

KPERS Select Committee
Testimony on SB 338
February 14, 2012

Good Afternoon, 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 for the State of Kansas 457 Deferred Compensation plan. We are also the record keeper for the Kansas Board of Regents Mandatory 403b retirement plan.

First and foremost, we appreciate the challenge that the legislature has in delivering a Defined Contribution alternative for all state employees and we absolutely respect your efforts.

I'm here today to provide brief comments focused on the structure of the proposed plan design in SB 338, specifically as it relates to the inclusion of 403b plan language.

We believe the way the bill is currently structured creates a defined contribution plan which:

- Lacks equality across all employee groups
- Creates unnecessary administrative complexity for local school districts and school employees
- Creates duplication for local schools and school employees, simply because schools already have established 403(b) plans.

I've provided two basic charts today: If you will please refer to Chart A, this chart illustrates the key components of the defined contribution plan as is it is proposed in SB 338.

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 414k plan which is the vehicle for the Employee 6% mandatory contribution. And that's it, very simple and straight forward.

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 proposed in SB 338. A cash balance plan which is the vehicle for the employer contribution. A 403(b) plan which is the vehicle for the Employee 6% 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 immediately see the lack of equality 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 414k 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.

Secondly, by utilizing a 403(b) as the funding vehicle, for the school teachers and school employees, it creates unnecessary complexity and duplication for the local schools, ultimately forcing the schools to adopt an additional 403(b) plan.

There are over 290 school districts in Kansas, all different sizes and structures. For illustration purposes, lets look at two very different approaches to existing plan designs.

The first is the Blue Valley School District, in Overland Park. Blue Valley currently utilizes a consultant CBIZ Consulting, they also utilize one vendor for their 403(b) plan, Diversified Financial, which provides both recordkeeping and investments for their 403b plan. In SB 338, the proposal to utilize a 403(b) for the employee contribution for the school teachers and school employees, would force Blue Valley to add a State 403b plan, creating additional administrative complexity, and duplication.

In contrast, the Lawrence Unified School District, offers a voluntary 403(b) plan which has 20 vendors, they also have an existing record keeper. Again, in SB 338, the proposal to utilize a 403(b) for the employee contribution for the school teachers and school employees forces the Lawrence Unified School District to add a 21st vendor, the State 403b plan, again creating administrative complexity, and unnecessary duplication.

If you will take a look at Chart B, it shows the three key components of a suggested plan design utilizing a 414k 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.
A 414k which is the vehicle for the employee 6% mandatory contribution

And 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 414k for employee contributions.

A cash balance plan which is the vehicle for the employer contribution
A 414(k) which is the vehicle for the employee 6% mandatory contribution

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

From a portability perspective, there is no advantage to utilizing a 403(b). At separation from service, a 414k, 403b, and 457 all allow for participants to access their accounts with the same portability options.

We would suggest and support eliminating the 403b language from SB 338, we believe this action will create a defined contribution plan design which provides for:

- Equality across employee groups
- Ease of administration
- Simplicity of communication and education of employees
- Portability and flexible income options at separation of service
- Opportunity for a diverse investment selection

Thank you for the opportunity to present today, and I would welcome any questions.

Chart A

SB 338 Plan Design

State, County, and City employees

- Cash Balance Plan – ER Contribution
- 414k Plan – EE 6% Contribution
- Voluntary 457 Deferred Compensation Plan

School District teachers and employees

- Cash Balance Plan – ER Contribution
- 403(b) Plan – EE 6% Contribution
- 403(b) Plan – Voluntary EE contribution
- Voluntary 403(b) Local School District Plan

By including 403(b) in plan design:

- ✓ Lacks equality across employee groups
- ✓ Creates unnecessary administrative complexity for local school districts and school employees
- ✓ Creates duplication for local schools and school employees

Is the goal to create a statewide 403(b) plan for teachers, or is the goal to create a defined contribution alternative for all state employees?

Chart B

SB 338 Plan Design (Excluding 403b language)

State, County, and City employees

Cash Balance Plan – ER Contribution

*414k Plan – EE 6% Contribution

*Voluntary 457 Deferred Compensation Plan

School District teachers and employees

Cash Balance Plan – ER Contribution

*414k Plan – EE 6% Contribution

*Voluntary 403(b) Local School District Plan

By removing 403(b) from plan design:

- ✓ Creates consistency in treatment of employee groups
 - ✓ Eliminates unnecessary administrative complexity for local school districts and school employees
 - ✓ Eliminates duplication for local schools and school employees
- * No impact to Portability, it is the same for 414k, 403b, and 457 plans at separation of service