

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

**MEASURE**

2017 BR NUMBER **16**

**SENATE** BILL NUMBER **126**

RESOLUTION NUMBER \_\_\_\_\_

AMENDMENT NUMBER \_\_\_\_\_

**SUBJECT/TITLE** **An ACT relating to the final compensation calculation for state and county employees entering the retirement systems on or after September 1, 2008.**

**SPONSOR** **Senator McDaniel**

**NOTE SUMMARY**

FISCAL ANALYSIS:  IMPACT       NO IMPACT       INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT:  STATE       LOCAL       FEDERAL

BUDGET UNIT(S) IMPACT: **State and Local Governments**

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

**FISCAL SUMMARY**

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

( ) indicates a decrease/negative

**MEASURE'S PURPOSE:** SB 126 mandates that the Kentucky Retirement Systems (KRS) calculate final compensation for state and county employees using partial fiscal years, if members entered the retirement system on or after September 1, 2008, but prior to January 1, 2014, and if the members lack 12 months of service credit needed to achieve 36 or 60 months used to calculate the member's final compensation.

**PROVISIONS/MECHANICS:** Section 1 provides that final compensation for members of the State Police Retirement System (SPRS) is to be calculated using one or more fiscal years that may contain less than 12 months of service credit (if the member does not have three complete fiscal years of service credit), until the final compensation calculation is at least 36 months.

Section 2 provides that final compensation for nonhazardous duty members of the Kentucky Employees Retirement System (KERS) is to be calculated using one or more fiscal years that may contain less than 12 months of service credit (if the member does not have five complete fiscal years of service credit), until the final compensation calculation is at least 60 months.

Section 2 also stipulates that final compensation for hazardous duty members of KERS is to be calculated using one or more fiscal years that may contain less than 12 months of service credit (if the member does not have three complete fiscal years of service credit), until the final compensation calculation is at least 36 months.

Section 3 provides that final compensation for nonhazardous duty members of the County Employees Retirement System (CERS) is to be calculated using one or more fiscal years that may contain less than 12 months of service credit (if the member does not have five complete fiscal years of service credit), until the final compensation calculation is at least 60 months.

Section 3 also stipulates that final compensation for hazardous duty members of CERS is to be calculated using one or more fiscal years that may contain less than 12 months of service credit (if the member does not have three complete fiscal years of service credit), until the final compensation calculation is at least 36 months.

**FISCAL EXPLANATION:**

This legislation will not pose any impact on any KRS-administered retirement systems, according to KRS staff. However, this assessment may not consider the potential for future benefit payouts to occur that otherwise would be avoided.

To explain, there is a potential for inactive Tier II members to return to employment only to accrue the required number of months needed to calculate final compensation. For example, if there are currently 10 inactive Tier II nonhazardous members with 58 months of service credit (four fiscal years containing 12 months of service credit each and 10 months of a separate FY), then under current law these individuals would need to return to employment for a total of 12 months before being eligible for retirement. This would amount to the required 60 months.

Under SB 126, these same inactive Tier II nonhazardous members may return to employment for two additional months before being eligible for retirement. The difference between working an additional 12 months versus an additional two months is that current law would yield an additional 10 months of contributions that would not be made under SB 126.

It is impossible to know how many inactive members may be enticed to return to eligible employment, or to which retirement system they may return.

Please note that the General Assembly has previously afforded these provisions to nonhazardous members of KERS and CERS. However, KRS has not interpreted these provisions to include fiscal years with service credit less than 12 months in a member's final compensation calculation. To clarify, language provisions in KRS 61.510 (KERS nonhazardous) currently provide that:

*If the member does not have five (5) complete fiscal years that each contain twelve (12) months of service credit, then one (1) or more additional fiscal years shall be used.*

Similar language appears in statute for nonhazardous members of CERS (KRS 78.510). SB 126 clarifies this intent and expands this calculation to apply to hazardous members of CERS and

SPRS. If enacted, SB 126 would ensure that final compensation for members of all KRS-administered retirement systems is calculated the same.

**DATA SOURCE(S): Kentucky Retirement Systems**

**PREPARER: Zach Ireland and Jonathan Eakin NOTE NUMBER: 52 REVIEW: JRS**

**DATE: 2/16/2017**