Universities and Quasi-governmental Organizations

Finding the best solutions for each employer

Public Pension Oversight Board

June 24, 2019

Timeline

- BR 9 made available May 1, 2019
- Two full months prior to July 1, 2019
- Multiple briefings and meetings
  - Stakeholder groups
  - Legislators (GOP and Democratic)
- Legal memos provided
- Individual quasi financial information
- Actuarial Analysis provided
- Side-by-side comparisons
- Written endorsement letters
- Everything provided to all Members and stakeholders

The Challenge

- Different needs
- Different financial conditions
- Different employee demographics
- Some wish to stay in the system
- Some wish to exit the system
- Some have ability to buy out
- Some wish to pay by installments
- Some wish to exit completely
- Some wish to allow employees to stay
- ONE SIZE DOES NOT FIT ALL

The Solution

Provide one year cost relief to allow employers to determine which solution is best for their individual situation.

They can remain in the system and have one year to financially prepare.

They can opt-out with a lump sum option.

They can opt-out with installments that are phased-in for affordability.

They can move all employees to a new plan.

They can opt to leave Tier 1 and 2 employees in the current system.

The Proposal

- No employer is forced out of the pension system.
- Without action, each employer and its employees remain in KERS-NH
- Employers have one year to plan and budget.
- The entities and the General Assembly will receive all financial information prior to any action.
- No employer can elect to opt-out prior to April 1, 2020.
- By April 1, 2020, an employer can opt-out with multiple options.

Changes to the proposal

- Section 7 was replaced with a non-severability clause.
- Assets will be pledged in case of default.
- Failure to pay will result in no additional accrual of future benefits.
- Specific language is added to ensure the 2020 General Assembly has the opportunity to revisit this issue.
- Corrective language is added related to the indemnification clause.

Lump Sum Payment options

- All employees exit and move to a new retirement plan on a go-forward basis. Assumed 4.5 percent rate of return.
- Employer exits KRS plan, but retains its Tier 1 and Tier 2 employees in KRS. There is an assumed 3.5 percent rate of return to account for the additional risk to KERS.
- Employers have until June 30, 2021 to make full payment and incur 5.25% interest on pension costs and 6.25% interest on health costs until fully paid.

Installment Payment options for 30 years or less

- All employees move to a new retirement plan on a go-forward basis. Assumed 3.5 percent rate of return. Employers pay higher of current 2018-2019 % contribution or 60 month average multiplied by 49.47% plus 1.5% annual increase until fully paid.
- Tier 1 and Tier 2 employees remain and the assumed rate of return is 3.0 percent. All other provisions remain same so long as debt retired in 30 or less years.

Installment option for those needing more than 30 yrs

- All employees move to a new retirement plan on a go-forward basis. Assumed 3.5 percent rate of return. Employers pay higher of current 2019-2020 contribution or 60 month average multiplied by 49.47% plus 1.5% annual increase for a full 30 years.
- Tier 1 and Tier 2 employees remain and the assumed rate of return is 3.0 percent. Starting rate increased to ensure debt fully retired in 30 years.

Multiple options tailored for each employer's specific needs

Stay in plan

Employers pay full cost after one year, which is anticipated to increase for several years until finally going down in future decades.

Two lump sum options

Employers have two lump sum options: exit fully or leave Tier 1 and Tier 2 employees in KRS plans.

Two 30-year installment options

Employers have two installment options: exit fully or leave Tier 1 and Tier 2 employees in KERS plan, so long as debt retired in 30 years.

30-year max installment option

To exit at current rates plus a small 1.5% escalator, all employees must exit the plan.

30-year adjusted installment option

For those employers wishing to keep Tier 1 and Tier 2 employees in KRS, but exit the system, an adjusted 30-year payoff schedule will be created with 1.5% escalator.

Kentucky Employees Retirement System (Non-Hazardous)

Information for the 2019 Governor's Pension Task Force

Exhibit 3: Distribution of Percentage of Actuarial Cost Financed by Agency in Scenario #3

Hard Freeze at 3.50% Discount Rate / Installments based on 49.47% of Payroll

	Quasi Employer Count						
Agency Type	Health Department	Non-P1 State Agency	RMH	University	All Agencies	Original Actuarial Cost ($ in millions)	PV of Unpaid Actuarial Cost ($ in millions)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Cost Entirely Financed	12	30	9	3	54	$ 1,440	$ -
95% - 100%	11	1	-	3	15	612	15
90% - 95%	5	-	-	1	6	98	8
85% - 90%	9	-	-	-	9	207	28
80% - 85%	4	-	1	-	5	119	21
75% - 80%	5	1	-	-	6	162	38
70% - 75%	7	-	-	-	7	204	55
65% - 70%	2	2	-	1	5	135	44
60% - 65%	-	-	-	-	-	-	-
55% - 60%	1	-	-	-	1	63	26
50% - 55%	2	-	1	-	3	136	64
Less than 50%	2	-	-	-	2	128	78
Total Count	60	34	11	8	113	$ 3,304	$ 377

Notes and Assumptions:

Actuarial Analysis based on the census data and actuarial assumptions used to perform the June 30, 2018 actuarial valuation and assumes all eligible employers will elect to finance their actuarial cost under the proposed scenario.

Analysis includes results for both the retirement and insurance systems.

- The loan interest rate or "borrowing cost" is 5.25% for the pension plan and 6.25% for the insurance plan under scenarios #3 and #4.
- Under Scenario #3, the FY 2021 installment payment is equal to 49.47%, times the greater of: (1) the agency's FY 2020 payroll, or (2) the agency's last 60-month average of covered payroll reported to KRS. Future installment payments increase at the rate of 1.50% per year.
- For the purposes of this analysis five non-contributing agencies have been excluded, as they are not expected to withdraw from the system.

Kentucky Employees Retirement System (Non-Hazardous)
Information for the 2019 Governor's Pension Task Force
Exhibit 4: Distribution of Initial Installment as a Percentage of Payroll (Scenario #4)
Soft Freeze at 3.00% Discount Rate / Required Contribution Rate as a % of Payroll

	Quasi Employer Count					Total FYE 2021 Contribution ($ in '000s)
Agency Type	Health Department	Non-P1 State Agency	RMH	University	All Agencies	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Maintain Current 49.47%	1	25	-	2	28	$ 33,214
49.47% - 50%	-	1	-	-	1	132
50% - 55%	7	4	4	1	16	33,975
55% - 60%	4	1	3	1	9	36,611
60% - 65%	5	-	1	1	7	9,581
65% - 70%	6	-	1	2	9	59,182
70% - 75%	12	-	-	-	12	9,403
75% - 80%	8	2	1	-	11	18,589
80% - 85%	6	1	-	-	7	18,803
85% - 90%	4	-	-	-	4	8,547
90% - 95%	-	-	-	1	1	8,218
95% - 100%	-	-	1	-	1	3,566
100% - 105%	2	-	-	-	2	843
105% - 110%	1	-	-	-	1	4,400
110% - 115%	1	-	-	-	1	650
115%+	3	-	-	-	3	13,172
Total Count	60	34	11	8	113	$ 258,886

Notes and Assumptions:

Actuarial Analysis based on the census data and actuarial assumptions used to perform the June 30, 2018 actuarial valuation and assumes all eligible employers will elect to finance their actuarial cost under the proposed scenario.

Analysis includes results for both the retirement and insurance systems.

[1] The loan interest rate or "borrowing cost" is 5.25% for the pension plan and 6.25% for the insurance plan under scenarios #3 and #4.

[2] Under Scenario #4, the FY 2021 installment payment is equal to an amount (unique to each agency) that is greater than or equal to the amount payable under Scenario #3 and that will finance the agency's cessation cost over a period that does not exceed 30 years. Future installment payments increase at the rate of 1.50% per year.

[3] For the purposes of this analysis five non-contributing agencies have been excluded, as they are not expected to withdraw from the system.

April 29, 2019

GRS

Kentucky Employees Retirement System (Non-Hazardous)

Summary of Financial Impact of Cessation Window Being Considered

($ in Millions)

	Option 1. Hard Freeze at 4.50% Lump-Sum Payment			Option 2. Soft Freeze at 3.50% Lump-Sum Payment		
	Universities	Other Agencies	Total	Universities	Other Agencies	Total
Agency Cost[1]	$ 931	$ 1,930	$ 2,861	$ 1,357	$ 2,759	$ 4,116
One - Year Extension of 49.47% Contribution Rate			$ 121			$ 121
Cessation Cost Relief[2]	223	455	678	123	247	370
Present Value of Total Fiscal Cost			$ 799			$ 491

	Option 3. Hard Freeze at 3.50% Installment Payments[3]			Option 4. Soft Freeze at 3.00% Installment Payment[4]		
	Universities	Other Agencies	Total	Universities	Other Agencies	Total
Agency Cost[1]	$ 1,025	$ 1,902	$ 2,927	$ 1,480	$ 3,006	$ 4,486
One - Year Extension of 49.47% Contribution Rate			$ 121			$ 121
Cessation Cost Relief[2]	129	483	612	0	0	0
Present Value of Total Fiscal Cost			$ 733			$ 121

Notes and Assumptions:

[1] Agency cost is determined based on the June 30, 2018 actuarial valuation and does not reflect the impact of recently adopted actuarial assumptions.

[2] Reduction in cost compared to current employer cessation provisions in State Statute as last amended by HB 351.

[3] The FY 2021 installment payment is equal to 49.47%, times the greater of: (1) the agency's FY 2020 payroll, or (2) the agency's last 60-month average of covered payroll reported to KRS. Future installment payments increase at the rate of 1.50% per year.

[4] The FY 2021 installment payment is equal to an amount that is greater than or equal to the amount payable under Scenario #3 and that will finance the agency's cessation cost over a period that does not exceed 30 years (unique to each agency) . Future installment payments increase at the rate of 1.50% per year.

What this plan does NOT do

- It does NOT force any employer out of the pension system.
- It does NOT take away any earned benefits.
- It does NOT change any benefit structure.
- It does NOT affect other plans.
- It does NOT prevent the 2020 Kentucky General Assembly from making changes.
- It does NOT prevent the 2020 General Assembly from making supplemental appropriations to any quasi-governmental organization.

What this plan does do

- Provides immediate relief and time for employers to plan.
- It provides future options that will allow each employer to do what is best for their employees and those they serve.
- It balances the need for services and the need to pay for the benefits promised.
- It provides time for the 2020 Kentucky General Assembly to make adjustments.
- It provides time for the 2020 General Assembly to make appropriations.

Questions