



Kentucky Retirement Systems
PRESENTATION TO

Public Pension Oversight Board

David Eager, Executive Director
Danny White, GRS

Dec 17, 2018

AGENDA

- 1. Background**
- 2. The KRS Non-Haz Funding Problem**
- 3. The Quasi Agency Conundrum**
- 4. Three Options for Consideration**
- 5. The KRS Recommendations**

CEASING PARTICIPATION IN KERS AND CERS

HB 62 - 2015

- **Applies to certain agencies**
- **Well-defined process taking up to 18 months**
 - **Application and deposit**
 - **Board initial approval**
 - **Conduct actuarial valuation at assumed interest rate**
 - **Employees can elect to leave their balance with KRS**
 - **Agency Go/No-Go**
 - **Must set up new plan for employees who leave KRS**
 - **Final KRS Board approval**
- **Employer lump sum or 20-year installment**

HB 351 - 2017

Objective: Employers who leave KRS sufficiently cover their Retired Lives Unfunded Liability

- **Changed the assumed interest rate to the higher of:**
 - **30-year treasury**
 - OR**
 - **Actuarial assumed interest rate less 3.50%**
- **Allowed for employer lump sum only**
 - **No installment; mitigates risk of payment defaults**

HB 362 - 2018

- **Froze the KERS Non-Haz Quasi rate at 49.47% for FY 2019 (passed)**
 - **83.43% in FY 2020**
- **Allowed for (up to) 12% phase-in for CERS employers (passed)**
 - **Up to 28.08% over no more than 10 years**
- **Permitted up to a 40-year interest-free loan (removed)**
 - **Potential subsidy of up to \$2 Bil (\$1.7 Bil KERS Non-Haz alone)**
 - **Remaining agency contribution rates would increase by 6-8%**

The KERS Non-Haz Funding Problem

1. The contribution rate is based on a percentage of the payroll

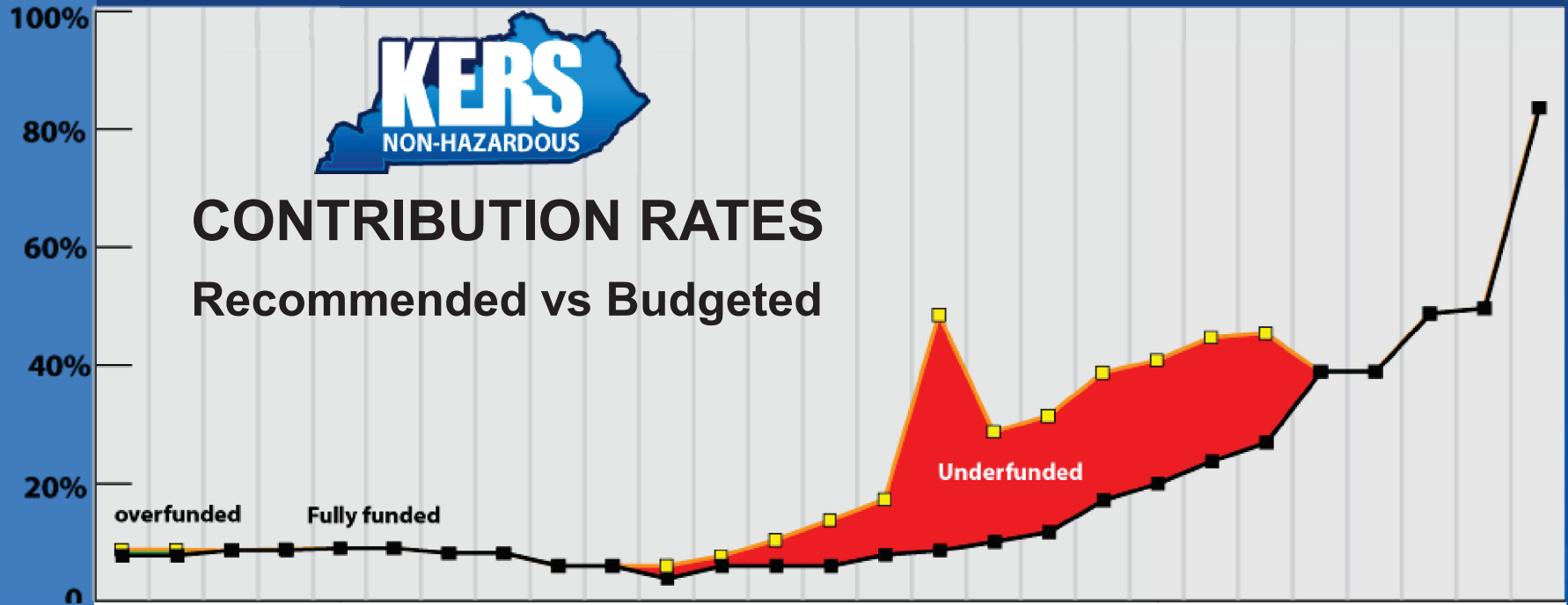
- Agency outsourcing
- Departing employees not replaced
- Retirements exceeding new hires
- Payrolls are declining

Causing contribution rates to increase

The KERS Non-Haz Funding Problem



CONTRIBUTION RATES Recommended vs Budgeted

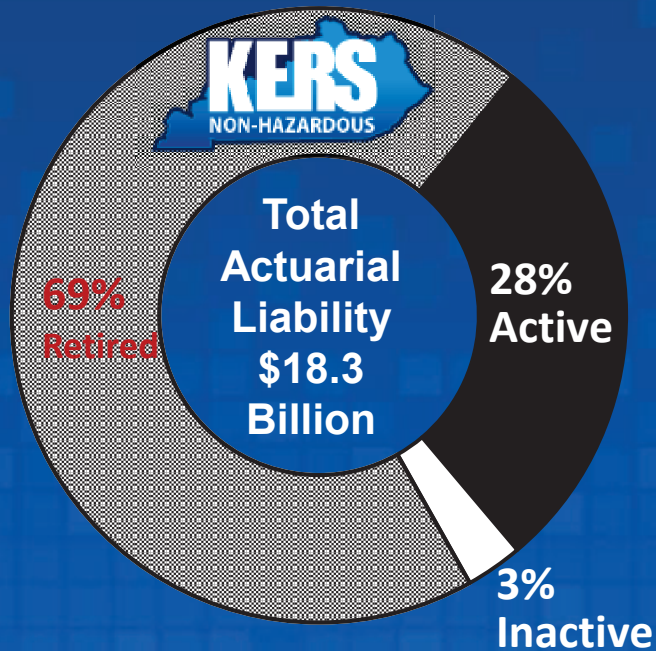


	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Recommended	8.66	8.66	8.56	8.75	8.89	8.89	8.03	8.03	5.89	5.89	5.89	7.53	10.29	13.62	17.13	48.37	28.6	31.29	38.58	40.71	44.55	45.28	38.77	38.77	48.59	49.47	83.43
Actual	7.65	7.65	8.56	8.56	8.89	8.89	8.03	8.03	5.89	5.89	3.76	5.89	5.89	5.89	7.75	8.50	10.01	11.61	16.98	19.82	23.61	26.79	38.77	38.77	48.59	49.47	83.43

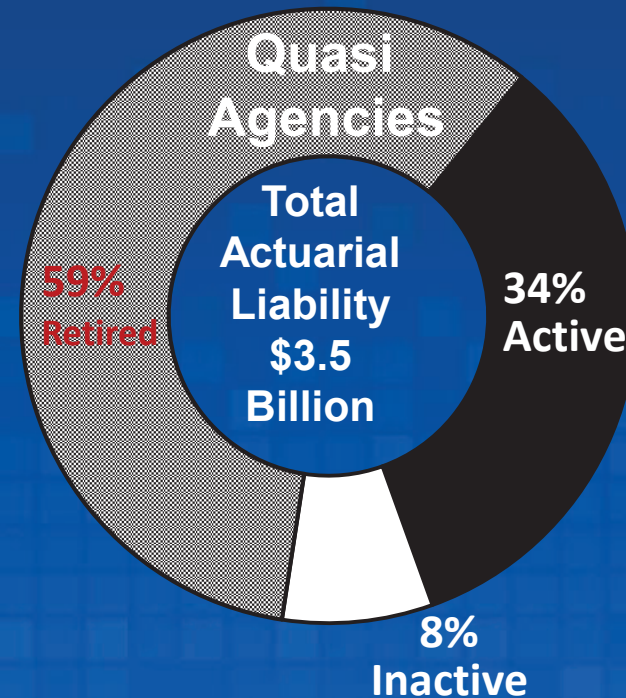
The KERS Non-Haz Funding Problem

Pension and Insurance Liability

2. The majority of the unfunded liability is to cover retiree benefit payments



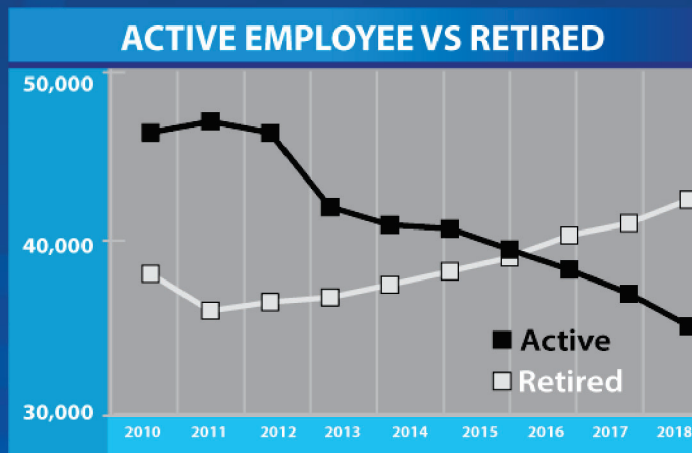
Unfunded Liability = \$14.0B



Unfunded Liability approximately \$2.8B

Based on June 30, 2017 Valuation

The KERS Non-Haz Funding Problem



- Retiree numbers are increasing
- Reducing future benefits does not reduce the Retired Lives Liability

- Actives who will retire over next 10+ years from Tier 1



Projected Retirements	0 - 5 years	6 - 10 years	11 - 15 years	16 - 20 years	21 - 25 years	26 - 30 years	30+ years	Total
KERS NHZ	6,530	5,762	4,808	1,962	286	24	-	19,372

The KERS Non-Haz Funding Problem

3. Bankruptcies cause two major problems

1. We lose the contributions from the employers and employees
2. Their unfunded liability may have to be covered by the remaining agencies...

....further driving up the Plan's contribution rates.

The Quasi Agency Conundrum

- They can't afford the 83.43% contribution rate
- They can't afford a cessation under HB 351
- The State wants their services to continue
- Most agencies want to stay in KRS

The Quasi Agency Conundrum

KRS QUASI-GOVERNMENTAL ENTITIES OVERVIEW

(based on KRS Documentation and LRC Report #419)

- Quasi-governmental entities are not defined in statute, but are otherwise defined as entities that are created by government to service the public interests but maintain a legally separate status.
- Board members often are appointed by government officials, and government officials may serve on a governing board.
- Depending on the preferred definition of a “quasi,” there are up to approximately 600 agencies in KRS within the KERS and CERS retirement plans.
- Classifications include airport boards, ambulance services, community action agencies, health departments, fire departments, housing authorities, libraries, regional mental health services, abuse victims, utility boards, and other special purpose agencies.
- KRS was established in 1956. Quasi agencies entered KRS through executive order, an order from the county’s fiscal court or school board, and received final approval from the KRS Board of Trustees.

KERS NON-HAZ

Count of Eligible Agency Classification

Count of Eligible	
Agency Classification	Total
Health Departments	61
Non-P1 State Agencies	37
Regional Mental Health Units	13
Universities	7
Grand Total	118

Health Departments 61

ALLEN CO HEALTH DEPT
 ANDERSON CO HEALTH DEPT
 ASHLAND BOYD CO HEALTH DP
 BARREN RVR DIST HLTH DEPT
 BELL CO HEALTH DEPT
 BOURBON CO HEALTH CENTER
 BOYLE CO HEALTH DEPT
 BRACKEN CO HEALTH DEPT
 BREATHITT CO HEALTH DEPT
 BRECKINRIDGE CO HEALTH BD
 BUFFALO TRACE HEALTH DEPT
 BULLITT CO HEALTH DEPT
 CALLOWAY CO HEALTH DEPT
 CARTER CO HEALTH DEPT
 CHRISTIAN CO HEALTH DEPT
 CLARK CO HEALTH DEPT
 CUMBERLAND VLY DIST HEALT
 ESTILL CO HEALTH DEPT
 FLEMING CO HEALTH DEP
 FLOYD CO HEALTH CENTER
 FRANKLIN CO HEALTH DEPT
 GARRARD COUNTY HEALTH DPT
 GATEWAY DIST HEALTH DEPT
 GRAVES CO HEALTH CENTER
 GRAYSON COUNTY HEALTH DEPT
 GREEN RVR DIST HLTH DEPT
 GREENUP CO HLTH DEPT
 HARLAN CO HEALTH DEPT
 HOPKINS CO HEALTH DEPT
 JESSAMINE CO HEALTH DEPT

JOHNSON CO HEALTH DEPT
 KNOX CO HEALTH DEPT
 KY RIVER DIST HEALTH DEPT
 LAKE CUMBERLAND DISTRICT
 LAUREL CO HEALTH DEPT
 LAWRENCE CO HEALTH DEPT
 LEWIS CO HEALTH DEPT
 LEX FAYETTE CO HLTH DEPT
 LINCOLN CO HEALTH DEPT
 LINCOLN TRL DIST HLTH DEP
 LITTLE SANDY DIST HEALTH¹
 MADISON CO HEALTH DEP
 MAGOFFIN CO HEALTH DEPT
 MARSHALL CO HEALTH DEPT
 MARTIN CO HEALTH DEPT
 MERCER CO HEALTH DEPT
 MONROE CO HEALTH DEPT
 MONTGOMERY CO HEALTH DEPT
 MUHLENBERG CO.HEALTH DEPT
 N CENTRAL DIST HLTH DEPT
 NORTHERN KY DIST HLTH DEP
 OLDHAM CO HEALTH DEPT
 PENNYRILE DIST HLTH DEPT
 PIKE CO HEALTH DEPT
 POWELL CO HEALTH DEPT
 PURCHASE DIST HLTH DEPT
 THREE RIVERS DIST HLTH
 TODD CO HEALTH DEPT
 WEDCO DIST HEALTH DEPT
 WHITLEY CO HEALTH DEPT
 WOODFORD CO HEALTH DEPT

¹ Merged with other health departments

Non P1 - 37

ASST OF COMMONWEALTH ATTY	NURSING HOME OMBUDSMAN
B.R.A.S.S.	O A S I S
BARREN RIVER CHILD ADVOCA	PENNYRILE CHILD ADV CTR
BETHANY HOUSE ABUSE SHELT	PURCHASE AREA SACAC
BLUEGRASS RAPE CRISIS CTR	SAFE HARBOR
BUFFALO TR CHILD ADV INC	SANCTUARY INC
CHILD ADV CTR OF GRN RVR	SPRINGHAVEN INC
CHILD WATCH ADVOCACY CTR	WOMEN AWARE
CSG HEADQUARTERS	
CUMBERLAND V C A CENTER	
D.O.V.E.S.	
FRANKLIN CO COUNCIL AGING	
GATEWAY CHILD ADVOCACY	
HIGHSCHOOL ATHLETIC ASSOC	
HOPE HARBOR INC	
JUDI'S PLACE FOR KIDS, INC.	
KACAC ²	
KASAP	
KDVA	
KENTUCKY HOUSING CORP	
KET FOUNDATION	
KY ASSOC OF REGIONAL PROG	
KY BAR ASSOCIATION	
KY HIGHER ED STUD LN CORP	
KY OFFICE OF BAR ADMISSIO	
KY RIVER CHILD ADVOCACY	
LAKE CUMB CHILD ADV CTR	
LINCOLN ADVOCACY SUPPORT ³	
MUN ELEC POW ASSOC OF KY	

² Ceased participation

³ Changed name to Silverleaf Trauma Recovery Services

⁴ Inactive

Mental Health - 13

ADANTA/BEHAVIORAL HLTH SR
BLUEGRASS.ORG
COMMUNICARE INC
COMPREHEND INC REG MHMR B
CUMBERLAND RIVER MHMR
GREEN RVR REG MHMR BD
KY RIVER COMM CARE INC ⁴
LIFESKILLS INC
MOUNTAIN COMP CARE CENTER
NORTHERN KY REG MHMR BD
PENNYROYAL REG MHMR BD
SEVEN CO SERVICES INC ⁴
WESTERN KY REG MHMR ADV

Universities - 7

EASTERN KY UNIV
KCTCS
KENTUCKY STATE UNIVERSITY
MOREHEAD STATE UNIVERSITY
MURRAY STATE UNIV
NORTHERN KY UNIVERSITY
WESTERN KENTUCKY UNIV

The KERS Non-Haz Quasi Agencies' Funding Solution

OPTION 1

Require Quasi agencies to pay the bi-annum budget actuarial contribution rate (FY 2019 rate 83.43%)

Advantage:

- All the employers pay the same rate

Disadvantages:

- Will likely cause bankruptcies
- Remaining employers required to pay the unfunded liability of bankrupt agencies or request general funds appropriations
- State may lose their services if the agencies go bankrupt
- Would likely result in less total contributions compared to all agencies paying 49.47%

The KERS Non-Haz Quasi Agencies' Funding Solution

OPTION 2

Keep the contribution rate at 49.47%. Convert the contribution to a fixed dollar payment

Advantage:

- Allows most or all agencies to continue to operate
 - Many have indicated to KRS they can survive at that rate
 - Eliminates the risk of a declining payroll. (We have not reviewed their financial statements).

Disadvantages:

- Requires approximately \$132 million additional funding (based on FY 2018 payroll).
 - Shortfall has to be made up by someone
- We might be able to get a higher amount (e.g.55%)
- They could still go bankrupt

The KERS Non-Haz Quasi Agencies' Funding Solution

	Agency	Health Department	Non P1	Regional Mental Health	Universities	Total
	(1)	(2)	(3)	(4)	(5)	(6)
1	Reported Payroll	\$105	\$45	\$108	\$130	\$388
2	Contribution at 83.43%	\$88	\$37	\$90	\$109	\$324
3	Contribution at 49.47%	<u>52</u>	<u>22</u>	<u>54</u>	<u>64</u>	<u>192</u>
4	Contribution Assistance (2-3)	\$36	\$15	\$36	\$45	\$132
5	Existing GF Appropriations (bi-annum budget)	<u>26</u>	<u>1</u>	<u>24</u>	<u>0</u>	<u>50</u>
6	Total Quasi Assistance	\$61	\$16	\$60	\$45	\$182

The KERS Non-Haz Quasi Agencies' Funding Solution

OPTION 3 – SUBJECT TO FURTHER LITIGATION OUTCOMES

Keep the contribution rate at 49.47% but require a “Soft Freeze” of benefits

- Move all employees to Tier 3 as of July 1, 2019 for prospective benefits and continued service credit

Advantage:

- May save the State up to an annual estimated \$17 million versus Option 2
- Represents a shared sacrifice

Disadvantages:

- May cost more than Option 2 if many agency Tier 1 employees decide to retire and are not replaced in the KERS Non-Haz plan
- Retirements could cause workforce management problems
- Less certain of the outcome
- Inviolable contract issues

KRS Recommendations

1. Keep the provisions of HB 62 and HB 351

- Do not allow Quasis to leave KRS under any more favorable terms than currently in the statutes
- KRS can not take the risk of unfavorable long-term actuarial experience
 - Lower investment earnings
 - Longer mortality experience

KRS Recommendations

2. Keep the contribution rate at 49.47%. Convert the contribution to a fixed dollar payment (Option 2).

- Least risk of bankruptcy
- Least risk of payroll decline
- Most certainty of outcome
- FY 2019 Quasi shortfall and future underfunding must be remedied
 - Direct General Fund Appropriation(s) FY 2020,
OR
 - Higher state agency contribution rates (FY 2021 and beyond)