

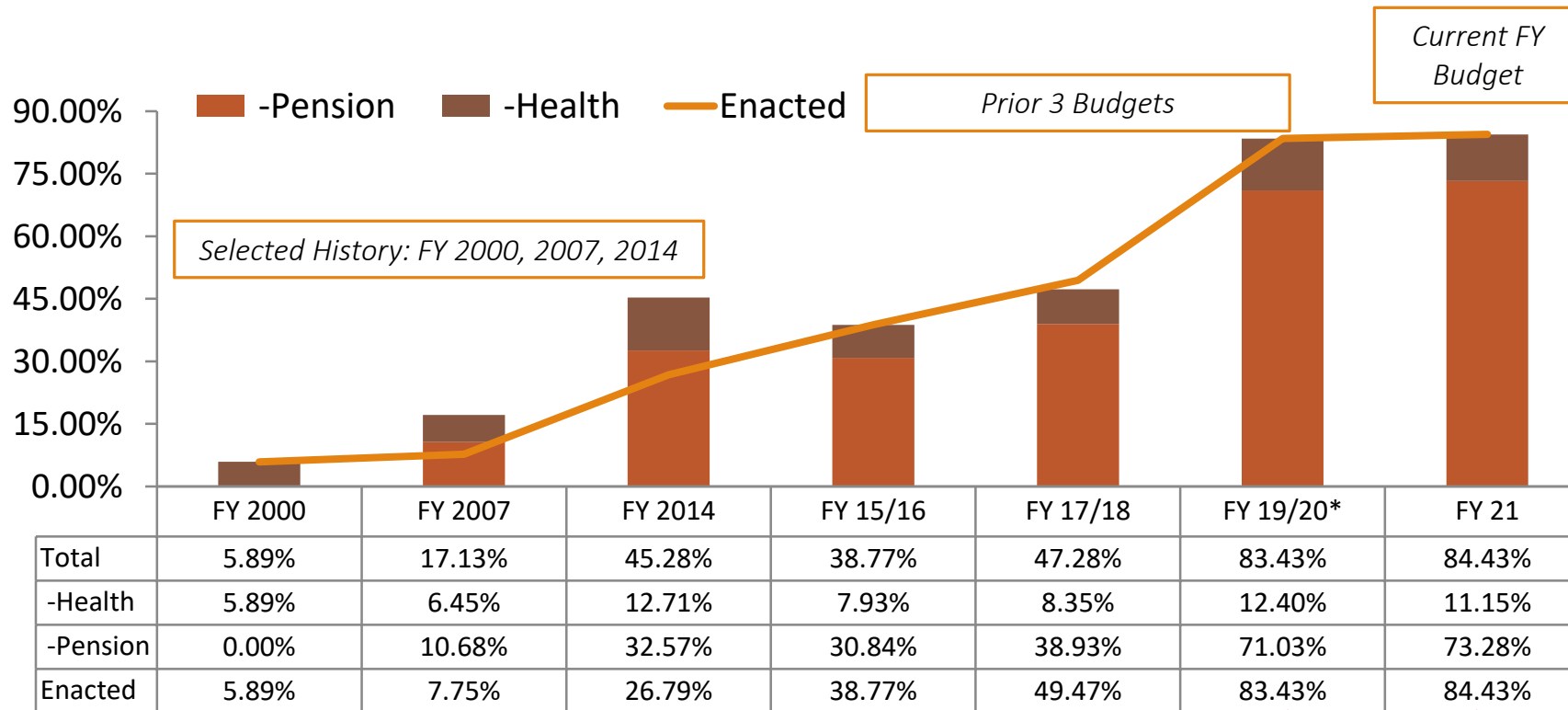
BR 424

LIABILITY BASED CONTRIBUTIONS FOR KERS
NONHAZARDOUS EMPLOYERS

Current Method of Payment calculation

- KERS NH Percent of Pay
 - ARC of roughly 85% of pay, of which roughly 75% of pay is used to pay down the unfunded liability.
 - Percent of pay calculation changes each biennium based on actuarial valuation results.
 - Changes in employee counts can drive down or drive up the percent of pay
 - Problem: Employers can lower their pension costs if they reduce the amount of payroll reported to the system (i.e. contract labor, part-time employment, etc.).
 - This sets up a spiraling reduction in participation. As more and more figure out to reduce costs they can just move people into contract labor. This continually shifts more and more liability onto the state.

Growing KERS NH Employer rates



*KERS Quasis pay 49.47% of pay

Incentive to move to contract labor

For every \$1000 an employer reduces their salary reported to KRS, it reduces their costs \$850

- Consequently, this is driving many of the quasi agencies to perform workforce re-arrangement that results in less KERS employees reported to the system (even without reduction in workforce).
- This SHIFTS the liability to the remaining employers in the system.
- Shifting to a liability based payment system eliminates this ability to shift cost away from the employer and onto the state.

BR 424 Addresses 3 Major Issues

By moving from % Payroll based, to liability based it will:

1. Eliminate incentive for Agencies to reduce reported payroll
2. Sets up a fixed payment system which takes out the budgetary guess work as to how much the next pension increase will be.
3. Introduces fairness into the payment process (% of pay can result in unfair results)

BR 424 Summary

- Eliminates incentive to reduce payroll to avoid paying contributions
- Sets up a fixed allocation system for payment of UAL, helps solidify budgets going forward
- All new hires will go to normal cost, of roughly 10% of pay which could incentivize bringing people back in.
- By reallocating costs, some will see increase and some will see decrease.
- GRS comment:

“....we believe this legislation will significantly reduce the System’s risk of receiving insufficient contributions because employers will no longer be able to reduce their pension cost by reducing their covered payroll. In summary, we believe this legislation will result in an improved and sustainable funding policy for the KERS Non-Hazardous System.” GRS page1 of 11/13/2020 AA