

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Chairperson Steve Morris at 10:30 a.m. on January 18, 2001, in Room 123-S of the Capitol.

All members were present except: All present

Committee staff present:

Alan Conroy, Chief Fiscal Analyst, Kansas Legislative Research Department
Debra Hollon, Kansas Legislative Research Department
Amory Lovin, Kansas Legislative Research Department
Julian Efird, Kansas Legislative Research Department
Michael Corrigan, Assistant Revisor, Revisor of Statutes
Gordon Self, Revisor of Statutes Office
Julie Weber, Administrative Assistant to the Chairman
Mary Shaw, Committee Secretary

Conferees appearing before the committee:

Glenn Deck, Executive Secretary, Kansas Public Employees Retirement System (KPERs)
Patrice Beckham, FSA, KPERs Consulting Actuary, Milliman and Robertson, Inc, Omaha, Nebraska

Others attending: See attached guest list

Bill Introductions

Senator Jordan made a motion, with a second by Senator Huelskamp, to introduce a bill (1rs0362) that would move up the KPERs actuarial audit from 2002 to 2001. Motion carried.

Chairman Morris welcomed Glenn Deck, Executive Secretary, KPERs. Mr. Deck introduced various board members who were present with him. In summary, Mr. Deck explained that the retirement system is in very sound financial condition and that excellent funding progress has been made in the last six years. Mr. Deck mentioned that there has been criticism about the changes in valuation policy that will be presented today in that they should have been communicated earlier to the Legislature. They accept this and agree that the KPERs Board and staff should have discussed this earlier, particularly with the Joint Committee on Pensions, Investments and Benefits. Mr. Deck mentioned that in the future they will do a better job of keeping the Legislature informed about these kinds of significant issues before decisions are made. They support the bill to speed up the independent audit since it is sound practice to perform an actuarial audit periodically. This is done all over the country for all pension systems. They feel it is important to accelerate the audit due to the kinds of concerns expressed on the issue. They understand the importance of the projected contribution rate equilibrium date to the Legislature and the policy discussion regarding future benefits of the system. (No written testimony was provided.) Mr. Deck introduced Pat Beckham, the KPERs Consulting Actuary, Milliman and Robertson, Inc, Omaha, Nebraska.

Chairman Morris welcomed Ms. Beckham to the Committee (Attachment 1). Ms. Beckham mentioned some goals she would address in her presentation as follows:

- Address information previously disseminated
- Define key terms
- Explain Valuation process
- Review June 30, 2000 Valuation results
- Key discussion points

Information provided by the KPERs actuary, based on the June 30, 2000 valuation, using a new projection model developed in 2000 indicates that the equilibrium year for the State/School contribution rate will be reached in FY 2016 at a rate of 7.36 percent. New (2000) estimates for the local units project equilibrium in CY 2004 at a rate of 3.88 percent. The impact of the new estimates on local units is not as dramatic as on the State/School group. The movement of the equilibrium date from FY 2005 (based on

CONTINUATION SHEET

the 1999 model) to FY 2016 (2000 model) for the State/School group was the result of two factors identified by the KPERS actuary:

1. Net negative actuarial experience between June 30, 1999 and June 30, 2000, resulted in an increase of normal cost in the current valuation and a resulting actuarial rate increase of 0.26 percent. Actual experience in FY 2000 did not match the actuarial estimates.
2. Beginning a six year phase-in of changes in the actuarial procedures resulted in an increase in the unintended actuarial liability (UAL) and a resulting actuarial rate increase of 0.10 percent. The main procedural change involves shifting the date for counting salaries from December 31 to June 30.

Similar increases in the UAL and normal cost rate are expected over the next five years. As a result, the actuarial contribution rate will increase more rapidly than the rate allowed by the statutory cap, with an increasing shortfall in the state's employer contributions. The impact on the projection caused by the shortfall in contributions pushes the equilibrium date out to FY 2016, according to the KPERS actuary.

Regarding changes in the valuation procedures, Ms. Beckham noted that there have been a lot of questions about why it is being done now. She mentioned that Milliman and Robertson came in with three months of experience with KPERS as compared to 33 years by Segal & Company. She noted that Milliman and Robertson now has had six years experience with KPERS. Committee questions and discussion followed.

Regarding the equilibrium date, Senator Kerr mentioned that there was a good understanding of what the equilibrium date was because Ms. Beckham stressed that when the statutory rate equals the actuarial rate the Legislature would not have to continue the 0.02 percent increase annually. Therefore, if the Legislature chose to use the 0.02 percent for something like cost of living increase (COLAs) since the Legislature has been very restrictive on COLAs because of having this additional contribution each year to play catch-up. The Legislature has made a lot of decisions to resist COLAs thinking that the Legislature was taking the long view and leaving their successors in a better position. Senator Kerr noted that now, following the new projections, the equilibrium rate will not be reached until 2015 and the employer's contribution rate will be 7.35 percent, so it is an extraordinary thing for legislators and for taxpayers. The Legislature thought all the financial assumptions concerning KPERS were already known. He asked of Ms. Beckham what might make the Committee more comfortable concerning whether other significant assumptions might be changed. Ms. Beckham responded that she did not intend to infer that the committee members did not understand the projected equilibrium date and she had talked to the KPERS staff as to when this should be brought to the attention of the Legislature. She noted that the change needs to be made. Continued Committee discussion followed regarding the equilibrium rate.

Senator Kerr asked Ms. Beckham if she agrees that the \$865 million dollars is the additional amount that the state will pay over 15 years as a result of this change, if the present statute is followed. Ms. Beckham responded that the \$865 million dollars, in her understanding, is the difference between the projected contribution rates based on the 1999 model versus the 2000 model. There are two changes that happened between 1999 and 2000 and the second change would be the procedural changes.

Senator Barone expressed concern with what the legislature knew, when they knew it and how they got to where they are. In November, he noted that the actuary's new assumptions were a relatively new discovery. It is his impression that the actuary knew about this immediately when they became the actuary and referenced the fact that they had documented it back then. Senator Barone asked if Ms. Beckham would explain the discussions that have gone on these past 6 years about this situation and what changed that now that it needed to be addressed.

Ms. Beckham noted that the Segal Company procedures were in place and they kept those procedures in 1994 when they took over from that company. Milliman and Robertson had deferred to their predecessors thinking there was a reason for their assumptions. That was the decision made in consultation with KPERS at that time and they basically decided to monitor the procedures. They continued to share

CONTINUATION SHEET

information with KPERS. She noted that until they started doing two sets of valuations, they did not know what the results would be with their procedures versus the Milliman & Robertson Company procedures. Ms. Beckham noted that they have to perform two valuations to compare results.

Further Committee discussion followed regarding the situation being addressed with the KPERS staff and the KPERS Board. Senator Barone requested that if any significant new information comes up in the future, to communicate it in writing to her employers, and to the extent possible, to the Legislature. Senator Barone noted that a key element is that people were left out of the loop for six years from 1994 to 2000, and suddenly it is addressed and this body, the Kansas Legislature, was not involved in the process. The meeting was adjourned at 11:55 a.m. The next meeting is scheduled for January 19, 2001.