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

MEASURE

2017 BR NUMBER **0975**   **SENATE** BILL NUMBER **112**

RESOLUTION NUMBER____   AMENDMENT NUMBER ____

SUBJECT/TITLE An ACT relating to funding for the State Police Retirement System, making an appropriation therefor, and declaring an emergency.

SPONSOR Senator McDaniel

NOTE SUMMARY

FISCAL ANALYSIS: ☒ IMPACT ☐ NO IMPACT ☐ INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT: ☒ STATE ☐ LOCAL ☐ FEDERAL

BUDGET UNIT(S) IMPACT: **Department of Kentucky State Police**

FUND(S) IMPACT: ☒ GENERAL ☒ ROAD ☒ FEDERAL ☒ RESTRICTED AGENCY KPPF ☐ OTHER

FISCAL SUMMARY

FISCAL ESTIMATES	2016-2017	2017-2018	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES			
EXPENDITURES	$23,354,400	$125,000,000	Indeterminable
NET EFFECT	($23,354,400)	($125,000,000)	Indeterminable

( ) indicates a decrease/negative

MEASURE'S PURPOSE:

The purposes of this measure is to provide direct General Fund support to reduce the State Police Retirement Systems' unfunded liability.

PROVISIONS/MECHANICS:

Section 1 notwithstands provisions of 2016 RS HB 303, the Executive Branch Budget bill, to remove the requirement that funds in the Kentucky Permanent Pension Fund (KPPF) be appropriated in an enacted biennial budget bill. Section 1 also identifies a specific sum of KPPF resources to be applied to the unfunded liability of the State Police Retirement System (SPRS) pension fund.

Section 2 declares an emergency and stipulates the provisions of the legislation take effect upon its passage and approval by the Governor or upon its otherwise becoming law.

<u>FISCAL EXPLANATION</u>: The impact of this legislation is largely based on authorized state expenditures associated with provisions of 2016 RS HB 303, and is used in conjunction with an actuarial valuation provided by the Kentucky Retirement Systems (KRS) specific to the provisions of SB 112.

SB 112 directs KPPF support of $23,354,400 in FY 2017 and $125,000,000 in FY 2018 to reduce the unfunded pension liability of SPRS. Reducing the unfunded liability, if achieved, will ultimately reduce costs to the Kentucky State Police (KSP) in the form of a lower employer actuarially required contribution (ARC).

The source of funding identified in SB 112 is the KPPF, which is authorized to expend funds for various public pension plans. Below is a list of all of these plans and includes the current pension liability for each plan (based on the June 20, 2016 actuarial valuations), the level that each plan is funded (as a percentage), and appears in order from lowest percent funded to highest percent funded.

Retirement System/Pension Plan	Unfunded Actuarial Liability on Actuarial Value of Assets	Percent Funded
KERS Nonhazardous	$11,112,411,929	15.97%
SPRS	$540,592,758	30.26%
Teachers' Retirement	$14,531,333,000	54.60%
CERS Hazardous	$1,565,337,050	57.74%
CERS Nonhazardous	$4,541,084,447	59.00%
KERS Hazardous	$377,218,942	59.73%
Judicial Retirement (Defined Benefit Plan)	$109,318,867	70.97%
Legislative Retirement (Defined Benefit Plan)	$16,470,308	78.97%
Legislative Retirement (Hybrid Cash Balance Plan)	$585	99.03%
Judicial Retirement (Hybrid Cash Balance Plan)	($3,389)	101.30%

Because funds in the KPPF are statutorily dedicated to paying for any of the state's public pension liabilities, there is no impact to the provisions of SB 112 and the designation of SPRS as the system to benefit from the infusion of these available resources.

Looking at the actuarial valuation conducted for this legislation, there are a few items to note. First, the valuation assumed that 2016 RS HB 303 General Fund support of $10 million in FY 2018 is a receivable to SPRS in FY 2017. While the valuation makes this assumption, the $10 million will not be a receivable to SPRS until FY 2018. Therefore, none of the $10 million is authorized to be a contribution in FY 2017, which means the actuarial valuation is based on an assumption that will not hold true unless 2016 RS HB 303 is amended.

Likewise, the actuarial valuation also assumes that $125 million is to be received by SPRS in FY 2017. However, 2016 RS HB 303 does not authorize this action until FY 2018. The same limitation to the actuarial valuation indicated above also applies to here.

Based on this, the actuarial valuation specific to SB 112 assumes direct cash infusions one year ahead of when such action is authorized to occur. The impact of making this assumption is unknown, although it is plausible to postulate that the valuation prematurely assumes a reduction in the employer's actuarially required contribution (ARC).

Therefore, any assumed reduction in the employer's ARC should be considered to be true only if HB 303 is amended to reflect the actuary's assumptions.

Regardless of when a reduction in the employer's ARC occurs as a result of this legislation, the impact will be a lower employer ARC in the future. If the ARC is lowered in the future, it will decrease the amount of state resources required to be paid into the pension fund. Pension funds are paid from General, Road, Restricted, and Federal Funds.

It is important to note that this assumption is only true if all other assumptions hold true. For example, the total funding provided for in SB 112 for SPRS will only reduce the employer's ARC if variable assumptions, such as the rate of return on investments, are exactly as the actuary assumed, or better. If the rate of return falls short of actuarial expectations, then the employer's ARC will not be reduced to the expectation of the actuarial analysis for SB 112.

DATA SOURCE(S): **Actuarial Valuation (KY Retirement Systems)**
PREPARER: **Zach Ireland** **NOTE NUMBER**: **47** **REVIEW**: **JRS** **DATE**: **2/13/2017**