

## MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS.

The meeting was called to order by Chairman Melvin Neufeld at 9:00 a.m. on January 23, 2003, in Room 514-S of the Capitol.

All members were present except: Representative Bethell - Excused  
Representative Campbell - Excused  
Representative Feuerborn - Excused  
Representative Light - Excused  
Representative Merrick - Excused  
Representative Minor - Excused

Committee staff present: Alan Conroy, Legislative Research Department  
J.G. Scott, Legislative Research Department  
Becky Krahl, Legislative Research Department  
Julian Efird, Legislative Research Department  
Jim Wilson, Revisor of Statutes  
Mike Corrigan, Revisor of Statutes  
Nikki Feuerborn, Administrative Analyst  
Sue Fowler, Committee Secretary

Conferees appearing before the committee: Glenn Deck, Executive Director of Kansas Public Employees Retirement System (KPERS)  
Rob Woodard, Chief Investment Officer, KPERS  
Jack Hahn, Deputy Executive Director, KPERS  
Bruce Burditt, Chairman of Board, KPERS  
Leland Breedlove, Chief Fiscal Officer, KPERS

Others attending: See Attached

Chairman Neufeld introduced Lucas Bell, Legislative Intern from the University of Kansas.

Glenn Deck, Executive Director of the Kansas Public Employees Retirement System (KPERS) presented an overview of the agency (Attachment 1). His presentation outlined membership, the mission and goals, benefit services, communication, finances, investments, market environment, long-term funding, death and disability fund and the 13<sup>th</sup> check issue.

Mr. Deck gave an historical account of why the two entities of schools (54%) and State of Kansas employees (18%) as shown on the Active Membership Components pie chart are kept separate. In 1971, the old Kansas School Retirement system was merged into KPERS. At that time the School group, State and Local Government groups were all merged together. In the mid to late 1980's, Local Governments were split out separately. The School liability is higher than the other State liability due the large amount of unfunded liabilities that were brought in with that old pay-as-you-go system. It was not pre-funded.

Each year, KPERS staff issue more than 670,000 retirement benefit payments via electronic transfer and postal mail. Direct deposit is more cost effective and more dependable for retirees. In a recent survey of new retirees, more than 94 percent of the respondents rated KPERS service during the retirement process as excellent or good. There was a 47 percent response from the service surveys. KPERS will benchmark similar services to see how service goals can be met in the future.

KPERS is continuing to improve the distribution of Annual Member Statements. An ultimate goal is to have this kind of information on an internet web site through a secure mechanism, where members can actually go in and look it up themselves. Mr. Deck reported the statements are distributed through the designated agents. Once e-mail addresses are available, this mode would be considered for distribution.

Mr. Deck reported that the funded ratio (the ratio of assets to liabilities) is one of the most important measures of the financial health of the retirement system. The funded ratio of all KPERS systems was

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approximately 85 percent as of December 31, 2001. It was pointed out that the retirement system unfunded liabilities ratio does not include the Death and Disability Fund.

Rob Woodard, Chief Investment Officer, presented the KPERS investment goals and results of their investment performance:

- Invest as a “Prudent Expert,” emphasizing consistency of principal and diversification
- Manage the assets for the sole and exclusive purpose of paying benefits as provided
- Develop portfolio strategies that will, on average, satisfy the actuarial expectation for investment returns (8 percent)

Mr. Deck informed the Committee of the situation with long-term funding and that retirement benefits are not in any danger of not being paid. These are guaranteed benefits for current retirees at this point but more contributions are not injected into the system, the system’s financial health will deteriorate.

At some point KPERS investment strategy will have to begin to shift to provide more liquidity to pay benefits, and the downward spiral begins. The eight percent projected return will not be possible because of investing in more liquid assets rather than in a more fixed income. It is highly unlikely that KPERS will experience another decade with double digit returns. The primary action that needs to take place is increased employer contributions for the system’s long-term financial health. Right now KPERS is trying to communicate this issue to the Legislature and other state and local officials. KPERS real objective is to develop a consensus with the Board, the Legislature, the Governor and other state and local officials on a responsible long-term funding plan to restore and ensure the system’s financial health.

Mr. Deck reported that KPERS is attempting to develop a satisfactory action plan with the Legislature and the Budget Division for the Death and Disability Fund. If the resulting plan is to continue with a pay-as-you-go fund then preparations must begin as KPERS would need to begin extracting those investments. Mr. Deck recommended that the funds be invested in shorter term fixed income instruments that are much more liquid.

KPERS retirees who retired prior to July 2, 1987, are eligible to receive an additional annual payment up to a maximum of one month’s benefit if there is sufficient funding. The Kansas Legislature created the 13<sup>th</sup> check as an alternative to a cost-of-living increase for that group in 1985. Members who retired and started receiving a benefit after July 2, 1987, had their retirement benefits calculated at a higher rate than previous retirees and are not eligible for the additional payment.

The Committee discussed with Mr. Deck the fund which provides moneys for this 13<sup>th</sup> check. The fund statutorily has a cap which allows one year’s payment carried over, thus it has been impossible to build up the fund through the years to avoid the current problem. It was designed to cushion against one year of poor returns from the market not the triple hit the fund has suffered recently. KPERS was requested to provide additional information and the annual reports regarding the funding of the 13<sup>th</sup> check for the past ten to fifteen years.

Representative Ballard moved the minutes of January 15 and 16, 2003, be approved as presented. Motion was seconded by Representative Gatewood. Motion carried.

The meeting was adjourned at 10:35 a.m.. The next meeting is scheduled for January 24, 2003.



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