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The Honorable Brenda Dietrich, Chairperson
Senate Committee on Financial Institutions and Insurance
300 SW 10th Avenue, Room 546-S
Topeka, Kansas 66612

Dear Senator Dietrich:

SUBJECT: Fiscal Note for SB 282 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 282 is respectfully submitted to your committee.

SB 282 would create the Kansas Retirement Investment and Savings Plan (KRISP), which would be a defined contribution plan design plan for new KPERS members on and after July 1, 2027. The bill would also allow certain KPERS members to participate in KRISP by an election. Members in the Kansas Police and Firemen's Group, Judges Group, and KPERS correctional members would remain in their respective plans. The bill would provide that most administrative decisions, including whether the plan is administered directly by KPERS or by a contracted third-party administrator, would be delegated to the KPERS Board of Trustees.

The bill would make KRISP the default plan for new members beginning July 1, 2027. Members would have a 30-day election window to make an election between the KRISP and KPERS Tier 3. If a member would fail to make an election in the 30-day window, the member would be enrolled in KRISP.

Each member who would elect to participate in KRISP would have four accounts:

1. Member Mandatory Contribution Account—each member would be required to contribute a minimum of 6.0 percent to this account. Contributions could be made on either a pre-tax or post-tax basis. The member would be immediately vested in the member mandatory contribution account, along with any interest earned on the account.

2. Member Deferred Compensation Account—members would be automatically enrolled for contributions in a deferred compensation account (457 account) and have an initial contribution of 1.0 percent of employee compensation to the account. The contribution rate would automatically increase by 1.0 percent per year up to a maximum of 10.0 percent. The member could elect to change the contribution amount, but without action the member will automatically make additional contributions to this account. The member would be immediately vested in the deferred compensation account.
3. Employer Contribution Account—the employer would contribute a base of 4.0 percent of the employee pay to this account, with increases as voluntary member contributions would increase. Employer contributions would be 4.5 percent if the member contributes 1.0 percent to the 457 account and 5.0 percent if the member would contribute 2.0 percent or more to the 457 account. The member would vest in the employer contribution account after five years of participating service in KRISP.
4. Rollover Account—the bill would require the plan to accept rollovers (assets from other retirement plans) from eligible retirement plans and would be deposited into the member's rollover account. The member is immediately vested in the Rollover Account.

Each member would be responsible for choosing the investment of the total balance of the accounts. The bill would require six investment options for members to select: (1) government securities fund; (2) fixed income index fund; (3) common stock index fund; (4) small cap index fund; (5) international stock index fund and (6) target date fund, which is a fund that adjusts over time based on retirement date. Members could file an application for distribution of vested account balances at any time after they terminate employment. Distributions could be made by direct rollover, indirect rollover, or lump-sum distribution. In addition, the KPERS Board of Trustees would be given the authority to offer additional distributions options, including offering an annuity option. If a member would leave employment and not be vested in the Employer Contribution Account, the balance of that account would be forfeited, and amounts would be utilized by KPERS to offset any administrative expenses of KRISP.

SB 282 would allow for a one-time, irrevocable election of all existing eligible KPERS members to switch to KRISP, if allowed by the Internal Revenue Service. Members who would elect to switch would have a calculation of the present value of future benefits and the equivalent amount in cash (or their KPERS Tier 3-member account balance) would be transferred from the defined benefit plan to their rollover account in the KRISP. The calculation of the present value of future benefits would be based on actuarial assumptions and tables currently in use.

The bill would require employer contributions based on the covered payroll of KRISP members to the defined benefit plan (the current retirement plan for KPERS Tier 1, 2, and 3). The employer contribution to the KPERS defined benefit plan based on the KRISP payroll would be equal to the unfunded actuarial liability (UAL) amortization rate for the defined benefit plan. When the unfunded actuarial liability of the defined benefit plan would be fully funded, this payment would no longer be made.

Finally, the bill would allow the Pooled Money Investment Board (PMIB) to make a loan to KPERS for the initial costs of establishing KRISP, subject to approval by the State Finance Council. The Director of the Budget would approve the loan terms.

According to KPERS, establishing KRISP would incur the following start-up and on-going costs: actuarial services; consultant services for the defined contribution plan, investments, and audit; legal services; communication and educational costs; third-party recordkeeping, trust, and investment services; ongoing contract monitoring, audits, and reporting; and one-time costs for changes to the KPERS information technology system.

For FY 2026, KPERS estimates KRISP expenditures totaling $704,664, including $304,664 for staffing costs (including fringe benefits) for 5.00 FTE positions and $400,000 for information technology costs. The 5.00 FTE positions and associated costs would begin in January 2026. The positions would include a Benefits Manager, an Enrollment Specialist, an Educational Representative, a Plan Administrator, and a Plan Manager. These 5.00 FTE positions would be considered permanent positions for KRISP. Information technology costs associated with the KRISP implementation of fall into two categories: upgrades to KPERS' information technology system and additional information technology hardware and software for new employees. Assuming that a third-party administrator would be responsible for all the tracking of member data, changes to the KPERS information technology system would be necessary to ensure that the KPERS information technology system can properly interface with the third-party administrator whenever data sharing is necessary.

For FY 2027, in addition to the 5.00 FTE permanent positions in FY 2026, 2.00 FTE permanent Corporate Accountant positions would be needed along with 6.00 FTE temporary Benefit Representatives and 2.00 FTE temporary Educational Representatives. The total cost of these 15.00 FTE positions in FY 2027 would total $1,122,689, including fringe benefits. In addition to the salaries and wages expenditures, another $400,000 would be utilized to finish the information technology upgrades and software requirements for KRISP. In total, expenditures totaling $1,522,689 would be required in FY 2027.

For FY 2028, the agency estimates that the 7.00 FTE permanent KRISP positions would require salaries and wages expenditure (including fringe benefits) totaling $767,710. All temporary positions would have ended by the end of FY 2027, as well as all one-time information technology costs.

To pay for these start-up costs, KPERS would utilize the loan provision through PMIB. In total, during FY 2026 through FY 2027, a total of approximately $2.3 million would be needed for KRISP startup costs through PMIB loans, as funds in the KPERS Trust Fund can only be used for the benefit of KPERS members. The bill would allow KPERS to recover costs associated with KRISP, including start-up costs, from: (1) a service charge collected from all participants; (2) credit allowances of specified plan expenses with agreements with the qualified firms that would provide KRISP services; and (3) any forfeited balances in a member's Employer Contribution Account when a member would leave employment and would not be vested.

For the actuarial costs, the KPERS actuary estimates that the bill would make KRISP the default retirement plan and would allow current members to make a one-time election into KRISP. The total actuarial liabilities and assets of the existing defined benefit plan would decrease as members elect to KRISP. However, because not every member has the same liability, the mix of members who would ultimately elect to KRISP would affect the assets and liabilities that would remain in the KPERS Trust Fund.

With the bill's cost projections, employer contributions to the existing defined benefit plan would include the statutory employer contribution rate on the defined benefit payroll and the UAL amortization rate on the defined contribution payroll. As a result, the dollar amount of employer contributions to the defined benefit plan would be expected to decrease after KRISP opens. Benefit payments from the defined contribution plan are not estimated to materially reduce until much farther out in the projection period. The amount of negative net cash flows (contributions minus benefit payments) would be expected to increase and could impact the liquidity needs of the existing KPERS investment portfolio.

The expectation is that the increasingly negative cash flow could require a change to the asset allocation of the KPERS Trust Fund over time. If current members would elect to KRISP, there could be a significant one-time outflow from the transfers to the rollover accounts in KRISP, as well as even greater reductions in future employee contributions. With this change in cash flows, KPERS may need to adjust its portfolio asset allocation to contain a higher proportion of liquid and less volatile assets, resulting in a lower allocation to equities and, consequently, a lower expected return. The cost resulting from the anticipated portfolio changes cannot be estimated; however, the actuary indicates the effect could be significant. The long-term cost impact of changing the asset allocation is not included the actuary's analysis.

Because the existing defined benefit plan would continue to be funded on the combined defined benefit plan and KRISP covered payroll, the funding of the KPERS UAL is not expected to change. The KPERS plan would be expected to reach 80.0 percent funded and 100.0 percent funded on the same schedule as the current amortization schedule with the enactment of SB 282. However, over the long-term, the cost to fund the KRISP would be higher than the expected employer cost of KPERS. The employer normal cost of the defined benefit plan is projected to be about 2.6 percent of payroll, but that declines to about 1.0 percent over time, as a large proportion of members are in KPERS Tier 3 and with the retirement of the members of the closed groups of Tier 1 and Tier 2. After the existing UAL of the current KPERS system is paid off, the 1.0 percent employer contribution rate is what the state should expect to pay in annual employer contributions with the current KPERS State/School Group. This current employer cost of KPERS should be compared to the following potential KRISP cost.

KRISP would have a minimum employer contribution rate of 4.0 percent and a maximum employer contribution of 5.0 percent, depending on the employee contribution. The difference in the long-term employer contribution between the two plans results in significantly more employer contributions to KRISP. To illustrate potential costs of the bill, the KPERS actuary completed an analysis looking at the total employer contributions under 2 different scenarios: (1) 10.0 percent of existing KPERS members would elect to KRISP and 75.0 percent of new members would elect

KRISP; and (2) 50.0 percent of existing KPERS members would elect to KRISP and 75.0 percent of new members would elect KRISP. The following table compares the first ten years of projected employer contributions for the annual cost of benefits for the two scenarios, excluding the UAL portion of the employer contribution:

KPERS Employer Contributions Scenario Comparisons—SB 282

Dollars in millions

	KPERS Current Baseline	Scenario 1	Scenario 2
FY 2028	$141.6	$177.9	$222.3
FY 2029	138.7	181.2	225.2
FY 2030	135.5	187.8	235.5
FY 2031	132.8	197.9	250.9
FY 2032	130.9	205.0	256.8
FY 2033	128.7	212.3	263.0
FY 2034	126.8	219.8	269.7
FY 2035	125.0	227.6	276.9
FY 2036	123.9	235.7	284.4
FY 2037	122.5	244.1	292.3

The initial difference in annual contributions would depend on the number of existing eligible KPERS members that would elect to KRISP. Over time, as a larger proportion of membership would be in KRISP, the difference in expected employer contributions would increase because of the higher expected employer contributions in the KRISP plan design. In Scenario 1, where 10.0 percent of existing members elect to KRISP and 75.0 percent of new members enter KRISP, the total State/School Group employer contributions (assuming 5.0 percent KRISP employer contributions) over the 30-year projection period total $21.5 billion, compared to $17.3 billion under the current KPERS plan. With Scenario 2, the total employer contributions (assuming 5.0 percent KRISP employer contributions) over the 30-year projection period total $22.9 billion, compared to $17.3 billion under the current KPERS plan.

For long-term considerations, KPERS reports that there are both cashflow and actuarial funding considerations for the defined benefit plan. First is the potentially large transfer out of the KPERS Trust Fund to the member's KRISP Rollover Account. Depending on the number of members who elect to transfer to KRISP, the total amount of funds transferred out of the KPERS Trust Fund could be substantial and require changes to the investment portfolio to ensure enough funding is available to complete all the transfers. The current investment mix may not have the liquidity necessary depending on the total amount of the transfers. Moving to a more liquid asset mix could also affect the actuarial investment return assumption. A lower expected return would increase the estimated contributions that would be required in the future to fund the defined benefit plan. This increases the funding risk to the defined benefit plan. However, defined contribution plans by design have no actuarial liability. As new members join KRISP, there would be no additional unfunded actuarial liability for those members.

PMIB reports that the fiscal effect on any loans that would be made for KRISP start-up expenses would be the loss of the income between the rate earned from the loan and the average daily balance that the funds would have earned in PMIB's investments. In addition, PMIB also earns a fee of 0.1 percent on investments made, which is currently transferred to the State General Fund. Assuming that the loan rate would be the same as PMIB would earn in its investments, the State General Fund would see a reduction of revenue totaling 0.1 percent of any loans for KRISP administrative expenditures. For example, for each $1.0 million in loans that would be made by PMIB to KPERS for KRISP start-up costs, the State General Fund would lose $1,000 from the fee of 0.1 percent that would have been earned by PMIB on investment income. Any fiscal effect associated with SB 282 is not reflected in *The FY 2026 Governor's Budget Report*.

KRISP would also apply to the KPERS Local Group. The same funding considerations would apply to local employers, including the additional expected employer contributions from the difference in the KPERS normal cost (initially 2.6 percent and declining over time to about 1.0 percent) and KRISP (4.0 percent to 5.0 percent). For local employers, the difference in 30-year total employer contributions (assuming 5.0 percent KRISP employer contributions) is projected to be $7.7 billion for KRISP versus $5.8 billion for the current plan. This cost would be $1.9 billion higher if 10.0 percent of active members would elect to KRISP. If 50.0 percent of active KPERS Local Group members would elect to KRISP, the total employer contributions (assuming 5.0 percent KRISP contributions) would be $8.1 billion compared to $5.8 billion under the current KPERS funding projection, or $2.3 billion higher. These costs would spread across more than 1,400 local employers. Like the State/School Group, as new local members join KRISP, there would be no additional unfunded actuarial liability for those members.

Sincerely,

Adam C. Proffitt
Director of the Budget

cc: Jarod Waltner, KPERS
Joel Oliver, Pooled Money Investment Board
Lynn Robinson, Department of Revenue