

Standing House Committee on Pensions and Benefits and HB2545
Testimony by the Kansas Coalition of Public Retirees
Mr. Ernie Claudel, Vice-Chair
February 13, 2012

Mr. Chairman and members of the House Committee on Pensions and Benefits, thank you for allowing me to appear today and comment regarding HB2545 in its current form. My name is Ernie Claudel, and I represent the Kansas Coalition of Public Retirees, KCPR.

Members of our Coalition represent a total of 39 employee organizations of KPERS retirees. Our group consists of retirees from all levels of State, County, and Municipal Government. The Coalition occupations include retired firefighters, police, municipal safety workers, judges, school personnel, professional and clerical workers. In recent months we have closely followed KPERS developments including formation of the KPERS Study Commission. Members of our Coalition attended all sessions of the Study Commission, and we have carefully reviewed the Study Commission recommendations and accompanying Minority report.

Why we have concerns about the future of KPERS

1. Retirees are part owners in the KPERS Trust Fund because we have contributed to it over time as a group. We have done everything asked of us contributions wise as well as meet the established retirement criteria.
2. We also find ourselves in support of the "working" and the "not yet hired." The employed are at work while we are here and the "not yet hired" have no voice. The currently employed do not have the experience with living in retirement that we have. Because we are for the most part from the "helping professions" we know that someday they will be "one of us" and we have concern for their future as well.
3. We have concern that little or no consideration has been voiced in regard to the direct impact on KPERS employees or on the impact of KPERS benefits on the Kansas economy. KPERS tells us that our retirement benefits contribute \$77,124,754.00 to the Kansas economy monthly. We have endured a 4% compounded loss of buying power annually. Anyone retiring in 1998 is currently living on 1998 dollars. The buying power of \$100 in 1998 has been reduced to approximately \$66.00. If one was to live in retirement for 30 years, the \$100 would be roughly equal to \$23.00. This is of great concern when we anticipate that the retirement benefit under the new program will be less than present KPERS benefits.
4. An overriding concern voiced by the KPERS Commission was that there once was a viable plan in place that was not properly funded. Our desire is to have some guarantees regarding future funding.
5. If HB2545 is adopted it will represent a shift of retirement investment risk to the shoulders of the retired.
6. Many of our contacts additionally have concerns about the future attraction to Kansas of a viable public workforce.

Unfunded Actuarial Liability, UAL.

According to KPERS Commission Testimony, resolving the UAL is of prime importance. The failure to aggressively address this challenge could certainly lead to a catastrophic conclusion, a conclusion that, without question, would adversely affect the already hired and retired. The concept that is present in investment is the "time value of money." If the maximum amount of money is not in the KPERS Trust fund, the

excellent job that KPERS does with investments is not only considerably hampered, but valuable time and money are wasted. We are further aware that investment income is one of the primary sources of income for the KPERS Trust Fund. An additional strength found in the KPERS system is the extremely reasonable investment costs. The additional administration costs which would be incurred by the proposed system would almost certainly be borne by the employee. This would necessitate the employee paying for service presently provided to them at no cost.

Increased Costs of HB2545.

It is our understanding that freezing the present system and initiating an additional system as proposed in HB2545 will cost as much as \$10.9 Billion over time. When we listen to committee discussions and the questioning of conferees, the close questioning regarding cost always arises. That being the case, why would a more expensive plan even be given consideration? Lacking a better solution, we believe that HB2194 is superior and certainly less costly than HB2545.

Fairness Issues.

"The Commission recommended standardizing all State retirement plans, including the Regents plan and making State tax treatment consistent for different State retirement plans." If HB2545 passes the Kansas Legislature this year, the following scenario will exist: A custodian beginning work at one of our State universities on July 1, 2013, or after, will receive for the first year 1% state contribution for his/her retirement while a professor at the same university on the same day will receive 8.5% contribution of his/her salary into a retirement account immediately. This same custodian will have to wait eight full years before receiving a full 5% payment from the State into his retirement account (1/2 % annual increase state contribution until it reaches 5%). At the same time, said custodian will be required to contribute 6% of his monthly paycheck while the professor will be required to pay in only 5.5% to receive his/her 8.5% State contribution. Is this not discrimination?

Other States Actions.

Because of the complexities and expense of changing systems, far fewer changes have been made in State retirement programs than one might surmise from the rhetoric. A State we believe deserves mention is West Virginia. The history of what happened is an example of the unintended consequences we fear with the new system proposed in HB2545. In 1991, West Virginia went from DB to DC and are now back to DB. After 17 years the average account balance was only \$33,944. But the primary reason was not the low balance; it was the fact that the UAL was not being addressed at a satisfactory rate in the eyes of their legislature.

Conclusions and Recommendations.

We urge this Committee to support HB2194 and allow the system to work. The bottom line is that we feel that HB2545 costs more, produces less benefit and we don't believe it adequately addresses the UAL. Mr. Chairman, thank you for the opportunity to appear today and provide these comments.

Ernie Claudel
Vice Chair, KCPR
www.ksretirees.net
eclaudel1@comcast.net
913-481-6923