

House Pensions and Benefits Committee
Public Comments
Cash Balance Plan Proposal
Comments presented by:
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Members of the Committee:

Thank you for the opportunity to present comments again on the subject of retirement plans for public employees. As you may recall from my testimony earlier this year, Security Benefit Life Insurance Company provides supplemental defined contribution plans to the education employees in Kansas.

Today, my focus is reminding all of us that the most important issue in the whole debate regarding public employee retirement plans is to create an environment that gives all public employees the best chance to have a secure and comfortable retirement. To do this, all state employees need to supplement the state sponsored retirement programs with personal savings / investments, like education employees currently do in the 403(b) products offered by our company. This is true for Tier 1 and Tier 2 employees in the KPERS system and it is most certainly true for those employees that will be part of Tier 3. You have heard this message often from KPERS in discussions about the three legged stool—social security, state pension and personal savings. All three are necessary for an adequate retirement income for public employees in the State of Kansas. This was especially evident in Pat Beckham's testimony last week to the this Committee regarding the income replacement ratios the cash balance plan produced for 20, 30, and even 40 year employees, which served as an important reminder that investing supplementally and doing so early in one's career in order to take advantage of the power of compounding is the best way for public employees to have the retirement they desire and deserve – a defined benefit plan alone is not enough.

A cash balance plan could potentially show employees a statement with an increasing cash balance in their hypothetical account. This could be misleading and in our opinion would not be conducive to incenting them to invest / save supplemental to the plan. What is really important from a retirement perspective is for the employees to understand how this cash balance translates into income upon retirement. Another potential important item for employees to see is the income replacement ratio which shows them how the annual income from the cash balance plan will compare to their salary. Attached to this testimony is proposed bill language establishing what the employees should be told about the value of their account in order to be fair and clear about what the cash balance plan results in for their retirement income.

This proposal adopts best practices for disclosures to the participants. Full transparency is always a good practice and the proposed disclosures will reinforce the need for personal savings and help employees plan for retirement.

Our proposals here are similar to disclosures seen elsewhere. The social security statement sent out each year includes the anticipated monthly benefit. KPERS currently has an electronic calculator available for employees to use in calculating potential monthly retirement benefits. This proposal would continue that practice. Disclosing the anticipated percentage of income replacement provides the employees a better understanding of the relative amount of retirement income they will receive from the plan.

To increase employee understanding of the retirement plan these proposed disclosures should be made in the account statements and plan document summaries provided to employees. Clear reminders about the need to save is a valuable tool for educating employees and encouraging retirement planning.

Thank you for allowing me to speak to you today regarding best practices for public employee retirement readiness.

- (A) All electronic and written account statements provided to the members, or accessible to the members through electronic account access, shall include:
 - a. The hypothetical/notional account balance;
 - b. The anticipated monthly benefit from the account based on a retirement age of 65; and
 - c. The anticipated percentage of income replacement provided by the plan based upon a retirement age of 65.
- (B) All electronic and written account statements provided to the members, or accessible to the members through electronic account access, shall clearly state that additional personal savings in programs like a 403(b) plan or a 457 plan will likely be necessary to insure adequate retirement savings and to address cost of living increases.
- (C) KPERS shall develop and make available to all members an electronic benefits estimate calculator for the cash balance plan.