

**COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2017 REGULAR SESSION**

MEASURE

2017 BR NUMBER **1001**

HOUSE BILL NUMBER **273**

RESOLUTION NUMBER _____

AMENDMENT NUMBER _____

SUBJECT/TITLE **An ACT relating to retirement benefit participation for members of the General Assembly and declaring an emergency.**

SPONSOR **Representative R. Mills**

NOTE SUMMARY

FISCAL ANALYSIS: IMPACT NO IMPACT INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT: STATE LOCAL FEDERAL

BUDGET UNIT(S) IMPACT: **Participating employers of the Kentucky Employees Retirement System Nonhazardous plan, General Assembly**

FUND(S) IMPACT: GENERAL ROAD FEDERAL RESTRICTED AGENCY _____ OTHER

FISCAL SUMMARY

FISCAL ESTIMATES	2016-2017	2017-2018	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES			
EXPENDITURES		Indeterminable	Indeterminable
NET EFFECT		(Indeterminable)	(Indeterminable)

() indicates a decrease/negative

MEASURE'S PURPOSE: This legislation permits certain members of the General Assembly to opt out of participation in the Kentucky Employees Retirement System (KERS) and the Legislators Retirement Plan (LRP), specific to dates of participation.

PROVISIONS/MECHANICS: Section 1 permits members of the General Assembly who began contributing to LRP or KERS on or after December 31, 2014, but prior to April 1, 2017, to make a one-time irrevocable election on or before December 31, 2017, to discontinue participation in KERS or LRP. Anyone who opts out of the systems shall receive a refund of their accumulated contributions.

Section 1 also authorizes individuals who became members of the General Assembly on or after April 1, 2017, and who have not contributed to either system as a member of the General Assembly, to make a one-time irrevocable election to not participate in either system.

Sections 2 to 4 make conforming amendments to coincide with amendments in Section 1, including redefining the definition of employee to exclude members of the General Assembly that opt out of the systems.

Section 5 declares an emergency.

FISCAL EXPLANATION: The impact of this legislation is indeterminable.

There is a potential for additional expenditures from the state general fund and potential savings to the General Assembly budget unit.

Currently, members of the General Assembly may elect to participate in LRP or KERS, but participation in one of these systems is mandatory. KERS is funded predominantly as a percentage of payroll, while LRP is largely funded via a general fund direct appropriation in the Legislative Branch Budget that is subsequently transferred to the system.

Under HB 273, members of the General Assembly may opt out of participating in both LRP and KERS. The dates established in this legislation apply to Tier II (defined benefit plan) and III (hybrid cash balance plan) members. Please note that Tier II is only captured by a single day (December 31, 2014) in HB 273. Therefore, this analysis is specific to Tier III members.

Opting out of LRP means that the system will no longer benefit from employee contributions. Any unfunded liability that would have been offset by the participation of this member will now be the responsibility of the General Assembly budget unit. In other words, any departing members will reduce revenues to LRP, which will in turn be compensated for by an increase in the general fund appropriation to the Legislative Branch.

HB 273 would have a similar impact if members opt out of KERS. Because KERS is largely funded through payroll, members who opt out also reduce the overall revenues directed to the pension system. While this is a savings to the Legislative Branch Budget, the actuarial required contribution (ARC) will increase to compensate for the loss of a member's contribution to the pension system, and has an adverse impact on all other participating employers' fund sources (general, restricted, road, and federal funds) that contribute to the employers' pension contributions.

It is unknown how many members of the General Assembly will opt out of either system. As a result, the impact is indeterminable.

DATA SOURCE(S): LRC Staff, Kentucky Retirement Systems

PREPARER: Zach Ireland **NOTE NUMBER:** 95 **REVIEW:** JRS **DATE:** 2/24/2017