

MINUTES OF THE HOUSE SELECT COMMITTEE ON KPERS COMMITTEE

The meeting was called to order by Chairman Sharon Schwartz at 1:35 p.m. on April 1, 2009, in Room 446-N of the Capitol.

All members were present except:

Representative Clark Shultz - E
Representative Richard Carlson - E
Representative Harold Lane - A
Representative Robert Olson - E

Committee staff present:

Jim Wilson, Office of the Revisor of Statutes
Julian Efird, Kansas Legislative Research Department
Carol Bertram, Committee Assistant

Conferees appearing before the Committee:

Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERS)

Others attending:

See attached list.

Chair Schwartz opened the joint hearing on **HB 2399 - Appropriation for FY2009 for Kansas public employees retirement system and HB 2400 - KPERS, increasing employer contributions.**

The Chair recognized Julian Efird, Kansas Legislative Research Department, who presented background information on each of the bills. He stated that Federal stimulus money which had been available to this bill earlier this session has now been appropriated for other purposes, and that another funding source is needed for KPERS. Mr. Efird noted that **HB 2400** would raise the maximum annual increase in employer contribution rates for KPERS from .6% to 1.0%, and that these additional revenues would go into KPERS.

Questions and answers followed.

Chair Schwartz recognized Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERS), who addressed the Committee in support of **HB 2399** and **HB 2400** (Attachment 1). He stated **HB 2399** and **HB 2400** would provide additional retirement system funding in response to long-term funding challenges facing the Kansas Public Employees Retirement System (KPERS). **HB 2399** would provide for a FY 2009 appropriation in the amount of \$66.7 million for a one-time, additional employer contribution to KPERS to be credited to the School Group. Funding for the appropriation would be from the State Fiscal Stabilization Fund. **HB 2400** would raise the maximum annual increase in employer contribution rates for KPERS. In his testimony, he had submitted a graph which gave ARC Projections: Current and 1% Increase Caps, and a report giving the projected budgetary impact of increasing the maximum KPERS state/school employer contribution rate increase to 1% annually for the FY 2010.

Questions and answers followed.

At this time, Chair Schwartz closed the hearing on **HB 2399** and **HB 2400**.

The Committee asked Staff to explain Senate Substitute for **HB 2072**. Julian Efird explained the changes to **HB 2072** and noted how these changes would affect KPERS. Questions and answers followed.

Chair Schwartz announced that the Committee would possibly meet again during Omnibus.

The meeting was adjourned at 4:20 p.m.



Representative Sharon Schwartz, Chair

HOUSE SELECT COMMITTEE ON KAPERS

DATE: *April 1, 2009*

NAME	REPRESENTING
<i>Pat Lehman</i>	<i>KFSA</i>
<i>TERRY FOXSITH</i>	<i>KNEA</i>
<i>Dennis Phillips</i>	<i>KSCFF</i>
<i>Faith Loretto</i>	<i>KPIERS</i>
<i>Glenn Deek</i>	<i>"</i>
<i>Bob Corkins</i>	<i>KLEAR</i>

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HB 2399 and HB 2400

Testimony for the House Select Committee on KPERS

Glenn Deck
Executive Director
Kansas Public Employees Retirement System

April 1, 2009

Madam Chairperson and Members of the Committee:

Thank you for the opportunity to provide testimony in support of HB 2399 and HB 2400, which provide additional retirement system funding in response to long-term funding challenges facing the Kansas Public Employees Retirement System (KPERS). In brief, HB 2399 would provide for an FY 2009 appropriation in the amount of \$66.7 million for a one-time, additional employer contribution to KPERS to be credited to the School Group. Funding for the appropriation would be from the State Fiscal Stabilization Fund. HB 2400 would raise the maximum annual increase in employer contribution rates for the KPERS State and School Groups from .6% to 1.0%, effective in FY 2010.

Background

Unprecedented investment market declines in 2008 have had a substantial negative impact on the funding status of the all of the retirement plans administered by KPERS. KPERS' investment return for CY 2008 was -28.3%. As a result, the assets managed by KPERS fell from a high of \$14.2 billion at the end of CY 2007 to \$9.8 billion as of December 31, 2008. The long-term funding status has declined substantially for all groups in the System.

While progress had been made in addressing KPERS' long-term funding issues as a result of steps taken by the Legislature from 2003 through 2007, that improvement has largely been reversed. As the investment losses are recognized in actuarial valuations over the next several years, the unfunded actuarial liabilities for all groups in the System will likely double, their funded ratios will decline by approximately 20%, and their actuarially required contribution rates (ARC) rates will increase dramatically.

The December 31, 2008, valuation, which will be the first valuation to begin reflecting the effect of the losses, will not be completed until July. But preliminary projections using 2008 data indicate that the School Group does not reach its "ARC date" (the point at which the statutory employer contribution rate matches the actuarially required contribution rate) within the remaining amortization period. Therefore, the School Group is not in actuarial balance. Moreover, the State Group is also very close to being out of actuarial balance. (See *Attachment A*.)

HOUSE SELECT COMMITTEE ON KPERS

DATE: 04/01/09

ATTACHMENT: 1-1

Following a study of KPERS' investment performance and long-range funding projections during the 2008 Interim, the Joint Committee on Investments, Pensions, and Benefits recommended 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 Joint Committee further stressed "the need for prompt attention to this matter by future sessions of the Legislature in 2010 and 2011," and requested that "members of the 2009 Legislature review the data provided by KPERS concerning the long-term financial status." Finally, the Joint Committee recommended 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."

As recognized by the Joint Committee, additional action is necessary to ensure that the System's obligations can be met over the long term, and subsequent data regarding investment losses through the end of 2008 reinforces the need for addressing the issue promptly. A range of options for addressing the long-term funding shortfall, including additional employer contributions, will need to be carefully evaluated and considered in order to craft a comprehensive and sound long-term funding plan for KPERS. Both HB 2399 and HB 2400 could serve as initial steps in such a plan.

HB 2400

Currently, employer contribution increases are limited by statute to 0.6% annually. HB 2400 would raise the maximum increase in employer contributions for the State and School Groups to 1.0% a year. The effect of that change on the FY 2010 and FY 2011 State/School Combined Rate is illustrated in the following table.

STATE/SCHOOL COMBINED RATE:

	<i>0.6% Cap on Increase</i>	<i>1.0% Cap on Increase</i>
FY 2009	6.97%	6.97%
FY 2010	7.57%	7.97%
FY 2011	8.17%	8.97%

In addition, HB 2400 appropriates \$13,490,000 from the State Fiscal Stabilization Fund for the State's funding of the higher contribution rate for the School Group. Funding for the State Group would be spread across the funding sources for all state agencies.

As illustrated by *Attachment A*, accelerating employer contribution increases to 1.0% annually beginning in FY 2010 will provide a significant boost to the funding status of the State and School Groups. Using the 8% annual investment return assumed in the actuarial valuation for KPERS, the accelerated contribution rate increases would bring the School Group back into actuarial balance by 2024 (the ARC date). The State Group would reach its ARC date by 2020, rather than at the very end of the amortization period.

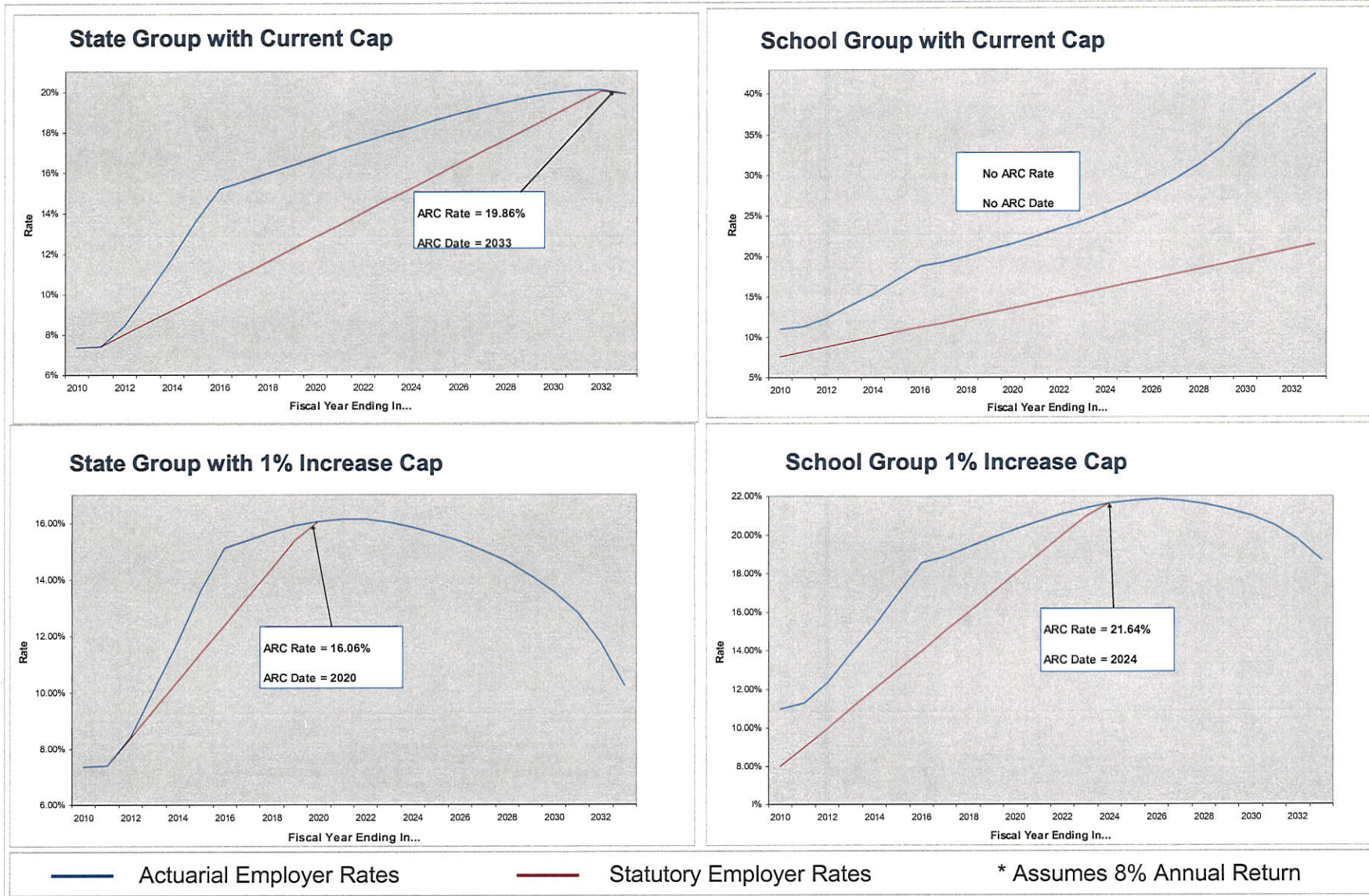
Under the existing 0.6% cap, State contributions for the Combined State and School Groups are expected to increase \$46.67 million from FY 2009 to FY 2010. A 1.0% cap is projected to result in an additional \$18 million in contributions in FY 2010, for a total employer contribution increase of \$64.67 million when compared to FY 2009. In addition to the \$13.49 million appropriation from the State Fiscal Stabilization Fund, the remaining \$4.51 million in additional FY 2010 contributions would be funded from employer contributions on state agency payrolls. See *Attachment B* for a comparison of projected State and School Group employer contributions from FY 2009 through FY 2015 under the current 0.6% cap and under a 1.0% cap on employer contribution increases.

HB 2399

HB 2399 appropriates \$66,755,149 from the State Fiscal Stabilization Fund in FY 2009 and provides for that amount to be credited as employer contributions for the School Group. Because the magnitude of the KPERS long-term funding shortfall is such that sustained actions will be necessary, a one-time additional contribution of \$66.7 million does not, in itself, bring the School Group back into actuarial balance or reduce ARC rates to levels that are sustainable. However, 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 increases are delayed. Therefore, the one-time additional contribution to the School Group in FY 2009 can be a helpful supplement to longer-term actions by contributing to future reductions in the ARC rate. For example, if HB 2399 and HB 2400 are both enacted, the State/School Combined ARC rate at the ARC date in 2024 is estimated to be .3% lower than is projected with a 1.0% rate increase cap alone. As a result, the one-time payment of \$66.7 million in HB 2399 would save \$240.5 million in employer contributions through the end of the UAL amortization period in 2033.

I would be pleased to respond to any questions you might have regarding HB 2399 and HB 2400 or about their relationship to KPERS' long-term funding.

ARC Projections: Current and 1% Increase Caps*



**Projected Budgetary Impact of Increasing the Maximum KPERS State/School
Employer Contribution Rate Increase to 1% Annually: Effective Fiscal Year 2010**

Annual Cap Increase = .6% Fiscal Years 2009- 2015

	State/School Contribution Rate	State Employer Contributions	School Employer Contributions	Combined State/School Contributions	Annual Incremental Increase in Contributions
2009	6.97%	\$ 67.96	\$ 226.10	\$ 294.06	\$ -
2010	7.57%	\$ 85.34	\$ 255.38	\$ 340.72	\$ 46.67
2011	8.17%	\$ 94.62	\$ 281.40	\$ 376.01	\$ 35.29
2012	8.77%	\$ 104.14	\$ 308.55	\$ 412.69	\$ 36.68
2013	9.37%	\$ 114.14	\$ 336.94	\$ 451.08	\$ 38.39
2014	9.97%	\$ 124.67	\$ 366.74	\$ 491.41	\$ 40.33
2015	10.57%	\$ 135.78	\$ 398.08	\$ 533.85	\$ 42.44
Total		\$ 658.68	\$ 1,947.09	\$ 2,605.77	\$ 193.13

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

1% increase cap applies to the FY 2009 rate, e.g. FY 2010 = 6.97% + 1.00% = 7.97%

	State/School Contribution Rate	State Employer Contributions	School Employer Contributions	Combined State/School Contributions	Annual Incremental Increase in Contributions	Combined Additional Contributions 1% Cap vs. .6% Cap	Additional State Contributions	Appropriation for School Contributions
2009	6.97%	\$ 67.96	\$ 226.10	\$ 294.06	\$ -	\$ -		
2010	7.97%	\$ 89.85	\$ 268.88	\$ 358.72	\$ 64.67	\$ 18.00	\$ 4.51	\$ 13.49
2011	8.97%	\$ 103.88	\$ 308.95	\$ 412.83	\$ 54.11	\$ 36.82	\$ 9.26	\$ 27.55
2012	9.97%	\$ 118.39	\$ 350.77	\$ 469.16	\$ 56.32	\$ 56.47	\$ 14.25	\$ 42.22
2013	10.97%	\$ 133.63	\$ 394.48	\$ 528.11	\$ 58.95	\$ 77.03	\$ 19.49	\$ 57.54
2014	11.97%	\$ 149.68	\$ 440.31	\$ 589.99	\$ 61.88	\$ 98.58	\$ 25.01	\$ 73.57
2015	12.97%	\$ 166.61	\$ 488.46	\$ 655.07	\$ 65.08	\$ 121.22	\$ 30.83	\$ 90.39
Total		\$ 762.03	\$ 2,251.85	\$ 3,013.88	\$ 296.34	\$ 408.11	\$ 103.35	\$ 304.76