

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

Part I: Measure Information

Bill Request #: 1346

Bill #: SB 242

Bill Subject/Title: AN ACT relating to the cost-of-living adjustments for pension plans for former cities of the third class.

Sponsor: Senator Dorsey D. Ridley

Unit of Government: City County Urban-County
 Charter County Consolidated Local Unified Local
Government

Office(s) Impacted: _____

Requirement: Mandatory Optional

Effect on Powers & Duties: Modifies Existing Adds New Eliminates Existing

Part II: Purpose and Mechanics

Currently, former third class cities that administer their own pension funds may increase the amount of civil service pension benefits for those retirees hired before August 1, 1988 based on the consumer price index as provided by the Department of Local Governments. These cities may also increase policemen and firefighter pension benefits based on the same cost-of-living increase that the Social Security Administration uses.

SB 242 gives third class cities **the option** of providing an increase in retirement benefits for civil service employees hired before August 1, 1988 and for policemen and firefighters based on the cost-of-living increase for a recipient of Social Security **or** the increase in the consumer price index. The maximum increase will remain at 5%.

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

The fiscal impact of SB 242 on local government is indeterminable.

House Bill 398, enacted in 1988, closed entry to new enrollees to most local defined-benefit pension plans and gave existing members the choice to stay in their existing plan or move to the County Employees Retirement System (CERS).

There are currently 30 local defined-benefit pension plans outside of CERS in 22 cities. The only one still accepting new enrollees is the plan for Lexington –Fayette County police and firefighters.

22 Plans For Police And Firefighters			8 Plans For Other Employees	
Ashland	Glasgow	Mayfield	Ashland	Lexington-Fayette
Bowling Green	Hazard	Murray	Covington	Newport
Corbin	Henderson	Newport	Franklin	Owensboro
Covington	Hopkinsville	Owensboro	Henderson	Paducah
Danville	Lexington-Fayette	Paducah		
Fort Thomas	Louisville (2 plans)	Richmond		
Frankfort	Madisonville	Winchester		

The average pension for Lexington-Fayette County police and firefighters was \$50,091. For 14 of the 29 closed plans, the average pension was between \$15,000 and \$20,000. Five plans had an average of less than \$10,000 and five had an average of more than \$20,000.

There are 2,163 retirees and beneficiaries in the 30 local pension plans. The Lexington-Fayette County police and firefighter plan has 1,070 retirees and beneficiaries. The remaining 29 plans have 1,093 retirees and beneficiaries. Of the plans closed to new enrollments, four systems have one active employee each. The remaining 25 systems have no active employees. Louisville has more than 30 percent of the retirees and beneficiaries of closed plans. Covington has more than 10 percent. Thirteen cities have 30 or fewer retirees and beneficiaries, including five cities with 10 or fewer.

**The above statistics came from LRC Publication 441, Local Defined-Benefit Pension Plans in Kentucky adopted June 11, 2014.*

The most recent ten-year average available reflects CPI on average is 2.2% (rounded) higher than COLA. (*Note: COLA is based on CPI-W)

YEAR	COLA	CPI-U
2016	0.3	3.0
2015	0.0	0.3
2014	1.7	3.8
2013	1.5	3.4
2012	1.7	4.7
2011	3.6	6.9
2010	0.0	3.5
2009	0.0	-0.8
2008	5.8	8.0
2007	2.3	5.7
10 Yr Avg	1.7	3.8
Difference		2.2

If the local government when calculating an increase for **civil service retirees** opted to use the COLA instead of the CPI index as currently required, the benefits would be less.

If the local government when calculating an increase for **policemen and firefighters** opted to use the CPI index instead of the COLA currently required, then benefits would be more.

SB 242 allows for either to be used at the discretion of the local government.

Data Source(s): LRC Staff; LRC Publication 441, Local Defined-Benefit Pension Plans in Kentucky

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