Approved: <u>   5-8-12   </u>
Date

MINUTES OF THE OF SENATE SELECT COMMITTEE ON KPERS

The meeting was called to order by Chairman Senator Morris at 4:20 p.m. on February 14, 2012, in Room 784-Docking of the Capitol.

All members were present except:
Senator Ruth Teichman

Committee staff present:
Julian Efird, Kansas Legislative Research Department
Michael Steiner, 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:
Alan Conroy, Kansas Public Employees Retirement System
Bernie Heffernon, Tax Exempt Markets with ING

Others attending:
See attached list.

<u>SB 338 - Enacting the Kansas public employees retirement system act of 2014</u>

Alan Conroy, Executive Director, Kansas Public Employees Retirement System, (KPERS) presented testimony on administrative and technical issues related to the new KPERS plan design recommended by the KPERS Study Commission and contained in **<u>SB 338</u>** and **<u>HB 2545</u>** as introduced. (<u>Attachment 1</u>) The new plan design has been evolving throughout its consideration by the Study Commission, including the process of drafting legislation, and its subsequent consideration by the Legislature. The extent and complexity of the new plan design exceeds that of any other legislation previously implemented by KPERS, and, therefore, prior administrative experience does not provide useful benchmarks for assessing cost and staffing impacts.

Although actual cost estimates will not be provide today, it is clear that the fiscal impact on KPERS' administrative and operational costs is expected to be large, relative to KPERS' current administration budget. Testimony received by the Study Commission from Washington State Department of Retirement System, in discussing their hybrid plan, the Deputy Director indicated that "implementation costs can be significant." A "CEM Benchmarking" study of 88 pension systems, including 14 specifically indentified as appropriate peers to KPERS, was presented to the Board in May 2011. The study indicated that, at $44 per active member, KPERS' pension administration costs were far below that of its peer group and the entire universe studied.

- KPERS' cost per active member is $46 below the peer average of $90 and 4th lowest in the entire benchmarking study universe

- KPERS' has only 2.95 pension administration FTE per 10,000 members, which is less than half the peer average of 7.10 FTE

As KPERS has reviewed the new plan design, two overarching and related concerns have emerged – the plan's complexity and its implementation timeframe. Multiple levels of administrative and legal complexity are introduced as a result of simultaneous elections under **HB 2194** and the new plan; the plan's approach is to crediting interest to the employer annuity account; the separation of the employee-directed accounts into two different plan types based on employer or job type (a 403(b) vs. a plan established under IRC 401(a), 414(d), and 414(k); creation of two custom default investment options, including one that is a part of the KPERS defined benefit portfolio; and the second is an external investment vehicle for the 403(b) plan, and a highly compressed implementation period. To varying degrees, this complexity would need to be managed not only be KPERS, but also by 1,500 participating employers as well.

A key cost component under **HB 2545/SB 338** would be information technology costs, during the start-up and implementation phase. Many of the responsibilities for recordkeeping, investment management, and communication/education services would be handled by a third-party administrator; implementation of a defined contribution plan would involve major changes to KPERS' information systems.

A highly compressed implementation period would entail a number of major operational, fiscal, and fiduciary risks. KPERS' resources are already stretched thin, and so implementing both **HB 2194** and **HB 2545/SB 338** in a compressed timeframe would require rapid growth in staff and contractual services in a very brief period of time, primarily in FY 2013. For these reasons, KPERS does not believe the effective date is achievable. Beyond these practical considerations, KPERS' tax counsel has advised that the effective date throughout the bill should be based upon the receipt of a favorable determinations letter from the IRS for the new plan, plus an appropriate time for implementation. Currently, **HB 2545/SB 338** provides for a two-year implementation period. Ice Miller LLP believes this implementation period should be applied after the IRS letter is received.

Mr. Conroy stated that KPERS continues to review the bills for technical or mechanical defects; and he provided issues noted to date. KPERS would ask for direction from the committee on issues as they arise at the appropriate time.

Mr. Conroy addressed questions and concerns from the committee.

Chairman Morris called attention to the procedural vote which was left open from the February 9, 2012 meeting.

*Senator Longbine moved to withdraw his motion on February 9, 2012, to amend **SB 338** with permission of the second, Senator Kelly. The motion was withdrawn.*

Bernie Heffernon, Executive Vice President of Tax Exempt Markets with ING, provided brief comments focused on the structure of the proposed plan design in **SB 338**, specifically as it relates to the inclusion of 403(b) plan language. (Attachment 2) INC believes the way the bill is currently structured creates a defined contribution plan which:

- Lacks equality across all employee groups
- Creates unnecessary administrative complexity for local school districts and school employees
- Creates duplication for local schools and school employees, simply because schools already have established 403(b) plans

From a portability perspective, there is no advantage to utilizing a 403(b). At separation from service, a 414(k), 403(b), and 457 all allow for participants to access their accounts with the same portability options; and the suggestion would be to support eliminating the 403(b) language from the bill. ING believes this action will create a defined contribution plan design which provides for:

- Equality across employee groups
- Ease of administration
- Simplicity of communication and education of employees
- Portability and flexible income options at separation of service
- Opportunity for a diverse investment selection

Joe Nichols, McCloud & Nichols, provided written testimony concerning the bill. (Attachment 3)

The next meeting is scheduled for February 16, 2012. The meeting was adjourned at 5:05 p.m.