



KPPA

Kentucky Public Pensions Authority

PUBLIC PENSION OVERSIGHT BOARD

Cost-of-Living Adjustments (COLAs)

KRS 61.598 Pension Spiking

July 19, 2022

David Eager, Executive Director

Kentucky Public Pensions Authority (KPPA)

Erin Surratt, Executive Director Office Of Benefits

Kentucky Public Pensions Authority (KPPA)

Types of COLAs

- Ad Hoc: each one must be legislatively approved
- Automatic
 - Legislative approval required
 - Typically a predetermined set rate
 - Requires prefunding
- Simple or Compounded

Kentucky Statutes

KRS 61.691 and 78.5518

- SB 2 (2013 Regular Session)
 - COLAs will only be granted in the future if the KRS Board (now KRS and CERS) determines that assets of the (respective) system(s) are greater than 100% of the actuarial liabilities and legislation authorizes the use of surplus funds for the COLA or
 - The General Assembly fully prefunds the COLA or
 - The General Assembly approves the payment of funds in the year the COLA is provided

New COLAs are not a part of the Inviolable Contract

Funded Status of Pensions (\$millions)

Summary of Actuarial Valuation Results as of June 30, 2021 (\$ in Millions)						
	CERS Nonhazardous	CERS Hazardous	KERS Nonhazardous	KERS Hazardous	SPRS	TOTAL KPPA
ACTUARIALLY DETERMINED CONTRIBUTION RATES						
Pension Funds	23.40%	42.81%	7.82%	31.82%	126.40%	
Insurance Funds	3.39%	6.78%	2.15%	0.00%	14.11%	
Amortization Cost to be Allocated	N/A	N/A	\$994	N/A	N/A	
Total Calculated Employer Contribution	26.79%	49.59%	9.97% ¹	31.82%	140.51%	
FUNDED STATUS AS OF VALUATION DATE						
PENSION FUNDS						
Actuarial Liability	\$14,895	\$5,630	\$16,321	\$1,295	\$1,053	\$39,194
Actuarial Value of Assets	\$7,716	\$2,629	\$2,736	\$782	\$323	\$14,186
Unfunded Liability on Actuarial Value of Assets	\$7,179	\$3,001	\$13,585	\$513	\$730	\$25,008
Funding Ratio on Actuarial Value of Assets	51.80%	46.69%	16.76%	60.41%	30.69%	36.19%
Market Value of Assets	\$8,566	\$2,914	\$3,019	\$866	\$356	\$15,721
Unfunded Liability on Market Value of Assets	\$6,329	\$2,715	\$13,303	\$429	\$697	\$23,473
Funding Ratio on Market Value of Assets	57.51%	51.77%	18.50%	66.87%	33.83%	40.11%

Annual Cost of Prefunded COLA

Pension Fund	Appropriation Necessary to Fully Prefund a 1.5% Increase in Retirement Allowances as of July 1, 2023
CERS Non-Hazardous	\$ 116 million
CERS Hazardous	50 million
KERS Non-Hazardous	162 million
KERS Hazardous	12 million
SPRS	12 million

Cost of Possible Benefit Increase (\$millions)

	KERS Non-Haz	KERS Haz	SPRS	CERS Non-Haz	CERS Haz	All Systems
<u>Cost to Fully Fund Benefit Increase</u>						
1.5% "Dividend", or Increase, in Current Retiree Benefits, Increase Payable for Five Years Only*	\$ 76	\$ 6	\$ 5	\$ 62	\$ 22	\$ 171
* Retirees' benefits reduce back to amount prior to 1.5% increase after five years						
One-Time 13 th Check to Current Retirees	84	6	5	69	24	188
One-Time 1.5% Increase in Current Retiree Benefits, Benefit is <u>not</u> Reduced after Increase	162	12	12	116	50	352
Five (5) 1.5% Annual Increases in Current Retiree Benefits, Capped after Five Years, Benefit is <u>not</u> Reduced after Five Years	704	51	53	494	215	1,517
Permanent Annual 1.5% COLA to Current and Future Retirees	2,571	210	195	2,105	945	6,026

Except where noted, analysis based on the results of the June 30, 2020 Actuarial Valuation. Please see the June 30, 2020 Actuarial Valuation report for a summary of the assumptions, methods, plan provisions and data used for this analysis. Analysis is further based on June 30, 2021 market value of asset information provided by KPPA on August 20, 2021.

Example of a One Time COLA

KERS and SPRS Retirees

Years Retired	Retirees	Supplement	Cost
25+	4,406	\$1,000	\$4.4 million
20-25	6,132	\$800	\$4.9 million
15-20	10,273	\$600	\$6.2 million
10-15	10,144	\$400	\$4.1 million
5-10	9,756	\$300	\$2.4 million
Less than 5	10,104	\$250	\$3.0 million
TOTAL	50,815		\$25 million

Pension Spiking

What is Pension Spiking?

Pension spiking occurs when there is an increase in creditable compensation of more than ten percent (10%) in a fiscal year when compared to the previous fiscal year during the member's last five (5) years of employment.*

**exemptions apply*

Pension Spiking Legislation

SB 2 of 2013 General Assembly enacted KRS 61.598

- Effective for retirement dates of January 1, 2014 – June 30, 2017
- The last participating employer is responsible for paying the actuarial cost of the pension spike
- Employer has twelve (12) months to pay the invoice without interest
- Employer may appeal a bona fide career advancement or promotional determination made by the Authority

Pension Spiking Legislation

SB 104 of 2017 General Assembly made significant amendments to KRS 61.598

- Effective for retirement dates on or after January 1, 2018
- A member's creditable compensation is reduced as a result of the pension spike and will not be used to determine the member's retirement benefit
- Creditable compensation earned prior to July 1, 2017 shall not be considered for reduction
- If the member's creditable compensation is reduced, the Authority refunds the employee contributions and interest attributable to the reduction in compensation
- Employer contributions are not refunded
- Members may appeal the pension spiking determination
- Does not apply to Tier 3

Exemptions

- Bona fide promotion or career advancement (2013)
- Lump-sum compensatory payment at termination (2013)

Exemptions

- Lump-sum payment for alternate sick leave at termination (2017)
- Leave without pay (2017)
- Overtime worked as a result of a state or federal grant (2017)
- Overtime performed during and as a result of a state of emergency declared by the President of the United States or the Governor of the Commonwealth of Kentucky (2017)

Exemptions

- Creditable compensation earned on or after July 1, 2017 that results in a greater than 10% increase shall not be considered for reduction if it increases the monthly retirement benefit by less than \$25 (2021)

Exemptions

- First 100 hours of mandatory overtime worked in a fiscal year (2022)
- Overtime performed during and as a result of a state of emergency declared by a local government in which the Governor authorizes mobilization of the Kentucky National Guard during such time as the National Guard is mobilized* (2022)
- Pay raises for public defender attorneys and staff, including Law Clerk, Staff Attorney I, Staff Attorney II, Staff Attorney Supervisor and Staff Attorney Manager will be exempt from reduction under KRS 61. 598 (2022 – HB 1)

**retroactive to May 28, 2020, and shall for purposes of local government emergencies issued on or after May 28, 2020, but prior to October 5, 2020, apply to any overtime worked from May 28, 2020, through May 11, 2021, regardless of whether or not the National Guard was mobilized for the entire period. The Kentucky Public Pensions Authority shall adjust the benefits of members, retirees, and recipients accordingly.*

Pension Spiking Determination

- At retirement, the last five (5) fiscal years of employment are evaluated for increases greater than 10%
- If a spike occurs, a Form 6487 is sent to the last employer to verify any exemptions that may apply
- After the form is returned, any applicable exemptions are keyed into the system
- A post retirement audit is performed and last five (5) years are reevaluated to determine if a spike still exists after exemptions have been entered*
- Letter is sent to the member advising final determination has been made and gives thirty (30) days from the date the letter is mailed to appeal

*Pension spiking can also be found during the post retirement audit process, same steps apply

Member Pension Spiking Statistics

FISCAL YEAR	# SPIKES AT RETIREMENT	# ACTUAL SPIKES	% OF RETIREES SPIKING
2017-2018	310	295	4%
2018-2019	909	771	11%
2019-2020	1,034	854	13%
2020-2021	1,403	1,078	17%
2021-2022	317	212	3%
TOTAL:	3,973	3,210	9% (AVG)

 **KPPA**
Kentucky Public Pensions Authority

***590 PENDING FINAL DETERMINATION**



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)