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**Testimony before the House Committee on Pensions and Benefits
Presented by the State Employees Association of Kansas
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Mr. Chairman and members of the committee, I come before you today to offer comments regarding the committee's latest efforts to implement a KPERS cash balance plan. Before getting to our specific concerns, I would like to spend a bit of time reflecting on KPERS' basic design.

KPERS was designed and implemented 50 years ago. Over the years, it has provided an austere, but adequate pension benefit for most of its participants. Funding for KPERS was simple and straight forward --- employees would pay 4% into the system and employers would pay a like amount. Had there been a concerted effort to adhere to that basic plan, the KPERS fund would be sound today and the conversations we are currently having would simply not be necessary.

Unfortunately, past legislatures chose to deviate from the basic design and placed the fund's solvency in jeopardy. Actions by past legislatures included bringing significantly underfunded groups under the KPERS umbrella; choosing to balance the budget by not contributing the employer's agreed-upon share of contributions; and, by changing pension eligibility provisions that allowed earlier-than-planned retirements.

This brings us up to today ---- As we all know, KPERS has a projected unfunded actuarial liability of about \$8.3 billion as a direct result of the past legislative actions. Some say the 2008-2009 market had a significant effect on the UAL and, while this is true in the short-term, the market tends to be self-correcting over time and short-term losses are usually off-set by subsequent gains. We can't escape the fact that the main contributing factor for the UAL is legislative under-funding in past years.

Last session, HB 2194 was passed and among its components was the implementation of a KPERS Study Commission to look at KPERS solvency and to make

recommendations for KPERS long-term success. The legislation also included a financial mechanism to resolve the UAL over-time so that it would be fully addressed by the year 2033.

The commission came forth with a recommendation to implement a 401K plan for KPERS members. That design has several flaws that make its implementation questionable. Now the Senate is looking at a 403(b) plan and the house is looking at a cash balance plan. Our concern is that every one of these plans will do grave harm to KPERS' basic design and, in our opinion, such changes are unnecessary. Furthermore, to take action without subjecting the plans to rigorous actuarial scrutiny would be, in our opinion, premature and harmful to both the State of Kansas and KPERS pensioners.

All of the plans under consideration share one common characteristic; the plans are not in the best interests of KPERS members. The plans increase employee contribution rates by 50%. They do not provide the level of replacement income provided in current KPERS. There is not a clear and consistent path in any of the bills to address the UAL. Finally, each of the plans merely shifts the economic burden for pensions away from the employer and places them squarely on the backs of the employee. As an organization representing employees of the State of Kansas, we have serious concerns about the fairness of plans that penalize employees for questionable actions of past legislatures. If you continue this line of thinking, you will be jeopardizing the long-term economic well-being of over 260,000 KPERS members who are taxpayers and voters.

I will now echo the recommendation I gave this committee just two weeks ago when testifying about HB 2545. Instead of making massive and probably unnecessary KPERS changes, let the provisions of HB 2194 do what it intends. It leaves the time-tested and successful basic KPERS structure intact while addressing the unfunded actuarial liability. In the long term, state costs will be reduced and KPERS annuitants will continue to enjoy a reasonable retirement income.

Thank you for your time today. I will be happy to answer any questions.