

MINUTES

JOINT COMMITTEE ON PENSIONS, INVESTMENTS AND BENEFITS

December 1, 2003
Room 519-S—Statehouse

Members Present

Representative John Edmonds, Chairperson
Senator David Kerr, Vice Chairperson
Senator Jim Barone
Senator Ruth Teichman
Representative Ray Cox
Representative Geraldine Flaharty
Representative Vaughn Flora
Representative Margaret Long
Representative Bill McCreary
Representative Melvin Neufeld

Staff Present

Julian Efird, Kansas Legislative Research Department
Alan Conroy, Kansas Legislative Research Department
J.G. Scott, 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
Rob Woodard, Chief Investment Officer, Kansas Public Employees Retirement System
Pat Beckham, KPERS Actuary, Milliman USA
Steven Weatherford, President, Kansas Development Finance Authority

Morning Session

Glenn Deck, KPERS Executive Director, introduced Doug Wolff, the Governor's nominee to the KPERS Board of Trustees. Mr. Wolff stated that he has 16 years in the investment and insurance industries. He currently works for Security Benefit Group (SBG) and has been employed there for two years. Mr. Wolff is currently in the marketing department of SBG and is Vice-President

in charge of business development. He works with broker dealers and banks that sell various SBG products. Prior to joining SBG, he was with the Allstate Insurance Company for six years. He has a FSA which is an actuarial designation and a CFA, an investment designation. *Representative Cox moved that Mr. Wolff be recommended to KPERS Board of Trustees and that the Senate be notified of the recommendation. Senator Teichman seconded the motion. Motion passed.*

Rob Woodard, KPERS Chief Investment Officer, briefed the Committee on Alliance Capital, a mutual fund company that also manages a portion of the KPERS investments. He stated that KPERS owns absolutely no mutual funds. In response to a question from Representative Flora, Mr. Woodard explained how fund managers are selected.

Mr. Woodard reviewed the investment report through October 31, 2003, reporting that it was a good year both on a fiscal year to date and a calendar year basis (Attachment 1). Mr. Woodard also presented a preliminary unaudited estimated interim investment report since November 24, 2003 (Attachment 2).

Senator Barone previously asked for information on returns for alternative investments. In response to this, Mr. Woodard directed attention to a memorandum on alternative investment returns (Attachment 3).

Mr. Woodard also reviewed summary information on the Board's recommended legislative changes in the statutory provisions for alternative investments and real estate. For alternative investments, the Board proposes to remove the language KSA 74-4921 pertaining to the 5.0 percent hard cap on alternative investments, to be replaced with the phrase "targeted allocation" (Attachment 4). The second KPERS legislative proposal regarding real estate investments is to change the language in KSA 74-4921 (iii), eliminating the word "board" and substituting the word "System;" also removing the phrase "submitted to the board as required by subsection (6) c" (Attachment 5).

Glenn Deck, KPERS Executive Director, presented an overview of the death and disability program. KPERS retained Milliman USA to perform a detailed analysis of the plan, with recommendations due in 2004 (Attachment 6).

Mr. Deck next, in responding to the previous questions, presented a report showing the recoveries from litigation of losses on pre-1991 real estate and direct placement investments (Attachment 7).

Mr. Deck presented follow-up information regarding the life expectancy of KP&F Retirees in response an earlier statement by a conferee (Attachment 8).

Afternoon Session

The minutes of October 28-29, 2003, were approved on a motion by Representative Cox, seconded by Representative Neufeld.

Mr. Deck submitted a letter dated November 17, 2003, to Chairperson Edmonds regarding the impact of a potential split of the KPERS State/School Group. He described a series of charts and tables showing the potential impact in splitting the group (Attachment 9).

Pat Beckham, Milliman USA and the KPERS actuary, responded to a question regarding salary assumptions. Milliman conducted a study to track experience. Currently, different salary increase assumptions are used for State, School, and Local groups.

Legislative Research staff presented information concerning the letter of November 17, 2003, to Chairperson Edmonds, and provided the fiscal impact assessment of HB 2014 on state and school combined – Option B and on a separate school group, and state group – Option S ([Attachment 10](#)). A brief history of KPERS, the school group and other related matters dating back to 1941 also was presented ([Attachment 11](#)). A copy of a letter from Dale Dennis, Deputy Commissioner for Education, to Leland Breedlove, KPERS Chief Fiscal Officer, was distributed to show projected FY 2004 and FY 2005 state employer contribution to KPERS for KPERS school payments ([Attachment 12](#)).

Other information provided by KPERS included a legal memorandum from Laurie McKinnon, KPERS General Counsel, concerning Constitutional and Case Analysis of Public Pension Benefits and the executive summary from the Ice Miller law firm, under retainer to the KPERS Board, concerning Constitutional Protections for Public Pension System Members ([Attachment 13](#)).

Also distributed was information about public pension plans' funded ratios and comparative information for other states ([Attachment 14](#)), and the KPERS report of October 28, 2003, on a long-term retirement funding plan ([Attachment 15](#)).

Mr. Deck highlighted a letter from Michael Braude, Chairperson, KPERS Board of Trustees and information from the Board regarding the recommendation for KPERS long-term funding plan ([Attachment 16](#)). Michael Braude, Chairperson, KPERS Board of Trustees, explained that the number one priority of the Board is to come up with a comprehensive funding plan that would insure the future financial health of the System.

Chairperson Edmonds next asked for members plans and suggestions.

Representative McCreary supplied informational charts prepared by Kansas Development Finance Authority regarding a proposal for tobacco settlement revenue backed Pension Obligation Bonds ([Attachment 17](#)). Considerable Committee discussion followed.

Chairperson Edmonds had staff distribute an outline of the topics studied. Legislative Research staff provided the Committee with a draft of the interim report on the Committee's activities and the LCC assigned topic on KPERS long-term funding ([Attachment 18](#)).

Chairperson Edmonds asked for any motions.

Representative McCreary made a motion for the Committee to recommend favorably to the State Finance Council the issuance of \$500 million in pension obligation bonds authorized by Section 16 of Chapter 155, 2003 Session Laws of Kansas. This recommendation fulfills the provision of Section 16(f) of Chapter 155 that "No bonds shall be issued pursuant to this section prior to the review and recommendation to the State Finance Council of such issuance by the Joint Committee on Pensions, Investments and Benefits."

The motion was seconded by Senator Kerr. Senator Kerr asked that the language be added to the report indicating the Committee in this recommendation stresses the fact that this is only one piece of the ultimate solution dealing with the unfunded actuarial liability.

During discussion, Steve Weatherford, President, Kansas Development Finance Authority, was asked to help clarify the motion, explaining that Representative McCreary was asking for a par amount of the bonds not to exceed \$500,000,000. That way all of the costs would come out of the par amount of the bond issue.

Senator Barone made a substitute motion to issue \$450,000,000 worth of bonds and pay for them out of the proceeds of HB 2014 or the general fund which would be no capitalized interest. Representative Flora seconded the motion. Motion failed.

Chairperson Edmonds returned to the original motion by Representative McCreary, who asked for a roll call vote.

<i>Senator Barone</i>	<i>yes</i>
<i>Representative Cox</i>	<i>no</i>
<i>Representative Flaharty</i>	<i>no</i>
<i>Representative Flora</i>	<i>no</i>
<i>Senator Kerr</i>	<i>yes</i>
<i>Representative Long</i>	<i>no</i>
<i>Representative McCreary</i>	<i>yes</i>
<i>Representative Neufeld</i>	<i>yes</i>
<i>Senator Teichman</i>	<i>yes</i>

Motion adopted. The Committee's recommendation was made in conjunction with materials provided by the Kansas Development Finance Authority dated November 25, 2003, with specific reference to the amortization schedule on pages 10-11 of that document that includes capitalized interest for three years preceding payments of both principal and interest. The net proceeds to KPERS would be approximately \$455 million in this schedule, with the capitalized interest taken out of the par amount of \$500 million in bonds. Under this option, it was not anticipated that KPERS would be responsible for repayments. The burden would fall to the State General Fund or some other funding source.

The Committee then considered tobacco revenues as an alternative funding source for repaying the bonds, but that funding plan did not gain approval.

Representative McCreary made a motion requesting that the Committee recommend legislation to cap tobacco money spent on current purposes to \$40 million annually and to allocate the remainder of the tobacco money to repayment of Pension Obligation Bonds. Representative Neufeld seconded the motion.

Representative McCreary asked for a roll call vote to be taken:

<i>Senator Barone</i>	<i>no</i>
<i>Representative Cox</i>	<i>yes</i>
<i>Representative Flaharty</i>	<i>no</i>
<i>Representative Flora</i>	<i>no</i>
<i>Senator Kerr</i>	<i>yes</i>
<i>Representative Long</i>	<i>no</i>
<i>Representative McCreary</i>	<i>yes</i>
<i>Representative Neufeld</i>	<i>yes</i>
<i>Senator Teichman</i>	<i>no</i>

Motion failed.

Chairperson Edmonds returned to the other issues in the draft report.

The first question posed by the Chairperson was whether or not to offer any advice on the subject of death and disability. *Senator Barone made a motion to give staff license to capture some of the discussion about the issue beyond what is in the draft. This motion was seconded by Representative Flora. Motion adopted.*

The next issue the Chairperson said was consideration of HB 2225 that reduces vesting under KPERS from ten years to five years. No action was taken.

Chairperson Edmonds called attention to the issue of working after retirement. *Representative Cox moved that the proposed draft be recommended as a bill. The motion was seconded by Senator Teichman. Motion passed.*

Chairperson Edmonds directed the Committee's attention to the paragraph in the draft report regarding the KP&F retirement issue in HB 2012. *Representative Long made a motion to re-introduce HB 2012. The motion was seconded by Representative Cox.*

Chairperson Edmonds explained the rules of the House prohibit the reintroduction of a bill. Representative Long withdrew her motion, with Representative Cox's concurrence. *Representative Long made a motion to reintroduce HB 2012 as a Senate bill. The motion was seconded by Representative Cox. Senator Kerr objected. Representative Long withdrew her motion, with concurrence by Representative Cox.*

Representative Long made a motion that the Committee continues to support and endorse HB 2012 as introduced last year. Representative Cox seconded the motion. Motion passed.

Next, the Chairperson directed attention to the KPERS Board of Trustees request for two bills modifying current law.

Representative Neufeld made a motion that a bill be introduced that would cap the annual amount of investments for alternative investments, replacing the overall cap of 5.0 percent, with language to read "annual alternative investments shall not exceed more than 1.0 percent of the total market value of investment assets." Motion was seconded by Representative McCreary. Motion passed.

Representative Flaharty made a motion that a bill be introduced adopting the recommended change on the real estate investment. This motion was seconded by Senator Kerr. Motion passed.

The next item to be considered was regarding long-term funding and the changes.

Representative Flaharty made a motion that a bill be prepared which would include the recommendations as outlined in the draft report on page 4.

A substitute motion was made by Senator Kerr to clarify that, in addition to the changes in Representative Flaharty's motion, there would be a separate contribution rate established for State and School groups. Motion was seconded by Representative McCreary. Substitute motion adopted.

Senator Kerr asked that language be added to the Committee report that HB 2014 was one step in the overall effort to solve the KPERS funding shortfall for the long term and there are additional steps that must be taken. Representative Neufeld concurred and it was agreed to reflect this statement in the report.

With no further business before the Committee, Chairperson Edmonds cancelled the second meeting day scheduled for December 2 and adjourned the meeting.

Prepared by Carol Doel
Edited by Julian Efirid

Approved by Committee on:

December 16, 2003

(date)

Note: Supplement A is included as an attachment to the Minutes in order to report on the Chairperson's communication to the Governor and the State Finance Council.