MINUTES

JOINT COMMITTEE ON PENSIONS, INVESTMENTS, AND BENEFITS

November 19, 2002
Room 123-S—Statehouse

Members Present

Senator Dave Kerr, Chairperson
Representative Lloyd Stone, Vice Chairperson
Senator Jim Barone
Senator Anthony Hensley
Senator Steve Morris
Senator Ruth Teichman
Representative Ray Cox
Representative Geraldine Flaharty
Representative Vaughn Flora
Representative Al Lane
Representative Joe Shriver
Representative Clark Shultz

Staff Present

Julian Efird, Kansas Legislative Research Department
Alan Conroy, Kansas Legislative Research Department
Gordon Self, Revisor of Statutes Office
Mike Corrigan, Revisor of Statutes Office
Carol Doel, Committee Secretary

Committee Conferees

Glen Deck, Executive Director, Kansas Public Employees Retirement System
Rob Woodward, Chief Investment Officer, Kansas Public Employees Retirement System
Dennis Meyers, Chief, Overland Park Fire Department
Jeff Russell, Director, Legislative Administrative Services
Lt. Col. Sam Breshears, Kansas City, Kansas Police Department

Morning Session

Vice Chairperson Stone opened the meeting in the temporary absence of Chairperson Kerr with the introduction of Glen Deck, Executive Director, Kansas Public Employees Retirement System (KPERS). Mr. Deck introduced several board members: Bruce Burditt, Chairperson, Vern Chesbro, and Jerry Boettcher.

Pertaining to the proposed 2003 legislation, Mr. Deck described three technical amendments and one separate bill that the Board requests for introduction to the 2003 Legislature. The technical amendments included definitions associated with the revised Federal Internal Revenue Code, correction of a 2001 statutory error, and clarification in the joint annuitant/partial lump sum option (Attachment 1). *Representative Stone made a motion to recommend the technical amendments be introduced as a Senate bill. Motion was seconded by Senator Morris. Motion carried*.

Also being requested is a separate bill regarding the KPERS Board authority for unclassified positions. The proposal would allow the Board flexibility in staffing without having to seek legislative authorization for specific unclassified positions that are not currently defined in statute (Attachment 1). Mr. Deck cited the addition of two unclassified positions: Internal Auditor and Assistant Member Services Officer as examples of how the agency's needs change. *Representative Cox moved to recommend introduction of a Senate bill. Representative Stone seconded the motion. Motion carried.*

Next, the KPERS FY 2004 budget request was reviewed. This included the budget highlights as well as explanations and tables showing a breakdown of requested expenditures (Attachment 2).

Mr. Deck's next presentation concerned the retirant dividend payment (13th check) which was a follow-up from the August 2002 meeting. A complete revised report included the background and legislative history, the statutory formula, demographics of the closed group of recipients, and the cost of the benefit (Attachment 3). Mr. Deck stated that there is a potential that full payment cannot be made in 2003 and that the Legislature could provide a statutory cure for this problem.

Finally, Mr. Deck presented an overview of the long-term funding outlook. He stated that KPERS provides retirement, disability, and survivor benefits to more than 240,000 members and includes1,450 participating employers. According to the most recent actuarial valuations, KPERS is not in actuarial balance, creating long-term funding concerns. In August of 2002 KPERS issued a report entitled *Kansas Public Employees Retirement System Long-term Funding Outlook: Part I* which was intended to help develop an understanding of the problem as a precursor to possible solutions for the problem (Attachment 4). The *Kansas Public Employees Retirement System Long-Term Funding Outlook: Part II* report was presented at this meeting in order to explain the more technical aspects of the long-term funding situation and possible options (Attachment 5).

At the August 21, 2002 meeting, the Committee requested information on two questions:

1. Could pension obligation bonds be issued on a tax-exempt basis to take advantage of lower tax-exempt interest rates?

2. Could pension obligation bonds be issued using a foreign currency-denominated basis to take advantage of lower interest rates in certain other countries?

The two questions were answered in written reports submitted by Mr. Deck from the Kansas Development Finance Authority (Attachment 6); from Kutak Rock, a nationally recognized bond counsel firm (Attachment 7); and from UBS/Paine Webber (Attachment 8). An article from *Pensions and Investments Magazine* (Attachment 9) also was distributed.

Reporting on further KPERS matters, Mr. Deck provided the October 31, 2002 agency financial information (Attachment 10), member operations report (Attachment 11), and most recent litigation report (Attachment 12).

Afternoon Session

Chairperson Kerr called the afternoon session to order and introduced Rob Woodward who submitted a report on KPERS investment performance for the period ending October 31, 2002 (Attachment 13). Mr. Woodward also presented an unaudited estimated preliminary investment report through November 14, 2002 (Attachment 14).

Next appearing was Chief Dennis Meyers, Overland Park Fire Department (OPFD). He explained how the department is a private entity. The City of Overland Park is planning a merger with OPFD on July 1, 2003, and he requested legislation authorizing firefighters with the OPFD to maintain and continue participating in their current pension plan after the merger occurs.

The draft legislation declares that firefighters and emergency medical service technicians participating in the OPFD's retirement plan are exempted from participation in KPERS and KP&F. The legislation also declares that police officers of the City of Overland Park are exempted from participation in KPERS and KP&F since they participate in a city-funded pension plan (Attachment 15).

Chairperson Kerr recommended that the proposal made by the OPFD Department be introduced for the 2003 Session. *Representative Shriver moved that the proposal be introduced as a House bill. Representative Stone seconded the motion. Motion carried.* The bill will allow eligible employees in Overland Park to continue coverage under established retirement plans and not be required to switch membership to a KPERS plan.

Concerning legislative retirement questions, Jeff Russell, Director, Legislative Administrative Services, noted that some legislators are ineligible for KPERS membership and that alternative arrangements for providing benefits to those legislators might be considered. Several current legislators already benefit from earlier legislation that prospectively allows continued contributions while they serve in the Legislature but are ineligible for KPERS since they work at Regents institutions. Mr. Russell explained that seven other legislators remained ineligible for KPERS membership as of May 2002 because they had retired from a KPERS participating employer. HB 3009 addressed only one legislator who had previously been ineligible for KPERS benefits but now has an alternative benefit arrangement (which also allows any other legislator similarly situated to have the same benefit). He suggested a possible solution to the problem by offering those unable to join KPERS a chance to participate in the 8.0 percent deferred compensation plan and based on actual compensation rather than an annualized amount. For legislators with another statutory alternative, they would continue prospectively.

Following discussion of the situations involving various legislators and possible solutions, *Representative Shriver moved that the content of 2002 HB 3009 be introduced as a House bill. Representative Stone seconded the motion. Motion passed.* The bill will allow retroactive benefit contributions on behalf of certain legislators who were barred from KPERS membership prior to the 2001 Session. The Regents institutions would pay any costs plus interest charges computed for the prior contributions.

Lt. Col. Sam Breshears, Director, Bureau of Operations, Kansas City Police Department, was asked by the Chairperson to address the proposed legislation allowing persons currently enrolled in Tier I of the Kansas Police and Fireman's Retirement System to retire without penalty after 32 years of service (Attachment 16). He noted that Tier I was a closed group and the maximum number of eligible KP&F members had been factored into the $3 million fiscal note for 2001 HB 2233. *Senator Hensley moved that a House bill be introduced without recommendation to allow Tier I retirement after 32 years of credited service and without penalty. Representative Flora seconded the motion. Motion carried.*

Chairperson Kerr called for a motion to approve the minutes of the August 21, 2002 meeting. *Representative Stone moved the minutes be approved. Representative Lane seconded the motion. Minutes approved.*

The Committee returned its attention to the issue of future funding for the 13th check. *Senator Barone made a motion that the statutory formula be modified permanently. Representative Flaharty seconded the motion.* During discussion, Chairperson Kerr stated it had not been his intention to work the issue since this action would add $22 million dollars to the unfunded liability in a time when the state's budget shortfall is serious. *Motion failed.*

It was recommended by Chairperson Kerr that the KPERS staff be given more direction on modeling solutions for the long-term KPERS funding problem. It was suggested that bonds be included in some alternatives. Senator Morris suggested the following components for a plan:

FY 2006	State employer rates increase to 6.0 percent over a five year period
Option A:	Employee rate would increase to 6.0 percent in FY 2006
	Multiplier would change to 1.85 percent
Option B:	Employee rate would increase to 6.0 percent over five years beginning FY 2006
	Multiplier would change to 1.80 percent
Added Option:	Make new tier with 25 years of service and use multiplier of 2.0 for all additional years of service

Having completed the business of the 2002 Interim, the meeting was adjourned.

Prepared by Carol Doel
Edited by Julian Efird

Approved by Committee on:

December 16, 2002