Approved: 5-8-12
Date

MINUTES OF THE JOINT MEETING OF SENATE SELECT COMMITTEE ON KPERS AND HOUSE COMMITTEE ON PENSIONS AND BENEFITS

The meeting was called to order by Vice Chair Senator Jeff King at 12:05 p.m. on January 19, 2012, in Room 546-S of the Capitol.

All members were present except:
Senator Steve Morris- excused

Committee staff present:
Julian Efird, Kansas Legislative Research Department
Michael Steiner, Kansas Legislative Research Department
J.G. Scott, Kansas Legislative Research Department
Gordon Self, Kansas Revisor of Statutes
David Wiese, Kansas Revisor of Statutes
Daniel Yoza, Kansas Revisor of Statutes
Connie Burns, Committee Assistant

Conferees appearing before the Committee:
Rebecca Proctor, Commission Member

Others attending:
See attached list.

Senator King opened the meeting with how the procedural process will work in order to have bill introductions for both Chambers at the next joint meeting. Representative Mitch Holmes, Co-Chair of the KPERS Study Commission provided opening remarks.

Senator King provided a brief history on how the KPERS Study Commission came to their conclusion and the number of meetings that the Commission met. (Attachment 1) Review the differences of **Senate Sub for HB 2194** and the KPERS Study Commission plan.

The Commission was charged with three tasks:

- The Commission shall study and analyze the current KPERS retirement system and systems related thereto, and develop a viable plan to ensure the long-term sustainability of the system
- The Commission particularly shall study and review the advantages and disadvantages of implementing a defined benefit, defined contribution or hybrid defined benefit/defined contribution retirement benefit plan, or other plan options
- The Commission shall submit a report to the Legislature and the Joint Committee on Pensions, Investment and benefits before January 6, 2012, with any findings and recommendations which the Commission deems necessary, including the recommendation of any legislation. To carry out the recommendations of the Commission, one bill shall be introduced in the Senate and one bill shall be introduced in the House of Representatives, in which such bills shall contain the exact same provisions during the 2012 Legislative Session.

The areas of the new plan addressed: vested employees, non-vested employees, and Legislators. The plan is for certain state, school, and local government employees on July 1, 2012, with implementation set for January 1, 2014. The new retirement plan design is a two-part plan that includes a service-based annuity and employee directed contribution plan. There would be mandatory contribution rates for both the employee and employer, the employee contributions rate would be fixed at 6.0 percent of compensation, with all employee payments going to the defined contribution account of the plan. The employer contribution would be service-based and would increase annually on a graduated scale from 1.0 percent initially to a maximum 5.0 percent of compensation after eight years of service; an annual increase of 0.5 percent would be in the employer contribution rate for each year of service completed. All of the employer contributions would be deposited in the annuity contribution account.

The legislation would close the current KPERS plan for Tier 1 and Tier 2 members, but those members who are vested before July 1, 2012, would continue to be covered by the provisions of the current KPERS plan.

Non-vested members would have their employee KPERS contributions, plus accrued interest, transferred to the new KPERS plan. Members would have a one-time election to allocate how much of the money transferred will be deposited into each account option for the employee defined contribution and employer annuity contributions parts of the new KPERS plan.

The only exception for a vested KPERS member would apply to legislators, all of whom would be transferred to the new KPERS plan. Any legislators who are KPERS members would become members of the new KPERS plan on January 1, 2014, whether they are vested or non-vested members. Any legislator's benefits accrued under the current KPERS plan would transfer to the new KPERS plan.

Patrice Beckham, Cavanaugh Macdonald, Consulting, LLC provided a summary of their findings for the legislators group of KEPRS. (Attachment 2) This assumption was made to estimate the impact that future years of service after January 1, 2014, would have on satisfying the retirement eligibility requirements and assumptions based on years of service, salary, retirement age, mortality and investment returns. It is a rough estimation that will require modification before the final calculations are performed. If changes are made to any of the assumptions, the resulting lump sum values to be transferred will also change.

Senator King opened the meeting to questions from the committee members.

Rebecca Proctor, Commissioner, KPERS Study Commission, provided the committee with a review of the Minority Report. (Attachment 3) Ms. Proctor stated the "King Plan" was presented as a defined contribution plan "with a twist"; it is actually a hybrid plan, since the new plan contains no components designed to address or reduce the UAL. The UAL is the primary motivating factor behind discussions to modify the current system. Adopting a plan which does nothing to address the UAL, it does not make sense to add costs to the system if those costs do nothing to decrease the UAL.

Between now and 2035, implementation of the new plan would cost the state approximately $1.6 billion more than the system set out in **HB 2194**. Between 2035 and 2060, the new plan would cost the state $13.3 billion more than the system set out in **HB 2194**; and this is due to the fact that under **HB 2194** the UAL would be paid off by 2035. The new plan would add significant cost to the system without addressing the UAL or administrative costs to implement the new plan. Currently KPERS administrative costs per member are $44, this cost is $46 below the peer average of $90, and is fourth lowest in the CEM Benchmarking Study of eighty-eight pension systems in which KPERS was considered. In comparison, a presentation from Nebraska showed defined contribution plan administrative costs of $92 per member, more than double the current KPERS cost. Adding a defined contribution component will bring with it significant administrative cost increases.

In conclusion the new plan increases costs to the system and reduces employee benefits, and does not address the UAL. The new plan does not fulfill the charge the Study Commission was given to recommend a viable plan to ensure the long-term sustainability of the KPERS system.

Ms. Proctor addressed questions from the committee members.

The next meeting is scheduled for January 24, 2012. The meeting was adjourned at 1:15 p.m.