Local Mandate Fiscal Impact Estimate
Kentucky Legislative Research Commission
2016 Regular Session

Part I: Measure Information

Bill Request #: 160

Bill #: HB 167

Bill Subject/Title: Local government pension plans.

Sponsor: Representative Arnold Simpson

Unit of Government: **X** City ___ County **X** Urban-County
___ Charter County **X** Consolidated Local **X** Unified Local Government

Office(s) Impacted: Mayor, legislative body of a local government other than a county or charter county, governing board of any local government retirement system other than CERS, city treasurer or chief financial officer, an employee from the city police department, and an employee from the city fire department

Requirement: **X** Mandatory **X** Optional

Effect on
Powers & Duties: **X** Modifies Existing **X** Adds New ___ Eliminates Existing

Part II: Purpose and Mechanics

Section 1 of HB 167 amends KRS 65.156 to require a local government retirement system to perform an actuarial valuation every five years, instead of every three, if the system has fewer than six active and retired members. The section applies to all city, consolidated local, urban-county, and unified local government pension plans that were closed to new enrollees in 1988 or before.

Section 2 amends KRS 67A.320 to provide that once all liabilities have been satisfied to all persons owed benefits under an urban-county pension fund, any ordinance enacted for creation or maintenance of the fund may be repealed by the unanimous vote of the duly elected members of the legislative body of the urban-county government. Following repeal, the fund's assets shall be distributed to the urban-county government's general fund. The fund's board of trustees shall file a report with the legislative body of the urban-county government stating the actions taken to terminate the fund and liquidate its assets. Section 2 also permits retirees to serve on the fund's board of trustees.

The rest of HB 167 applies to city, consolidated local, urban-county, and unified local government pension plans that were closed to new enrollees in 1988 or before.

Once all liabilities have been satisfied to all persons owed benefits from the pension fund, then any ordinance establishing the fund may be repealed by unanimous vote of the duly elected members of the legislative body of the local government. Following repeal, the fund's assets shall be distributed to the local government's general fund. The board of trustees of the fund shall file a report with the legislative body of the local government stating the actions taken to terminate the fund and liquidate its assets.

If there are fewer than six active and retired members of a policemen's and firefighter's pension fund, the board of trustees shall be composed of the mayor, city treasurer or chief financial officer, and two employees appointed by the mayor: one from the city police department and one from the city fire department.

Part III: Fiscal Explanation, Bill Provisions, and Estimated Cost

HB 167 saves local government a minimal amount of money and generates a minimal amount of local government revenue while imposing minimal costs on local governments.

The Program Review and Investigations Committee conducted a study of <u>Local Defined-Benefit Pension Plans in Kentucky</u> and published its findings in Research Report No. 411 on June 11, 2015. The Research Report's Abstract reads in part:

- As of 1988, statute closed entry to new enrollees for almost all local defined-benefit pension plans. Existing plan members could switch to the County Employees Retirement System or stay in their plans. There remain 30 such plans, mostly for police and firefighters, in 22 cities. The only plan still accepting new enrollees is the one for Lexington-Fayette County police and firefighters. It has nearly one-half of the more than 2,100 retirees and beneficiaries in the 30 plans. The 29 closed plans have practically no active employees, and many have relatively few retirees and beneficiaries.

The Program Review and Investigations Committee made three recommendations in Research Report No. 411.

1. Change the timing of actuarial reports as specified in KRS 65.156;
2. Establish procedures for the repeal of plans with no retirees and beneficiaries; and
3. Change the composition of governing boards of police and firefighter plans of second, third, and fourth class cities.

HB 167 turns the recommendations into legislation.

It is expected that HB 167 will save local defined-benefit pensions plans a minimal amount of money by requiring an actuarial report every five years, rather than every 3, when there are fewer than six active and retired members.

HB 167 should also provide a minimal amount of money to local governments when a pension plan's liabilities are satisfied, and residual assets are distributed to the local government's general fund.

At the same time, there will be a minimal cost incurred when local government employees have to devote time to serving on the board of trustees for a pension fund. Specifically, if there are fewer than six active and retired members of a policemen's and firefighter's pension fund, the board of trustees shall be composed of the mayor, city treasurer or chief financial officer, and two employees appointed by the mayor: one from the city police department and one from the city fire department.

Data Source(s): Legislative Research Commission Report No. 411 (Local Defined-Benefit Pension Plans in Kentucky); Kentucky League of Cities; LRC staff

Preparer: Scott Varland **Reviewer:** JWN **Date:** 1/24/16