MINUTES

JOINT COMMITTEE ON PENSIONS, INVESTMENTS, AND BENEFITS

December 14, 2009
Room 545-N—Statehouse

Members Present

Representative Rob Olson, Chairperson
Senator Steve Morris, Vice-chairperson
Senator Jay Emler
Senator Laura Kelly
Senator Ruth Teichman
Representative Richard Carlson
Representative Geraldine Flaharty
Representative Terrie Huntington
Representative Margaret Long
Representative Sharon Schwartz
Representative Dale Swenson
Representative Jeff Whitham

Staff

Julian Efird, Kansas Legislative Research Department
Michael Steiner, Kansas Legislative Research Department
J.G. Scott, Kansas Legislative Research Department
Gordon Self, Office of the Revisor of Statutes
Kristen Kellems, Office of the Revisor of Statutes
Florence Deeter, Committee Secretary

Conferees

Glenn Deck, Executive Director, Kansas Public Employees Retirement System
Steven Weatherford, Kansas Development Finance Authority
Pat Beckham, Kansas Public Employees Retirement System Consulting Actuary, Milliman, Inc.

Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERS), presented a number of different options for long-term funding in following up the November 2009 meeting where specific additional requests had been made (Attachment 1). Mr. Deck started with the current estimated baseline for KPERS funding, with no change in the statutory cap of an annual

0.6 percent increase for the employer contribution and no change in the 4.0 percent statutory employee contribution. He then presented three options varying from the baseline for increased KPERS funding that would increase the statutory annual employer cap increase and also increase the employee contribution rate. He used graphs to illustrate the effects on the State Group, School Group and Local Group for increased KPERS funding. He noted each of the three options in A, C, and H, which show the projected Actuarial Required Contribution (ARC), the peak actuarial liability date for those plans, and the total amount of estimated new dollars gained. The effect on employer contributions for each of the three options is shown projected from 2010 through 2033. Mr. Deck further commented on the projections for six variations based on Options C and H with displays of data through 2015. He then expanded on those variations and included the effect on state employer contributions.

Turning next to pension obligation bonds, Mr. Deck noted the bond amortization schedule begun in 2004 when $500 million was issued. Mr. Deck provided detailed information on the 2004 pension obligation bonds, outlining key points of that issue. He said the net proceeds for KPERS investments totaled $440.2 million, with the other portion used for capitalized interest to pay the debt service the first three years as State General Fund (SGF) payments were phased-in. Mr. Deck further stated that all remaining debt service on the bonds is paid by the SGF and the current annual payment is $36.1 million through FY 2034. He reported that the annualized return on the investment of $440.2 million through November 30, 2009, was 4.66 percent, generating an additional $132 million in earnings for KPERS.

Next, two pension obligation bond options were presented as bond option P and Q, based on collaboration between KPERS and Kansas Development Finance Authority (KDFA). Both options show comparisons with the baseline. Mr. Deck then offered observations about the various options and commented on the rates and corresponding dates of ARC, funded ratios, the unfunded actuarial liability, and the effect of additional funding.

Members requested KPERS provide additional information on the history of events which brought the state to this juncture, the steps taken by previous legislative bodies in regard to unfunded liability, and a record of cost-of-living allowances showing increases and additional benefits that were awarded to retirees and active members without an increase in the employee statutory contribution rate of 4.0 percent.

Steve Weatherford, President, KDFA, responded to a previous request from the Committee for information about the impact of bond issues on the state credit rating and the capacity to issue additional pension obligation bonds (Attachment 2). He noted the strengths and challenges of the current credit rating provided by Standard and Poor's and Moody's. Mr. Weatherford indicated that, should the state choose not to seek to achieve a greater level of fiscal balance and rebuild reserves, the rating agencies may choose to downgrade the state's credit rating. He discussed current interest rates for taxable municipal bonds, saying that new pension obligation bonds would not be eligible for the federal subsidy paid for Build American bonds, even though they must be issued as taxable revenue bonds. In order to invest the bond funds, the federal arbitrage laws require issuance of taxable revenue bonds, rather than tax exempt municipal bonds. Answering a question, Mr. Weatherford said issuing pension obligation bonds potentially could downgrade the state's credit rating. He said that having a reasonable plan to address the unfunded liability will provide protection of the state's current good credit rating.

Finally, Pat Beckham, KPERS Consulting Actuary, Milliman, Inc., reported on Kansas Police and Firemen's Retirement System and the Retirement System for Judges, and the dramatic increases in the employer contribution rates produced in the last annual actuarial valuations. She pointed out that the potential budget impact of the much higher employer rate increases would impact both state and local governments, and that a modification was being recommended for one year to allow further review of what caused the rapid increase in contribution rates. She recommended suspending application of the corridor methodology pending further study and using employer contribution rates that would be less than those produced with the corridor in effect (Attachment 3).

The Chairperson suggested a motion be made to approve the minutes. *Representative Flaharty moved to approve the minutes. Senator Emler seconded the motion. The motion passed.*

The Chairperson and Vice-chairperson discussed the progress made during the 2009 Interim and indicated that work on KPERS long-term funding would need to continue during the 2010 Session. Consequently, no recommendations will be made in the Committee's final report that will summarize the work to date on the various topics reviewed. Meetings early in the 2010 Legislature were predicted, and KPERS was asked to develop further information to support the work of finding alternative solutions to the long-term funding issue.

Prepared by Florence Deeter
Edited by Julian Efird

Approved by the Committee on:

February 5, 2010
(Date)