# MINUTES

## JOINT COMMITTEE ON PENSIONS, INVESTMENTS AND BENEFITS

December 19, 2014
Room 548-S—Statehouse

**Members Present**

Senator Jeff King, Chairperson
Representative Steven Johnson, Vice-chairperson
Senator Anthony Hensley
Senator Mitch Holmes
Senator Laura Kelly
Senator Ty Masterson
Representative John Alcala
Representative Dan Hawkins
Representative Jerry Henry
Representative Charles Macheers
Representative Ed Trimmer

**Members Absent**

Representative John Edmonds, Excused
Representative Gene Suellentrop, Excused

**Staff Present**

J. G. Scott, Kansas Legislative Research Department
Mark Dapp, Kansas Legislative Research Department
Reed Holwegner, Kansas Legislative Research Department
Gordon Self, Office of Revisor of Statutes
David Wiese, Office of Revisor of Statutes
Daniel Yoza, Office of Revisor of Statutes
Suzanne Nelson, Committee Assistant

**Conferees**

James Clark, Secretary of Administration
Shawn Sullivan, Director of the Budget
Alan Conroy, Executive Director, Kansas Public Employees Retirement System
Frank Denning, Johnson County Sheriff
Ed Klumpp, Kansas Associations of Chiefs, Officers, and Sheriffs
Ray Roberts, Secretary of Corrections

## Morning Session

Chairperson King called the meeting to order at 10:07 a.m. He presented an overview of the agenda and noted, in the morning session, Budget Director Shawn Sullivan and Kansas Public Employees Retirement System (KPERS) Executive Director Alan Conroy would present and discuss some specific KPERS funding issues and options for the 2015 Legislative Session. Chairperson King reiterated the Legislative Coordinating Council's (LCC's) two interim study charges, working after retirement and future pension reforms for Corrections workers, as the topics for the afternoon. There was no further discussion on the agenda.

Shawn Sullivan, Director of the Budget, distributed copies of his letter to Senator King, dated December 18, 2014, detailing the employer contribution rate roll-back to the FY 2012 level as part of the Governor's allotment plan announced during the previous week (Attachment 1). The roll-back will be a reduction in employer contribution amounts for six months that will not be carried forward into the Governor's FY 2016 and FY 2017 budget proposals. The employer contribution rate will be restored to its statutory level. Mr. Sullivan commended the progress made in the last couple of years to put KPERS on a better path of sustainability for both employees and tax payers.

Mr. Sullivan requested the Joint Committee to study additional short-term reform options, such as revising the method used to calculate asset valuations (moving from an actuarial method to a market value method) and considering the impact of reamortization of the actuarial liability by extending the amortization period. Mr. Sullivan also requested three long-term options be studied:

- Issuing pension obligation bonds to reduce the unfunded actuarial liability with net proceeds in the amounts of either $1.0 billion or $1.5 billion with debt service from a source other than employer contributions;
- Revising the plan design for new hires and non-vested KPERS members to include:
    - Member election of cash-balance or defined-contribution plan; or
    - A hybrid cash-balance, defined-contribution plan; and
- Emerging trends in the private sector such as annuitization.

Mr. Sullivan and James Clark, Secretary of Administration, responded to comments and with the assistance of Mr. Conroy answered questions from the Joint Committee pertaining to the sale of the Docking State Office Building, clarification regarding emerging private sector trends, and valuation methods. Mr. Conroy said 80 percent of the proceeds of the sale of the state property would be used to help pay for the unfunded actuarial liability; Secretary Clark added the appraisal for the Docking Building would suggest the total proceeds would be minimal. With regard to emerging private sector trends, Secretary Clark suggested the State study the viability of removing KPERS' tiered system. By using a market valuation method instead of an actuarial method, according to Secretary Clark, greater realization of valuation could reduce the employer contribution rate in the near future. To ensure contribution rates did not fluctuate too greatly, KPERS' investments would have to become less risky.

Senator Hensley informed the Joint Committee about his intention to propose a statement regarding the Governor's allotment plan, which would be included in the Interim Report to the 2015 Legislature (Attachment 2). Further discussion and comments followed.

Mr. Conroy presented an overview of cost information on three plans to reduce the employer contribution rates in upcoming fiscal years (Attachment 3) and then further discussed each plan in detail:

- Cost study for impact of pension obligation bonds (Attachment 4);
- Reamortize unfunded actuarial liability by adding 10 years to the 19 years remaining (Attachment 5); and
- Use of market value of assets in valuations as of December 31, 2012, and 2013 (Attachment 6).

There was clarification and discussion of the plans during which Mr. Conroy answered questions from the Joint Committee pertaining to debt service on additional bonding, the history of bonds previously prevailed, the time line for new bond proceeds to be invested, and the viability of alternating between market and actuarial valuation methods.

Mr. Conroy reported the actuarial debt service for $1 billion in issued bonds would range between $60 million to $70 million; for $1.5 billion the range would be between $65 million to $98 million. The sale of $500 million in bonds was completed in 2004. Assuming legislation was enacted during the 2015 Legislative Session, Mr. Conroy expected bond proceeds to be invested either by the end of calendar year 2015 or by the start of calendar year 2016. With net bond proceeds of $1 billion, total employer contributions over the plan period (FY 2015 through FY 2036) would be reduced by $2.213 billion to $13.204 billion; with net bond proceeds of $1.5 billion, total employer contributions would be reduced by $3.295 billion to $12.123 billion. It is conceivable to alternate between market and actuarial valuations, Mr. Conroy said, but once actuarial smoothing is gone, employer contribution rates could become more volatile for several years until a sufficient number of years passed to begin actuarial valuations again. Kansas currently calculates actuarial assets over a five-year period.

The Chairperson asked KPERS staff to distribute a handout, Kansas Public Employers [sic] Retirement System Estimated Employer Contributions FY 2012 to FY 2034 State-School Group, which was dated October 25, 2011, as a reminder to the Joint Committee about the amount of progress that has been made since 2012, while also realizing there is still much to be done (Attachment 7).

The Joint Committee recessed at 11:40 a.m.

## Afternoon Session

Chairperson King called the Joint Committee back to order at 1:35 p.m.

Frank Denning, Sheriff of Johnson County, presented information regarding Kansas Police and Firefighters Retirement System (KP&F) benefits for certified law enforcement officers assigned to detention facilities. He supported the Kansas Sheriffs' Association proposal to amend KSA 74-4952(12) so it covers all law enforcement officers certified by the Kansas Commission on Police Officer Standards and Training (Attachment 8). Sheriff Denning responded to questions from the Joint Committee, clarifying that contributions are made to KP&F even if a deputy is reassigned.

Chairperson King asked Ed Klumpp, who was representing the Kansas Associations of Chiefs, Officers, and Sheriffs, for comments regarding the proposed amendment. Mr. Klumpp supported the amendment and indicated the amendment request has not yet been submitted to the Office of Revisor of Statutes, but he anticipated the request would be made soon.

Ray Roberts, Secretary of Corrections, spoke about retirement matters relative to the Department of Corrections and the movement of juvenile correctional and parole officers to Corrections KPERS (Attachment 9). He then answered questions from the Joint Committee.

Mr. Conroy explained the cost study on certain Department of Corrections employees moving to KPERS Correctional Officers Groups A (C55) and B (C60) (Attachment 10). In response to a request made by the Joint Committee during its meeting held on November 17, 2014, Mr. Conroy presented materials regarding working after retirement (Attachment 11). After discussion by the members, Mr. Conroy then noted the following materials had been distributed to the Joint Committee:

- Overview of actuarial cost studies requested at the November 17, 2014, meeting and reduction in the employer contribution rate for FY 2015 (Attachment 12);
- Reduction in the employer contribution rate for FYs 2015 and 2016 (Attachment 13);
- Reduction in the employer contribution rate for FYs 2015, 2016, and 2017 (Attachment 14);
- Projected valuation results with assumed returns other than 8 percent (Attachment 15);
- Elimination of Expanded Lottery Act Revenue Fund (ELARF) contributions (Attachment 16);
- Actuarially required contribution rates and statutory contribution rates (Attachment 17);
- Committee requests for additional information from the November 17, 2014, meeting (Attachment 18);
- Working after retirement example 1, Scenario 1 (Attachment 19);
- Working after retirement example 2, Scenario 2 (Attachment 20);
- State comparison of break in service requirements (Attachment 21); and

- KPERS comparisons (Attachment 22).

Due to time constraints, Chairperson King outlined the agenda for the rest of the afternoon and brought the members' attention to the two study topics, working after retirement and future pension reforms for Corrections workers, charged by the LCC. He encouraged any action taken by the Joint Committee for its interim report be confined to those two subjects, then separately consider issues which arose out of the day's meeting.

*Senator Masterson moved, seconded by Senator Holmes, the Joint Committee conclude the 2015 Legislature review the possibility of including juvenile corrections and parole officers in the KPERS Correctional retirement.*

During discussion, *with the consent of Senator Holmes, Senator Masterson restated his motion to specify that funding from the State General Fund for the additional employer contribution also should be reviewed*. <u>The motion, as restated, passed</u>.

Chairperson King asked if there were any discussion or actions to be brought forward from the issues presented by Sheriff Denning.

*Senator Masterson moved, seconded by Representative Johnson, the Joint Committee conclude the 2015 Legislature consider amending state law to allow sheriffs' deputies who meet the training requirements of KP&F retirement, but whose primary job duties in local jails exclude them from KP&F eligibility, be enrolled as KP&F members. <u>The motion passed</u>.*

*Representative Johnson moved, seconded by Senator Masterson, the Joint Committee conclude the 2015 Legislature consider moving KPERS-Correctional retirement from a subgroup of the KPERS plan to a subgroup of the KP&F plan. <u>The motion passed</u>.*

The Joint Committee then discussed working after retirement and the sunset provision that will expire on June 30, 2015.

*Representative Johnson moved, seconded by Representative Hawkins, the Joint Committee conclude the 2015 Legislature review the current break-in-service requirements in concert with the ability for members to unretire without penalty; and consider the ability of KPERS to recapture benefits, should a member return to employment before the end of the break-in-service requirements. <u>The motion passed</u>.*

*Senator Kelly moved, seconded by Representative Johnson, the Joint Committee conclude the 2015 Legislature address the working after retirement provisions that are set to expire at the end of FY 2015. <u>The motion passed</u>*.

The Committee turned its attention to other topics.

*Senator Hensley moved, seconded by Representative Alcala, that the statement previously distributed (Attachment 2) be included in the minutes of the Joint Committee*.

The Joint Committee discussed the amendment.

*Representative Johnson moved, seconded by Senator Holmes, a substitute motion that a statement be included in the minutes of the Joint Committee, which would include the first* *sentence from paragraph 3 of Attachment 2 and the following: "The Joint Committee urges the Legislature to thoroughly study the changing employer contributions.". The substitute motion failed*.

Senator Hensley withdrew his motion.

*Senator Hensley moved, seconded by Representative Alcala, that the statement previously distributed (Attachment 2) be included in the minutes of the Joint Committee with the following revisions: in paragraph 1, delete "grave" from the first sentence; in paragraph 2, delete "jeopardizes" from the last sentence and insert "delays". The motion failed*.

*Senator Holmes moved, seconded by Representative Hawkins, the Joint Committee conclude the 2015 Legislature review the potential for bonding to increase the assets in the KPERS Trust Fund and for reamortizing the payment of the unfunded actuarial liability. The motion passed*.

*Senator Masterson moved, seconded by Senator Holmes, the Joint Committee conclude the 2015 Legislature review, with the assistance of the KPERS Board and staff working with insurance companies, the emerging retirement plan trends in the private sector and provide that information to the respective standing and select committees of the House and Senate. The motion passed.*

*Representative Johnson moved, seconded by Senator Kelly, to approve the minutes from the meeting of the Joint Committee held on November 17, 2014. The motion passed.*

The meeting adjourned at 3:25 p.m.

Prepared by Suzanne Nelson
Edited by Reed Holwegner

Approved by the Committee on:

February 4, 2015
(Date)