KENTUCKY PUBLIC PENSIONS AUTHORITY

David L. Eager, Executive Director

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

Kentucky Public Pensions Authority

March 10, 2022

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

RE: Senate Bill 270 (2022 RS BR 9)
AA Statement Required by KRS 6.350
AA Statement 1 of 1

Dear Ms. Carney:

Senate Bill 270 (2022 RS BR 9) amends KRS 61.565 to require the Kentucky Public Pensions Authority (KPPA) to provide Kentucky Employees Retirement System (KERS) employers with any demographic, financial, or actuarial data requested by the employer, including member-specific data for current and former employees of the employer that were used to assign liabilities to and contributions payable by the employer; establishes an appeals process beginning August 1, 2022, with a final determination by December 31, 2022, regarding the assignment of liabilities to each Kentucky Employees Retirement System (KERS) employer for any appeals not previously submitted during the 2021 appeals process or for any appeals submitted during the 2021 appeals process in which additional information is available; amends KRS 61.5991 to provide that contracts currently exempted from the reporting requirements established by HB 8 during the 2021 Regular Session for quasi-governmental KERS employers shall remain exempted for any renewals of those contracts for the same services; and amends KRS 61.661 to conform.

Kentucky Public Pensions Authority (KPPA) staff members have examined Senate Bill 270 (2022 RS BR 9). We have determined that the bill will not increase or decrease benefits or the participation in benefits in the KERS, CERS, or SPRS systems.

Under the provisions of House Bill 8 (2021 Regular Session), KERS nonhazardous employers are now required to begin paying their own portion of the total KERS Nonhazardous unfunded pension liability, regardless of their current covered payroll. In addition, state law says the actuary is responsible for determining each employer's liability. GRS, the Authority's independent actuary, calculates the liability by using specific algorithms that take into account confidential information such as each employee's prior employment history, prior compensation amounts, and information on any purchased service credits.

Long-standing state law (KRS 61.661) requires the Systems to protect the confidentiality of member accounts. This includes restricting an employer's access to an employees' information if there is no specific, legitimate business need to have the information. Accordingly, current employers do not have an employee's prior information because they have no legitimate business need to have it, and permitting this unprecedented level of access could have harmful repercussions for employees.

Furthermore, current statutes require employers to accept the actuary's cost calculation as long as the members used in that calculation "belong" to that employer. Regardless, House Bill 8 gave employers until July 1, 2021, to appeal the actuary's calculated cost for their agency. Of the 178 employers eligible to appeal, 47 submitted appeals to KPPA. As further proof of validity, GRS' actuary calculation has been audited by another actuary, Segal. The individual liability calculation used by the KPPA actuary, GRS, for the HB 8 liability is the same calculation used for the annual valuation. The annual valuation was recently audited by Segal, and the results were presented to the Board of Trustees on December 2, 2020. Segal found GRS' methodologies to be accurate and was able to repeat their calculations within 1% variation.

Senate Bill 270 (2022 RS BR 9) would reopen the entire process and create a costly administrative burden for KPPA in terms of actuarial costs and employee time and resources spent repeating the same work again. The bill would also challenge long-standing state law tasking the Systems with protecting the confidentiality of member accounts.

In accordance with KRS 6.350 (2)(c), the Kentucky Public Pensions Authority certifies the following:

1. The estimated number of individuals affected as of June 30, 2021 are 123,809 active; 155,506 inactive; and 121,728 retired members in the systems operated by KPPA;

2. There is no estimated change in benefit payments;

3. The bill is estimated to decrease employer costs for those employers who are able to selectively determine their unfunded liabilities, but would increase costs for those employers who would have to pay more to cover the lost contributions; and

4. There would be an increase in KPPA administrative expenses to conduct another review process to verify each employer's true costs.

We have not requested any further actuarial analysis of Senate Bill 270 (2022 RS BR 9) by the Authority's independent actuary. Please let me know if you have any questions regarding our analysis of Senate Bill 270 (2022 RS BR 9).

Sincerely,

David Eager

David L. Eager
Executive Director
Kentucky Public Pensions Authority