Local Government Mandate Statement
Kentucky Legislative Research Commission
2019 Regular Session

Part I: Measure Information

Bill Request #: 1425

Bill #: SB 10

Document ID #: 3841

Bill Subject/Title: AN ACT relating to agency cessation of participation in the Kentucky Retirement Systems and declaring an emergency.

Sponsor: Senator Christian McDaniel

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

Office(s) Impacted: all that participate in the County Employees Retirement System

Requirement: **X** Mandatory ___ Optional

Effect on Powers & Duties: **X** Modifies Existing ___ Adds New ___ Eliminates Existing

Part II: Bill Provisions and the Estimated Fiscal Impact Relating to Local Government

SB 10 **Section 1** would amend KRS 61.522 (6) to allow local and district health departments governed by KRS Chapter 212, state-supported universities and community colleges, and other quasi-governmental employers participating in the Kentucky Employees Retirement System (KERS) to voluntarily cease their participation. The bill would establish that, for all eligible employers who elect to cease their participation by January 1, 2020 and who participated in fiscal year 2018-2019:

1. For FY 2019-2010, during the time after the first day of the month following the date the employer makes an election to cease participation, the employer would pay the same dollar amount contribution to the system as in FY 2018-2019;
2. The cost of ceasing to participate would be the full actuarial cost of the benefits accrued by its current and former employees in the system who remain in the system; however:
    a. The assumed rate of return would be no lower than 3.5%

b. Costs would be financed by the systems and may be paid monthly or annually
c. Costs would be a set dollar value based on the FY 2019-2020 employer contributions, increasing by 1.5% annually until the cost is paid in full.
d. If the employer is receiving general fund money to help pay retirement contributions and that money is reduced on or after July 1, 2020, then the payment required by SB 10 would be reduced by the same amount.
e. Interest on the principal would be limited to the greater of 1.5% or the percentage increase in the annual average of the consumer price index for urban consumers for the most recent calendar year
f. While the ceasing employer would be required to provide security for financing the costs of cessation, the system board would not be able to deny an employer the ability to finance the costs because of the level or adequacy of information or security provided.

These beneficial terms would result in SB 10 having an **indirect negative fiscal impact on local governments that participate in the County Employees Retirement System**. The Kentucky Retirement Systems Board of Trustees governs both the KERS and the CERS. The terms for paying the costs of cessation in KERS could encourage employers to leave KERS and reduce the number of employers contributing to the systems. Fewer contributors to the systems would result in higher actuarial costs as well as higher administrative costs to those employers who remain.

According to the Kentucky League of Cities, if KERS is not funded at an appropriate level, the Kentucky Retirement Systems Board of Trustees may make their investment policies even more conservative. Since KRS unitizes CERS investments with KERS investments, the bill could have a negative impact on the CERS unfunded liability. That would force employer contribution rates higher. Even a minimal increase in the contribution rates would have a moderate impact on cities when applied to their total participating payroll. Since CERS rates are capped at 12 percent increases over the next several years, any increases wouldn't be felt for, approximately, another four years - when the phased-in rates will likely converge with the actuarially required contribution rate.

Part III: Differences to Local Government Mandate Statement from Prior Versions

Part II, above, pertains to SB 10 as introduced. There is no prior introduced version to compare to for Part III.

Data Source(s): Kentucky League of Cities; LRC staff

Preparer: Mary Stephens **Reviewer:** KHC **Date:** 3/7/19