

SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairman Dwyane Umbarger at 11:00 A.M. on January 22, 2008, in Room 123-S of the Capitol.

All members were present except:

Senator Jay Emler - excused  
Senator Greta Goodwin - excused  
Senator Mark Taddiken - excused

Committee staff present:

Jill Wolters, Senior Assistant, Revisor of Statutes  
Alan Conroy, Director, Kansas Legislative Research Department  
Kristen Clarke Kellems, Assistant Revisor of Statutes  
Gordon Self, Revisor of Statutes Office  
Audrey Dunkel, Kansas Legislative Research Department  
Julian Efird, Kansas Legislative Research Department  
J. G. Scott, Kansas Legislative Research Department  
Michael Steiner, Kansas Legislative Research Department  
Jarod Waltner, Kansas Legislative Research Department  
Melinda Gaul, Chief of Staff, Senate Ways & Means  
Shirley Jepson, Committee Assistant  
Mary Shaw, Committee Assistant

Conferees appearing before the committee:

Glenn Deck, Director, Kansas Public Employees Retirement System (KPERS)  
Duane Goossen, Director, Division of the Budget

Others attending:

See attached list.

The meeting of the Senate Ways and Means Committee was in the middle of the Joint Meeting of the Joint Committee on Pensions, Investments and Benefits and Senate Ways and Means.

The Chairman welcomed Glenn Deck, Director, Kansas Public Employees Retirement System (KPERS), who presented information on the transfer of State Deferred Compensation to KPERS (Attachment 1).

Chairman Umbarger welcomed Duane Goossen, Director, Division of the Budget, who presented a briefing on the proposed COLA in the Governor's Budget (Attachment 2).

The meeting adjourned at 11:30 a.m. The next meeting of Senate Ways and Means was a continuation of the Joint Meeting on this day.

SENATE WAYS AND MEANS  
GUEST LIST

Date January 22, 2008

NAME	REPRESENTING
Duane Goossen	DOB
Pauli Thomas	DOB
Dana J. Miller	Buck Consultants
David Muskiesky	Buck Consultants
LARRY BERG	<del>K&amp;C</del>
Ethan Pothron	Derek Schmidt

**Implementation of 2007 HB 2385:  
Deferred Compensation Plan Transfer to KPERS**

- The Kansas Public Employees Deferred Compensation Plan is a voluntary, tax-deferred retirement savings program for state employees. In addition, many local public employers offer the Plan to their employees.

<b>Kansas Public Employee Deferred Compensation Plan Highlights*</b>		
<b>Assets</b>	\$666.3 million	<ul style="list-style-type: none"> <li>• State \$482.4 million</li> <li>• Local \$183.9 million</li> </ul>
<b>Total Participants</b>	24,897	<ul style="list-style-type: none"> <li>• State 15,511</li> <li>• Local 9,386</li> </ul>
<b>Active Participants</b>	15,989	<ul style="list-style-type: none"> <li>• State 9,495</li> <li>• Local 6,494</li> </ul>
<b>Employers</b>	240	<ul style="list-style-type: none"> <li>• State of Kansas</li> <li>• Local 239</li> </ul>
*As of 12/31/07		

- Following a 2006 study of the Plan, the Secretary of Administration and the KPERS Board of Trustees recommended transferring Plan administration to KPERS.
- During the 2007 legislative session, the Kansas Legislature passed and the Governor signed HB 2385, transferring administration of the State's Deferred Compensation Plan from the Department of Administration to KPERS, effective January 1, 2008.
- The primary goal in transferring plan administration to KPERS is to provide State and local employees with coordinated retirement education and planning information and to facilitate an increased emphasis on personal savings for retirement.
  - KPERS Board of Trustees and staff have expertise and resources in investments, retirement benefit administration, and related fiduciary issues that will improve Plan administration and investment options.
  - KPERS and the Plan have significant overlap of participants, both employers and employees, providing additional opportunities for expanding outreach and services.
  - Combined resources can maximize and integrate retirement education and planning.
  - Joint communication and education permit increased emphasis on the importance of personal savings for retirement.
- Several steps were taken during the last half of 2007 to facilitate an orderly transition.
  - The Department of Administration and KPERS entered into an interagency agreement for KPERS to provide plan administration services through the end of 2007.
  - KPERS hired the Department of Administration employee who had served in an interim plan manager capacity to assume the plan manager role going forward.

**KPERS**

January 22, 2008

*Senate Ways and Means  
1-23-08  
Attachment 1*

- During 2007, ING was reselected as the Plan's service provider following an RFP and competitive procurement negotiation process.
  - Responsive proposals were received from seven well-respected, qualified service providers.
  - The competitive procurement negotiation process provided an excellent opportunity to continue improving and enhancing the services available to Plan participants.
    - High quality investments, including –
      - Three Vanguard index funds with very low fund expenses.
      - Five Vanguard target date funds that are automatically rebalanced as the projected date for retirement nears.
      - A stable value separate account with greater fee transparency and portability and an initial crediting rate that compares favorably to the previous ING Fixed Account rate. (5.1% versus 4.3%.)
    - Lower average participant expenses and greater expense transparency.
    - Refocused communication and education.
    - Technological enhancements.
    - Continued access to ING's team of experienced, local representatives.
- Conversion to the new contract and investment line-up was successfully completed by December 10, 2007.
- The Plan's oversight and administration transferred smoothly, effective January 1, 2008.
  - KPERS staff will manage operations in conjunction with the Plan's service provider.
  - KPERS will continue to use the service provider, ING, for participant account recordkeeping and direct services such as enrollments, phone inquiries, and investment transactions.
- Integration into KPERS's organization is occurring through support by KPERS staff in communications, member education, and fiscal functions.
- A Board Deferred Compensation Committee has been formed to oversee the Plan and held its first meeting last week.
  - The Board Committee will manage plan assets, select and monitor investment options, and select and evaluate service providers.
- KPERS will work with ING on a communications and education plan to include website integration, joint education efforts, and rebranding.
- All direct and indirect expenses of the Plan will be paid using a cost allocation method with separate accounting of the assets and expenses for the Retirement System and the Plan.

MEMORANDUM

TO: Senate Ways & Means Committee  
FROM: Duane A. Goossen, Director of the Budget  
DATE: January 22, 2008  
SUBJECT: Governor's Recommended KPERS COLA

Thank you for the opportunity to testify today.

As part of her recently submitted budget recommendations, Governor Sebelius proposes a 1.0 percent KPERS cost-of-living-adjustment in each of the next three years. The FY 2009 COLA would apply to KPERS members who retired prior to July 1, 2007, the FY 2010 COLA to members who retired prior to July 1, 2008, and the FY 2011 COLA to members who retired prior to July 1, 2009.

The FY 2009 COLA requires a \$6.4 million increase into the base amount of state payments to the KPERS system. The increase in the base payment must be maintained for 15 years. The FY 2010 COLA requires an additional \$6.7 million increase in the base, and the FY 2011 COLA a \$7.1 million increase. The attached chart shows how the cost of the proposed COLA increases fit in with payments already made to the KPERS system.

If enacted, the FY 2009 COLA would be the first permanent cost-of-living-adjustment for KPERS retirees in the last ten years.

Using new gaming revenue to pay down State General Fund debt makes the increased funding for the COLA in the Governor's proposed FY 2009 budget possible.

### KPERs Contributions by the State of Kansas

*(Dollars in Millions)*

	School Payroll Contrib.	State Payroll Contrib.	Pension Obligation Bond Pmts.	Governor's KPERs COLA Proposal	Total State Contributions	Combined Payroll Contrib. Rate
FY 2000	87.3	33.2	--	--	120.5	4.19%
FY 2001	93.2	33.7	--	--	126.9	3.97%
FY 2002	109.4	39.6	--	--	149.0	4.78%
FY 2003	113.6	40.2	--	--	153.8	4.98%
FY 2004	123.7	42.3	--	--	166.0	4.58%
FY 2005	142.5	46.9	--	--	189.4	5.47%
FY 2006	169.7	55.0	10.0	--	234.7	6.07%
FY 2007	200.4	64.2	15.0	--	279.6	6.77%
FY 2008	221.4	71.8	26.1	--	319.3	7.37%
FY 2009	249.4	79.3	36.1	6.4	371.2	7.97%
FY 2010*	276.2	87.8	36.1	13.1	413.2	8.57%
FY 2011*	304.4	96.8	36.1	20.2	457.5	9.17%
FY 2012*	334.1	106.2	36.1	20.2	496.6	9.77%
FY 2013*	365.2	116.1	36.1	20.2	537.7	10.37%

\* Assumes a 3.0 percent payroll growth rate each year for both state and school groups.