KENTUCKY RETIREMENT SYSTEMS

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February 6, 2018

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

RE: BR 235 HB 48 – Revised
AA Statement 1 of 2
AA Statement Required by KRS 6.350

Dear Ms. Carney:

House Bill 48 (2018 RS BR 235) creates a new section of KRS Chapter 6 and amends KRS Chapter 61 to allow individuals who become a member of the General Assembly on or after April 1, 2018 to make a one-time irrevocable election to not participate in the Legislators' Retirement Plan (LRP) or the Kentucky Employees Retirement System (KERS) for their service to the General Assembly. The bill also allows General Assembly members who began contributing to the LRP or to KERS on or after December 31, 2014 but prior to April 1, 2018, to make a one-time irrevocable election by December 31, 2018 to discontinue participation in the plans and receive a refund of their accumulated contributions. The bill also provides that the election to not participate or discontinue participation in the Plans shall apply to all future service of the General Assembly. The bill contains an Emergency clause.

Kentucky Retirement Systems staff members have examined House Bill 48 (2018 RS BR 235). 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 not increase the participation in benefits in any of the retirement systems administered by Kentucky Retirement Systems, but would decrease participation if individuals choose to make the election to not participate in KERS.

House Bill 48 (2018 RS BR 235) could potentially have a detrimental impact on the actuarial liability of the KERS plan. If new legislators choose not to 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 Tier 3. 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 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.

**excludes employee contributions and administrative expenses.*

Also, members already in the KERS plan would have had to begin participating on or after January 1, 2014, thus placing them under Tier 3. Tier 3 members must obtain 60 months of service credit in order to be vested and eligible to receive a refund of both their contributions and a portion of the contributions made by their employer on their behalf. Because the dates specified in the bill are within the past five years (after December 31, 2014 but prior to April 1, 2018), individuals who elect to discontinue participation in KERS would not be vested and would only receive their employee contributions and any earned interest in their refund. The employer contributions paid on their behalf would remain with the Systems.

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

1. According to the Legislators Retirement System website, as of July 1, 2016 there were 14 members of the Legislators Retirement Hybrid Cash Balance Plan (the plan in effect for General Assembly members elected to a term commencing on or after January 1, 2014). Therefore, the estimated number of individuals affected by this bill are 14 active members and any future members of the General Assembly who decide to participate in the LRP or the KERS 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 48 (2018 RS BR 235) by the Systems' independent actuary. Please let me know if you have any questions regarding our analysis of House Bill 48 (2018 RS BR 235).

Sincerely,

David Eager

David L. Eager
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Kentucky Retirement Systems