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National Tax-Deferred Savings Association

Opposition testimony to Kansas Senate Bill 282

From the National Tax Deferred Savings Association

Financial Institutions & Insurance Committee Hearing, March 13, 2025

Thank you, Chair Dietrich, and Members of the Committee.

My name is Nate Glassey from the National Tax Deferred Savings Association or the NTSA. We represent over 6,000 retirement professionals who work daily with teachers and public school employees across the country to help them secure a financially stable retirement. I am here to testify in opposition to Senate Bill Number 282, specifically with regard to its impact on the retirement readiness of public school educators in the state.

Although well intentioned, this bill has unintended consequences that would have an adverse effect on those who work within the public school system in the state of Kansas. We are most concerned with the following areas given the way the bill is currently written. Senate Bill 282 would:

- create an auto-enroll option without the necessary education and support from local advisors;
- effectively eliminate educator choice as to where educators place their supplemental retirement assets;
- remove educators' access to a trusted advisor of their choice for their supplemental retirement plan assets.

Our goal today is to find opportunities for collaboration between the proposed changes to the State's defined benefit plan and the services of those who provide advisor support for supplemental retirement plans. This kind of collaboration will create the best opportunity for retirement readiness for public school employees across the State. When we talk about retirement readiness, we cannot ignore the role professional advisors play in ensuring educators understand how to <u>supplement</u> their state sponsored plan with 403(b) and 457(b) plans.

Although there are many other concerns with Senate Bill 282, for this hearing, I would like to focus on the three topics just mentioned – auto enroll, choice and access to a trusted advisor.

Senate Bill 282 creates an auto-enroll option without the necessary education and support from local advisors

Auto-enroll has been a game-changer in the 401(k) industry. The adoption, and even mandate, of this plan provision has created an opportunity to prepare many more Americans for retirement as they work to begin the savings process in preparation for a secure retirement. The American Retirement Association, based in Washington D.C. and of which the NTSA is a member organization, works across the country to ensure that every working American has access to a workplace retirement program, so they have the best opportunity possible to save for retirement.

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With that said, and with auto-enroll taking on such a huge role for retirement preparation in the private sector, many states have looked at adding an auto-enroll option to their school district retirement programs. On the surface, auto-enroll has a lot of merit and we would like to support such an endeavor, but it is vital that the necessary education and support exists for those who are auto-enrolled or given this option.

The reason this becomes an issue is that most everyone who works for the public school system is already auto enrolled in the state plan (KPERS). In Kansas, participants are mandatorily auto enrolled into the state plan at 6% with a guaranteed 4% return on this contribution. The new proposal in SB 282 would continue with that 6% mandatory contribution with a 4% match, effectively shifting the responsibility of choice of funds from the employer to the participant. I would like to focus on the fact that if Senate Bill 282 were to pass, not only would the participants be mandatorily auto-enrolled into the state sponsored plan at 6%, but they would also be auto-enrolled into the single-provider supplemental 457(b) plan at another 1% with that percentage auto-escalating up to 10% after 10 years of service. By year 10, a participant will be contributing 16% of their salary to the state sponsored program. With such a large portion of salary going to these two savings vehicles via auto-enrollment and auto-escalation, participants will be disincentivized to take full control of their own personal plan for retirement or participate in a supplemental 403(b) plan. They will be lulled into a false sense of security believing everything is in order, yet without the support of an advisor to help them see what, if anything, is missing in their personal plan for retirement.

While on the surface, this seems like a great opportunity to help participants prepare for retirement, the unintended consequence of this auto-enroll program would be that a participant is now enrolled in a single-provider 457(b) plan that does not have the advisor power to educate <u>100% of the participants</u> on what these contributions will do for them as they prepare for retirement. The assets will be there, but will participants have the best opportunity according to their personal situation? Retirement planning, especially in our public-school systems, is not a one-size fits all prospect. The nuances in the retirement system require the support of a trusted advisor who has knowledge of all aspects of the available retirement systems within the state.

<u>Senate Bill 282 effectively eliminates educator choice as to where participants place their supplemental retirement assets</u>

Under the bill as written, KRISP will offer a single-provider section 457(b) plan for all employees of the participating employers in the state including public school teachers. Under the current structure, public school educators also have access to multiple-provider 403(b) plans, in addition to other offerings. Under SB 282, although the 403(b) plan options will still be available for educators, participants will be incentivized through the match and auto-enroll offered through the supplemental 457(b) for the reasons just discussed and thus will only choose the single-provider 457(b) plan, again with no opportunity for access to a trusted advisor.

Based on 2020 data collected by NTSA, the average number of vendors that provide a custodial agreement or annuity contract in a typical 403(b) plan is six. This means educators participating

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in a supplemental 403(b) plan have access to a variety of different options as to where and how to build additional retirement savings — and points to the value of working with a financial advisor in helping them make choices best suited to serve their wants and needs in developing a supplemental savings plan beyond the foundation of the state defined benefit plan. This choice of vendors, coupled with the ability to work one on one with a financial advisor, is essential to making informed choices that instill confidence — and, in addition to the distinctions noted above, represent a real difference in how K-12 supplemental 403(b) plans operate.

Indeed, data also suggests that fewer educators participate in 403(b) plans when the number of available investment providers and commensurate access to trusted advisor resources is limited. Said another way, when public school educators and staff no longer have access to the option(s) in which they choose to save and the professional assistance of their trusted advisor, they stop saving, and/or save less. For example, in 2009, Iowa transitioned from the traditional competitive, open 403(b) marketplace model to a narrow set of five low cost only and as a result, advisorless, options — only to subsequently see participation rates in the program plummet dramatically. In fact, some counties in that system suffered enrollment reductions of up to 50%. As a result of those dismal results, Iowa subsequently expanded the number of investment choices to a variety of 30 approved companies and their participation rate increased dramatically.

Highlighting these challenges, a 2017 study done by the Public School Employee's Retirement System Board (PSERB) under PSERB Resolution 2017-43 in Pennsylvania, demonstrated that the range of 403(b) plan and 457(b) participation rates in America's public school districts is dramatic, suggesting that the investment and provider choices that each school district makes available, as well as the resources they provide to help educators understand the benefits of participation, are key differences in driving participation rates. That survey further revealed that participation rates for the 636 public schools surveyed ranged from approximately 56% to more than 75%. In situations where the 403(b) is not a supplemental plan (for example where the educators may be exempt from the state educators' pension) there is 100% participation, since the educator and the employer provide mandatory contributions to the 403(b) plan.

Although SB 282 does not eliminate educators' access to the plans of their choice, it effectively will have that same result by placing the majority of educators' contributions into the single-provider 457(b) plan. While Kansas may not see such a significant decrease in participation due to the auto-enroll nature of the bill, the effects of disengagement and the lack of support from a trusted advisor will still result in much the same scenario as in the examples just described.

Senate Bill 282 removes educators' access to a trusted advisor of their choice for their supplemental retirement plan assets

If educators no longer effectively have access to multiple provider 403(b) plans, they may also lose access to the trusted advisors that come with those plans. Continuing education for

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educators, coupled with access to a trusted advisor, not only helps increase participation rates, it also serves to help build teacher retirement account balances.

The education and assistance from an advisor supports educators from early in their career through retirement. Coupled with their state sponsored retirement plan, a supplemental plan with a choice of options and access to a financial advisor can help educators overcome the many factors that often impede saving for retirement, such as low salaries, significant student loan debt and lack of financial education.

Objective data supports the conclusion that educators in the K-12 market are saving more for retirement today than their counterparts in corporate America. Moreover, through access to a robust set of options, the freedom to exercise choice, and guidance through personalized and individualized connections with advisors, today's educators are supplementing retirement assets which otherwise might fall short of needs and expectations. Financial education as well as access to trained professional advisors provides the right mix to support informed choice and expanded plan participation. The ability for each teacher to choose from a variety of vendors and advisors to best fulfill their personal retirement savings positions these supplemental retirement programs in the right place — and at the right time — to enhance retirement security for one of our nation's most valuable resources — the public school teacher and staff.

Advisors work one-on-one with educators to provide deeper and personalized training to ensure they understand how much they need to save, what options exist, and how to create a secure financial future. We need educators to be actively involved in their financial planning—not just passively enrolled in a one-size-fits-all plan they don't understand. The current system allows educators to keep their existing advisors and investments through a supplemental 403(b) plan. If advisors are effectively forced out from providing that support, educators will lose their trusted advisors and be left to navigate complex financial decisions on their own.

Kansas must maintain a multi-vendor, advisor-accessible system that allows educators to pick the best plan for their needs. Let's focus on providing educators with real financial literacy with deeper and personalized guidance. Kansas educators deserve a secure retirement. They need more than just the state sponsored program. They need the ability to choose their supplemental savings plan and access to financial advisors who can help them plan for the future.

In summary, Senate Bill 282 is well intentioned, but includes too many unintended consequences that will be harmful to public school staff across the state. I would love the opportunity to discuss options that exist to help improve the bill to encourage participation through education, as well as by a contribution match to all supplemental retirement plans 403(b) and 457(b) alike.

Please feel free to contact me for more information and support on how we can work together to provide the best possible opportunity for public school staff to prepare for a strong and secure retirement. Thank you.