

Testimony: Assessment of Proposed Kansas Thrift Savings Plan (SB 553)

Prepared for: Kansas Senate Committee on Assessment and Taxation

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Date: March 16, 2022



Members of the committee, thank you for the opportunity to offer our brief analysis of the Thrift Savings Plan proposed in Senate Bill 553.

My name is Zachary Christensen, and I am a managing director of the Pension Integrity Project at Reason Foundation, a national 501(c)3 public policy think tank, and prior to that I was a public pension analyst for the Hoover Institution at Stanford University.

Through our pro-bono work with public officials and stakeholders looking to improve resiliency and promote retirement security of their retirement plans, the Pension Integrity Project has helped design and implement comprehensive and sustainable solutions that work for both government employers and their employees. We have played a technical assistance role in over 50 state-level retirement system reforms in states like Texas, Michigan, Arizona, Colorado, South Carolina and New Mexico since 2015.

Senate Bill 335 establishes the Kansas Thrift Savings Plan, which would offer a defined contribution (DC) retirement benefit for all state employees—excluding police, firefighters, judges, and correctional officers—hired on or after July 1, 2024. Since it would become the primary vehicle for providing a secure retirement for most public workers, it is important to assess the proposed Thrift Savings Plan’s adequacy and ability to meet the needs of retirees and employers.

While decades of experience with public sector DC plans have demonstrated that they can be an effective means to providing adequate retirement income for public workers, not all governmental—or even private sector—DC plans are the same. Not all DC plans meet the definition of an effective plan designed to yield a secure retirement, and many could be improved by incorporating best practices.

Upon review, the Pension Integrity Project found that the proposed Thrift Savings retirement plan in SB 553 reflects a high-quality public sector retirement plan design that incorporates best practices from national experience.

First and foremost, the plan proposed in this bill does not take away funding from the current legacy retirement plans and requires previously promised pension benefits to continue to be properly funded. This would ensure a smooth transition from past retirement offerings to the proposed future benefits. Thanks to specific provisions in SB 553, existing employees and retirees will continue to see their benefits funded at the same levels as before, and the creation of this new plan will not affect the state's funding of benefits already promised to public workers.

Senate Bill 553 importantly avoids a shortcoming of many retirement plans by providing a formal statement of legislative intent and plan objective for the Thrift Savings Plan that is consistent with retirement best practices. This language will help members understand the goals of the plan and will serve as a foundation for future decisions by policymakers and plan administrators.

The proposed Thrift Savings Plan also satisfies the critical best practice of providing adequate contributions. Retirement experts agree that a total contribution rate of between 10% and 15% is necessary over a career to adequately fund retirement (when combined with Social Security and personal savings). The contribution design of 10% (6% from employees and 4% from the employer) with potential additional contributions and matching through the supplemental deferred compensation retirement plans offered by employers will meet these best practice contribution standards.

One common concern about DC plans is ensuring protection against longevity risk, the risk that beneficiaries outlive their retirement savings. SB553 directly addresses this risk by requiring the offering of robust lifetime income options for purchase. Providing a variety of in-plan life insurance annuities as distribution options allows retirees to eliminate the risk of outliving their retirement savings.

The proposed Thrift Savings Plan is also a good fit for a public sector workforce that is increasingly mobile, and will complement the needs of government employers who are now more reliant on shorter-tenured, non-full-career workers. With employees more frequently changing jobs and remaining in positions for shorter periods, the modern workforce values more individualized and portable retirement benefits that are more in line with private sector retirement plan offerings. Since the plan proposed in SB 553 is inherently a portable retirement benefit, it would be an appropriate default retirement plan to match the overall dynamics of your public workforce.

On the subject of making this a valuable retirement plan for the modern workforce, we have identified one possible area of improvement for the proposed Thrift Savings Plan. As currently structured, SB 553 would require five (5) years of employment before members will be able to vest into the contributions made by employers. Our experience indicates that this is a vesting period longer than most DC plans, and it may lead to many public employees missing out on a critical part of their compensation.

All that said, the Pension Integrity Project finds the plan established in SB 553 to meet the primary objectives of retirement best practices, meaning it would serve its members well while meeting the needs of the state and its employers.

Thank you again for your time, and I would be happy to answer any questions.