



KENTUCKY RETIREMENT SYSTEMS

David L. Eager, Executive Director

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March 18, 2020

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

RE: House Bill 484 (2020 RS BR 298) GA
AA Statement Required by KRS 6.350
AA Statement 1 of 1

Dear Ms. Carney:

Kentucky Retirement Systems staff members have examined House Bill 484 (2020 RS BR 298) **GA**. The GA version retains the provisions of the original bill with the following exceptions:

The GA version provides that the Kentucky Public Pension Authority (KPPA) shall hire a single actuarial consulting firm for KRS and CERS; provides that CERS shall pay for the all initial setup costs for establishing a separate CERS board and the KPPA and for annual costs attributable to separation for three fiscal years after established; provides that the KPPA, KRS board, and the CERS board shall take all actions available under the law to contain costs for the trusts, including costs for participating employers, members, and retirees; amends KRS 7A.250 to provide that the Public Pension Oversight Board (PPOB) shall review retirement system administrative expenses at least once every four years; provides that the three trustees appointed to the current KRS board from lists submitted by KLC, KACO, and KSBA shall serve for the remainder of their term as the three trustees appointed by the Governor to the new CERS board with "retirement experience"; and provides that the six trustees appointed to the current KRS board who have "investment experience" shall serve for the remainder of their term as the trustees appointed by the Governor to the amended KRS board who have "retirement experience" or "investment experience."

Kentucky Retirement Systems staff members have examined House Bill 484 (2020 RS BR 298) **GA** and have determined that the bill currently will not increase or decrease benefits or the participation in benefits in any of the retirement systems administered by Kentucky Retirement Systems. However, under this new board structure, it is possible that in the future benefits (e.g. retiree health benefits) could be different for CERS retirees vs. KERS and SPRS retirees. If that were to happen, the administrative costs for KPPA would be higher.

In addition, the bill calls for the board to have eight members, with four trustees from KRS and four trustees from CERS. Because each group will potentially have opposing fiduciary duties on certain subjects, the eight person structure would likely create deadlocks that would need to be resolved through legal means. This would slow progress on needed actions and require both systems to spend additional trust funds on legal proceedings.

House Bill 484 (2020 RS BR 298) **GA** will not currently change the actuarial liability of any of the retirement plans administered by Kentucky Retirement Systems.

Although there would be no current impact on the actuarial liabilities of the Systems from implementing House Bill 484 (2020 RS BR 298) **GA**, the bill is expected to result in an increase in administrative expenses for Kentucky Retirement Systems. Increased administrative costs include the expense of supporting two additional Boards (the separate CERS Board and the Kentucky Public Pension Authority Board for daily operations) and any associated parallel committees and subcommittees (Audit, Investment, Retiree Health Plan, Disability/Administrative Appeals Committee, Actuarial Subcommittee) and the duplication of professional services from outside vendors (audit and accounting firms, investment managers, master trustees) and KRS staff to handle the additional workload. It is difficult to quantify the additional expenses based on available information; however, **KRS staff conservatively estimates an initial implementation cost of this bill to be at least \$250,000 with an additional annual cost increase of between \$3.6 million and \$6.7 million.** Included in this ongoing cost would be the loss of buying power for KERS and SPRS to take advantage of economies of scale in negotiating contracts with investment managers, investment consultants, insurance companies, and other providers.

Finally, KRS believes that the Commonwealth may still be liable for liabilities incurred by CERS employers who subsequently are unable to meet their pension obligations due to bankruptcy. Unlike the KERS and SPRS Systems which have the Commonwealth as the “backstop funder for all agencies”, the CERS plans have no such backstop funder and legally the Commonwealth could be required to cover the unfunded liabilities for bankrupt employers.

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, 2019 are 132,144 active; 140,130 inactive; and 114,437 retired members in the plans administered by Kentucky Retirement Systems;
2. There is no estimated change in benefit payments;
3. There is no estimated change to employer costs; and
4. House Bill 484 (2020 RS BR 298) **GA** is expected to result in an increase in administrative expenses for Kentucky Retirement Systems, as noted above.

Tier 1 and Tier 2 CERS employees would continue to be covered by the provisions of the “inviolable contract” statute (KRS 78.852).

We have not requested any further actuarial analysis of House Bill 484 (2020 RS BR 298) **GA** by the Systems' independent actuary.

Please let me know if you have any questions regarding our analysis of House Bill 484 (2020 RS BR 298) **GA**.

Sincerely,

A handwritten signature in black ink that reads "David Eager". The signature is written in a cursive style with a large, prominent "D" and "E".

David L. Eager
Executive Director
Kentucky Retirement Systems