BILLS OF DIRECT INTEREST TO OUR MEMBERS AND RETIREES

House Bill 444: Pay Raise for Government Workers; Allocation to Conduct a Full Salary Classification Study for State Government

House Bill 444 provides a 6% raise for workers in all three branches of government, effective July 1, 2023. The bill also authorizes an additional $2,000 pay raise for all employees and elected officials in the Judicial Branch and allocates $500,000 to provide additional contractual resources for the Personnel Cabinet to complete a full salary classification study by November 1, 2023.

The General Assembly originally requested a full salary classification study from the executive branch in July 2021. However, the resulting study presented to the Interim Joint Committee on Appropriations and Revenue in July 2022 did not contain the level of detail that legislators said they needed to make informed decisions. Therefore, the General Assembly allocated money to hire an outside vendor with the industry experience and appropriate resources needed to perform such a complex study.

House Bill 506: Establish a Partial Lump Sum Option (PLSO) for retirees and reduce required break for employment after retirement

House Bill 506 establishes a Partial Lump Sum Option (PLSO), with and without survivor rights, as a payment option for retiring members of the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), or State Police Retirement System (SPRS). This change will take effect on January 1, 2024.

State law previously offered a PLSO to members who retired on or before January 1, 2009. Effective January 1, 2024, retirees will again be allowed to choose a retirement benefit payment option that offers a lump-sum payment of 12, 24, 36, 48, or 60 months of payments and a lifetime benefit that is actuarially reduced to reflect the lump-sum payment.

The bill also changes the required break in employment before a retiree may return to work with a participating employer and continue to receive their retirement allowance. Currently, retirees must observe a 1- or 3-month separation period, depending on the job position, from employment with a participating employer or their retirement benefit payment will be voided. Under House Bill 506, the separation period will be only one (1) month for all positions for each System maintained by KPPA.

GRS, the independent actuary for the systems, conducted an Actuarial Analysis on House Bill 506 that said, in part, that the bill "… has no fiscal impact to the retirement system because the optional form of payment (both with and without survivor rights) will be actuarially equivalent to the basic form of payment." In addition, GRS says the change to a one-month separation requirement for all retirees "… will reduce KPPA's administration burden with respect to monitoring and verifying the continuation of retirement allowance for reemployed retirees."

ADMINISTRATIVE BILLS FOR KPPA:

House Bill 551: Legalize Sports Wagering in Kentucky and Create Wagering Administration Fund: Portion of Remaining Funds to go to KY Permanent Pension Fund

House Bill 551 legalizes sports wagering in Kentucky and creates the Wagering Administration Fund to pay for the administrative expenses involved with overseeing sports wagering activities. After administrative costs have been paid, a portion of any remaining funds in the Wagering Administration Fund will we deposited in the Kentucky Permanent Pension Fund established in KRS 42.205. This fund was created in 2016 to address the Commonwealth's unfunded pension liabilities. Each system operated by KPPA is potentially eligible to receive funding from this account, if authorized by the General Assembly in an enacted biennial budget bill.

House Bill 587: Internal audit functions at KPPA

House Bill 587 requires the Kentucky Public Pensions Authority (KPPA) to appoint or contract for the services of an Internal Auditor who will report directly to the KPPA board. The Internal Auditor will be exempt from the hiring and employment provisions of KRS Chapter 18A, Chapter 45A, and 64.640, and is authorized by the Authority to appoint employees under his or her direct supervision. The Internal Auditor will also have an annual performance review conducted by the Authority.

The Legislative Research Commission (LRC) did not request an Actuarial Analysis from KPPA for this bill; however, the Internal Auditor position has been in place at KPPA (the agency was then known as "Kentucky Retirement Systems") since 2003 so there are no significant administrative cost increases expected.

House Bill 236: Fiduciary duties owed to the state-administered retirement systems

House Bill 236 amends KRS 61.650 and KRS 78.790 to stipulate that fiduciaries shall consider the sole interest of the systems' members and beneficiaries using only factors with "… a direct and material connection to the financial risk or financial return of an investment." In particular, the bill prohibits the consideration of environmental, social, and governance (ESG) interests in making investment decisions.

The bill also requires the CERS and KRS Boards to adopt proxy guidelines and ensure that all proxy votes are executed by either the Board or the Board's designee in accordance with the Board's proxy voting policy; or a proxy voting service that has acknowledged a fiduciary duty in writing and who commits to following the Board's policy. Finally, House Bill 236 requires a report of proxy votes to be provided to the Boards at least once a quarter.

Because our systems are, and have always been, fiduciaries who are required to invest solely in the interest of our members and retirees, KPPA and the other state-administered retirement systems submitted Actuarial Analysis letters to the General Assembly that said there is no expected actuarial impact from this bill. However, the letters from each of the systems covered by this bill say there is an expected increase in administrative costs for each plan to cover the cost of compiling and reporting proxy votes on a quarterly basis.

State Senate Confirms Gubernatorial Appointments to KRS Board

State law requires that gubernatorial appointments to the KRS Board of Trustees receive Senate approval. On March 30, three (3) Senate Resolutions confirming Governor Andy Beshear's recent appointments to the KRS board were unanimously adopted by a vote of 37-0:

1. **Senate Resolution 152**, sponsored by Senator Julie Raque Adams, confirmed the reappointment of **E. Lynn Hampton** to the Kentucky Retirement Systems Board of Trustees for a term expiring June 17, 2026;

2. **Senate Resolution 226**, sponsored by Senator Jimmy Higdon, confirmed the appointment of **Ramsey Bova** to the Kentucky Retirement Systems Board of Trustees for a term expiring June 17, 2026; and

3. **Senate Resolution 251**, sponsored by Senator Julie Raque Adams, confirmed the reappointment of **William E. Summers V** to the Kentucky Retirement Systems Board of Trustees for a term expiring June 17, 2026.

The Resolutions only required Senate confirmation and did not need to be adopted in the House.

A SIGNIFICANT BILL THAT DID NOT PASS THIS SESSION

HOUSE BILL 90: This bill would have provided an additional $100 million toward the unfunded liability of the KERS Nonhazardous pension fund, given a 1.5% increase in benefit payments to KERS and SPRS retirees; and provided a 6% raise for state employees. While the 6% raise later passed as part of House Bill 444 the other parts of House Bill 90 did not pass. Because this was the only bill that had proposed an increase in retiree benefit payments, the **result was that no COLAs were authorized by the General Assembly this Session**.

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