

# Kansas Coalition of Public Retirees



**TESTIMONY**  
**Opposing SB553**  
**SENATE COMMITTEE ON ASSESSMENT AND TAXATION**  
**March 16, 2022**

Chairman Tyson Chairperson and Members of the Senate Ways and Means Committee:

As an elected member of the KPERS Board of Trustees, the positions expressed in this testimony represent my views and/or the views of the KCPR. They do not in any way represent the views of the KPERS Board of Trustees, nor do I speak for them. My name is Ernie Claudel, and I am here today in my capacity as Lobbyist for KCPR (Kansas Coalition of Public Retirees) to speak in opposition to SB 553, which seeks to establish a thrift saving plan as part of the KPERS Retirement System.

It should be noted that the original purpose for KPERS is stated in the statute that established the system.

The Statute Establishing KPERS 74-4901 reads as follows:

The purpose of this act is to provide an orderly means whereby employees of the participating employers who have attained retirement age as herein set forth may be retired from active service without prejudice and without inflicting a hardship upon the employees retired and to enable such employees to accumulate reserves for themselves and their dependents to provide for old age, death and termination of employment, and for the purpose of effecting economy and efficiency in the administration of governmental affairs.

Twenty five of the fifty states have had discussions regarding retirement plans in general. The need for proper retirement for citizens of any state rests more heavily on the States shoulders than the Federal Government. The bottom line is that if people run out of money at the end of their life, it falls on the state resources to care for them. Kansas is one of the states that has not discussed this concern. Properly funding KPERS and providing a fair retirement for retired public workers assures the state that they will not have to worry about this group of citizens in retirement. As will be discussed below, this concern should be worth investigating in Kansas. The fact that there are so many questions regarding this new change in KPERS that cannot be answered at this time is an even greater concern.

I have been deeply interested in the KPERS system since 2004. I have been an elected member of the KPERS Board of Trustees for nine years. My first knowledge of KPERS came to light my first year of teaching (1969) when my first principal shared his concern regarding then retired teacher who were covered by the original Kansas Teacher's Retirement. This program was added to KPERS by the Kansas Legislature in 1971. The Legislature failed to fund the old program fully. This underfunding combined with 25 years (1994-2019) of failing to contribute the actuarial calculated amount led to the UAL (Unfunded Actuarial Liability). The conclusion of the KPERS Commission of 2011 was that this UAL is legacy debt which must be paid. The retirement benefit new employees were promised when they agreed to work for the state must be paid under contract law. Anyone presently vested and anyone presently drawing benefits fall under this legal perimeter. [This is why states who alter their pension system tend to change only the new employees.]

We would oppose this bill on two grounds:

1. Unknown impact on the present KPERS retirement system.
2. The possibility that this change will have an even more negative effect on those enrolled in this plan than the present KPERS III (Tier III) offering for new employees.

Regarding unknown impact on the present system:

This discussion requires discussing the pros and cons of a Defined Benefit vs a Defined Contribution system.

With the Defined Contribution (DC), 401k type programs as follows often occurs:

1. DC programs are often subject to higher fees because lower service fees are not available because of the small amount of money held in individual accounts.
  - A. Investment cost in a DB pension program average .7%, KPERS is even more economical at a .5% cost.
  - B. Investment cost in a DC investment program can run as high as 2.0%.
2. DC programs most often require the employee to make investment decisions on their own.
3. DC programs eliminate the traditional 3-legged stool concept because of the removal of the pension's contribution.

Under the framework of the proposed thrift plan, the employees accounts are held in separate accounts. Over time the benefit of 1A above will be eroded because the benefit of the large amounts of money available for investment will be reduced and the large investment reduced charge will be reduced. The problem that a DC (401K) plan is not in the accumulation phase, it is in the withdrawal phase for the following reasons:

- A. 24/7 professional money management is gone upon retirement.
- B. Retirees do not know how long they will live.
  - a. This leaves them in a position of not knowing how much to withdraw on a monthly basis.
  - b. Without professional guidance, people tend to make the wrong investment decisions.
- C. The three-legged stool which presently exists would be erased: pension, social security, DC investments.

Regarding unknown impact on new employees:

Because of KPERS III has been in existence such a short time, all that can be done is predict the eventual outcome. Here is the comparison provided by KPERS of the existing three retirement programs:

KPERS has provided a comparison between KPERS 1, 2 & 3 (Tier I, II, & III) retirement benefits. While this is not an 'apples-to-apples' comparison, because of the difference in plans, it is about as close as one can calculate.

- A. The KPERS 1 and KPERS 2 retirement benefits are calculated on a \$50,000 final average salary, and the KPERS 3 benefit is calculated with an average salary of \$51,250.
- B. Note that the retirement ages are not the same. KPERS 1 estimated retirement benefit is calculated at a retirement age of 60. KPERS II & III estimated benefits are calculated using 65 as the retirement age.
- C. The KPERS 1 benefit (\$22,375) is payable at age 60 with 25 years of service.
- D. The KPERS 2 benefit (\$23,125) is payable at age 65 with 25 years of service.
- E. The KPERS 3 benefit (\$17,670) is payable at age 65 with 25 years of service and assumes the years of service are from age 40 to age 65. Another pattern could produce higher benefits because the accounts would continue to accrue interest credits until retirement. (Note that KPERS I retirees contributed 4% of their salary for most working years, while KPERS II & KPERS III contributed 6%. This calculates to a 50% increase in contribution rate.)

As you will note, the KPERS III members are contributing more to their retirement and receiving less benefit in return than KPERS I and KPERS II retirees.

KPERS has an extensive impact on the Kansas Economy. KPERS consists of 325,130 total members. The latest U.S. Census numbers for Kansas are 2,913,000. So, KPERS members make up about 11% of the Kansas population. This does not count indirect connections like spouses, children, grandparents, grandchildren, etc. With this amount of impact on the Kansas Economy and Kansas Citizens, we believe it is far too dangerous to institute this program without knowing the outcome of any change! Additionally, retirement benefits are an excellent form of economic development.

We would, therefore, urge the defeat of SB553.

Thanks for allowing us to share our views on this subject.

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