is becoming increasingly competitive. The increased KPERS contribution may appear to have a limited impact on recruitment practices; however, when coupled with other recent changes, this may significantly and adversely impact districts.

As part of the KPERS reform discussion, administrators also ask that you reconsider the rule on hiring retired teachers and administrators. Because of the competitive climate, many school districts are currently hiring *retired, highly qualified* teachers and administrators. As the result of changes made last year, districts are – in many cases – encumbering the entire cost (13 percent), resulting in an increased expenditure for districts. In other instances, negotiations for teachers and administrators hinge on who will bear the burden of this expense.

Again, administrators share concerns about the KPERS unfunded liability issue and recognize that certain measures must be taken to maintain the solvency of the retirement system. Education administrators also remain committed to ensuring that each and every child in Kansas receives a quality education that will help them reach their potential and become successful, productive adults. We know that recruiting and retaining the highest quality teachers and administrators is critical to meeting this commitment.

Thank you for your continued support, for your partnership, and for recognizing the value in investing in education and programs that support of education in Kansas.

*USA|Kansas represents more than 2,000 individual members and ten member associations:

Kansas Association of Elementary School Principals (KAESP)
Kansas Association of Middle School Administrators (KAMSA)
Kansas Association of School Administrators (KASA)
Kansas Association of School Business Officials (KASBO)
Kansas Association of School Personnel Administrators (KASPA)
Kansas Assoc for Supervision and Curriculum Development (KASCD)
Kansas Association of Special Education Administrators (KASEA)
Kansas Association of Secondary School Principals (KASSP)
Kansas Council of Career and Technical Education Administrators (KCCTEA)
Kansas School Public Relations Association (KanSPRA)

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

Terry Forsyth, testimony
House Select Committee on KPERS
March 7, 2007

House Bill 2558

Thank you for the opportunity to share our concerns about **House Bill 2558**, the proposal for a two-tiered KPERS system.

While we understand the impetus for this bill, we oppose the proposed changes to the retirement system it contains.

In the teaching profession, Kansas is at a crossroads. We have a very high percentage of our teachers over the age of fifty and rapidly approaching retirement, enrollment in teacher training programs has been declining for several years, our attrition rate is around 10% per year for the first three years of teaching, and veteran teacher salaries sit at 36th in the nation when adjusted for regional cost of living. Health care costs continue to skyrocket and some Kansas school districts either offer no health insurance plan at all or pay nothing towards the premium. So at a time when it is becoming more and more difficult to entice young people into the teaching profession, we are faced with a bill that tells them their retirement system will provide a smaller benefit for more years of service than their older colleagues receive.

Specifically, we oppose the following changes:

- the final average salary calculation going from three years to five years,
- the increase in the employee contribution, and
- the elimination of the 85 point rule for retirement.

Collectively these three provisions show that new employees will take home a smaller percentage of their paychecks and work longer for a smaller benefit. We think that's wrong.

While we appreciate the addition of a regular COLA beginning at age 65, this COLA is funded with an increase in the employee contribution. In other words, the employee is paying up front for a COLA later. The impact of this provision is a 50% increase in employee contributions for every year of work in return for a 2% increase each year that he or she lives beyond age 65.

It is also interesting to note that while this bill passes an immediate 2% increase in the contribution rate for employees, employer contribution rate increases are capped at 0.6% in any given year. And while employees have no ability to reduce their contribution rate, the legislature can do so any time it pleases.

We grant you that the state is gradually increasing the employer contribution and some day may come up to the actuarial rate. But this is exactly what has caused the problem to become so acute. The state has never fully covered the employer contribution, depending far too often on market returns to cover the deficit.

House Select Committee on KPERS
Attachment 4
Date 3-08-2007

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The change in the calculation of final average salary from three years to five sounds almost benign but in reality is quite troublesome. The result would be to lower the final benefit to the retiree because the final average salary will be lower.

The help you are looking for in this plan comes entirely from the employee. He/she will see a contribution increase of 50%, there will be reduction in the calculation of benefit, and if he/she opts for an early retirement there is an even greater reduction in benefit.

We are faced then with a bill that will require people to work longer with less take-home pay for a smaller benefit. I hope you understand our difficulty in supporting such a plan.

All this said, we understand the dilemma you are in. The challenge before you is indeed awesome. We applaud the attention you are giving to KPERS and hope that you will consider the impact of each individual change on the ability of the state and our schools to recruit and retain a highly qualified, skilled workforce.

Finally we would like to point out what we might call "legislative schizophrenia." We have spent a lot of time in the House and Senate Tax Committees this year and, while the state is faced with on-going costs and some significant funding needs – KPERS and the Regent's deferred maintenance are just two – we are very concerned about the tendency to rush passage of a multitude of tax cuts before providing for the needs of Kansas citizens.

There is becoming an ever greater disconnect between tax policy and funding needs in Kansas. If the Legislature has a real interest in solving the KPERS problem then perhaps it is time to hold off on tax cuts and seriously examine the entire Kansas tax system. It is time to take a comprehensive look at the tax system to ensure that it provides a stable stream of revenue to meet the needs of the state, that it has balance among tax sources, and that it is fair to both citizens and businesses.

KANSAS

DIVISION OF THE BUDGET

Kathleen Sebelius, Governor
Duane A. Goossen, Director

http://budget.ks.gov

March 6, 2007

The Honorable Richard Carlson, Chairperson
House Select Committee on KPERS
Statehouse, Room 411-S
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2557 by House Committee on Appropriations

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2557 is respectfully submitted to your committee.

HB 2557 would give an annual automatic 2.0 percent cost-of-living adjustment to KPERS retirees who retired after July 1, 2009, beginning at age 65. The annual adjustment would be made each July 1 to eligible retirees. In addition, retirees would need to be retired for at least one year before becoming eligible for the adjustment. Also, the bill would increase the employee contribution rate from 4.0 percent to 6.0 percent.

According to KPERS, the following table illustrates the fiscal effect of the enactment of HB 2557:

	Increase in Unfunded Actuarial Liability	Contribution Rate Increase Employee	Contribution Rate Increase Employer	First Year Employer Contrib.
KPERS State Group	$ 171,000,000	2.0%	0.66%	$ 6,600,000
KPERS School Group	591,000,000	2.0%	0.81%	26,200,000
Subtotal State & School	$ 762,000,000			$ 32,800,000
KPERS Local Group	182,000,000	2.0%	0.38%	5,600,000
Total	$ 944,000,000			$ 38,400,000

The cost estimates are based on the December 31, 2005 actuarial valuation and assumes that future retirement patterns would not be changed. The agency assumes that the unfunded actuarial liability would be amortized over the remaining 28 years in the current amortization

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House Select Committee on KPERS
Attachment 5
Date 3-08-2007

period. Any fiscal effect resulting from HB 2557 is not included in *The FY 2008 Governor's Budget Report.*

Sincerely,

Duane A. Goossen

Duane A. Goossen
Director of the Budget

cc: Mary Beth Green, KPERS