KENTUCKY RETIREMENT SYSTEMS

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March 19, 2018

Ms. Katie Carney
Office of Fiscal Statement Review
Legislative Research Commission
Capitol Annex, Room 104
Frankfort, KY 40601

RE: BR 291 HB 338
AA Statement 1 of 1

Dear Ms. Carney:

House Bill 338 (2018 RS BR 291) creates a new section of KRS 61.510 to 61.705 to establish a five percent (5%) surcharge on state contracts for personnel hired in lieu of hiring a state employee; require the surcharge to be paid to the unfunded liability trust fund created under KRS 61.706 to be applied to the Kentucky Employees Retirement System Non-Hazardous pension fund; and apply the surcharge to all participating employers and for all memoranda of agreement and personnel service contracts, as defined in KRS 45A.690 of the Model Procurement Code. The bill contains an Emergency clause.

Kentucky Retirement Systems staff members have consulted with their actuaries and have examined House Bill 338 (2018 RS BR 291). We have determined that the bill will not increase or decrease benefits in any of the retirement systems administered by Kentucky Retirement Systems. The bill would not increase or decrease the participation in benefits in any of the retirement systems administered by Kentucky Retirement Systems.

House Bill 338 (2018 RS BR 291) would potentially decrease the actuarial liability of the KERS Non-Hazardous plan. Employers who utilize contracts or agreements with personnel hired in lieu of hiring a state employee would begin paying a five percent (5%) surcharge on those contracts that they had not been previously paying, but those employees would not be eligible to receive retirement benefits. Therefore, no additional actuarial liability would be created, and the surcharge could be applied to paying down the unfunded liability of the KERS Non-Hazardous pension fund. We are unable to determine the exact amount of money that would be received by the Systems under this bill because we do not know the total number of contracts currently in force or that will be in force in the future, and the total dollar amount of each contract that would have a 5% surcharge applied would vary.

Although we anticipate that the surcharge would be beneficial, the benefit could be moderately offset if employers use contractors instead of retired re-employed workers. Under current statutes, employers pay the same contribution rate as an active employee, but the retired re-employed member doesn't earn a second retirement contribution. If employers decide to use contractors they would only pay five percent (5%) of the contractor salary as opposed to paying the higher actuarially required contribution rate.

In accordance with KRS 6.350 (2)(c), Kentucky Retirement Systems certifies the following:

1. The estimated number of individuals affected as of June 30, 2017 are 36,725 active members, 44,848 inactive members, and 40,813 retired members in the KERS Non-Hazardous plan.

2. There is no estimated benefit payment increase;

3. There would be an increase in employer costs for those employers who utilize contracts or agreements with personnel hired in lieu of hiring a state employee, because they will now begin paying a five percent (5%) surcharge on those contracts that they had not been previously paying; and

4. There is no estimated change to administrative expenses.

We have not requested any further actuarial analysis of House Bill 338 (2018 RS BR 291) by the Systems' independent actuary. Please let me know if you have any questions regarding our analysis of House Bill 338 (2018 RS BR 291).

Sincerely,

David Eager

David L. Eager
Interim Executive Director
Kentucky Retirement Systems