

MEMORANDUM

To: Joint Committee on Pensions and Benefits

From: Alan D. Conroy, Executive Director
Faith Loretto, KPERS 457 Plan Manager

Date: September 12, 2016

Subject: Implementation of KPERS 457 Legislation

Legislation passed during the 2016 session (2016 SB 168) provides KPERS with new authority for three initiatives related to the KPERS 457 Plan– establishing a Roth component to the KPERS 457 plan; enabling certain KPERS pension data sharing with the plan’s record keeper (Empower) for KPERS 457 participants; and establishing an optional 401(a) plan for local employers that have adopted the KPERS 457 plan and wish to make employer contributions to their employees’ personal savings.

Work on all three of these initiatives is under way, with the goal of implementing them in early CY 2017.

ROTH 457(b) IMPLEMENTATION

In order to establish a Roth component to the KPERS 457 plan, amendments to the 457 plan document will be presented to the KPERS Board of Trustees at its September 30 meeting. Implementation involves several additional operational steps, including –

- Modification of state participant data file feeds from the Department of Administration to the KPERS 457 plan record keeper (Empower) to accommodate the additional contribution type: *In progress*
- Notification of local employers that have adopted the KPERS 457 plan that they have the option of offering the Roth component to their employees: *October*.
- Distribution of Roth communication and education materials for use with participants: *November-December*.
- Opening enrollment in the Roth component: *Beginning in December for State and any local employers that have elected Roth*.
- Initial acceptance of Roth contributions: *First pay date in January 2017*.

Services related to the Roth 457 component of the plan are part of the scope of KPERS' existing contract with Empower. Therefore, implementation of the Roth 457 feature will not require any new contracts or amendments to contracts and will not alter participant fees.

KPERS PENSION DATA SHARING WITH EMPOWER

For many years, KPERS has emphasized that personal savings, along with KPERS pension benefits and Social Security, are needed for a sound retirement income. In establishing the KPERS 3 cash balance plan, the Legislature underscored that message by requiring that KPERS 3 statements include the anticipated monthly benefit, income replacement ratio, and projected account balance.

Consistent with those goals, 2016 SB 168 allows KPERS to share individual member pension data for KPERS 457 participants with the Plan's record keeper, Empower, to provide consolidated pension and personal savings benefit estimates. Tools such as these will provide KPERS 457 participants with timely feedback to help them assess how financially ready they are for retirement and what they can do to better prepare.

Implementation of this initiative will primarily involve modifications to KPERS' information technology systems. KPERS will receive from Empower a secure electronic file feed of KPERS 457 participants. After pulling pertinent KPERS data for those participants, such as their salary and projected pension benefits, KPERS will then forward to Empower a secure, electronic file with the data for integration into its record keeping system. These system modifications have been added to KPERS' project management schedule, with work beginning in October and implementation slated for January 2017.

401(a) PLAN OPTION FOR LOCAL EMPLOYERS

Of the three initiatives, the new 401(a) plan for local employers has the most components required for implementation.

Preliminary communications with local employers. KPERS staff sent an e-mail to all local employers that offer KPERS 457 to let them know of the legislative changes. In addition, staff sent a separate e-mail to each local employer previously identified as currently offering or considering an employer contribution and have been in communication with an advisor assisting two of these local employers. Based on

information received to this point, it appears that employers currently have a wide range of approaches to such plan features as match structure and amounts and vesting.

Plan document. As is the case with the KPERS 457 plan, the 401(a) plan is established through the adoption of a plan document. To accommodate considerable variety in plan features that local employers may desire, the plan document will consist of two parts. Plan provisions common to all employers will be in the main body of the plan document, with plan feature options contained in a separate “adoption agreement,” which would be completed by each adopting employer. KPERS is currently reviewing preliminary drafts of these documents with our tax counsel, Ice Miller, and Empower, and will present them to the Board of Trustees for consideration at its September 30 meeting.

Investment line up. To the extent possible, KPERS’ goal is to provide the same investment options for the 401(a) plan as are currently provided through the KPERS 457 plan. This approach would provide consistency and simplify investment decisions for participants, while also simplifying investment decisions and monitoring for KPERS and increasing the possibility of offering institutional share classes to a much smaller plan.

KPERS 457 offers a stable value fund separate account that consists of KPERS 457 assets only. The assets of the new 401(a) plan and the KPERS 457 plan must each be held in separate trusts. For this reason, KPERS, our consultant, SageView Advisory, and Empower are researching technical questions related to the appropriate structure of this stability of principal option.

Fees and pricing. At this point, it is not clear which employers may choose to adopt the 401(a) plan in the short term or what existing assets, if any, they may elect to transfer to the new plan. Therefore, any significant advantages of scale for the 401(a) plan are solely due to its association with the KPERS 457 plan – i.e., because the employer must also offer KPERS 457, there will be some record keeping, customer service, and investment line up efficiencies. However, as separate trusts, care must be taken to avoid shifting of 401(a) costs to the existing 457 plan and vice versa. In collaboration with our consultant, staff is currently in discussions with Empower about proposed pricing, as well as the potential for reasonable administrative and service efficiencies to minimize additional costs associated with the plan.

Service agreement and related contracts. KPERS will need to enter into a new service contract with Empower. The service contract covers the record keeping, communication, education, and customer service functions required for the 401(a) plan. The existing KPERS 457 service agreement and the new 401(a) agreement will overlap

in many respects. In addition, a trust agreement and contract for the stable value fund will be needed.

Timing. Substantial lead time will be necessary if interested local employers are to begin offering the new 401(a) early in 2017. With that goal in mind, staff is working to bring several items to the Board for consideration at its September meeting, including adoption of the plan document; approval of the investment line up, including the stability of principal investment option; and authorization to execute the service agreement and related agreements.

Administrative costs. Because KPERS 457 and the 401(a) plan will be separate trusts, staff will work to set up appropriate accounting mechanisms for the Deferred Compensation Fund and a means to ensure that any “start-up” costs are ultimately paid through KPERS administrative fees on 401(a) plan assets.

We would be glad to provide additional information about the implementation of any of these initiatives or respond to any questions you may have.