

MINUTES

JOINT COMMITTEE ON PENSIONS, INVESTMENTS, AND BENEFITS

December 15, 2004
Room 123-S—Statehouse

Members Present

Senator Dave Kerr, Chairperson
Senator Jim Barone
Senator Steve Morris
Senator Ruth Teichman
Representative Ray Cox
Representative Geraldine Flaharty
Representative Vaughn Flora
Representative Margaret Long
Representative Bill McCreary
Representative Melvin Neufeld
Representative Clark Shultz

Staff Present

Alan Conroy, Legislative Research Department
Julian Efird, Legislative Research Department
J.G. Scott, Legislative Research Department
Gordon Self, Office of the Revisor of Statutes
Carol Doel, Committee Secretary

Conferees

Glenn Deck, Executive Director, KPERS
Rob Woodard, Chief Investment Officer, KPERS

Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERS), presented a review of the death and disability benefits for active employees (Attachment 1). Mr. Deck also reviewed the expenditures and funding for the death and disability program in FY 2005 and the estimates for FY 2006. Alternatives for funding and plan design changes to address the impending revenue shortfall were presented by Mr. Deck, as requested at the last Committee meeting.

Mr. Deck first reviewed the proposed plan changes adopted by the KPERS Board of Trustees and presented at the November 17-18, 2004, meeting of the Committee. That proposal included revising the disability definition, reducing the benefit from 66.67 percent to 60 percent, capping the maximum disability benefit at \$5,000 per month, modifying the benefit limitations for certain mental health conditions and substance abuse conditions, and requiring mandatory rehabilitation (Attachment 1, page 6; page 11). In addition, the Board requested a statutory amendment to increase the employer contribution rate increased from 0.6 percent to 1.0 percent, beginning July 1,

2005. The revenue in FY 2006 is estimated at \$53.4 million at a 1.0 percent rate, compared with \$32.0 million in FY 2006 at a rate of 0.6 percent. The 1.0 percent employer contribution rate in FY 2006 will raise an additional \$21.4 million for the 0.4 percent increase in the rate. The estimated cost increase would raise state payments by \$16.3 million and local payments by \$5.1 million if authorized beginning July 1, 2005.

A number of other alternatives were reviewed by Mr. Deck for the Committee, including several plan modifications that would require employee contributions for the first time. Among the options were keeping the employer contribution rate at 0.6 percent and making program cuts; raising the employer contribution rate to 0.8 percent and reducing life insurance benefits from 150 percent to 80 percent of salary; adding a 0.4 percent employee contribution to maintain current benefits levels; adding a 0.2 percent employee contribution to help fund modified benefits; and adopting an insured disability plan to replace the self-insurance plan (Attachment 1, pages 7 to 14).

The Committee discussed the recent funding enhancements enacted during the 2003 and 2004 Legislative Sessions that will increase employer contributions paid by state and local governments in order to provide actuarially required employer contribution levels. Senator Morris presented a brief overview of the state budget condition in FY 2006 and the increasing demands on the State General Fund next fiscal year. After discussion of the fiscal constraints on state and local governments, a series of recommendations on the death and disability benefits plan were adopted.

Representative Neufeld made a motion to accept the plan design changes proposed by the KPERS Board of Trustees (including a reduction of the disability benefit from 66.67 percent to 60.0 percent), to reduce the life insurance and death benefit from 150 percent to 100 percent, and to give the KPERS Board statutory authority to implement the plan design changes. Representative McCreary seconded the motion. Motion carried.

Senator Morris made a motion for employer contribution rate to be increased from 0.6 percent to 0.8 percent and that employees have the option to contribute 0.2 percent in order to purchase 50 percent additional life insurance benefits. Representative Cox seconded the motion. Motion carried.

Representative Neufeld made a motion to amend the language in K.S.A. 74-4927 to eliminate a potential issue of age discrimination. Representative Cox seconded the motion. Motion carried.

Representative Neufeld made a motion that the Committee report on Interim activities and recommendations be delegated to staff to finalize, and that the report be approved at this time. Senator Teichman seconded the motion. Motion carried.

Representative Flaharty made a motion that the minutes of November 17-18, 2004, be adopted. Representative Neufeld seconded the motion. Motion carried.

Next, Mr. Deck called the Committee's attention to the updated information prepared after the November 17-18, 2004, meeting that includes a summary of the changes recommended in the KPERS retirement plan for state, school, and local employees and a new fiscal note with the impact on the local KPERS group, as well as the state and school KPERS groups (Attachment 2).

Rob Woodard, Chief Investment Officer for KPERS, provided an unaudited estimate of the KPERS investment report as of December 10, 2004. In response to a question about earnings since early March 2004 on the investment of \$440 million bonds, Mr. Woodard estimated earnings of \$32 million (Attachment 3).

Prepared by Carol Doel
Edited by Julian Efir

Approved by Committee on:

December 30, 2004
(date)