SESSION OF 2005

CONFERENCE COMMITTEE REPORT BRIEF
SENATE SUBSTITUTE FOR HOUSE BILL NO. 2037

As Agreed to April 25, 2005

Brief *

Senate Substitute for HB 2037 includes a number of provisions that amend the Kansas Public Employees Retirement System (KPERS) retirement plans, the KPERS death and long-term disability benefits plan, and the Regents retirement plan. In addition, other provisions implement new programs. One provision would establish a Regents long-term disability benefits plan and another would make optional group insurance available to family members of anyone covered by the death and long-term disability benefits plan. A new program would exempt certain nurses for three years from the $15,000 KPERS cap on working after retirement for positions at state institutions. The items in the substitute bill would be effective upon publication in the *Kansas Register*.

1. **KPERS Death and Long-Term Disability Plan**. This provision would increase the statutory employer contribution rate of 0.6 percent to 0.8 percent on July 1, 2005, and to 1.0 percent on July 1, 2006, for calculating contributions to the KPERS death and long-term disability benefits plan. A provision in the bill would allow borrowing from the Pooled Money Investment Board if the funds were not sufficient to meet a catastrophic event. The rate increases would raise participating employer payments for the state, Regents, judges, school, and local groups that participate in the death and long-term disability benefits plan offered by KPERS. Additional authority would be delegated to the KPERS Board of Trustees to make changes in plan design to operate the program within available financial resources and statutory guidelines as modified in Senate Sub. for HB 2037. This bill would guarantee no reduction in benefits for eligible employees disabled prior to January 1, 2006, since it is anticipated that the

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KPERS Board of Trustees will modify the plan and reduce the disability benefit from 66 2/3 percent to 60 percent of compensation. This bill also would maintain participating employer-provided basic life insurance at 150 percent of annual compensation.

2. **KPERS Death and Long-Term Disability Plan – Technical**. This provision would adjust the maximum duration of KPERS long-term disability benefit payments for employees disabled after age 65 to insure compliance with the federal requirements.

3. **KPERS Optional Life Insurance**. This provision would allow participating employers to affiliate for KPERS optional group life insurance either on January 1 or on July 1. The provision also would allow life insurance coverage for spouses and dependents of KPERS members who would be able to purchase optional group insurance for family members.

4. **Spouse KPERS Benefits**. This item would reduce the length of service required from 15 to 10 years for a surviving spouse to be eligible for retirement benefits if a member of KPERS or the Retirement System for Judges dies before reaching earliest retirement eligibility for either reduced or unreduced benefits.

5. **Regents Retirement Plan**. This provision would update current law regarding the Regents retirement plan for faculty and other unclassified employees of the State Board of Regents and the Regents institutions. This item would allow the use of mutual funds offered by a bank or approved non-bank custodian under section 401(a) of the Internal Revenue Code as a financial instrument for investing retirement funds. The other changes in the bill would make technical compliance revisions in order to conform with federal requirements.

6. **Regents Disability Benefits**. This provision would provide an additional long-term disability benefit to some faculty and other unclassified employees of the State Board of Regents. In addition, the bill would modify current law regarding contributions that the Board of Regents makes in paying both the employer and employee amounts into the employee's retirement account if a staff member becomes disabled and is eligible for coverage by the KPERS death and long-term benefits plan. This item would address the contractual rights of current Regents retirement plan participants and would divide those who might become disabled into four categories, depending upon length of service and retirement benefits accrued. Current and future employees who

do not fall into one of the new groups with accrued benefits would receive the continuing employer and employee retirement contributions on a pre-tax basis for five years after becoming disabled, and thereafter would receive the Regents employer and employee contribution payment as a post-tax disability benefit under the new plan.

7. **State and School Contribution Calculations**. This provision would specify that when the KPERS employer retirement contribution rates calculated as if the two groups of state and school were combined, that in any year when the state rate is less than the combined rate, an additional amount equal to the difference between the state rate and combined rate shall be certified by the KPERS Board of Trustees and the Legislature shall appropriate such supplemental amount to the State Board of Education for distribution to the school districts in the same manner as the KPERS -- School payment currently is distributed.

8. **Outlawed Warrants**. This provision would authorize the Director of Accounts and Reports to reissue outlawed KPERS warrants based on a charge of 10 percent of the amount of the warrant or $30, whichever is less.

9. **Working After Retirement**. This provision would allow a three-year trial plan suspending the current statutory $15,000 cap for nurses who retire or are retired from a state agency and who return to work at the same state agency. The participating institutions would pay the actuarially calculated employer contribution to KPERS for each retired nurse who works under this plan if that nurse is retired from a KPERS state institution. The trial plan would be limited in scope to retired nurses who work for one of the following state institutions: Larned State Hospital, Osawatomie State Hospital, Rainbow Mental Health Facility, Kansas Neurological Institute, Parsons State Hospital and Training Center, the Kansas Soldiers Home at Fort Dodge, and the Kansas Veterans Home at Winfield.

10. **KP&F Affiliation for Fire Marshal's Office**. This provision would allow certified law enforcement employees of the State Fire Marshal's Office to join the Kansas Police and Firemen's (KP&F) Retirement System. Those current employees who are certified law enforcement officers would be eligible to elect either KP&F or KPERS (their present retirement plan). Future employees with law enforcement certification would be covered by KP&F.

Conference Committee Action

The Conference Committee agreed on April 25, 2005, to accept the Senate amendments to HB 2037 and to make the following modifications in the Senate amendments:

1. Adjust the annual KPERS death and disability contribution rate increases to 0.2 in FY 2006 and 0.2 percent in FY 2007 in order to conform with 2005 SB 225 funding that was based on state agency contributions at 0.8 percent in FY 2006 and at 1.0 percent in FY 2007. Also add a provision authorizing loans from the Pooled Money Investment Board (PMIB), subject to State Finance Council approval, if the death and disability fund balances are insufficient to handle a catastrophic event.

2. Add provisions of 2005 HB 2105 concerning membership in KP&F for certified law enforcement staff in the State Fire Marshal's Office. Also clarify that membership shall be available only to those persons whose positions required certification as a condition for employment.

3. Clarify that spouse KPERS benefits after reducing the length of service from 15 to 10 years would be available at the earliest or first retirement date for a deceased member, whether eligible for reduced or unreduced benefits.

4. Insure that all state contributions above the state's actuarially required rate will be reflected in school district budgets.

5. Make all provisions effective upon publication in the *Kansas Register*.

6. Recommend an interim study on working after retirement and the House position regarding allowing teachers, administrators, and computer technology workers to return to work after retirement without the $15,000 penalty.

Background

The Senate Subcommittee on KPERS Issues reviewed various bills and held public hearings then presented its recommendations to the Senate Ways and Means Committee. The Senate Ways and

Means Committee adopted the Subcommittee report and its recommendations, then amended the nine items into Senate Substitute for HB 2037.

The House Subcommittee on KPERS Issues reviewed several items, including death and disability plan revisions, working after retirement, and KP&F membership for personnel in the State Fire Marshal's Office. The House Appropriations Committee adopted the Subcommittee report and its recommendations on 2005 HB 2105 concerning the KP&F membership for certified law enforcement officers in the State Fire Marshal's Office, working after retirement, and death and disability plan modifications.

The Conference Committee on 2005 Senate Substitute for HB 2037 met on March 31, 2005, and on April 25, 2005. The meeting of April 25, 2005, produced an agreement on 10 items to include in the conference committee report.

Item 1, concerning death and long-term disability benefits, would increase the participating employer contribution rate for the KPERS death and long-term disability benefits plan. This item was requested by the KPERS Board of Trustees and recommended by the Governor originally in SB 291 with a 1.0 percent rate in FY 2006. The Senate Ways and Means Committee concurred with the recommendations of its Subcommittee on KPERS Issues to adopt the funding rate increase of 1.0 percent in SB 291 and to add certain specific provisions for modifying the plan and originally introduced in 2005 HB 2075 that was recommended by the Joint Committee on Pensions, Investments and Benefits.

During the budget deliberations in the 2005 Legislature, the conference committee on 2005 SB 225 agreed to fund a rate of 0.8 percent in the FY 2006 budget for state and school contributions. The conference committee on 2005 Senate Substitute for HB 2037 discussed the cash flow resulting from a rate increase of 0.2 percent and agreed to recommend an additional rate increase of 0.2 percent on July 1, 2006, in order to increase the operating balance for this program. Because of concerns about low cash balances in FY 2006, the conference committee recommended provision be made for a loan from the Pooled Money Investment Board should some unforseen emergency deplete the fund balances in FY 2006 when expenditures are projected to be greater than revenues.

The fiscal note for item 1 addresses both the state and local governments that would be impacted by the rate increases. The

Governor's FY 2006 budget recommendation was to increase by 0.4 percent the state and school employer contributions to the KPERS death and long-term disability benefits plan. The *Governor's Budget Report* included $16.8 million, with $13.6 million financed from the State General Fund, for FY 2006. An additional $4.6 million would be paid at the 1.0 percent rate beginning July 1, 2005, by local units of government and other KPERS participating employers that are not part of the state, judges, and school groups. The FY 2006 budget approved by the Legislature appropriates $8.4 million, with $6.8 million from the State General Fund for state agencies and KPERS school payments. The provision in this bill would adjust the statutory rate to reflect state funding in FY 2006, and would reduce the estimate contributions for local units to $2.3 million beginning July 1, 2005. Beginning July 1, 2006, with a second rate increase of 0.2 percent, additional payments would be projected at $8.7 million for the state, with $7.0 million from the State General Fund for state agencies and KPERS school payments, and $2.4 million for local units.

Fiscal Impact Item 1
Estimated Cost of HB 2075 – FY 2006 and FY 2007
(Contributions in Millions)

	Current Rate 0.6%	FY 2006 Rate 0.8%	FY 2007 Rate 1.0%
State General Fund	$ 20.1	$ 26.9	$ 33.9
State All Other Funds	5.2	6.8	7.5
Subtotal – State	$ 25.3	$ 33.7	$ 41.4
Local Governments	6.7	9.0	11.4
Total – All Units	$ 32.0	$ 42.7	$ 52.8

Item 2, concerning death and long-term disability benefits, was requested by the KPERS Board of Trustees and recommended in HB 2037 by the Joint Committee on Pensions, Investments and Benefits. There would be an increasing fiscal impact over time for this change, with estimated costs in FY 2006 of $8,000; FY 2007 of $30,000; and FY 2008 of $57,000. Fully implemented, the cost impact could reach

$250,000 in 15 to 20 years, according to the KPERS actuarial estimates.

Item 3, concerning optional life insurance, was requested by the KPERS Board of Trustees and recommended in SB 22 by the Joint Committee on Pensions, Investments and Benefits. Affiliation under current law is limited to only once per year on January 1. KPERS does not anticipate any additional costs associated with this item as introduced. The Senate Ways and Means Committee added the additional optional life insurance for family members on recommendation of its Subcommittee on KPERS Issues. No fiscal note was available, but all additional costs would be paid by KPERS members and not participating employers.

Item 4, concerning spouse KPERS benefits, initially was sponsored by Senator Lee and cosponsored by the other 39 members of the Senate in SB 95. KPERS estimates additional unfunded actuarial liability would result from this bill totaling $951,000, of which the state share would be $621,000 and the local cost would be $330,000. In order to pay the actuarial costs over time, the additional first year contributions for the state would be $41,100 and for the local units would be $21,800.

Item 5, concerning the Regents retirement plan, was requested by the State Board of Regents and recommended in SB 99 by the Legislative Educational Planning Committee. The bill resulted from comprehensive reviews by outside consultants to update the operation of the Regents retirement plan. The Board of Regents states that SB 99 would not have a fiscal effect on the state or any of its employees in the Regents system.

Item 6, concerning Regents disability benefits, was requested by the State Board of Regents and originally introduced in SB 279. Regents unclassified employees who participate in the Regents retirement plan also participate in the KPERS death and long-term disability benefits plan that is available to all other state employees who participate in the regular KPERS plan for retirement. The Board of Regents makes available an additional benefit to Regents unclassified employees since some retirement calculations only apply to other state employees who participate in the regular KPERS retirement plan and not to members of the Regents retirement plan. Under current law, members of the Regents retirement plan who become disabled have both the employee and employer contributions paid by their employer while disabled. Federal law passed in 2001 limits these additional contributions for disabled participants to a maximum of five years, depending upon their length of service and other accrued benefits. This bill was recommended by the Board of Regents after two outside consultants reviewed the Regents retirement plan. The Budget Director indicates that this item would have a fiscal effect on both the Regents institutions for the contributions made on behalf of the employee's retirement as well as the employee for the level of retirement and disability benefits. This item would not have a fiscal effect on either the Regents institutions' contributions or the employee's benefits, if the employee becomes disabled within five years of retirement. This period is covered under current law and would continue to be covered under this provision, according to the fiscal note.

Item 7, concerning the state and school groups' retirement contribution rates, was requested by the KPERS Board of Trustees and recommended in SB 20 by the Joint Committee on Pensions, Investments and Benefits. The original fiscal note indicates that without this amendment, the state would contribute approximately $1.2 billion more in employer contributions through the end of the amortization period in FY 2033. This estimated savings is based on the KPERS current actuarial valuation adjusted for actual investment performance during December 31, 2004. Another provision in current law would continue to require that KPERS school employer contributions paid by the state shall be distributed to the schools districts and reflected in their annual operating budgets. This item as introduced and incorporated into the substitute bill would shift a portion of the future annual state payments away from school district budgets and have that amount reflected in the state portion of annual budgets when the combined rate is greater than the state's actuarial rate, beginning in FY 2010. The Conference Committee agreed to a change that will redirect the additional funding through the school district budgets and not have the additional amounts appear in state agency budgets, beginning in FY 2010. The multiyear fiscal impact is indicated in the following table, with the net savings based on the change from current law shown in the total after FY 2033.

Fiscal Impact Item 7
State Paid KPERS Contributions
for State and School Groups
(In Millions)

Fiscal Year	State Cost	School Cost	Total Cost	Change from Current
2005	$ 41.1	$ 127.6	$ 168.7	$ 0.0
2006	45.5	141.7	187.2	0.0
2007	51.1	159.0	210.1	0.0
2008	57.9	179.8	237.7	0.0
2009	65.1	201.6	266.7	0.0
2010	68.6	228.2	296.8	4.0
2011	65.8	262.6	328.4	14.7
2012	65.9	295.5	361.4	22.9
2013	67.1	328.9	396.0	30.4
2014	68.3	364.2	432.5	38.4
2015	69.6	401.4	471.0	46.8
2016	70.7	441.1	511.8	56.0
2017	67.9	486.9	554.8	69.6
2018	68.9	531.6	600.5	80.1
2019	69.6	572.3	641.9	84.6
2020	70.5	596.9	667.4	70.7
2021	71.4	620.8	692.2	53.7
2022	72.2	643.4	715.6	33.0
2023	72.7	665.0	737.7	8.3
2024	73.2	686.4	759.6	(19.3)
2025	73.2	707.7	780.9	(50.0)
2026	72.8	728.3	801.1	(84.6)
2027	71.9	749.1	821.0	(122.4)
2028	70.5	767.7	838.2	(165.9)
2029	67.7	785.2	852.9	(198.4)
2030	63.9	800.5	864.4	(223.3)
2031	57.6	809.8	867.4	(248.2)
2032	47.6	811.9	859.5	(271.8)
2033	31.0	796.0	827.0	(398.8)
Totals	**$1,859.3**	**$14,891.1**	**$16,750.4**	**($1,169.5)**

Item 8, concerning outlawed warrants, was requested by the KPERS Board of Trustees and recommended as SB 21 by the Joint Committee on Pensions, Investments and Benefits. The original provision as introduced had higher limits, but was replaced on recommendation by the Subcommittee on KPERS Issues with the maximum amounts for outlawed warrants specified in SB 46 that passed the Senate earlier in the 2005 Session. KPERS estimates administrative costs of $1,000 to $2,000 per year. The Senate Ways and Means Committee concurred with using the provisions from SB 46.

Item 9 concerns working after retirement. Under current law, state employees who return to work after retirement and are employed by any state agency would be subject to an earnings cap of $15,000 in any calendar year. When a retired state employee reaches the $15,000 threshold, then the employee either must stop working for the remainder of that calendar year or KPERS will cease paying the monthly retirement benefits for the remainder of that calendar year. The Senate Subcommittee on SRS Institutions referred this issue for consideration by the Senate Subcommittee on KPERS Issues as it pertains to nurses at SRS institutions. KPERS reports that the fiscal note would not be significant, according to the actuary, since there would be relatively few employees eligible if the proposal addresses only nurses at state institutions.

Item 10 concerns the Kansas Police and Firemen's (KP&F) Retirement System and allow the State Fire Marshal's Office to affiliate for coverage. Currently, certified law enforcement employees of the Kansas Highway Patrol, the Kansas Bureau of Investigation and the campus police at Regents institutions have KP&F membership. No other state agencies with certified law enforcement employees have KP&F available. Enhanced benefits under KP&F would allow members to retire with a multiplier of 2.5 for years of service and as early as age 50 with 20 years of service credit; to receive disability benefits with no distinction between service connected and non service connected causes; and to have death benefits that include both a lump sum payment and a pension for a surviving spouse, plus benefits for dependent children for service connected death. KPERS estimates the costs of increased employer and employee contributions in FY 2006 if all eligible employees choose KP&F membership would be less than $50,000. The actual costs would depend upon how many eligible employees elect to change from KPERS to KP&F and the determination of a contribution rate for a new participating employer which is estimated at approximately 12.0 percent. The employee contribution rate would increase from 4.0 to 7.0 percent in order to help pay for enhanced retirement, disability, and death benefits under KP&F.