

Overview of Local Government Retirement Plans

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PPOB: KRS Adm. Subcommittee
August 27, 2018

Adm. Structure Subcommittee → *Background*

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- Section 86 of SB 151 directed establishment of an advisory committee of the PPOB to study the benefits and drawbacks of separating the County Employees Retirement System from the Kentucky Retirement Systems or restructuring the administration of the systems administered by the Kentucky Retirement Systems.
 - Report required by December 1, 2019.
- June 25, 2018 PPOB meeting, an advisory committee consisting of 8 PPOB members was established for this purpose.

GLOBAL VIEW → *State-Administered Systems*

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- The Commonwealth provides pension and retiree health benefits for state/local govt. employees and retirees through six state administered retirement systems:

- Kentucky Employees Retirement System (KERS)
- State Police Retirement System (SPRS)
- County Employees Retirement System (CERS)

Administered under one entity known as the Kentucky Retirement Systems (KRS) by a single board.

Note: KERS & CERS include both non-hazardous/hazardous duty benefit and contribution structures.

- Kentucky Teachers' Retirement System (KTRS)
- Legislators' Retirement Plan (LRP)
- Judicial Retirement Plan (JRP)

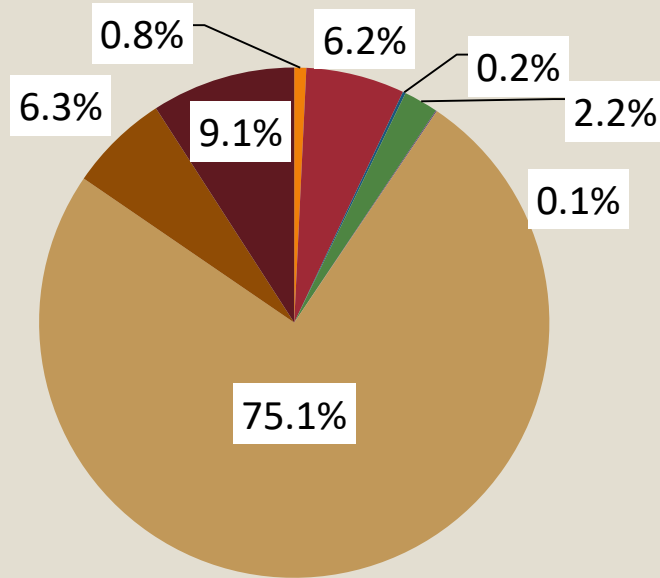
Administered under one entity known as the Judicial Form Retirement System (JFRS)

- All funds have a pension and retiree health fund. KTRS also has a life insurance fund.

GLOBAL VIEW → KERS/CERS Employees by Agency

KERS

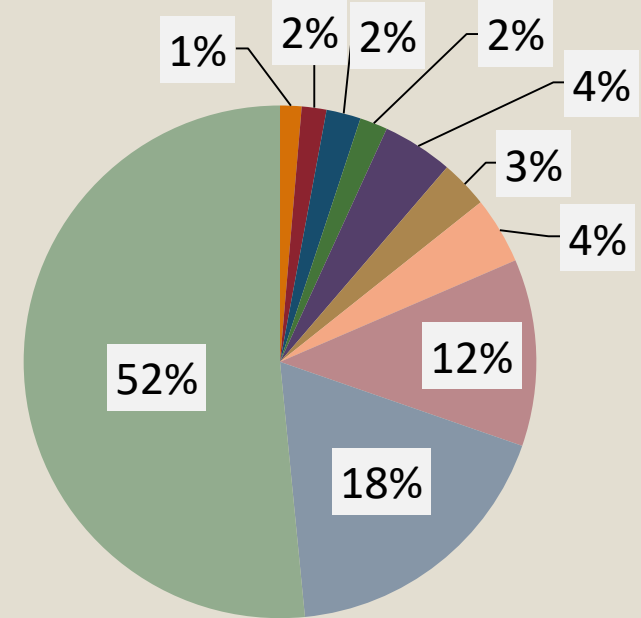
- Established July 1, 1956 • KRS 61.510 to 61.705 • 354 agencies
- Includes both non-hazardous/hazardous structures.



- County Attorneys
- Master Commissioner
- Other Retirement Systems
- Regional Mental Health
- Health Departments
- Non-P1 State Agencies
- State Agencies (P-1)
- Regional Universities/KCTCS

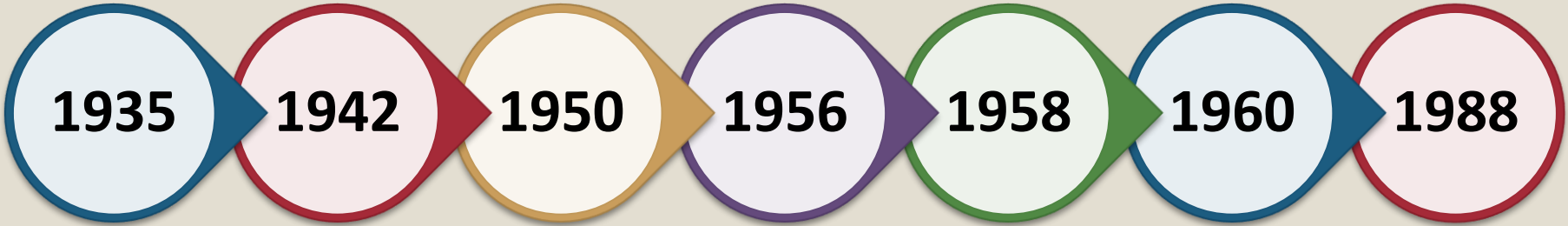
CERS

- Established July 1, 1958 • KRS 78.510 to 78.852 • 1,138 agencies
- Includes both non-hazardous/hazardous structures.



- Libraries
- Public Safety (Jails, EMS, P & F)
- Others**
- Utility Boards
- Cities*
- Special Districts & Boards
- Circuit Clerks
- Community Action Agy.
- Fiscal Courts
- Bds. of Education

Ky. Local Govt. Plans → *Relevant History*



1935
Congress est. Social Security: State & local govt. employees not eligible to participate.

1942
GA first authorizes the establishment of locally administered city plans.

1950
Congress allows states to enter into voluntary agreements to cover state & local govt. employees not in a ret. system.

1956
Kentucky Employees Retirement System (KERS) established by GA.
HB 463

1958
County Employees Retirement System (CERS) established by GA with adm. structure separate from KERS.
HB 475

1960
GA merges CERS, KERS, & SPRS into one consolidated board/adm. entity.
SB 165

1988
GA requires open local govt. plans* to close to new members & requires CERS participation.
HB 398

- Generally mandatory for P&F (hazardous) and optional for nonhazardous.
- 1978 Study: 52 local govt. plans, 41 of which were est. pursuant to statutory authority.

- Ky. entered into agreement in 1951 for state employees. Local govts. could and did opt into coverage under state agreement.
- 1954: Social Security for employees covered by a retirement system could occur via a referendum.

- 5 board members appt. by Gov.
- SPRS created in 1958 from KERS membership by HB 443.

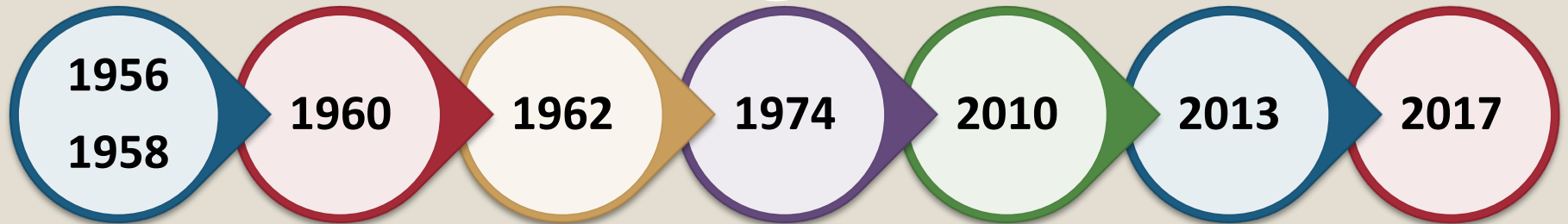
- Participation was/is voluntary initially but mandatory for all eligible employees hired after an agency begins participating.
- Initially cities could not participate by statute.
- 5 board members appt. by Gov.

- Emergency clause in bill: "...the efficiency of the County Employees Retirement System will be promoted by its inclusion..."
- CERS 1960: 68 employers; 2,484 members

- *Exception: Lexington Policemen's & Firefighters' Pension Fund (Urban Co. Govt.).
- GA prohibited the establishment of locally adm. defined benefit plans (see KRS 65.156).

KRS → Statutory Board Structure

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1956-KERS Board Est.:

Number: 5
Selection:

- All Gov. Appointees

1958-CERS Board Est.:

Number: 5
Selection:

- All Gov. Appointees

KRS Board (KERS & CERS Merger):

Number: 9
Selection:

- 3 Ex-officio: Comm. of Finance, Comm. Of Economic Security & Personnel, and State Police Division Director
- 5 appt. by Governor, (1) of whom came from prior KERS board and (1) of whom came from prior CERS board

KRS Board

Number: 9
Selection:

- 4 elected: KERS (2); CERS (1); SPRS (1)
- 3 appt. by Governor
- 2 Ex-officio: Attorney General, Personnel Secretary

KRS Board

Number: 9
Selection:

- 5 elected: KERS (2); CERS (2); SPRS (1)
- 3 appt. by Governor*
- 1 Ex-officio: Personnel Secretary

**1990 1 appt. replace by State & Local Govt. Finance Officer (ex-officio). 1992 restored to Gov. app. and required at least 1 of 3 app. to be knowledgeable about the impact of pensions on local govts.*

KRS Board

Same as before except it required 2 of 3 appt. board members to have "investment experience".

KRS Board

Number: 13
Selection:

- 6 elected: KERS (2); CERS (3); SPRS (1)
- 6 appt. by Governor: (2) with "investment experience", (1) knowledgeable about impact of pensions on local govt, and (3) selected from lists submitted by KACO, KLC, KSBA
- 1 Ex-officio: Personnel Secretary

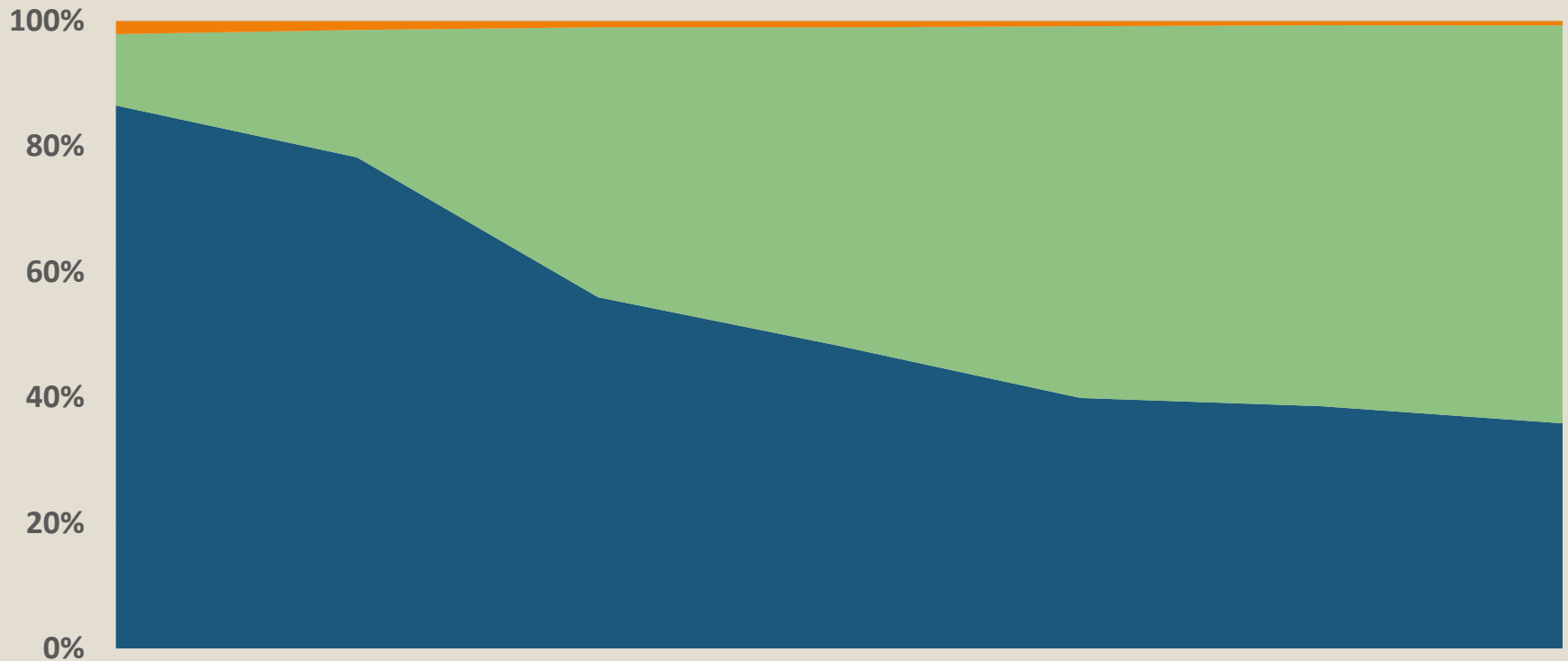
KRS Board

Number: 17
Selection:

- 6 elected: KERS (2); CERS (3); SPRS (1)
- 10 appt. by Governor: (6) with refined def. of "investment experience", (1) knowledgeable about impact of pensions on local govt, and (3) selected from lists submitted by KACO, KLC, KSBA
- 1 Ex-officio: Personnel Secretary

KRS → *Membership Over Time*

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	1960	1970	1980	1990	2000	2010	2018
KERS	18,915	36,893	65,625	72,200	91,306	123,138	133,633
CERS	2,484	9,575	50,462	76,026	135,525	193,690	236,308
SPRS	457	671	1,168	1,502	1,898	2,153	2,581

Ky. Local Govt. Plans → *Studies/Legislation Over Time*

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- 1977: LRC Study of locally administered retirement plans mandated by 1976 General Assembly:
 - Passage of the resolution was *“motivated by a growing awareness that many city pension funds were in serious financial condition and that the financial status of others was undetermined because the cities failed to procure periodic actuarial services”*.
 - At time of study:
 - ✦ 52 locally adm. pension plans established (33 covered police & fire personnel) under 10 separate state statutes (6 for nonhazardous and 4 for hazardous).
 - ✦ 42 cities had joined CERS; some had closed local plans and entered CERS.
 - ✦ Findings/Recommendations: *“Few city pension funds are in satisfactory condition and several are nearly without assets”*; variability in benefits/contributions/funding requirements. Did not recommend closure of local govt. plans.
 - Rates of some cities in 1978 were higher than current CERS rates without phase-in provisions passed this year in HB 362.
- 1978: LRC Study on Pooled Pension Investments for City Pension Systems.
 - Evaluated creating a pool for city pension fund investments.
- 1982: Municipal Pension Study Commission
 - Some Discussion on transition to CERS for certain police and fire pension funds.
- 1988: HB 398 closed remaining locally adm. pension funds and required participation in CERS with exception of Urban Co. Governments.

CERS Adm. → *Recent Studies/Legislation Over Time*

- 2008: HB 600 SCS: Would have established a new system with a separate board under KRS known as the Local Govt. Employees Retirement System (LGERS) for non-school board employees. Bill did not pass.
 - Issue involved subsidies between school board and non-school board employers.
 - 2008 Kentucky Public Pension Working Group: Evaluated 4 options: (1) do nothing; (2) leave in CERS but rate school board and non-school board employers separately; (3) move school board employers to TRS or KERS; (4) HB 600 SCS option. DID NOT MAKE A RECOMMENDATION.
- 2017: SB 226: Would have separated CERS from KRS with a separate board and statutory structure.
- 2017: PFM Report:
 - Recommended consolidating investment functions of all state systems while retaining retirement boards for benefit administration.
 - Noted that consideration should be given to a centralized committee to set actuarial assumptions.

Review of Industry Plan Administrations and Governance



GOALS OF REVIEW

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- Review how other States handle local employees?
 - LRC has performed review of each state
 - Focused on consolidated local/municipal pension systems¹
 - Compared administration and governance of general state and local (city/county) pension plans
- Identify common models and/or unique structures across the industry

¹In many states, independent plans are still operated by larger cities (i.e. Lexington Fire and Police).

STRUCTURES ACROSS INDUSTRY

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• General Models of Administration/Governance

Consolidated Admin (Current KRS Model)

Most common structure reviewed. Single board is responsible for both administration/governance of multiple plans, including general state and local political subdivision employees.

Consolidated Admin Separate Boards (HB 600 SCS Model)

Less frequently utilized, but in a few states (and larger city plans) retirement plans are administrated by a single agency (i.e. KRS), but governed by separate boards

Separated Plans (SB 226 Model)

Several states have separated municipal, fire, and/or police plans, which are both administered and governed by a separate agency and board from the general state employee plan.

Other: Local, Multiple, or Unique

Includes states without a consolidated municipal system, states that utilized multiple structures, or states that have a unique structure.

ADMINISTRATION/GOVERNANCE

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CONSOLIDATED ADMINISTRATION/GOVERNANCE

TENNESSEE

The Public Employee Retirement Plan (PERP) includes both state and local employees.

PERP is administered by the Tennessee Consolidated Retirement System (TCRS), which is part of the state treasury department and also administers Teachers plan. TCRS is governed by 20 member Board of Trustees.

KANSAS

Kansas Public Employees' Retirement System (KPERs) and Police and Fireman Retirement System (KPFrs) includes eligible local employees.

Both plans are administered and invested by Kansas Public Retirement System, which is governed by nine member Board of Trustees.

- A lot of local employees are included in same plan as general state employees
- Other states have separated police and fire members
- Arkansas, Idaho, Indiana, Mississippi, South Carolina, Virginia, W. Virginia

ADMINISTRATION/GOVERNANCE

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CONSOLIDATED ADMIN/SEPARATE GOVERNANCE

VERMONT

The Vermont Municipal Employees Retirement System (VMERS) covers employees of participating municipalities.

VMERS is administered by the Retirement Operations Division of State Treasurer's Office, along with Teacher (VTRS) and State (VSERS) plans.

Each plan has separate Board of Trustees, which has general responsibility for governing plans.

NORTH CAROLINA

The Local Governmental Employees' Retirement System (LGERS) covers employees of participating municipalities.

LGERS is administered by the North Carolina Retirement Systems, which also administers the Teachers' and State Employees' Retirement System (TSERS)

LGERS is governed by 13 member Board of Trustees. Joint meetings held with TSERS. There are some overlapping members.

- Alabama (TRS and ERS), City of Detroit, City of Wichita

ADMINISTRATION/GOVERNANCE

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SEPARATED ADMINISTRATION & GOVERNANCE

GEORGIA

Georgia Municipal Employee Benefit System (GMEBS) Retirement Fund includes eligible city and county employees. GMEBS is administered and governed by a fifteen member Board of Trustees.

Georgia Employees Retirement System is a separately plan which covers general state employees.

MISSOURI

Local Government Employees Retirement System (LAGERS) covers more than 490 local employers. The plan is administered and governed by a seven member Board of Trustees

Missouri State Employees Retirement System (MOSERS) is a separate plan which covers general state employees.

- Illinois (Municipal Retirement Fund), Louisiana (Municipal ERS of LA), Michigan (Municipal ERS), and Pennsylvania (Municipal Retirement System) are other examples

ADMINISTRATION/GOVERNANCE

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OTHER: LOCAL or MULTIPLE

MASSACHUSETTS

There are more than 100 independent retirement systems, some run by municipalities, some by counties, regions, and some by the State.

The Public Employee Retirement Administration Commission (PERAC) is responsible for overseeing each plan. Each local pension must be managed by a five member Retirement Board.

Many local retirement plans choose to utilize the Pension Reserves Investment Management (PRIM) board for investment of funds. PRIM is responsible for investing the State and Teacher Plan assets.

IOWA

Iowa Public Employees Retirement System (IPERS) is the primary retirement system for employees of school districts, cities and counties. IPERS is administered within Governor's office, who acts as the plan sponsor.

A separate Municipal Fire and Police Retirement System of Iowa covers many local fire and policeman. The Fire and Police system is administrated and governed by a separate nine member Board of Trustees

ADMINISTRATION/GOVERNANCE

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OTHER: UNIQUE MODELS

NEVADA

State & Local employees are covered in Regular Employee Fund, while Fire and Police are covered in the Fire/Police Fund. Both Funds are administered by Public Employees' Retirement System of Nevada (PERS), which is governed by seven member Retirement Board.

*** A five member Police and Firefighters' Retirement Fund Advisory Committee is appointed by Board and the committee makes recommendations concerning the Police and Fire fund.*

WASHINGTON

Public Employees' Retirement System (PERS) and Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) covers participating political subdivision employees. Both plans are administered by Washington State Department of Retirement Systems (DRS).

DRS does not have Board, instead governance is shared across several entities. Legislature establishes funding policy and sets contribution rates. Select Committee on Pension Policy, with support of State Actuary, evaluating health of plans and recommending to legislature. Only the LEOFF Plan 2 has Retirement Board who adopts rates.