

MINUTES

JOINT COMMITTEE ON PENSIONS, INVESTMENTS AND BENEFITS

September 26, 2006
Room 123-S—Statehouse

Members Present

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

Staff

Alan Conroy, Director, Kansas Legislative Research Department
J.G. Scott, Chief Fiscal Analyst, Kansas Legislative Research Department
Julian Efirid, Principal Analyst, Kansas Legislative Research Department
Gordon Self, Office of the Revisor of Statutes
Mike Corrigan, Office of the Revisor of Statutes
Carol Doel, Committee Secretary

Conferees

Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERS)
Vince Smith, Chief Investment Officer, KPERS
Pat Beckman, KPERS Actuary, Milliman, Inc.

Morning Session

Chairperson Morris recognized Glenn Deck, Executive Director, Kansas Public Employees System (KPERS), who presented a report on the federal Pension Protection Act of 2006 which was signed into law by the President on August 17, 2006. Although the primary focus of the federal

legislation is improving the private sector funding of defined benefit plans, Mr. Deck explained that several provisions will impact public retirement systems, including KPERS. Those include:

- Tax-free distributions for health and long-term care of retired public safety officers;
- Exception for the early withdrawal penalty of 10.0 percent for public safety employees; and
- Rollovers by non-spouse beneficiaries.

KPERS staff is working to identify KP&F and KPERS members to whom the federal law will apply. In addition, KPERS is developing an enrollment process and payment procedures. KPERS will report to the Committee at subsequent meetings with respect to the need for specific state legislation that will be required for implementation ([Attachment 1](#)).

Vince Smith, KPERS Chief Investment Officer, reported on the KPERS investment performance and noted a rate of return equal to 12.3 percent for the period ending June 30, 2006. The total portfolio's net asset value on June 30, 2006 was \$12.276 billion. Details were provided showing the investments and performance by sector ([Attachment 2](#)).

Mr. Smith also provided an unaudited interim investment report as of August 31, 2006, showing a fiscal year-to-date return of 3.5 percent and a calendar year-to-date return of 8.4 percent. As of August 31, 2006, total assets had a market value of \$12.634 billion ([Attachment 3](#)).

Also provided by Mr. Smith for review was the investment outlook showing the U.S. markets and the international markets ([Attachment 4](#)).

A question about investments in the Sudan was raised and Mr. Deck indicated that a report would be presented to the November meeting of the Committee.

Next, Mr. Deck summarized the retirement plan design review project in which the KPERS Board of Trustees is considering funding progress, plan design history, and alternative plan designs ([Attachment 5](#)). A summary of the funding status and issues was provided showing the state group, school group, local group, KP&F, and judges (see [Attachment 5](#), pages 8-10).

Mr. Deck reported that the pension obligation bonds which were issued in February 2004 in the amount of \$440.2 million to improve KPERS' funding status have generated additional revenues of \$126.6 million which results in a total value added by the bonds of \$566.8 million through August 31, 2006 (see [Attachment 5](#), pages 11-13).

Employer contribution rate alternatives showing the impact of accelerating the employer contribution caps were reported as requested by members of the Committee at the July 24, 2006, meeting (see [Attachment 5](#), pages 14-20).

Also at the July 24, 2006, meeting, Committee members requested information regarding the comparison with other public retirement systems. Mr. Deck reported the median funded ratio for all plans was 85.4 percent compared with KPERS funded ratio of 69.8 percent (see [Attachment 5](#), pages 21-24).

Next, Mr. Deck reported on the plan design alternatives which included the plan design objectives and key plan design features, including years of service, vesting, retirement eligibility, early retirement subsidies, and cost-of-living adjustments (COLAS). Charts were provided comparing the plan design alternatives along with information regarding the estimated costs for the various state and school groups. Benefit comparisons were reported for the career employees and for non-career employees (see [Attachment 5](#), pages 25-41).

Afternoon Session

In response to a request of the Committee, Mr. Deck distributed a brief report on the KPERS projected contributions and bond debt service payments for the combined state and school groups (Attachment 6).

Key demographic trends were reported by Mr. Deck. These included life expectancy, age of retirement, and active membership. Tables showing the benefit comparisons for career employees and non-career employees also were presented (see Attachment 5, pages 42-50).

The Committee discussed the pros and cons of the three plan design alternatives that were considered by the KPERS Board of Trustees, following the report as a guide (Attachment 5, pages 51-53). Sources of retirement income which include Social Security Benefits, KPER benefits, and personal savings were discussed (see Attachment 5, pages 54-57).

The Committee discussed the following topics as described in the report (see Attachment 5, pages 59):

- Overall plan design objectives;
- Key plan design features;
- Key policy questions;
- Modifications to current features; and
- Preferred plan design alternatives.

KPERS will incorporate feedback into plan design consideration by the KPERS Board of Trustees and the Board's conclusions will be provided to Committee at the November meeting.

Representative Neufeld made a motion to approve the minutes of July 24, 2006, as presented. Representative Edmonds seconded the motion. Motion passed.

With no further business, the meeting was adjourned. The next planned meeting is scheduled for November 15, 2006.

Prepared by Carol Doel
Edited by Julian Efird

Approved by Committee on:

November 15, 2006
(date)