



KENTUCKY RETIREMENT SYSTEMS

David L. Eager, Interim Executive Director

Perimeter Park West • 1260 Louisville Road • Frankfort, Kentucky 40601
kyret.ky.gov • Phone: 502-696-8800 • Fax: 502-696-8822



March 16, 2018

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

RE: BR 230 HB 51
AA Statement 1 of 2

Dear Ms. Carney:

House Bill 51 (2018 RS BR 230) would create new sections of Kentucky Revised Statute chapter 6 to permit a member or retiree of the Legislators' Retirement Plan to opt out of the traditional defined benefit plan and elect to participate in the Kentucky Employees Retirement System's hybrid cash balance plan for nonhazardous employees under KRS 61.597; specify that, on the member's effective election date, the value of the active member's accumulated account balance or a lump-sum payment of the actuarial value of the retiree's benefits be deposited into the member's hybrid cash balance account and be considered part of the member's accumulated account balance in the Kentucky Employees Retirement System; specify that on an active member's effective election date, an employer pay credit shall be applied to the member's accumulated account balance for each contributing month prior to the effective election date; require the Judicial Form Retirement System and the Kentucky Retirement Systems to provide the electing member with information detailing the consequences of the member's or retiree's election; specify that a member or retiree is not eligible to make an election until a private letter ruling by the IRS is received; make the benefit election under this section of the bill irrevocable; amend KRS 6.505 to close the Legislators' Retirement Plan to new members effective August 1, 2018, and transfer all legislative members' in the hybrid cash balance plan to the hybrid cash balance plan in the Kentucky Employees Retirement System; make conforming amendments to KRS 21.374, 21.402, and 61.597; amend KRS 141.010 and 141.020 to provide that, effective for taxable years on or after January 1, 2019, members and retirees of the Legislators' Retirement Plan who do not opt out of the traditional defined benefit plan and elect to participate in the Kentucky Employees Retirement System's hybrid cash balance plan have any retirement distributions exceeding \$80,000 taxed at a rate of 75%.

Kentucky Retirement Systems staff members have consulted with their actuaries and have examined House Bill 51 (2018 RS BR 230). 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 Non-Hazardous plan as legislators who participated in the Legislators' Retirement Hybrid Cash Balance Plan begin participating in KERS.

House Bill 51 (2018 RS BR 230) would increase the actuarial liability of the KERS plan. Assuming that the Commonwealth continues to pay the full Actuarially Required Contribution (ARC), there should be no adverse impact on KERS associated with new legislators entering the plan on or after August 1, 2018 because the increase in actuarial liability should be offset by employee and employer contributions and investment returns. However, any unfunded liabilities for existing LRP members would transfer to the KERS Non-Hazardous pension plan and thus would add to the existing KERS plan unfunded liability.

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 Nonhazardous 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; however, taxing retirement distributions exceeding \$80,000 at a state tax rate of 75%, when combined with federal income tax rates, may cause the retiree's tax liability to be more than the total amount of their retirement benefit payment.
3. There is no estimated change to employer costs; and
4. There may be a minimal increase in administrative expenses for Kentucky Retirement Systems to cover the added expense of calculating and providing the electing member with information detailing the consequences of their election.

We have not requested any further actuarial analysis of House Bill 51 (2018 RS BR 230) by the Systems' independent actuary. Please let me know if you have any questions regarding our analysis of House Bill 51 (2018 RS BR 230).

Sincerely,



David L. Eager
Interim Executive Director, Kentucky Retirement Systems