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LEGISLATIVE RESEARCH COMMISSION

State Capitol 700 Capital Avenue Frankfort KY 40601

502-564-8100

Capitol Fax 502-564-2922

Annex Fax 502-564-6543

lrc.ky.gov

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TO: PUBLIC PENSIONS WORKING GROUP

FROM: LRC Staff

RE: Comparison of HB 539 and SB 151/EN

DATE: January 31, 2019

At the January 22nd meeting of the Public Pensions Working Group, Rep. Graham requested that a side-by-side summary be prepared to summarize and compare the provisions of HB 539 (2018 RS) ("Superintendents' Plan") and SB 151/EN (2018 RS) as they impact the Teachers' Retirement System (TRS). Attached is a side-by-side summary of the bills' provisions as they relate to TRS.

**COMPARISON OF TEACHERS' RETIREMENT SYSTEM
PROVISIONS OF SB 151 AND HB 539
(2018 Regular Session)**

HB 539 ("Superintendent's Plan")

Changes for Current Teachers:

- Freeze sick leave accrued as of 6/30/18 as salary credit for retirement calculation.
- 3% annuity factor for 30 or more years shall not apply to any years of service in excess of 30 occurring on or after 7/1/24 (6 year window).

Changes for New Teachers:

- New Defined-Benefit Tier
- Employee contribution to pension is 10% of pay. Total employee contribution rates for TRS members participating on or after 7/1/18 are:
 - For nonuniversity members, 13.75% of pay (10% pension; 3.75% health);
 - For university members, 11.295% of pay (8.52% pension; 2.775% health);
- State contribution to pension is capped at 6% of pay. Total employer contribution rate, for nonuniversity members, is 6.75% of pay (6% pension; 0.75% health) and, for university members, is 8.775% of pay (6% pension; 2.775% health).
- Retirement Eligibility for members participating on or after July 1, 2018:
- For unreduced retirement allowance at:
 - Age 60 with 5 years of service;
 - Age and years of service total of at least 85 (Rule of 85).
- Election of reduced retirement allowance:
 - After age and service total at least 70 (Rule of 70);
 - The benefit is reduced by 2% per year when the member would have attained Rule of 85.
- Eliminates the board-option to apply a high-3 year annual compensation (instead of high-5) to the retirement calculation for individuals who become members on or after 7/1/18.

SB 151/EN (TRS Provisions)

Changes for Current Teachers:

- Freeze unused sick leave accrued as of 12/31/18, limits the amount of sick leave payments that can be applied to retirement benefit calculations.
- Modifies TRS inviolable contracts to exclude legislative changes that become effective on or after July 1, 2018.

Retired/Reemployed: Eliminates second retirement accounts in TRS for any member of a state retirement system who retires on or after January 1, 2019.

Changes for New Teachers:

- Establishes Hybrid Cash Balance Plan for New Members on or after January 1, 2019.
- Puts teachers in same type of cash balance plan as KRS but with different contributions.
- Non University Contributions (teachers): Employee (9.105%) and Employer Credit (8%) plus interest credit.
- University Contributions: Employee (7.625%) and Employer Credit (4%) plus interest credit.
- Interest Credit: Contributing members receive 85% of the plan's 10-yr net return, Former members who have left employment receive 0%.
- Retirement Eligibility: Age 65 w/ 5 years or Rule of 87, and members may choose to annuitize their account balance at retirement and receive a lifetime payment (same as KRS Nonhazardous cash balance plan).
- Portability: Immediately vested for employee contributions and interest credits on employee contributions. Fully vested for employer credit and investment returns on employer credits after 5 years.

**COMPARISON OF TEACHERS' RETIREMENT SYSTEM
PROVISIONS OF SB 151 AND HB 539
(2018 Regular Session)**

HB 539 ("Superintendent's Plan")

- Retirement annuity factors remain the same, but no accrual of 3% for service in excess of 30 years.
- No sick leave credit (lump sum for accrued sick leave may be paid by school districts, but does not count toward retirement benefit calculation).
- Benefits determined using a high 5-year final average salary.
- COLA at 1.5% (subject to risk factors), disability, and death benefits remain the same.
- Risk controls (levers) apply if funding payable on behalf of members participating on or after 7/1/18 falls below 95% or would require an employer contribution rate exceeding 6% of pay. To maintain funding, the TRS board shall take one or more of the following actions:
 - Raise (simultaneously) the employee contribution rate and the local employer (school board) contribution rate by a sum not to exceed 2% of pay each;
 - Reduce or suspend COLAs for retirees who begin participating on or after 7/1/18;
 - Reduce annuity factor for future years of service; or
 - Increase the requirements (i.e. age + years of service) for unreduced retirement benefits.

Voluntary 403(b) Plan for All Employees

Requires to TRS to establish a strictly voluntary 403(b) plan for TRS members.

- Employee contributions are voluntary.
- School district/employer contributions are voluntary (match/no match).

SB 151/EN (TRS Provisions)

- Voluntary "Opt in:" Members with less than 5 years of service may elect to roll over their accumulated contributions in to the new hybrid cash balance plan.
- Members eligible for retiree health, disability, and death before retirement benefits similar to current members.
- Members in the cash balance plan will not receive COLA after retirement.
- Members in the cash balance plan will not be eligible for \$2,000 pre-retirement life insurance benefit or \$5,000 post-retirement life insurance benefit.
- Sick leave payments do not impact retirement benefits.
- "Inviolable contract" will be limited to account balance in the cash balance plan (same changes were made to KRS, LRP, and JRP in 2013).

Funding Provisions:

- Statutory calculation and requirement to pay the full ARC (retains current statutory fixed rate as base rate). Additional amount needed to pay off the pension unfunded liability is prorated to each employer based on share of actual payroll in FY15-FY17, with school board payment paid by state appropriation (other employers will be required to pay their share).
- School boards pay an additional 2% of pay for new members in the cash balance plan to offset costs to state.
- Financing of unfunded liabilities over closed 30-year amortization period, using 5-year smoothed asset valuation method for TRS pension fund. Resets amortization period in 2018 valuation.
- Phases into level dollar funding with full conversion by FY 2024.

Conflict of Interest Provisions: No member of GA, public servant, trustee or employee of TRS board shall have any interest in business of TRS board.