



COMMONWEALTH OF KENTUCKY  
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**VETO MESSAGE FROM THE**  
**GOVERNOR OF THE COMMONWEALTH OF KENTUCKY**  
**REGARDING HOUSE BILL 362 OF THE**  
**2018 REGULAR SESSION**

*I, Matthew G. Bevin, Governor of the Commonwealth of Kentucky, pursuant to the authority granted under section 88 of the Kentucky State Constitution, do hereby veto the following:*

House Bill 362 of the 2018 Regular Session of the General Assembly in its entirety.

*House Bill 362 contains two major provisions. First, it provides important relief to cities and counties by phasing in the increased contributions necessary to shore up the CERS pension plans. Second, it provides a window for participating employers to withdraw from KERS and CERS plans under terms that are much more favorable than current law permits.*

*I support the phase-in provisions for CERS employers in the context of reforming our pension systems. Cities and counties have always funded the contributions required by law, despite the fact that those required contributions consistently underestimated the true liability due to decisions made by prior KRS boards to adopt unrealistic and inaccurate assumptions with respect to investment returns, inflation, and payroll growth. These bad assumptions are the primary reason the CERS plans are less than 60% funded. The current KRS board is committed to using realistic and honest assumptions to ensure that retirees will continue to receive pension checks. This phase-in provision provides cities and counties an increased ability to budget for the necessary increased contributions. To be clear, although this provision is part of the bill I am vetoing, I support and encourage the Kentucky General Assembly to restore this provision in the remaining two days of the 2018 Session.*

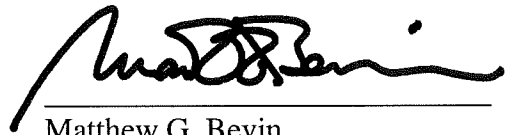
*It is the buy-out provisions contained in House Bill 362 that are very problematic and the basis for this veto. I am concerned that the buy-out provisions will be viewed as "credit negative" by rating agencies if not changed. According to the actuarial analysis of the bill, requiring KRS to finance the ceasing employers' annual installments with a 0% interest rate is a significant benefit to those withdrawing employers and could potentially be a \$2.0 billion subsidy that must be financed by the remaining participating employers in the systems. For example, the potential subsidy for employers ceasing participation in the KERS Non-Hazardous System alone is \$1.7 billion and could result in a 6% to 8% increase in the actuarially required contribution ("ARC") for the remaining participating employers, including the Commonwealth itself. Additionally, there is increased financial risk to KRS and CERS that member entities may become financially troubled or cease existence before they have completely financed all their unfunded liability (this is referred to as increased default risk).*

*Under HB 362, the buy-out payments for most employers would not see any annual increase over a 30 to 40-year period. The actuary for the KERS and CERS plans has suggested changing the installment period to ten years, which would require higher annual payments. The Executive Director of KRS has additional recommendations that could significantly reduce negative cash flow and other imminent risks to the stability of the pension plan. The legislature should implement recommendations that will help protect the remaining employers from unnecessary and inappropriate financial burdens and the high likelihood of increases in their ARC payments.*

*In their current form, the buy-out provisions are well-intended, but provide too much risk to the solvency of both the KERS and CERS systems. These provisions, as currently written, will lead to cash flow issues and shift even more of the pension burden to future taxpayers.*

*Therefore, for the sake of fiscal responsibility, I must veto House Bill 362, while reiterating that the General Assembly should work to quickly reenact the phase-in portion of the bill.*

This the 5<sup>th</sup> Day of April, 2018

A handwritten signature in black ink, appearing to read "Matthew G. Bevin", written over a horizontal line.

Matthew G. Bevin  
Governor