

**KPERS SELECT COMMITTEE**  
**Testimony on Senate Bill 338**  
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*Doug Wolff, Fellow Society of Actuaries (FSA), Chartered Financial Analyst (CFA) President, Security Benefit Life Insurance Company*

Good afternoon Senators. My name is Doug Wolff and I am President of Security Benefit Life Insurance Company ("Security Benefit"). I would like to thank this Committee for the opportunity to appear here today to present testimony in support of Senate Bill No. 338.

While Security Benefit supports the full funding of the KPERS defined benefit plan, defined benefit plans are not our line of business, and I am not a qualified pension actuary, so my testimony will not focus on the specific proposed changes to that system. Security Benefit is in the business of defined contribution retirement plans. My comments will be focused on the portion of the bill dealing with the 403(b) provisions as this is one of our primary businesses..

Security Benefit has been doing business in Kansas for over 120 years. Our company is one of the five largest defined contribution providers in the United States specializing in public education retirement plans. Security Benefit is the largest public education defined contribution provider in the United States working with independent financial representatives. With more than 250 plans under administration here in Kansas, Security Benefit is also the largest single provider of retirement plan services for Kansas K-12 public schools and community colleges (jointly referred to in several places during the remainder of this written testimony as "public education employees") providing third party administration and investments for 403(b), 457 and 401(a) retirement plans. Security Benefit provides these types of plans to public schools on a nationwide basis. Our plans are administered through our offices here in Topeka, Kansas where we currently employ more than 650 people.

We believe that our specialization in public education and national experience combined with the insight gained from more than 35 years of working with KPERS members and their spouses on why they need to save for retirement, qualifies Security Benefit to provide this Committee with

the insight and guidance on the best defined contribution plan design for KPERS public education employees. Security Benefit supports Senate Bill 338, which establishes a good defined contribution system framework, including a 403(b) plan program for public education employees. Public education employees are already familiar with the 403(b) plan and many currently utilize their 403(b) plan for personal retirement savings contributions. 403(b) plans are currently offered in almost every school district in Kansas. At this time Security Benefit has more than 15,000 active 403(b) accounts for public education employees. That's about 30% of the total number of current Kansas public education employees. Security Benefit recommends you maintain this part of the Senate Bill No. 338 plan for education employees.

While Senate Bill No. 338 also sets forth the goal of providing a variety of investment options for the state employees, the testimony presented to this committee on Jan. 31<sup>st</sup> suggested that 403(b) plan participants have limited investing options. This simply is not accurate. In reality, 403(b) participants have a large choice of investment options. 403(b) participants have two categories of investment products- annuities (variable and fixed) as well as mutual fund options in custodial accounts. Mutual fund choices and variable investment funds in 403(b) plans cover a virtual universe of investment options in numerous categories from money market to emerging markets to target date funds to various bond funds and everything in between. In Security Benefit's current 403(b)(7) product we offer approximately 100 different fund choices- that can hardly be described as limited.

403(b) plans can be either mutual funds or variable / fixed annuities. An annuity can provide key downside protection that participants' value greatly especially in the volatile and difficult investing climate that exists today. One of these features is a death benefit. Often times, annuities provide a death benefit either built into the base product or offered as an additional rider or both. The death benefit typically guarantees a return of premium or something greater that can be ratcheted up with positive market performance (but then will not fall with any subsequent decrease in the account value). Another example of an important and safe product feature of annuities is the fixed account. This serves as an investment with a guaranteed interest crediting mechanism that can be very valuable to a participant looking for a safe and predictable

investment return. Another product feature of an annuity is the guaranteed annuitization rate. This is the minimum rate and mortality factors used when the participant desires to move into an income phase. With an interest rate environment that has seen steady decreases, these guaranteed minimum annuitization factors can be very important and provide a piece of mind for the participant who will sometime in the future want to turn an accumulated account value into a regular monthly or annual income stream.

You also heard that 403(b) plans are problematic because they allow additional voluntary pre-tax and/or after-tax contributions from public education employees. We believe this is an overwhelming positive feature of 403(b) plans. The fact that the 403(b) code section benefits public education employees should be celebrated, not criticized. Since the most important factor in maximizing retirement savings is investing as much as you can as early on as you can, the 403(b) code section helps education employees do exactly that and you should support this option.

Lastly, a significant benefit in a defined contribution 403(b) is its portability function. Portability allows for the possibility of moving the defined contribution account to a new employer's retirement plan or even to an IRA once the employee is no longer employed with the district. This is a feature that has been available to private sector employees for decades and is viewed as a win-win situation for both the employee and the employer. The employee has personal choice and control of their account and the employer is no longer responsible for administering the account.

Security Benefit proposes a few amendments to Senate Bill 338 to provide additional structure to the 403(b) retirement plan for public education employees. These amendments are set forth in the attachment and the proposed changes are highlighted for your convenience. The purpose of these amendments is to guarantee that public education employees have access to a wide variety of investment options while also insuring they have access to the investment advice they may need and want to make these investment choices.

The most substantive proposed amendments are in New Section 6 of the bill, on page 5 starting on line 16. The inserted language supports competition in the 403(b) market where Security Benefit, a Kansas company, would have an equal opportunity to compete to become a provider. This language is written to clarify that public education employees have the benefit of advice, choice and local control in their public retirement plan.

Public employees need and deserve this advice and guidance. As you know, the KPERS serves a decentralized populace that deserves and requires equity of service for all and the ability to get individualized financial advice.

### **The Case for Advice**

When we speak of professional financial advice, we are referring to the fact that there are a wide variety of KPERS members who have an equally wide variety of retirement needs. They deserve an option for professional help developing investment strategies like how much to invest in stocks or bonds or even picking the "right" mutual fund option. We are focused on the personal professional advice that encourages people to increase their contributions for retirement. We speak of the professionals that sit across the kitchen table on a weekday evening to help a KPERS member create their personal retirement goals and then show that member and their spouse why they should invest an extra \$50 or \$100 a month to meet these goals.

To illustrate our point, a recent survey by Charles Schwab showed that workers who received personal professional advice on creating a retirement savings plan increased their average monthly deferral percentage by 5.42% and their savings rates nearly doubled from 5% to 10% as a result of receiving and implementing the advice. Additionally, the same study showed that 51% of those retirement plan participants preferred one-on-one consultation. This tells us that a majority of workers, including KPERS members, both prefer personal advice and save more, when they have access to personal advice.

For context, given the current economy, job uncertainty, market volatility and low interest rates it is not surprising that we have a national retirement savings problem. The primary job of professional financial advisors working with retirement plan participants is building the trust and confidence for people to create a plan for the future and then forgo a portion of their paycheck now in order to meet that plan. As a CFA and FSA, I can confidently say that the most important factor in maximizing retirement savings is not just picking the right investments, the overall investment returns or even expenses, but investing as much as you can as early on as you can.

The bottom line is that independent studies prove that people invest more when they have a personal investment advisor.

### **The Case for Choice**

Access to and choice of a personal investment advisor and investment provider go hand in hand. In fact, in the K-12 education market, research shows that participation in 403(b) defined contribution plans dramatically declined when the number of available investment providers and access to professional investment advice was reduced.

A study by the American Society of Pension Professionals and Actuaries (ASPPA) of school districts in Southern California, discovered over 50% of workers stopped contributing to their 403(b) plans when their existing provider was no longer available for ongoing contributions. Although there was a slight decline in overall participation rates, participants that retained access to their investment advisor and investment provider of choice maintained much higher participation rates over all.

Another example can be found across the border in Colorado. In 2004, Jefferson County School District in Golden, Colorado decided to adopt a single investment provider model for its 403(b), 457 and 401 (a) plans. The objectives were to reduce the administrative burden on the district and achieve lower investment expenses for participants. These are appropriate and understandable objectives for any retirement plan sponsor.

The model they implemented was with one of the largest 457 defined contribution providers in the country. There are a number of large companies that provide similar models in the public sector market. The lower cost, limited choice, no personal investment advice model seemed like a good solution. What the district found was that 403(b) defined contribution participation rates declined steadily each year since the implementation of the new model. The number of contributing 403(b) participants dropped by over 54% from 4,762 participants in 2004 to 2,177 contributing participants at the end of 2009, the latest year for which participation data is publically available. The unfortunate part of this story is that JEFECO could have addressed both the administration issue and the expense issue if it would have selected an independent third-party administrator to manage the plan and implemented a uniform fee disclosure regimen that would allow the market to work.

JEFECO may have achieved its goal to simplify the administrative process, and lower some expenses to participants, but it is hard to argue that less people saving for retirement is a good outcome for anyone.

Another case similar to Jefferson County Public Schools further illustrates this point. When the Indiana Area School District in Indiana County, Pennsylvania switched to a single investment provider, limiting access to investment advice and choice, nearly 40 percent of participants ceased participation in the plan. Generally speaking, a one-size-fits-all approach for public employees, like KPERS members, will not work.

### **The Case for Local Control**

Given the demonstrated benefit of local advice, and given the geographic dispersion of KPERS education members, equity of service becomes a critical consideration. By equity of service, we mean that the same level of personal, face-to-face service should be available for KPERS members in the smallest communities of Kansas to the same degree that they can get in Johnson County or another large population center. Kansas employees work in buildings and other worksites scattered throughout the state, including some fairly remote areas. We do not believe it is in their best interest to be left essentially on their own when it comes to retirement planning decisions.

Consider Kansas' K-12 employees. Think of the "boots on the ground" required to meet the needs of the 294 Kansas school districts, from Kansas City and Topeka to USD 405 in Lyons to USD 413 in Chanute. Individual public schools simply do not have the resources to develop a "culture of savings" in the same way as the private sector.

If Kansas goes to a one-size-fits-all plan, participants who need more one-on-one help to learn about how the plan works, how much to save for retirement, and how to invest their money in the plan are not given the time or professional help they need. To make personal planning part of the service for KPERS participants, it would take hundreds of people to serve every area of Kansas equally.

An example of the unintended consequences of limiting local control can be found in the Iowa Department of Administrative Services (DAS) Retirement Investors Club. The Iowa DAS plan is a centralized 457, 403(b) and 401(a) plan sponsored by the state that covers all state employees, eligible municipal and county government workers and all of Iowa's K-12 public schools and community colleges.

The positive aspects of the Iowa DAS plan include maintaining a multiple code section defined contribution plan including 457, 403(b) and 401(a) and also maintaining a multiple provider system which allows all plans to minimize concentration risk, encourage competition and allow participants to simplify their investments by aggregating all plan assets with their provider of choice. As one of the 6 selected investment providers for the Iowa DAS plan, the concern Security Benefit has is that the state focused on investment expenses as the primary tool for evaluating investment providers. This led to the unfortunate result of pricing local personal financial advisors out of the plan. The practical result is that personal, face-to-face help is essentially not available for rural Iowa. It is primarily available only in the large population centers of Iowa such as Des Moines.

While not perfect, the path toward a better model may lie in the Florida Model Plan. Again, this is a multi-Code multiple provider defined contribution plan that offers 403(b), 457 and 401(a)

plans. This plan offers five providers and does include both direct and full service advice models. This plan uses an independent third party administrator that manages all of the plan and provider details very effectively. Other than the varied service models offered under this plan, the primary differentiator between the Florida Model Plan and the Iowa DAS plan is that the Florida Model allows each local employer, in this case a school district, to select additional investment providers in addition to the five core providers offered by the plan. Our experience and the data shows a multiple provider and local employer option plan is beneficial to business competition in this market and thus, also to providing the employees better savings options.

This plan design feature recognizes that local control and choice is important in maintaining healthy plan participation rates and maximizing savings. As a reference point, remember the 50% drop in participation rate experienced in California when plan participants no longer have access to their choice of investment provider and advisor. The qualification here is that any investment provider selected by the local employer must meet the administrative requirements of the third party administrator and share in the plan administration expenses. This model is a very good example of a centralized offering combined with an appropriate level of local control. Our proposed amendments to New Section 6 would implement the strengths of the Florida plan.

Another area of concern raised in prior testimony regarding Senate Bill 338 has been the administrative burdens and cost associated with a defined contribution plan, especially one containing multiple code options.

Our proposed amendment to New Section 4, on page 4 line 34, establishes the use of an independent third-party administrator which is a sound way to address these concerns. Our testimony today has included several examples of the benefits of utilizing an independent third party administrator (TPA) to administer the 403(b) plan. These examples illustrate that other states have successfully implemented the independent TPA model. It has been Security Benefit's experience that virtually all 403(b) investment providers in today's market are willing to pay reasonable compliance fees for TPA services on behalf of their participants. In fact, of the nearly 600 403(b) plans that Security Benefit administers for school districts across the country,



99% of those plans have the investment provider paying the monthly account compliance fee, not the employer. I am aware that you will be hearing expert testimony from a Florida based independent TPA, TSA Consulting. They are fully qualified to answer your questions regarding administrative costs and procedural questions.

If you are concerned about the potential increase in fees associated with the use of a TPA or independent local advisors, we recommend you focus on disclosure rather than limiting options to employees. We have demonstrated that choice and advice are good and promote healthy savings practices. We believe that these principles of a well-regulated free and open market work even better when the plan participants, the KPERS members, are fully informed, and can easily make comparisons among options and have all of the information they deserve when making such an important decision.

### **The Case for Disclosure**

*The Paradox of Choice* is something that this Committee will likely hear reference to in testimony considering the KPERS defined contribution plan design. Simply put, the paradox of choice suggests that too many options can be bad because people become paralyzed when they must choose between too many options. The argument as it relates to defined contribution plan design is that given too many options, plan participants will simply choose not to act. Therefore the number of choices, investment provider, investment options, etc. should be limited.

We do not know what the right number of choices is for retirement plans. However, simply reducing choices may not work. Remember, plan participation in California public schools dropped when choices were eliminated. The real problem we may need to solve is not the number of choices for participants but providing the right information and professional help for participants to make choices. Full disclosure may be a better solution than fewer choices.

Plan participants should know exactly what they are paying for, the services they receive and who is being paid for those services. Security Benefit fully supports the joint retirement plan disclosure initiative endorsed by the Association of School Business Officials, the National

Education Association, the National Tax-Sheltered Accounts Association and the American Society of Pension Professionals and Actuaries and we strongly recommend that this Committee make the uniform disclosure required for any KPERS defined contribution plan providers. (See testimony of Brian Graff with American Society of Pension Professionals and Actuaries and National Tax Sheltered Accounts Association.)

Where retirement plan and investment fees are a concern the temptation is to make the mistake of racing to the bottom to find the lowest possible fee. It is not in KPERS best interest to follow this path. Pricing vital services out of the plan design in pursuit of the lowest fee possible arguably creates larger issues and liabilities of a workforce not prepared for retirement. It can easily lead to inequality in levels of service and in levels of available financial advice especially in a wide-spread and rural area like the western 2/3rds of the state of Kansas.

Full fee disclosure and participant education are a much better option for dealing with the question of plan expenses. Participants can make informed choices when all fees and services are clearly documented for the plan sponsor, investment provider and financial advisor.

Our final proposal on amendments can be found in New Section 2, on page 3 line 12 and New Section 3 on page 4 lines 5 and 31. These proposed amendments are based on the advice of our 403(b) plan legal counsel for compliance purposes and not intended to change the intent of the current language in Senate Bill No. 338.

### **Best Practices in Governmental Retirement Plan Design**

In summary, Security Benefit's experiences in other public retirement systems demonstrate that the optimal public defined contribution plan must:

1. Integrate local professional advice for all worksites irrespective of location or investable assets in order to maximize personal retirement savings behaviors which includes a 403(b) plan which is already utilized in almost every school district in Kansas;
2. Use a flexible plan design which is quite common in public schools and municipalities across the country that includes multiple IRS Code sections (403(b), 457, 401(a)) administered by an independent third party administrator to maximize flexibility and savings options for participants;

3. Allow participant choice and control of investment options with the ability to consolidate all plan assets with a single provider for increased ease of use for the participant leading to increased savings rates;
4. Allow each public education employer to add investment providers for all plan types;
5. Require all providers meet established administrative requirements which will materially help control costs; and
6. Utilize disclosure of fees, services and payments as the best practice for the plan sponsor and investment providers rather than restricting the free market and potentially forcing public employees into do-it-yourself programs.

Security Benefit's business will be impacted by a change to the state retirement system that creates a defined contribution plan. A defined contribution plan that includes the 403b plan option with multiple providers, including at least one, like Security Benefit, with local independent investment providers will allow Security Benefit to remain a vital part of this business delivering services and best-in-class retirement products throughout the state. A defined contribution plan that does not include these options could significantly and negatively impact our ability to do business in Kansas.

Not only is this plan good for Kansas business but it is also good for Kansas public education employees. Specifically, these employees gain advantages by: (1) investing in a plan they currently know and use—their 403(b) plans; (2) consolidating retirement savings to improve accumulation; (3) having the option to supplement the 6% retirement savings amount; and, (4) continuing to use their local and trusted financial advisor for individualized retirement planning advice.

One of your tasks is to create an environment that leads to greater retirement readiness for Kansas public employees. Senate Bill No. 338, with our proposed amendments will incorporate the six standards documented above for the public sector defined contribution plan that will encourage state workers to save for the retirement they have earned and the retirement they deserve. Senate Bill 338 encourages public employees to take personal responsibility for their own retirement while providing investment programs and access

to financial advice that make retirement success a legitimate goal within reach.

Security Benefit encourages you to support our amendments and the 403(b) plan established in Senate Bill No. 338.

Thank you for the opportunity to testify.