

Pension and Benefits Committee
Testimony on Draft Plan Design
March 20, 2012

I'm Bernie Heffernon, Executive Vice President of Tax Exempt Markets with ING. Thank you for the opportunity to present today.

As many of you know, ING is the record keeper and investment provider for the Kansas Public Employee 457 Deferred Compensation plan. We are also the record keeper and an investment provider for the Kansas Board of Regents Mandatory 403b retirement plan.

First and foremost, we appreciate the challenges that the legislature has in delivering sustainable retirement solutions for all state employees and we absolutely respect your efforts and commitment.

I'm here today to provide brief general comments focused on defined contribution plans. We really believe there are 4 overall aspects to consider for any deliverable solution.

- 1) Ease of Understanding for Participants
- 2) Financially Sustainable
- 3) Required Employee Participation
- 4) Ease of Administration

As a firm, we are indifferent with the final proposed legislation; we do specialize in the Public market sector, and administer various solutions for States, municipalities, universities, and school districts across the country.

We work with 13 State plans, many which have both a Defined Contribution plan and a Defined Benefit plan, some states offer a Cash Balance plan, and others offer a 401a funding vehicle for employee and/or employer contributions.

Ultimately, each state is different in their approach based on participant needs and available resources to fund the retirement plans. And even within Kansas, there are various retirement plan designs.

In recent meetings, this committee has discussed ideas and potential retirement plan solutions for State employees which all have solid merit and possibilities.

One observation is that the recent introduction of 403b language as part of the draft bill, is an approach which would create plan complexity and additional plan cost.

I've provided two basic charts today: If you will please refer to Chart A, this chart illustrates the key components of a defined contribution plan with 403b language as it was presented earlier.

On the left side of the page, you can see the three components for the state, county and city employees.

There is a Cash Balance plan which is the vehicle for the Employer contribution. There is a Defined Contribution 401a plan which is the vehicle for the Employee mandatory contribution.

In addition, the State, City, and County employees have the ability to voluntarily contribute to a 457 Deferred Compensation plan either through the State or local municipality.

On the right hand side of the page, you can see the four components for the school teachers and employees. A cash balance plan which is the vehicle for the employer contribution. A 403(b) plan which is the vehicle for the employee mandatory contribution and the same 403(b) plan as proposed, is also able to receive additional voluntary employee contributions

And in addition, school teachers and school employees already have the ability to voluntarily contribute to local 403(b) plans.

So you can see the lack of consistency between the state employee offering and the school district teacher and school employee offering.

Based on the current design, government employees are not able to contribute additional voluntary contributions in the Defined Contribution vehicle utilized for the mandatory employee contributions, but yet on the school district side of the equation, voluntary contributions would be allowed in the 403(b) vehicle utilized for the mandatory employee contributions.

There is potential for increased costs and additional administrative complexity for local school districts and school employees.

If you will take a look at Chart B, it shows the three key components of a Defined Contribution plan which is similar to what has been discussed over the past couple of weeks in this committee. This plan utilizes a defined contribution 401a funding vehicle for the State, City, and County employees as well as the school district teachers and employees.

On the left side of the page, you can see the three key components for the State, city, and county employees.

A cash balance plan which is the vehicle for the employer contribution, and a defined contribution 401a which is the vehicle for the employee mandatory contribution.

In addition, State, City, and County employees have the ability to voluntarily contribute to a 457 Deferred Compensation plan.

On the right hand side of the page, you can see the three components for the school teachers and employees utilizing the same cash balance plan which is the vehicle for the employer contribution, and the 401a Defined Contribution for the mandatory employee contributions.

In addition, school district teachers and employees have the ability to voluntarily contribute to their existing school district 403(b) plan.

And that's it, very simple and straight forward.

Again, we are indifferent on the final solution, but believe a Defined Contribution plan can be effective without creating additional complexity and could be an important aspect of the long term solution.

Thank you again for the opportunity to present today.

Chart A

Draft Bill (with proposed 403(b) language)

State, County, and City employees

- Cash Balance Plan – ER Contribution
- DC 401a funding vehicle – EE Contribution
- Voluntary 457 Deferred Compensation Plan

School District teachers and employees

- Cash Balance Plan – ER Contribution
- 403(b) funding vehicle – EE Contribution
- 403(b) funding vehicle – Voluntary EE contribution
- Voluntary 403(b) Local School District Plan

DC Plan Objectives

- Ease of understanding for participants.
- Financially sustainable.
- Required employee participation.
- Ease of administration.

Draft bill

- Lacks consistency across employee groups.
- Potential for increased costs.
- Creates additional administrative complexity for local school districts and school employees

Chart B

DC Plan

State, County, and City employees

- Cash Balance Plan – ER Contribution
- DC 401a funding vehicle – EE Contribution
- Voluntary 457 Deferred Compensation Plan

School District teachers and employees

- Cash Balance Plan – ER Contribution
- DC 401a funding vehicle – EE Contribution
- Voluntary 408(b) Local School District Plan

DC Plan Objectives

- Ease of understanding for participants.
- Financially sustainable.
- Required employee participation.
- Ease of administration.