Testimony before the
Committee
On
House Pensions and Benefits
By
Lisa Ochs, Chairperson
Keeping the Kansas Promise Coalition

Mr. Chairman and Members of the Committee:

My name is Lisa Ochs, and I am the President of AFT-Kansas, but I am appearing before you today in my role as the Chairperson of the Keeping the Kansas Promise Coalition. As you probably know, the Keeping the Kansas Promise Coalition is a group of public employee organizations including, teachers, firefighters, police officers, 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. I thank you for the opportunity to speak with you today about the issue of KPERS system plan design, particularly with respect to the latest effort to move KPERS to a defined-contribution/401-k styled plan.

At the outset let me state plainly that the Coalition generally opposes the shifting of the KPERS system towards a more costly defined contribution system under any circumstances. However, the proposal presented to the committee on Monday by Dimensional Advisors, perhaps more than at any time during the course of the last several years that we have been working on this issue, appears to have every element of being a half-baked solution in search of a problem that has already been addressed. During the extensive KPERS debates in recent years, one irrefutable fact has been made very clear: a defined contribution plan will cost Kansas taxpayers billions more in their hard earned money, put our hardworking public employees and their families at risk, all while benefitting only special interests.

While in theory Defined Contribution plans should provide good returns, actual reality paints a different picture. Defined contribution plans do not guarantee any sort of benefit at retirement. With a defined contribution plan, ALL the risk of funding the system will be shifted to the employees. Published recommendations indicate that a defined contribution plan participant earning $50,000 per year must save approximately 15% of annual pay over a thirty year period to meet their retirement goals. Those with lower incomes would need to save up to 27% of annual earnings (depending on salary) to have a secure retirement. Given the real world environment in the Kansas our public employees are living in today, where meaningful general salary increases have been virtually non-existent over the past decade; it is easy to draw the conclusion that there is almost no plausible scenario in which any DC theory based retirement plan will actually pan out.

Additionally, the DC plans by their very nature will fail to address what has been held up to be the most pressing financial issue facing the KPERS system- the unfunded actuarial liability which now exceeds $9.2 billion. That means the state will likely be compelled to look at other options beyond DC when it comes to further addressing the UAL, including possibly taking on additional bonded indebtedness as is under consideration by this committee. Options that will cost taxpayers more without any guarantee of success.

Before launching any type of DC experiment in Kansas, I would encourage state policymakers to take a good hard look at the experiences of other states who have already gone down this road. In 1991, West Virginia moved to a defined contribution plan for their teachers. After 17 years, in arguably a more robust economy, the average account balance was only $33,944. If that balance were converted to an annuity it would result in a benefit of less than $3,000 per year! This led West Virginia to abandon its defined contribution plan.

We can also turn to an example even closer to home, to our neighbor to the north- Nebraska. Nebraska ran a defined contribution plan from 1967 through 2003. A state study conducted by Nebraska in 2000 found that over thirty years, the typical worker in the defined contribution plan received an average annual return of 6-7%. The total contribution (employee and employer) was around 10-11%.

Nebraska did a lot of work to provide good investment options and to make sure employees were educated about those options. Despite all of that work, Nebraska still ultimately concluded that the defined contribution plan did not provide enough benefit for the cost. In fact, the Nebraska plan administrator at the time of the conversion stated that the defined contribution plans performed so poorly they were a waste of taxpayer resources. The assumption that public employees in Kansas, or any other state, will self-direct their investments in a manner that will yield an 8% return is simply not realistic.

These examples illustrate, by empirical real-world evidence, the difference between theory and reality when it comes to defined contribution plans. The proponents from Dimensional Advisors that the committee heard from on Monday have no hard, empirical data showing that their plan can, in the real world, provide a better benefit than a standard defined contribution plan. All of the information about this plan is only theoretical.

The good news for all of you today, and for that matter Kansas taxpayers and public employees alike, the 2012 Legislature passed, and Governor Brownback signed into law, the new landmark cash balance reform measure that puts KPERS on a path to stability. The cash balance plan also works to address the unfunded liability issue without having to take on more bonded indebtedness. As the Executive Director of KPERS confirmed recently in testimony earlier this session before the House Appropriations Committee, the cash balance plan shores up the system and positions Kansas to extinguish the unfunded liability by 2033. If allowed to go into effect, the cash balance plan will ensure our dedicated public employees, whether they are state road workers, local fire fighters, or school teachers a chance to have an adequate retirement they can count on.

While the cash balance law may not be perfect, it was enacted after a very careful, thoughtful and deliberative process that extended over a two year period. It wasn't sneaked into the process during the closing weeks of the legislative session without appropriate actuarial reviews and proper vetting. That deliberative process resulted in the compromise cash balance law which addresses the primary issues of stabilizing the system, addressing the UAL, and asking both the employer and employee to share in the solution. Any effort to move away from the 2012 cash balance law at this time, at a bare minimum, deserves the same sort of thorough and full consideration.

The 2013 Legislature should maintain its fiduciary responsibility to public employees, retirees and Kansas taxpayers by allowing the 2012 cash balance plan to go into effect and oppose this latest attempt to move the KPERS system towards a risky, defined contribution styled plan. This experiment proposed by Dimensional Advisors, or any other type of DC styled plan design will create unnecessary and unaffordable costs to taxpayers and our public sector employees while only benefitting special interests.

On behalf of the Keeping the Kansas Promise Coalition, I respectfully urge the committee to oppose this most recent effort to shift KPERS towards defined contribution, allow the cash balance law to go into effect, and proceed with extreme caution and deliberation when contemplating any major changes in plan design. Thank you again for this opportunity to testify today. I would be happy to stand for any questions.