

Approved: 3/10/98
Date

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS.

The meeting was called to order by Chairperson Phil Kline at 8:05 a.m. on February 27, 1998 in Room 514-S of the Capitol.

All members were present except:

Committee staff present: Alan Conroy, Shannon Nichols, Julian Efird, Legislative Research Department
Jim Wilson, Mike Corrigan, Revisor of Statutes Office
Helen Abramson, Administrative Aide; Linda Swain, Appropriations Secretary

Conferees appearing before the committee:

Meredith Williams, Kansas Public Employees Retirement System (KPERs)

Representative Pottorff reported for the House Subcommittee on KPERs Issues (Attachment 1). Representative Pottorff noted the report is different than most Subcommittee reports in that it has a number of House and Senate Bills included. There are a number of KPERs issues that have been introduced in both the Senate and the House, by KPERs, by the Joint Committee and by individual members. The Subcommittee went through those bills. The Subcommittee suggested some of those bills stand alone as individual bills and many are rolled together in an omnibus bill. On Wednesday, March 4, the House Appropriations Committee will have a public hearing on the bills.

Representatives Pottorff, Dean and Minor read the portions of the report which included: SB 382, SB 617, SB 618, SB 619, SB 620, HB 2542, HB 2612, HB 2615, HB 2873, HB 2874, HB 2889, HB 2890, HB 2935, HB 2937, HB 2938, HB 2952. Additional topics included: Investment Restrictions, Final Average Salary, Upgrading KP&F Service, 75-Point Plan, and EFT Remittances.

Chair Kline requested voting on approval of the report up to that point, keeping in mind that if the report is adopted it does not necessarily mean the members have endorsed all or any of the bills, but it would allow the committee a starting point.

A motion was made by Representative Pottorff, seconded by Representative Dean to adopt that portion of the Subcommittee report. A discussion followed on HB 2873.

A motion was made by Representative Reinhardt, seconded by Representative Helgerson to amend the report to include HB 2873 in the omnibus bill. A brief discussion followed. The motion carried.

A vote was taken on the original motion made by Representative Pottorff, seconded by Representative Dean to adopt that portion of the Subcommittee report as amended. The motion carried.

Representatives Pottorff continued reading the report which included COLA Proposals: HB 2963 and Automatic COLAs.

A motion was made by Representative Dean, seconded by Representative Minor to adopt the portion of the report which included HB 2963. The motion carried.

Representative Pottorff reported the Subcommittee was not able to agree on how to get to an automatic COLA so the Committee prepared two alternative plans. Representative Pottorff presented the first of these plans, Alternative 1: Modified House Bill 2961. An error was noted under the text titled "Fiscal Note:". The sentence reading "Total increase in actuarial liability would be \$1.045 billion" should read "total increase in actuarial liability would be \$522.5 million".

Representative Dean continued with Alternative 2: Amended and Modified House Bill 2961. An error was noted under the text titled "Fiscal Note:". The sentence reading "total increase in actuarial liability would be \$2.30 billion" should read "total increase in actuarial liability would be \$1.15 billion".

A brief discussion followed. Julian Efird, Legislative Research Department, explained the four tables at the end of the report on Automatic COLA Estimates noting how the programs would be funded.

Meredith Williams, KPERs, answered questions and helped clarify the projections.

Chair Kline noted a request by Kansas Department of Social and Rehabilitation Services to introduce a bill concerning the adoption and families act.

A motion was made by Representative Helgerson, seconded by Representative Nichols to accept the bill for introduction. The motion carried.

The meeting was adjourned at 9:00 a.m. The next meeting is scheduled for March 4, 1998.

APPROPRIATIONS COMMITTEE GUEST LIST

DATE: 2/27/98

NAME	REPRESENTING
JOE SHIVER	Rep # 79
Mark Tallman	KASB
Craig Grant	KNEA
Keith Haxton	S.E.A.K
Leland Breedle	KPERS
Robert Myer	SOS
Oon Kyo	S.E.A.K
Gary Young	KNEA-R
Di Jozin	KAPE
Betty M. Vines	KAPE
Paul Wilson	KAPE
Robert Woodward	KPERS
Billie Archer	Visitor
J. Manami	Dept of Adm.

SUBCOMMITTEE REPORT

February 26, 1998

The House Appropriations Subcommittee on KPERS Issues makes the following recommendations:

Senate Bill No. 382 Hold hearing on S.B. 382, as amended by the Senate Committee of the Whole. The bill addresses compliance with Internal Revenue Service requirements for public pension systems and would make state laws conform. The Joint Committee on Pensions, Investments and Benefits originally recommended this bill in 1997 and the 1998 Senate amendments. The bill is intended to bring KPERS into federal compliance with all qualified plan requirements. The provisions were requested by the KPERS Board of Trustees after completing a compliance review process which was detailed and complex, and largely technical in nature. Administrative costs are estimated to be \$78,000 for contract programming required to change the member data base for monitoring the compliance issues.

Senate Bill No. 617 Include in omnibus KPERS bill a provision that would allow pre-July 1, 1995, members to retire under one system and to continue working under a second system. Hold hearing on this provision as included in the omnibus KPERS bill. KPERS staff estimates that 546 individuals could be affected by the issue of retiring under two systems, but that most active employees (80 percent) would not be involved in the fiscal consequences. It was noted that 126 of those presently working under one plan (regular KPERS) and inactive under another plan (KP&F) would cost KPERS approximately \$14 million if all individuals continued working until age 65. However, if all active members of this group would retire as soon as eligible under regular KPERS, then the cost estimate is approximately \$3.5 million. KPERS staff suggested that most likely the cost would be in the \$10-\$12 million range. The fiscal note is due to a higher final average

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Attachment 1*

salary from the KPERS covered position being used to compute benefits under each of the two different plans.

Senate Bill No. 618 Hold hearing on S.B. 618 that would add a criminal penalty for making false statements pertaining to KPERS matters. The proposed change would delete references to "misdemeanor" and "\$500," and would substitute language providing that such a person is "subject to the provisions of K.S.A. 21-3904" which is the criminal code section governing the presenting of a false claim. K.S.A. 21-3904 defines presenting a false claim as knowingly and with intent to defraud, presenting a false claim or demand to a public officer or body authorized to pay such claim, and provides a graduated level of severity depending upon the dollar amount of the fraud. Current law provides that a person who knowingly makes a false statement for the purpose of committing fraud shall be guilty of a misdemeanor and upon conviction subject to a fine of up to \$500. KPERS has paid a false claim through its long term disability program of over \$100,000.

Senate Bill No. 619 Include in omnibus KPERS bill a provision that would authorize all service credit purchases that are currently 1.0 to be purchase optionally at 1.75 percent and hold hearing on the omnibus bill provisions. The Joint Committee on Pensions, Investments and Benefit studied this issue during the 1997 interim. The Committee recommends legislation that would allow all KPERS service credit purchases currently based on a 1.0 percent multiplier to be acquired at the actuarial cost for either the present 1.0 percent multiplier or an enhanced 1.75 percent multiplier.

Summary of Authorized KPERS Service Credit Purchases

Category	Multiplier
First Year of Employment	1.75
Out-of-State Teaching	1.0
Military—Public Health Service	1.75
Barred Membership	1.0
Elected Official	1.75
Previous TIAA-CREF Member	1.75
Nonfederal Governmental	1.0
Employment	
Local Police and Fire Employment	1.75
Peace Corps Employment	1.0
ESU Memorial Union Employment	1.0

The Joint Committee recognized that purchases of permissive service credit are not uniform for KPERS members in regard to multipliers associated with the different options. Two different multipliers are used to recognize permissive service credit purchases: 1.75 percent and 1.0 percent. This provision would correct the inconsistency and make members bear the full actuarial cost of any enhancement.

Senate Bill No. 620 Include in omnibus KPERS bill provisions that would

- Provide regulatory authority for the Judges' Retirement System;
- Clarify the definition of a KPERS employee;
- Clarify an elected official's membership date;
- Address returning from military service;
- Provide for rebuttable presumption under KP&F for disability benefits;
- Allow the crediting of one-for-two KP&F prior non-service work;
- Distinguish between a disabled and active KP&F member;
- Allow use of a workers' compensation report in determining a disability for KP&F;
- Clarify references to KPERS Act and the definition of Act;

and hold hearing on these omnibus bill provisions.

House Bill No. 2542 Hold a hearing on HB 2542 that would ease real estate restrictions on KPERS investments. The KPERS Board requested the bill to remove certain of the investment constraints, specifically as they apply to real estate investments. These constraints include requirements in K.S.A. 74-4921, section (5)(c)(i - viii) that the System: (1) own no more than a 20 percent interest in any new investments; (2) participate in new investments only if two other sophisticated co-investors also invest; and (3) take positions in commingled funds only to the extent that they do not individually exceed 20 percent of the total real estate portfolio.

House Bill No. 2612 Include in omnibus KPERS bill only if S.B. 11 does not pass since this provision would reduce frequency of performance audits and hold hearing on the omnibus bill provisions.

House Bill No. 2615 Include in omnibus KPERS bill a provision that would allow Judges to purchase military service and hold hearing on the omnibus bill provisions (also included in SB 512). Current law allows members under both KPERS and KP&F to buy military credits and this change makes it uniform across plans.

House Bill No. 2873 Refer to the Joint Committee on Pensions, Investments and Benefits this proposal to exempt a quadriplegic person from the current social security offset for the KPERS disability program.

House Bill No. 2874 Refer to the Joint Committee on Pensions, Investments and Benefits this proposal to move fire investigators in State Fire Marshal's office from KPERS to KP&F coverage.

House Bill No. 2889 Include in omnibus KPERS bill a provision that would eliminate assignment of KPERS' office location in the Capitol Complex by Secretary of

Administration and hold hearing on the omnibus bill provisions

House Bill No. 2890 Include in omnibus KPERS bill a provision that would define a policeman and fireman and hold hearing on the omnibus bill provisions. The provision would change the definition of a policeman to require that they be certified by the Kansas Law Enforcement Training Center which initially requires 320 hours of accredited instruction at the Training Center and 80 hours of instruction annually thereafter. As firemen currently do not receive the same type of training, their definition is being changed to require that their principal duties are engagement in the fighting and extinguishment of fires. This amendment would not affect anyone who is already a KP&F member. The current definition of "policeman and fireman" in the KP&F statutes, includes a person who is "... in support thereof and who is specifically designated, appointed, commissioned or styled as such by the governing body or city manager of the participating employer....". Some employers have certified employees such as secretaries, dispatchers, mechanics and city managers as being either a policeman or fireman and eligible for coverage under KP&F since benefits are substantially higher under KP&F than under KPERS.

House Bill No. 2935 Include in omnibus KPERS bill a provision to ensure that the regular KPERS employer rate would not be lower than employee rate and hold hearing on the omnibus bill provisions.

House Bill No. 2937 Include in omnibus KPERS bill a provision that would provide for purchases of additional benefits by Magistrate Judges and hold hearing on the omnibus bill provisions. This provision would provide that District Magistrate Judges, who elected to become members of the Judges Retirement System in 1994 and who were judges prior to July 1, 1987, upon retirement would have their first ten years of service credit calculated at 5.0 percent of their final average salary. When these Judges initially elected to purchase this service credit, the cost of the purchase assumed the service would be credited at 3.5 percent.

House Bill No. 2938 Include in omnibus KPERS bill a provision that would allow judges to purchase forfeited KPERS and KP&F service and hold hearing on the omnibus bill provisions. The provision would allow purchases of service by payroll deductions to be made by the modified double or triple payroll deduction method. Under current law, this service can only be purchased in a single lump-sum payment.

House Bill No. 2952 Include in omnibus KPERS bill a provision that would increase the earnings limitation after retirement and hold hearing on the omnibus bill provisions. The bill would provide that effective July 1, 1998, the earnings limitation for employment after retirement would be increased to \$14,500 for calendar year 1998, \$15,500 for 1999, \$17,000 in 2000, \$25,000 for 2001 and \$30,000 in 2002 and thereafter. This would coincide with the changes in the social security earnings limitation for those respective years. Under current law, if a KPERS or KP&F retired member returns to employment with the same employer they were employed with prior to retirement, there is an earnings limitation of \$11,280. Once the retired member receives compensation of this amount they must either (1) cease employment so their retirement benefit will continue or (2) continue employment and have their benefit suspended for the balance of the calendar year. There is no earnings limitation if the retired member returns to employment with some other participating employer.

Investment Restrictions Introduce a concurrent resolution to amend the State Constitution and hold hearing on the provision that would allow KPERS to invest funds in banks and other financial institutions.

Final Average Salary Introduce a separate bill on and hold hearing on the provision that would establish the statutory basis for determining the final average salary to be used when computing KPERS retirement benefits for Regents unclassified personnel who presently are covered by a defined contribution plan implemented by the Board of Regents, but who previously had service recognized under KPERS.

Upgrading KP&F Service Include in the omnibus KPERS bill a provision that would allow a participating KP&F employer to reaffiliate for the purpose of bringing employees' past service into coverage under KP&F if the employer had initially affiliated for future service only and hold hearing on the omnibus bill provisions

75-Point Plan Refer to the Joint Committee on Pensions, Investments and Benefits a proposal for placing KPERS public safety officers under an early retirement plan provision that would allow retirement after reaching any combination of age plus service that equaled 75.

EFT Remittances Include in the omnibus KPERS bill a provision to amend current law regarding the timing of employer remittances by electronic funds transfers (EFT) of employee contributions and hold hearing on the omnibus bill provisions

COLA Proposals

House Bill No. 2963 Hold hearing on HB 2963 originally recommended by the Joint Committee on Pensions, Investments and Benefits that would grant KSRS members with 25 or more years of service a monthly benefit increase of \$100. The bill would provide that effective July 1, 1998, anyone who had retired under KSRS prior to January 1, 1971, with at least 25 years would have their monthly benefit increased by \$100. This increase would impact 336 KSRS retirants (as of October 1, 1997) and the additional first year benefits would cost \$403,200 if paid for 12 months to all 336 people. Because this is an older group, the KPERS actuary has indicated there would be a negligible actuarial cost since the mortality rate annually would reduce the size of this closed group.

Automatic COLAs The Subcommittee conclusion was to recommend an automatic COLA rather than an ad hoc COLA, such as the Governor's proposed

one-time 3.0 percent increase in HB 2875. Because the Subcommittee was unable to reach consensus on the components of an automatic COLA, alternative recommendations are presented in the Supplemental Subcommittee Report that is in addition to this Subcommittee Report.



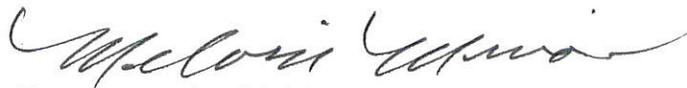
Representative Jo Ann Pottorff, Chairperson



Representative George Dean



Representative Phil Kline



Representative Melvin Minor

SUPPLEMENTAL SUBCOMMITTEE REPORT

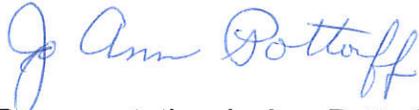
Alternative 1: Modified House Bill 2961

2.0 Percent Automatic Cost of Living Adjustment (COLA). This enhancement was recommended by the Joint Committee on Pensions, Investments and Benefits. All current and future retirees would be granted an annual adjustment, beginning the fifth year after retirement and attainment of at least age 70. The adjustment would be based on a percentage equal to two-thirds of the Consumer Price Index (CPI) and limited to a maximum increase of 2.0 percent in any given year. In order to pay for this proposal, the following provisions are incorporated:

- a. Employer and employee contribution rates for regular KPERS State, School, and Local at least must remain equal in future years but, If required, employer contribution rates may exceed the employee rate. Employer rates for KPERS, KP&F and the Judges' plans must never be allowed to drop below the employee rate in future years.
- b. Employee contribution rates for regular KPERS will need to increase from 4.0 to 5.0 percent over a period of four years. Annual increases of 0.25 percent should be applied to all employee contribution rates. Employer contribution rates for regular KPERS should increase in annual increments concurrent with employee rate increases to maintain a linkage between the employee and employer contribution rates. Other plans administered by KPERS also will have employee increases to help finance the total cost.

Fiscal Note: The increase in the actuarial liability would be shared equally by employers and employees. Each component would constitute \$522.5

million in financing this plan. Total increase in actuarial liability would be \$1.045 billion (see Table 1a and 1b). The projections are based on the assumption that the adjusted CPI will be a constant 2.00 percent over the period.



Representative Jo Ann Pottorff, Chairperson



Representative Phil Kline

Alternative 2: Amended and Modified House Bill 2961

3.0 Percent Automatic Cost of Living Adjustment (COLA). This plan is an enhancement of the one recommended by the Joint Committee on Pensions, Investments and Benefits. All current and future retirees would be granted an annual adjustment, beginning the fifth year after retirement and attainment of at least age 60. The adjustment would be based on a percentage equal to two-thirds of the Consumer Price Index (CPI) and limited to a maximum increase of 3.0 percent in any given year. In order to pay for this proposal, the following provisions are incorporated:

- a. Employer and employee contribution rates for regular KPERS State, School, and Local at least must remain equal in future years, but, if required, employer contribution rates may exceed the employee rate. Employer rates for KPERS, KP&F, and the Judges' plans must never be

allowed to drop below the employee rate in future years.

b. Employee contribution rates for regular KPERS will need to increase from 4.0 to 5.0 percent over a period of four years. Annual increases of 0.25 percent should be applied to all employee contribution rates. Employer contribution rates for regular KPERS should increase in annual increments concurrent with employee rate increases to maintain a linkage between the employee and employer contribution rates. Other plans administered by KPERS also will have employee increases to help finance the total cost.

Fiscal Note: The increase in the actuarial liability would be shared equally by employers and employees. Each component would constitute \$1.15 billion in financing this plan. Total increase in actuarial liability would be ~~\$2.30~~ ^{\$1.15 m} billion (see Table 2a and Table 2b). The projections are based on the assumption that the adjusted CPI will average 2.67 percent over the period.



Representative George Dean



Representative Melvin Minor

2% Automatic COLA to all current and future retirants commencing five years after retirement, but not before age 70

Table 1a: AUTOMATIC COLA ESTIMATES
EMPLOYER

	<u>Increase in Actuarial Liability</u>	<u>Increase in Contribution Rate Year 1</u>	<u>Additional First Year Employer Contribution</u>	<u>Increase in Contribution Rate Year 5</u>	<u>Additional Fifth Year Employer Contribution</u>	<u>Total Additional Employer Contributions Through 2014</u>
KPERS						
State	117,000,000	0.86%	6,540,000	0.89%	7,920,000	201,480,000
School	288,000,000	0.86%	18,040,000	0.89%	21,840,000	555,730,000
Local	-1 73,000,000	1.92%	15,830,000	2.18%	21,030,000	406,430,000
TIAA	2,500,000	0.00%	0	0.13%	660,000	1,580,000
Judges						
Judges	5,000,000	0.00%	0	2.79%	590,000	10,440,000
KP&F						
KP&F-State	4,750,000	0.00%	0	1.39%	510,000	9,510,000
KP&F-Local	32,250,000	0.00%	0	1.39%	3,520,000	65,320,000
Totals	522,500,000		40,410,000		56,070,000	1,250,490,000

(1) Local KPERS first year will be calendar year 1999; fifth year will be 2003. The remaining groups first year will begin in calendar year 1998.

2% Automatic COLA to all current and future retirants commencing five years after retirement, but not before age 70

1-13

**Table 1b: AUTOMATIC COLA ESTIMATES
EMPLOYEE**

	<u>Increase in Actuarial Liability</u>	<u>Increase in Contribution Rate Year 1</u>	<u>Additional First Year Employee Contribution</u>	<u>Increase in Contribution Rate Year 5</u>	<u>Additional Fifth Year Employee Contribution</u>	<u>Total Additional Employee Contributions Through 2014</u>
KPERS						
State	117,000,000	0.25%	1,900,000	1.00%	8,900,000	168,540,000
School	288,000,000	0.25%	5,250,000	1.00%	24,540,000	464,880,000
Local	73,000,000	0.25%	2,060,000	1.00%	9,650,000	167,270,000
TIAA	2,500,000	0.00%	0	0.00%	0	0
Judges						
Judges	5,000,000	0.38%	70,000	1.50%	320,000	6,050,000
KP&F						
KP&F-State	4,750,000	0.44%	140,000	1.75%	650,000	12,220,000
KP&F-Local	32,250,000	0.44%	950,000	1.75%	4,430,000	83,920,000
Totals	522,500,000		10,370,000		48,490,000	902,880,000

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3% Automatic COLA to all current and future retirants commencing five years after retirement, but not before age 60

Table 2a: AUTOMATIC COLA ESTIMATES
EMPLOYER

	<u>Increase in Actuarial Liability</u>	<u>Increase in Contribution Rate Year 1</u>	<u>Additional First Year Employer Contribution</u>	<u>Increase in Contribution Rate Year 5</u>	<u>Additional Fifth Year Employer Contribution</u>	<u>Total Additional Employer Contributions Through 2014</u>
KPERS						
State	239,250,000	0.86%	6,540,000	2.92%	25,980,000	501,830,000
School	585,750,000	0.86%	18,040,000	2.92%	71,670,000	1,384,180,000
Local	-1 146,000,000	1.92%	15,830,000	2.18%	21,030,000	406,430,000
TIAA	4,000,000	0.00%	0	0.20%	1,000,000	4,690,000
Judges						
Judges	8,000,000	3.28%	600,000	4.57%	970,000	19,480,000
KP&F						
KP&F-State	21,376,000	4.84%	1,530,000	6.93%	2,550,000	51,090,000
KP&F-Local	145,624,000	4.84%	10,470,000	6.93%	17,550,000	350,900,000
Totals	1,150,000,000		53,010,000		140,750,000	2,718,600,000

(1) Local KPERS first year will be calendar year 1999; fifth year will be 2003. The remaining groups first year will begin in calendar year 1998.

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3% Automatic COLA to all current and future retirants commencing five years after retirement, but not before age 60

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**Table 2b: AUTOMATIC COLA ESTIMATES
EMPLOYEE**

	<u>Increase in Actuarial Liability</u>	<u>Increase in Contribution Rate Year 1</u>	<u>Additional First Year Employee Contribution</u>	<u>Increase in Contribution Rate Year 5</u>	<u>Additional Fifth Year Employee Contribution</u>	<u>Total Additional Employee Contributions Through 2014</u>
KPERS						
State	239,250,000	0.25%	1,900,000	1.00%	8,900,000	168,540,000
School	585,750,000	0.25%	5,250,000	1.00%	24,540,000	464,880,000
Local	146,000,000	0.25%	2,060,000	1.00%	9,650,000	167,270,000
TIAA	4,000,000	0.00%	0	0.00%	0	0
Judges						
Judges	8,000,000	0.38%	70,000	1.50%	320,000	6,050,000
KP&F						
KP&F-State	21,376,000	0.44%	140,000	1.75%	650,000	12,220,000
KP&F-Local	145,624,000	0.44%	950,000	1.75%	4,430,000	83,920,000
Totals	1,150,000,000		10,370,000		48,490,000	902,880,000

1-15