Approved: 02/16/93
Date

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS.

The meeting was called to order by Chairman Rochelle Chronister at 1:30 p.m. on February 10, 1993 in Room 514-S of the Capitol.

All members were present except: Rep. Gary Blumenthal (excused absence)
Rep. George Dean (excused absence)
Rep. Delbert Gross (excused absence)
Rep. David Heinemann (excused absence)
Rep. Jim Lowther (excused absence)

Committee staff present: Debra Duncan, Legislative Research Department
Alan Conroy, Legislative Research Department
Leah Robinson, Legislative Research Department
Pat Mah, Legislative Research Department
Jim Wilson, Revisor of Statutes
Jerry Cole, Committee Secretary
Sharon Schwartz, Administrative Assistant

Conferees appearing before the committee:

Richard Ryan, Director of Legislative Research Department
Rep. Vernon Correll, sponsor
David Ross, Kansas Association of Life Underwriters
Secretary Susan Seltsam, Department of Administration
Jack Shipman, Director of Purchases (Dept. of Administration)
Terry Bernatis, Benefits Analysis Manager (Dept. of Administration)
Jim Cobler, Director of Accounts and Reports (Dept. of Administration)

Others attending: See attached list

Chairman Chronister informed the committee that a previous motion made by Rep. Heinemann for bill introduction, had been introduced concurrently by the Public Health and Welfare Committee. She then asked for a motion to reconsider the earlier motion for bill introduction so that its introduction could be rescinded. Rep. Kline made a motion to reconsider the motion by Rep. Heinemann for the introduction of a bill for the continued education of barbers. Rep. Gatlin seconded the motion and it was carried. Chairman Chronister then asked for a motion for the bill introduction on continuing education. Rep. Kline made the motion to introduce a bill on the continued education for barbers. Rep. Gatlin seconded the motion and it subsequently failed.

Rep. Fuller made a motion to accept the minutes of February 1 and 3, 1993 as written. The motion was seconded by Rep. Teagarden and carried.

Chairman Chronister introduced Richard Ryan, Director of Legislative Research Department for an overview of the budget to date. (See Attachment 1). Mr. Ryan appeared to discuss the Basic & Supplemental General State Aid and the State General Fund Finances. He said that the driving force behind the FY 94 budget was the school finance package in both the Kansas Legislative Research Department as well as the Governor's budget estimates. Mr. Ryan told the committee they had located a number of differences in their budget estimates in relation to those of the Governor. Included in those differences was $13 million difference in the State General Fund (SGF) appropriations for FY 1994. He also spoke of a $15.7 million difference in FY 95 and a $16.9 million difference in FY 96 for the total available basic general aid. Also mentioned was the negative receipts in excess of expenditures for FY 94 estimated by both the Kansas Legislative Research Department (KLRD) and the Governor. Mr. Ryan said these differences would have to be resolved, in order

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS, Room 514-S Statehouse, at 1:30 p.m. on February 10, 1993.

to negate any adverse affects on the FY 1995 budget.
Chairman Chronister then opened hearings on the two bills under consideration by the committee (HB 2135 and HB 2154). Rep. Vernon Correll, sponsor of HB 2135, testified on behalf of the bill. (See Attachment 2).

David Ross, Kansas Association of Life Underwriters, spoke to the committee about HB 2154. (See Attachment 3). This bill would establish a whole life plan with voluntary automatic state employee payroll deductions for the required premiums. Also appearing on HB 2154 was Secretary Susan Seltsam, Department of Administration. She reported to the committee favorable to any legislation which would prove to be beneficial to the state and its employees. Secretary Seltsam introduced a number of members of the department which were present to clarify the department's view of the bill. Mr. Jack Shipman, Director of Purchases testified on the bill. (See Attachment 4). Mr. Shipman spoke of the cost of the plans to establish such an insurance plan for state employees. Ms. Terry Bernatis, Benefits Analysis Manager, spoke to the committee about the plan--the needs of the employer and employees. (See Attachment 5). Mr. Jim Cobler, Director of Accounts and Reports, spoke on how the bill would affect the Payroll section of their department. (See Attachment 6).

Chairman Chronister adjourned the meeting at 3:22 p.m. The next meeting is scheduled for February 11, 1993.

GUEST LIST

COMMITTEE: HOUSE APPROPRIATIONS    DATE: FEB. 10, 1993

| NAME (PLEASE PRINT) | ADDRESS | COMPANY/ORGANIZATION |
|---|---|---|
| Fred Sudermann | Wichita KS | WSU |
| Jim Hays | Topeka, KS | KASB |
| Brenda Schuette | Auburn, KS | SRS |
| Julie J. Hein | Topeka | Hein, Ebert & Rosen |
| Anita Larson | Topeka | Security Benefit Gr. |
| Debra S. Watts | Topeka | Security Benefit Life |
| [illegible] | " | Div. of Budget |
| Jim Kent | Treasurer's Office | L.S.O.B |
| Paul Johnson | Topeka | PACK |
| [illegible] | Topeka | KAPE |
| JAMES COBLER | " | DEPT. OF ADM. |
| HAROLD GIBBON | " | " " " |
| Jerry Sloan | " | OJA |
| Lois Snoe | Topeka | KSL |
| Joe Warner | Leavenworth | CLAIC |
| [illegible] | Topeka | Dept of Admin. |
| Jack R. Shipman | " | " " |
| [illegible] | " | " " |
| [illegible] | " | Ks Assn of Life Ins Cos |
| DAVID A. ROSS | TOPEKA | KS. ASSN. OF LIFE UNDERWRITERS |
| Richard K. Friedstrom | Topeka | KALU |
| | | |
| | | |
| | | |
| | | |
| | | |

## BASIC AND SUPPLEMENTAL GENERAL STATE AIDS – KLRD AND GOVERNOR

In Thousands

| | FY 1993 KLRD | FY 1993 Governor | FY 1993 Difference | FY 1994 KLRD | FY 1994 Governor | FY 1994 Difference |
|---|---|---|---|---|---|---|
| **Basic General Aid** | | | | | | |
| USD Budgets | $1,839,086 | $1,834,504 | $(4,582) | $1,897,370 | $1,889,736 | $(7,634) |
| Local Resources | 879,213 | 879,790 | 577 | 571,496 | 586,387 | 14,891 |
| Aid Required | 959,873 | 954,714 | (5,159) | 1,325,874 | 1,303,349 | (22,525) |
| SGF Appropriation | 591,043 | 576,314 | (14,729) | 927,904 | 914,949 | (12,955) |
| SGF Demand Transfer | 365,000 | 365,000 | 0 | 375,000 | 375,000 | 0 |
| Recapture to SDFF | 13,400 | 13,400 | 0 | 13,400 | 13,400 | 0 |
| Total Available | 969,443 | 954,714 | (14,729) | 9,570 | 0 | (9,570) |
| | | | | 1,325,874 | 1,303,349 | (22,525) |
| Excess Amt. Available (To FY 1994) | 9,570 | 0 | (9,570) | | | |
| Rec. Transfers to SDFF | | | | | | |
| From SGF | -- | -- | -- | -- | 10,000 | 10,000 |
| From BSF | -- | -- | -- | -- | 75,000 | 75,000 |
| (For use in FY 1995) | | | | -- | 85,000 | 85,000 |
| **Supplemental Gen. Aid** | | | | | | |
| USD Budgets | 98,796 | 98,797 | 1 | 142,303 | 141,737 | (566) |
| Local Resources | 73,775 | 73,769 | (6) | 102,458 | 102,051 | (407) |
| Aid Required | 25,021 | 25,028 | 7 | 39,845 | 39,686 | (159) |
| SGF Appropriation | 26,652 | 26,652 | 0 | 39,845 | 39,686 | (159) |
| Lapse | 1,631 | 1,624 | (7) | -- | -- | -- |
| **SGF Demand** | | | | | | |
| Approp.-Gen./Supp. Aids | 616,064 | 601,342 | (14,722) | 967,749 | 954,635 | (13,114) |
| Demand Transfer | 365,000 | 365,000 | 0 | 375,000 | 375,000 | 0 |
| | 981,064 | 966,342 | (14,722) | 1,342,749 | 1,329,635 | (13,114) |
| SGF Transfer to SDFF | -- | -- | -- | 0 | 10,000 | 10,000 |
| **Exhibit-Local Resources*** | | | | | | |
| Property Tax Levy | 294,352 | 294,230 | (122) | 301,231 | 300,902 | (329) |
| Tax in Process | 271,651 | 271,650 | (1) | 165,865 | 165,515 | (350) |
| Motor Vehicle Taxes | 116,500 | 118,730 | 2,230 | 100,700 | 116,130 | 15,430 |
| PL 874 | 8,960 | 8,960 | 0 | 11,000 | 11,000 | 0 |
| Severance Tax/IRBs | 6,200 | 4,670 | (1,530) | 6,100 | 6,240 | 140 |
| Cash Balance | 194,950 | 194,950 | 0 | 0 | 0 | 0 |
| Recapture to SDFF | (13,400) | (13,400) | 0 | (13,400) | (13,400) | 0 |
| Total (net) | 879,213 | 879,790 | 577 | 571,496 | 586,387 | 14,891 |

* For computing basic general aid.

ATTACHMENT 1

| | FY 1995 | | | FY 1996 | | |
|---|---|---|---|---|---|---|
| | KLRD | Governor | Difference | KLRD | Governor | Difference |
| Basic General Aid | | | | | | |
| USD Budgets | $1,925,830 | $1,918,175 | $(7,655) | $1,954,718 | $1,946,948 | $(7,770) |
| Local Resources | 570,562 | 578,574 | 8,012 | 594,371 | 603,471 | 9,100 |
| Aid Required | 1,355,268 | 1,339,601 | (15,667) | $1,360,347 | $1,343,477 | $(16,870) |
| SGF Appropriation | 949,942 | 847,451 | (102,491) | 935,583 | 920,577 | (15,006) |
| SGF Demand Transfer | 391,926 | 393,750 | 1,824 | 411,364 | 409,500 | (1,864) |
| Recapture to SDFF | 13,400 | 13,400 | 0 | 13,400 | 13,400 | 0 |
| SDFF Carryover | 0 | 85,000 | 85,000 | 0 | 0 | 0 |
| Total Available | 1,355,268 | 1,339,601 | (15,667) | 1,360,347 | 1,343,477 | (16,870) |
| Supplemental Gen. Aid | | | | | | |
| USD Budgets | 192,583 | 191,817 | (766) | 244,340 | 243,368 | (972) |
| Local Resources | 138,660 | 138,109 | (551) | 175,925 | 175,225 | (700) |
| Aid Required | 53,923 | 53,708 | (215) | 68,415 | 68,143 | (272) |
| SGF Appropriation | 53,923 | 53,708 | (215) | 68,415 | 68,143 | (272) |
| SGF Demand | | | | | | |
| Approp.-Gen./Supp. Aids | 1,003,865 | 901,159 | (102,706) | 1,003,998 | 988,720 | (15,278) |
| Demand Transfer | 391,926 | 393,750 | 1,824 | 411,364 | 409,500 | (1,864) |
| | 1,395,791 | 1,294,909 | (100,882) | 1,415,362 | 1,398,220 | (17,142) |
| Exhibit-Local Revenue* | | | | | | |
| Property Tax Levy | 324,280 | 323,926 | (354) | 329,144 | 328,785 | (359) |
| Tax in Process | 169,741 | 169,268 | (473) | 182,729 | 182,220 | (509) |
| Motor Vehicle Taxes | 72,400 | 80,850 | 8,450 | 77,900 | 87,220 | 9,320 |
| PL 874 | 11,440 | 11,440 | 0 | 11,898 | 11,898 | 0 |
| Severance Tax/IRBs | 6,100 | 6,490 | 390 | 6,100 | 6,749 | 649 |
| Cash Balance | 0 | 0 | 0 | 0 | 0 | 0 |
| Recapture to SDFF | (13,400) | (13,400) | 0 | (13,400) | (13,400) | 0 |
| Total (net) | 570,562 | 578,574 | 8,012 | 594,371 | 603,471 | 9,100 |

* For computing basic general aid.

Kansas Legislative Research Department
February 8, 1993

93-4734/RWR

## STATE GENERAL FUND FINANCES

In Millions

| | FY 1993 | | | FY 1994 | | |
|---|---|---|---|---|---|---|
| | KLRD Profile | Governor | Difference | KLRD Profile | Governor | Difference |
| Beginning Balance | $140.5 | $140.5 | 0 | $351.4 | $373.9 | $22.5 |
| Receipts | | | | | | |
| Consensus Est. | 2,950.8 | 2,950.8 | 0 | 3,035.5 | 3,035.5 | 0 |
| Governor's Adj. | -- | (0.3) | (0.3) | -- | (7.8)[a] | (7.8) |
| Total | 2,950.8 | 2,950.4 | (0.4) | 3,035.5 | 3,027.7 | (7.8) |
| Expenditures | | | | | | |
| Approp.-Gen./Supp. Aid | 616.1 | 601.3 | (14.8) | 967.7 | 954.6 | (13.1) |
| Demand Trans. to SDFF | 365.0 | 365.0 | 0 | 375.0 | 375.0 | 0 |
| Subtotal, Gen./Supp. Aid | 981.1 | 966.3 | (14.8) | 1,342.7 | 1,329.6 | (13.1) |
| Demand Transfers to: | | | | | | |
| SDCIF | 4.5 | 4.5 | 0 | 11.0 | 11.0 | 0 |
| SHF | 76.3 | 76.3 | 0 | 82.2 | 82.2 | 0 |
| LAVTRF | 39.3 | 39.3 | 0 | 42.1 | 42.1 | 0 |
| CCRSF | 30.2 | 30.2 | 0 | 31.9 | 31.9 | 0 |
| CCHF | 9.6 | 9.6 | 0 | 9.9 | 9.9 | 0 |
| WCF | 4.0 | 4.0 | 0 | 4.0 | 0 | (4.0) |
| All Other Expend. | 1,594.9 | 1,586.8 | (8.1) | 1,641.5 | 1,666.7 | 25.2 |
| Total | 2,739.9[b] | 2,717.0[c] | (22.9) | 3,165.3 | 3,173.4[c] | 8.1 |
| Ending Balance | 351.4 | 373.9 | 22.5 | 221.6 | 228.2 | 6.6 |
| % of Expend. | 12.8% | 13.8% | | 7.0% | 7.2% | |
| Receipts in Excess of Expend. | 210.9 | 233.4 | 22.5 | (129.8) | (145.7) | (15.9) |

a) Includes $10 million revenue transfer to the School District Finance Fund (SDFF).

b) Reflects Governor's budget amendment dated 1/28/93. Otherwise, this is the amount authorized by the 1992 Legislature adjusted for State Finance Council action on the pay plan, shifting of expenditures from FY 1992 to FY 1993, actual and revised estimates of demand transfers, and the revised estimate of supplemental general aid to school districts (a reduction of $1.631 million from the amount appropriated).

c) Includes Governor's budget amendment of 1/28/93 and further slight adjustments for actual data on a few demand transfers.

| | KLRD | Governor | Difference |
|---|---|---|---|
| Increase in "All Other Expenditures," FY 93 to FY 94 | 46.6 | 79.9 | 33.3 |
| Difference between KLRD and Governor, FY 93 | | | (8.1) |
| Difference between KLRD and Governor, FY 94 | | | 25.2 |

| | |
|---|---|
| Difference between KLRD and Governor "All Other Expenditures," FY 94 | 25.2 |
| Beginning balance difference | 22.5 |
| Receipts Difference | (7.8) |
| School aid "savings" (Governor) | 13.1 |
| Eliminate transfer to WCF (Governor's rec.) | 4.0 |
| Increase in ending balance | (6.6) |
| | 25.2 |

Kansas Legislative Research Department
February 8, 1993

93-4741/RWR

STATE OF KANSAS

VERNON W. CORRELL
REPRESENTATIVE, SEVENTH DISTRICT
LABETTE COUNTY
PO BOX 214
OSWEGO, KS 67356

COMMITTEE ASSIGNMENTS
MEMBER: AGRICULTURE
TRANSPORTATION
FINANCIAL INSTITUTIONS & INSURANCE

TOPEKA

HOUSE OF
REPRESENTATIVES

February 10, 1993

TESTIMONY

HOUSE APPROPRIATIONS COMMITTEE

Thank you, Madam Chair amd members of the committee:

House Bill 2135 is an amendment to K.S.A. 1992,Supp.75-3170a, whereby the Pecan Commission would participate in the fee agencies contributing to the State General Fund on the same percentage basis as other contributing agencies.

I would like to point out the changes by referring to HB 2135, Page 2, line 21, delete the word **and**, and adding after the word fund --- "and the pecan commission fund"-----

Same on line 30 and 31,
39 and 40
Page 3 on line 6 and 7
Page 3, line 8
New Section (5)

with respect to the Kansas pecan commission fund, such 20% credit to the state general fund in relation to such fund in that fiscal year is equal to that portion of $100,000 that bears the same proportion to $100,000 as the amount credited to the Kansas pecan commission fund during the preceding fiscal year bears to the total of the amounts credited to the Kansas wheat commission fund, the Kansas corn commission fund, the Kansas grain sorgum commission fund, the Kansas soybean commission fund and the Kansas pecan commission fund during the preceding fiscal year.

ATTACHMENT 2

Line 17 - add after word <u>**grain**</u> "and pecan"

Line 19 - delete "and"

Line 20 & 21 - add "and the Kansas pecan commission fund"

Line 25 - delete "grain research and market development

Line 27 & 28 - add words "or handler"

Line 28 & 29 - delete "grain research and market development"

I have attached a sheet for your information furnished to me by the marketing division of the State Board of Agriculture.

Thank you for the opportunity to appear before you.

Vernon W. Correll
State Representative
District #7

NOTES ON HB 2135
Reduce General Fund contribution
from Kansas Pecan Commission receipts

1) Grain Commission contributions are based on the previous years gross receipts. The total of all four grain commissions' contributions is a maximum of $100,000 per fiscal year.

2) Each commissions' receipts are totalled and the individual commission contributions are based on their individual receipts percentage of the total.

3) For FY 1993, the percentages as determined by Dept. of Administration, Accounts and Reports are as follows:

| Fund Title | FY 1992 Receipts | % from each Fund | FY 1993 Contribution |
|---|---|---|---|
| Wheat Commission | $2,275,288.39 | 59.63% | $59,630.00 |
| Corn Commission | 706,730.42 | 18.52% | 18,520.00 |
| Grain Sorghum Comm. | 334,654.75 | 8.77% | 8,770.00 |
| Soybean Commission | 498,863.84 | 13.08% | 13,080.00 |
| TOTALS | $3,815,537.40 | 100.00% | $100,000.00 |

4) If Pecan Commission receipts had been $5,000 in FY 1992, then the percentage of the total contributions would have been 00.13% ($5,000 / $3,820,537.40), thus yielding a FY 1993 contribution of $130 (00.13% x $100,000.00). For comparison purposes, 20% (the current statutory contribution) of $5,000 would yield $1,000 to the State General Fund.

5) FY 1993 is the first year of operation for the Kansas Pecan Commission. Due to USDA delays in rendering an official ruling on the basis (handled in or grown in) for state assessments, no collections have yet been made. The official ruling was just received on January 27, 1993. We expect collections to be minimal for the remainder of FY 1993.

KANSAS ASSOCIATION of LIFE UNDERWRITERS

216 S.W. 7TH - P.O. BOX 2639 - TOPEKA, KANSAS 66601 - 913-234-3491 - FAX 913-234-3713

Madame Chairman, members of the committee, I am David A. Ross representing the Kansas Association of Life Underwriters. Thank you for the opportunity to appear before you today in support of HB2154.

Currently, the majority of all employees in the country depend upon their group term insurance to provide a major portion of their insurance program. Unfortunately, at retirement, employees find that to continue their insurance protection they must convert the coverage and pay premiums that would consume substantial portions of their retirement income. The result is that many will die with little or no insurance estates.

Additionally, new benefits are being offered by the insurance industry that provide money for terminal illnesses, long term care, and organ transplants. Group term insurance programs do not provide these benefits.

HB2154 would establish a voluntary payroll deducted life insurance program for all state employees except seasonal or temporaries. The Secretary of Administration would be entrusted with implementation of the plan assisted by an advisory committee including the Secretary, the Director of Budgets, the Commissioner of Insurance, and two employees appointed by the Governor. They would solicit bids from insurance companies interested in providing coverage for this plan and select one.

## WHY ONLY ONE COMPANY?

This plan is designed after the deferred compensation plan. Jim Cobler, the person who implemented that plan for the Department of Administration suggested that service to policyholders is better when one company is responsible and less space is required in the computerized payroll program, therefore, minimizing expense.

## WHO IS TO BEAR THE EXPENSE FOR IMPLEMENTATION OF THIS PROGRAM?

The company awarded the bid would absorb the expense of implementation of this plan so there would be no expense to the State of Kansas.

ATTACHMENT 3

## WHO WOULD BENEFIT?

Companies who provide this type of coverage generally do so on a guaranteed issue basis. Therefore, no examination or other qualifications are necessary for coverage. Also, accelerated benefits are available in the marketplace. They provide access to policy proceeds for terminal illness, long term care, and in most cases organ transplants. Additionally, the committee could select from a large choice of policy forms to assure the lowest cost of insurance possible with the greatest possible cash return.

TESTIMONY HOUSE BILL NO. 2154

Madam Chairperson, Members of the Committee - Good Afternoon

I am Jack Shipman, Director, Division of Purchases, Department of Administration. I am here to address House Bill 2154. House Bill 2154 establishes a Kansas Public Employee Whole Life plan with payroll deduction for associated premiums.

The Department of Administration, Division of Purchases, stands ready to support any measure which benefits all employees of the State of Kansas in a positive, prudent manner. A test of the actual benefit must find its genesis, however, in factors which in no way relates to the benefit itself but in the totality of the situation.

According to sources at the State Insurance Department there are approximately 700 companies authorized and licensed to sell whole life insurance in Kansas. Each of these 700 companies offer a diversity of whole life plans which may number forty to fifty plans per company. This is to say that the possibility exists, in a worse case scenario, of 35,000 potential plans requiring review in a given bid situation. However, development of bid specifications so as to narrow this to a more workable 700 possible proposals would still result in a highly work-intensive situation. Should all companies bid on the requirements but add one alternate proposal, not an uncommon situation, there is still the possibility of up to 1,400 responses which would/could require intense review in order to select qualified bidders with which to enter into negotiations.

The response of the Division of Purchases to this situation would be ideally that of hiring or contracting with a special consultant with expertise in insurance. Such a consultant would be responsible for developing the proper specifications required for such specialized requirements. These requirements would be for a whole life insurance program which would be available to and cover all state employees in an equal fashion. This consultant would also be tasked with the initial review of proposals submitted in response to the assembled request for proposal. Also, this consultant would/should be responsible for leading the negotiations which would in turn lead to a successful contract. While it is assumed that the intent to award would be with a single company, the possibility does exist for a multiple award or an award to more than one company.

Discussions with Insurance Department personnel indicate that a figure of $100 per hour would be the target cost of an insurance consultant. It is further assumed that a minimum of 500 hours time would be required for a minimum starting cost of $50,000.

ATTACHMENT 4

This figure does not include, however, photocopies, postage, or related staff time required for bid preparation and mailing as well as the receiving, opening and tabbing of bids received back.

A consultant is required due to the fact that at present time the Division of Purchases has no one with the expertise to efficiently acquire whole life insurance. Currently, there is no space available in the form of an office whereby a consultant could work within the Division of Purchases. This could possibly require that space be rented or provided by some other agency in order to keep the consultant within close proximity for consultation and discussions.

Members of the committee, I thank you for your attention. If you have any questions, I would be glad to address them at this time.

Testimony To The
Appropriations Committee
By
Terry D. Bernatis
Division of Personnel Services
Department of Administration

Wednesday, February 10, 1993
RE: HB 2154

Madam Chairperson, members of the Committee. My name is Terry Bernatis. I am the Benefits Analysis Manager in the Division of Personnel Services for the Department of Administration. I appreciate this opportunity to testify before you regarding the legislation that has been introduced to develop and implement a whole life insurance benefit plan for state of Kansas employees.

There is no doubt that whole life insurance has a traditional place in the continuum of financial protection a person provides for himself and his beneficiaries. I probably would not be too far off the mark to say that at least 50% of us in this room have purchased some form of whole life insurance. It is one of the most traditional forms of insurance. It provides a death benefit. It also provides accumulated cash value which may be borrowed against during the life of the policy or used to supplement retirement income.

For years, whole life insurance was the vehicle of choice for people wishing to obtain a steady rate of investment return and who were unable to participate in other investment opportunities for retirement. It was the vehicle of choice at a period of time when the workforce consisted of a male head of household with a stay at home spouse who needed death benefits in the event of the sole



ATTACHMENT 5

breadwinner's untimely death.

An employer sponsored group whole life insurance benefit plan could be beneficial for an employee who may not meet individual contract underwriting considerations. A group plan may represent the only opportunity, individually non-insurable people may have to obtain whole life insurance.

However, times and the workforce composition have changed and whole life insurance may no longer be the vehicle of choice to provide death benefits, to be used as a retirement supplement or to provide cash for lifetime emergencies. Therefore, from a benefits point of view, where does an employer sponsored group whole life insurance benefit plan fit in terms of benefit priorities for state employees? Is this a benefit plan that fills an employee need?

Three primary areas of concern arise in terms of identifying what employee needs are trying to be addressed by this bill: portability, availability and cost of insurance. Other current benefit plans may already fulfill these needs. Currently, state employees may participate in an optional group term life insurance plan. At termination, this plan may be converted to a whole life plan. This conversion privilege does not require proof of insurability. It is, in fact a portable plan; the plan is not tied to employment and may be taken with the employee when the employee/employer relationship ceases. Obviously, whole life insurance products are abundantly available in the market. It is not a plan that can only be purchased on a group basis. It is true that costs could be negotiated that are below prevailing individual rates. However, it is important to remember that other insurance products are on the market that provide the same benefits as a whole life plan that build cash value and are less expensive. Rather than limiting the bill to a whole life plan, perhaps consideration should be given to the permanent life genre of which whole life is one element.

If the whole life plan is trying to meet the need of a retirement supplement, state of Kansas employees have available to them either the deferred compensation plan or a tax-sheltered annuity option. Both plans allow the employee to select and supervise investment options whereas a whole life plan does not. Both the deferred comp and tax-sheltered annuity plans receive favorable tax treatment. Money put into the plan is not taxed until it is withdrawn from the plan. Whole life insurance must be paid with aftertax dollars. It may not be an option under KanElect, our state of Kansas Cafeteria Benefits Plan so there is no tax advantage to the employee.

Briefly, one provision in the current bill may bear further consideration. If the bill is passed as written, enrollment and administration of the plan will be different from almost all of our other state sponsored benefit plans. The Division of Personnel Services is responsible for the centralized communications process and problem resolution for our benefit plans. We are responsible for the annual open enrollment period for group health insurance and provide information about all of our benefit plans during that period. All benefit enrollments are handled through the agency personnel offices. Traditionally, there has been an arms length relationship between the provider and employee which limits their direct access and contact with employees. As currently written, the bill would allow the carrier(s) representative to have direct contact with the employee to handle the enrollment of the plan. This may establish a precedent which allows the carrier(s) representative the opportunity to sell other products of the carrier that are not state sponsored.

Thank you for this opportunity. If you have any questions, I will be happy to answer them.

**STATE OF KANSAS**
**DEPARTMENT OF ADMINISTRATION**

JOAN FINNEY, Governor
JAMES R. COBLER, Director of Accounts and Reports
900 S. W. Jackson, Room 355
(913) 296-2311
FAX (913) 296-6841

# MEMORANDUM

**DATE:** February 10, 1993

**TO:** Rochelle Chronister, Chairperson, House Appropriations Committee

**FROM:** James R. Cobler, Director JRC

**SUBJECT:** Testimony on House Bill 2154

My comments for testimony regarding the state employee whole life insurance plan, House Bill 2154, are as follows:

## General Comments:

From a funding perspective, the overall effort has been to hold down voluntary payroll deductions due to the related costs involved and the reduction of employee "net pay" which tends to foster employee concerns about low pay rates. The only present statutorily authorized voluntary payroll deductions are:

- o group term life insurance
- o retirement contributions (other than KPERS)
- o charitable contributions
- o savings bonds
- o employee dues deductions

Initial participation in voluntary deduction programs is historically low, **EXAMPLE:** 700 employees (1-2% of employees participate) initially for the Savings Bond and United Way programs.

## Effects on the Operations and Responsibilities of the Division of Accounts and Reports:

House Bill 2154 directly affects the operations of the Division of Accounts and Reports, Payroll Section. Addition of a new payroll deduction requires significant modifications to the central KIPPS and Regents payroll systems. Each of the Regent universities would also be required to modify their systems. The changes required to the statewide systems would include, at a minimum changes to:

1) the appointment process,
2) file maintenance,
3) pay deduction and code process,
4) all adjustment transaction processes,
5) W-2 update process, and
6) remittance and reconciliation processes.

ATTACHMENT 6

An additional clearing fund would need to be established in the central accounting system as well as object/source codes to account for the administrative fees.

There is concern that the complexity of the life insurance rate structure in regard to age and mortality factors could cause numerous rate tables for the differing enrollment periods. These tables would have to be retained as long as an employee is enrolled in the coverage plan.

Related to the complexity issue is the need to contract with a consultant for bid preparation and evaluation of the numerous insurance companies and plan options.

Cost Estimates:

FY 1994: A schedule of estimated expenditures to implement a whole life payroll deduction plan is attached. The total estimated start-up costs for FY 1994 amount to $118,759, **including $50,000 for consultant services**, while continuing costs for the first year are estimated at $20,296. Thus total FY 1994 expenditures are estimated at $139,055. **"Seed money" to implement this program must be provided from the General Fund.**

The continuing costs are projected to increase by a general inflationary index of 3.5% per year, without including any amortization of first year start-up costs.

Administrative Fee: The administrative fee for recovery of the KIPPS start-up costs of $118,759 is estimated at $2.83 per month based on a projected participation of 700 employees and an amortization period of five years. This is a fairly high administrative fee.

**Assumptions for Cost Estimates and/or Anticipated Revenues:**

General: The estimates are based on authorization of one deduction per enrollee.

Administrative Fee: Each of the Regents institutions which maintain separate payroll systems will need to revise their own systems and those costs are not included in the estimated administrative fee. The fee is dependent on the number of enrollees in the program and the inclusion or exclusion of conversion costs at the seven university systems. Since the plan enrollment is not known, a conservative estimate of 700 participants was used based on the historical data for the United Way and Savings Bonds program. In order to keep the administrative fee at a reasonable amount, the recovery of the setup cost expenditures was amortized over a period of 5 years. Obviously, the monthly charge would be reduced with a larger participation base.

Programming: Programming needs for HB 2154 were estimated by the Division of Information and Communications (DISC) and include 1,660 programming hours at $36 per hour totaling $59,760. This is based on the assumption that the payroll accounting system data base is expanded.

The programming cost estimates assume that a limited number of coverage code combinations will be available to those who wish to enroll in the plan. Any increases in the number of coverage options and/or carriers could increase the continuing costs for data processing, salaries and wages and communications significantly. There may also be the need for printing of rate schedules as is done for the group health insurance enrollment which will also increase the costs.

**Implementation Needs:**

Staffing requirements: The Payroll Section staffing will need to be increased to absorb the additional workload. It is proposed these duties would require (1) Intermittent Central Accountant III position. Current staff is operating at peak performance due to the recent implementation of the KANELECT program and federal legislation mandating a new wage base for Medicare, Regents Direct Deposit, and Sick Leave Payout Assessment. These programs were implemented with no additional staff. This position will be primarily responsible for reconciliation and remittance of the monies to the third parties. Additional workload will also be required in monitoring W-2 file updates, processing and monitoring payroll accounting transactions in the central accounting system (STARS), and training and advising agency staff.

If additional information is needed, please let me know.

JRC:SLF:cv

Attachment

.B 2154 - Authorization of a Payroll Deduction for whole Life Plan

ESTIMATED EXPENDITURES

CONTINUING EXPENSES:

| | |
|---|---|
| Salaries and Wages - 1000 | |
| Central Accountant III Intermittent Salary | $15,552 |
| Employer Costs | 1,554 |
| | $17,106 |
| Communication - 2000 | |
| KANSAN Charges and Exchange Equipment | 100 |
| Postage | 400 |
| | 500 |
| Rents - 2300 | |
| Office Space (200 sq ft @ $12.45/sq ft) | 2,490 |
| Professional Supplies - 3600 | |
| Miscellaneous Supplies | 200 |
| TOTAL CONTINUING EXPENSES | 20,296 |

ONE TIME START UP COSTS:

| | |
|---|---|
| Salaries and Wages - 1000 | |
| Central Accountant II (4%) Salary | 1,307 |
| Central Accountant IV (4%) Salary | 1,513 |
| Employer Costs | 629 |
| | 3,449 |
| Repairing and Servicing - 2400 | |
| Telephone Installation (1) | 200 |
| Micro Computer Installation | 100 |
| | 300 |
| Fees - Other Services - 2600 | |
| Consultant Services (Bid Preparation/Evaluation) | 50,000 |
| Data Processing Services | 59,760 |
| (Assumes cost of expanding data base) | 109,760 |
| Capital Outlay - 4000 | |
| Herman Miller Office Furniture | 2,000 |
| Calculator (1 @ $100) | 100 |
| Executive Chair (1 @ 250) | 250 |
| Side Chair (1 @ 100) | 100 |
| Micro Computer | 2,500 |
| Micro Computer Table | 300 |
| | 5,250 |
| TOTAL START UP EXPENSES | $118,759 |
| TOTAL ESTIMATED EXPENSES, FY 1994 | $139,055 |