

JOINT COMMITTEE ON PENSIONS, INVESTMENTS AND BENEFITS

February 20, 2003

Room 231 N - Statehouse

Members Present

Representative John Edmonds, Chairman
Senator Dave Kerr, Vice-Chairman
Representative Geraldine Flaharty, Ranking Minority
Senator Jim Barone
Senator Steve Morris
Representative Ray Cox
Representative Margaret Long
Representative Bill McCreary
Representative Melvin Neufeld

Staff Present

Julian Efir, Kansas Legislative Research Department
Gordon Self, Office of the Revisor of Statutes
Carol Doel, Committee Secretary

Committee Conferees

Glen Deck, Executive Director of KPERS
Pat Beckham, KPERS Actuary, Milliman U.S.A.

Chairman Edmonds called the meeting to order recognizing Glen Deck, Executive Director of KPERS (Kansas Public Employees Retirement System). Mr. Deck introduced two members of the KPERS board, Jerry Boettcher and Bruce Burditt, chairman of the board, who were present for the presentation. The first item which Mr. Deck covered was the long term funding projection. With another calendar year of negative returns the System's portfolio averaged a negative 6.9 percent and the System's assets declined from \$9.1 billion to \$8.2 billion. Increased employer contributions are essential to the System's long-term financial health. (Attachment 1)

The second item covered in his presentation was pension obligation bonds which are taxable bonds issued to refinance the pension fund's unfunded actuarial liability. Proceeds of the bonds would be invested in the pension fund. Graphs regarding market overview of pension obligation bonds as well as information regarding bond issues to consider and the issuance process were submitted for committee review. (Attachment 2)

Jack Hawn appeared before the committee to report on the history of the State/School Group. His report showed that KPERS came into existence on January 1, 1962, and the Kansas School Retirement System was merged with KPERS on January 1, 1971. The school group was reviewed separately by the KPERS actuary from the State/local group from 1971-1987 and had a separate employer contribution rate. In 1987 the Legislature made the policy decision to combine the three groups and have a single employer contribution rate. (Attachment 3)

Pat Beckham, KPERS Actuary with Milliman USA, reported on State/School and Local Group actuarial valuation. The liabilities and normal cost for each group are determined by the plan provisions, the demographics of the membership and the actuarial assumptions. Her report also included a summary of actuarial valuation results, KPERS estimated contribution rates by group, and the December 31, 2002 actuarial valuation. Ms. Beckham stated that the final December 31, 2002 valuation report could include for informational purposes separate valuation and rate calculation for State and school groups. (Attachment 4)

Also submitted by KPERS for committee review was a copy of the History of State/School and Local Employer Contribution Rates. (Attachment 5)

Chairman Edmonds opened the floor for discussion following the KPERS reports.

Senator Morris suggested that the legislature should proceed with a fairly aggressive change in contribution rate. However, this can't be done this year or probably not next year, but could be considered 2006. It was his suggestion that the framework be put in place to consider the possibility of POB (Pension Obligation Bonds). Senator Barone concurred with Senator Morris' suggestion.

Senator Kerr asked if the Governor was aware of the situation KPERS is currently addressing. Glen Deck responded he wasn't sure about the Governor. However, the budget director is very up-to-date.

Senator Kerr suggested that since this is a huge issue that is going to affect State budgets for many years into the future, we are going to have to develop a long term solution to this problem which needs to be built into the budgetary planning. He felt that possibly a letter should be written to the Governor to summarize the situation and the need for addressing it sometime over the next three or four years.

It was decided that Chairman Edmonds, Vice-Chairman, Kerr and Ranking Minority, Representative Flaharty should meet with the Speaker to develop a particular method of advising the Governor of the gravity of the situation.

Chairman Edmonds requested that KPERS press ahead with more detailed information on the pension obligation bonds. With this, Chairman Edmonds adjourned the meeting at 1:05 p.m.