



PERFORMANCE AUDIT REPORT

Reviewing Benefits Provided by the Kansas Public Employees Retirement System

A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
December 2000



Legislative Post Audit Committee

Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$8 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the Representatives, three are appointed by the Speaker of the House and two are appointed by the Minority Leader.

Audits are performed at the direction of the Legislative Post Audit Committee. Legisla-

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EXECUTIVE SUMMARY
LEGISLATIVE DIVISION OF POST AUDIT
Kansas Public Employees Retirement System

Question 1: How Does the Kansas Public Employees Retirement System Plan to Implement its Investment Responsibilities for Tobacco Settlement Moneys, Unclaimed Property Receipts, and Other Funds, and Is That Likely To Excessively Dilute the System's Attention to Its Investment Responsibility for Retirement Moneys?

The legal issues of diverting Retirement System officers and trustees from Retirement System duties need to be considered.page 6
In addition to retirement moneys, the Retirement System also is now responsible for investment of other moneys. Applicable legal requirements restrict the use of retirement moneys to paying benefits and reasonable costs of administering the retirement moneys. Those requirements prohibit the use of retirement moneys for other purposes. When the Retirement System was made responsible for investment of non-retirement moneys, it was allowed to charge fees to cover the related costs. However, the System hasn't been given the authority to spend those moneys. As a result, the cost of investing the non-retirement moneys is being paid by retirement moneys.

The decision to assign additional duties to the Retirement System raises many practical issues as well.page 7
Those issues are finding additional resources to meet the new responsibilities, matching investment strategies with the new responsibilities, arranging for separate investment management in some cases, coordinating information with new agencies, adjusting required reports, and developing systems and procedures.

The Retirement System is one of only a few retirement systems that invest non-retirement moneys.page 10
Of other state retirement systems contacted:

- ! 5 invest only retirement moneys*
- ! 5 don't even invest retirement moneys (that was done by a central investing agency)*
- ! only Virginia also invests non-retirement moneys (related costs are charged to the non-retirement moneys)*

Question 2: How Does Kansas' Retirement and Related Benefits Compare to Those of Selected Other States?

The Retirement System's cash benefits generally compared favorably with other states, but cost-of-living adjustments (COLA's) were somewhat less generous than many other states provide.page 13
For a hypothetical new retiree, Kansas ranked 3rd of 7 in a comparison group of other states' retirement plans. For a hypothetical retiree after 10 years,

Kansas ranked 5th of 6, showing less generous cost-of-living adjustments. Health insurance premium support has an impact on the comparison, as well as the frequency of cost-of-living adjustments. Kansas provides no financial support for health insurance and less frequent cost-of-living adjustments than the comparison group. Kansas generally offered the same types of additional benefits as other states.

The Retirement System's non-cash benefits generally compared favorably with other states. Like Kansas, all or almost all 9 states in this comparison group pay for long-term or short-term disability benefits, provide some type of lump sum death benefit for active members, and have some form of death benefits for retired members.page 15

Employee contribution rates in Kansas were about average, but employer rates were among the lowest. Kansas' employee contribution rate (4%) ranked 5th of 9 when grouped with other states contacted. The average for the group was 4.14%. Kansas' employer contribution rate (3.99%) ranked 9th of 9 when grouped with the other states. The average for the group was 7.49%.page 17

The Retirement System was not as well funded as many of the other state retirement systems. Kansas' percentage of current and future benefits funded (86%) ranked 7th when grouped with other states contacted. The average for that group was 94.6%. Kansas' ranking can be attributed in part to its relatively low employer contribution rate.page 17

Compared with other states, Kansas requires its employees to be members of the Retirement System a relatively long time before becoming vested. Kansas was the only state in the comparison group of 11 states that requires a 10-year vesting period. Most (8) of the other states require 5 years or less.page 18

**Appendix A: Benefits Offered by Selected
Midwestern State Retirement Systems**page 19

Appendix B: Agency Responsepage 22

This audit was conducted by Berberich Trahan & Co., an audit firm under contract with the Legislative Division of Post Audit. If you need any additional information about the audit's findings, please contact Randy Tongier at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us.