

## SB 151 PHS2

### Provisions in Red Are Difference between this bill (SB 151/PHS2) and SB 1/ SCS1

#### Legislators' Retirement Plan (LRP) & Judicial Retirement Plan (JRP)

- **Current LRP Retirees:** No change.
- **Current LRP Defined Benefit Members (In LRP Prior to 1/1/2014):**
  - Removes Salary Reciprocity for non-Legislative compensation earned on or after January 1, 2019. LRP benefits at retirement will be calculated based on legislative salary and non-legislative compensation earned prior to January 1, 2019.
  - Reduces benefit factor from 2.75% to 1.97% for each year of service accrued on or after Jan 1, 2019. Note: The benefit factor is a percentage that is multiplied times the average salary at retirement.
  - Modifies JRP and LRP inviolable contracts to exclude legislative changes that become effective on or after July 1, 2018.
- **LRP/JRP Cash Balance Members (In LRP/JRP on or after 1/1/2014):** Changes future interest credit on cash balance account balances so that contributing members will receive an annual interest credit of 85% of the plan's 5-year net return (currently 4% return plus 75% of 5-year return above 4%). Former members not contributing will receive a 0% annual interest credit (currently 4%).
- **LRP/JRP Defined Benefit & Cash Balance Plan Members**
  - May opt to prospectively participate in the KERS 401(a) money purchase plan by 1/1/2021 (past service not impacted).
  - Retired Reemployed Provisions – No second retirement accounts in LRP or JRP for any member of a state retirement system who retires on or after January 1, 2019.

**Note: PHS2 to SB 151 contains all provisions of SB 1 SCS1 for the legislators' and judicial retirement plans.**

#### Kentucky Retirement Systems (KRS)

*Includes the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and the State Police Retirement System (SPRS)*

- **Current KRS Retirees:** No change
- **Current KRS Defined Benefit Members (Tier I/Tier II Members)**
  - Members who began participating on or after July 1, 2003, but prior to September 1, 2008, shall contribute an additional 1% of pay to fund retiree health. Same as Tier II/III.
  - High 3/High 5 Final Compensation: Must be complete 3 or 5 years for members retiring on or after January 1, 2019.
  - **Sick Leave Service Credit: Sick leave is not limited for purposes of service credit in KRS in SB 151/PHS2. PHS2 provides current members cannot use sick leave service credit for purposes of retirement eligibility or to reduce applicable actuarial penalties for retirements occurring on or after July 1, 2023. Note: SB 1/SCS1 had limited sick leave service credit to sick leave accrued as of December 31, 2018, and it couldn't be used for retirement eligibility/reducing actuarial penalties for retirements occurring on or after January 1, 2019 (Tier III and after receive no sick leave service credit for acc. sick leave).**
  - Comp. Time Paid At Retirement: Provides that lump-sum payments for compensatory time at retirement will not boost retirement benefits for non-hazardous Tier I members retiring after July 1, 2023 (Tier II and III already ineligible).

- Modifies KERS/CERS/SPRS inviolable contracts to exclude legislative changes that become effective on or after July 1, 2018.
- May opt to prospectively participate in the KERS 401(a) money purchase plan (past service not impacted) by 1/1/2021.
- For hazardous members, provides that the spouse shall supersede all designated beneficiaries in case of ensuring minimum line of duty death benefits are provided to the spouse and make provisions retroactive to deaths occurring on or after January 1, 2017.
- **Current KRS Cash Balance Members**
  - Nonhazardous: Changes future interest credit on cash balance account balances so that contributing members will receive an annual interest credit of 85% of the plan's 10-year net return (currently 4% return plus 75% of 5-year return above 4%). Former members not contributing will receive a 0% annual interest credit (currently 4%).
  - Nonhazardous: May opt to prospectively participate in the KERS 401(a) money purchase plan (past service not impacted) by 1/1/2021.
  - Nonhazardous & Hazardous: Removes \$5,000 Death Benefit paid after retirement for those members with 4+ years of service credit.
- **KRS Hazardous New Hires:** Member benefits the same except removes the \$5,000 Death Benefit paid after retirement for those members with 4+ years of service credit.
- **KRS Nonhazardous New Members:**
  - Establishes optional, Tier IV 401(a) Money Purchase Plan (defined contribution plan). Members must opt into 401(a) plan, in lieu of cash balance plan, within 90 days of employment. **PHS 2 to SB 151: At the request of the systems the PHS2 changes when this optional plan becomes available to July 1, 2019 (from January 1, 2019 in SB 1 SCS1).**
  - 401(a) benefit will be based upon an account balance of employee contributions (5% of pay), employer contribution (4% of pay), and investment returns.
  - KRS board may allow investment options within KRS investment pool, contract with outside entity, or through Kentucky Deferred Compensation (KDC).
  - Member can retire under same provisions as nonhazardous cash balance participants and annuitize their account balance.
  - Members eligible for disability/death before retirement/retiree health benefit similar to cash balance plan members.
  - Removes \$5,000 Death Benefit paid after retirement for those members with 4+ years of service credit.
- **Funding Provisions**
  - Requires level dollar financing of unfunded liabilities over closed 30-year amortization period, using 5-year smoothed asset valuation method for all KRS systems. Amortization period reset in 2019 valuation.
  - Contribution on or after July 1, 2020 shall be set as dollar amount and prorated to each employer based on share of actual payroll in FY15-FY17 (i.e. each employer will have different employer rate). **SB 151/PHS2 provides that executive branch agencies in KERS will be one collective rate instead of separate rates for various Cabinets/ departments in state government.**
- **Retired/Reemployed Provisions (for retirees who retire on or after 1/1/2019):**
  - Non Hazardous: 3 month break required or retirement voided.
    - If 3 month break is observed, member can work *part-time*, continue to receive pension benefit, but no second account is created.

- If 12 month break is observed, member can work *full-time*, continue to receive pension benefit, but no second account is created. If member works in *full-time* position after 3 month break, pension is suspended until 12 months after retirement date.
- Employer makes normal cost contribution for any reemployed retiree.
- Hazardous Members/Certified peace officers: 1 month break required or retirement voided. If 1 month break is observed, member can return to work in part-time or full-time capacity, continue to receive pension benefit, but no second account is created. Employer makes normal cost contribution for any reemployed retiree.
- A retiree of another state-adm. retirement system who retires on or after 1/1/2019, shall not be eligible to earn a second retirement account in KRS.
- **Conflict of Interest Provisions** - No member of GA, public servant, trustee or employee of KRS board shall have any interest in the business of KRS while employed/serving AND for five (5) years following employment/service.

### **Teachers' Retirement System (TRS)**

- **Establishes Hybrid Cash Balance Plan for New Members on or after January 1, 2019**
  - Puts teachers in same type of cash balance plan as KRS but with different contributions.
  - Non University Contributions (teachers): Employee (9.105%) and Employer Credit (8%) plus interest credit.
  - University Contributions: Employee (7.625%) and Employer Credit (4%) plus interest credit.
  - Interest Credit: Contributing members receive 85% of the plan's 10-yr net return, Former members who have left employment receive 0%.
  - Retirement Eligibility: Age 65 w/ 5 years OR Rule of 87 and members may choose to annuitize their account balance at retirement and receive a lifetime payment (same as KRS Nonhazardous cash balance plan).
  - Portability: Immediately vested for employee contributions and interest credits on employee contributions. Fully vested for employer credit and investment returns on employer credits after 5 years.
  - Voluntary "Opt in:" Members with less than 5 years of service may elect to roll over their accumulated contributions in to the new hybrid cash balance plan.
  - Members eligible for retiree health/disability/death before retirement benefits similar to current members. Retired members in the cash balance plan will not receive a cost of living adjustment after retirement or the \$2,000 pre-retirement life insurance benefit or \$5,000 post-retirement life insurance benefit payable to deceased retired members with at least 5 years service. Sick leave payments do not impact retirement benefits.
  - "Inviolable contract" will be limited to account balance in the cash balance plan (same changes were made to KRS, LRP, and JRP in 2013).
- **TRS COLA Adjustments (Current & Future Retirees): No change in SB 151/PHS2 to current members and retirees (1.5% COLA remains as currently provided in statute).**  
*Note: SB 1/SCS had provided that If the TRS pension fund was less than 90% funded, COLA on July 1 will be 1% instead of 1.50%.*
- **TRS Current Members:**
  - **No changes to High-3 Final Average Salary/3.0% benefit factor.** *SB 1/SCS1 had lengthened out the requirements for members with less than 20 years for purposes of accruing the 3.0% benefit factor and the high-3 final average salary.*

- **No provision for adjustment to employee contribution to fund retiree health.** *SB 1/SCS1 provided that the employee contribution to fund retiree health could be adjusted by the TRS board if the retiree health fund started to deteriorate.*
- Limits the impact of sick leave payments on retirement benefits to the amount of sick leave accrued as of December 31, 2018.
- **Funding Provisions:**
  - Establishes a statutory calculation and requirement to pay the full ARC (retains current statutory fixed rate as base rate). Additional amount needed to pay off the pension unfunded liability is prorated to each employer based on share of actual payroll in FY15-FY17, with school board payment paid by state appropriation (other employers will be required to pay their share).
  - Require school boards to pay an additional 2% of pay for new members in the cash balance plan (will offset costs to state).
  - Requires financing of unfunded liabilities over closed 30-year amortization period, using 5-year smoothed asset valuation method for TRS pension fund. Resets amortization period in 2018 valuation.
  - **PHS2 phases into level dollar funding so that by the 2021 valuation level dollar financing is utilized (2021 valuation applies to rates payable in FY 24). For the upcoming budget (FY 19 and 20), no change would occur and the funding needed to finance the unfunded liabilities would stay the same using the current level percent of pay method and assuming the current assumption of a 3.5% payroll growth. However, for FY 21 funding a 2.625% payroll growth assumption would be used, for FY 22 a 1.75% payroll growth assumption would be used, for FY 23 a 0.875% payroll growth assumption would be used, and for FY 24 and beyond level dollar financing would be used.**
- **TRS Retired/Reemployed Provisions:** Same provisions as current law except no second retirement accounts in TRS for any member of a state retirement system who retires on or after January 1, 2019.
- **Conflict of Interest Provisions** - No member of GA, public servant, trustee or employee of TRS board shall have any interest in the business of KRS while employed/serving AND for five (5) years following employment/service.

## **Other Provisions**

- **PPOB Actuarial Review:** Statute amended to make hiring an actuary to perform biennial review of employer rates optional.
- **KY Deferred Comp (KDC) Conflict of Interest Provisions/Ex. Branch Code of Ethics**
  - Establishes conflict of interest provisions for KDC board members.
  - Provides that no member of GA, public servant, trustee or employee of KDC board shall have any interest in the business of KDC while employed/serving and for five (5) years following employment/service.
  - Makes KDC board subject to Executive Branch Code of Ethics
- **Non Codified Items**
  - Require PPOB to establish advisory committee to study CERS Separation.
  - Require KRS/TRS staff to provide update on implementation of reform.