MINUTES

JOINT COMMITTEE ON PENSIONS, INVESTMENTS AND BENEFITS

June 17, 2008
Room 313-S—Statehouse

Members Present

Senator Steve Morris, Chairperson
Representative Richard Carlson, Vice-Chairperson
Representative Geraldine Flaharty, Ranking Minority Member
Senator Anthony Hensley
Senator Dwayne Umbarger
Representative Margaret Long
Representative Rob Olson
Representative Sharon Schwartz
Representative Arlen Siegfreid

Staff Present

Alan Conroy, Kansas Legislative Research Department
Julian Efird, Kansas Legislative Research Department
Melissa Doeblin, Office of the Revisor of Statutes
Gary Deeter, Committee Secretary

Conferees

Glenn Deck, Executive Director, Kansas Public Employees Retirement System
Dale Dennis, Deputy Commissioner, Kansas State Department of Education

Morning Session

Legislative Research Department staff reviewed potential interim study topics based on the statutory duties assigned to the Committee and previous studies assigned by the Legislative Coordinating Council. In addition, the topics indicated for interim study by the Chairperson also were reviewed and included in the following document (Attachment 1):

- Study and make recommendations regarding a permanent cost-of-living adjustment (COLA) for current Kansas Public Employees Retirement System (KPERS) retirees and for current active employees who are hired prior to July 1, 2009, when a 2.0 percent COLA will be instituted for all new KPERS members;

- Review adding new state employee groups to the Kansas Police and Firemen's Retirement System (KP&F);
- Review authorizing local units of government to elect coverage for certain employees under a KPERS plan that would be similar to the State Correctional Officer group; and
- Update information about the number of KPERS members eligible for retirement and trends over the next five years, focusing especially on school employees and the issue of working after retirement.

Members of the Committee commented on problems created by public school employees who retire and are allowed to be hired by a neighboring school district without a salary cap, but are placed under a $20,000 salary cap if they return after retirement to their district from which they retired.

Glenn Deck, Executive Director, KPERS, outlined a history related to KPERS post-retirement benefits adjustments (Attachment 2). He reviewed the historical benefit adjustments and current employee demographics, noted the present status of KPERS funding, and provided a number of COLA proposals, cost estimates, and possible funding sources. He said that most other states provide COLAs for retirees, with increases based on some form of the Consumer Price Index (CPI). He also noted that recent trends suggest that states are giving fewer *ad hoc* COLAs and moving to lower percentage formulas for the CPI-based adjustments.

Answering questions, Mr. Deck said KPERS could allow active members who wish to retire early to purchase additional time at retirement. He replied to another question that tying retirement to the Social Security ages could be considered. He also indicated in response to a third question that KPERS has tracked the history of three states that have automatic COLAs. He said he would provide additional options for COLAs at a later meeting.

Staff listed the proposed Committee meeting dates for the interim, subject to approval by the LCC at its meeting of July 9, 2008:

- August 20-21;
- September 15-16;
- October 14-15; and
- December 2-3.

The Chairperson commented that the dates would be considered tentative until approved, and that some meetings might be one day only.

Afternoon Session

Legislative Research Department staff distributed the Final Actuarial Review Report for KPERS, an audit done by Buck Consultants of Denver. The audit gave KPERS a clean bill of fiscal health (Attachment 3). Mr. Deck noted the 12 suggestions for improvement contained in the report (page 30), saying that the agency will address each specific item at the July 2008 Board of Trustees meeting.

Mr. Deck, noting the Committee's 2007 Interim study about adding other state employee groups to the KP&F, provided an overview of the KP&F Retirement System, comparing it to KPERS, Social Security, and the KPERS Correctional Officer group. He reviewed several recent legislative proposals from individual groups to join KP&F, the new state "Protective Services" state pay plan, and several other *ad hoc* affiliation proposals not incorporated into legislative proposals (Attachment 4). He also made reference to informational appendices showing benefit comparisons and income-replacement ratios that were included in Attachment 4.

Answering questions, Mr. Deck said that the original KP&F plan members were exempt from Social Security. However, there have been several groups that were added and had Social Security coverage. He requested guidance from the Committee as to what groups should be included in KP&F, how to account for Social Security benefits, and how to coordinate implementation of the new Protective Services state pay plan. He responded to another question regarding the Kansas Highway Patrol troopers, who should be included under Social Security, and how a modified KPERS or KP&F plan could address Social Security.

Next, Mr. Deck reviewed questions about the KPERS retirees working after retirement for various KPERS participating employers (Attachment 5). He noted the issues arising from a retiree working for the same KPERS employer, working for a different KPERS employer, and the strategies employed by employees to avoid restrictions. He commented on several different proposals to address the issues, the fiscal impact of such changes, and how IRS regulations relate to the proposals. He suggested further study for the Committee regarding teacher shortages, contract arrangements for retirees returning to work, and the need to refine retirement policies for working after retirement.

Dale Dennis, Deputy Commissioner of Education, Kansas State Department of Education, noting the problem of teacher shortages in Kansas education, commented that one-fourth of the current teachers will be eligible for retirement within the next five years, further exacerbating the teacher shortage. He reviewed the anomalies caused by current policies governing KPERS retirees being rehired by participating employers that are school districts, and he noted possible fiscal ramifications. He suggested that the Committee seriously consider adjusting current policies to deal with these issues. He said as of June 1, 2008, Kansas had 845 vacant teacher positions. He said 638 KPERS retirees were re-employed last year, 33 through an independent firm that provided contract employees to school districts. This contractual arrangement would have the contracting firm to serve as the supervisor of the teachers rather than the teacher being supervised by the local authorities (Attachment 6). He provided details in Attachment 7 concerning the locations for each of the 638 KPERS retirees who were rehired. Answering questions, Mr. Dennis said that a certain amount of surcharge imposed in lieu of the regular KPERS contribution could be required in order to make the retirement system actuarially sound. He said independent firms enter into contracts with the school district to provide retired teachers for the district and that salaries to pay those contracted employees are included in the general fund budget or the local-option budget of the school district.

Prepared by Gary Deeter
Edited by Julian Efird

Approved by Committee on:

August 20, 2008
(Date)