

**COMMONWEALTH OF KENTUCKY FISCAL NOTE STATEMENT  
LEGISLATIVE RESEARCH COMMISSION  
2019 SPECIAL SESSION**

**MEASURE**

2019 BR NUMBER 0030

HOUSE BILL NUMBER 1

**TITLE** AN ACT relating to the Kentucky Employees Retirement System and declaring an emergency.

**SPONSOR** Representative James Tipton

**FISCAL SUMMARY**

STATE FISCAL IMPACT: ☒ YES ☐ NO ☐ UNCERTAIN

OTHER FISCAL STATEMENT(S) THAT MAY APPLY: ☒ ACTUARIAL ANALYSIS ☐ LOCAL  
MANDATE ☐ CORRECTIONS IMPACT ☐ HEALTH BENEFIT MANDATE

APPROPRIATION UNIT(S) IMPACTED: Various

FUND(S) IMPACTED: ☒ GENERAL ☒ ROAD ☒ FEDERAL ☒ RESTRICTED \_\_\_\_\_

FISCAL ESTIMATES	2019- 2020	2020-2021	2021-2022	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES				
EXPENDITURES		Minimum of \$8.3 million (Rate Freeze & Cessation Options) + a maximum of \$50.2 million (Continued GF Appropriations)	Minimum of \$60.4 million (Rate Freeze & Cessation Options) + a maximum of \$50.2 million (Continued GF Appropriations)	Varies each FY (Rate Freeze & Cessation Options) + a maximum of \$50.2 million (Continued GF Appropriations)
NET EFFECT		(Potentially \$58.5 million)	(Potentially \$110.5 million)	(Varies)

( ) indicates a decrease/negative

**PURPOSE OF MEASURE:** This measure amends, and in some cases establishes, the process in which quasi-state agencies may elect to cease participating in the Kentucky Employees Retirement System (KERS) Nonhazardous duty retirement plan, provides for a lower, retroactive contribution rate these employers must contribute (49.47 percent of pay vs. 83.43 percent of pay) in fiscal year (FY) 2020, and codifies General Fund appropriations to certain quasi-state agencies until these employers' full actuarial costs of ceasing participation are paid off.

**FISCAL EXPLANATION:** Below are estimated costs associated with various provisions of HB 1. Please note that the actuarial analysis used to formulate the estimates below:

1. ***Does not*** reflect actuarial assumptions concerning mortality rates recently adopted by the Kentucky Retirement Systems (KRS) Board of Trustees, which will increase overall costs by an unknown amount,

2. Assumes local and district health departments, as well as state-supported universities and community colleges are eligible to cease participation in KERS, however, current law does not authorize these two groups to cease participation in KERS. As a result, the comparison between HB 1 and current law *does not* actually reflect current law, and
3. Assumes employee head count will remain constant (resulting in a *two* percent annual payroll growth assumption).

Based on the above, all estimates below adhere to all contribution rates understood to be applicable to actuarial estimates contained in the actuarial analysis for HB 1.

FY 2020 Contribution Rate Freeze:

Per the actuarial analysis of HB 1, the continuation of the FY 2018 contribution rate of 49.47 percent of pay into FY 2020 for approximately 118 quasi-state agencies will provide cost relief in the amount of \$121 million. Likewise, this relief means overall contributions to KERS Nonhazardous will decrease by \$121 million, which results in an increase in the actuarially determined contribution rate (ADEC) in FY 2021 by 0.7 percent. These costs will largely be experienced by the remaining participating employers, which mostly consists of state agencies.

Employer Cessation:

Because HB 1 provides quasi-state agencies various employer cessation options, the KRS actuary produced an assortment of fiscal impacts contingent upon the exact option employers seeking to cease participation in KERS select. That said, based on information from stakeholders, KRS' actuary assumed university and non-university employers would elect a hard freeze, with universities paying for their actuarial costs as a lump sum payment, while non-university employers would elect to pay in installments. Using these assumptions, the total actuarial cost relief to quasi-state agencies is \$706 million.

According to the actuary, providing \$706 million in actuarial cost relief is projected to increase the contribution rate mostly for state agencies, but will include other special purpose entities, by 5.5 percent, or about \$65 million annually, beginning in FY 2023 and for the next 21 years.

Continued General Fund Appropriations to Certain Quasi-State Agencies from Executive Branch Budget:

HB 1 stipulates that, for those employers that elect to cease participation in the system *and* currently receive General Fund appropriations in specific sections of the biennial executive branch budget to subsidize their employer contributions to the system, these employers will continue to receive their distribution of these funds until the employer's full actuarial costs of ceasing participation are paid off.

The exact number of quasi-state agencies that may elect to cease participation and that apply to the parameters above is unknown. The following identifies the employer category and the total potential annual General Fund appropriation that would be required to be disbursed under HB 1 based on provisions of 2018 Regular Session HB 200:

<b>Employer Category</b>	<b>FY 2020</b>
Local & District Health Departments	\$25,394,600
Domestic Violence, Rape Crisis Centers, & Child Advocacy Centers	\$1,498,900
Community Mental Health Centers	\$23,274,100
<b>Total Annual GF Appropriation</b>	<b>\$50,167,600</b>

Based on the contents of this full note, HB 1 poses additional costs to the state; however, the exact degree of impact is contingent upon many factors, including which employer cessation election is made by individual quasi-state agencies. Ultimately, combining the contribution rates contained in the actuarial analysis with FY 2018 payroll data for state government, total projected costs of implementing HB 1 are identified below.


**Cost Projection Summary**

Provisions	FY 2021	FY 2022	FY 2023	FY 2024
Rate Freeze & Cessation Options*	\$8,286,000	\$60,367,000	\$65,102,000	\$61,847,000
Continued GF Appropriations (Maximum Liability)**	\$50,167,600	\$50,167,600	\$50,167,600	\$50,167,600
<b>Total</b>	<b>\$58,453,600</b>	<b>\$110,534,600</b>	<b>\$115,269,600</b>	<b>\$112,014,600</b>

\*All fund sources

\*\* General Fund

**DATA SOURCE(S):** Kentucky Retirement Systems and LRC staff

**PREPARER:** Zach Ireland and Seth Dawson **NOTE NUMBER:** 3 **REVIEW:**  **DATE:** 7/22/2019

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