Approved: January 26, 2009
Date

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairman Jay Emler at 10:30 a.m. on January 22, 2009, in Room 545-N of the Capitol.

All members were present.

Committee staff present:
J. G. Scott, Kansas Legislative Research Department
Michael Steiner, Kansas Legislative Research Department
Estelle Montgomery, Kansas Legislative Research Department
Cody Gorges, Kansas Legislative Research Department
Julian Efird, Kansas Legislative Research Department
Aaron Klaassen, Legislative Research Department
Jill Wolters, Office of the Revisor of Statutes
Daniel Yoza, Office of the Revisor of Statutes
Gordon Self, Office of the Revisor of Statutes
Melinda Gaul, Chief of Staff
Shirley Jepson, Committee Assistant

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

Others attending:
See attached list.

Introduction of Legislation

Senator Vratil moved to introduce legislation to amend the cash basis law. The motion was seconded by Senator Umbarger. Motion carried on a voice vote.

Senator Vratil moved to introduce legislation to tie the Local Option Budget (LOB) to the Base State Aid Per Pupil (BSAPP). The motion was seconded by Senator Wysong. Motion carried on a voice vote.

Approval of Minutes

Senator Schodorf moved to approve the minutes of January 15 and January 16, as written. The motion was seconded by Senator Wysong. Motion carried on a voice vote.

Update on Kansas Public Employees Retirement System (KPERS) Long-Term Funding

Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERS), presented an update on the retirement system and long-term funding (Attachment 1). Highlights from Mr. Deck's testimony include:

- Actuarial valuation in 2001 and 2002 established the basis for a long-term funding plan to address the shortfall in funding for the retirement system and bring the Plan into actuarial balance.
- The Plan's strategy is to invest long-term and produce a targeted yearly return of 8 percent on investments.
- The weakness in the financial markets in calendar year (CY) 2008 has caused the worst performance for stocks since the Great Depression raising a concern for the Plan.
- Unaudited estimated KPERS' assets on December 31, 2008, is $9.9 billion, down 27.9 percent for the calendar year, resulting in an actuarial loss for CY 2008 of $4.6 billion.
- With the losses in CY 2008, the total System funded ratio has declined from 71 percent to 68 percent.
- KPERS anticipates no gain in 2009 and the possibility of slow growth in 2010.
- The magnitude of the CY 2008 losses will cause a significant increase in the unfunded liability.

Mr. Deck stated that current KPERS' benefits are safe with assets of approximately $10 billion to pay retiree benefits; however, noted the need to look for options, both short-term and long-term, to bring the system back into balance.

Minutes of the Senate Ways And Means Committee at 10:30 a.m. on January 22, 2009, in Room 545-N of the Capitol.

KPERS Proposed Legislation

Julian Efird, Legislative Research Department, provided a report on legislation proposed to be introduced to the 2009 Legislature by the Joint Committee on Pensions, Investments and Benefits in their 2008 Interim Report to the 2009 Legislature (Attachment 2). The legislation briefly includes:

- Provide an automatic 2.0 percent cost-of-living adjustment (COLA) for members of the Kansas Police and Firemen's (KP&F) Retirement System and the Retirement System for Judges, for members hired, appointed, or elected on or after July 1, 2010.
- Raise earning limitation cap from $10,000 to $20,000 for disabled KP&F members.
- Allow local units of government an option of placing correctional and jail officers in a special KPERS group.
- Extend the same restrictions that currently apply to participating employers and teachers working after KPERS retirement to other entities that provide contracted teachers to school districts.
- Allow certain vocational-technical teachers to purchase KPERS service credit.

The interim committee also recommends additional study of:

- Working after retirement, cost-of-living adjustment for active and retired employees, and membership in the KP&F Retirement System for certain state employees.
- Review the need for an employer contribution rate increase to be effective no later than FY 2012.

Responding to a question from the Committee, Gordon Self, Revisor of Statutes, stated that the issue of enforcing the $20,000 income limitation on employees of private contractors, who work for a school district, is still being investigated and language for the legislation has not been drafted at this time.

Continued Discussion of SB 30 - State surplus property; disposition of computers and firearms.

Jill Wolters, Revisor of Statutes, explained additional and revised balloons for **SB 30** as a result of the Committee's request (Attachment 3).

Jeff Russell, Director, Division of Legislative Services, presented information on a procedure to be used in the process of offering surplus computers to Kansas local public libraries as proposed in the balloon amendment to **SB 30** (Attachment 4). Mr. Russell noted that there are approximately 393 public libraries within the state.

Senator Vratil moved that the amended version of **SB 30** be adopted. The motion was seconded by Senator Taddiken. Motion carried on a voice vote.

Senator Vratil moved to recommend **SB 30** as amended favorable for passage. The motion was seconded by Senator Masterson. Motion carried on a voice vote.

The next meeting is scheduled for January 23, 2009.

The meeting was adjourned at 11:45 a.m.

SENATE WAYS & MEANS COMMITTEE
GUEST LIST
DATE: ____January 22, 2009___

NAME	REPRESENTING
Zack Goodman	Sen Taddiken #21
Glenn Deck	KPERS
Robert Vince Smith	KPERS
Julia Thomas	DOB
Sheena Ward	DOB
Jeff Arpin	Division of the Budget
Faith Loretto	KPERS
Travis Lowe	Pinegar, Smith & Assoc.
Emily [illegible]	
Marilyn Jacobs	DOA / OFM
Anne Maack	KS Coalition for School Readiness
Sharelle Dupree	KHPA
Kerri Cerm	KTEC
Shelby Smith	—
Mike Reecht	Docking Braden
Mark Borangk	Capitol Strategies
Art Wilburn	KHP
Ryan Eagleson	Capitol Consulting Group
Terry Forsyth	KNEA
Suzanne Wikle	KAC
Kim Fowler	Judicial Branch
R. Mealy	Kearney & Assoc.
Matt Moender	Carter Group

SENATE WAYS & MEANS COMMITTEE
GUEST LIST
DATE: ____January 22, 2009___

NAME	REPRESENTING
Alan Burt	Secretary of State
Mike Hammond	ACMHCK
Shannon Bell	LGR
Joe Mosimann	Hein Law Firm
Ann Marie Hughey	SKIL
Sandy Jacquot	LKM
Jeff Russell	LAS

Kansas Public Employees
Retirement System

KPERS Long-Term Funding

Senate Ways & Means Committee ▪ *January 22, 2009*

Senate Ways & Means Cmte
Date 1-22-2009
Attachment 1

Presentation Overview

1-2

- Background
- Investment Overview
- Funding Status
- State/School ARC Scenarios
  - Current Bear Market & Recovery Scenarios
  - Statutory Contribution Increase Cap Scenarios
- Projected Budgetary Effect of Raising Contribution Increase Cap
- Conclusions

1-3

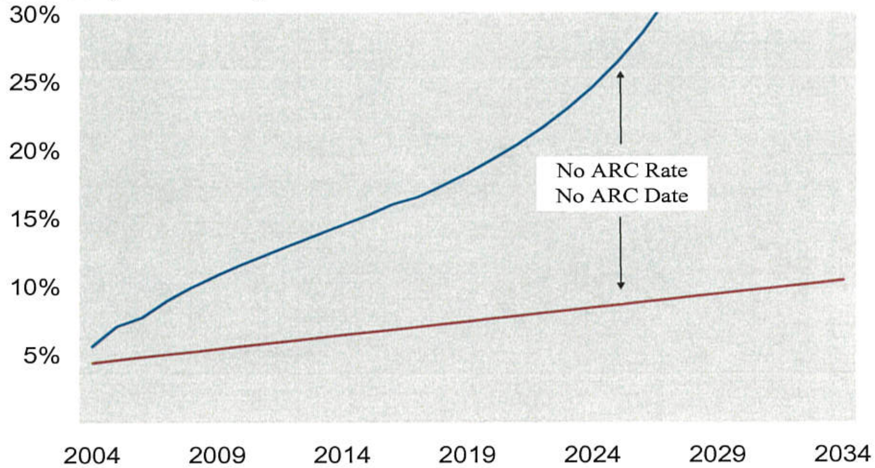
Background

- In 2001 and 2002, actuarial projections indicated the KPERS retirement plan was not in actuarial balance. Statutory rates were not projected to reach the actuarially required contribution (ARC) rate before the end of the amortization period.
- Following the 2001 actuarial valuation results, KPERS began working with the Joint Committee on Pensions, Investments and Benefits to develop a comprehensive long-term funding plan to address the shortfall and bring the Plan into actuarial balance.
  - 2003 legislation raised statutory caps on employer contribution rate increases from 0.2% annually to 0.4% in FY 2006; 0.5% in FY 2007; and 0.6% in FY 2008 and subsequent years.
  - State issued $500 million in pension obligation bonds in 2004.
  - 2007 legislation established a new plan design for employees hired on or after July 1, 2009, which increased retirement eligibility ages and employee contributions.
- ARC rate projections and projections of ARC date (the year in which the statutory contribution rate would first equal or exceed the ARC rate) also improved due to an average annual investment performance for CY 2003-2007 of 11.01%.
- The following charts illustrate historical improvements in State/School ARC rates and dates during this period.

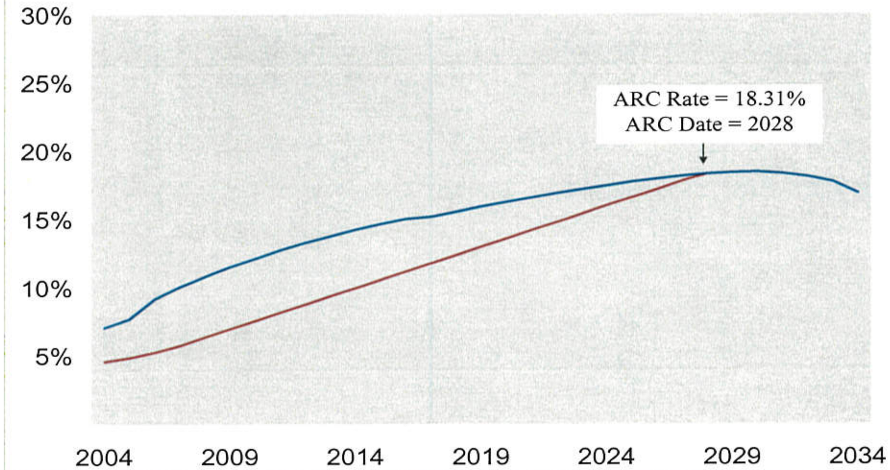
Historical ARC Projections

1-4

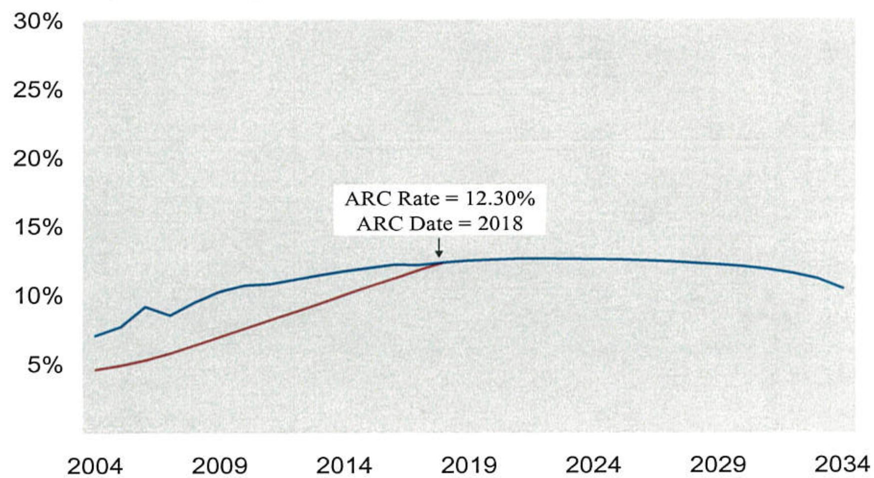
February 2003 Projections



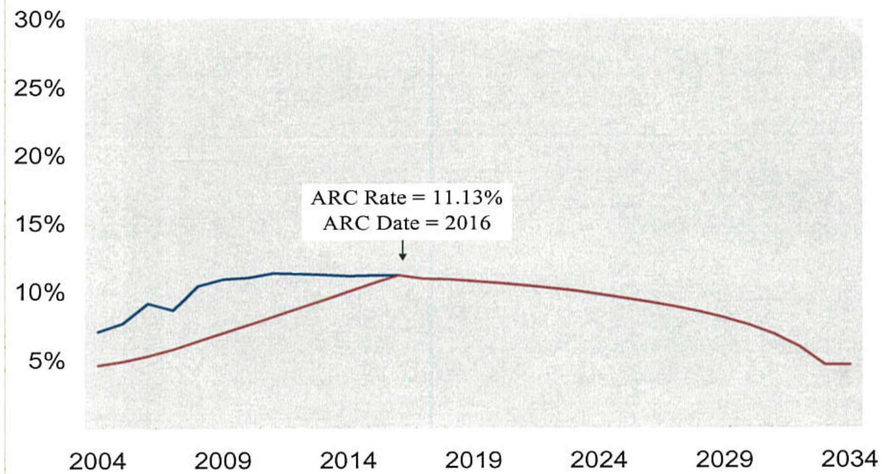
June 2003 Projections - After Employer Rate Increases



February 2004 Projections - After POBs Issued



December 2007 Projections - After Plan Design Changes



Actuarial Employer Rates   Statutory Employer Rates

Investment Overview

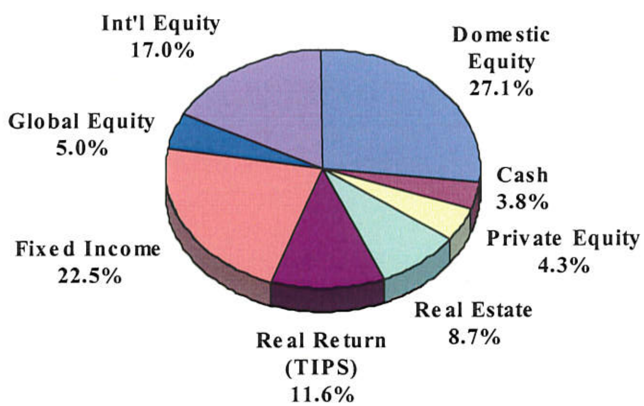
1-5

- Financial markets remain weak with stocks discounting significant declines in corporate earnings and the fixed income markets still not exhibiting full liquidity.
  - Calendar year 2008 is the worst performance for stocks since the Great Depression era. US stocks are down 35-40% for 2008, with foreign stocks down further in US dollar terms.
  - Fixed income returns were modestly positive for 2008 with a wide disparity in performance between Treasury bonds and corporate bonds/other credit securities.
- KPERS is a prudent and patient investor, managing the portfolio for long-term returns and for the purpose of providing benefits. Our strategy for managing the present environment is:
  - Attentively manage to maintain sufficient liquidity;
  - Monitor our external managers and the markets to be as fully aware of the investment environment as possible;
  - Look for sound and sensible investment opportunities to present themselves.

1-6

KPERS' Portfolio

Current Position



Kansas Public Employees Retirement System
Interim Investment Report

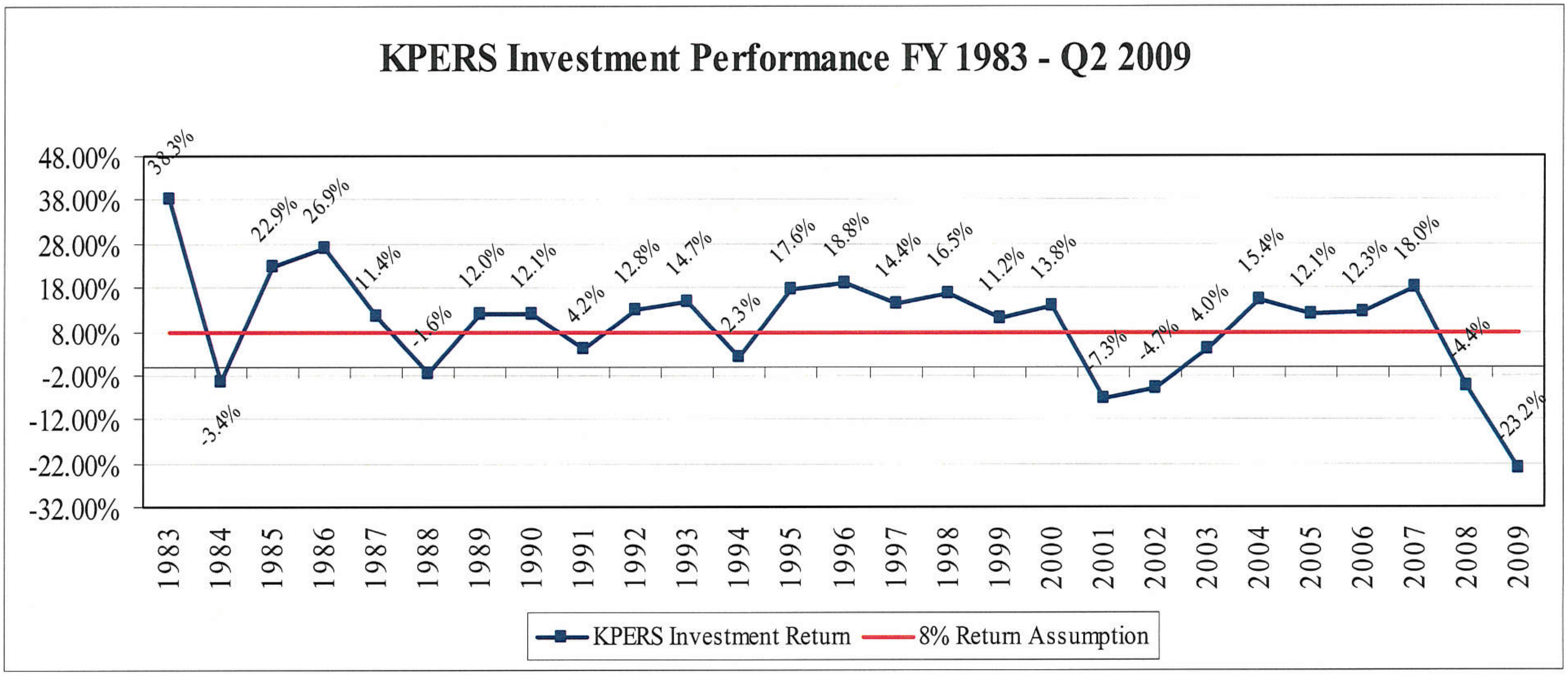
ALL NUMBERS REPRESENT PRELIMINARY UNAUDITED ESTIMATES

Unaudited Estimates as of December 31, 2008

Total Assets at Market Value	**$ 9,942,000,000**	
Total Return Fiscal Year-to-Date	**-23.2%**	
Total Return Calendar Year-to-Date	**-27.9%**	
Index Returns	**Fiscal Year to Date**	**Calendar Year to Date**
Dow Jones Industrial	-21.4%	-31.9%
S&P 500 Index	-28.5%	-37.0%
NASDAQ	-30.9%	-40.0%
MSCI All Country World Ex U.S. Index	-39.3%	-45.2%
MSCI United Kingdom Index	-41.8%	-48.3%
Nikkei 225 Stock Index (Japan)	-34.3%	-42.1%
Barclays Capital Universal Index (Bonds)	1.5%	2.4%
Barclays Capital U.S. TIPS Index	-6.9%	-2.4%

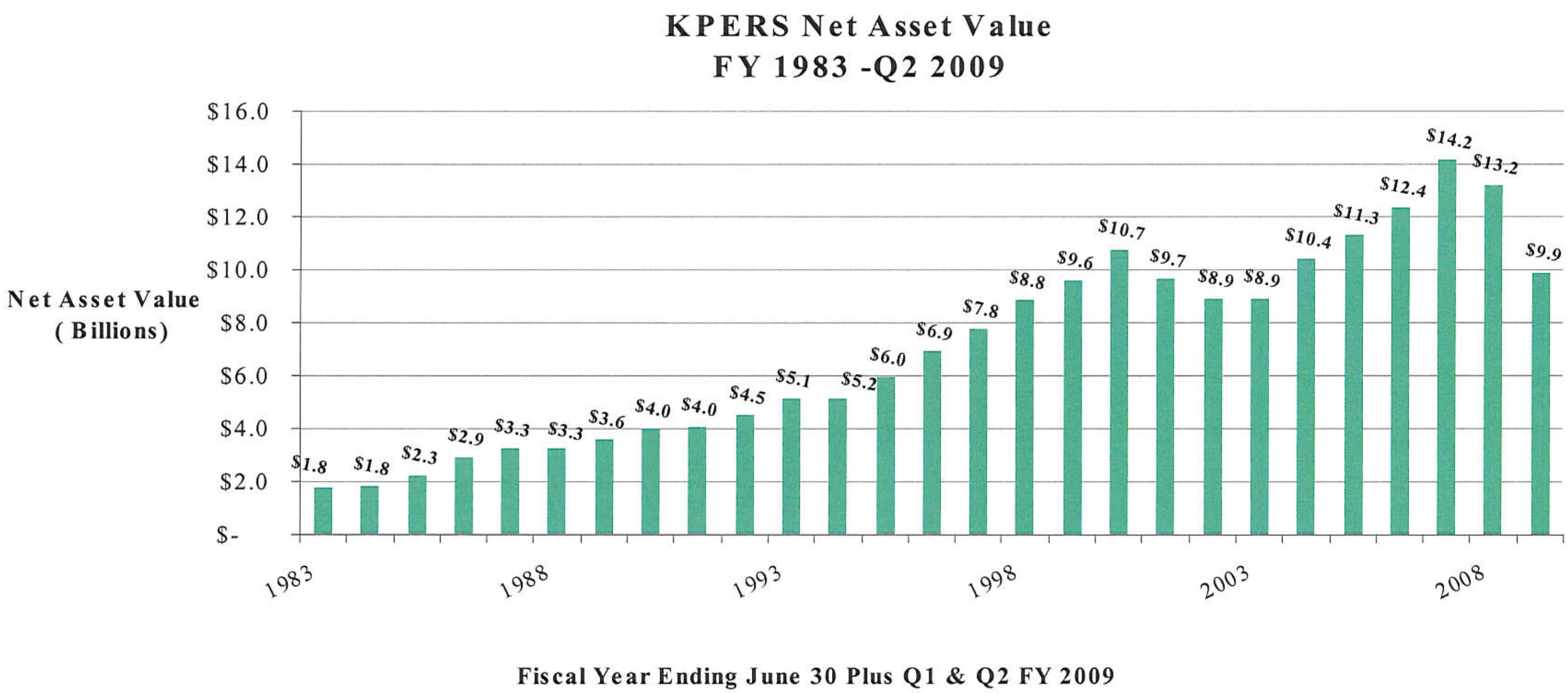
1-7

KPERS' Returns Typically Vary...



1-8

...But Over Time, the Assets Grow



Funding Status

9-1

Market Impact on KPERS' Actuarial Valuation

- As of the 12/31/07 valuation, the unfunded actuarial liability for the entire system was $5.6 billion, with a funded ratio of 71%.
- Actuarial projections assume average, long-term investment returns of 8.0% over the remaining amortization period.
- By assuming an *average* 8% investment return, actuarial projections recognize that, in some years, returns will be below that rate and, in others, returns will exceed 8%.
- To minimize volatility in contribution rates due to market volatility, actuarial projections use a "smoothing" method.
  - Smoothing impacts the timing of recognizing actual experience versus expected (8%) return.
  - The difference between the actual and expected return is spread equally over five years.
  - KPERS' existing unrecognized experience from 2004 through 2007 =
    - $735 million total gain
    - $307 million gain to be recognized in 12/31/08 valuation

Funding Status (Continued)

1-10

<u>Effect of 2008 losses and smoothing on UAL</u>

- Through 12/31/08, the *preliminary* figure for the KPERS portfolio return is -23.2% for FY 2009 and -27.9% for CY 2008.
- The new 12/31/08 valuation, which will be the first valuation to include these returns, will not be complete until July 2009.
- To illustrate the impact of one year of large losses, an assumed return of -25% on market value for CY 2008 is estimated to result in an actuarial loss for CY 2008 of $4.6 billion.
  - The portion recognized in 12/31/08 valuation would be $929 million.
  - The increase in total System UAL due to net investment experience would be $622 million, which would increase the System's UAL to $6.4 billion as of 12/31/08.
  - The total System funded ratio would decline to 68% as of 12/31/08.

Funding Status (Continued)

- Additional portions of CY 2008 losses are reflected in subsequent valuations (2009 to 2012).
- Actual investment returns in the next few years will determine how much of the CY 2008 deferred loss ultimately is reflected in subsequent valuations.
- However, given the magnitude of CY 2008 losses, even if there is a quick, substantial recovery in the next few years, the UAL will increase significantly, the Plan's funding ratio will fall, and the ARC rate and date projections will deteriorate.

State/School ARC Scenarios

1-12

- Projected State/School ARC rates and dates under several scenarios follow:
  - Scenarios relating to the current bear market and future recovery
  - Scenarios relating to contribution increase caps
- Funding projections for these scenarios are based on a model developed by KPERS' actuary (Milliman USA).
  - Projection model allows the development of wide range of projections involving changes or variations in investment returns and employer contribution rates, among other variables.
- Projections are based on many assumptions and are designed to illustrate long-term trends and impacts.
  - Not intended to predict exact ARC rates and dates.
  - Projected ARC rates and dates can change dramatically from year to year.
  - Scenarios regarding duration of continued volatility and ultimate timing and strength of recovery are for purposes of illustration only.
  - Therefore, the ARC rate and date projections are also for purposes of illustration only.

Current Bear Market and Recovery Scenarios

1-13

The following series of charts illustrate the projected impact of the current bear market on State/School ARC rates and dates under four different recovery scenarios. All of these scenarios assume a -25% return in CY 2008 and no change in the statutory contribution increase cap of 0.6% annually.

- "Level 8%" Recovery. This scenario assumes investment returns of 8% each year after CY 2008.
- "Delayed" Recovery. This scenario assumes investment returns beyond CY 2008 as follows:
    - 0% return in CY 2009
    - Returns in CY 2010 through 2013 that match historical recovery rates following the last bear market (CY 2004-2007)*
    - 8% annual return thereafter

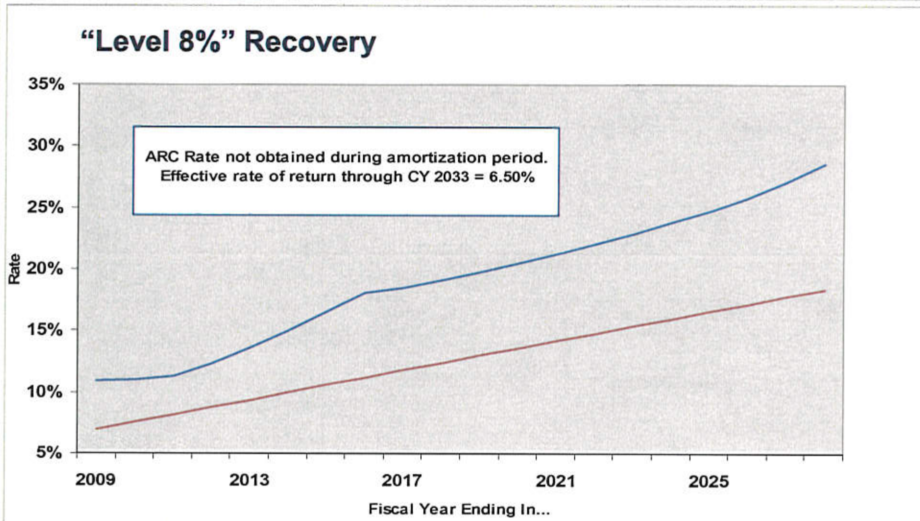
- "Gradual" Recovery. This scenario assumes investment returns beyond CY 2008 as follows:
  - 8.0% return in CY 2009 and 9.0% in CY 2010
  - 10% return for CY 2011 through CY 2020
  - 8% annual return thereafter

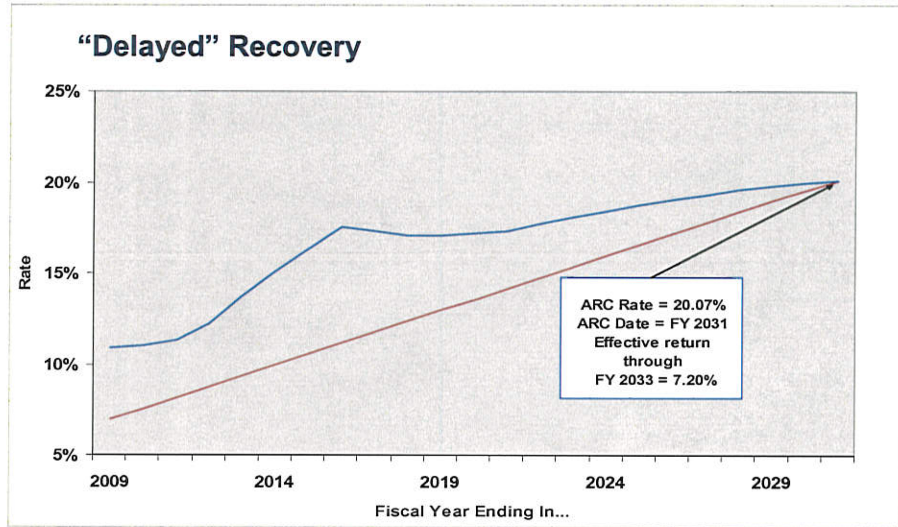
- "Strong" Recovery. This scenario assumes investment returns beyond CY 2008 as follows:
  - 8% return in CY 2009
  - Returns in CY 2010 through 2013 that match historical recovery rates following the last bear market (CY 2004-2007)*
  - 8% annual return thereafter

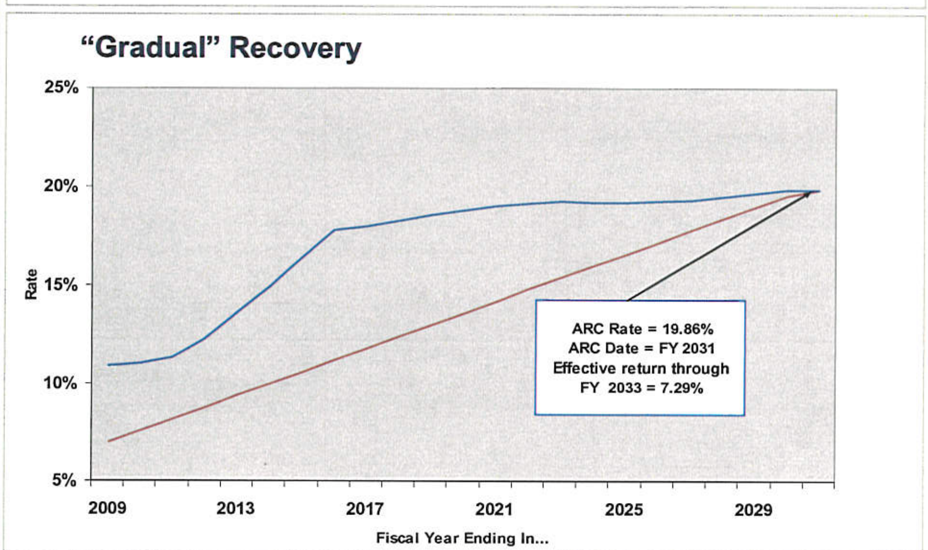
*	CY 2010:	22.10%
	CY 2011:	12.60%
	CY 2012:	9.70%
	CY 2013:	15.50%

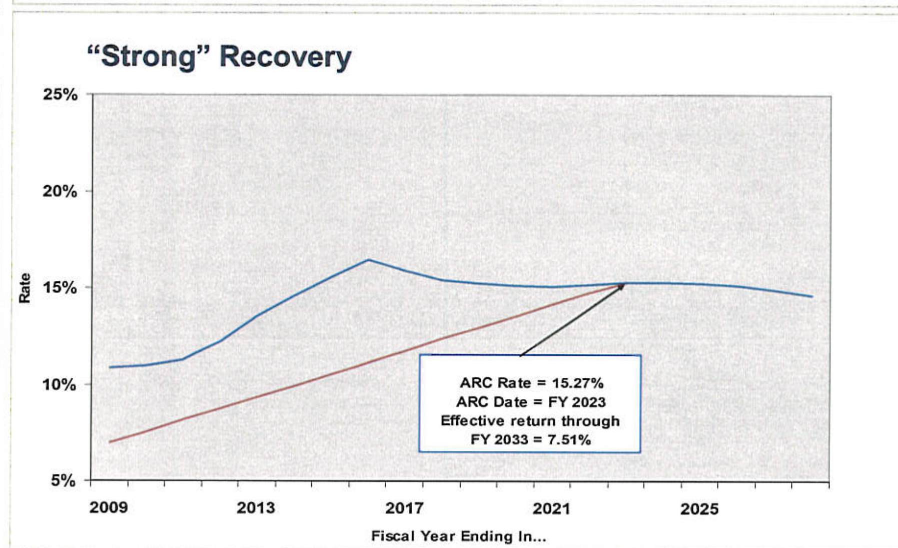
ARC Projections Without a Cap Increase*

1-15









Actuarial Employer Rates — Statutory Employer Rates

**Funding projections are long term and variable. Actual results will vary.*

Statutory Contribution Cap Increase Scenarios

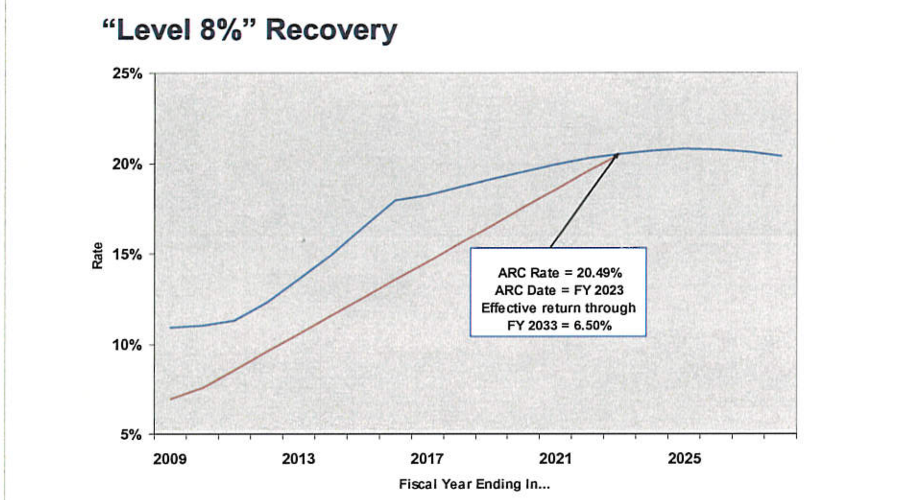
1-16

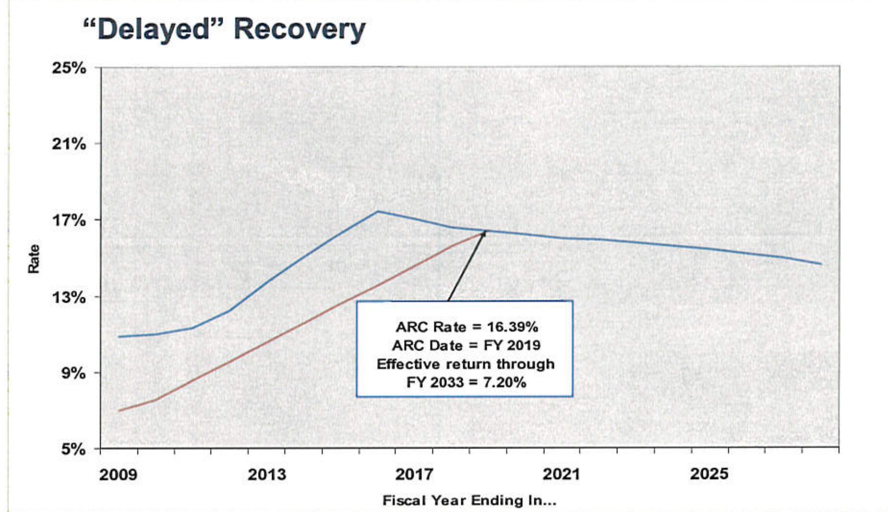
To examine the effect of a contribution rate increase on the ARC rates and dates, an example using the same four recovery scenarios shown above was developed. The following series of charts illustrate the projected impact on State/School ARC rates and dates of a -25% return in CY 2008, with the contribution increase cap raised to 1% in FY 2011 and every year thereafter.

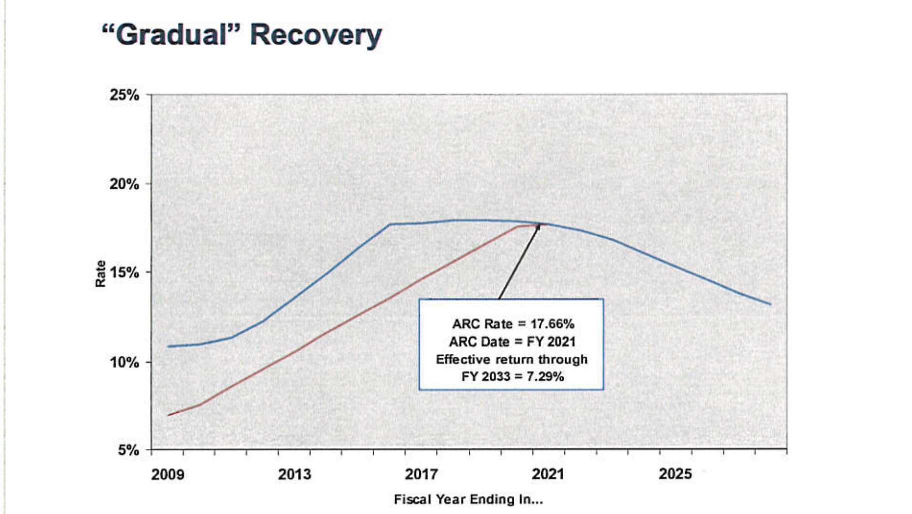
- "Level 8%" Recovery
- "Delayed" Recovery
- "Gradual" Recovery
- "Strong" Recovery

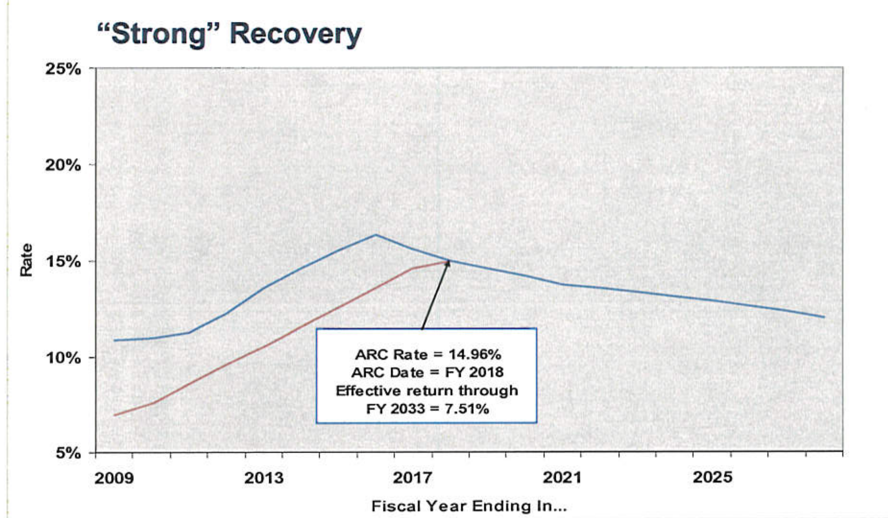
ARC Projections With a 1% Cap Increase Option*

1-17









Actuarial Employer Rates   Statutory Employer Rates

**Funding projections are long term and variable. Actual results will vary.*

Projected Budgetary Effect of Raising Contribution Increase Cap

1-18

- The combined state/school employer contribution rate for FY 2009 is 6.97%.
- Currently, employer contribution increases are limited by statute to 0.6% annually.
- Under the 0.6% cap, the combined State/School contribution rate increases to 7.57% for FY 2010 and then to 8.17% for FY 2011. This represents an increase of $35.3 million from FY 2010 to FY 2011.
- Using the prior illustration of a 1.0% maximum increase per year beginning in FY 2011, combined State/School contributions are projected to increase by $53.7 million from FY 2010 to FY 2011.
- This represents an additional $18.4 million in State/School contributions generated by the higher cap in the first year. By FY 2015, the 1.0% cap would generate an additional $101 million in contributions for that year.
- The following charts compare the projected effect on State/School contributions from FY 2011 through FY 2015 under the existing 0.6% cap and a 1.0% cap option.

1-19

Projected State/School Employer Contributions
1% Rate Increase Cap Option

Annual Increase Cap = .6% Fiscal Years 2010-2015

	State Employer Contributions	School Employer Contributions	Combined State and School	Annual Incremental Increase in Contributions
2010	$ 85.34	$ 255.38	$ 340.72	
2011	$ 94.62	$ 281.40	$ 376.01	$ 35.29
2012	$ 104.14	$ 308.55	$ 412.69	$ 36.68
2013	$ 114.14	$ 336.94	$ 451.08	$ 38.39
2014	$ 124.67	$ 366.74	$ 491.41	$ 40.33
2015	$ 135.78	$ 398.08	$ 533.85	$ 42.44
Total	$ 658.68	$ 1,947.09	$ 2,605.77	$ 193.13

Annual Increase Cap = .6% Fiscal Year 2010; 1.00% Effective Fiscal Year 2011-2015

	State Employer Contributions	School Employer Contributions	Combined State and School	Annual Incremental Increase in Contributions
2010	$ 85.34	$ 255.38	$ 340.72	
2011	$ 99.25	$ 295.17	$ 394.42	$ 53.70
2012	$ 113.64	$ 336.70	$ 450.33	$ 55.91
2013	$ 128.76	$ 380.09	$ 508.85	$ 58.52
2014	$ 144.68	$ 425.60	$ 570.27	$ 61.43
2015	$ 161.47	$ 473.40	$ 634.87	$ 64.59
Total	$ 733.12	$ 2,166.34	$ 2,899.47	$ 294.15

1-20

Projected Additional State/School Contributions
With 1% Cap on Rate Increases, Effective FY 2011

	State/School Contributions in Millions		
	Current .6% Cap	1.0% Cap	Additional Contributions
2010	$ 340.72	$ 340.72	$ -
2011	376.01	394.42	18.41
2012	412.69	450.33	37.65
2013	451.08	508.85	57.77
2014	491.41	570.27	78.86
2015	$ 533.85	$ 634.87	$ 101.01
Total	$ 2,605.77	$ 2,899.47	$ 293.70

Conclusions

1-21

- Current benefits are safe. Assets of approximately $10 billion (including adequate cash reserves) are available to pay benefits.
- Unprecedented market declines have had substantial impact on the long-term funding status of the KPERS system.
- Projections indicate that the combined State/School group is not in actuarial balance and will not reach an ARC date during the remainder of the amortization period with a level 8% return assumption.
- Options for increasing statutory employer contribution caps in future years need to be considered to bring the System back into actuarial balance over the long term.
- Contribution increases in the first few years reduce the ultimate cost of bringing the System into actuarial balance, while the final cost rises if contribution rate increases are delayed.
- KPERS will continue to closely monitor investment returns and funding status and will report further developments to the Legislature.

Kansas Legislative Research Department January 22, 2009

Joint Committee on Pensions, Investment and Benefits

2008 Interim Reports Summary

The Committee recommends the following legislation to the 2009 Legislature, including five bills that would:

1. provide an automatic 2.0 percent cost-of-living adjustment for members of the Kansas Police and Firemen's (KP&F) Retirement System and the Retirement System for Judges for members who are hired, appointed, or elected on or after July 1, 2010 **(SENATE BILL);**

2. raise the earnings limitation cap to $20,000 for disabled KP&F members **(HOUSE BILL)**;

3. allow local units of government an option of placing correctional and jail officers in a special KPERS group with enhanced benefits, subject to approval by the county commission or other local governing body **(HOUSE BILL)**;

4. extend the same restrictions that currently apply to participating employers and teachers working after KPERS retirement for school districts under individual contracts to other entities that provide contracted teachers to school districts by applying the same laws on salary caps and special employer contributions **(SENATE BILL)**; and

5. allow certain vocational-technical teachers to purchase KPERS service credit for certain types of apprenticeship experience **(HOUSE BILL)**.

The Committee also recommends additional study for issues such as working after retirement, cost-of-living adjustment for active and retired employees, and membership in the Kansas Police and Firemen's Retirement System for certain state employees.

Finally, the Committee recommends, after reviewing KPERS financial performance and long-range projections of financial problems, future sessions of the Legislature review the need for an employer contribution rate increase to be effective no later than FY 2012. KPERS staff suggests raising the present annual 0.6 percent KPERS rate increase to at least an increase of 1.0 percent annually, beginning no later than FY 2012, is necessary.

Senate Ways & Means Cmte
Date 1-22-2009
Attachment 2

Report of the Joint Committee on Pensions, Investments, and Benefits to the 2009 Kansas Legislature

CHAIRPERSON: Senator Stephen Morris

VICE-CHAIRPERSON: Representative Richard Carlson

RANKING MINORITY MEMBER: Representative Geraldine Flaharty

OTHER MEMBERS: Senators Anthony Hensley, Laura Kelly, Ruth Teichman, and Dwayne Umbarger; and Representatives Vaughn Flora, Brenda Landwehr, Margaret Long, Robert Olson, Sharon Schwartz, and Arlen Siegfreid

STUDY TOPICS

- KPERS Permanent Cost-of-Living Adjustment
- Increase Earnings Limitation for Disabled Kansas Police and Fire Retirement System Members
- Statutory Study

Joint Committee on Pensions, Investments, and Benefits

KPERS Permanent Cost-of-Living Adjustment (COLA)

Conclusions and recommendations

The Joint Committee recommends introduction of legislation to provide an automatic 2.0 percent cost-of-living adjustment for members of the Kansas Police and Firemen's (KP&F) Retirement System and the Retirement System for Judges for members who are hired, appointed, or elected on or after July 1, 2010.

Proposed Legislation: The Committee recommends introduction of one bill.

Background

The Joint Committee on Pensions, Investments, and Benefits was assigned this study topic by the Legislative Coordinating Council. The Committee studied a permanent cost-of-living adjustment (COLA) for current Kansas Public Employees Retirement System retirees and for current active employees who will retire. Prior legislation will provide an automatic cost-of-living adjustment for future retirees who start employment after June 30, 2009. The Committee also reviewed the funding options and the impact on the KPERS unfunded obligation. The proposals on COLAs were reviewed at meetings on June 17, September 15-16, and October 14, 2008.

Committee Activities

During the 2008 Session, the Governor proposed a permanent COLA for KPERS retirees based on a three-year annual 1.0 percent for those eligible in FY 2009, FY 2010, and FY 2011. However, other legislation was passed as a substitute for that proposal.

The 2008 Legislature enacted and the Governor signed Senate Sub. for HB 2390 that authorized a one-time post-retirement payment of $300 to certain members of KPERS, the Kansas Police and Firemen's (KP&F) Retirement System, and the Retirement System for Judges, including those retirees, beneficiaries, and disabled members of the state, school and local groups who had at least 10 years of service credit and had retired or become disabled before July 1, 1998.

Previously, the 2007 Legislature passed a similar $300 bonus payment for eligible members who had 10 years of service credit and who retired or became disabled on or before July 1, 1997. The state's cost was approximately $7.0 million for each of the annual bonus payments, and local units of government had costs of approximately $2.1 million for each year. The state's cost was prepaid by appropriations and the local costs were added to the unfunded liability, to be paid over 10 years by an increase in employer contributions.

At the meeting of September 15-16, testimony was provided by the Kansas Coalition of Public Retirees, the Kansas Peace Officers Association,

2-3

the Kansas Association of Chiefs of Police, the Kansas National Education Association, the Kansas Association of School Boards, and the State Employees Association of Kansas. KPERS staff presented various alternatives for COLAs at the September and October 14 meetings that are included as attachments with the minutes of those sessions available at the Division of Legislative Administrative Services. Senator Hensley also provided an alternative COLA proposal at the December 2, 2008, meeting which also may be found as an attachment to those minutes. The Committee received estimates from KPERS staff about the cost of various proposals and sources of financing such cost, including the possible use of new gaming money from casinos.

The December 2, 2008, meeting focused on the System's long-term financial issues and the loss of anticipated casino and slot-machine revenue that might have been used for COLA financing.

Conclusions and Recommendations

The Committee recommends introduction of a bill to provide an automatic 2.0 percent cost-of-living adjustment for members of the KP&F Retirement System and the Retirement System for Judges for members who are hired, appointed, or elected on or after July 1, 2010. The fiscal note estimates that the employee contribution rate for future KP&F members will rise from 7.0 percent to 9.0 percent and for future members of the Judges Retirement System from 6.0 percent to 10.0 percent.

The Committee regrets that the economic downturn in 2008 prevents further consideration of other COLA proposals at this time. The Committee intends to revisit this issue and review alternative COLA plans for retired and active members when financial conditions improve. Such future studies should include for review any proposals that would allow voluntary adjustments by individuals at the time of retirement in order to self-fund a personal COLA.

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Joint Committee on Pensions, Investments, and Benefits

Increased Earnings Limitation for Disabled Members of the Kansas Police and Firemen's (KP&F) Retirement System

Conclusions and recommendations

The Joint Committee recommends a bill to raise the earnings limitation cap to $20,000 for disabled KP&F members.

Proposed Legislation: The Committee recommends introduction of one bill.

Background

The Joint Committee on Pensions, Investments, and Benefits was assigned this study topic by the Legislative Coordinating Council, with direction to study the issue.

The Committee reviewed the statutory earnings limitation placed on disabled members of the Kansas Police and Fire (KP&F) Retirement System and considered 2007 HB 2076 which would have increased the current earnings limitation on disabled KP&F members from $10,000 annually to $20,000.

Committee Activities

The proposal on KP&F disability benefits was reviewed at the meeting of August 20, 2008, and a recommendation formulated on December 2, 2008. The minutes and attachments for all meetings are available from the Division of Legislative Administrative Services.

Previously, the Committee recommended introduction of 2007 HB 2076 following its 2006 interim study of the current earnings limitation on disabled members of KP&F. Although these provisions were amended into 2007 HB 2077 along with other KPERS items, both bills died in the House committee and never were considered by the Senate during the two-year period after the bill was introduced at the Committee's recommendation.

At the meeting of August 20, testimony in support of the legislation was presented by Representative Jill Quigley, Representative Ann Mah, the Kansas State Council of Firefighters, the Kansas Peace Officers Association, the Kansas Association of Chiefs of Police, and a disabled firefighter from Shawnee, Kansas. Representatives of various public safety groups asked to increase the earnings limitations, either to $20,000 or by eliminating the cap completely.

Conclusions and Recommendations

The Committee recommends introduction of a bill to raise the earnings limitation cap to $20,000 for disabled KP&F members.

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Joint Committee on Pensions, Investment, and Benefits

Statutory Study

Conclusions and recommendations

- Based on KPERS financial performance and long-range projections of financial problems, the Committee recommends that future sessions of the Legislature review the need for an employer contribution rate increase to be effective no later than FY 2012 that would raise the present annual 0.6 percent KPERS rate increase to at least an increase of 1.0 percent annually, beginning no later than FY 2012.
- The Committee recommends a meeting on January 9, 2009, to continue review of the working after retirement topic and to consider recommendations about related retirement issues.
- The Committee recommends no action on the expansion of state groups into the Kansas Police and Firemen's (KP&F) Retirement System given the current financial and budget conditions, and suggests evaluating the implementation in three years of a new pay plan for state public safety personnel before reconsidering this topic again.
- The Committee recommends introduction of legislation to allow local units of government to have the option of placing correctional and jail officers in a special KPERS group with enhanced benefits, subject to approval by the county commission or other local governing body.

Proposed Legislation: The Joint Committee recommends introduction of one bill.

Background

The Joint Committee on Pensions, Investments, and Benefits is directed by KSA 46-2201 to monitor, review, and make recommendations relative to investment policies and objectives formulated by the KPERS Board of Trustees; to review and make recommendations related to KPERS benefits; and to consider and make recommendations on the confirmation of members nominated by the Governor to serve on the KPERS Board of Trustees.

KPERS administers three statewide coverage groups: KPERS state, school, and local (for regular state and local public employees, school and community college employees, and state correctional officers); the Kansas Police and Firemen's (KP&F) Retirement System; and the Kansas Retirement System for Judges. All coverage groups are defined benefit, contributory retirement plans, and have as members most public employees in Kansas. KPERS also administers several other employee benefit and retirement programs: a public employee death and long-term disability benefits plan for active employees; an optional term life insurance

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program; a Kansas City, Kansas annuitant program; and a closed legislative session-only employees retirement program.

Committee Activities

The Committee met June 17, August 20, September 15-16, October 14, and December 2, 2008. The Committee plans to meet again on January 9, 2009, on the topic of working after retirement which is addressed in this report. The minutes and attachments for the meetings may be found in the Division of Legislative Administrative Services.

Governor's Nominations. There were no vacancies on the KPERS Board of Trustees that would have required the Joint Committee to review gubernatorial nominees pursuant to KSA 46-2201, and there were no nominations submitted during the 2008.

KPERS Investment Performance and Long-Term Financial Issues. The Committee received investment reports from KPERS staff at the meetings of August 20, October 14, and December 2, 2008. The KPERS actuary also presented information at the August 20 meeting concerning the December 31, 2007, actuarial valuation, and at the October 14 meeting regarding long-term actuarial projections and financial issues.

The KPERS actuary stressed the impact on long-term funding of certain variables, such as low or negative investment earnings and less-than-actuarially recommended employer contributions. The long-range funding of the System is at risk due to the current economic disruptions and the Committee received regular reports from KPERS staff about possible actions that might be required to address the adverse economic impact on investments and funding the future benefits of public employees.

At the December 2, 2008 meeting, KPERS indicated that the System's investments had suffered severe losses due to stock market and financial systems distress. For investment performance through October 31, 2008, the KPERS Chief Investment Officer reported that total assets had a market value estimated at $10.1 billion, based on total returns during calendar year 2008, or a negative 26.8 percent year-to-date. The market value of assets on December 31, 2007, had been $14.2 billion. A decline of $4.1 billion in the market value of assets will impact the long-term health of the retirement system, and may grow larger if a prolonged period of economic distress continues into 2009.

In a projection of long-term financing through 2033, KPERS data indicates that the state and school group of KPERS would be out of actuarial balance as a result of an assumed negative 25.0 percent investment return, if projected for calendar year 2008 (through December 31, 2008). One KPERS projection maintained the current statutory contribution increase cap of 0.6 percent and assumed an 8.0 percent investment return on earnings in subsequent calendar years. By FY 2033 under this projection, the statutory contribution rate would not close the gap between the statutory and the actuarially required employer contribution rate. The gap between what will be contributed under the current annual cap and what needs to be contributed should coincide by FY 2033 if the System is to be in actuarial balance to fully fund the state's retirement benefit obligation.

Prior to the preceding projection that recognizes the market's recent impact on the KPERS portfolio and investments returns, an earlier long-term projection indicated the current statutory cap and an assumed 8.0 percent investment earnings rate would have brought the KPERS state and school group into actuarial balance during FY 2016 with an actuarial required contribution rate of 11.13 percent and matching the statutory rate for that fiscal year. The System was considered in actuarial balance based on this

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earlier projection using the December 31, 2007, valuation.

KPERS staff provided other projections depicting different assumed patterns of economic recovery and the impact on the employer contribution rate. Most of the alternative projections suggested that investment returns alone would not be sufficient to offset the need for an increase in the statutory contribution cap in order to address the potential long-term funding shortfall. The KPERS projections using a 1.0 percent annual increase in the statutory cap showed the System could be brought into actuarial balance prior to FY 2033, if economic recovery occurs in the various assumed patterns used in the projections.

The financial impact of a 1.0 percent annual rate increase is estimated to cost the state an additional $293.7 million over the first five years after implementation in FY 2011, when compared with the current statutory rate increase of 0.6 percent annually. The FY 2011 cost increase would be $18.4 million, rising to $101.0 million in FY 2015, when compared with the current statutory rate increase of 0.6 percent. If implementation were delayed to FY 2012, the cost would increase.

Recommendation. The Committee recommends that the Legislature review the need for an employer contribution rate increase to be effective no later than FY 2012 that would raise the present annual 0.6 percent KPERS rate increase to at least an increase of 1.0 percent annually, beginning no later than FY 2012. Based on projections provided by KPERS, the Committee stresses the need for prompt attention to this matter by future sessions of the Legislature in 2010 and 2011. The Committee requests that members of the 2009 Legislature review the data provided by KPERS concerning the long-term financial status. The Committee further recommends that the House Appropriations Committee and Senate Ways and Means Committee give special attention to this serious matter during the upcoming 2009 Session to become familiar with the consequences if future legislative action is not taken by FY 2012. The Committee concurs with KPERS staff assessments that:

- Current retirement benefits are safe. A total of $10 billion in assets (including adequate cash reserves) are available to pay benefits.
- Unprecedented market declines have had substantial impact on the long-term funding status of the KPERS system.
- Projections indicate that the combined State/School KPERS group is not in actuarial balance and will not reach an Actuarial Required Contribution (ARC) date during the remainder of the amortization period (to FY 2033) with a level 8.0 percent investment return assumption.
- Options for increasing annual statutory employer contribution caps in future years need to be considered to bring the System back into actuarial balance over the long term.
- Employer contribution increases in the early years reduce the ultimate cost of bringing the System into actuarial balance, while the final cost rises if contribution rate increases are delayed.
- KPERS staff will continue to closely monitor investment returns and funding status, and will report further developments to the Committee during 2009.

Review Retirement Trends and Working after Retirement. The Committee received information about the number of KPERS members eligible for retirement and trends over the next five years, with an emphasis on school employees and studied the current number of KPERS retirees who have returned to work, and the fiscal impact resulting from current state policies. The Committee also reviewed new entities that provide contract services to school districts in order that school districts do not directly employ retired KPERS members. The Committee reviewed this topic at its meetings on June 17, September 15-16, and October 14, 2008.

Background. The Committee previously recommended continuing a study of the working after retirement issue at the conclusion of its review during the 2007 Interim. The Committee had received brief reports during the 2007 Interim from both KPERS staff and the Department of Education staff regarding the number of entities engaged in such practices and members believe that further review of the situation should be undertaken during the 2008 Legislature. For review during the 2008 Legislature, the Committee suggested that the chairpersons of the House and Senate Education committees review problems related to certain entities offering contract employees to school districts in order to circumvent the working after retirement restrictions for KPERS retirees and participating employers who hire them after retirement.

In a report for the 2008 Interim study, KPERS staff indicated that as of July 7, 2008, there were 2,324 KPERS retirees who had returned to work, with 1,208 going to the same KPERS participating employer and 1,116 going to a different KPERS participating employer. In FY 2008, KPERS collected $3.2 million from KPERS participating employers who first employed KPERS retirees after July 1, 2006, if those employees had retired from a different KPERS participating employer. The $3.2 million was attributed to 619 KPERS retirees who went to work for a different KPERS participating employer after July 1, 2006. For the 497 KPERS retirees who went to work before July 1, 2006, for a different KPERS participating employer, no assessment is collected. The same is true for the 1,208 KPERS retirees who return to work for the same KPERS participating employer, there is no assessment, but there is a $20,000 annual salary cap on the individual's calendar year pay.

A Department of Education survey during the 2007-08 school year found that of 638 KPERS retirees who retired as teachers, and earned more than $20,000, 33 were employed by private contractual arrangements in which they were placed by a third-party company in teaching-related school positions. Returning to work for the same district from which they retired would allow them to avoid the $20,000 earnings cap and going to work after retirement in another district would allow that school board to avoid paying the KPERS assessment for employing a KPERS retiree.

Testimony was provided at the meeting of September 15-16 by the Kansas Association of School Boards, United School Administrators of Kansas, and the Kansas National Education Association.

Recommendation. The Committee met on January 9, 2009, to continue review of this topic, discussed options, and considered recommendations about working after retirement issues.

Expansion of Employee Groups into the Kansas Police and Firemen's (KP&F) Retirement System. The Committee studied the possibility of adding selected state agency employee groups who perform public safety duties (fire and law enforcement) into the KP&F Retirement System from regular KPERS. Also, the Committee reviewed the Social Security coverage for certain groups in the KP&F Retirement System and any potential implications for other groups. The Committee reviewed this topic at its meetings of June 17 and August 20, 2008.

Background. In 1968, after legislative authorization, sworn officers in the Kansas Highway Patrol and sworn agents in the Kansas Bureau of Investigation became the first state members of KP&F. Previously, they had membership in separate retirement plans for each group of law enforcement officers. University police officers at the Regents' universities were added in 1988, Capitol police and motor carrier inspectors at the Highway Patrol were added in 2004, and fire investigators at the State Fire Marshal's Office were added in 2005. The underlying criterion for KP&F membership to be extended to state groups has been law enforcement training and certification to carry a firearm.

KP&F members in the Kansas Highway Patrol and the Kansas Bureau of Investigation generally are not covered by Social Security. Federal law governs Social Security coverage. The decision on whether to participate in the Social Security program was at one time elective, rather than mandatory, which now is the case under current federal law. Both law enforcement groups originally opted not to participate in Social Security and that status continued when each group became covered by KP&F in 1968. However, for groups that elected Social Security coverage, future participation is mandatory. The newer KP&F member groups from Regents' universities (police officers), the Highway Patrol (capitol police and certain motor carrier inspectors), and State Fire Marshal's Office (fire investigators) have Social Security coverage and are not permitted to opt out.

Previous interim studies reviewed expanding state coverage under KP&F. Other groups previously seeking KP&F membership (that have not been added) included Liquor Control Investigators (Enforcement Agents) in the Department of Revenue, Correctional Officers and Parole Officers in the Department of Corrections, Enforcement Agents in the Kansas Lottery and Kansas Racing and Gaming Commission, Securities Special Investigators in the Security Commissioner's Office, and Conservation Officers and Park Rangers (Natural Resource Officers) in the Department of Wildlife and Parks.

Testimony was provided at the August 20 meeting by Representative Ann Mah, the Kansas Organization for State Employees, El Dorado Correctional Facility, the Department of Corrections, the Department of Wildlife and Parks, and various individuals from state agencies, including the Kansas Air National Guard, Larned State Hospital, Hutchinson Correctional Facility, and the Kansas State Council of Firefighters.

The Committee heard estimates of the cost to add KP&F coverage for different state employee work groups, such as correctional officers. Because KP&F provides enhanced benefits and an earlier retirement age than regular KPERS, the cost is proportionately higher for such retirement coverage. The public safety employee bears a portion of the higher cost by paying a 7.0 percent rate instead of the 4.0 percent rate for regular KPERS. However, the state rate for KP&F coverage requires an increase greater than 3.0 percent above KPERS that is allocated to the employee. As an example, the state-paid rate for regular KPERS in FY 2010 is 7.57 percent and for KP&F is 13.38 percent, a difference of 5.81 percent, requiring an annual dollar amount contribution that would be an increase of 76.8 percent for enhanced retirement benefits.

Recommendation. The Committee recommends no action on this topic given the current financial and budget conditions, and suggests evaluating the implementation in three years of a new pay plan for state public safety personnel before reconsidering this topic again.

Allow Local Units of Government to Elect Coverage under KPERS similar to the State Correctional Officer Group. The Committee studied allowing local units of government the option of electing coverage under KPERS that would be similar to the state correctional officer group. The Committee reviewed this topic at its meetings of June 17 and August 20, 2008.

Background. Two proposals introduced in prior legislative sessions were 2007 SB 339 and

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2005 HB 2293 that would have provided local detention officers and support personnel with some limited enhanced benefits regarding earlier retirement benefits when compared to regular KPERS benefits. The proposed legislation would have created a local detention officer group within KPERS and authorized counties to elect coverage for such officers, provided that at least 500 local detention officers would be participating after elections are held. The enhanced benefits would have included age 55 normal retirement for detention officers and age 60 normal retirement for support personnel. Also included would be age 50 early retirement for detention officers and age 55 retirement for support personnel, but with an actuarial reduction in benefits.

At the meeting of August 20, the Sheriff of Douglas County testified in favor of creating a correctional tier in KPERS for correctional employees, modeled after the state correctional officer group.

Recommendation. The Committee recommends introduction of a bill to allow local units of government to have the option of placing correctional and jail officers in a special KPERS group with enhanced benefits, subject to approval by the county commission or other local governing body.

Proposed amendments, version 2
January 22, 2009
Committee on Ways and Means

SENATE BILL No. 30

By Committee on Ways and Means

1-15

AN ACT concerning surplus property of the state; amending K.S.A. 2008 Supp. 75-6606 and repealing the existing section.

Be it enacted by the Legislature of the State of Kansas:

New Section 1. (a) ~~A~~ll sales, trade-ins or other disposition of personal property described in subsection (b) owned by the legislature shall be exempt from the provisions of the state surplus property act.

(b) The legislature is hereby authorized to sell computer equipment leased to the legislature, not to be returned to the lessor and that is scheduled for replacement for the fair market value of such computer equipment as fixed by the director of legislative administrative services after consultation with the legislative chief information technology officer and legislative director of computer services and subject to the following:

(1) The computer equipment must be in use by a member of the legislature or by legislative staff. ~~"Member of the legislature" means a member of the legislature who is a member of the house of representatives or the senate.~~

(2) Each such item that is not to be returned to the lessor shall be offered first and may be sold to the member of the legislature or legislative staff who is assigned to use such computer equipment, and who is hereby authorized to purchase such computer equipment.

(3) If any such member of the legislature or legislative staff declines the offer to purchase the computer equipment assigned to such person, then such computer equipment shall be offered and may be sold to other members of the legislature or legislative staff, on a drawing basis, and who are hereby authorized to purchase such computer equipment.

(4) No more than ~~two additional purchases~~ shall be authorized for any such person by the director of legislative administrative services who is authorized to determine the order of priority for such purchase~~s~~.

(c) All moneys received from the sale of such computer equipment shall be deposited in the state treasury in accordance with the provisions of K.S.A. 75-4215, and amendments thereto, and shall be credited to the legislative special revenue fund.

New Sec. 2. (a) All sales, trade-ins or other disposition of personal property described in subsection (b) owned by ~~the Kansas highway patrol~~

Except as otherwise provided in this section, all

a local public library for fair market value. The director of legislative administrative services shall establish and carry out a procedure whereby such libraries are notified of the authorization to purchase such computer equipment pursuant to this section. If any remaining computer equipment is not sold to such libraries, then such computer equipment shall be offered and may be sold to

one additional purchase

(d) As used in this section:

(1) "Member of the legislature" means a member of the legislature who is a member of the house of representatives or the senate.

(2) "Local public library" means any library established pursuant to article 12 of chapter 12 of the Kansas Statutes Annotated, and amendments thereto, and any library which is operating pursuant to an interlocal agreement between a city, county or township and a school district pursuant to K.S.A. 12-2901 et seq., and amendments thereto, or K.S.A. 72-8230, and amendments thereto.

(e) Any property not disposed of in accordance with subsection (b), may be disposed of in the manner prescribed in the state surplus property act.

a state law enforcement agency

Senate Ways & Means Cmte
Date 1-22-2009
Attachment 3

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shall be exempt from the provisions of the state surplus property act.

(b) ~~The superintendent of the Kansas highway patrol is hereby authorized to sell personal sidearms to retiring troopers and other retiring sworn officers of the Kansas highway patrol~~ subject to the following:

The agency head of any state law enforcement agency who employs persons who are authorized to carry firearms when discharging the duties of such person's employment is hereby authorized to sell the personal sidearm of such person to such person who is authorized to carry such firearm

(1) A ~~retiring trooper or retiring sworn officer with the Kansas highway patrol who resigns from the Kansas highway patrol to accept employment with a local, state or federal law enforcement agency, is hereby authorized to purchase, upon resignation, such trooper or other officer's~~ personal sidearm with a trigger lock;

retiring or resigning state law enforcement officer, as defined in K.S.A. 74-5602, and amendments thereto, who resigns from such state agency to accept employment with a local, state or federal law enforcement agency, is hereby authorized to purchase, upon such retirement or resignation, such employee's

(2) each sale of such personal sidearm shall be for the amount equal to the total of the replacement cost of the sidearm plus the cost of the trigger lock; and

(3) no sale of a personal sidearm shall be made to any ~~retiring trooper or sworn officer of the Kansas highway patrol unless the superintendent of the Kansas highway patrol~~ determines that the employment record and performance evaluations of each such ~~trooper or sworn officer is~~ satisfactory.

resigning or retiring employee unless the agency head of such state agency from which such person is resigning or retiring

employee are

(c) All moneys received from the sale of personal sidearms and trigger locks to such resigning ~~troopers and officers~~ shall be deposited in the state treasury in accordance with the provisions of K.S.A. 75-4215, and amendments thereto, and shall be credited to the ~~highway patrol general fee fund~~.

or retiring state employee

appropriate special revenue fund of such state agency

Sec. 3. K.S.A. 2008 Supp. 75-6606 is hereby amended to read as follows: 75-6606. (a) Except as provided in subsection (b) *and sections 1 and 2, and amendments thereto*, all sales, trade-ins or other disposition of personal property owned by state agencies shall be made in accordance with the state surplus property act and rules and regulations authorized by such act.

(b) Subject to rules and regulations adopted pursuant to the state surplus property act or as otherwise directed by the governor, state agencies may transfer or loan personal property to other state agencies with or without charging a fee therefor. In accordance with procedures prescribed by the director of purchases, a state agency may trade in personal property in conjunction with a purchase by the state agency. The state agency shall give the secretary of administration or a designee of the secretary notice of the proposed trade-in. The secretary of administration or the secretary's designee may elect to provide for disposition of the property under the surplus property program in lieu of permitting the state agency to trade in the property.

Sec. 4. K.S.A. 2008 Supp. 75-6606 is hereby repealed.

Sec. 5. This act shall take effect and be in force from and after its publication in the Kansas register.

State of Kansas
Legislative Administrative Services

300 SW 10th Avenue, Suite 551-N Topeka, Kansas 66612 Telephone: (785) 296-2391 Fax (785) 296-1153 TTY: (785) 296-8430

Jeffrey M. Russell
Director

Office Memorandum

TO: **Senator Jay Emler**
Chairman, Senate Ways and Means Committee

FROM: Jeff Russell, Director

Date: Wednesday, January 21, 2009

Re: Senate Bill 30 by Committee on Ways and Means Session of 2009

I am submitting for your committee's review my recommended policy on implementing the balloon amendment adding Kansas local public libraries as eligible parties to purchase legislative leased computers.

Once we know how many members of the Legislature and/or legislative staff are declining the offer to purchase the computer equipment assigned to them, we would advise all public libraries in Kansas by US mail of the availability, description and price of the computers not purchased by legislators and legislative staff as directed by language in SB 30.

The libraries will have 30 days to submit their name and commitment to purchase a computer. Following that 30 day period, a blind drawing will be held and conducted by a panel of three consisting of one representative from Legislative Services, Kansas Legislative Research Department and the Revisor of Statutes' Office. The drawings would continue until all computers are sold and/or all interested libraries' names have been drawn. Following notification of the drawing winners, the libraries will then have one week to complete the transactions and pick up the computers.

Please advise if you have any questions about this suggested policy or if you need other information about the sale of leased computers used by legislators or legislative staff.

JMR:sos
Attachment - Library Listing

Senate Ways & Means Cmte
Date 1-22-2009
Attachment 4