KENTUCKY RETIREMENT SYSTEMS

David L. Eager, Executive Director

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

February 20, 2019

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

RE: Senate Bill 162 GA (2019 RS BR 1036)
AA Statement Required by KRS 6.350
AA Statement 1 of 1

Dear Ms. Carney:

Senate Bill 162 (2019 RS BR 1036) amends KRS 158.441 to define "Kentucky State Police school resource officer (KSPSRO)," "school activities," and "school property"; creates a new section of Chapter 158 to specify the requirements of employment of a KSPSRO by a school district; and amends KRS 61.637 to exempt an employer from paying contributions on a retiree employed as a school security officer. The bill has an Emergency clause.

Kentucky Retirement Systems (KRS) staff members have examined Senate Bill 162 (2019 RS BR 1036). 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 potentially increase the participation in benefits within the retirement systems administered by Kentucky Retirement Systems. Senate Bill 162 (2019 RS BR 1036) states that the KSPSROs will be employees of school boards, but shall revert to the Department of Kentucky State Police when they take police action. If a KSPSRO averages 80 or more hours a month over actual days worked in a fiscal year, the school board would be responsible for reporting employee and employer contributions to the County Employees Retirement System (CERS). Furthermore, KSPSROs who are also employed as State Troopers and average in the KSPSRO position would have their service prorated between the CERS and the State Police Retirement System (SPRS); and employed Vehicle Enforcement Officers participating in the Kentucky Employees Retirement System (KERS) who average in the KSPSRO position would have their service prorated between the KERS and the CERS. In addition, if the school board wanted the KSPSRO position to be considered Hazardous for retirement purposes, they would have to petition the KRS Board of Trustees as they do for other positions today.

Senate Bill 162 (2019 RS BR 1036) would potentially increase the unfunded actuarial liability of the pension plans administered by Kentucky Retirement Systems. Assuming that employers continue to pay the full Actuarially Required Contribution (ARC) if a KSPSRO averages 80 or more hours a month over actual days worked in a fiscal year, there should be no adverse impact on the Systems because the increase in actuarial liability should be offset by employee and employer contributions and investment returns. However, allowing employers to be exempt from paying contributions on a retiree employed as a school security officer means KRS 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 CERS Non-Hazardous plan, the combined Pension and Insurance contribution rate for Fiscal Year 2019 is 21.48%, with 16.22% of that total allocated toward the unfunded liability for the Pension fund. New KSPSROs would be placed in Tier 3, as determined by their original participation date with an agency participating in CERS. Based on the 2018 Plan Actuarial Valuations, the Employer Normal Cost Rates for Tier 3 (the "Employer Normal Cost Rate" is the annual employer cost of providing retirement benefits for today's members net of the employee contribution) are 1.56% for Pension and 1.22% for Insurance in the CERS Non-Hazardous plan.* Therefore, while the actuarial liability created by adding another member to the CERS Non-Hazardous system in Tier 3 is 2.78% (1.56% plus 1.22%), the System would lose 18.70% 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, 2018 are 891 active and 1,445 retired members in the SPRS plan;

2. There is no estimated change in benefit payments;

3. There is a potential increase in employer costs if the SRO averages 80 or more hours a month over actual days worked a fiscal year; and

4. There is no estimated change to administrative expenses.

We have not requested any further actuarial analysis of Senate Bill 162 (2019 RS BR 1036) by the Systems' independent actuary.

Please let me know if you have any questions regarding our analysis of Senate Bill 162 (2019 RS BR 1036).

Sincerely,

David Eager

David L. Eager, Executive Director
Kentucky Retirement Systems

**excludes employee contributions and administrative expenses.*