Approved: _______5-10-12______
Date

MINUTES OF THE OF SENATE SELECT COMMITTEE ON KPERS

The meeting was called to order by Chairman Senator Morris at 1:30 p.m. on April 27, 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:
Alan Conroy, Kansas Public Employees Retirement System

Others attending:
See attached list.

Alan Conroy, Executive Director, Kansas Public Employees Retirement System, (KPERS) provided a summary of the proposed KPERS plan on the Cash Balance Plan Design (Attachment 1) A cash balance plan is a type of defined benefit plan that includes elements of a defined contribution plan. Cash balance plans tend to share risks between employers and employees to a greater degree than either traditional defined benefit plans or defined contribution plans. Employer contributions are established based on an actuarial valuation. The cost information for the Cash Balance Plan was provided. The key points of the plan compared to the existing defined benefit plan:

- Establishes a new tier (Tier 3) within the existing defined benefit plan based on IRS Code §§ 401(a) and 414 (d)
- The plan is part of the existing KPERS trust, and the existing defined benefits plan remains open
- Assets are comingled and can be used to pay the benefits of any tier
- All funding is determined on an aggregate basis
- Eligibility applies to future hire only as of July 1, 2014, and to non-vested members who are inactive on the effective date and subsequently return to service
- Employee Contribution Rate is 6% of compensation into the member's annuity savings account
- Employer Credit – equal to of 4% of member compensation is recorded on a quarterly bsis in the retirement annuity account
- A fixed interest credit is applied quarterly to both the retirement annuity account and the annuity savings account
- The interest credit is based on years of service
- The Legislature reserves the right to adjust the interest crediting rate prospectively
- Discretionary Dividends – Board to have discretion within guidelines established by statute,

including: Member must have a minimum of 10 years of service to be eligible for dividend, maximum dividend of 4%, and Board to consider funding, market conditions, investment returns, and other related factors

- Employer Contributions – Single, actuarially determined rate for all KPERS tiers
- 5 years vesting
- Termination before vesting (non-vested, inactive)
- Termination when vest (vested inactive)
- Death Prior to Retirement
- Normal Retirement Age (non-forfeitable): Standard – 65 years of service – and – five years of service (vested) or age 60 with 30 years of service
- Normal Retirement Age (Non-forfeitable) Correctional Officers Group A (primarily correction officers and supervisors) age 55 with 10 years of service – Group B (other correction institution employees that generally have regular contact with inmates) age 60 with 10 years of employment
- Nature of Retirement Benefit – default form of distribution, calculation of benefit – annuity conversion factor, calculation of benefit for mortality factor, benefit options, retirement benefits for members on disability
- Retiree Death Benefit – provide death benefit of $4,000

Mr. Conroy addressed questions from the committee on the Cash Balance plan.

The Committee had requested Cavanaugh Macdonald prepare an analysis of the percent of pre-retirement income replaced by the different plan designs for KPERS Tier 3 members. (Attachment 2) This type of comparison is referred to as a "replacement ratio" analysis. The analysis was performed for:

- **HB 2194**
- **Sub SB 25**9 – HCOW
- Morris/Kelly Cash Balance Plan
- King Hybrid Plan
- **SB 429** (also a hybrid plan)

Of the five plan designs included in the analysis, only **HB 2194** is a traditional defined benefit plan where the benefit amount is based on final average salary, years of service, and the benefit multiplier. The alternate plan designs are either cash balance plans, defined contribution (DC) plans, or hybrid plans, composed of both a cash balance plan and a DC plan. Under both a cash balance plan and a DC plan, the employee's benefit is based on an "account balance." The Cash Balance plans and DC plans vary in how the account balance is determined, but they both provide benefits based on an account balance; however, the four alternate plan designs vary with respect to the sharing of investment and longevity risk as well as the guaranteed nature of the benefits.

The charts reflect the different plans with Investment Risk both pre and post retirement and longevity risk. Included is a comparison of Tier 3 Plan Designs and assumptions used in determining replacement ratios for each plan.

The minutes of the Senate Select Committee at 1:30 p.m. on April 27, 2012, in Room 152-S of the Capitol.

A cost study at 7% assumed rate of return was provided. (Attachment 3) This study reflects the four proposed plan designs: (1) **HB 2194**, (2) **SB 42**9, (3) President Morris/Senator Kelly Cash Balance Plan (Morris/Kelly Plan) and (4) Senator King's proposed plan design (King Plan) using a 7% assumed rate of return. Comprehensive cost studies were previously performed for each of these three proposed plan designs as well as **HB 2194**; however, those cost studies were prepared using an 8% investment return assumption. The cost estimates shown in the attached exhibits reflect a 7% investment return assumption.

Discussion and Final Action:

Senator King moved an amendment that would change the proposed bill to a hybrid, the employer section would be cash balance and employee section would be defined contribution and would be structured after the study commission proposal with language from Security Benefit for the 403(b) portion. Senator Masterson seconded the motion. Discussion followed involving the amendment. *Division was called and the motion failed.*

Senator King made a motion to amend the proposed draft bill on working after retirement by school professionals returning to their own districts from which they retired. Senator Kelly seconded the motion. The motion carried.

*Senator Kelly made a motion to amend the proposed draft bill to put a moratorium on death and disabilities contributions for 4th quarter FY 2012. Senator Vratil seconded the motion. The motion carrie*d.

Senator Kelly made a motion to amend the proposed draft bill to reduce the number of days from 372 to 365 for legislative actualization. Senator Teichman seconded the motion. The motion carried.

Senator Kelly moved to strip the language out of ***HB 2333*** *and to insert the amended draft bill language as a substitute bill. Senator Teichman seconded the motion. The motion carrie*d.

Senator Kelly moved to pass ***Senate Substitute for HB 2333*** *out favorably, and to allow the Revisor technical correction capability. Senator Vratil seconded the motion. The motion carried.*

Senator King, Senator Marshall, and Senator Masterson requested to be recorded as voting no.

The Chairman thanked the committee for its hard work.

The meeting was adjourned at 2:30 p.m.