KPPA
Kentucky Public Pensions Authority

HOUSE BILL 8

Budget Review Subcommittee on General Government, Finance, Personnel, and Public Retirement

July 7, 2021

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Kentucky Public Pensions Authority (KPPA)

Agenda

- Highlights of House Bill (HB) 8
- Compliance with HB 8
  - Reporting on leased employees and contract employees
- Appeals Process
  - KPPA Policy for providing participant liability to employers
  - Rationale for KPPA Policy
- Status of Employer Appeals

Highlights of HB 8

- Changed the funding method for KERS Nonhazardous employers from a percent of payroll model to a fixed allocation funding method.
- Beginning July 1, 2021, these employers will pay the normal cost for new employees plus their actuarially-calculated portion of the unfunded liability.

OLD METHOD	NEW METHOD
% of payroll for normal cost and unfunded liability	**% of payroll** for normal cost **$ amount** for unfunded liability cost
Encourages employers to outsource or otherwise reduce staff to reduce contribution amount	The unfunded liability contribution is a fixed allocation not impacted by changes in payroll (staffing)

Highlights of HB 8

- Requires KERS Nonhazardous employers to begin providing information to KPPA on all persons who are not directly employed by the employer. This includes:
  - All persons providing services as an independent contractor.
  - Leased employees (through a staffing company), or any other employment arrangement, who if employed directly by the employer would qualify as regular full-time in accordance with KRS 61.510 (21).
  - Specific exemptions apply.

The KRS Board is responsible for making the decision regarding employees that should be reported to KPPA as a regular full-time employee.

Payroll Employee Requirements

Employers receiving state subsidies toward their retirement cost must meet the following requirements or else lose their subsidy:

- At least 60% of their work force must be payroll employees during FY23 and FY24
- 80% during FY25 and beyond

Status of Employer Appeals

Employers Have an Appeal Process

- Employers can appeal on or before July 1, 2021, but only if the employer believes current or former employees should not be used in calculating their liability because:
  - The employer was not the last employer of record
  - The employee was hired through a contract between the executive branch and the employer for services provided to the executive branch
  - The employer is a community mental health center which was contracted to provide services at a facility previously operated by the executive branch

46 employers have appealed

Member's Account Confidential

KPPA may release (current, former, and retired member's confidential) account information to the employer or to other state and federal agencies as it deems necessary or in response to a lawful subpoena or order issued by a court of law, or upon request by any person (member regarding their own information).

The Member Account Liability Conundrum

KPPA wants to protect members from potentially harmful actions by <u>some</u> employers

Employers want to see the liabilities in order to verify their total liability

The Member Account Liability Conundrum

Employers may want to calculate their total liability but they will lack:

- Prior employment history and compensation
- Purchased service credits
- The algorithms used in making the liability calculation, and

Statutorily the full actuarial cost shall be determined by the Kentucky Retirement System's Actuary (GRS) and shall use the current assumptions.

The KPPA Compromise

Nonetheless, for employers who can't secede from KERS we provided them with member's names, social security numbers, and liabilities

- 81 employees requested information
- 54 employees were provided member's names and social security numbers, and the individual member liabilities
- 22 employers were provided member's names and social security numbers

For employers who can secede from KERS we provided 5 of them with member's names, social security numbers, and the individual member liabilities to their CPA

Ongoing Employer Cessation Provisions

The following employers can voluntarily withdraw from KERS:

- An employer who is a nonstock nonprofit corporation organized under KRS Chapter 273
- Local and district health departments governed by KRS Chapter 212, state supported universities and community colleges, and the Kentucky Higher Education Student Loan Corporation

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Questions?