

Kansas Coalition of Public Retirees



TESTIMONY OPPOSING HB 2217 HOUSE FINANCIAL INSTITUTIONS AND PENSIONS COMMITTEE MARCH 13, 2019

Chairman Kelly and Members of the House Financial Institutions and Pensions Committee:

My name is Ernie Claudel, and I am here today in my capacity as Legislative Chair of KARSP, the Kansas Association of Retired School Personnel, and Co-Chair of the Kansas Coalition of Public Retirees, in opposition to HB 2217, which seeks to institute options around a defined contribution plan. 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 Coalition and KARSP. They do not in any way represent the views of the KPERS Board of Trustees, nor do I speak for them.

- A. Defined Benefit (DB) Pension Programs are much more efficient because the money goes farther.
 - B. One of the greatest reasons for this is stated in the previous paragraph. The huge amount of money which the KPERS Board is able to authorize, because we are talking billions of dollars, the cost of these investments are a fraction of what would be charged on individual accounts.
 - C. Research indicates that as a national average, pensions cost less than 30 basis points for Defined Benefit plans verses 1.30 basis point for Defined Contribution Plans.
 - D. In the case of KPERS, which ranks very near the top in efficiency on a number of fronts, the positive results are even greater.
 - E. The favorable results provided were so impressive that in 2008 the deferred comp plan (now referred to as 'KPERS 457') was transferred by the legislature to KPERS from the Department of Administration.
1. I have never, in my 15 years of chasing KPERS, ever heard or been asked by anyone wanting out of KPERS, and I have heard of plenty wanting to buy in. Examples are buy back military service time, or match buying into our retirement so that the KPERS years match their working years.
 2. If a Defined Contribution (DC) system is adopted, investments are required to be kept in separate accounts. The money can no longer be invested by KPERS in total as it is today.
 3. DB programs are advantageous for the State as well as the KPERS member.

- A. All citizens benefit from DB public pensions, not just the retirees.
 - B. While public pensions may carry debt, they also create revenue.
 - C. Unfortunately, pension costs, funding levels and their liabilities seem to be the only matters highlighted.
 - D. Pension Money stays home and gets recycled.
 - a. 90% of the KPERS Benefits are paid to Kansas Addresses, while 85% of the Benefits go to retirees or beneficiaries who live in Kansas.
 - E. Public pensions are predictable contributors to the economy.
 - F. Pension Costs and Economic Benefits are shared.
 - G. Since the KPERS retirement system is a pension system approved by the IRS, any change would have to be approved.
4. Since KPERS is an approved pension plan, the IRS must approve changes. Some of the possible consequences are as follows:
- A. Changes in pension systems typically cost more and negatively impact recruitment. The consensus in the past has been that changing to a DC plan would be more expensive for all.
 - B. The information gleaned for the KPERS Commission of 2011 indicated the following:
 - a. The UAL (Unfunded Actuarial Liability) is State Debt which must be paid.
 - b. You will recall that the recommended actuarial annual contribution is in the neighborhood of \$600 Million annually. The UAL is responsible for approximately \$500 Million of this amount. Regardless of changes in pension systems, the UAL must be paid.
 - c. Because the employees must contribute as a condition of employment, vested member's benefits must be paid upon retirement, and likely anyone presently employed as well.
 - d. The IRS must approve pension changes.
 - e. If the IRS would interpret a statute as "closing" the present system, not only would the UAL have to be paid, but it would likely need to be paid on an accelerated schedule.
5. Finally, it is well documented that any altering of retirement systems which would result in a reduction of benefits, whether intentional or not, has a greater impact on women than men.

With all of the above considered, we respectfully request the committee oppose the consideration of HB 2217.