Approved: ______5-8-12________
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 16, 2012, in Room 152-S of the Capitol.

All members were present.

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
- Rebecca Proctor, KPERS Study Commission

Others attending:
- See attached list.

Overview of Cash Balance Plans

Rebecca Proctor, member KPERS Study Commission, provided an overview of the Cash Balance Plan to the committee. (Attachment 1) Cash Balance Plans are defined benefit plans, and are generally viewed as a compromise between a traditional defined benefit plan and a defined contribution plan. With a Cash Balance Plan, the worker is always guaranteed to receive the dollar value of contributions made on his/her behalf, plus a guaranteed annual interest crediting rate. The idea is that the guaranteed interest crediting rate will be set below the plan's expected annual return, so that any lower performing years will be offset by higher performing years. The employee is protected from loss, but in exchange for that protection from loss accepts a lower rate of return.

Excess interest earning funds are defined benefit plans held in a trust, and must be used exclusively for the benefit of plan participants and beneficiaries. Depending on how the assumptions are set, and how the market performs, a cash balance plan can be fully funded based on employee contributions and interest earnings.

At retirement, how benefits are paid depends on how the plan is designed. Plan design can allow for benefits to be paid as an annuity or as a combination of an annuity with some percentage of lump sum payment. For the annuity conversion, the cash balance plan will either define an annuity conversion rate or tie that rate to some other factor. The annuity conversion rate and the applicable mortality tables are used to convert the funds in the cash balance account into a lifetime monthly benefit.

The minutes of the Senate Select Committee at 4:20 p.m. on February 16, 2012, in Room 152-S of the Capitol.

In a cash balance plan, because the benefit is based on the dollar value of the contributions and the interest accrued, the retirement benefit is based on the amount actually in the account, and not on any service or final salary components. In general, a cash balance plan will provide a lower benefit than a traditional defined benefits plan to long-term employees (working thirty years or more) or employees who join state service as a second career or later in the career lifecycle. A cash balance plan will usually provide a higher benefit than a traditional defined benefit plan to people who join state service early in the career lifecycle, and then leave to pursue other careers.

Alan Conroy, Executive Director, Kansas Public Employees Retirement System, (KPERS) provided comments on the Cash Balance plan from the presentation to KPERS Study Commission at the September 22, 2011 meeting, by Patrice Beckham, Cavanaugh Macdonald Consulting, LLC, pages 26 and 27. (Attachment 2) The two charts: 1) Summary of Different Plan Designs – the type of plan, a description and example, the variations and pros and cons. 2) EE/ER Risk features of different plan designs – reflects the economic risk on the KPERS Defined Benefit, Defined Contribution, and Cash Balance.

A cost study to determine the cost impact: assuming the employer credit to the cash balance plan design in **HB 2545**, modified to reflect a maximum credit of 4% of pay once a member has at least six years of service. (Attachment 3) Compares **HB 2194** to **HB 2545** modified with a 4% credit, and **current plan** to **HB 2545**.

Additional cost projections were provided by Cavanaugh Macdonald, (Attachment 4) with 6% investment return assumption; the cost projections for **Sn Sub HB 2194** shown in this study are based on the default provision changes under **Sn Sub for HB 2194** as passed by the 2011 Legislature; in addition, the projections for **HB 2545** also reflect the default benefit provision changes for KPERS Tier 1 and 2 members included in **Sn Sub HB 2194**.

Cost projections under **HB 2194**, **HB 2545** and the proposed Cash Balance Plan were provided to the committee. (Attachment 5) KPERS contribution rate projections under **HB 2194**, **HB 2525**, and Cash Balance Plan were also provided. A summary of the basic plan provision upon which the cost projections are based was included in the material and charts provided.

A chart comparing the benefit designs including the Defined Benefit Plan, Cash Balance Plan, and an Employee Defined Contribution Plan. (Attachment 6)

The next meeting is scheduled for February 21, 2012. The meeting was adjourned at 5:10 p.m.