



KENTUCKY RETIREMENT SYSTEMS

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March 1, 2018

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

RE: BR 1975 HB 440
AA Statement 1 of 2
AA Statement Required by KRS 6.350

Dear Ms. Carney:

House Bill 440 (2018 RS BR 1975) amends KRS Chapter 6 to close the Legislators' Retirement Plan (LRP) to new members effective January 1, 2019; amends KRS Chapter 61 to prohibit future members of the General Assembly from participating in the Kentucky Employees Retirement System unless they participated in the Kentucky Employees Retirement System or the Legislators' Retirement Plan as members of the General Assembly prior to January 1, 2019; and amends KRS Chapter 61 to make technical and conforming amendments.

Kentucky Retirement Systems staff members have consulted with their actuaries and have examined House Bill 440 (2018 RS BR 1975). Our analysis only pertains to KERS. 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 increase the participation in benefits in the KERS plans as of January 1, 2019 and thereafter if future legislators who participated in the Kentucky Employees Retirement System or the Legislators' Retirement Plan as members of the General Assembly prior to January 1, 2019 begin participating in KERS.

House Bill 440 (2018 RS BR 1975) could potentially have a detrimental impact on the actuarial liability of the KERS plan. If new legislators do not participate there would be no new liability created because they would not earn credit toward a retirement benefit. However, KERS would also not receive the employer contributions that otherwise would have been received: the majority of which are used to pay for the existing unfunded liability. For example, in the KERS Nonhazardous plan, the actuarially recommended combined Pension and Insurance contribution rate for Fiscal Year 2019 is 83.43%, with 72.49% of that total allocated toward the unfunded liability (62.86% for Pension and 9.63% for Insurance). New legislators would be placed in either Tier 1, Tier 2, or Tier 3, depending on their original participation date with an agency participating in KERS. Using Tier 3 as an example, based on the 2017 Plan Actuarial Valuations, the Employer Normal Cost Rates for this Tier (the "Employer Normal Cost Rate" is the annual employer cost of providing retirement benefits for today's members

net of the employee contribution) are 2.26% for Pension and 0.52% for Insurance in the KERS Nonhazardous plan.* Therefore, while the actuarial liability created by adding another member to the KERS Nonhazardous system in Tier 3 is 2.78% (2.26% plus 0.52%), the System would lose 72.49% of the member's salary that would have otherwise been paid on their behalf and allocated toward paying down the unfunded liability for that System.

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 and 44,848 inactive members in the KERS Nonhazardous plan; and 4,061 active and 4,363 inactive members in the KERS Hazardous plan. According to the Legislators' Retirement System website, as of July 1, 2016 there were 101 members of the Legislators Defined Benefit Plan, and 14 members of the Legislators Retirement Hybrid Cash Balance Plan.
2. There is no estimated change in benefit payments;
3. There is no estimated change to employer costs; and
4. There is no estimated change to administrative expenses.

We have not requested any further actuarial analysis of House Bill 440 (2018 RS BR 1975) by the Systems' independent actuary. Please let me know if you have any questions regarding our analysis of House Bill 440 (2018 RS BR 1975).

Sincerely,



David L. Eager
Interim Executive Director
Kentucky Retirement Systems

**excludes employee contributions and administrative expenses.*