

March 13, 2019

The Honorable Jim Kelly, Chairperson
House Committee on Financial Institutions and Pensions
Statehouse, Room 581-W
Topeka, Kansas 66612

Dear Representative Kelly:

SUBJECT: Fiscal Note for HB 2217 by House Committee on Financial Institutions and Pensions

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2217 is respectfully submitted to your committee.

HB 2217 would enact the Kansas Thrift Savings Plan Act, which would create a defined contribution plan effective on and after July 1, 2022. The Thrift Savings Plan would be available to all retirement groups, which includes Kansas Public Employees Retirement System (KPERs), Kansas Police and Firemen's Retirement System (KP&F) and the Retirement System for Judges (Judges). The bill would require the KPERs Board of Trustees to establish a separate Thrift Savings Plan under sections 401(a) and 414(d) of the Federal Internal Revenue Code. The plan would be required to have a Roth contribution option for members. KPERs would be allowed to enter into contracts with insurers, investment managers, private firms or other parties for investment and administrative services for the plan. The bill would allow costs for administration of the plan to be recovered through service charges to participants or credit allowances or reimbursements from contracted firms.

New employees would be allowed to make a one-time irrevocable election to become a member of the Thrift Savings Plan within 14 days of the start of employment. Current active members of all retirement groups would be allowed to make a one-time irrevocable election to become a member of the Thrift Savings Plan within a 90-day period to be determined by the Board. Active members could not become members of the Thrift Savings Plan until the Board of Trustees receives approval from the Internal Revenue Service. An election of an active retirement group member to become a member of the Thrift Savings Plan would be for all the member's credited service. An election to become a member of the Thrift Savings Plan would terminate active membership in the defined benefit plan. KPERs would be required to calculate the actuarial present value of a member's accrued retirement benefit for all service prior to July 1, 2022 and transfer the lump sum amount to the member's Thrift Savings Plan account. Members would be allowed to rollover contributions in other retirement plans into the member's Thrift Savings Plan account.

The employee contribution rate for Thrift Savings Plan members would be 3.0 percent and the employer contribution rate would be 4.0 percent. However, if the employee contributes 4.0

percent, the employer rate would increase to 4.5 percent. If the employee contributes 5.0 percent, the employer would also contribute 5.0 percent. The bill specifies the type of investments that would be offered to members. There would be a default investment option for any member who does not select an investment direction. The bill also outlines procedures for distributions, termination of service and beneficiaries.

According to KPERS, the precise actuarial effect from HB 2217 cannot be determined because it is unknown how many employees would choose to become members of the Thrift Savings Plan. While KPERS does not expect many KP&F or Judges members to become members of the Thrift Savings Plan, KPERS estimates the plan may appeal to a high number of KPERS members as a result of the lower employee contribution rate. Currently, KPERS members contribute 6.0 percent of their salary. A large number of KPERS member elections into the Thrift Savings Plan would reduce the number of members in the defined benefit plan. This would affect the long-term funding of the KPERS Trust Fund.

The bill does not require employers to continue making contributions to the unfunded actuarial liability if employees join the Thrift Savings Plan. This would reduce the payroll base of the defined benefit plan, which would result in an increase in employer contribution rates. Additionally, KPERS estimates long-term employer costs would be higher under the Thrift Savings Plan than under the current KPERS 3 Cash Balance Plan.

KPERS notes that movement of employees from the defined benefit plan to the Thrift Savings Plan has the potential to affect KPERS Trust Fund cash flow. Any reduction in cash flow would increase the gap between benefits and contributions. In order to meet cash flow needs, the KPERS portfolio asset allocation would have to shift to more liquid investments, which could reduce the rate of return. Any reduction to the rate of return would require increases to employer contributions.

KPERS estimates the bill would require additional salaries and wages expenditures of \$825,000 for 16.00 new FTE positions for start-up costs in FY 2021, FY 2022 and FY 2023. Beginning in FY 2024, KPERS indicates ongoing salaries and wages expenditures would be reduced to \$565,000 for 7.00 FTE positions. Additionally, the agency estimates there would be additional information technology expenditures of \$200,000 in FY 2022. In general, KPERS expects additional expenditures for actuarial services; defined contribution plan, investment and audit services; legal services; communications; third-party recordkeeping, trust and investment services; and contract monitoring. Any fiscal effect associated with HB 2217 is not reflected in *The FY 2020 Governor's Budget Report*.

Sincerely,



Larry L. Campbell
Director of the Budget

cc: Jarod Waltner, KPERS