KENTUCKY RETIREMENT SYSTEMS

David L. Eager, Interim Executive Director

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February 21, 2017

Ms. Katie Carney
Executive Assistant, Director's Office
Legislative Research Commission
Capitol Annex, Room 104
Frankfort, KY 40601

**RE: House Bill 87 (2017 RS BR 348)**
**AA Statement Required by KRS 6.350**
**AA Statement 1 of 3**

Dear Ms. Carney:

House Bill 87 (2017 RS BR 348), in part, amends KRS 61.598 to provide that members of the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System who retire on or after January 1, 2018, shall be limited to a 10% growth in the creditable compensation earned during their last 5 years of employment if that compensation is used to calculate their retirement benefits; provides that only creditable compensation earned on or after July 1, 2017, shall be subject to the creditable compensation growth limitations; exempts bona fide promotions or salary advancements, alternative sick leave payments, lump-sum payments for compensatory time, increases due to the member being on unpaid leave for any reason in the preceding year, and overtime paid under a grant program or due to a state or federally declared emergency; provides that the Kentucky Retirement Systems shall refund employee contributions for any reductions in creditable compensation provided by this section; provides that the Kentucky Retirement Systems shall determine what constitutes a bona fide promotion or salary advancement and allow the member to appeal a decision of the system to the board; removes provisions charging employers for creditable compensation growth greater than 10% during the employee's last 5 years of employment; amends KRS 16.645 and 78.545 to conform; and contains an Emergency clause.

KRS staff have examined House Bill 87 (2017 RS BR 348) and have determined that the bill will not increase or decrease benefits in any of the retirement systems administered by Kentucky Retirement Systems, and the bill will not change the actuarial liability of any of the retirement plans administered by Kentucky Retirement Systems. Any pension spiking payments received to-date have been included in the most recent actuarial valuation.

Although there would be no material impact on the actuarial liabilities of the Systems from implementing House Bill 87 (2017 RS BR 348), there would be administrative costs to the Systems to cover the expense of the pension spiking change. Pension spiking will require technology expenses for designing and testing a second pension spiking module, and there would likely be an administrative cost to each of the Systems' 1,499 participating employers to modify their monthly reporting files.

We have not requested any further actuarial analysis of House Bill 87 (2017 RS BR 348) by the Systems' independent actuary.

Please let me know if you have any questions regarding our analysis of House Bill 87 (2017 RS BR 348).

Sincerely,

David Eager

David L. Eager
Interim Executive Director
Kentucky Retirement Systems