

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairman Jay Emler at 10:30 a.m. on February 3, 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
Amy Deckard, Kansas Legislative Research Department
Jill Wolters, Office of the Revisor of Statutes
Daniel Yoza, Office of the Revisor of Statutes
Melinda Gaul, Chief of Staff
Shirley Jepson, Committee Assistant

Conferees appearing before the committee:

Dan McLaughlin, State Fire Marshal
Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERs)

Others attending:

See attached list.

Introduction of Legislation

Senator Julia Lynn appeared before the Committee to request the introduction of legislation pertaining to funding for physical disabilities (PD) and developmental disabilities (DD) waivers.

Senator Umbarger moved to introduce legislation pertaining to the funding for physical disabilities (PD) and developmental disabilities (DD) waivers. The motion was seconded by Senator Vratil. Motion carried on a voice vote.

Senator Lee moved to introduce legislation pertaining to the garnishment of wages. The motion was seconded by Senator Kelly. Motion carried on a voice vote.

Dan McLaughlin, State Fire Marshal's office, appeared before the Committee to request the introduction of legislation pertaining to the state fire marshal commissioned inspector act.

Senator Vratil moved to introduce legislation pertaining to the state fire marshal commissioned inspector act. The motion was seconded by Senator Kelly. Motion carried on a voice vote.

Hearing on SB 93 - Joint committee on special claims against the state; membership; requiring only one attorney member from each house, not two.

Jill Wolters, Office of the Revisor of Statutes, explained that **SB 93** would reduce the number of attorneys from each Chamber of the Legislature that must serve on the Joint Committee on Special Claims from two attorneys to one attorney.

Senator Vratil provided testimony in support of **SB 93** (Attachment 1).

There were no other conferees to appear before the Committee on **SB 93**.

The hearing on **SB 93** was closed.

Senator Teichman moved to recommend **SB 93** favorable for passage and move to the consent calendar. The motion was seconded by Senator Masterson. Motion carried on a voice vote.

The Committee discussed the possibility of reducing the number of members assigned to the Special Claims

CONTINUATION SHEET

Minutes of the Senate Ways And Means Committee at 10:30 a.m. on February 3, 2009, in Room 545-N of the Capitol.

Against the State Committee and ways to improve the process of reviewing the claims.

Presentation on Kansas Public Employees Retirement System Death & Disability Program Status

Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERS), presented an overview of the Death & Disability Program and the affect of placing a moratorium on State General Funding (SGF) to the Program as proposed in the Governor's Budget Recommendation (GBR) (Attachment 2). Mr. Deck stated that the Death & Disability Program provides benefits to active members of the KPERS system and certain other groups of active public employees, primarily those in local government. Mr. Deck reported that there are approximately 3100 individuals receiving benefits at this time.

Mr. Deck explained that the Governor's proposal would put a moratorium on employer contributions for the first three quarters of FY 2010. **Sub for SB 23**, as passed by the Senate and the House Appropriations Committee, would advance the moratorium to begin in March 2009 for the last four months of FY 2009. Because the moratorium would also apply to local governments, it would produce savings at the local level in addition to savings for the SGF. Mr. Deck stated that the program would be manageable if the moratorium is imposed; however, that would depend on the number of claims filed for benefits. In addition, it would be necessary to monitor cash-flow carefully. Mr. Deck noted that statute allows for a loan from the Pooled Money Investment Board (PMIB) if necessary.

Responding to a question from the Committee, Mr. Deck stated that because lower claims have been experienced since 2005, the balance in the fund has grown. If the strategy of the program was changed to "pay-as-you go," it is possible that the 1 percent employer contribution rate could be lowered to .8 percent. Presently, the program's strategy has been to build a balance to provide stability in the program. Mr. Deck noted that the number of claims is not predictable. Changes in the economy could result in additional claims being filed; however, he had no data to support this projection.

Information to Subcommittees

Subcommittee meeting date information was distributed to the Committee (Attachment 3).

Adjournment

The next meeting is scheduled for February 4, 2009.

The meeting was adjourned at 11:30 a.m.

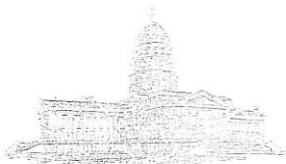
**SENATE WAYS & MEANS COMMITTEE
GUEST LIST**

DATE: February 3, 2009

NAME	REPRESENTING
Zack Goodman	Senator #21
Ligh Kell	Hein Law firm
Karl Milvaton	KSFMO
Don McLaughlin	KSFMO
Maurice Thompson	Jo. Co. Developmental Support
Wrena MacI	JEDS
Dennis Brown	PEAK
Bryan R. Thompson	PEAK
Sherril Luce	Sen. Masterson
Kela Bredlove	KPERs
Glenn Deck	KPERs
Barb Coxart	KDOA
Mark Bozanyak	Capitol Strategies
Adam Chingren	Senator Lynn
Patrick Woods	SRS
Barb Larper	KHPA

State of Kansas

JOHN VRATIL
SENATOR, ELEVENTH DISTRICT
JOHNSON COUNTY
LEGISLATIVE HOTLINE
1-800-432-3924



Vice President Kansas Senate

COMMITTEE ASSIGNMENTS
VICE CHAIR: EDUCATION
WAYS AND MEANS
MEMBER: JUDICIARY
ORGANIZATION, CALENDAR
AND RULES
INTERSTATE COOPERATION
KANSAS CRIMINAL
CODE RECODIFICATION
COMMISSION

Testimony Presented to
Senate Ways and Means Committee
By Senator John Vratil
February 3, 2009
Concerning Senate Bill 93

Good morning! Thank you for the opportunity to appear before the Senate Ways and Means Committee in support of Senate Bill (SB) 93. Senate Bill 93 would reduce the number of attorneys from each Chamber of the Legislature that must serve on the Joint Committee on Special Claims.

Under current law, two Representatives and two Senators who are attorneys are to be appointed to the Joint Committee on Special Claims by the respective Leadership of each Chamber. Senate Bill 93 would reduce the number from two to one Representative and one Senator. The number of attorneys serving in each Chamber is small; therefore, Leadership is finding it more difficult to identify attorneys who are willing to serve on the Committee.

Please support SB 93.

A handwritten signature in black ink that reads "John Vratil".

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Senate Ways & Means Cmte
Date 2-03-2009
Attachment 1

Senate Ways and Means Committee
KPERS Death & Disability Program Status and Funding
 February 3, 2009

Overview of Benefits

The KPERS Death and Disability Fund provides death and disability benefits to active members of the KPERS System and certain other groups of active public employees.

<p>Basic Life Insurance – Active Employees <i>Employees automatically receive group life insurance – 150% of annual salary</i></p>	}	Fully insured by Minnesota Life Insurance Company
<p>Optional Life Insurance – Active Employees <i>Employees may purchase an additional \$5,000 to \$250,000 of coverage.</i></p>		
<p>Disability Benefits <i>Disabled members receive monthly benefits = 60% of annual salary</i></p>	}	Self-Insured by KPERS Third-Party Administrator for Claims Management (Disability Resources Options)
<p>Waiver of Premiums <i>Disabled members continue to receive life insurance – 150% of annual salary.</i></p>		

Funding Background

- These benefits are funded solely by statutory employer contributions.
- On three occasions during 2000 through 2004, the Legislature implemented moratoriums on employer contributions to the Fund totaling 14 quarters due to State budgetary problems.
- The total savings in employer contributions as a result of the moratoriums was \$100.3 million.
 - State – \$78.5 million
 - Local – \$21.8 million
- The moratoriums nearly depleted the Fund’s balance. Effective in FY 2004, the program shifted from being funded on an actuarial reserve basis to a “pay-as-you-go” program.
- Legislation in 2005 made other changes to address the program’s funding status –
 - A series of employer contribution increases from 0.6% to 0.8% in FY 2006; and to 1.0% for FY 2007 and subsequent years.
 - Effective January 1, 2006, modifications to disability benefits, including cost-containment strategies and benefits comparable to industry standard plans.
- As of June 30, 2008, the plan had –
 - Value of assets (Cash basis) = \$ 32.9 million
 - Unfunded actuarial liability = \$322.7 million

Contribution Moratorium Proposals

- Due to the State's current budgetary shortfall, the Governor's budget recommended a new moratorium on employer contributions for the first three quarters of FY 2010.
- As passed by the Senate and recommended by the House Appropriations Committee, SB 23 provides for a moratorium to begin in March 2009 for the last four months of FY 2009.
- The budgetary savings to the State for a nine-month moratorium are projected to be \$37.44 million with a March 2009 implementation and \$37.68 if begun in July 2009.

Kansas Public Employees Retirement System Death and Disability Fund Budgetary Impact of a Three-Quarter Moratorium				
	<i>Moratorium Beginning 3/1/09 through 11/30/09</i>			<i>Moratorium Beginning 7/1/09</i>
	FY 2009	FY 2010	Total	FY 2010
State	\$ 5,974,076	\$ 7,543,025	\$13,517,101	\$13,577,445
School	\$ 8,272,217	\$15,592,427	\$23,864,644	\$24,032,387
Judges	\$ 37,592	\$ 23,101	\$ 60,693	\$ 74,847
Total State	\$14,283,885	\$23,158,553	\$37,442,438	\$37,684,679
Local	\$ 4,973,968	\$ 6,358,166	\$11,332,134	\$11,411,433
Grand Total	\$19,257,853	\$29,516,719	\$48,774,572	\$49,096,112

Effect of Contribution Moratorium

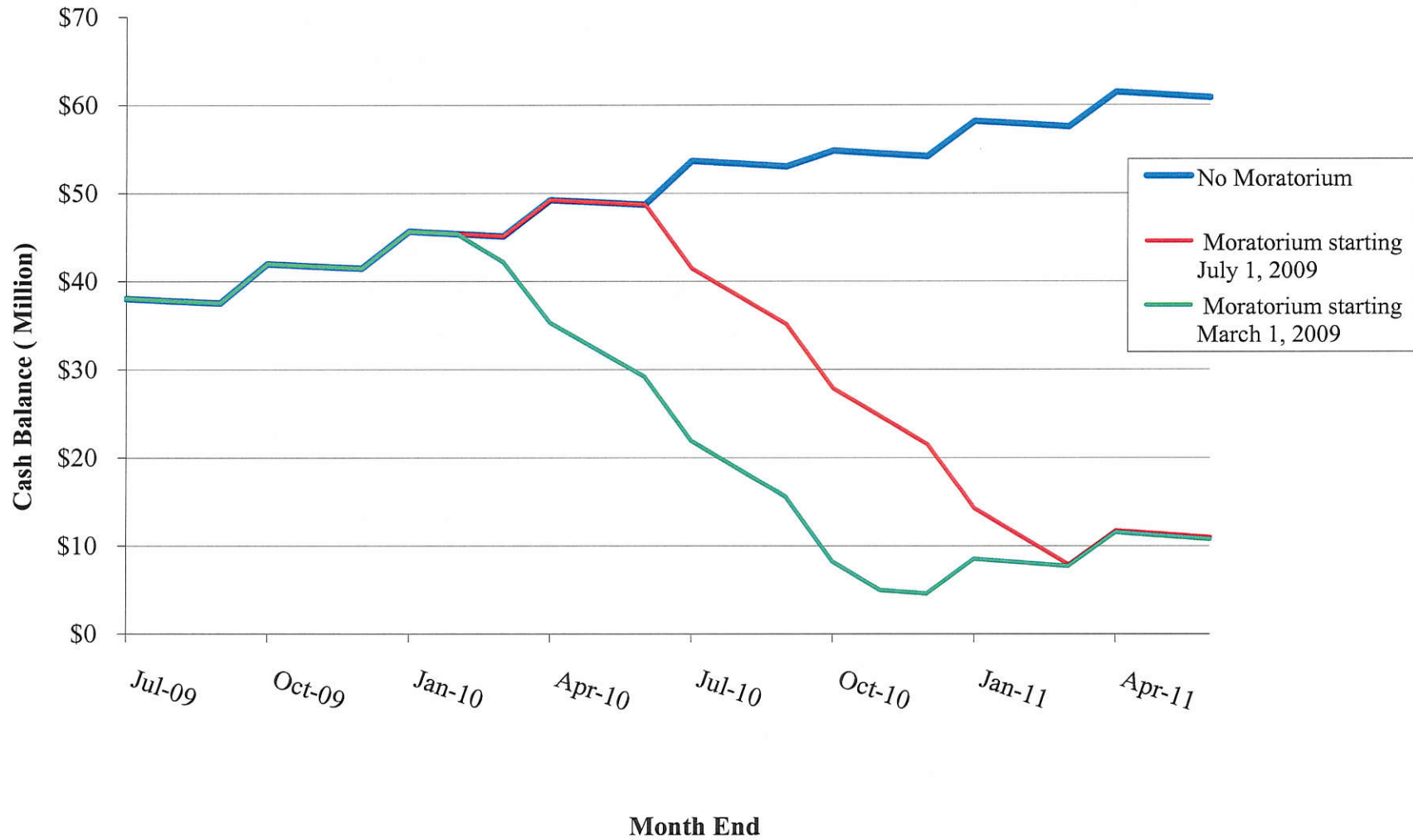
- Based on past experience, a Fund balance of approximately \$10 million is preferred to manage the cash flow of the Fund. To the extent that Fund balances fall below \$10 million, careful monitoring and management of claim payments and cash flow is required to ensure timely payment of claims on the Fund and other Fund obligations.
- Chart 1 illustrates the Fund's balance for FY 2009 and FY 2010 without a moratorium as well as the impact on the Fund's balance of a nine-month moratorium starting in both March and July of 2009. As illustrated by the Chart, the Fund's balance is projected to fall below \$10.0 million at several points during a nine-month moratorium.
- If there is a significant spike in death and disability claims or a delay in employer contributions, Fund balances may be insufficient.
- Chart 2 summarizes the Fund's historical funded ratio, its unfunded actuarial liability (UAL), and the cash fund balance for FY 2000-2008.
- Chart 3 summarizes the Fund's projected funded ratio, the UAL, and the cash fund balance for FY 2009 and FY 2010 (projected), assuming –
 - No moratorium.
 - A nine-month moratorium, beginning March 2009 (SB 23).
 - A nine-month moratorium, beginning July 2009 (Governor's recommendation).
- Tables 1 through 3 provide year-end projections for the Fund under the same three scenarios. The FY 2010 year-end balances range from \$60.8 million without a moratorium to \$10.7 million for a nine-month moratorium beginning March 2009 and \$11.0 million when begun in July 2009.

Conclusions

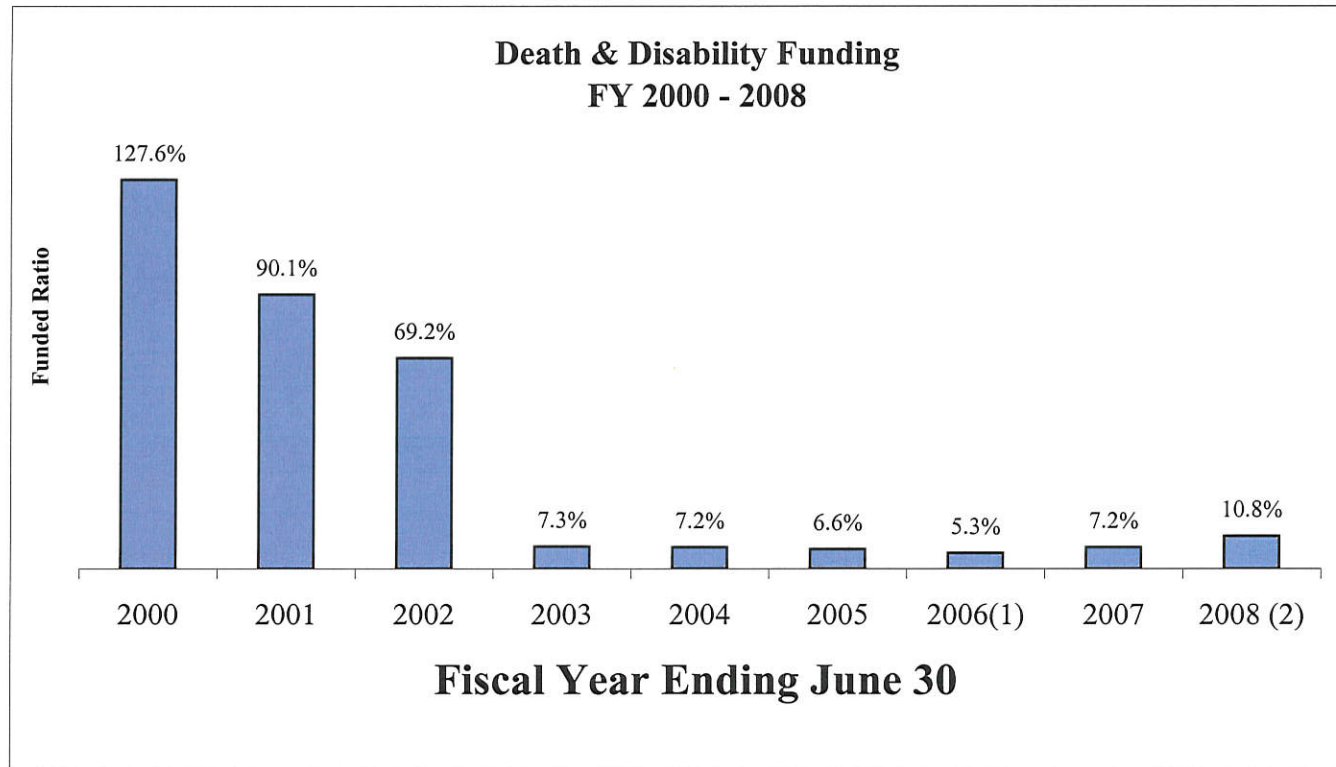
- A nine-month employer contribution moratorium will draw down the cash balance of the Fund to minimum operating levels.
- One percent employer contribution rate must resume at the end of the nine-month period in order to pay disability and death benefits going forward.
- Progress on funding of disability benefits over the long-term will be reversed with moratoriums, and unfunded liability for the future disability and death benefit payments will continue to grow.

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Death and Disability Fund Monthly Cash Flow July 2008- June 2010



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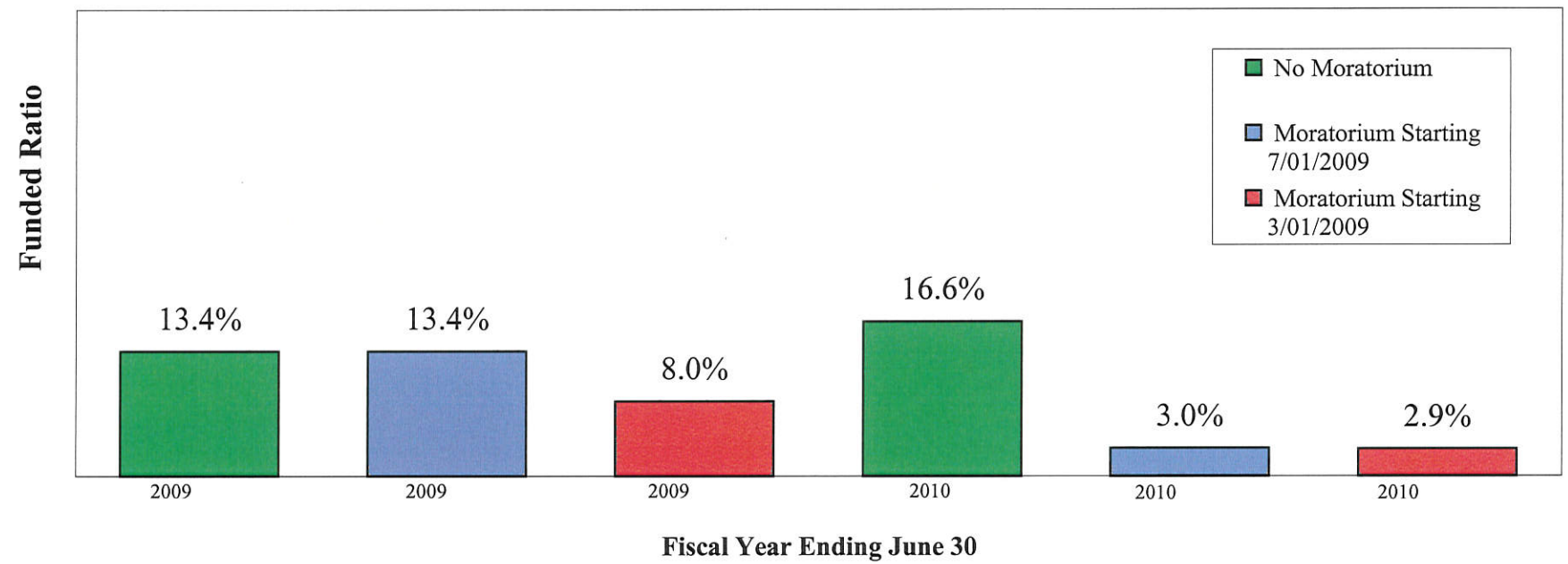
	2000	2001	2002	2003	2004	2005	2006 (1)	2007	2008 (2)
Cash Balance (Millions) \$	193.7	\$ 140.1	\$ 108.8	\$ 14.4	\$ 14.5	\$ 13.9	\$ 9.7	\$ 19.8	\$ 32.9
UAL (Millions) \$	(41.9)	\$ 15.5	\$ 48.5	\$ 182.5	\$ 186.3	\$ 198.5	\$ 335.4	\$ 330.2	\$ 322.7

(1) In 2006, the methodology to calculate actuarial liability was changed in compliance with GASB 43.

(2) Projected UAL Amount for Fiscal Year 2008

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**Death & Disability Funding
FY 2009 - 2010
With Moratorium Proposals**



	2009	2009	2009	2010	2010	2010
	No Moratorium	Moratorium Starting 7/01/2009	Moratorium Starting 3/01/2009	No Moratorium	Moratorium Starting 7/01/2009	Moratorium Starting 3/01/2009
Cash Balance (Millions)	\$ 48.7	\$ 48.7	\$ 29.2	\$ 60.8	\$ 11.0	\$ 10.7
UAL (Millions)	\$ 314.2	\$ 314.2	\$ 333.7	\$ 305.7	\$ 355.5	\$ 355.8

Current Scenario - No Moratorium
Kansas Public Employees Retirement System
Group Insurance Reserve
FY 2008 - FY 2010
Cash Basis

	Actual Fiscal Year 2008	Projected Fiscal Year 2009	Projected Fiscal Year 2010
Group Insurance Reserve- Beg. of Year	\$ 19,403,662	\$ 32,876,163	\$ 48,703,040
Additions:			
Employer Contributions	\$ 62,665,894	\$ 65,023,567	\$ 65,805,627
Investment Income	\$ 1,050,453	\$ 1,205,604	\$ 1,618,730
Total Additions	<u>\$ 63,716,347</u>	<u>\$ 66,229,171</u>	<u>\$ 67,424,356</u>
Deductions:			
Disability	\$ (34,943,385)	\$ (37,000,000)	\$ (38,480,000)
Basic Group Life Insurance	\$ (14,950,388)	\$ (13,042,294)	\$ (16,451,407)
Adm Expenses	\$ (350,073)	\$ (360,000)	\$ (365,000)
Total Deductions	<u>\$ (50,243,846)</u>	<u>\$ (50,402,294)</u>	<u>\$ (55,296,407)</u>
Group Insurance Reserve- End of Year	<u>\$ 32,876,163</u>	<u>\$ 48,703,040</u>	<u>\$ 60,830,990</u>
UAL (in millions)	\$ 322.7	\$ 314.2	\$ 305.7
Funded Ratio	10.8%	13.4%	16.6%

Moratorium - March 1, 2009 through November 30, 2009
Kansas Public Employees Retirement System
Group Insurance Reserve
FY 2008 - FY 2010
Cash Basis

	Actual Fiscal Year 2008	Projected Fiscal Year 2009	Projected Fiscal Year 2010
Group Insurance Reserve- Beg. of Year	\$ 19,403,662	\$ 32,876,163	\$ 29,156,319
Additions:			
Employer Contributions	\$ 62,665,894	\$ 45,765,714	\$ 36,288,908
Investment Income	\$ 1,050,453	\$ 916,736	\$ 589,577
Total Additions	<u>\$ 63,716,347</u>	<u>\$ 46,682,450</u>	<u>\$ 36,878,485</u>
Deductions:			
Disability	\$ (34,943,385)	\$ (37,000,000)	\$ (38,480,000)
Basic Group Life Insurance	\$ (14,950,388)	\$ (13,042,294)	\$ (16,451,407)
Adm Expenses	\$ (350,073)	\$ (360,000)	\$ (365,000)
Total Deductions	<u>\$ (50,243,846)</u>	<u>\$ (50,402,294)</u>	<u>\$ (55,296,407)</u>
Group Insurance Reserve- End of Year	<u>\$ 32,876,163</u>	<u>\$ 29,156,319</u>	<u>\$ 10,738,397</u>
UAL (in millions)	\$ 322.7	\$ 333.7	\$ 355.8
Funded Ratio	10.8%	8.0%	2.9%

Moratorium -July 1, 2009 through March 31, 2010
Kansas Public Employees Retirement System
Group Insurance Reserve
FY 2008 - FY 2010
Cash Basis

	Actual Fiscal Year 2008	Projected Fiscal Year 2009	Projected Fiscal Year 2010
Group Insurance Reserve- Beg. of Year	\$ 19,403,662	\$ 32,876,163	\$ 48,703,040
Additions:			
Employer Contributions	\$ 62,665,894	\$ 65,023,567	\$ 16,709,514
Investment Income	\$ 1,050,453	\$ 1,205,604	\$ 882,288
Total Additions	<u>\$ 63,716,347</u>	<u>\$ 66,229,171</u>	<u>\$ 17,591,802</u>
Deductions:			
Disability	\$ (34,943,385)	\$ (37,000,000)	\$ (38,480,000)
Basic Group Life Insurance	\$ (14,950,388)	\$ (13,042,294)	\$ (16,451,407)
Adm Expenses	\$ (350,073)	\$ (360,000)	\$ (365,000)
Total Deductions	<u>\$ (50,243,846)</u>	<u>\$ (50,402,294)</u>	<u>\$ (55,296,407)</u>
Group Insurance Reserve- End of Year	<u>\$ 32,876,163</u>	<u>\$ 48,703,040</u>	<u>\$ 10,998,436</u>
UAL (in millions)	\$ 322.7	\$ 314.2	\$ 355.5
Funded Ratio	10.8%	13.4%	3.0%

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
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February 2009

1	2	3	4 JJA-7:00-8:30 (446-N) DOC-12:15-1:30 On Adj. (545-N for mtgs.)	5 JJA-7:00-8:30 (446-N) DOC-12:15-1:30 (535-N) On Adj. (545-N)	6 DOC-7-8:00 (545-N) HPA-10:30-12 (545-N)	7
8	9 Judicial/BIDS-12 (535-N) HPA-12:15 & On Adj. (545-N) JCSBC-noon	10 SRS-12:15 & on Adj. (545-N)	11 SRS-7-8:30 (535-N) JCSBC-noon Regents-on Adj. (545-N)	12 SRS Hospitals-7-8:30 (535-N) JCSBC-noon Regents-on Adj. (545-N)	13 SRS Hospitals-7-8:30 (535-N) Regents-10:30-12 (545-N)	14
15	16 SRS Hospitals-7-8:30 (535-N) Guardianship noon-(446-N) Dept. of Admin.-noon (535-N) JCSBC-noon SRS-on Adj. (545-N)	17 Elected Officials 7-8:30 (531-N) KDOT-7:15-8:30 (535-N) Dept. of Admin.-noon (535-N) KCC, CURB, Ethics, Human Rights-On Adj. (545-N)	18 Floor action	19 Floor action	20 Floor action	21 Turnaround
22	23 No meetings scheduled	24 KDHE-7:30-8:30 (535-N) & On Adj. (545-N) Racing & Gaming 12:15-1:30 (535-N)	25 Dept. of Educ. 7-8:30 (535-N) & On Adj. (545-N) JCSBC-noon KDHE-On Adj. (431-N)	26 <i>Dept. of Educ.-7-8:30</i> (if needed) (535-N) & On Adj. (545-N) JCSBC-noon	27 Dept. of Educ.-10:30-12 (545-N)	28