KPPA Kentucky Public Pensions Authority

KRS Newsletter for Kentucky Government Officials - SPECIAL EDITION- 2020 Legislative Session Review

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Newsletter for Kentucky GOVERNMENT OFFICIALS

A KENTUCKY RETIREMENT SYSTEMS E-PUBLICATION

SPECIAL EDITION:

MAY 2020

Kentucky Retirement Systems *is responsible for the investment of funds and administration of pension and health insurance benefits for over 386,000 active and retired state and local government employees, state police officers, and nonteaching staff of local school boards and regional universities.*

IN THIS ISSUE

This is a **SPECIAL EDITION** Newsletter that summarizes key retirement-related legislation that passed during the 2020 Regular Session.

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LEGISLATIVE NEWS

The 2020 Regular Session of the Kentucky General Assembly adjourned on Wednesday, April 15, 2020.

The following is an overview of the most significant bills and resolutions passed this Session that will have an impact on Kentucky Retirement Systems. Please click on the hyperlink to read each bill in its entirety.

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1. Amortization Period for Financing Unfunded Liabilities of All KRS Plans Has Been Reset

Senate Bill 249 (C. McDaniel) resets the amortization period for financing the unfunded liability of all KRS plans from 24-years to 30-years. The new 30-year amortization schedule resulted in new and lower ADC (Actuarially Determined Contribution) rates for FYE 2021 (please refer to the discussion of House Bill 352, below, for the rates).

The bill also extends by one year the date for most Quasi-governmental agencies to decide if they want to voluntarily cease participation in KERS. However, the extension period for university and community college employers to decide is less than a full year: they must make their decision before January 1, 2021.

Senate Bill 249 also pauses the CERS employer rate phase-in for one year.

CURRENT STATUS: This bill was signed by the Governor on April 8, 2020. Senate Bill 249 contains an Emergency clause, so it took effect upon the Governor's signature.

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2. State Executive Branch Budget Bill

Another significant bill is **House Bill 352** (S. Rudy), the State Executive Branch budget bill. The General Assembly would typically approve a State Executive Branch budget for the two-year period beginning on July 1, 2020 and extending through June 30, 2022 (FY Ended 2021 and FY Ended 2022). However, due to the COVID-19 crisis, the legislature only sent a proposed one-year budget to Governor Beshear for his consideration, and a budget for FY Ended 2022 will have to be introduced in a later Session (a possible Special Session called by the Governor, or the next Regular Session beginning in January 2021).

Important retirement-related items from the budget bill include:

1. The Actuarially Determined Contribution (ADC) is based upon the new 30-year amortization period as set in Senate Bill 249. The contribution rates from July 1, 2020- June 30, 2021 are as follows:

  a. **KERS Nonhazardous: 84.43%** (73.28% pension and 11.15% insurance). The actuary originally recommended 93.01% for FY Ended June 30, 2021 (based on a 24-year amortization period).

  b. **KERS Hazardous: 36.00%** (all 36% to pension, 0% to insurance). The actuary originally recommended 38.71% for FY Ended June 30, 2021 (based on a 24-year amortization period).

  c. **State Police Retirement System: 143.48%** (123.79% pension and 19.69% insurance). The actuary originally recommended 156.97% for FY Ended June 30, 2021 (based on a 24-year amortization period). However, the bill does include an additional $384,000 in fiscal year 2020-2021 to be applied to the unfunded pension liability of the State Police Retirement System pension fund.

  d. **The contribution rate for Quasi-governmental agencies from July 1, 2020- June 30, 2021 will remain frozen at 49.47%** (41.06% pension and 8.41% insurance) for all Nonhazardous duty employees employed by Mental Health/Mental Retardation Boards, Local and District Health Departments, State-supported universities and community colleges, domestic violence centers, rape crisis centers, child advocacy centers, and any other agency eligible to voluntarily cease participation in the Kentucky Employees Retirement System pursuant to KRS 61.522;

  e. The bill contains no raises for State employees, and no Cost of Living Adjustments (COLAs) for retirees**.** The bill does contain language establishing a process and procedures for State employee layoffs, furloughs, and reduced hours in the event that the Commonwealth or any agency determines it necessary; and

  f. As referenced above: although not included in the State Executive Branch Budget bill, legislation freezing the CERS employer contribution rates at their current level for one more year was passed during the 2020 Regular Session. **Per Senate Bill 249, the employer contribution rates for CERS from July 1, 2020- June 30, 2021 are as follows:**

    i. **CERS Nonhazardous: 24.06%** (19.30% pension and 4.76% insurance)

    ii. **CERS Hazardous: 39.58%** (30.06% pension, 9.52% insurance)

2. The budget fully funds the benefits earned by all State employees; and

3. The bill contains money from the State to assist with the employer contribution rates for Regional Mental Health/Mental Retardation Boards ($23,274,100); local and district health departments ($25,394,600); and contracted entities (domestic violence shelters, rape crisis centers, and child advocacy centers - $1,498,900);

CURRENT STATUS: Governor Beshear line-item vetoed 18 different parts of the bill on April 13, 2020, but none of the vetoes directly affected Kentucky Retirement Systems. The new budget begins on July 1, 2020.

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3. CERS Separation Bill Passes

House Bill 484 (R. Webber, et al), the CERS separation bill, also passed this Session. For the past several years the Kentucky League of Cities has spearheaded a major effort to separate the governance of the County Employees Retirement System (CERS) from Kentucky Retirement Systems, arguing that CERS is the largest system within KRS but does not have proportional representation on the Board of Trustees.

House Bill 484 establishes one 9-member board for the Kentucky Employees Retirement System (KERS) and the State Police Retirement System (SPRS), and a second 9-member board for the County Employees Retirement System (CERS). Further, the bill establishes a third 8-member board, the Kentucky Public Pension Authority Board, which will be responsible for the day-to-day operations of all three systems including having all current staff members be under its authority. The employees will still be subject to the provisions of KRS Chapter 18A and the State Personnel Cabinet.

CURRENT STATUS: Governor Beshear signed the bill on April 7, 2020. House Bill 484 had an Emergency clause covering one part of the bill: it prohibits the Governor from reorganizing the various retirement boards by executive order like Governor Bevin did in 2016. That part of the bill took effect immediately upon the signature of the Governor. The rest of the bill generally either takes effect on April 1, 2021 or July 1, 2021 (dates specified in the bill).

KRS staff have begun to determine how to implement the provisions of the bill. To date, we have determined 77 action items, or steps, required to make the transition.

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4. Changes to Death In-Line-Of-Duty Benefits

House Bill 271 (J. Blanton), concerns death in-line-of-duty benefits. Previously, surviving spouses of members who died due to a duty-related injury would have their monthly benefit payments reduced if they remarried. House Bill 271 removes those provisions and the monthly benefit amount will no longer be reduced.

The bill also restores the original benefit amount for surviving spouses of members who have already remarried (this currently applies to 1 person) and increases the benefits for beneficiaries who chose to receive lifetime monthly benefits in lieu of the line-of-duty survivor benefits to the amount calculated under the line-of-duty survivor provisions (currently 13 beneficiaries).

Finally, the bill provides a window for a surviving spouse of a member who died prior to April 13, 2018, to make a claim for line-of-duty survivor benefits on or before January 1, 2021. The number of people affected by this provision is unknown, but it is not expected that many people would be eligible.

GRS, the Systems' actuary, determined the bill would increase benefits for approximately 14 surviving spouses to date, and the average benefit of these members would increase from $1,100 per month to $2,300 per month. There is no measurable fiscal impact on the Systems.

CURRENT STATUS: The bill was signed by Governor Beshear on March 27. House Bill 271 contained an Emergency clause, so it took effect upon the Governor's signature.

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5. School Board Service Credit Related to COVID-19 Health Emergency

Senate Bill 177 (A. Kerr) mandates that local boards of education shall allow emergency leave to any full-time or part-time classified employee if it is in relation to the COVID-19 public health emergency. This will count toward the number of days worked during the school year for determining service credit.

CURRENT STATUS: The bill was signed by Governor Beshear on March 24. Senate Bill 177 contained an Emergency clause, so it took effect upon the Governor's signature.

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6. Retired Reemployed Changes

Senate Bill 239 (M. Wilson) includes provisions for Mayors and other members of a city legislative body who are age 62 and above to retire and begin drawing a benefit, but they do not have to resign office to do so. However, they would not build any further retirement service credit for this extended time in office.

The bill also makes one more important change. Under KRS 95.022 cities may reemploy as many retired police officers as they deem necessary, but the city is only excused from paying employer contributions and insurance premiums for a certain, limited number of these reemployed retirees. If they exceed this number, the city is responsible for paying contributions on the rest of the retired officers they employ. Senate Bill 239 removes School Resource Officers from this limit, so SRO's will no longer be included in the count. Removing SROs from the count means a city can hire other types of officers in those places, which allows a city to have more officers on the job without paying additional contributions for retirement and insurance.

CURRENT STATUS: The bill was signed by the Governor on April 24. It will take effect in mid-July 2020.

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7. State Senate Confirms Gubernatorial Appointments to KRS Board

Five Senate Resolutions were adopted during the 2020 Regular Session that confirmed recent gubernatorial appointments (or reappointments) to the KRS Board of Trustees.

A. **Senate Resolution 93** (J. Adams) confirmed the reappointment of Patrick Kelly Downard to the Board for a term expiring June 17, 2023.

B. **Senate Resolution 234** (J. Adams) confirmed the appointment of Joseph L. Grossman to the Board for a term expiring June 17, 2022.

C. **Senate Resolution 236** (J. Adams) confirmed the appointment of Caswell Prewitt Lane to the Board for a term expiring June 17, 2023.

D. **Senate Resolution 237** (J. Adams) confirmed the appointment of John Carroll Cheshire III to the Board for a term expiring June 17, 2023; and

E. **Senate Resolution 270** (J. Adams) confirmed the reappointment of Matthew Louis Monteiro to the Board for a term expiring June 17, 2023.

SPECIAL REPORT:

HOW CAN LEGISLATION HELP SOLVE THE UNFUNDED PENSION PROBLEM IN KENTUCKY?

As you know, the unfunded liability of the state's public pension system is one of the most pressing issues facing the Commonwealth today. **But did you know there is a simple legislative solution that would provide critical financial relief to the Systems?**

How? By changing the current method of calculating the employer contribution rate.

KRS needs legislation to change from a "percentage of pay" method for both the normal cost contribution and the actuarially accrued liability contribution (the two components used to calculate pension contributions) to a normal cost that is a percentage of pay and an actuarially accrued liability contribution that will be a set dollar value based upon the employer's individual liability.

This change will not completely solve the funding problem, but it will **protect the Systems from having skyrocketing contribution rates for the agencies that remain in KRS,** who in turn have to cover the unfunded liabilities for agencies that leave KRS and/or reduce their covered payroll.

Please follow this hyperlink to read a brief white paper prepared by Kentucky Retirement Systems titled, **"Fixed Allocation Funding the KERS Nonhazardous Unfunded Liability: A Solution to the Percent of Payroll Funding Death Spiral."**

Questions? Contact us

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