MINUTES

JOINT COMMITTEE ON PENSIONS, INVESTMENTS, AND BENEFITS

November 15, 2006
Room 123-S—Statehouse

Members Present

Senator Steve Morris, Chairperson
Representative John Edmonds, Vice-Chairperson
Senator Anthony Hensley
Senator Ruth Teichman
Senator Dwayne Umbarger
Representative Richard Carlson
Representative Geraldine Flaharty
Representative Vaughn Flora
Representative Margaret Long
Representative Bill McCreary
Representative Melvin Neufeld
Representative Robert Olson

Staff

Alan Conroy, Director, Kansas Legislative Research Department
Julian Efird, Principal Analyst, Kansas Legislative Research Department
Gordon Self, Office of the Revisor of Statutes
Mike Corrigan, Office of the Revisor of Statutes
Shirley Jepson, Committee Secretary

Conferees

Ron Snell, National Conference on State Legislatures
Glenn Deck, Executive Director, Kansas Public Employees Retirement System

Morning Session

Chairperson Morris welcomed Representative Robert Olson as a new member of the Committee.

Representative Neufeld moved to approve the minutes of September 26, 2006, as presented. Representative Edmonds seconded the motion. *Motion carried*.

Chairperson Morris recognized Ron Snell, National Conference of State Legislatures (NCSL), who presented a report on current state pension and retirement issues, including highlights of recent state legislation passed, with a focus on the Midwest region states of Nebraska, Colorado, Oklahoma, Missouri, and Iowa (Attachment 1).

Mr. Snell reported that many state retirement systems are funded to varying degrees, with some at 91 percent or greater funding to meet future benefit payments. However, many other systems are experiencing long-term funding problems, which have resulted in a number of changes to address financing of benefits. Recent regional changes have increased contribution rates, some for employers and some for employees where permitted; placed limits on automatic cost-of-living increases; and implemented anti-spiking provisions to curtail inflated final average salaries. Early retirement incentives have been revised or phased out in most state plans. Purchase of service credit where permitted is required to be at the full actuarial cost.

Responding to a question with regard to states that have increased the employee contribution rate and whether increased benefits were provided, Mr. Snell noted that this action varies from state to state. He was not aware of any state that increased benefits or of any legal actions taken by members concerning the issue of higher contribution rates when no benefit increases were provided. Most states have systems which provide that members share in making necessary contributions as a matter of law.

Mr. Snell noted that the Government Accounting Standards Board (GASB) will require the states to report by FY 2008, on progress toward funding future liabilities for other post-employment benefits (OPEB) besides pensions. These benefits include retiree health care, life insurance, or other benefits offered retirees. These new financial reporting requirements may present serious financial challenges to state and local governments. He gave examples for several states with multi-billion-dollar liabilities.

In responding to another question, Mr. Snell indicated that changing or restructuring of a current retirement plan is a difficult issue to address, as employers and employees are reluctant to acknowledge short-term advantages.

Next, the Chairperson recognized Glenn Deck, Executive Director, Kansas Public Employees System (KPERS), who presented several proposed amendments for the retirement statutes to be considered by the 2007 Legislature (Attachment 2). The KPERS Board of Trustees requested bill introductions for the amendments.

Mr. Deck noted the following items for 2007 legislative consideration:

- Legislation authorizing KPERS' implementation of certain tax-free distributions for retired public safety officers as provided by the federal Pension Protection Act of 2006. One of the provisions allows for a federal tax-free distribution from a pension plan of up to $3,000 per year to pay premiums on health insurance or long-term care insurance. This legislation would affect public safety retirees who participate in the state health plan and have premiums deducted from their pension payments, as well as approximately 5,000 to 10,000 other retired public safety officers who do not participate in the state health plan but have health insurance elsewhere and could benefit from this legislation.

The estimated cost of implementing this legislation would be a one-time cost of $442,000 for KPERS information system changes and an annual cost of $35,000 for salary and benefits for one additional full-time employee. The KPERS FY 2008 budget request would need to be amended if this legislation is enacted.

Responding to questions from the Committee, Mr. Deck indicated that restrictions could be included in the legislation as to the type of health insurance, such as Medicare or private health insurance. This benefit would only affect federal income tax.

Representative Flaharty moved to introduce legislation to adopt the proposal to allow a tax-free distribution from a pension plan of up to $3,000 per year to pay premiums on health insurance or long-term care insurance for retired public safety officers. The motion was seconded by Senator Teichman. Motion carried.

- Increasing the Kansas Police and Fireman (KP&F) Tier II earnings limitation from the $10,000 level established in 1989. KP&F members hired on or after July 1, 1989, are considered KP&F Tier II members and may qualify for disability benefits if they are disabled from performing the duties of police officers or firefighters. The earnings limitation has not been increased since 1989 and results in significant loss of purchasing power for KP&F disability recipients.

  If the earnings limitation is raised to $15,000, KPERS estimates a cost of $100,000 for additional benefits. If raised to $20,000, the cost would be approximately $160,000.

The Committee noted that this issue might need to be addressed as two separate issues, since the disabled member could be employed by the private sector, as opposed to the state.

The Committee requested additional information on the amount of disability benefits paid to KP&F Tier II disability recipients and no action was taken at this time.

- Technical modifications to address vague or ambiguous language governing improper withdrawals in certain instances and portability of service between systems. These technical modifications include eliminating an improper withdrawal provision and amending other provisions governing service credit shared between systems.

Representative Neufeld moved to introduce legislation to adopt technical modifications as proposed with an option to add future technical changes as necessary. The motion was seconded by Senator Teichman. Motion carried.

Mr. Deck continued his presentation with information on Sudan divestment (Attachment 3). In 1993, President Clinton declared Sudan a state sponsor of terrorism, citing the country's relationship with a wide range of Islamic terrorist organizations. At this time, the Sudanese government continues to support the militias and obstruct efforts to provide humanitarian aid to Darfur. Two pieces of legislation regarding Sudan divestment were considered by the 2006 Legislature, but no action was taken.

Legislation has been enacted in some states to prohibit pension fund investment in Sudanese companies and some states have expanded legislation to include entities who do business in Sudan. Mr. Deck reported that the KPERS investment portfolio is managed for the long-term investments and currently, 14 outside investment management firms handle the investments. KPERS does not have any direct holdings in Sudan or any investments in Sudanese companies; however, KPERS does hold securities of companies that have some type of business connection to Sudan. Approximately 0.34 percent of the KPERS total portfolio has exposure to companies which are on a list pertaining to Sudan. KPERS continues to monitor developments in other states and to gather information from its investment managers on holdings of companies with Sudanese business connections.

No action was taken on this matter.

Afternoon Session

Chairperson Morris recognized Glenn Deck. In response to a request of the Committee during the morning session, Mr. Deck provided information pertaining to the KP&F Tier II earnings limit as to the impact if there was no earnings limit. Mr. Deck reported that, based on the 53 members who are currently employed, the impact to KPERS would be approximately $426,000 annually for increased benefit payments. Chairperson Morris indicated that this subject would be revisited at the December 15, 2006 meeting.

Mr. Deck continued with a presentation on the KPERS retirement plan design project and provided additional information requested by the Committee at earlier meetings (Attachment 4).

Mr. Deck stated that the KPERS Board of Trustees recommends legislative consideration of a modified current plan design. Key elements of this design include:

- Continuation of guaranteed lifetime benefit payments for future public employees which are designed to complement retirement income from Social Security and personal savings;

- Higher normal retirement age and lower early retirement subsidies to provide incentives for future members to work until they reach Social Security eligibility;

- Projected income replacement ratio at retirement from KPERS and Social Security of approximately 80 percent for career employees retiring under normal retirement provisions (age 65 with 30 years of service), which is the same as the projected ratio under the current plan;

- Employee-funded cost-of-living adjustments that help maintain the purchasing power of KPERS benefits during retirement, as demonstrated by protected income replacement ratios ten years after retirement from KPERS and Social Security;

- Higher level of employee contributions and interest returned to non-career employees who terminate membership, versus amounts returned under the current plan; and

- Improvements in the long-term financial soundness of the plan.

Mr. Deck noted that if an alternative retirement plan design is selected, a number of legislative issues would need to be addressed (Attachment 4, pages 19-20).

Mr. Deck requested further direction from the Committee on basic design options and eligibility rules, vesting and COLA options, or any further information that could be provided. Further issues which the Committee would like to discuss included:

- Anti-spiking provision;

- Effective date for employees to be rolled into the new plan if a five-year vesting option was adopted and impact on employees already hired under old plan;

- Retirement at age 60 with 30 years service;

- Five-year vesting for current employees and eliminating the one-year service requirement for state employees;

- Information on anti-spiking issue and correctional issue;

- Adding COLA to current plan and development of a clear statement on COLA to be shared with KPERS members; and

- Consideration of increasing contribution rate.

The next scheduled meeting is December 15, 2006.

Prepared by Shirley Jepson
Edited by Julian Efird

Approved by Committee on:

December 15, 2006
(date)