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**Testimony to the House Pensions and Benefits Committee
Regarding the Proposed KPERS Cash Balance Plan
March 5, 2012**

Chairman Holmes and Committee Members,

Thank you for the opportunity to speak to you today regarding the proposed cash balance plan. Just for the record, understand our input at this point is without the benefit of an actual bill and is therefore subject to the details ultimately in the bill. We also are anxious to hear some of the further analysis of the affect of the bill as proposed.

One thing is clear from the discussions on the KPERS issue. It is a very complex issue and difficult to find a method to fairly balance the interests of the employee, the employer, and the taxpayer. It is equally difficult to fairly balance the investment risk with all the involved parties. We believe the UAL is the only reason we are having this discussion today while it seems at times to be in the back seat of the details of any plan. We encourage you to not simply swing the pendulum from one extreme to the other on any one issue.

First, the committee seems to be heading toward addressing the number one concern of law enforcement and other public safety employees. That is, of course, the high retirement age or face penalties for early retirement. Our second issue of the disability seems to be addressed in the proposal as well, at least at some level. We are very appreciative of your efforts to do so.

You may recall from our prior testimony another concern we have is the impact a new KPERS plan may have on our ability to recruit officers and other employees. Retention of employees is also critical. This can especially affect our attempts to be more aggressive in recruiting efforts aimed at addressing diversity goals. A very important goal for law enforcement.

If we correctly understand the information presented by the actuary last Wednesday, the retirement benefits in the cash balance plan appear to be troubling. We base that on the information presented in the discussion surrounding the information on page 10 of the PowerPoint handout. As we understood the explanation the actual salary replacement percentage for a person starting at age 35 at \$30k salary and working for 30 years would expect to have a 15% to 25% salary replacement at time of retirement. If that is accurate, then this plan offers a 50% or greater reduction in salary replacement at retirement than the current KPERS plans. That seems extreme and problematic.

We do like the fact this plan will impact only the future employees. At least with that provision we are not taking anything away from current vested or non-vested employees. New employees will know what their new plan offers, be it good, bad, or indifferent.

We also appreciate the effort to include a COLA option. This is an important feature that is about as critical as the UAL. The only difference is the UAL is the gorilla on the shoulders of the state while the COLA issue is the gorilla on the back of the long term retirees. One of the issues we have struggled with in HB2194 is the elimination of the COLA provision for the tier II members. We firmly believe positive steps should be taken to not keep adding more future retirees who will struggle with no COLA after retirement. Just as we firmly believe the UAL must be addressed.

The last issue we would like to address is the public safety officer retirement proposal. As you know, the chair asked me to put together some definitions and information to accomplish expanding the current state corrections officer provisions to all public safety members. I did that using the parameters I was provided. It is important for you to know several things about that proposal:

1. We are still vetting it with other public safety interests including JJA and firefighters.
2. We do not know the cost of this retirement program to the local participating employers.
3. There clearly will need to be a great deal of revisor work to put the concept into bill form.
4. The employer option to place local public safety employees into the public safety retirement provision was a parameter I was given, not one we chose. We have a high interest in the total cost of these programs to the employer as well as in providing an ability for the employee to make retirement decisions based safety evaluations instead of on a retirement penalty provision. We believe all public safety employees should have this option, and would prefer this be required, not optional. With that said, we also understand we need to balance the employee cost and the employee/public safety benefits and we do not have that data at this time. That data could change our position on our preference. We also recognize that forcing local governments to accept this is politically challenging at best and financially challenging to small units of government at worst.

From an employee's standpoint, it looks like HB2194 offers a better retirement benefit at the same cost to the employee, although that benefit is less than current plans provide. From the employer's perspective the cost during the next 20 years is worse for HB2194 but after that the difference in normal cost is not significant between HB2194 and the cash balance plan.

Supposedly any of the plans will address the UAL over about the same period of time. A supposition we struggle to get our arms around. But the discussions do seem to lean toward the "profits" from the investments under the cash balance plans being the main source for paying off the UAL. And it appears to us the main source of those "profits" and UAL relief is coming from the backs of the employees in the cash balance plan. That seems to have a fairness issue.

Retirement plan details and projections of investment earnings is not our area of expertise. I assure you our members have many concerns about what the legislature is going to do with the retirement plans. These concerns cover many areas which are better addressed by other conferees who share those concerns and are better equipped with the knowledge to discuss them.

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