HOUSE COMMITTEE ON APPROPRIATIONS

FISCAL NOTE

SENATE BILL NO. 1056 **PRINTER'S NO. 1970** **PRIME SPONSOR: Argall**

COST / (SAVINGS)

FUND	FY 2024/25	FY 2025/26
General Fund	**$0**	**See fiscal impact**
Motor License Fund	**$8,071,148**	**$0**

SUMMARY:

Senate Bill 1056 extends the prudent person investment standard used by the Pennsylvania Treasury Department, establishes the Keystone Saves Program, and delays the implementation of the electric vehicle road user charge imposed under Act 85 of 2024 by six months.

ANALYSIS:

Prudent Person Investment Standard

Senate Bill 1056 amends the Fiscal Code (Act 176 of 1929) to extend, from December 31, 2034 to December 31, 2035, the expiration of the authority of the Pennsylvania Treasury Department (Treasury) to invest funds according to the prudent person investment standard.

Keystone Saves Program

Senate Bill 1056 also creates an automatic enrollment payroll deduction individual retirement account (IRA) called the Keystone Saves Program. Treasury is charged with administering the program, providing information about the program to covered employees, developing educational materials, facilitating paperwork, and conducting an annual open enrollment period for the program. Program participants will have the opportunity to contribute towards an IRA with different investment options from which to choose.

Treasury will begin to implement the program no later than 24 months after the effective date of the bill. Certain covered employers are required to participate, while others can voluntarily participate. Private sector employers who have four or fewer employees, or who are new and have not been in business for 15 consecutive months are exempt from the requirements of the bill. Additionally, employers who have offered tax-favored retirement plans for employees within the preceding three years of the effective date are exempt.

Employer registration and participation is required to start in phases. The largest employers with more than 100 employees will start participation with the initial implementation 24 months after enactment, followed by employers with 20-99 employees at 30 months after enactment and 10-19 employees 36 months after enactment. However, the bill requires that covered employers who pay employees through a payroll system or payroll service shall register within 24 months after enactment. There is no penalty for employers who do not register and participate in the program.

Employers covered by the bill must allow employees to contribute to an IRA via payroll deduction. Covered employees will automatically be enrolled into the program, unless they opt-out. Employees can set the automatic deduction amount into their IRA. The default contribution is 4% of gross wages. The bill allows a participant to increase the deduction rate by any amount each year, up to a maximum of 10% of gross wages or the annual maximum contribution limit set by the Internal Revenue Code, whichever is greater.

Employees can completely opt out of deductions, change their deduction rate or freeze the automatic deduction rate increase.

Treasury is required to provide different options for participants to invest their account, including life-cycle funds with a target retirement date, equity index funds, bond index funds and a capital preservation fund and other options as the department determines to be necessary. The department will have the sole authority to select investment managers as options for program participants. All contributions, interest and investment earnings in the account will belong to the participant. The commonwealth nor the employer will have proprietary interest in the account.

Treasury will establish distribution procedures for the individual when they decide to retire, to help participants maximize financial security in retirement and assist with changes of decumulation of savings. The department shall consider lifetime investment products (annuities) as a distribution option, including ones that provide benefits to the participant’s spouse.

The bill creates two special funds: the Keystone Saves Administrative Fund and the Keystone Saves Program Fund. The Keystone Saves Program Fund will be used for the benefit of participants and the payment of program expenses. The Keystone Saves Administrative Fund will be held separate and apart from the Program fund and used to pay for all administrative and operating costs, fees and expenses of the department.

When fully implemented, Treasury’s administrative costs will be covered by assessments on individual accounts, or other funds designated for administrative purposes. These costs will be paid from the Keystone Saves Administrative Fund. Treasury will submit an operating request to the General Assembly for approval as part of the budget process. The amount needed for the budget line item will be assessed on participant accounts, but subject to a maximum cap of 75 basis points (0.75%).

During the period leading up to launch and for the first five years that participants are enrolled, the General Assembly will appropriate funds from the General Fund to cover start-up costs, which will be repaid over time. No assessments will be applied during the start-up period.

Electric Vehicle Road User Charge

Senate Bill 1056 delays the imposition of the electric vehicle (EV) and plug-in hybrid electric vehicle (PHEV) fee established by Act 85 of 2024 from January 1, 2025 to July 1, 2025.

Senate Bill 1056 would take effect immediately.

FISCAL IMPACT:

Prudent Person Investment Standard

The provisions of Senate Bill 1056 related to the Prudent Person Investment Standard would have no adverse impact on commonwealth funds.

Keystone Saves Program

Related to the Keystone Saves Program, initial administrative costs would be borne by the General Fund for two years leading up to launch and for the first five years after the first participants are enrolled. The bill provides that amounts appropriated for startup and operational costs within the first five years will be repaid “over time.”

The Treasury Department estimates annual costs during the two-year start-up period of $1.27 million per year and annual operating costs thereafter of $1.30 million. Therefore, over a seven-year period, the General Fund would bear a cumulative cost of $9.04 million, including $1.27 million each year for years 1-2 and $1.3 million each year for years 3-7. These costs will be repaid to the General Fund; however, because of ambiguity in the repayment timeline, the flow of these dollars back to the General Fund is not fully known.

Electric Vehicle Road User Charge

The delayed implementation of the electric vehicle road user charge will have a negative fiscal impact on commonwealth funds, specifically the Motor License Fund where the fees would be deposited. Relative to the fiscal impact noted in the House Appropriations Committee fiscal note for Senate Bill 656 (Act 85 of 2024), the change in Senate Bill 1056 only impacts calendar year 2025. The loss of revenue for 2024/25 is estimated to be $8.07 million.

Calendar Year	Electric Vehicles (EVs)				Plug-in Hybrid Electric Vehicles (PHEVs)				Combined Revenues
	Estimated EV Fee	Est. # of EVs	January 1, 2025 Implementation	July 1, 2025 Implementation	Estimated PHEV Fee	Est. # of PHEVs	January 1, 2025 Implementation	July 1, 2025 Implementation	July 1, 2025 Implementation
2025	$200	70,406	$14,081,153	$7,040,577	$50	41,223	$2,061,143	$1,030,571	$8,071,148
2026	$250	73,554	$18,388,566	$18,388,566	$63	43,320	$2,729,159	$2,729,159	$21,117,726
2027	$258	76,844	$19,825,639	$19,825,639	$65	45,524	$2,959,047	$2,959,047	$22,784,686
2028	$267	80,280	$21,434,748	$21,434,748	$67	47,840	$3,205,263	$3,205,263	$24,640,010
2029	$276	83,870	$23,148,125	$23,148,125	$69	50,273	$3,468,871	$3,468,871	$26,616,996
2030	$286	87,621	$25,059,500	$25,059,500	$72	52,831	$3,803,836	$3,803,836	$28,863,336

Notes:
- The estimated fee is annually adjusted for inflation beginning in 2027.
- July 1, 2025 implementation assumes half of the registered vehicles in CY2025 would pay an electric vehicle road user charge.

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House Appropriations Committee (D)

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Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.