



# 2008 Legislative Changes

House Bill 1: Pension Reform





## 2008 Legislative Changes

### House Bill 1: Pension Reform

On June 27, 2008 House Bill 1, the Pension Reform legislation, was signed by Governor Beshear. This law is a comprehensive pension reform that will significantly impact retirement benefits for employees who begin participating with the Kentucky Retirement Systems on or after September 1, 2008. The law also has a few provisions that will affect current employees and retirees — most notably changes to the cost of living adjustment, service purchase costs, payment options and regulations governing returning to work after retirement.

HB 1 also contained a provision expressing the intent of the General Assembly to gradually increase the employer contributions to the Kentucky Employees Retirement System (KERS) and the State Police Retirement System (SPRS) beginning July 1, 2010. If in the future the General Assembly adheres to the schedule, all participating agencies will be required to pay the full employer contribution by 2025.

See the attached publications for your review:

**2008 Special Legislative Session Changes.** This publication provides an overview of House Bill 1 and the effects on current and future retirees and employees. KRS will be conducting meetings (listed on page three) throughout the state to allow employers to learn more about this legislation and the immediate changes that will be required.

**Instructions for Preparing Electronic Files for Wage Reporting.** This provides updated instructions for electronically prepared wage reports. This update addresses reporting of the additional 1% health insurance contribution and retired re-employed employer contributions to KRS.

**KRS Secure Email Portal User Manual.** Kentucky Retirement Systems is implementing the KRS Secure Email Portal to protect confidential information exchanged between KRS and participating agencies. The enclosed manual is a step-by-step guide for using the secure email solution.

**Mike Burnside**

Executive Director, Kentucky Retirement Systems

## Learn more about the legislative changes.

Find a KRS event in or near your city. No appointment necessary.

Date	Time	Location	Address	City
July 30, 2008	9:00-11:00am	General Butler State Resort Park, Lodge	1608 Highway 227	Carrollton
July 30, 2008	9:00-11:00am	McCracken Co Public Library	555 Washington St.	Paducah
July 30, 2008	9:00-11:00am	Perry County Public Library	479 High Street	Hazard
July 30, 2008	1:00-3:00pm	City of Murray	104 N 5th Street	Murray
July 31, 2008	9:00-11:00am	Pine Mountain State Resort Park	1050 State Park Road	Pineville
July 31, 2008	9:00-11:00am	Hopkinsvl-Christian Co. Library	1101 Bethel St.	Hopkinsville
July 31, 2008	1:30-3:30pm	James Veatch/Camp Breck. Museum	1116 N. Village Road	Morganfield
August 4, 2008	9:00-11:00am	City of Mt. Washington	186 Branham Way	Mt. Washington
August 5, 2008	9:00-11:00am	KYTC Conference Center	200 Mero Street	Frankfort
August 5, 2008	9:00-11:00am	Pritchard Community Center	1030 North Mulberry St.	Elizabethtown
August 5, 2008	9:00-11:00am	City of Hurstbourne	304 Whittington Parkway	Louisville
August 5, 2008	9:00-11:00am	Natural Bridge State Resort Park	2135 Natural Bridge Road	Slade
August 5, 2008	9:00-11:00am	Morehead Conference Center	111 East First St.	Morehead
August 5, 2008	1:30-3:30pm	Jenny Wiley State Resort Park	75 Theatre Court	Prestonsburg
August 5, 2008	1:30-3:30pm	KYTC Conference Center	200 Mero Street	Frankfort
August 6, 2008	9:00-11:00am	Greenbo Lake State Resort Park	HC 60 Box 562	Greenup
August 6, 2008	9:00-11:00am	Mercer Co. Health Dept.	900 N. College St.	Harrodsburg
August 7, 2008	9:00-11:00am	Owensboro Police Dept.	222 E. 9th St.	Owensboro
August 7, 2008	9:00-11:00am	Memorial Auditorium, Ballroom	970 S. 4th Street	Louisville
August 7, 2008	9:00-11:00am	Housing Authority of Somerset	400 Hail Knob Rd	Somerset
August 7, 2008	1:30-3:30pm	Audubon State Park	3100 US Highway 41 N.	Henderson
August 7, 2008	1:00-3:00pm	Memorial Auditorium, Ballroom	970 S. 4th Street	Louisville
August 8, 2008	9:00-11:00am	Blue Licks Battlefield State Park	Highway 68	Mt. Olivet
August 8, 2008	9:00-11:00am	City of Shelbyville	315 Washington St.	Shelbyville
August 11, 2008	9:00-11:00am	Taylor Co Bd of Ed	1209 E. Broadway St.	Campbellsville
August 12, 2008	9:00-11:00am	LFUCG - Phoenix Bldg.	101 East Vine Street	Lexington
August 12, 2008	9:00-11:00am	City of Erlanger	505 Commonwealth Ave.	Erlanger
August 12, 2008	9:00-11:00am	Lake Cumberland ADD	2384 Lakeway Dr.	Russell Springs
August 13, 2008	9:00-11:00am	Barren Co. Culture Center/Museum	200 West Water St.	Glasgow
August 13, 2008	9:00-11:00am	KYTC Conference Center	200 Mero Street	Frankfort
August 13, 2008	1:30-3:30pm	KYTC Conference Center	200 Mero Street	Frankfort
August 13, 2008	1:00-3:00pm	Fraternal Order Of Police Lodge	150 Corvette Drive	Bowling Green
August 14, 2008	9:00-11:00am	Fraternal Order Of Police Lodge	150 Corvette Drive	Bowling Green
August 14, 2008	1:30-3:30pm	City of Nicholasville, Corman Building	571 N. Main St.	Nicholasville
August 18, 2008	9:00-11:00am	Funderburk Building/EKU	521 Lancaster Avenue	Richmond
August 19, 2008	9:00-11:00am	City of Florence	8100 Ewing Blvd.	Florence
August 19, 2008	9:00-11:00am	LFUCG - Phoenix Bldg.	101 East Vine Street	Lexington
August 19, 2008	1:00-3:00pm	City of Florence	8100 Ewing Blvd.	Florence

# 2008 Special Legislative Session Changes



## EMPLOYER CONTRIBUTIONS EFFECTIVE 7/1/08

KERS & SPRS: Employer contribution rates for 2008-2009 were established in the 2008-2010 Executive Branch Budget (HB 406) during the 2008 session of the Kentucky General Assembly. CERS: Employer contribution rates for 2008-2009 were enacted by HB 1 in the 2008 Special Legislative Session ([see table](#)).

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## EMPLOYEE CONTRIBUTIONS

Non-Hazardous employees who begin participating with KRS on or after September 1, 2008 will contribute a total of 6% of all their creditable compensation to KRS. 5% of this

contribution will be deposited to the individual employee's account, while the other 1% will be deposited to the KRS Insurance Fund.

Hazardous employees who begin participating with KRS on or after September 1, 2008 will contribute a total of 9% of all their creditable compensation, with 8% being credited to the member's account, and 1% deposited to the KRS Insurance Fund.

Interest paid each June on these members' accounts will now be set at a rate of 2.5%. If one of these members terminates their employment and applies to take a refund, the member will be entitled to a full refund of contributions and interest in their individual account; however, the 1% contributed to the insurance fund is non-refundable and will be forfeited.

### EMPLOYER CONTRIBUTIONS EFFECTIVE 7/1/08

Kentucky Employees Retirement System Nonhazardous employees	10.01%
Kentucky Employees Retirement System Hazardous employees	24.35%
County Employees Retirement System Nonhazardous employees	13.50%
County Employees Retirement System Hazardous employees	29.50%
State Police Retirement System	30.07%

## NON-HAZARDOUS EMPLOYEE BENEFITS

For Non-Hazardous employees who begin participating with KRS on or after September 1, 2008, the following changes have been made:

### RETIREMENT ELIGIBILITY

#### Unreduced Benefit

- Rule of 87: The member's age plus years of service credit must equal 87, AND the member must be a minimum of 57 years of age;
- OR the member is age 65, with a minimum of 60 months service credit.

#### Reduced Benefit

- The member is age 60, with a minimum of 120 months service credit.

### DETERMINATION OF BENEFITS

#### Final Compensation

- Final Compensation will be calculated by taking an average of the LAST (not highest) FIVE FULL FISCAL YEARS of salary. Partial fiscal years will not be used.
- Lump-sum payments for compensatory leave before or after retirement WILL NOT be used in

calculating Final Compensation and shall not be reported to KRS.

#### Benefit Factor

Benefits for these members will be set on a tiered structure, so the more service a member has, the higher the level of benefits will be for that member. The factors will be as follows ([see table](#)):

As a member reaches each service level, the benefit factor increases for all service credit, except that the 2.00% multiplier only applies to service earned in excess of 30 years. For example, if a member retires with 313 months service, all service will be paid at a factor of 1.75%. If a member retires with 372 months service, 360 months will be paid at 1.75% and 12 months will be paid at 2.00%.

#### Health Insurance

For Non-Hazardous employees who begin participating on or after September 1, 2008:

- The member must have 15 years of earned service to participate in the Health Insurance program.
- Members will earn \$10 per month towards insurance for each year of earned service.
- The \$10 contribution will be increased each year by the Cost of Living Adjustment (COLA).

Service Credit	Benefit Factor
120 Months or Less	1.10%
121 months – 240 months	1.30%
241 months – 312 months	1.50%
313 months – 360 months	1.75%
Additional years above 30 (361 + months)	2.00%

## HAZARDOUS EMPLOYEE BENEFITS

For Hazardous employees who begin participating on or after September 1, 2008, the following changes have been made:

### RETIREMENT ELIGIBILITY

#### Unreduced Benefit

- 25 years of Service at any age
- OR the member is age 60, with a minimum of 60 months service credit.

#### Reduced Benefit

- The member is age 50, with a minimum of 180 months service credit.

### DETERMINATION OF BENEFITS

#### Final Compensation

- Final Compensation will be calculated by taking an average of the highest three full fiscal years of salary. Partial fiscal years will not be used.
- Lump-sum payments for compensatory leave before or after retirement will not be used in calculating Final Compensation and shall not be reported to KRS.

#### Benefit Factor

Benefits for these members will be set on a tiered structure, so the more service a member has the higher the level of benefits will be for that member. The factors will be as follows ([see table](#)):

As a member reaches each service level indicated, the benefit factor increases for all service credit.

#### Health Insurance

For Hazardous employees who begin participating with KRS on or after September 1, 2008:

- The member must have 15 years of earned service to participate in the Health Insurance program.
- Members will earn \$15 per month towards insurance for each year of earned service. The \$15 contribution will be increased each year by the Cost of Living Adjustment (COLA).
- Upon the death of the member, if the beneficiary is the member's spouse, the spouse shall be entitled to a monthly health insurance contribution of \$10 for each year of the member's earned hazardous duty service.

Service Credit	Benefit Factor
120 Months or Less	1.30%
121 months – 240 months	1.50%
241 months – 299 months	2.25%
300 months or more	2.50%

## SICK LEAVE

Most KERS & SPRS employers participate in the standard sick leave program, while CERS employers have an option of participation in the alternate sick leave program, the standard sick leave program, or neither.

- HB 1 will limit sick leave credit, for those members who begin participating with KRS on or after September 1, 2008, to a maximum of twelve (12) months credit.
- The service credit gained through sick leave for these members will not count toward their eligibility to retire. In other words, the sick leave credit can increase a member's benefit, but cannot make them eligible to retire earlier.

- Effective July 1, 2010 for KERS and SPRS, the last participating employer will be required to pay the full cost of any sick leave credited to the member's account.
- CERS employers will pay sick leave costs according to the policy each agency has adopted.
- Cost to purchase sick leave credit will increase September 1, 2008, due to the inclusion of the earliest possible retirement date for an unreduced benefit and the Cost of Living Adjustment in the actuarial purchase factors.



## CHANGES IMPACTING HAZARDOUS DUTY POSITIONS

KRS 61.592 has been amended to change the definition of hazardous duty positions in CERS. The definition of hazardous duty for KERS has remained unchanged. The new CERS definition is as follows (KRS 61.592 (1)(b)):

*“Hazardous position’ for employees who begin participating in the County Employees Retirement System on or after September 1, 2008, means police officers and firefighters as defined in KRS 61.315(1), paramedics, correctional officers with duties that routinely and regularly require face-to-face contact with inmates, and emergency medical technicians if:*

- 1.) The employee’s duties require frequent exposure to a high degree of danger or peril and a high degree of physical conditioning; and*
- 2.) The employee’s duties are not primarily clerical or administrative.”*

In addition to the amended definition, KRS 61.592 (2)(b) requires that any CERS employer desiring to provide hazardous duty coverage for employees who begin participating in CERS on or after September 1, 2008, petition the KRS Board of Trustees to reestablish hazardous duty coverage for all positions. Please note the following:

- Until the KRS Board of Trustees has approved hazardous duty coverage for a particular position, each employee who begins participating in CERS on or after September 1, 2008 MUST be reported as non-hazardous.
- If an employee began participating in CERS prior to September 1, 2008, the employee should be reported as hazardous if their position was approved by the KRS Board of Trustees as a hazardous duty position prior to September 1, 2008. Please remember this will only apply for those employees who have previously participated in CERS, not KERS or SPRS.
- All documents to petition the Board for hazardous duty coverage must be received by the first day of the month prior to the month of the Board meeting. For example, requests to be considered at the November 2008 Board meeting must be received no later than October 1, 2008.
- Hazardous duty coverage for these new employees’ positions CANNOT be effective until the Board has been petitioned, even if the position was previously approved as hazardous by the KRS Board of Trustees.
- To initiate the procedure to petition the Board for hazardous duty coverage, please contact a member of the KRS Field Services Team.





## EFFECTS OF HB 1 ON CURRENT EMPLOYEES AND RETIREES

Although the majority of changes in this legislation will only impact new hires on or after September 1, 2008, there are some changes that will affect all members and retirees of Kentucky Retirement Systems.

### **Cost of Living Adjustment**

The COLA for retirees will now be set at 1.5% each July. The General Assembly may increase this percentage at any time, but only if appropriate funding is allocated.

### **Service Purchase Costs**

The actuarial factors used to determine the cost to purchase service will now assume the earliest date a member can retire with an

unreduced benefit, and will also include the COLA mentioned above. This change will result in an increased service purchase cost for any purchase calculated on or after September 1, 2008. This change will also affect the cost billed to employers for sick leave when an employee retires.

### **Payment Options**

The Partial Lump Sum Payment Options will only be available for those employees who retire on or before January 1, 2009.

### **Reemployment After Retirement**

The following legislative changes will apply to those retirees returning to work on or after September 1, 2008, regardless of the employee's retirement date.

*IF YOU HAVE ALREADY RECEIVED APPROVAL TO RETURN TO EMPLOYMENT, AND YOU ARE RETURNING TO EMPLOYMENT ON OR AFTER SEPTEMBER 1, 2008, YOU MUST CONTACT THE KENTUCKY RETIREMENT SYSTEMS AGAIN IN WRITING BECAUSE THE DETERMINATION PREVIOUSLY ISSUED MAY NO LONGER BE VALID.*

**Returning to work in a participating position (regular full-time)**

Bona Fide Separation From Service: Kentucky law has expanded this restriction to prohibit a retiree from having a prearranged agreement prior to termination to return to employment in a regular full-time position with any participating agency. At the time of reemployment, the participating agency and retiree must certify, under penalty of perjury, on Form 6751, "Member and Employer Certification Regarding Reemployment" that no prearranged agreement existed.

Duration of Separation From Service:

- An employee retiring from a hazardous position and returning to a participating hazardous position must observe a one (1) calendar month break in service before returning to work with a participating agency.
- An employee retiring from a non-hazardous position and returning to a participating hazardous position must observe a three (3) calendar month break in service before returning to work with a participating agency.
- An employee retiring from a hazardous or non-hazardous position but returning to work in a participating non-hazardous position must observe a three (3) calendar month break in service before returning to work with a participating agency.
- If the employee does not observe the proper break, retirement is voided and all benefits are repaid to KRS. The employee will contribute to the appropriate retirement system.

**Returning to work in a non-participating position (seasonal, part-time, temp, or interim)**

Bona Fide Separation From Service: Federal law provides that a retiree cannot have a prearranged agreement prior to termination to return to employment in a non-participating position with the same employer. However, if returning to employment in a non-participating position for a different employer, you may have a prearranged agreement. For purposes of implementing KRS 61.637, all employers participating in the Kentucky Employees Retirement System or State Police Retirement System are considered the same employer. A retiree from the County Employees Retirement System, who after initial retirement is hired by the county from which the member retired, shall be considered to have been hired by the same employer. At the time of reemployment, the participating agency and retiree must certify, under penalty of perjury, on Form 6751, "Member and Employer Certification Regarding Reemployment" that no prearranged agreement existed.

Duration of Separation From Service:

- An employee retiring from a hazardous position and returning to a non-participating hazardous position must observe a three (3) calendar month break in service before returning to work with a participating agency.
- An employee retiring from a non-hazardous position and returning to a non-participating hazardous position must observe a three (3) calendar month break in service before returning to work with a participating agency.
- An employee retiring from a hazardous or non-hazardous position but returning to work in a non-participating non-hazardous position must observe a three (3) calendar month break in service before returning to work with a participating agency.
- If the employee does not observe the proper break, retirement is voided and all benefits are repaid to KRS.

### **Participation in Kentucky Retirement Systems**

If the retiree is returning to a regular full-time position September 1, 2008 or later, the retiree will not make contributions to KRS. However, employer contributions for these employees will be required to be submitted with the monthly contribution report. The retiree will earn no service credit during the period of reemployment and will not be eligible for any additional retirement benefits based upon the reemployment.

### **Health Insurance**

- If the retiree has an initial participation date prior to September 1, 2008, but is reemployed on or after that date in a participating position and has elected health insurance coverage through KRS, the agency will be required to reimburse KRS for the contribution made for single coverage health insurance for the retiree.
- If the retiree has an initial participation date with KRS after September 1, 2008 and is reemployed after retirement in a regular full-time position, the employee will not be eligible for health insurance coverage through KRS and will be required to take health insurance coverage through his employer during the period of reemployment.

### **Returning to employment as an independent contractor, with a private leasing company or with a temporary staffing agency**

These situations will be evaluated by KRS on a case by case basis.

### **Steps to Take BEFORE you Begin**

#### **Reemployment**

- 1.) Obtain Form 6751, "Member and Employer Certification Regarding Reemployment" by contacting the Kentucky Retirement Systems, downloading a copy from the KRS website or contacting your prospective employer.
- 2.) Complete the employee section, obtain certification from your prospective employer and return the form to Kentucky Retirement Systems.

3.) Wait for approval from the Kentucky Retirement Systems before returning to work. Response time may vary depending on the volume of requests, thus you should allow at least twenty-one business days for a response.

STATE LAW REQUIRES THAT THE RETIREE AND EMPLOYER NOTIFY THE SYSTEMS IF THE RETIREE IS GOING TO ACCEPT EMPLOYMENT WITH AN AGENCY PARTICIPATING IN THE KENTUCKY RETIREMENT SYSTEMS, INCLUDING WORKING IN A NON-PARTICIPATING POSITION OR AS AN INDEPENDENT CONTRACTOR.

### **Notable changes**

- The Form 6751 will now be required for all employees, regardless of age, at the time of reemployment, not at the time of retirement.
- There is no longer an exemption to the law for those retirees who have attained normal retirement age.
- KRS will no longer consider whether or not the retiree is returning to a position with the same principal duties.



## **Kentucky Retirement Systems**

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**If you have any questions about the material printed in this publication please contact KRS at (800) 928-4646.**

This publication is intended merely as a general information reference for members of the KRS. If you have any specific questions about the subjects covered by this publication, you should contact the retirement office. This publication is not intended as a substitute for applicable Federal or state law, nor will its interpretation prevail should a conflict arise between its contents and applicable Federal or state law. Before making decisions about your retirement, you should contact KRS.