Kansas Coalition of Public Retirees

TESTIMONY
Opposing SB282
Senate Committee on Financial Institutions and Insurance
March 13,2025

Chairperson Dietrich and Members of the Senate Committee on Financial Institutions and Insurance.

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 and KARSP. 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) and KARSP (Kansas Association of Retired School Personnel to speak in opposition to SB282, which seeks to establish a Kansas investment and saving plan (AKA KRISP) as part of the KPERS Retirement System.

It should be noted that the original purpose for KPERS as 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 affecting economy and efficiency in the administration of governmental affairs.

The original Kansas Teacher Retirement 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 sizable UAL (Unfunded Actuarial Liability). The legal findings of the KPERS Commission of 2011 were 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 four grounds:

1. Unknown impact on the present KPERS retirement system. The impact is unknown and could be absolutely devastating to KPERS.
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) for new employees.
3. Removes the guarantee of an amount of benefit to a retiree.
4. The present UAL will still need to be paid.

Regarding unknown impact on the present system:
This discussion requires discussing the pros and cons of a Defined Benefit vs a Defined Contribution system. (The proposed KRISP plan is a Defined benefit program.)

With the Defined Contribution (DC), 401k type programs as the following often occur:

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. The 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 KRISP plan, the employees' accounts are held in separate accounts. Over time the benefit of 1A above will be eroded because the benefit of the substantial amounts of money available for investment will be reduced.

The problem that a DC (401K) plan is NOT in the accumulation phase, the PROBLEM 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 monthly.
   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:
Previously, KPERS members were contributing 4% of their salary for their retirement. Presently they are required to contribute 6%. Presently when an employee retires under KPERS I and KPERS II (Tier I and Tier II) they receive a retirement benefit of approximately 51% of their final average salary. Even though the retirement benefit is still guaranteed, under KPERS III (Tier III) the benefit could be as low as 38% of their final average salary.

KPERS has an extensive impact on the Kansas Economy. KPERS consists of 346,393 total members. The latest U.S. Census numbers for Kansas are 2,940,546. (Both are 2023 figures.) KPERS members make up about 11.6 % of the Kansas population. (This includes 286 school districts, 105 Counties, 426 cities and townships, other employers include libraries, hospitals, community colleges and conservation districts and state employees.) Not included in this count are 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 SB282.

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