



TO: Senate Committee on Financial Institutions and Insurance
Sen. Jeff Longbine, Chairman

FROM: The Keeping the Kansas Promise Coalition
Tim Graham, representative of KNEA
Sarah LaFrenz, representative of KOSE
Ron Hobert, representative of AFT-Kansas

RE: NEUTRAL Oral Testimony SB 256

DATE: March 2, 2023

Chairman Longbine and Members of the Senate Financial Institutions & Insurance Committee:

My name is Tim Graham from KNEA, and I appear before you today on behalf of the Keeping the Kansas Promise Coalition (KKP), of which KNEA is a member.

I appreciate the opportunity to provide neutral testimony on SB 256, which proposes to provide KPERS Tier 3 members with an additional interest credit of 1%. As a Coalition, working to improve KPERS Tier 3 for our members is one of our highest legislative priorities. While we appreciate this bill being requested for introduction as a way to help jump start the movement towards improving Tier 3, we do not feel we have enough information at this time to take a strong position on the measure.

It is no secret that KPERS Tier 3 is in need of serious improvement. Without significant improvement to Tier 3, we are putting our Kansas public workforce at risk. KPERS Tier 3 needs reform to better benefit current public employees when they retire, but also to help the State and other public employers retain and recruit a quality, dedicated workforce for the future.

While the 2012 KPERS Tier 3 bi-partisan reform plan has succeeded in putting the KPERS system back on a path of long-term sustainability, regrettably there are growing indications that the benefit provided to KPERS Tier 3 members upon their retirement will be woefully inadequate. Information released recently by KPERS shows that when comparing the income replacement ratios of KPERS Tier 2 and KPERS Tier 3 underscores that point. For a Career Employee aged 35-65 who retires after 30 years under KPERS Tier 2, they can expect an income replacement ratio of 51%. Under KPERS Tier 3, when only the basic 4% guaranteed interest rate is applied, that income replacement ratio drops dramatically to 27%.

One clearly viable option to consider would be to significantly adjust the existing mechanisms within KPERS Tier 3. As you know, within KPERS Tier 3 there are four basic elements in the plan design that can be adjusted: 1) Guaranteed interest; 2) Dividend Interest; 3) Employer Pay Credits; 4) Retirement Annuity Rate. Each of these elements has differing impacts and costs. But, significantly adjusting these elements in a positive manner is what would be needed at a minimum to make Tier 3 anywhere close to viable as retirement benefit for public employees in the future. We recognize that SB 256 proposed adjustment in the interest credit rate is an attempt to move in this direction.

For the record, our Coalition is aware and interested in another viable option introduced in the other Chamber to address the KPERS Tier 3 issue- HB 2365. This bill would close KPERS Tier 3 and move existing and future Tier 3 members over to KPERS Tier 2. We are more confident that this approach would improve the retirement benefit for public employees in Kansas, and the cost of such a measure could be undertaken given the current Budget surplus.

In addition to the alternative options we have just noted, we would also recognize and underscore something that this committee has heard before that the Joint Committee on Pensions, Investments, and Benefits has recommended a Joint Select Study Committee be appointed by Legislative Leadership to evaluate KPERS Tier 3 and recommend possible improvements. Additionally, Governor Kelly has proposed an interim study be commissioned to conduct a comprehensive review of state employee compensation and benefits. It would be our strong recommendation that these efforts are allowed to be undertaken and concluded before any major legislation that would alter the KPERS plan design is advanced.

With all the above being said, our Coalition is appreciative of SB 256 being introduced and hope it spurs the much-needed policy discussion on ways to improve KPERS Tier 3 in a truly meaningful way. Thank you for the opportunity to provide testimony.

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.