MINUTES

JOINT COMMITTEE ON PENSIONS, INVESTMENTS, AND BENEFITS

October 23-24, 2001
Room 123-S—Statehouse

Members Present

Representative Lloyd Stone, Chairperson
Senator Dave Kerr, Vice Chairperson
Senator Jim Barone
Senator Anthony Hensley
Senator Steve Morris
Senator Ruth Teichman
Representative Ray Cox
Representative Geraldine Flaharty
Representative Vaughn Flora
Representative Cindy Hermes
Representative Al Lane
Representative Joe Shriver
Representative Clark Shultz

Staff Present

Julian Efird, Kansas Legislative Research Department
Alan Conroy, Kansas Legislative Research Department
Gordon Self, Revisor of Statutes Office (October 24 Only)
Mike Corrigan, Revisor of Statues Office

Committee Conferees

Glen Deck, Kansas Public Employees Retirement System, Executive Director
Pat Beckham, Kansas Public Employees Retirement System, Actuary, Milliman USA
Stephen McElhaney, William M. Mercer, Inc.
Robert Woodard, Kansas Public Employees Retirement System, Chief Investment Officer
Allan Emkin, Pension Consulting Alliance

Tuesday, October 23
Morning Session

After calling the meeting to order, the Chairperson asked that correspondence between Senator Kerr and KSU regarding HB 2540 be distributed to members of the Committee (Attachment 1). Senator Kerr asked for the fiscal impact of allowing 119 employees to be included in an additional retirement plan, and in response, the estimate for 116 eligible employees at the end of FY 2001 would require an annual contribution of $276,573 in FY 2002.

Chairperson Stone called the meeting to order and asked if members had read the minutes of the last meeting. *Representative Cox moved, seconded by Representative Hermes, that the minutes of August 21, 2001, be approved. Motion carried.*

KPERS Reports

A series of reports on KPERS topics was presented by Glen Deck, KPERS Executive Director. Those items discussed during the Tuesday morning session are listed below as attachments to the minutes. Seven topics were covered:

1. Proposed 2002 Legislation (Attachment 2).
2. KPERS Budget Summary, FY 2002 - FY 2003 (Attachment 3).
3. Member Service Highlights (Attachment 4).
4. Partial Lump Sum Option Experience (Attachment 5).
5. Communication of KPERS Funding Status for Members (Attachment 6).
6. Death and Disability Program Funding Status (Attachment 7).
7. KPERS Summary of Recoveries and Losses on pre-1991 Investments (Attachment 8).

Committee Discussion and Bill Introductions

In discussing the proposed 2002 KPERS legislation, the Committee asked the Revisor's Office to prepare bills for consideration at the December meeting, prior to recommending any legislation for introduction. KPERS staff was asked to work with the Revisor's Office in drafting proposed bills based on summaries in Attachment 2.

Afternoon Session

Experience Study and Valuation

A review of actuarial work performed under contract for KPERS was provided by Pat Beckham, KPERS Actuary, Milliman USA. Two topics were covered:

1. Three-Year Experience Study (Attachment 9) pp. 4-18.

2. December 31, 2000 Valuation (Attachment 9) pp. 19-30.

Ms. Beckham noted that her presentation was based on two documents prepared by Milliman USA for KPERS: the 2001 Experience Study of the Kansas Public Employees Retirement System (September 21, 2001) for the period beginning January 1, 1998 and ending December 31, 2000; and the Valuation Report as of December 31, 2000. She pointed out that the KPERS Board of Trustees had changed the valuation date from June 30 to December 31 in order to address certain problems with data. Complete copies of each report would be available from the KPERS office in Topeka, or on-line at www.kpers.org.

Regarding the experience study, Ms. Beckham said that the most significant recommended changes were for the Kansas Police and Firemen's Retirement System, but that changes also were recommended for KPERS and for the Judges Retirement System. The KPERS Board of Trustees adopted all recommended changes for application to the December 31 valuation.

The total KPERS unfunded actuarial liability (UAL) is apportioned among the different KPERS groups and plans. The following table shows the liability for the different groups and plans included in the December 31, 2000 valuation.

	UAL By Groups and Plans (In Millions)					
UAL as of	Judges	KP&F	State/ School	Local	TIAA	Total*
June 30, 2000	$8.1	$306.6	$859.7	$36.1	$22.6	$1,233.1
June 30, 2000 revised	$8.1	$306.6	$1,126.8	$70.7	$22.6	$1,534.8
December 31, 2000	$10.2	$62.1	$1,119.4	$90.4	$22.7	$1,304.8

* May not add due to rounding.

Regarding the valuation, Ms. Beckham discussed the actuarial cost method used in the study, and suggested that if changes were to be considered, all three systems should use the same method. Presently, each system uses a different method. The unfunded actuarial liability for the KPERS state/school group increased from $859.7 million from the original June 30, 2000 valuation to $1.119 billion in the December 31, 2000 valuation. Based on this finding, Ms. Beckham indicated that projections of the unfunded liability showed equilibrium would not be reached until after 2033. The actuarial contribution rate recommended is 7.65 percent, but because of a statutory cap on the annual amount of increase, the rate is limited to 5.18 percent based on the December 31, 2000 valuation for the KPERS state/school group.

In responding to Committee questions, Ms. Beckham said that 85 percent of public systems used the entry age normal actuarial method. Kansas does not. It was strongly suggested that the KPERS Board of Trustees should review other actuarial methods in order to test the stability of results using different approaches.

COLA Study

A report from the legislative actuary on a Post-Retirement Benefit Adjustment Study was presented in the form of preliminary observations by Stephen McElhaney, William M. Mercer, Inc. (Attachment 10). It was noted that inflation influences income replacement after retirement, and a series of projections was provided to demonstrate the influence of inflation on persons retiring under different circumstances. Comparisons of Kansas to other states also were provided, with emphasis on neighboring states. Mr. McElhaney observed that, in general, KPERS retirees have kept up with inflation for the past 10, 15, and 20 years.

Wednesday, October 24
Morning Session

Next, the Chairperson asked the Committee to focus on the LCC assigned topic in following up from the August meeting. The topic includes study of school district and community college board contributions to employees tax sheltered annuities, of work after retirement, and of early retirement incentive plans offered by school districts.

The Chairperson had staff distribute an Attorney General's Opinion in response to the State Department of Education request about matching annuity contributions for school employees to be paid by the school district (Attachment 11). The Attorney General's response indicated that "statutes fail to provide any reasonable implication that a board of education may match contributions made into a tax sheltered annuity by an employee through a reduction in compensation paid by the school district. A board of education, therefor, may not use its funds to match contributions paid into an employee's tax sheltered annuity."

Senator Morris moved, seconded by Representative Flaharty, that a bill be drafted for introduction to the 2002 Legislature that would allow school boards to make matching contributions to an employee's tax sheltered annuity. Motion passed. The Chairperson announced that the bill would be reviewed at the December meeting.

Senator Kerr raised a concern in a Legislative Post Audit Report presented at the August meeting on Early Retirement Incentive Plans for school districts. He noted a recommendation to substitute a budget report for a statutorily required actuarial valuation, but pointed out that a statutory change was required to implement the change.

Senator Kerr moved, seconded by Representative Shriver, that a bill be drafted for introduction to the 2002 Legislature that would direct school districts to submit a budget report and to repeal the requirement of submitting an actuarial valuation. Motion passed.

Additional KPERS Reports

Next, four topics were presented by KPERS staff and consultants to KPERS:

1. KPERS Investments (Attachments 12 and 13).

2. KPERS 2001 Asset-Liability Study (Attachment 14).

3. System Funding Projections and Options (Attachment 15).

4. Long-Term System Funding (Attachment 16).

Concerning investments, Robert Woodard, KPERS Chief Investment Officer, reviewed performance (unaudited) for the period ending October 22, 2001, and provided the traditional report (audited) as of August 31, 2001 (Attachment 13).

Regarding the asset and liability study, Robert Woodard and Allan Emkin, Pension Consulting Alliance, reviewed the study and conclusions. A new asset allocation target was adopted by the KPERS Board of Trustees, but implementation of the new target was deferred until April 2002 due to market conditions (Attachment 14). Information about how KPERS compares with other large public plans was reviewed, as well as the old and new KPERS target allocations.

Portfolio	KPERS Current 8/31/-01	Other Large Plans*	KPERS Target Old**	KPERS Target New***
Cash	1.8%	1.0%	1.0%	1.0%
Fixed Income	34.2%	29.6%	32.0%	24.0%
U.S. Equity	39.9%	46.9%	40.0%	33.0%
International Equity	13.1%	14.3%	15.0%	19.0%
Real Estate	6.7%	3.4%	7.0%	8.0%
Alternatives	5.3%	3.7%	5.0%	5.0%
TIPS (Treasury Inflation Protection Securities)	(Included in Fixed Income)	--	(Included in Fixed Income)	10.0%

* *Pensions and Investments*, 1/22/2001.

** Adopted by KPERS Board of Trustees on July 17, 1998.

*** Adopted by KPERS Board of Trustees on September 21, 2001.

Concerning KPERS funding projections and options, Ms. Beckham addressed the equilibrium date and convergence of the actuarial and statutory contribution rates (Attachment 15). She noted that the rates are not projected to converge in the next 30 years, and that the projected rate will rise to 15.07 percent for the December 31, 2020 valuation for the KPERS state/school group. Alternatives to the statutory cap of 0.2 percent were considered and several increased annual caps would produce equilibrium after 2020.

Regarding long-term funding, Mr. Deck presented several alternatives (Attachment 16). He discussed constraints on increased employee and employer funding. He mentioned several options that KPERS staff were beginning to explore, including one which might require legislation to adopt new federal opportunities. The KPERS Board of Trustees plans to review options at future meetings and may suggest alternatives or legislation for the 2002 Legislature to consider.

Prepared by Julian Efird

Approved by Committee on:

December 4, 2001