

MEMORANDUM

To: Joint Committee on Pensions, Investments, and Benefits

From: Alan D. Conroy, Executive Director

Date: December 8, 2021

Subject: KPERS Pensions Administration System Modernization – Next Steps

KPERS maintains a pension administration software application that provides the functionality needed to collect data and monies from employers and to process and pay benefits.

The current system was implemented in 2005. Over the past 15 years many plan design changes have required additional system customization. These changes are both internal (i.e. implementing solutions for business processes) and external (i.e. legislative changes). The most significant plan design changes include creating KPERS 2 in 2007 and KPERS 3 in 2012. As part of adding the KPERS 3 cash balance plan, the Retirement System also needed to move to pay period reporting for employee and employer contributions (instead of annual reporting).

The existing pension administration system is still capable of executing KPERS' mission-critical processes, namely collecting contributions, and paying benefits. However, due to the required customizations discussed earlier, the existing system has become less efficient and more unstable over time. Maintaining the codebase for existing functions is becoming more of a struggle, let alone keeping pace with current best practices among pension administration systems. It is imperative that a new pension administration system be implemented before the existing system can no longer effectively meet the needs of the organization and our members.

Modernization Project

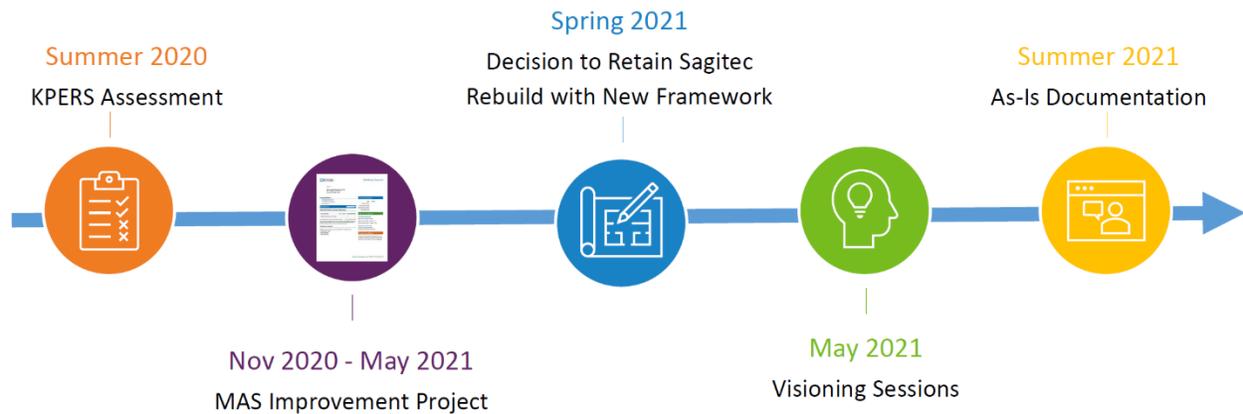
The pension administration modernization project began with a budget request to the 2020 Legislature to begin the process. The 2020 Legislature approved the additional appropriations and KPERS launched the project. The first step was the completion of an overall needs assessment. KPERS selected a vendor to complete this process via competitive bid and ultimately selected Segal to complete this work in the summer of 2020.

The outcome of the assessment process was a clearer vision of how a pension administration database could be structured to improve the experience for our members, employers and for KPERS. Our projection vision is to implement a best-in-class system that improves automation, provides high quality tools and communication, and will support our member's needs into the future while maintaining the security and integrity of our data.

The initial options for a pension administration system was to start a request for proposal process to search for a new vendor or continue the relationship with our existing vendor (Sagitec). We



engaged in a pilot project with Sagitec to update our member annual statement process to gauge their ability to meet the needs of the System in implementing a new system.



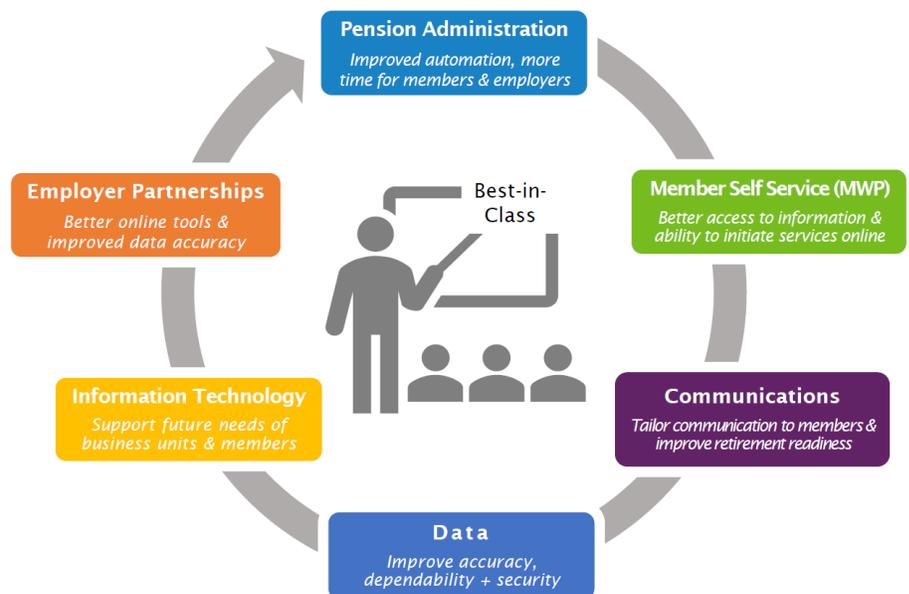
Ultimately, KPERs elected to continue our relationship with Sagitec starting with a new base system and building a best-in-class system.

Next Steps

KPERs and Segal completed “Functional Visioning” with leaders and key managers in the agency to determine what “Best-in-Class” means to KPERs. Multiple clear goals arose, and we are now in the process of assessing how we might operationalize new directions. To that end, we had a series of demonstrations from Sagitec to see what is available in the latest release of their product. Based on what we heard from Sagitec, we facilitated internal “Technical Visioning” meetings with KPERs IT leaders to determine what we need to plan for beyond the pure pension administration system.

A lynch pin project in Modernization is the “As-Is” process documentation project. In this project, we are documenting process flows and pain points in current operations. This project is helping us identify gaps and pinpoint problems that we must resolve in the future.

While we are looking to the future, we must also manage our “legacy system,” our existing installation of the Sagitec product. To free the KPERs IT employees to engage in the future, we have asked Sagitec to take the lead on Legacy. We are writing a transition plan now and intend to differentiate between what we fix now in the old system, and what waits for the new.



FY 2022 and FY 2023 Budget Request

For FY 2022 and FY 2023, KPERS is using updated budget estimates based on the plan to implement a new base pension administration system and overtime shift all operations from the current system to the new system. The expenditures are budgeted as contractual services as most of the work will be completed by the information technology vendor. There will be staffing positions that are backfilled to allow for internal staff to focus on the modernization project, however those positions will be contract positions until necessary staffing levels are determined later in the project.

The 2021 Legislature approved FY 2022 budget includes expenditures totaling \$6.6 million for the pension administration modernization. The updated estimate does not change from the approved FY 2022 budget.

Most of FY 2022 will be setting requirements, design, and business process improvement. Major cost drivers in FY 2022 include temporary project positions, data cleaning and data governance, and new software for the project.

In FY 2023, the cost of the modernization effort is estimated ramp up to \$9.2 million. The expenditures remain in the contractual services portion of the budget. Additional staffing is again included as contract positions in FY 2023, but the primary cost is the contractual costs with Sagitec for development of the new pension administration system.

The major efforts in FY 2023 are expected to include:

- Employer web portal updates and enhancement
- Administration system upgrades
- Business process management
- Data profiling and cleansing
- Member web portal

The costs of the project are expected to be relatively stable at about \$9.0 million in FY 2024 and FY 2025 before tapering off to approximately \$3.0 in FY 2026 as we reach the expected end of the modernization project.