Coalition for Keeping the Kansas Promise
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KEEPING THE KANSAS PROMISE

Testimony in Opposition to SB 338
Ron Brown, Fraternal Order of Police
On Behalf of the Coalition for Keeping the Kansas Promise

Chairman Morris & Members of the Senate Select Committee on KPERS:

My name is Ron Brown and I appreciate the opportunity to provide testimony today in opposition to SB 338 on behalf of the Coalition for Keeping the Kansas Promise.

As the committee is well aware, the KPERS Study Commission was established under Senate Substitute for HB 2194 to study and review the current KPERS system, potential plan alternatives AND the unfunded actuarial liability (UAL). The charge given to the Commission was to develop a viable plan to insure the long-term sustainability of the system. The attempt to satisfy the charge of the Commission is before you today in the form of SB 338.

Like those members of the Study Commission who signed the Commission's Minority Report, the Coalition for Keeping the Kansas Promise does not feel the Study Commission's recommendations represented in SB 338 address its basic charge. In fact, the Coalition feels SB 338 should be rejected on the basis that it fails to meet the Commission's charge on three fundamental levels. First, SB 338 fails to address the UAL. Second, it costs more than the current plan laid out in HB 2194. Third, it will not provide future KPERS members with an adequate retirement benefit.

SB 338 Fails to Address the Unfunded Actuarial Liability (UAL)

The issue of addressing the existing UAL is perhaps the single most important reason why the Legislature is considering modifications to the KPERS system. We all know the UAL numbers and that is why developing a plan to address the UAL was supposed to be front and center in terms of items to be addressed by the Study Commission. Unfortunately, the Study Commission plan/SB 338 contains no components designed to address or reduce the UAL. Therefore, adopting SB 338, which does nothing to address the UAL. The Legislature would be far better off simply rejecting SB 338 and allow for the mechanism developed in HB 2194 to be triggered and actually start addressing the UAL.

SB 338 comes with staggering costs Kansas taxpayers simply cannot afford

KPERS Plan Actuary Pat Beckham presented projections regarding the costs of SB 338 on January 24, 2012. Ms. Beckham's presentation stated the cost of the plan laid out in HB 2194 for addressing the UAL as $22.14 Billion (for years 2012 through 2060). The cost of SB 338 is $33.04 Billion (for years 2012 through 2060). This a $10.9 Billion difference, and that is without including any potential start-up or maintenance costs for the 403(b) component also found in the bill.

Even if calculated using today's dollar value, the plan will still cost the state over $1 Billion more. Under 2194, the State's cost to fund the pension system will drop to 1% or less. However, under the proposed defined contribution plan the State's obligation would remain at 4 to 5 percent.

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Finally, KPERS administrative costs are $44 per member. By contrast, information provided to the Commission by the State of Nebraska showed administrative costs for defined contribution plans reaching $92 per member. More than double the current KPERS cost.

There is simply no reason to adopt a plan that saddles Kansas taxpayers with this kind of cost.

SB 338 will not provide future KPERS members with an adequate retirement benefit

Kansas has the benefit of turning to real world examples and experiences and learning from the mistakes of others. While in theory defined contribution plans for public employees sounds good, actual reality shows something completely different.

In 1991, West Virginia moved to a defined contribution plan for their teachers. After 17 years, in arguably a much more robust economy, the average total account balance was only $33,944. This led West Virginia to abandon its defined contribution plan.

We can also turn to an example even closer to home, to our neighbor to the north- Nebraska. Nebraska ran a defined contribution plan from 1967 through 2003. A state study conducted by Nebraska in 2000 found that over thirty years, the typical worker in the defined contribution plan received an average annual return of 6-7%. The total contribution (employee and employer) was around 10-11%.

Nebraska did a lot of work to provide good investment options and to make sure employees were educated about those options. Despite all of that work, Nebraska still ultimately concluded that the defined contribution plan did not provide enough benefit for the cost. In fact, the Nebraska plan administrator at the time of the conversion stated that the defined contribution plans performed so poorly they were a waste of taxpayer resources.

The assumption that public employees in Kansas, or any other state, will self-direct their investments in a manner that will yield an 8% return is simply not realistic. Especially when one also factors in that SB 338 proposes to provide Kansas public employees with the same kind of educational tools that Nebraska provided.

We acknowledge the desire to get the state out from under any future risk. We don't understand it, but we acknowledge it. That being said, is it really fair or decent to expect employees to accept all the risk, if that is the primary motivation of the employer?

The Legislature Has Already Taken the Necessary Steps to Address the Problem

The provisions enacted by the 2011 Kansas Legislature in HB 2194 represent a shared responsibility. The 2012 Legislature should maintain its fiduciary responsibility to public employees, retirees and taxpayers by allowing the plan to address the UAL to go into effect and oppose any plan that would create unnecessary and unsustainable costs to the State.

Again, on behalf of the Coalition for Keeping the Kansas Promise, thank you very much for the opportunity to present testimony today in opposition to SB 338.