Date: March 16, 2022

To: Senate Committee on Assessment and Taxation
Senator Tyson, Chairman

From: Matthew J. Eickman, J.D., AIF
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Omaha, NE

RE: Proponent testimony in support of Senate Bill 553

Exploring KPERS Pension Plan Investment Performance Potential and Seeking Controls Over Future Costs

As a general matter, the thrift plan established under SB 553 would provide for a contribution structure intended to match - and potentially exceed - the experience a covered individual otherwise would have experienced under the cash balance approach provided under KPERS 3. There are three specific ways in which the SB 553 thrift plan would be more beneficial to a participant.

Employer Contributions. SB 553 would provide a minimum 4% employer contribution without regard to the participant's years of service. That amount increases to 4.5% if the participant elects to save an additional 1%. It increases to 5% if the participant elects to save an additional 2%.

KPERS 3 participants receive only 3% until they've reached five years of service. They don't even reach the 4% level until they reach the period of between five and 11 years of service. And they don't reach the 5% level until they reach the period of 12 to 23 years of service. (Note that at 24 years or more, the 6% employer contribution would finally become more generous than the 5% cap under the SB 553 thrift plan.)

Investment Performance. SB 553 would provide an array of investment options that permit participants to be invested in diversified portfolios. We expect most plan assets would be invested in target date funds or some sort of managed account. Although this could lead to more volatility over the course of a participant's career, that volatility is accompanied by more upside. Although this is not a prediction of future performance, consider the attached snapshot of the trailing five-year performance for various target date fund vintages managed by 10 managers.

Meanwhile, the KPERS 3 participants' investment experience is largely capped at 4%. Although the steady 4% might be attractive late in a participants' career, it limits the growth potential for younger, longer-service employees. This is particularly the case if we assume reasonable inflation in the 2-3% range.

Total Savings. SB 553 would also include an automatic enrollment and automatic escalation structure intended to help participants to save more over time. Without taking any action upon becoming employed, a new participant would have 11.5% contributed to his or her account (6% employee + 4% employer + 1% employee + .5% employer). Without taking any further action, he or she would experience an increase to 13% in year 2 (6% employee + 4% employer + 2% employee + 1% employer). Automatic escalation would likely lead to higher savings rates in year 3 and beyond.

A KPERS 3 participant, however, would remain at 9% (6% employee + 3% employer) for at least the first five years, unless he or she made a proactive election to save more in a separate 457(b) plan. And of course, those amounts would only grow at 4%.

Please don't hesitate to let me know of any additional questions or if I have misunderstood any element of either program.

Thank you,
Matthew

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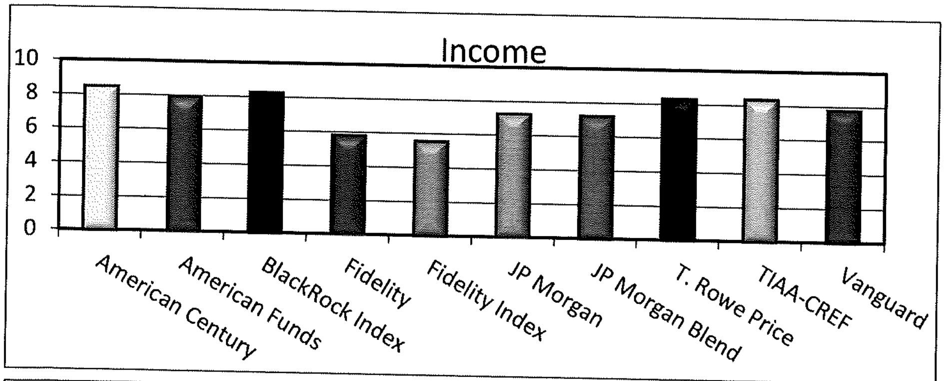
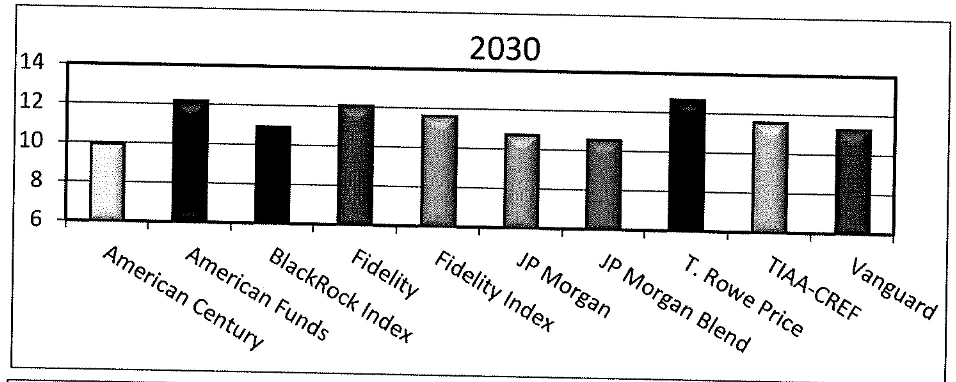
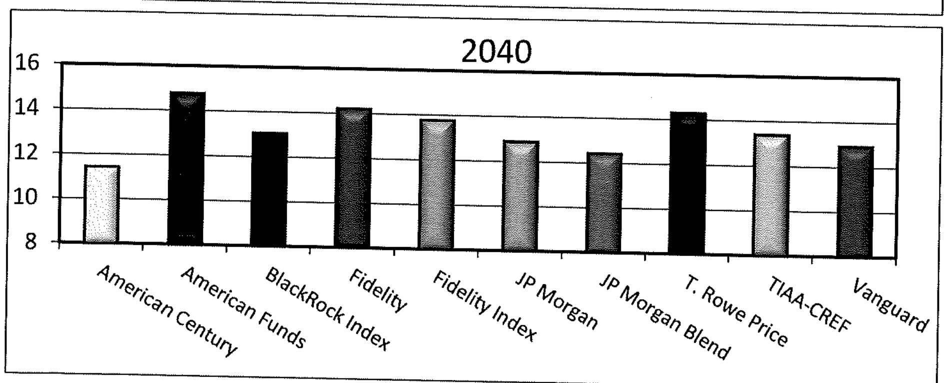
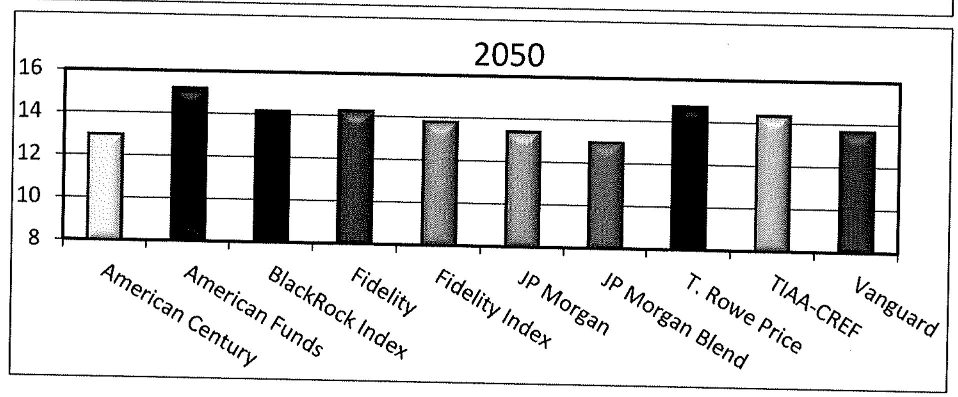
Target Date Deep Dive

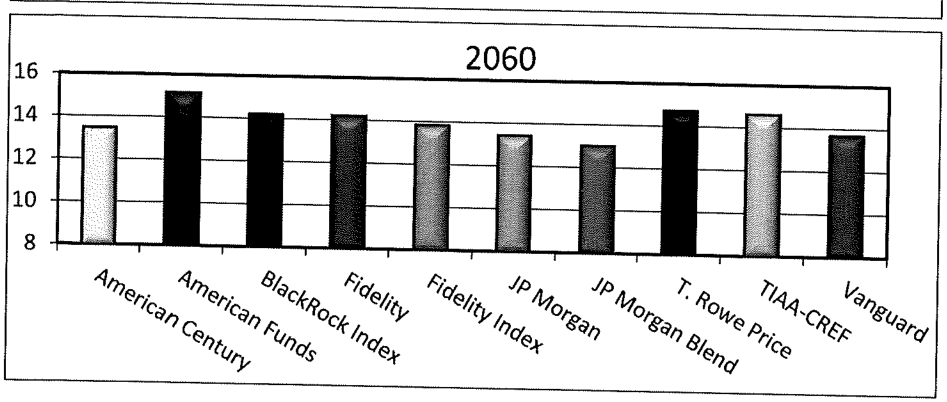
5 YEAR RETURNS











Note: American Funds, T Rowe Price, and TIAA CREF do not utilize "income" funds. Their landing point funds were used as substitutes