Approved: March 23, 2011

MINUTES OF THE HOUSE PENSIONS & BENEFITS COMMITTEE

The meeting was called to order by Chairman Mitch Holmes at 9:02 a.m. on March 16, 2011, in Room 142-S of the Capitol.

All members were present.

Committee staff present:
- Gordon Self, Office of the Revisor of Statutes
- David Wiese, Office of the Revisor of Statutes
- Julian Efird, Kansas Legislative Research Department
- Darla Conner, Committee Assistant

Conferees appearing before the Committee:
- Caren Hanson, TIAA-CREF, Senior Director, State Government Relations
- Roderick Crane, TIAA-CREF, Senior Director, Government Market

Others attending:
- See attached list

Caren Hanson, TIAA-CREF, Senior Director, State Government Relations, gave a brief introduction to TIAA-CREF Financial Services.

Roderick Crane, TIAA-CREF, Senior Director, Government Market, (Attachment 1), gave a presentation on: 1) The budget shortfall & public pension funding, 2) Challenges in revising existing DB plans, 3) The Hybrid DB/Dc and Core DC plan models, and 4) Considerations for governments.

Discussion and action on:

HB 2311 - Enacting the Kansas public employees retirement system defined contribution act

David Wiese, Office of the Revisor of Statute, gave an overview of **HB 2311**.

Representative Geraldine Flarharty made a motion to table **HB 2311**. Seconded by Representative Louis Ruiz. The motion carried.

The meeting was adjourned at 10:07 a.m.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

HOUSE PENSIONS & BENEFITS COMMITTEE GUEST LIST
DATE: March 16, 2011

NAME	REPRESENTING
Mark Birdsall	KID
Nicole Proulx Aiken	LKM
Ernie Claudel	KCPR
Ron Gardner	KCPR
Sandy Braden	GBA
John Faber	PEAK
Nancy Tudor	PEAK
Brian Thompson	PEAK
Edmond LeBoeuf	KDOT
Connie Richardson	KCPR
Jim Richardson	KCPR
Linda Hubbard	KCPR
Beverly Ring	KCPR
Cheryl Wilcox	KCPR
Pat Cooper	KCPR
Ed Klumpp	KACP/KSA/KPOA
Mindy Brissey	AFT- Kansas

HOUSE PENSIONS & BENEFITS COMMITTEE GUEST LIST
DATE: March 16, 2011

NAME	REPRESENTING
Lisa Ochs	AFT-Kansas
Scott Pittman	UTW - 725
Rebecca Proctor	AFT Kansas
Lauren Proctor	AFT Kansas
Ed Lubbers	KDOT
DAVID & RITA FISH	AFT KANSAS LOCAL 6406
DEAN W. DIEDIKER	AFT Kansas Local 6406
Cylus Scarbrough	AFT Kansas 6406
Sterling Brown	AFT Kansas State Fed
Kisha Steinger	AFT-Kansas
Jack Wyatt	AFT
Chris Fontenot	AFT #6400
Jim Ullmer	AFT 6400 Manhattan

House Pensions & Benefits
Date: 3/16/2011
Attachment # 1

SERVING THE GOVERNMENT MARKET

A TIAA-CREF RETIREMENT PLAN PRESENTATION TO:

KANSAS STATE LEGISLATURE
HOUSE PENSION & BENEFITS COMMITTEE

MARCH 16, 2011

TIAA CREF
Financial Services

GETTING STARTED

ATTENDEES

Roderick B. Crane
Senior Director, Government Market
TIAA-CREF

Caren Hanson
Senior Director, State Government Relations
TIAA-CREF

TODAY'S DISCUSSION

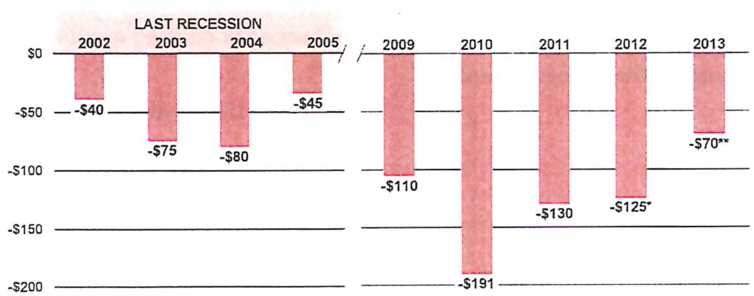
- Introductions
- The budget shortfall & public pension funding
- Challenges in revising existing DB plans
- The Hybrid DB/DC and Core DC plan models
- Considerations for governments

WITH LOWER REVENUES, STATE AND LOCAL GOVERNMENTS FACE BUDGET SHORTFALLS

States continue to struggle to find revenue to cover critical services, an issue that will likely continue beyond 2012.

LARGEST STATE BUDGET SHORTFALLS ON RECORD

Total state budget shortfall in each fiscal year, in billions



* Report to date.

** Preliminary

Source: Center on Budget and Policy Priorities, "States Continue to Feel Recession's Impact", February 2011.

COST OF PUBLIC PENSION FUNDING IS INCREASING

Several factors are contributing to the increase of public pension funding expenses:

- With returns lower than expected, market losses are driving up costs
- Delayed funding has not been made up by market returns
- Unfunded benefit increases have not been offset by budget increases
- Pension benefit abuses have a negative impact (i.e.: double-dipping)

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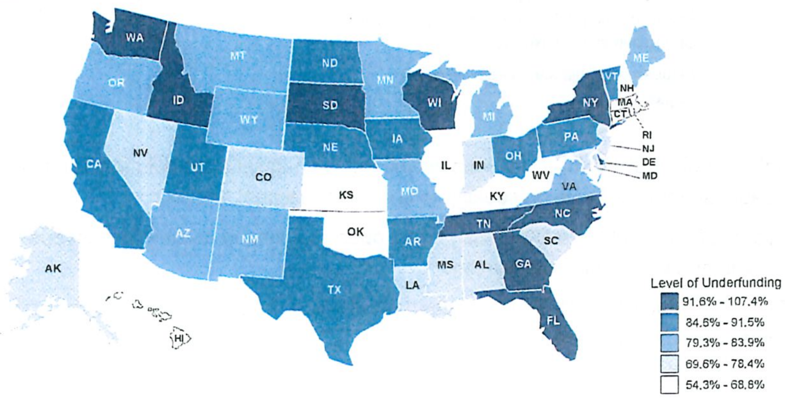
PENSION PAIN EXTENDS ACROSS THE NATION

Pension funding shortfalls are common across the U.S., with many states and local governments behind in funding.



Note. 2008 data for all states, except Ohio, which are 2007.
Source: The Trillion Dollar Gap, Pew Center on the States.

CHALLENGES WITH REVISING EXISTING DB PLANS

There are numerous challenges that prevent states from fully addressing the issues associated with traditional DB plans.

- Stakeholder resistance
- Limited financial resources
- Pension liabilities that are large relative to tax revenue base
- Transition costs
- Uncertainty about funding rate risk
- Vigorous debate over pension investment return assumptions

WHAT STATE GOVERNMENTS ARE DOING TO ADDRESS THE DB PLAN ISSUES

REDUCING BENEFITS FOR NEW HIRES:	INCREASING EMPLOYEE CONTRIBUTIONS:	DELAYING FUNDING:	IMPLEMENTING DC OR HYBRID DB/DC PLANS:
Arizona California, Pennsylvania Virginia	Colorado Florida Iowa Minnesota Mississippi Missouri Vermont	New Jersey New Mexico Pennsylvania Virginia Wyoming	Michigan Utah

Source: National Conference of State Legislators, 2010 Pension and Retirement Plan Enactments in State Legislatures.

HYBRID DB/DC AND CORE DC PLANS OFFER TWO OPTIONS FOR MANAGING PENSION FUNDING RISKS

HYBRID DB/DC PLAN	CORE DC PLAN
▪ Features a reduced DB benefit with a new risk-managed DC component, so that the two plans exist side-by-side ▪ Reduces sole reliance on traditional DB plans	▪ Eliminates sole reliance on traditional DB plans

- Unlike traditional 401(k)-style plans, which focus on asset accumulation, both of these plan models focus on seeking to provide retirement security
- Hybrid DB/DC and Core DC plans can be open to new and existing employees, depending on local state regulations
- Both plan structures help provide government plan sponsors with more predictable costs and outcomes

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HOW CONTRIBUTIONS INTO A HYBRID DB/DC PLAN ARE STRUCTURED

When the DB and DC plans work in tandem, it can increase the probability that employee retirement income needs can be met to and through retirement.

DC PLAN CONTRIBUTION RATE REQUIRED TO ACHIEVE AN 85% REPLACEMENT RATIO

ENTRY SALARY	DB FORMULA	SOCIAL SECURITY REPLACEMENT RATIO	REQUIRED DC RATE WITH SOCIAL SECURITY	REQUIRED DC RATE WITHOUT SOCIAL SECURITY
$40,000	1.5%	31.7%	0.2%	9.8%
$60,000	1.5%	26.6%	1.8%	9.8%
$80,000	1.5%	22.6%	3.0%	9.8%
$40,000	1.0%	31.7%	5.5%	15.0%
$60,000	1.0%	26.6%	7.0%	15.0%
$80,000	1.0%	22.6%	8.2%	15.0%

DC PLAN CONTRIBUTION RATE REQUIRED TO ACHIEVE AN 75% REPLACEMENT RATIO

ENTRY SALARY	DB FORMULA	SOCIAL SECURITY REPLACEMENT RATIO	REQUIRED DC RATE WITH SOCIAL SECURITY	REQUIRED DC RATE WITHOUT SOCIAL SECURITY
$40,000	1.5%	31.7%	0.0%	6.8%
$60,000	1.5%	26.6%	0.0%	6.8%
$80,000	1.5%	22.6%	0.0%	6.8%
$40,000	1.0%	31.7%	2.5%	12.1%
$60,000	1.0%	26.6%	4.1%	12.1%
$80,000	1.0%	22.6%	5.3%	12.1%

Assumptions:
Entry Age is 30, Retirement Age is 65 ; Salary Increase is 4%; DB benefit replacement ratio is equal to formula times 35 years of service, Interest Rate is 6%; DC accumulation is used to purchase a Single Life Annuity w/10 years guaranteed; Annuity purchase rate based on 4% interest and current TIAA mortality; Social Security benefits based on current benefit formula, and 3% inflation
The above scenarios are based on hypothetical assumptions and are not intended to represent the performance of any specific investment product. They cannot be used to predict or project investment company performance.

RISK-MANAGED DC STRUCTURE

The objective of a risk-managed program is to provide employees with the means to build sufficient savings through plan rules and the investment structure of the plan.

Ensuring participation in the plan:

- Mandatory enrollment through automatic enrollment
- Lower or no age restrictions on participation

Helping employees manage risk and maintain a long-term view:

- A limited low cost investment menu with a maximum of 15 to 20 preselected options
- Automatic asset allocation vehicles such as lifecycle funds
- Individual investment advice to educate participants

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GOVERNMENT CONSIDERATIONS WHEN DESIGNING A NEW PLAN

Budgetary Predictability

- Identify which structure – Hybrid DB/DC or Core DC – is most appropriate for the government's objectives

Employee Eligibility

- Depending on the specific state or local government's legal environment, the DC plan would be open only to new employees, or to both new employees and select existing participants

Employee Participation

- Plan sponsors can establish features such as automatic enrollment and a limited investment menu that will help enhance participation and the adequacy of contributions.

MOVING FORWARD: NEXT STEPS FOR GOVERNMENTS

1. **Evaluate the Hybrid DB/DC and Core DC plan options**
2. **Review the contribution implications of a Hybrid DB/DC or Core DC plan for the government**
3. **Contact TIAA-CREF to answer any questions or for additional information**

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IMPORTANT INFORMATION

TIAA-CREF Individual & Institutional Services, LLC and Teachers Personal Investors Services, Inc., members FINRA, distribute securities products. Annuity contracts and certificates are issued by Teachers Insurance and Annuity Association (TIAA) and College Retirement Equities Fund (CREF), New York, NY.

TIAA-CREF products may be subject to market and other risk factors. See the applicable product literature, or visit **tiaa-cref.org** for details. Investment products are not FDIC insured, may lose value and are not bank guaranteed.

You should consider the investment objectives, risks, charges and expenses carefully before investing. Go to tiaa-cref.org for a prospectus that contains this and other information. Please read the prospectus carefully before investing.

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