October 18, 2017

Kentucky Pension Systems Update

This morning Governor Matt Bevin, Speaker of the House Jeff Hoover, and Senate President Robert Stivers held a press conference to provide an overview of the proposed changes to Kentucky's pension systems. The legislation that will be proposed to incorporate the below changes would go into effect July 1, 2018.

It is anticipated that Governor Bevin will call the General Assembly into a special session to take up pension reform within the next 30 days.

KFB Policy:
"We oppose the continuation of state pension fund diversions and recommend the state legislature take the necessary actions to stabilize and create sustainability in the Kentucky Employees Retirement System (non-hazardous) and the Kentucky Teachers Retirement System."

Highlights:

- Requires full payment of ARC and creates a new funding formula that mandates hundreds of millions more into every retirement plan, making them healthier and solvent sooner.

- For those still working: no increase to the full retirement age, and current defined benefits remain in place until the employee reaches the promised level of unreduced pension benefit.

- For those retired: no clawbacks or reductions to pension checks, and healthcare benefits are protected.

- For future non-hazardous employees and teachers: enrollment in a defined contribution retirement plan will provide comparable retirement benefits.

- For current and future hazardous employees: will continue in the same system they are in now.

- Closes loophole to ensure payment of death benefits for the families of hazardous employees.

- Stops defined benefits plan for all legislators, moving them into the same defined contribution plan as other state employees under the jurisdiction of the KRS Board.

Below are the proposed changes for the various pension plans.

Kentucky Teacher Retirement:

- No change to full retirement age.

- No Social Security coverage for current or future teachers.

- Defined benefit plan remains open to current teachers/university members until accruing full unreduced retirement eligibility (27 years of service or age 60).

- Current teachers who have met the threshold (i.e. 27 years) on July 1, 2018, will have the option to continue to accrue service credit in their defined benefit plan for up to three additional years or move into a Social Security replacement defined contribution plan. The defined contribution plan will be a generous defined contribution plan - 18% of their salary.

- New teachers and those who meet the unreduced retirement threshold after July 1, 2018 will enroll in the defined contribution plan with the option to max out 18% of their salary. Employee contribution will be 9% with the option to invest an additional 3%. Employer contribution will be 6% with the state's portion being 4% and the local school district employer's contribution at 2%.

- Current teachers/university members, with less than five years of service in the current defined benefit plan, will have the option to transfer to the defined contribution plan.

- Use of "High 3" for benefit calculation permitted for any member retiring before June 30, 2023; after June 30, 2023 a "High 5" will be utilized for benefit calculations.

- School districts can continue to provide payment for up to 30% of a retiring member's accumulated sick leave and payments for accumulated sick leave will be utilized in retirement benefit calculations for those retiring on or before July 1, 2023; after that date, payments for sick leave will not be utilized for benefit calculations.

- Sick leave balances frozen as of July 1, 2018 for university members who receive service credit for accumulated sick leave.

- 3% of employee's salary as additional contribution to fund retiree healthcare program.

- No reduction in previously granted cost of living adjustments (COLAs) for current retirees.

- Future COLAs for current retirees temporarily suspended for five years.

- COLAs for future retirees will begin after five years in retirement.

- Future retirees required to suspend their pension to accept a full-time* position in the public sector for the duration of their reemployment.

- Aligns upper limit of eligible compensation for benefit calculation with social security guidelines.

Kentucky and County Employee Retirement System (Non-hazardous)

- No reduction in cost of living adjustments (COLAs) for current retirees.

- No change to full retirement age.

- Tier 1 employees will continue to accrue full unreduced retirement eligibility (27 years of service or age 65) within current defined benefit program.

- Tier 2 employees will continue to accrue full unreduced retirement eligibility ("Rule of 87" or age 65) within current defined benefit program.

- Tier 1 and Tier 2 employees will move into a defined contribution plan after reaching the threshold service accrual for an unreduced retirement benefit (i.e. 27 years/Rule of 87).

- Tier 3 employees will immediately roll over into the defined contribution program.

- All new hires will enroll in the defined contribution program.

- 3% of employee's salary as additional contribution to fund retiree healthcare program.

- Future retirees must suspend pension to accept full-time* positions in the public sector for duration of their reemployment.

- Caps sick leave to sick leave balance accrued on June 30, 2018. Sick leave credit no longer used to determine retirement eligibility effective for retirements on or after July 1, 2018.

- Comp time payments included in benefit calculation for any member retiring on or before July 1, 2023.

- Requires "High 5" to be a full 60 months of service.

- Aligns upper limit of eligible compensation for benefit calculation with social security; uniform/equipment allowance is no longer included as creditable compensation.

*Full-time refers to more than 100 hours worked per month

Kentucky and County Employee (Hazardous) and State Police Retirement System

- No reduction in cost of living adjustments (COLAs) for current retirees.

- Defined benefit and cash balance plans remain open to current hazardous employees.

- No change to retirement age.

- New employees will continue to enroll in current cash balance plan but may elect to switch to a defined contribution plan.

- Caps sick leave to sick leave balance accrued on June 30, 2018. Sick leave credit no longer used to determine retirement eligibility effective for retirements on or after July 1, 2018.

- Comp time for retirement compensation purposes will continue to be utilized for Tier 1 employees only; comp time for retirement compensation purposes is already not applicable to Tier 2 and Tier 3.

- "High 3" will be a full 36 months of service.

- Uniform/equipment allowance is no longer included as creditable compensation; KLEPFP payments are included.

- Reemployment after retirement will require both an employee and employer normal cost contribution to be paid to the system from which the employee retired; no second retirement account.

- 3% of employee's salary as additional contribution to fund retiree healthcare program.

- Closes loophole to ensure payment of death benefits for the families of hazardous employees.

YOUR LOBBYISTS

Those who are registered to lobby for Kentucky Farm Bureau for the 2017 session are: Jeff Harper, Public Affairs Director, extension 5104; Tony Sholar, extension 5121; and David S. Beck, extension 5101. If you would like to call your lobbyists during the evening, call 502.352.4280 at the Frankfort headquarters or call 502.495.5000 and key in their extensions. If you would like to contact one of your lobbyists during the day, please call Sara Stivers at 502.495.5121 and she will put you in touch with one of them.