Local Mandate Fiscal Impact Estimate Kentucky Legislative Research Commission 2017 Regular Session

Part I: Measure Information

Bill Request #: 348				
Bill #: HB 87				
Bill Subject/Title: An Act relating topension spiking and declaring an emergency.				
Sponsor: Rep. Steve Riggs				
Unit of Government:xCityxCountyxUrban-CountyxCharter CountyxConsolidated LocalxGovernment				
Office(s) Impacted: All offices and personnel of local governments				
Requirement: <u>x</u> Mandatory Optional				
Effect on Powers & Duties: <u>x</u> Modifies Existing Adds New Eliminates Existing				

Part II: Purpose and Mechanics

HB 87 addresses pension "spiking". It is similar to SB 157 of the 2015 Session of the General Assembly that dealt with the judicial and legislative retirement systems. HB 87 extends provisions by amending 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. It provides that only creditable compensation earned on or after July 1, 2017, shall be subject to the creditable compensation growth limitations. The bill 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. HB 87 provides that the Kentucky Retirement Systems shall refund employee contributions for any reductions in creditable compensation provided. A related provision provides that the retirement systems will not refund employer contributions paid above the 10% threshold, but rather utilize those funds to pay down the unfunded liability of the fund to which the employee participated.

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

The fiscal impact on local governments is indeterminate and minimal.

HB 87 will result in a minimal positive fiscal impact due to the elimination of "pension spiking payments" to retirement systems. That is, the bill removes KRS provisions charging employers for creditable compensation growth greater than 10% during the employee's last 5 years of employment. As identified in Part II, the bill also provides for, and clarifies, exemptions to the 10% restriction (e.g., for "bona fide promotion and career advancement" and six other exemptions).

The above cost savings may be somewhat offset by a related provision providing that the retirement systems will not refund the employer contributions paid (for non-creditable compensation) but rather utilize those funds to pay down the unfunded liability of the fund to which the employee participated. There will be some time and effort expended developing required support documentation related to application for, an exemption from, the 10% restriction provided for in the bill.

Data Source(s): Kentucky Association of Counties; Kentucky League of Cities; Kentucky Retirement Systems Retirement Systems

Preparer: H. Marks Reviewer:	JWN	Date:	1/4/17
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