



KPPA

Kentucky Public Pensions Authority

HOUSE BILL 8 IMPLEMENTATION

Public Pension Oversight Board

August 30, 2021

David Eager, Executive Director

Rebecca Adkins, Executive Director, Office of Operations

Kentucky Public Pensions Authority (KPPA)

Overview of House Bill 8

For KERS Nonhazardous Only

Calculation of Employer Contribution

- ▶ Addresses **decreasing payroll** due to downsizing, outsourcing, and contract employment.
- ▶ **Same initial calculation** of total liability and amortization cost for the plan. Every year, the actuary calculates the per person liability to determine total liability, then subtracts assets. The result is the total Unfunded Accrued Liability (UAL).
- ▶ Previously used **projected payroll** to determine an across the board contribution rate representing the aggregate amortization cost. Calculation is no longer based on projected payroll to eliminate the impact of an employer's decreasing payroll.
- ▶ House Bill 8 requires that a **percentage** of the UAL be assigned to each employer based on total UAL as of 6/30/2019:
 - Each employer's 2019 percentage of the liability is multiplied by the **current year UAL** to calculate the UAL flat dollar amount each employer must pay for that year.
 - UAL dollar amount is determined each year based on the current year UAL, but **always applies the same 2019 percentage**.



KERS
NONHAZARDOUS
Kentucky Employees Retirement System

Overview of House Bill 8

For KERS Nonhazardous Only

Example:

FY 2019 Total KERS Non-Haz Liability = \$19.2 billion

ER Accrued Liability = \$2 million

ER % = (\$2 million/\$19.2 billion) = 0.01042%

FY	Total KERS NHz Amortization Cost (A)	Employer Annual Amortization Cost (A * 0.01042%)	Employer Monthly Amortization Payment (AALC)
2022	\$1,039,849,248	\$108,352	\$9,030
2023*	\$1,020,000,000	\$106,284	\$8,857
2024*	\$1,055,000,000	\$109,931	\$9,161

* FY2023 and FY2024 amortization costs in this chart are for illustrative purposes only.



Appeals

Employers are allowed to appeal the 2019 liability used to make up their percentage of the UAL for three reasons:

- ▶ **Not last employer**
- ▶ **Contract with Executive Branch**
- ▶ **Previous state mental health facility**

Subsidies

Employers must report to KPPA all persons employed as **independent contractor**, leased employee or other who would qualify as regular full-time and persons employed full-time who are not being reported to KPPA

- ▶ KPPA must report these persons to LRC by August 29 of the following fiscal year
- ▶ $\text{Percentage} = \text{Number of Participating Employees} / (\text{Total FT Employees})$
- ▶ For FY 2023 and FY 2024, only those employers who have 60+% will receive GA subsidy
- ▶ For FY 2025 and after, only those employers who have 80+% will receive GA subsidy

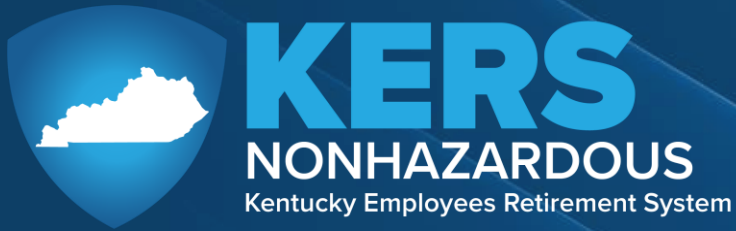
Overview of House Bill 8



KERS
NONHAZARDOUS
Kentucky Employees Retirement System

Not Eligible to Appeal

Branch	Number of Members	Accrued Liability as of 6/30/19
Legislative	1,489	\$343,338,931
Judicial	4,700	\$469,266,488
Executive	85,345	\$14,434,001,594
TOTAL	91,534	\$15,246,607,013



Eligible to Appeal

- ▶ **178 employers** are eligible to appeal representing **40,880 members** with a **total liability of \$3,880,919,950**
- ▶ **82 employers** requested a list of persons included in their liability
- ▶ **47 employers appealed**
 - Represents **26,060 members** with **total 2019 liability of \$2,482,826,069**
 - Appealed **5,189 members** with **total 2019 liability of \$ 366,308,303**



KERS
NONHAZARDOUS
Kentucky Employees Retirement System

Eligible to Appeal

Appeals are based on:

Appeal Type	Number of Employers	Number of Members	Amount
Not Last Employer	34	2,227	\$119,992,252
Contract with Executive branch	22	399	\$37,216,183
Previous state mental health facility	3	2,563	\$209,099,868
TOTAL		5,189	\$366,308,303

Employer Classification

Employer Classification		Appeals by Type							
		Appeals		Not Last Employer		Contract with Executive branch		Previous state mental health facility	
				Members	Accrued Liability	Members	Accrued Liability	Members	Accrued Liability
Health Departments	25	75	\$7,016,058	85	\$16,147,664				
Non-P1 State Assoc./Corp.	1	2	35,893	-	-	-	-	-	-
Non-P1 State Agencies	3	5	687,334	-	-	-	-	-	-
Regional Mental Health Units	10	1,403	63,926,769	-	-	2,563	209,099,868		
Universities	4	650	28,788,954	308	20,550,842	-	-		
County Attorneys	4	92	19,537,244	6	517,677	-	-		
TOTAL	47	2,227	\$119,992,252	399	\$37,216,183	2,563	\$209,099,868		

Accrued Liability based on 6/30/19 Valuation

Summary of Appeal Concerns

- ▶ **No concerns** have yet been identified that will require legislation
- ▶ Liability **Calculation Validation:**
 - The individual liability calculation used by the KPPA actuary, GRS, for the HB 8 liability is the same calculation used for the annual valuation. The annual valuation was recently audited by Segal and the results were presented to the Board of Trustees in December 2020. Segal found GRS' methodologies to be accurate and was able to repeat their calculations within 1% variation
- ▶ Employers dealing with **federal funding** require the percent of pay calculation:
 - KPPA has met with leadership and assisted multiple agencies including: County Attorneys/Child Support, Child Advocacy, Kentucky Association of Sexual Assault Programs (KASAP) and Children's Advocacy Centers of Kentucky
- ▶ Employer appeals on last employer shows a **misunderstanding of liability calculation:**
 - Member is deceased
 - Member is now working for a non-participating agency (for example, CERS)
 - Member did not work for me, but my predecessor
 - Member refunded their account after June 30, 2019
 - Member is not vested
 - Member is not eligible for retirement

Summary of Appeal Concerns

- ▶ **Lack of understanding that HB 8 did not assign a specific liability amount to each employer:**
 - Requests to pay early or make extra payments to avoid interest
 - Requests to have specific liability amounts on monthly invoices
 - Expectations that the new dollar amount is not the same as the liability that was moved to the executive branch
- ▶ **Protest letters:**
 - Approximately 12 employers submitted a “protest letter” indicating that while they are paying the UAL monthly invoice, they are paying under protest
 - These employers reserve all rights that they may have to challenge the constitutionality of HB 8
- ▶ **A few July payments were late due to the new process:**
 - KPPA waived the penalties while employers adjust to the new process



KERS
NONHAZARDOUS
Kentucky Employees Retirement System

Contribution Comparison

	July 2020	July 2021
Payroll	\$125,210,854	\$120,633,690
Employee Count	33,111	31,438
Employer Contribution	\$95,625,051	\$12,609,615
Contribution Rate*	84.43%	10.10%
UAL Payment	N/A	\$ 84,528,577
Total Employer Contribution	\$95,625,051	\$97,138,192
<i>*The employer contribution rate for Fiscal Year 2021 reflects the normal cost.</i>		



KPPA

Kentucky Public Pensions Authority

Connect with Us

1-800-928-4646



KYRET.KY.GOV



[@KYretire](https://twitter.com/KYretire)



[@KYretirement](https://facebook.com/KYretirement)