MEMORANDUM

To: Senate Financial Institutions and Insurance

From: Alan D. Conroy, Executive Director

Date: March 13, 2025

Subject: Informational Testimony on Senate Bill 282

Senate Bill 282, named the Kansas Retirement Investment and Savings Plan (KRISP) Act, creates a defined contribution retirement plan as the default plan for new members on and after July 1, 2027. Members of the KP&F and Judges retirement systems are not included in the KRISP.

General Plan Design Comparison

A defined benefit (DB) plan provides retirees with a guaranteed lifetime benefit. Traditional defined benefit plans, like KPERS 1 and KPERS 2, use a formula to calculate benefits: Years of service × Final average salary × Statutory multiplier.

KPERS 3 is a cash balance plan, which takes notional account balances accumulated over a member's service and converts the balances to a lifetime benefit. By definition, KPERS 3 is a defined benefit plan, although structured very differently than KPERS 1 and KPERS 2.

Key features of defined benefit plans:

- Assets are pooled in a trust fund.
- Investment decisions and risks are managed centrally by the Board of Trustees.
- Benefits are paid for life, with restrictions on early withdrawals.

A defined contribution (DC) plan functions more like a personal retirement savings account:

- Employees and employers contribute to individual accounts.
- Employees choose their own investments from available options.
- Withdrawals may have restrictions based on age of the member.
- No guaranteed benefit.

Both plan design structures are allowed in governmental plans. Historically, defined benefit plans have been more common in the public sector. Kansas has used a defined benefit design since it was created in 1962.

KPERS

Risk Features of Different Plan Designs

One area of difference between defined benefit and defined contribution plans is the assumption of risks. In general, defined benefit plans guarantee benefits and the plan sponsor assumes most of the risk of paying promised benefits while defined contribution plans guarantee a certain contribution level but leave the member to take on the risk of selecting investments.

The following table compares the relative risk level of KPERS plans and the proposed KRISP:

	KPERS 1 and 2		**KPERS 3**		**KRISP**	
Risk	Employer	Employee	Employer	Employee	Employer	Employee
Investment Risk	High	Low	Medium	Low	None	High
Wage Inflation (pre-retirement)	High	None	None	High	None	High
Price Inflation (post-retirement)	None	High	None	High	None	High
Contribution Risk	High	Low	Medium	Low	None	High
Longevity Risk	Medium	None	Medium	None	None	High

Proposed Plan Design

The KRISP plan design is a defined contribution plan organized under sections 401(a) and 414(d) of the Internal Revenue Code.

Attachment A to this memo is a summary graphic of the KRISP plan design. The key elements of the plan include:

- Employer contributions
  - 4% base contribution
  - Additional 0.5% if member makes 1% voluntary contribution or additional 1% if member is making 2% or greater voluntary contribution
  - Unfunded actuarial contribution to the existing defined benefit plan (approximately 10%)
  - Employer contributions vested after five years
- Member contributions
  - Mandatory 6%
  - Voluntary 1%-10%, including initial auto enrollment and escalation.
  - Immediate vesting in member contributions, rollover contributions and interest
- Investment management
  - KPERS Board of Trustees selects investment fund options
  - Member is responsible for investment elections
- Withdrawal of funds
  - Member can withdraw vested balances any time they leave employment through direct payment or rollover
  - Members can purchase an annuity through KPERS when they retire

New members on and after July 1, 2027, will have a one-time, 30-day election period to choose between the KRISP and the existing KPERS 3 cash balance plan. If a member fails to make and election, they will be enrolled in the KRISP.

All existing KPERS 1, 2 and 3 members will be given a one-time, 30-day election period to switch to the KRISP. Any member electing into the KRISP will receive an amount equal to the present value of their future benefit (calculated actuarially) or their KPERS 3 account balance, whichever is greater, in their KRISP rollover account.

Governmental Defined Contribution Plans
Government-sponsored defined contribution plans function similarly to private-sector 401(k) plans but must comply with distinct IRS regulations.

While DC plans exist in many states, only five have made them the **mandatory or default** retirement plan for at least some public employees:

- **Mandatory:** Michigan (1997), Alaska (2006), Oklahoma (2015), North Dakota (2025)
- **Default:** Florida (2018)

Additionally, states like Colorado, Indiana, Montana, Ohio, Pennsylvania, South Carolina, and Utah offer a DC plan as an **option** for some public employees.

Despite these variations, defined benefit plans remain the most common public-sector retirement plan nationwide, including KPERS.

See Attachments B and C for maps detailing mandatory and default plan designs for education and non-education employees. Attachment D is a map of states that offer a defined contribution plan as an optional retirement plan for some public employees.

Employer Contribution Projections
Currently, KPERS contributions are made up of two parts:

1. Normal cost – the amount allocated for the benefits in each year for current employees.
2. Unfunded actuarial liability amortization.

The FY 2026 KPERS State/School employer contribution rate is 11.68%, which includes:

- 2.83% for normal cost
- 8.85% unfunded actuarial liability amortization.

If KPERS were fully funded, only the normal cost would be required.

The KRISP employer contribution is set at 4% and could be as high as 5% depending on voluntary contributions by the members.

Employer contributions for annual benefit costs are projected to be higher under KRISP compared to KPERS.

KPERS' consulting actuary completed a cost projection on two possible scenarios:

1. 10% of existing KPERS members elect into KRISP and 75% of new members elect into KRISP.
2. 50% of existing KPERS members elect into KRISP and 75% of new members elect into KRISP.

The following table compares the first 10 years of projected employer contributions for the annual cost of benefits (excluding unfunded actuarial contributions):

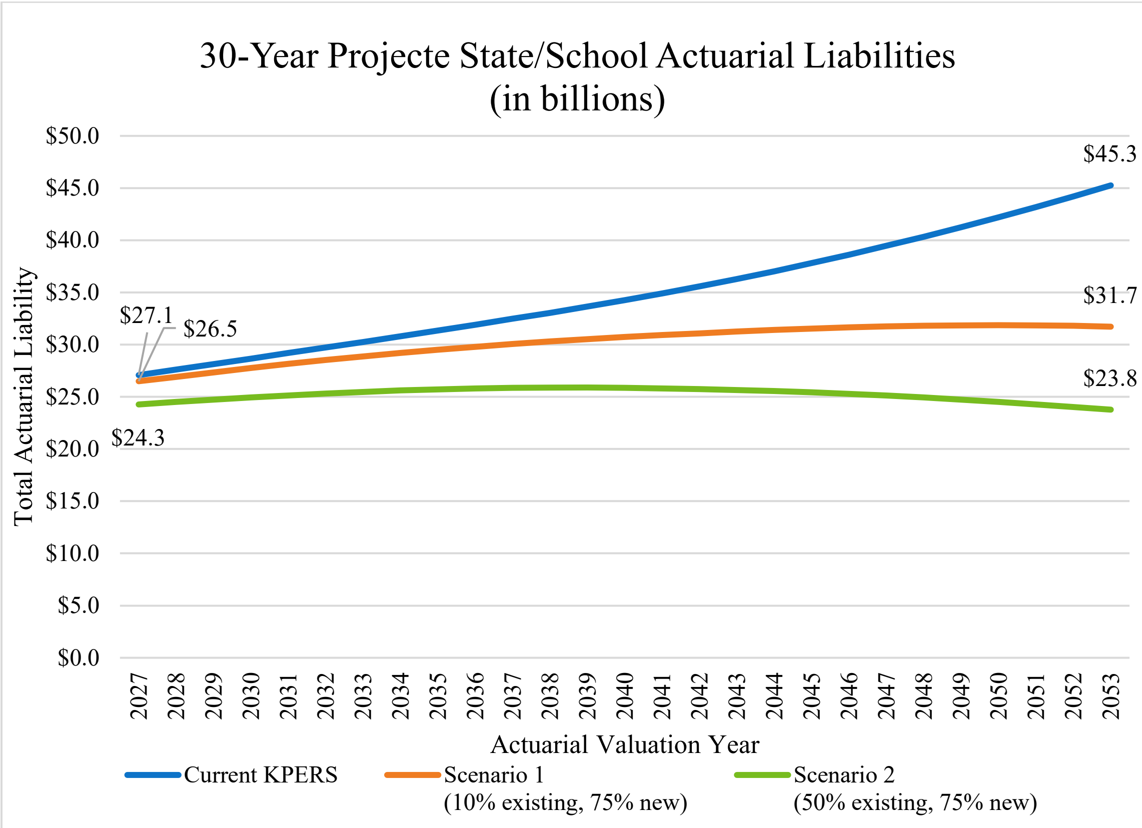
Fiscal Year	Current KPERS Plan	Scenario 1 (10% existing, 75% new)	Scenario 2 (50% existing, 75% new)
2028	$141.6	$177.9	$222.3
2029	$138.7	$181.2	$225.2
2030	$135.5	$187.8	$235.5
2031	$132.8	$197.9	$250.9
2032	$130.9	$205.0	$256.8
2033	$128.7	$212.3	$263.0
2034	$126.8	$219.8	$269.7
2035	$125.0	$227.6	$276.9
2036	$123.9	$235.7	$284.4
2037	$122.5	$244.1	$292.3

Under SB 282, unfunded actuarial liability amortization costs will continue to be based on the combined payroll of both KPERS and KRISP participants. As a result, switching to KRISP is not expected to change the total UAL contributions.

Retirement System Liabilities
Defined contribution plans, by design, do not accrue actuarial liabilities. As a result, KRISP members will not contribute to the retirement system's liabilities.

Under the current KPERS plan design, system liabilities are expected to continue growing over time. However, in both actuarial scenarios, as KRISP enrollment increases, total projected liabilities begin to decline.

There will continue to be an actuarial liability in the plan as long as the defined benefit plan remains open to new members. Even if the current defined benefit plan was closed, there would continue to be an actuarial liability for decades into the future because of the existing members. The following chart shows the expected liabilities over the 30-year projection period:



KPERS Trust Fund Cashflow
An additional fiscal issue that will need to be addressed is the cashflow from the KPERS Trust Fund paid to the KRISP plan after the election for current KPERS members to switch to the KRISP.

Under SB 282, if a current KPERS member elects to switch to the KRISP, an amount equal to the present value of the member's benefit (determined actuarially) will be transferred from the KPERS Trust Fund to the member's rollover account in the KRISP.

Under the two scenarios used by the actuary:

- If 10% of KPERS members elect into the KRISP, approximately $792 million would transfer out of the KPERS Trust Fund.
- If 50% of KPERS members elect into the KRISP, approximately $3.9 billion would transfer out of the KPERS Trust Fund.

These amounts represent 3% to 13% of the KPERS Trust Fund.

KPERS' investment portfolio does not maintain an allocation to cash large enough to cover this size of transfer out of the Trust Fund. In addition, if the transfer was large enough, KPERS may be required to liquate assets, which would incur transaction costs. Managing this level of transfer will require careful consideration to avoid adverse impact to expected investment returns of the KPERS Trust Fund.

Administrative Considerations

Offering a defined contribution plan as a primary employer-sponsored retirement plan is a foundational shift in Kansas' retirement policy. KPERS has always been a defined benefit plan and all administrative structures in place today are designed to administer a defined benefit plan.

SB 282 allows either KPERS or a third-party administrator to handle the administration. Since there are multiple companies that currently administer large defined contribution plans, the assumption is that the KRISP would be administered through a contract with a third-party administrator like the existing KPERS 457 plan, which is administered by Empower Retirement.

KPERS would continue to be the primary customer service provider to members and employers. Educational materials, employer reporting and collection of contributions would continue to be managed by KPERS. However, for specific KRISP account questions, the third-party administrator would be the point of contact for members.

Administrative Costs

Creation of a new retirement plan will require extensive staffing and technical work to complete. Among KPERS' expected administrative start-up and on-going costs are:

- Actuarial services
- Defined contribution plan, investment and audit consultant services
- Legal services (both in-house and contractual)
- Communication/education costs
- Costs associated with a request for proposal for third-party recordkeeping, trust and investment services
- Ongoing contract monitoring, audits and reporting
- One-time costs for changes to KPERS' information technology system

Our initial estimate is 15 staff members during the transition years (FY 2026 and FY 2027), with 7 of those positions becoming permanent staff after the transition. Assuming that a third-party administrator will be responsible for the tracking of member data, most of the technical work will be ensuring that KPERS can interface with the third-party administrator.

The estimated costs for FY 2026 total $705,000 with 5.0 positions and for FY 2027 total $1.5 million with 15.0 positions. Starting in FY 2028, 7.0 positions continue as permanent positions with a total cost of about $770,000.

Startup Costs

A key challenge in launching KRISP is funding the initial setup. KPERS Trust Fund assets, by law, can only be used for the benefit of existing members and cannot be applied to KRISP implementation.

The KRISP plan includes mechanisms for paying administrative expenditures of the plan, but there are no assets at startup to pay administrative costs. SB 282 addresses this by:

- Establishing a separate trust fund for KRISP.
- Authorizing the Pooled Money Investment Board (PMIB) to provide a loan for startup costs.

Conclusion

Creating a new defined contribution plan for public employees in Kansas is a significant undertaking that will require careful planning and implementation. We believe the KRISP structure in SB 282 works within the requirements of governmental retirement plans. KPERS is not currently equipped to administer a defined contribution plan, but we believe that systems can be in place by the July 1, 2027, timeline included in the bill.

I would be pleased to respond to any questions the Committee may have.

Attachment A

Kansas Retirement Investment Savings Plan (KRISP)

At a Glance

Kansas Retirement Investment Savings Plan (KRISP)

4% Employer Contributions

Add:
- 0.5% match for 1% voluntary member contribution
- 1% match for 2% or greater voluntary member contribution
- Plus additional employer contribution to defined benefit plan

6% Member Contributions

- Mandatory
- Additional voluntary member contributions (auto-enrolled)

Member Manages Investments

- KPERS selects investment options

Withdrawal

- Members can withdraw balance if they leave employment or retire

Annuity Option

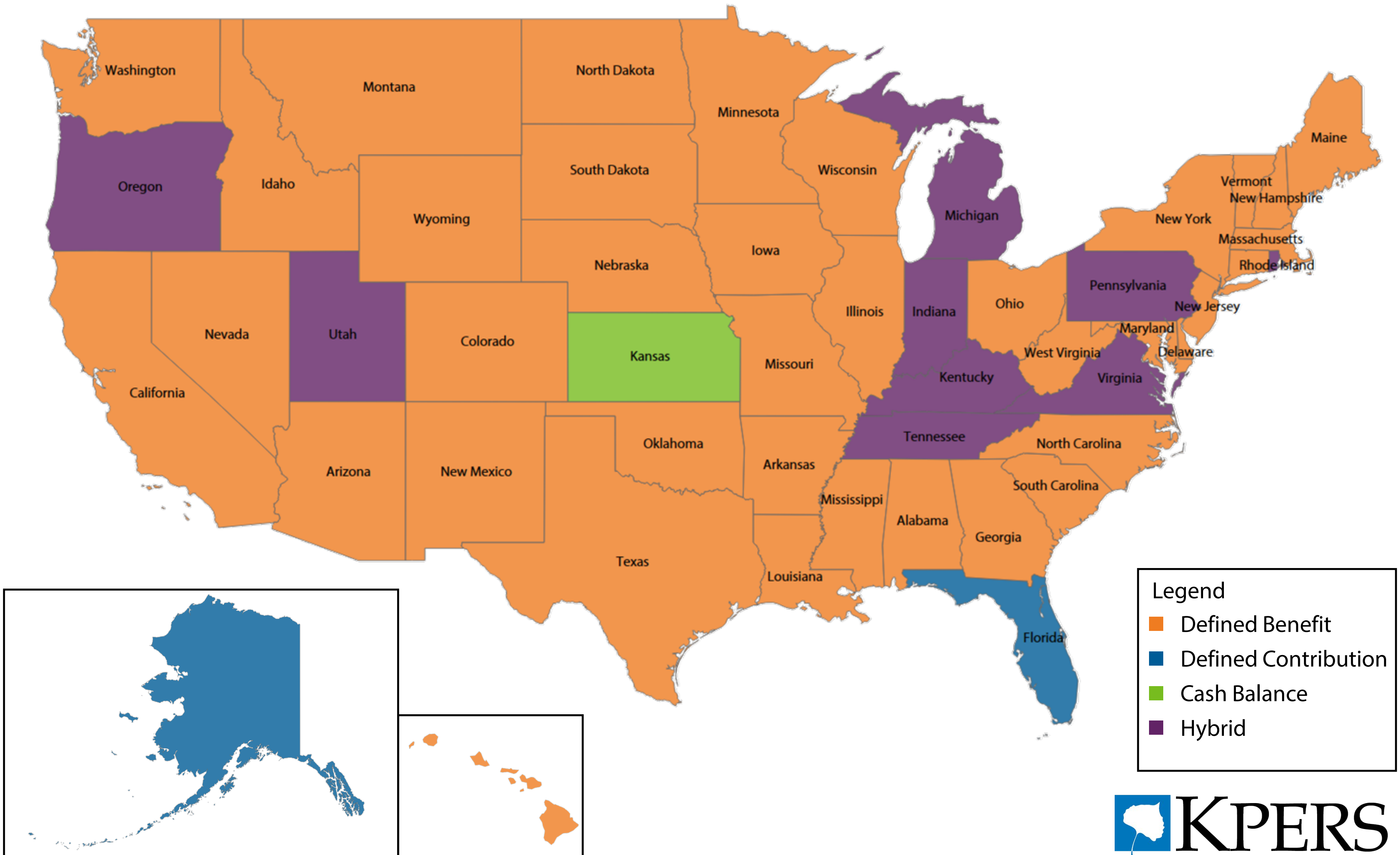
- Members can purchase an annuity through KPERS when they retire

The Fine Print

- KRISP is the default plan for new members (including inactive, non-vested KPERS members) who start July 1, 2027 or later. They have a 30-day window to elect to move to the KPERS 3 plan.
- Members vest in KRISP immediately. There is a 5-year vesting period for the employer contributions.
- Current members will have 30 days to decide if they would like to move to the KRISP Plan.
- KPERS will invest and manage all employer and employee contributions during the 30-day window periods.

Attachment B

Governmental Retirement Plan Design – School Groups

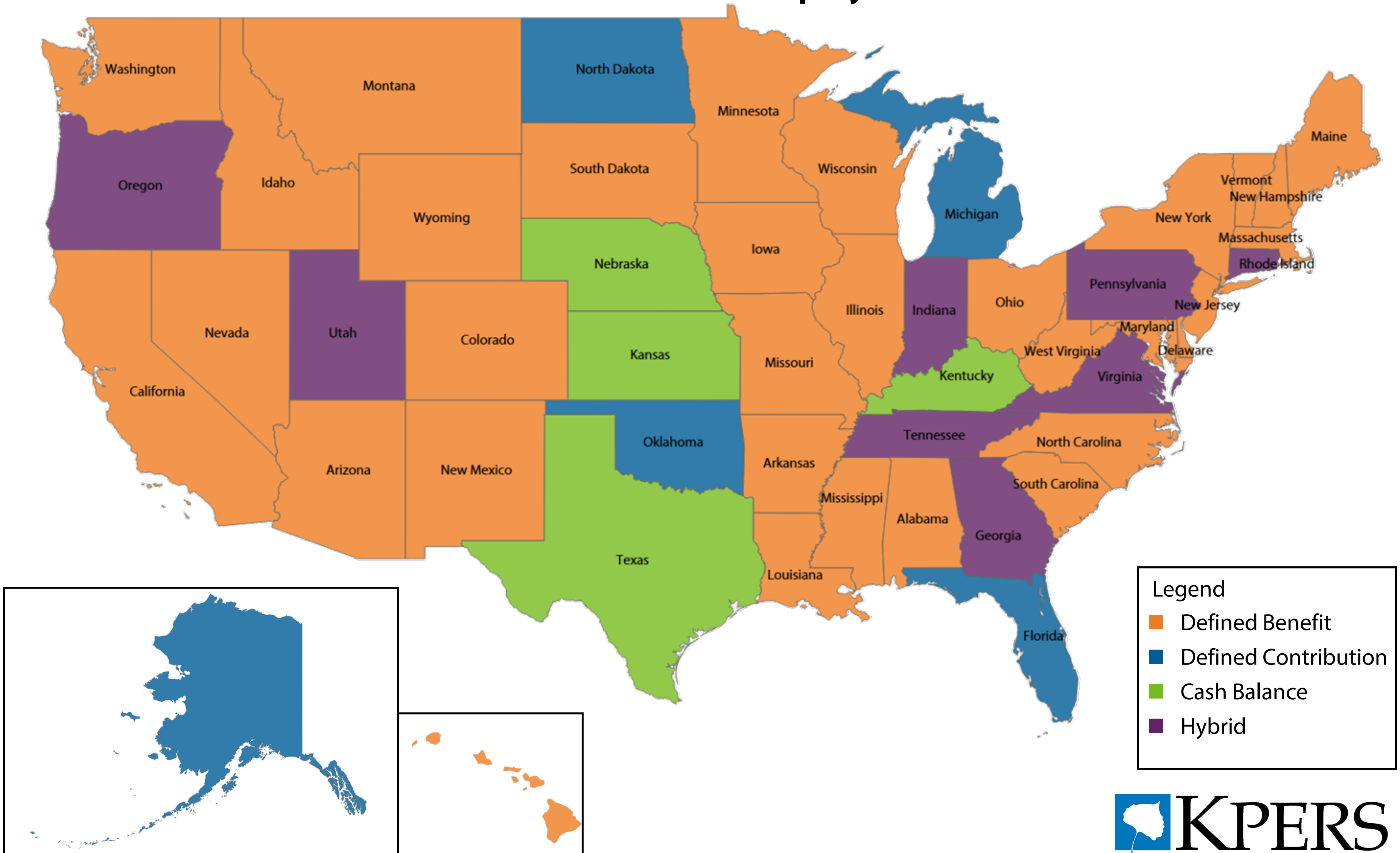


KPERS

Source: National Association of State Retirement Administrators

Attachment C

Governmental Retirement Plan Design – Non-School Groups
State and Local Employees

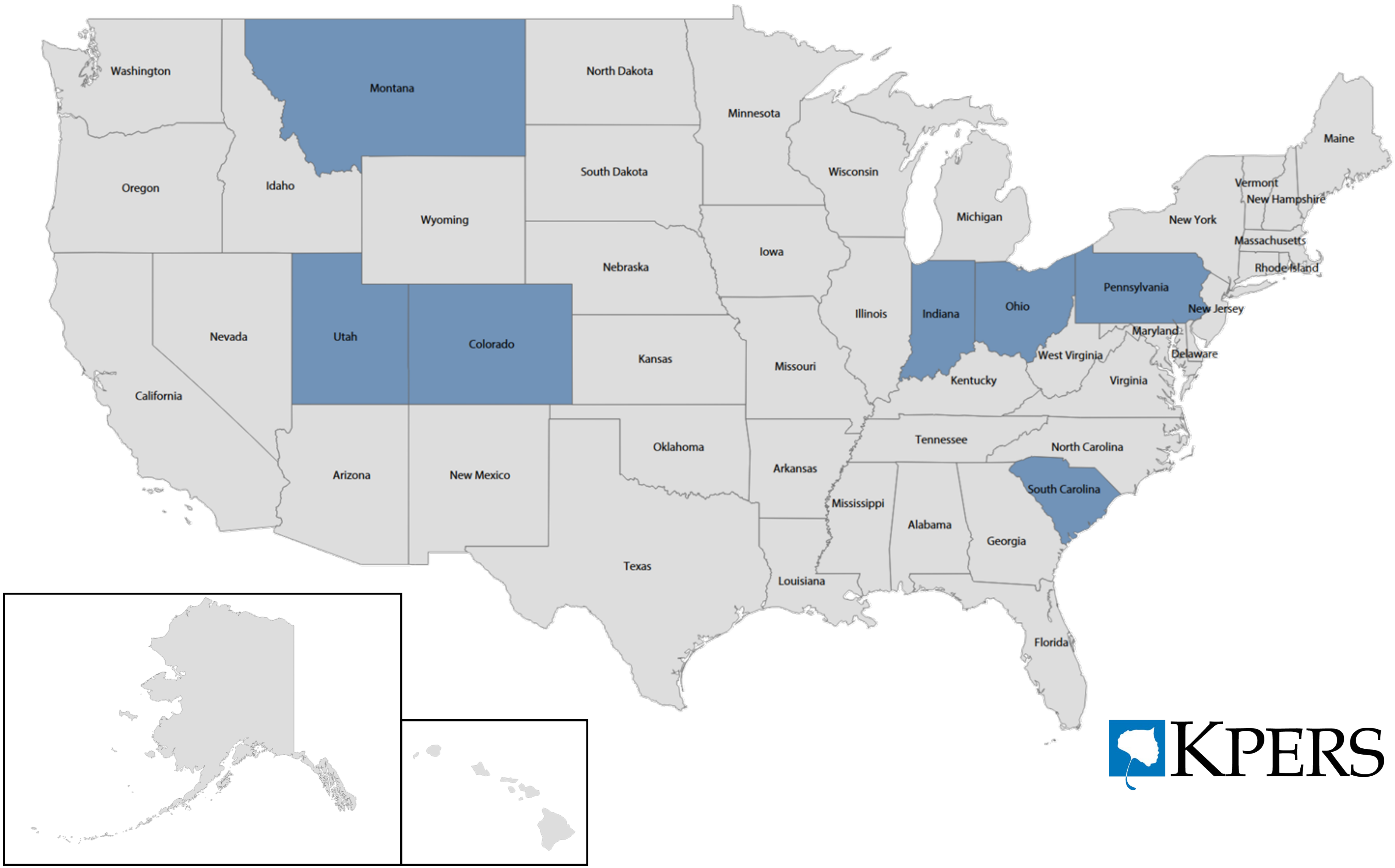


KPERS

Source: National Association of State Retirement Administrators

Attachment D

States with Optional Defined Contribution Plans



Source: National Association of State Retirement Administrators