AMERICANS *for* TAX REFORM

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March 13, 2025

To: Members of the Kansas Senate Committee on Financial Institutions and Insurance
From: Americans for Tax Reform
Re: **Support Conservative Pension Reform in SB 282**

Dear Senator,

On behalf of Americans for Tax Reform and our supporters across Kansas, I urge you to lend your support to Senate Bill 282, legislation that would make Kansas the next state to abandon the failed Defined Benefit (DB) pension structure for public employees in favor of a modernized, 401(k)-style Defined Contribution (DC) plan known as KRISP. **This crucial reform would strengthen the Kansas retirement system's long term financial outlook, eliminate taxpayer risks, give employees greater control over their retirement strategy, and bring the state into alignment with the private sector where DC-style plans continue to soar in popularity.**

The most obvious advantage of DC plans for workers is portability. Since state contributions are paid directly into individual accounts for each worker, it is easy to allow workers to take their accumulated funds with them when they change jobs. As a result, workers get to keep the full past contributions made on their behalf and their full accrued benefits. In a defined benefit plan, by contrast, the contributions for each worker are in a common pool where each worker's share is not separately identified. The state should make every effort to give its employees the liberty to take their dollars elsewhere without penalty when they so choose.

By keeping costs down, SB 282 looks out for Kansas taxpayers as well as government employees. Unfunded liabilities in states with over-generous DB pension plans are notorious and can easily lead to a downgrade in the credit rating for a state. That's because the government manages investment pools in which the taxpayer bears the complete risk of poor investment performance; if the returns aren't enough to pay the promised defined benefits, taxpayers are on the hook to make up the difference.

By contrast, under a DC plan like KRISP, the taxpayers simply make a specific contribution to the accounts of the workers each month. **The government is not then liable for the investment performance of the funds. Workers' benefits equal whatever the accumulated funds can finance.** Taxpayers are consequently not subject to any risk of poor investment performance, while workers remain adequately compensated by the state.

Meanwhile, since there is no limit on the benefits workers can receive in a DC program like KRISP, employees could easily begin to outperform their peers who choose to remain in the old DB system. Those managing the common investment pool for a DB plan are investing only to finance the targeted benefit levels, meaning that the managers will not invest more aggressively to achieve higher benefits, even when that can be done safely. By contrast, even a simple index fund like the S&P crushes most, if not all government retirement plan returns, and workers would not even need to develop a savvy investment strategy in order to reap the benefits.

Aside from the benefits to government employees and taxpayers, moving Kansas to a DC plan eliminates numerous political risks that naturally come with any gigantic pot of money controlled by politicians. For example, political favoritism may influence investment policy under a DB plan, prohibiting some investments and forcing the fund into others. **Worse yet, with the government specifying benefits far in the future, there is always a strong danger of political giveaways by short-sighted politicians who can promise higher retirement benefits they know they can't fulfill, while leaving future officials and taxpayers to deal with the fallout years down the road.**

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Under a plan like KRISP, where the government does not specify future benefits but only makes regular investment contributions, this risk is eliminated.

Above all, KRISP liberates state employees to plan their retirement as they see fit. With the freedom to choose from virtually unlimited investment strategies depending on their personal risk tolerance, state workers would gain a new degree of control over lives, now and in the long run. **<u>That embrace of personal liberty alone ought to make SB 282 a bill worth supporting.</u>**

Pension liberation through a shift to Defined Contribution plans is on the forefront of conservative policy reform nationwide. **For the reasons outlined above, I urge you to support SB 282 and prioritize its passage before the end of session.**

Sincerely,

Grover G. Norquist
President
Americans for Tax Reform