

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

MEASURE

2019 BR NUMBER 0011

HOUSE BILL NUMBER 2

TITLE AN ACT relating to retirement costs for Kentucky Retirement Systems employers, making an appropriation therefor, and declaring an emergency.

SPONSOR Representative Joe Graviss

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		\$163.1 million	\$164.3 million	Varies each FY
NET EFFECT		(\$163.1 million)	(\$164.3 million)	(Varies)

() indicates a decrease/negative

PURPOSE OF MEASURE: This measure provides for a lower contribution rate certain quasi-state agency employers must contribute (49.47 percent of pay vs. 83.43 percent of pay) in fiscal year (FY) 2020, establishes a contribution floor beginning July 1, 2020 and ending June 30, 2044 such that each of these employers will contribute a dollar amount no less than the amount they contributed in FY 2019, and redirects amortization payments for the retiree insurance fund to the pension fund in FYs 2020 through 2024.

FISCAL EXPLANATION: *Below are estimated costs associated with various provisions of BR 0011, which are constructed upon different actuarial assumptions than were contained in actuarial valuations conducted on alternate proposed legislation in a similar timeframe.* Specifically, please note that the actuarial analysis used to formulate the estimates below:

1. *Does* reflect actuarial assumptions concerning mortality rates recently adopted by the Kentucky Retirement Systems (KRS) Board of Trustees,
2. Assumes local and district health departments, as well as state-supported universities and community colleges are not eligible to cease participation in KERS, which aligns with current law, and

3. Assumes employee head count will decrease by two percent annually (resulting in a *zero* 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 draft actuarial analysis for BR 0011, dated July 5, 2019.

FY 2020 Contribution Rate Freeze:

Per the actuarial analysis of BR 0011, 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.

Based on full provisions, BR 0011 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 BR 0011 are identified below.

Cost Projection Summary

Legislation	FY 2021	FY 2022	FY 2023	FY 2024
BR 0011*	\$163,110,000	\$164,304,000	\$164,412,000	\$166,040,000

*All fund sources

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

PREPARER: Zach Ireland and Seth Dawson **NOTE NUMBER:** 4 **REVIEW:** 

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