

### Draft-Proposed Changes to Kentucky Retirement Systems (KRS)

The following changes would apply to the systems administered by KRS which includes the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS), and the State Police Retirement System (SPRS).

Item	Current Plan	Proposed
Phase-in of the actuarially required contribution (ARC) for KERS & SPRS	Current phase-in to the full ARC will be completed by 2025 for KERS non-hazardous, 2019 for KERS hazardous, and 2020 for SPRS.	Full payment of the ARC beginning in FY 2014-2015 for KERS and SPRS.
Amortization Period for Payment of Unfunded Liabilities	Unfunded liabilities are being paid off over the amortization period which the KRS actuary has reduced annually beginning in 2007. The current amortization period from the last actuarial valuation is 26 years and is being reduced each year going forward.	Resets amortization period for KERS, CERS, and SPRS for payment of the unfunded liability to a new 30 year period.
COLA	1.5% COLA awarded annually; 2012 GA suspended COLA payable in FY 12-13 and 13-14.	Repeal COLA provisions for all employees/retirees.
Reemployment after retirement	<ul style="list-style-type: none"> <li>• 3 mo. break in employment required before returning to work (except 1 mo. Hazardous full-time retired to hazardous full-time employment).</li> <li>• No second retirement account.</li> <li>• Employer must pay employer contributions during period of reemployment and reimburse systems for costs of retiree's health care if the retiree takes coverage through the systems.</li> </ul>	Same except extend required break in employment to 2 years for retirees who are reemployed on or after 7/1/2013 (exception- 1 year full-time retired hazardous to full-time hazardous employment).
Require employer to pay costs of "spiking" pensions	Employer pays contributions on additional salary earned.	Employer must pay actuarial costs for salary increases above 10% annually in last 5 years of employment on current employees.
KRS Board Composition	9 member board: <ul style="list-style-type: none"> <li>• Five elected (2 KERS, 2 CERS, 1 SPRS)</li> <li>• Three appointed by Governor of which:               <ul style="list-style-type: none"> <li>○ 2 must have 10 years "investment experience" as defined by statute</li> <li>○ 1 must be knowledgeable about the impact of pensions on local governments.</li> </ul> </li> <li>• Sec. of State Personnel Cabinet</li> </ul>	11 member board: <ul style="list-style-type: none"> <li>• Five elected (2 KERS, 2 CERS, 1 SPRS)</li> <li>• Five appointed by Governor of which:               <ul style="list-style-type: none"> <li>○ 2 must have 10 years "investment experience" as defined by statute who cannot be employed or retired from KERS, CERS, or SPRS.</li> <li>○ 1 appointed by the Gov. from a list of 3 individuals recommended by the Kentucky League of Cities.</li> <li>○ 1 appointed by the Gov. from a list of 3 individuals recommended by the Kentucky Association of Counties.</li> <li>○ 1 appointed by the Gov. from a list of 3 individuals recommended by the Kentucky School Board Association.</li> </ul> </li> <li>• Sec. of State Personnel Cabinet</li> </ul>
Transparency	Various statutory requirements regarding transparency and posting of information online.	Same but require KRS to establish a web page with information that is easily available and understood by the public regarding its financial and actuarial condition.
Plan for new participants	Defined Benefit Plan-see chart on pages 3 and 4	Hybrid Cash Balance Plan- see chart on pages 3 and 4.

## **Draft-Proposed Changes to the Judicial Form Retirement System (JFRS)**

The following changes would apply to the systems administered by JFRS which includes the Legislative Retirement Plan (LRP) and the Judicial Retirement Plan (JRP):

- COLA: Repeal COLA provisions. Currently, retired legislators and judges receive a 1.5% annual COLA on their retirement benefits (2012 GA suspended COLA payable in FY 12-13 and 13-14 the same as state employees).
- New Hires: LRP and JRP would be closed to new participants and new legislators and judges effective July 1, 2013 would participate in KERS under the new hybrid cash balance plan.

**KERS & CERS NON-HAZARDOUS: DRAFT OF NEW PLAN FOR NEW PARTICIPANTS EFFECTIVE 7/1/2013**

PROVISION	CURRENT PLAN FOR NEW HIRES	HYBRID CASH BALANCE PLAN												
<b>Administration</b>	Systems	Systems												
<b>Employee Contribution</b>	5% to pension <u>1% to retiree health</u> 6% total	5% to pension <u>1% to retiree health</u> 6% total												
<b>Employer Contribution</b>	Varies annually as determined by the actuary and as set by funding policies.	Varies annually by the actuary and as set by funding policies.												
<b>Benefit</b>	<p><u>KERS &amp; CERS Formula</u> Final Compensation X Benefit Factor X Years of Service = Annual Benefit <u>Final Compensation</u> Avg. of the 5 complete fiscal years immediately preceding retirement; cannot not include compensatory time payouts.</p> <p><u>Benefit Factor</u></p> <table border="0" data-bbox="324 604 828 831"> <tr> <td><i>Yrs. Service At Retirement</i></td> <td><i>Factor</i></td> </tr> <tr> <td>10 or less</td> <td>1.10%</td> </tr> <tr> <td>&gt;10, but no more than 20</td> <td>1.30%</td> </tr> <tr> <td>&gt;20, but no more than 26</td> <td>1.50%</td> </tr> <tr> <td>&gt; 26, but no more than 30</td> <td>1.75%</td> </tr> <tr> <td>Additional years above 30</td> <td>2.00%</td> </tr> </table>	<i>Yrs. Service At Retirement</i>	<i>Factor</i>	10 or less	1.10%	>10, but no more than 20	1.30%	>20, but no more than 26	1.50%	> 26, but no more than 30	1.75%	Additional years above 30	2.00%	<p>Employee accounts include employee (5%) and employer contributions (4%) and are guaranteed a 4% annual return. These accounts receive 75% of returns above 4%. Employee would be vested for employer contributions and investment return after 5 years.</p> <p>Upon retirement, employees would be able to purchase an annuity based on the contents of their account. The annuity would be based on the current mortality and investment assumptions used by KRS.</p>
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<b>Retirement Age/Service</b>	<table border="0" data-bbox="277 837 954 1010"> <tr> <td><u>Unreduced benefit</u></td> <td><u>Reduced benefit</u></td> </tr> <tr> <td> <ul style="list-style-type: none"> <li>Rule of 87: Age + service must equal 87 years at retirement except that the employee must be at least 57 years of age to retire under this provision; or</li> <li>Age 65 w/5 years of service.</li> </ul> </td> <td>Age 60 w/10 years of service</td> </tr> </table>	<u>Unreduced benefit</u>	<u>Reduced benefit</u>	<ul style="list-style-type: none"> <li>Rule of 87: Age + service must equal 87 years at retirement except that the employee must be at least 57 years of age to retire under this provision; or</li> <li>Age 65 w/5 years of service.</li> </ul>	Age 60 w/10 years of service	Same as current plan but no reduced benefit structure.								
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<b>COLA</b>	Annual increase of 1.5%; may be suspended by Legislature.	No COLA												
<b>Disability/Death Benefits</b>	<p><u>Disability Benefits</u></p> <ul style="list-style-type: none"> <li>Minimum 5 years service to apply</li> <li>Benefit Calculation-Higher of benefit calculated using actual service or 20% of member's final pay.</li> </ul> <p><u>Death Benefits (Before Retirement)</u> Benefit payable if at the time of death the employee:</p> <ul style="list-style-type: none"> <li>Was eligible to retire; or</li> <li>Had 5 year service and was working; or</li> <li>Had 12 years of service and was not working.</li> </ul> <p><u>Death Benefits (After Retirement)</u></p> <ul style="list-style-type: none"> <li>Benefit payable to beneficiary based upon payment option selected at retirement.</li> <li>\$5,000 Death benefit if retired with at least 4 years service.</li> </ul> <p><i>Special line of duty disability/death benefits.</i></p>	Same as current plan												
<b>Retiree Health Benefits</b>	<p>FOR NEW HIRES AFTER 09/08:</p> <ul style="list-style-type: none"> <li>Medical Insurance Eligibility: 15 years earned service at retirement.</li> <li>Benefit of \$10 per month for each year of earned service without regard to maximum dollar amount; adjusted by 1.5% annually.</li> </ul>	Same as current plan												
<b>Inviolable Contract</b>	"Inviolable contract" language covers all benefits except COLA and retiree health benefits after 07/03.	Accrued benefits would remain protected but the GA could change prospective benefits if fiscal circumstances call for it.												
<b>Portability</b>	<ul style="list-style-type: none"> <li>Employee can take refund of contributions plus accumulated interest (2.5% annually)</li> </ul>	<ul style="list-style-type: none"> <li>Employee contributions and investment return immediately vested; employer contribution and investment returns vested after 5 years (no sliding scale-0% until 5 years when it goes to 100%).</li> <li>Vested employees can withdraw their account as a lump sum (including employer and employee contributions and earned interest) or leave account with state to access benefits upon retirement.</li> </ul>												
<b>Investment Responsibility</b>	Systems	Systems												

**KERS & CERS HAZARDOUS & SPRS: DRAFT OF NEW PLAN FOR NEW PARTICIPANTS EFFECTIVE 7/1/2013**

PROVISION	CURRENT PLAN FOR NEW HIRES	HYBRID CASH BALANCE PLAN										
<b>Administration</b>	Systems	Systems										
<b>Employee Contribution</b>	8% to pension <u>1% to retiree health</u> 9% total	8% to pension <u>1% to retiree health</u> 9% total										
<b>Employer Contribution</b>	Varies annually as determined by the actuary and as set by funding policies.	Varies annually by the actuary and as set by funding policies.										
<b>Benefit</b>	<p align="center"><u>KERS &amp; CERS Formula</u></p> <p>Final Compensation X Benefit Factor X Years of Service = Annual Benefit <u>Final Compensation</u> Avg. of the 3 highest complete fiscal years immediately preceding retirement; cannot not include compensatory time payouts.</p> <p><u>Benefit Factor</u></p> <table border="0"> <tr> <td align="center"><i>Yrs. Service At Retirement</i></td> <td align="center"><i>Factor</i></td> </tr> <tr> <td align="center">10 or less</td> <td align="center">1.30%</td> </tr> <tr> <td align="center">&gt;10, but no more than 20</td> <td align="center">1.50%</td> </tr> <tr> <td align="center">&gt;20, but less than 25</td> <td align="center">2.25%</td> </tr> <tr> <td align="center">25 or more</td> <td align="center">2.50%</td> </tr> </table>	<i>Yrs. Service At Retirement</i>	<i>Factor</i>	10 or less	1.30%	>10, but no more than 20	1.50%	>20, but less than 25	2.25%	25 or more	2.50%	<p>Employee accounts include employee (8%) and employer contributions (7.5%) and are guaranteed a 4% annual return. These accounts receive 75% of returns above 4%. Employee would be vested for employer contributions and investment return after 5 years.</p> <p>Upon retirement, employees would be able to purchase an annuity based on the contents of their account. The annuity would be based on the current mortality and investment assumptions used by KRS.</p>
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<b>Retirement Age/Service</b>	<p><u>Unreduced benefit</u>                      <u>Reduced benefit</u></p> <ul style="list-style-type: none"> <li>• Any age w/25 years of service or      Age 50 w/15 years of service</li> <li>• Age 60 w/5 years or service</li> </ul>	Same as current plan but no reduced benefit structure.										
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<b>Retiree Health Benefits</b>	<p>FOR NEW HIRES AFTER 09/08:</p> <ul style="list-style-type: none"> <li>• 15 years of earned service at retirement to be eligible for insurance benefits.</li> <li>• Benefit of \$15 per month for each year of earned service without regard to a maximum dollar amount; adjusted by 1.5% annually.</li> <li>• \$10 per month for each year of hazardous service for surviving spouse of deceased member.</li> </ul>	Same as current plan										
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