Approved: ____5-8-12_________
Date

MINUTES OF THE SENATE SELECT COMMITTEE ON KPERS

The meeting was called to order by Chairman Senator Morris at 4:20 p.m. on February 2, 2012, in Room 152-S of the Capitol.

All members were present.

Committee staff present:
Julian Efird, Kansas Legislative Research Department
Gordon Self, Kansas Revisor of Statutes
David Wiese, Kansas Revisor of Statutes
Daniel Yoza, Kansas Revisor of Statutes
Connie Burns, Committee Assistant

Conferees appearing before the Committee:
Ronald K. Snell, National Conference of State Legislatures
Judy A. Miller, American Society of Pension Professionals & Actuaries

Others attending:
See attached list.

Ronald K. Snell, National Conference of State Legislatures, provided testimony on State Pension Reform in 2010 and 2011. (Attachment 1) In 2010, 21 states changed their plans in ways ranging from restrictions on the ability of retired people to return to a job covered by a public pension to completely restructuring plans. In 2011, 32 states enacted comparable range of legislation. This meant a total of 41 states over the two years, since some states acted in both 2010 and 2011.

The catalyst for so much activity was the fiscal condition of state retirement trust funds. Since then, two recessions have battered their assets and the slow recovery from the Great Recession has kept states from rebuilding pension system assets. Some systems have also suffered from inadequate state contributions and unfunded increases in benefits. Adding to financial concerns are the aging of the state workforce and its increased propensity to retire, questions about the different retirement policies of the private and public sector, and a climate of opinion that questions public employee compensation compared to employment, retirement benefits and health insurance in the country overall.

Almost all public employees in the United States had changes within traditional defined benefit plans; which is similar in structure to the Kansas Public Employee Retirement System. A number of states allow employees to choose between defined benefit and defined contribution (DC) plans, which are similar to private-sector 401 (k) plans. Only two states currently use DC plans as primary, mandatory coverage for general public employees or teachers. Two more states have closed such plans to new employees. Many states offer a DC plan to employees in higher education, and most if not all offer employees a voluntary DC plan as a deferred compensation savings account. Hybrid plans, which provide each member with

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both a defined benefit component and an individual-account component, existed in Georgia, Indiana, Oregon and Washington for state employees, teachers, or both, before 2010.

In 2010 and since, a number of states, like Kansas, have considered basic plan redesign; the bulk of legislation in 2010 and 2011, has been within the framework of defined benefit plans. Mr. Snell provided information on the different plans designs and the states that have made changes.

Michigan in 1996 and Alaska in 2005 have been the only two states adopting a pure defined contribution plan as sole and primary coverage for state employees or teachers. The Utah defined contribution plan is one alternative of two – the other alternative is a hybrid plan. Mr. Snell stated that hybrid plans are currently the preferred option for replacing a defined benefit plan. Three states Michigan, Rhode Island and Utah show that hybrid plans can be customized with considerable variety to meet state policy goals.

Mr. Snell addressed questions and concerns from the committee.

Judy A. Miller, Chief of Actuarial Issues and Director of Retirement Policy for the American Society of Pension Professionals and Actuaries, spoke on the annuitization component of the new KPERS plan. (ASPPA) (Attachment 2) Ms. Miller stated that she served as Senior Benefits Advisor on the U.S. Senate Finance Committee staff from 2003 through 2007; and as a result, had involment in the middle of development of the legislation leading up to, and the conference negotiations that resulted in, the Pension Protection Act of 2006 (PPA). The cash balance provisions of PPA were one of the more contentious sections of that legislation. The goal was to make it clear that "hybrid" retirement plans, such as cash balance plans, were legal, and to establish rules that provided protection from age discrimination while allowing enough flexibility to accommodate creativity in future plan design. The rules on permissible interest crediting rates for cash balance arrangements were a key component of those negotiations.

The question as to whether or not KPERS can use the plan's actual rate of return as the interest crediting rate becomes a matter of "if the plan's assets are diversified so as to minimize the volatility of returns." The proposal that cash balance accounts earn interest credits based on the plan's actual rate of return includes the required preservation of capital feature, so it is permissible under the rules for hybrid retirement plans laid out by Congress in PPA and interpreted in Treasury regulations.

Ms. Miller addressed questions from the committee members.

The next meeting is scheduled for February 7, 2012. The meeting was adjourned at 5:05 p.m.