

MEMORANDUM

To: Joint Committee on Pensions, Investments and Benefits
From: Alan D. Conroy, Executive Director ^{gac.}
Date: December 2, 2020
Subject: 2021 Legislative Session Priorities

The KPERS Board of Trustees reviewed possible technical, budget and policy items during their November meetings. Consistent with Board policies the Board is not recommending any policy changes, leaving the plan design decisions to the Legislature.

The Board has directed staff to pursue introduction of legislation for a technical update of KPERS guidepost statutes. In addition, the Board has approved a multi-year modernization of the KPERS pension administration system and securing the appropriate funding for that effort is a priority during the 2021 Legislative Session.

Technical Legislation

The federal Coronavirus Aid, Relief, and Economic Security (CARES) Act contains several provisions that impact retirement benefits and allow disbursements. The Board adopted certain provisions for the KPERS 457 plan (*i.e.*, coronavirus related distributions or loans, qualified birth or adoption withdrawals). However, those provisions do not apply to the Retirement System.

KPERS' tax and compliance counsel, Ice Miller LLP, advises us that KPERS' IRS guidepost section (K.S.A. 74-49,123) needs to be updated during the 2021 Session to align with the federal CARES Act. Ice Miller has recommended updating the 457 plan's companion 401(a) plan language in KPERS statutes as well. Some of the updates are not required by the IRS until 2024, but if a technical adjustment for the CARES Act is being made it would be a good time to also update these statutes.

We are in working with Ice Miller on the required language and will offer any assistance necessary to the Revisor's office at the appropriate time.

KPERS Pension Administration System Modernization

The primary priority for the 2021 Legislative session is the pension administration system modernization. KPERS maintains a pension administration software application that provides the functionality needed to collect data and contributions from employers and to process and pay benefits.

The current system was implemented in 2005 when KPERS partnered with Sagitec Solutions to implement their new software. This "NeoSpin" framework allows KPERS and other customers to customize their systems to meet business requirements. Today NeoSpin is one of only a handful of pension solutions available in the marketplace. KPERS has continuously used this system since 2005 and has partnered with Sagitec for maintenance and enhancements.



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 over the years, 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.

KPERS administration and the Board of Trustees made the decision to begin the multi-year effort to modernize the pension administration system starting with the Fiscal Year 2021 budget. The first steps of the modernization effort were included in a budget enhancement to complete a business assessment of KPERS and the current pension administration system. The Governor and the Legislature approved the FY 2021 budget enhancement and the beginning of the modernization effort. KPERS selected The Segal Group for this assessment, which was completed in September 2020. KPERS will work with the Joint Committee on Information Technology at the appropriate time for their oversight on this project.

FY 2022 and FY 2023 Budget Request

With the business assessment complete, we are not moving forward with implementing the new system. We expect the project to cross 4 or 5 fiscal years with a total cost between \$20 and \$30 million depending on whether or not Sagitec is able to meet agency needs or if a new vendor will have to be selected.

For FY 2022 and FY 2023, KPERS is using the budget estimates that assume Sagitec will continue as the pension administration system vendor. 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/temporary positions until necessary staffing levels are determined later in the project.

KPERS budget request for the upcoming budget cycle includes \$11.9 million over two years (\$6.6 million in FY 2022 and \$5.3 million in FY 2023). We expect the cost to continue to decline slowly over the remaining 2-3 years of the modernization effort.

The modernization effort is critical to the continued success of KPERS and our ability to effectively work with our employers and our members. With the support of the KPERS Board of Trustees, the pension administration modernization is the highest priority for the 2021 Legislative Session.

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