



TO: Senate Committee on Assessment and Taxation
Sen. Caryn Tyson, Chair

FROM: Sarah LaFrenz, President of KOSE and AFT-Kansas
On behalf of the Keeping the Kansas Promise Coalition

RE: OPPOSITION Oral Testimony HB 2217

DATE: March 16, 2022

Chair Tyson and Members of the Senate Assessment and Taxation Committee:

My name is Sarah LaFrenz and I am President of KOSE and AFT-Kansas, but I appear before you today on behalf of the Keeping the Kansas Promise Coalition (KKP), of which both KOSE and AFT-Kansas are members. KKP Chairman Mike Scribner, who also serves as Presidents of Teamsters Local #690, was unable to appear today.

I appreciate the opportunity to provide testimony in opposition to SB 553 which proposes to enact a thrift savings plan for future public employees starting July 1, 2024. Keeping the Kansas Promise is a coalition of public employee organizations formed to collectively advocate for fair and affordable reforms to the Kansas Public Employees Retirement System (KPERs) to ensure the long-term solvency of the system. As a coalition, we are opposed to defined-contribution, 401(k) style retirement plans for public employees. No matter what you call it, SB 553 is a defined-contribution plan that will not provide a comparable nor adequate retirement benefit to those who serve our state.

While on paper defined-contribution plans appear as a suitable alternative to defined-benefit plans, reality paints a different picture. Experiences in other states shows time and again that defined-contribution plans do not provide an adequate replacement income compared to defined-benefit plans, let alone be counted on to provide a meaningful benefit for public employees at retirement. Additionally, studies by the National Institute on Retirement Security (NIRS) indicate that defined-benefit plans for public employees offer substantial cost savings over defined-contribution plans, such as a 401(k) plan.

According to NIRS, the average annual defined-benefit pension in Kansas is \$17,856. By contrast, there is no annual benefit amount for a 401(k)-style plan. According to Fidelity Investments, the median account balance in 401(k) accounts nationwide is \$17,576 - hardly enough for a secure retirement.

Pensions provide a secure and reliable guaranteed monthly benefit for life. Under a defined-contribution, 401(k) style plan, a retiree runs the risk of outliving their savings.

Defined-benefit pensions are not tied to the lifespan of any one individual because pension fund assets are pooled collectively. This means that pension funds can maintain an optimal balance of high- and low-risk investments. Defined-contribution plans are subject to the whims of the financial markets. If there is a sudden economic downturn, like the Great Recession, workers may lose much of their retirement savings.

These very factors were considered and led Kansas lawmakers in 2012 to establish the cash-balance hybrid plan for KPERS. This bipartisan compromise, which we know today as KPERS Tier 3, brought key elements of defined-benefit and defined-contribution plans together to address the financial problems plaguing KPERS at that time. The bipartisan cash balance/KPERS Tier 3 compromise asked public employers and employees alike to share in the burden for solving KPERS financial challenges and has put the system back on a solid path to sustainability and affordability. As recent debates in the legislature this session have illuminated, we are now on the precipice of KPERS achieving a funding ratio of 80%. We are in a much different, and better place, from the around 56% funded ratio of a decade ago. The KPERS Tier 3 Compromise plan is working for the benefit of Kansas and its taxpayers.

Without new employees contributing to the KPERS Trust Fund, and instead, the new thrift-savings plan, Kansas risks going down the same path as states like Michigan. In 1991, Michigan moved all their future state employees to a defined-contribution 401(k) plan from the pension plan, the Michigan State Employees' Retirement System (SERS). At the time, SERS was 109% funded. Since then, the plan's funded status has plummeted without new employees participating. SERS is currently \$6.54 billion underfunded and has a funded status of 65.4%. This Thrift Savings Plan would take our state backward.

We recognize that KPERS Tier 3 is not perfect. In fact, we have concerns over the adequacy of the benefit it will provide for public employee retirees in the future. However, the Thrift Savings Plan as outlined in SB 553 would be much worse for public employees who are members, and there is no guarantee that it would really save taxpayers any money.

At a time when Kansas is struggling with recruitment and retention issues, we should not be taking away benefits from public employees. Our correctional officers, state employees, teachers, and other public employees dedicate their careers to public service - often while making substantially less than they could in the private sector. The promise of a pension draws prospective public employees to service. Eliminating this benefit will only exasperate our recruitment and retention problems in state agencies, our prisons, and our schools.

As a coalition we cannot support a proposal that we feel would be detrimental to future employees and the overall public workforce. A public workforce that Kansas taxpayers and citizens count on every day in their communities. Furthermore, this proposal will not save the state, schools, or local governments money. The implementation of this bill will only harm our state, and we stand firmly against it.

In conclusion, we do not believe the thrift savings plan proposed in SB 553 is the right type of approach for providing the main retirement benefit for all future public employees. It should not replace KPERS Tier 3.

The Keeping the Kansas Promise Coalition stands in strong opposition to SB 553 and respectfully requests the bill not be advanced.

Keeping the Kansas Promise Coalition is a coalition of public employee organizations including, teachers, public safety workers, state, city and county employees, formed to collectively advocate for fair and affordable reforms to the Kansas Public Employees Retirement System to ensure the long-term solvency of the System.