# Report of the Joint Committee on Pensions, Investments and Benefits to the 2026 Kansas Legislature

**CHAIRPERSON:** Representative Nick Hoheisel

**VICE-CHAIRPERSON:** Senator Brenda Dietrich

**OTHER MEMBERS:** Senators Michael Fagg, Marci Francisco, Pat Pettey, and Kellie Warren; and Representatives Mike King, Cindy Neighbor, Tobias Schlingensiepen, Angela Stiens, Gary White, and Rui Xu

## CHARGE

### *Monitor, Review, and Make Recommendations Regarding the Retirement System*

KSA 2023 Supp. 46-2201 directs the Committee to monitor, review, and make recommendations regarding investment policies and objectives formulated by the Kansas Public Employees Retirement System (KPERS) Board of Trustees; review and make recommendations relating to benefits for KPERS members; consider and make recommendations relating to the confirmation of members of the KPERS Board; review and make recommendations relating to the inclusion of city and county correctional officers as eligible members of the Kansas Police and Firemen's Retirement System; and review reports regarding working-after-retirement exceptions (KSA 74-4914 and 74-4937).

December 2025

# Joint Committee on Pensions, Investments and Benefits

## Report

### Conclusions and Recommendations

The Joint Committee on Pensions, Investments and Benefits submits the following recommendations:

- **Extraordinary transfer.** The Committee recommends the appropriate standing committees (House Committee on Appropriations, Senate Committee on Ways and Means) consider transferring $500.0 million from the State General Fund to the Kansas Public Employees Retirement Fund in FY 2026 to make an additional contribution toward the reduction of the Kansas Public Employees Retirement System (KPERS) unfunded actuarial liability;

- **KPERS 3 Cash Balance Plan.** The Committee supports and recommends enactment of HB 2086, which would increase the KPERS 3 discretionary dividend credit from 75 percent of the five-year average net compound rate of return to 80 percent. The bill would also reduce the discretionary dividend credit threshold from 6 percent to 5 percent of the five-year average net compound rate;

- **Deferred Retirement Option Program.** The Committee recommends the appropriate standing committees (House Committee on Financial Institutions and Pensions and Senate Committee on Financial Institutions and Insurance) explore expanding the Deferred Retirement Option Program to include unified school district school employees; and

- **Cost-of-living adjustments.** The Committee recommends the appropriate standing committees (House Committee on Financial Institutions and Pensions, Senate Committee on Financial Institutions and Insurance) explore opportunities and options to address cost-of-living adjustments, including dedicated funding sources for potential solutions.

***Proposed Legislation:*** None.

## Background

The Joint Committee on Pensions, Investments and Benefits (Committee) was created in 1992 and is authorized by KSA 46-2201 to:

- Monitor, review, and make recommendations regarding investment policies and objectives formulated by the Kansas Public Employees Retirement System (KPERS or the Retirement System) Board of Trustees (Board);

- Review and make recommendations related to KPERS benefits;

- Consider and make recommendations on the confirmation of members nominated by the Governor to serve on the Board; and

- Introduce legislation it determines to be necessary.

## Committee Activities

The Legislative Coordinating Council authorized one meeting day for the Committee during the 2025 Interim. The Committee met on October 14, 2025, to receive reports and updates and hold discussion on the KPERS 2024 actuarial valuation, KPERS budget and pension administration system modernization, pensions obligation bond proceeds, membership and retirement trends, investment performance, and implementation of 2025 law.

### Review of KPERS Law and Legislation

A Senior Assistant Revisor, Office of Revisor of Statutes, reviewed legislation pertaining to KPERS: two bills enacted into law in 2025, five bills with legislative consideration, and other KPERS-related bills introduced during the 2025 Legislative Session.

#### *KPERS Bills Enacted into Law*

**SB 64** amends KPERS statutes. The bill extends the timeline for a KPERS member to request an administrative hearing to appeal a decision made by the KPERS Board without a hearing. The bill updates KPERS statutes to align with federal Internal Revenue Code regulations relating to the applicable age for required minimum distribution of pension benefits, recalculation of life expectancy for determining benefits, distributions from a defined contribution or deferred compensation plan, and the addition of a SIMPLE IRA (Savings Incentive Match Plan for Employees Individual Retirement Account) that meets specific rollover requirements to the list of eligible retirement plans.

**HB 2062** amends law regarding child support to require such support be calculated from the date of conception, to require the court to consider the value of a qualified retirement account in determination of child support orders in certain circumstances, and to eliminate the exemption of such accounts from claims to collect child support. The bill also allows a personal exemption for any unborn child for the purposes of income taxation.

#### *KPERS Bills Receiving Legislative Consideration*

**HB 2086** would adjust the KPERS 3 dividend interest credit by lowering the dividend interest credit threshold from 6 percent to 5 percent and increasing the dividend share from 75 percent to 80 percent. This adjustment would apply to both a KPERS 3 member's annuity savings account and retirement annuity account.

**HB 2129** would transfer all active and inactive teacher members enrolled in the KPERS 3 cash balance plan to the KPERS 2 plan. The bill would also convert any teacher who is first employed by a participating employer on or after July 1, 2025, into a member of KPERS 2. "Teacher" is defined as any professional employee who is required to hold a certificate to teach in any school district and any teacher instructor in any technical college or community college.

**HB 2130** would allow KPERS benefits to be paid either on a biweekly or monthly basis, at the election of a member or benefit recipient.

**HB 2194** would provide an exemption from the working-after-retirement employer contribution rate for school districts employing retirants as teachers in positions for which a certificate to teach is required. The statutory waiting period before returning to work would continue to apply to such retirants.

**SB 282** would establish the Kansas Retirement Investment and Savings Plan beginning July 1, 2027.

#### *Other KPERS Bills Introduced*

**HB 2006** would make the Department of Corrections an eligible employer to affiliate with the Kansas Police and Fireman's Retirement System (KP&F), for security officers employed by the Department of Corrections.

**HB 2008** would change the definition of a "security officer" as it pertains to coverage in the KPERS-Correction Group, to add juvenile correctional officer positions to the statutory definition.

**HB 2298** would create a cost-of-living adjustment (COLA) for certain KPERS retirees, transfer $1.0 billion from the Budget Stabilization Fund to a newly created KPERS Liability Reduction Fund, and establish requirements for the expenditure or transfer of funds from the Budget Stabilization Fund.

**HB 2380** would provide a COLA for KPERS retirees who are 85 years of age or older. The bill would provide a $150 per month increase to the retirement benefit, pension, or annuity.

**SB 34** would allow the KPERS Board to invest and reinvest in Bitcoin exchange-traded products issued by an investment company registered in Kansas.

**SB 232** would amend law regarding unclaimed property funds invested by KPERS. The bill would add to the current list of allowable investments, to include bonds, notes, debentures, or similar obligations of a foreign government that the International Monetary Fund lists as an industrial country.

**SB 238** would provide for a COLA for certain KPERS retirees based on the date of retirement. Adjustments would range from 1 percent to 5 percent.

## KPERS 2024 Actuarial Valuation Report

The Committee reviewed the latest actuarial valuation, which serves as a snapshot of the financial condition of the Retirement System as of December 31, 2024. The Executive Director of KPERS indicated all membership groups remain at the full actuarial required contribution (ARC) rate, which is a key factor in reducing the unfunded actuarial liability (UAL) and improving funded ratios of each group. [*Note*: This annual actuarial valuation, which measures assets and liabilities, provides the basis for calculating future employer contribution rates.]

The 2024 valuation is used to set the FY 2028 contribution rates for State/School employers and calendar year (CY) 2027 contribution rates for local employers, and it serves as the baseline for any cost studies performed during the 2026 Legislative Session.

### *Key Findings*

**Assets.** As of December 31, 2024, the actuarial value of assets totaled $28.6 billion. Actuarial assets are calculated by averaging, or "smoothing," investment gains and losses over a five-year period. There is a net loss of $543.6 million to be realized in the outlying years. Net investment on a market-value basis was 8.8 percent in CY 2024. Due to smoothing, the return on actuarial assets was 6.2 percent.

**Funded ratio and unfunded actuarial liability.** The Retirement System's overall funded ratio of assets to liabilities remains at 74.0 percent from the 2023 to 2024 valuations. [*Note*: The standards for public pension plans suggest a public retirement system should be funded between 80.0 percent and 100.0 percent of future liabilities owed.] The UAL for the Retirement System increased from $9.7 billion (2023 valuation) to $10.0 billion.

The Executive Director noted that, if all funding assumptions are met in future years, the State/School Group UAL would increase until CY 2028 due to deferred investment losses, after which it would resume declining. Under these conditions, the legacy UAL for the State/School Group would be paid off in the 2039 valuation.

**Contribution rates.** The report indicated the ARC rates for KPERS State/School employers increase from 11.32 percent in FY 2027 to 11.38 percent for FY 2028. The statutory employer contribution rate continues to be at the full ARC rate for FY 2028, which will be the eighth consecutive year the statutory and actuarial rates have been equal.

## Investment Performance

The Chief Investment Officer (CIO), KPERS, provided an overview of the KPERS Trust Fund performance in FY 2025: a positive return of 10.3 percent, exceeding the actuarial rate of return of 7.0 percent but trailing the policy index, or asset class benchmark, of 12.0 percent. The portfolio's market value increased from $27.3 billion in FY 2024 to $29.3 billion in FY 2025.

The CIO noted the Board recently concluded an Asset Allocation Review project and developed an implementation plan in response to the increase

in the statutory cap on alternative investments to 25 percent. As part of the implementation plan, the naming convention for some asset classes was changed. The Board's recommended targets for the portfolio otherwise remain unchanged from its 2024 recommendation:

- 23 percent U.S. Equity;
- 18 percent international equity;
- 13 percent real assets;
- 12 percent real estate;
- 12 percent core fixed income;
- 11 percent private equity;
- 8 percent non-core fixed income; and
- 3 percent cash equivalents.

**Fund performance.** Over 1, 5, 10, and 20 years, portfolio returns have exceeded the actuarial assumed rate of return, and performance over the past 5, 10, 20, and 25 years has exceeded the System's policy benchmark. In FY 2025, the portfolio experienced positive returns on all asset classes, with U.S. and international equities performing the best, at 15.3 percent and 12.7 percent, respectively. By contrast, real estate and cash equivalents experienced the lowest returns, at 3.3 percent and 5.1 percent respectively.

**Economic and market observations.** The CIO indicated domestic equity markets continue to demonstrate considerable strength, closing FY 2025 with the Russell 3000 Index up 8.2 percent for July, August, and September 2025. The CIO recognized the U.S. Federal Reserve lowering of the Federal Funds interest rate in September, with two additional changes expected in 2025 and early 2026. As in prior years, further movement will be dependent on inflation, employment, and economic growth. Other influences include the impact of policy prescriptions of the current presidential administration as well as geopolitical risks that may create short-term volatility.

## KPERS Operating Budget and Pension Administration System Modernization

### *KPERS Operating Budget*

The Chief Fiscal Officer of KPERS detailed the KPERS operating budget, which includes general expenses (such as staff, contracts, and office space), investment-related expenses (such as manager fees and investment staff), and administration of the Death and Disability and KPERS 457 programs.

KPERS estimates expenditures totaling $93.7 million in FY 2026 and $99.3 million for FY 2027, the majority of which is financed by the KPERS Trust Fund, at $92.2 million and $97.8 million, respectively. General and investment-related expenses compose the largest portion of the operational budget, at $38.3 million and $53.9 million, respectively, in FY 2026.

KPERS anticipates modernization expenditures totaling $15.1 million in FY 2026 and $18.4 million for FY 2027, all financed from the KPERS Trust Fund. Most expenses will be for contractual services paid to the vendor.

Benefits payments are considered non-expense items for budgeting purposes and are not included when discussing operational expenditures. KPERS estimates total benefits expenses of $2.482 billion in FY 2026 and $2.602 billion for FY 2027.

### *KPERS Pension Administration System Modernization*

The Deputy Executive Director for Modernization for KPERS outlined the purposes of the pension administration system, which provides the functionality needed to collect data and contributions from employers and to process and pay benefits. KPERS started using its present system in 2005. The existing system remains capable of providing these processes but, due to the required customizations over the years, has become less efficient and more unstable over time. [*Note*: See the 2024 Interim Committee Report of the Joint Committee on Pensions, Investments and Benefits to the 2025 Kansas Legislature for background information on the decision to modernize the system.]

In 2024, the Board negotiated contract terms with Tegrit Software Ventures and its Arrivos pension platform. The project has a five-year time frame with a total cost of $74.0 million to implement. KPERS commenced the project in October, completing initial planning work in December.

In 2025, KPERS completed initial setup work and began the implementation process, which is expected to occur in 11 iterations over a 60-month period. Scheduled work for the year includes design for member information and beneficiaries, employer reporting, and member services.

In 2029, KPERS anticipates completing design and configuration work, training, and system readiness preparations, with a full roll out planned for November. After that point, there will be a one-year warranty period.

## Contemporary KPERS Topics and Issues

### *Alternative Investments Cap*

Among its provisions, 2024 HB 2711 increases the statutory cap on alternative investments from 15.0 percent to 25.0 percent. Following enactment of the bill, the Retirement System revisited the Asset/Liability Study, which was completed in May 2023 under the 15.0 percent cap. The 2024 Asset Allocation Review Project was completed in September 2024, and the Board adopted an implementation plan setting initial, interim, and long-term asset allocation targets in November 2024. At that time, private market pacing plans were updated to align with interim asset allocation targets for private equity, infrastructure, private real estate, and timber. Initial targets were implemented in January 2025.

The CIO noted increasing the cap allowed the System to set long-term allocation targets and reduce risk while maintaining target returns. The CIO further indicated only a portion of the 25.0 percent cap is projected to be utilized—approximately 19.0 percent in the long-term, around 2032. Commenting further, the CIO said he expects these projections to remain under the cap under stressed market environments.

### *Deferred Retirement Option Program*

Under the Deferred Retirement Option Program (DROP), eligible members with normal unreduced retirement initiate the calculation of retirement benefits but choose to defer the actual receipt of the benefits for a three-, four-, or five-year period. During the DROP period, the member does not earn additional service credits but continues to work and contribute into DROP. Retirement benefits are held in a separate account and, at the end of the period, the member receives the lump sum with interest. The DROP account can earn interest according to a statutory formula; currently, the formula allows for 3.0 percent interest in any year in which KPERS investments reach the 7.0 percent investment return assumption.

In 2015, the DROP was created as a five-year pilot program for troopers, examiners, and officers of the Kansas Highway Patrol. In 2019, the DROP was expanded to include agents of the Kansas Bureau of Investigation.

In 2023, HB 2196 expanded eligibility further to include all eligible KP&F members who choose to participate and extended the sunset date to January 1, 2031. The Executive Director noted participation in DROP has increased significantly since the program was extended to all eligible KP&F members and employers, nearly doubling since enactment of the 2023 bill, with 88 applications in CY 2024 and 46 applications in CY 2025 as of September 30.

As of September 30, 2025, 280 members, representing 34 employers, were enrolled in the DROP. Of those members, 71 DROP accounts have been paid out, with approximately $12 million in distributions total. Distributions ranged from $7,000 to $460,000.

### *Kansas Retirement Investment and Savings Plan (KRISP) Act*

*Background*

A Senior Assistant Revisor provided an overview of 2025 SB 282—the Kansas Retirement Investment and Savings Plan (KRISP) Act. The bill would create the KRISP, making it the default for new hires starting July 1, 2027, although such employees may elect not to participate. Existing

KPERS 1, 2, and 3 members would be given a one-time, 30-day election period to convert to the KRISP.

The plan would function like a 401(k) rather than a traditional pension. The Board would select investment fund options, while KRISP members would be responsible for investment elections.

Active members would contribute 6 percent to a mandatory contribution account and 1 percent to a deferred compensation account, the latter of which would increase by 1 percent annually until such contributions reach 10 percent. Both accounts would vest immediately upon membership, whereas rollover accounts would vest from the date contributions are credited.

Employers would contribute 4 percent to active members' accounts, plus an additional 0.5 to 1 percent to the members' deferred compensation accounts depending on member contributions to said account—1 percent and 2 percent respectively. Employer accounts would vest after five years of service.

Members could withdraw vested balances any time they leave employment through direct payment or rollover. Furthermore, members could purchase an annuity through KPERS upon retirement.

*Testimony*

Representatives from Americans for Tax Reform, Prime Capital Financial, and Reason Foundation spoke in favor of the KRISP Act. Proponents noted KPERS members would benefit from the more flexible and portable benefit offered by the KRISP, with only 41 percent of employees expected to remain long enough to vest in KPERS 3 benefits. Proponents also identified potential modifications to improve the plan, including incorporating guaranteed income solutions such as Income America 5ForLife, which is an in-plan collective investment trust administered by Great Gray Trust Company.

A representative for the Kansas Coalition of Public Retirees and Kansas Association of Retired School Personnel provided written testimony against the KRISP Act on four grounds: the unknown impact to the current KPERS system, the potential to incur and exacerbate negative effects to the KPERS 3 plan, removal of guaranteed benefits to retirees, and that the UAL would still need to be paid.

## Conclusions and Recommendations

The Committee submits the following comments and recommendations:

- **Extraordinary transfer.** The Committee recommends the appropriate standing committees consider transferring $500.0 million from the State General Fund to the Kansas Public Employees Retirement Fund in FY 2026 to make an additional contribution toward the reduction of the KPERS UAL;

- **KPERS 3 Cash Balance Plan.** The Committee supports and recommends enactment of HB 2086, which would increase the KPERS 3 discretionary dividend credit from 75 percent of the five-year average net compound rate of return to 80 percent and reduce the discretionary dividend credit threshold from 6 percent to 5 percent of the five-year average net compound rate;

- **Deferred Retirement Option Program.** The Committee recommends the appropriate standing committees explore expanding the DROP to include unified school district school employees; and

- **Cost-of-living adjustments.** The Committee recommends the appropriate standing committees explore opportunities and options to address COLAs, including dedicated funding sources for potential solutions.