

1 AN ACT relating to retirement system employer contribution rates.

2 ***Be it enacted by the General Assembly of the Commonwealth of Kentucky:***

3 ➔Section 1. KRS 161.550 is repealed, reenacted, and amended to read as follows:

- 4 (1) (a) Effective July 1, 2020, and for each fiscal year occurring thereafter, each
5 employer, except as provided under KRS 161.555, shall contribute annually to
6 the Teachers' Retirement System a base permanent employer contribution
7 equal to:
- 8 1. Thirteen and one hundred five thousandths percent (13.105%) of the
9 total annual compensation of nonuniversity members it employs, of
10 which:
 - 11 a. Twelve and three hundred fifty-five thousandths percent
12 (12.355%) of the total annual compensation shall be used to fund
13 pension and life insurance benefits; and
 - 14 b. Three-quarters of a percent (0.75%) of annual compensation shall
15 be used to provide funding to the medical insurance fund as
16 provided under KRS 161.420(5). If the board of trustees
17 establishes a trust fund under 26 U.S.C. sec. 115, the board may
18 deposit the employer contribution provided in this subparagraph in
19 that trust fund; and
 - 20 2. Thirteen and sixty-five hundredths percent (13.65%) of the total annual
21 compensation of university members of the retirement system it
22 employs, of which:
 - 23 a. Ten and eight hundred seventy-five thousandths percent (10.875%)
24 of the total annual compensation shall be used to fund pension and
25 life insurance benefits; and
 - 26 b. Two and seven hundred seventy-five thousandths percent
27 (2.775%) of annual compensation shall be used to provide funding

1 to the medical insurance fund as provided under KRS 161.420(5).
2 If the board of trustees establishes a trust fund under 26 U.S.C. sec.
3 115, the board may deposit the employer contribution provided in
4 this subparagraph in that trust fund.

5 (b) Effective July 1, 2020, and for each year thereafter, each employer shall pay
6 the additional contributions needed to fund the Teachers' Retirement System
7 pension fund and life insurance fund on an actuarially sound basis as
8 determined by the system's actuarial valuation completed in accordance with
9 KRS 161.400 and as specified by this section. The amount payable under the
10 provisions of this paragraph shall:

- 11 1. Be in addition to the amounts provided under paragraph (a)1.a. and
12 (a)2.a. of this subsection;
- 13 2. Not include the cost or funding of benefits established by KRS 161.553;
14 and
- 15 3. Shall be prorated to each employer based upon the individual employer's
16 average percentage of the total compensation reported by all employers
17 in the system in fiscal years 2014-2015, 2015-2016, and 2016-2017,
18 except that the amount shall be paid by state appropriation only for those
19 employers who cover memberships specified by KRS 161.220(4)(a).

20 (c) The contributions payable under paragraphs (a)1.a., (a)2.a., and (b) of this
21 subsection by employers and the state shall be equal to the sum of the "normal
22 cost" contribution and the "actuarially accrued liability contribution," except
23 that the minimum contribution to fund pension and life insurance benefits
24 shall not be less than the combined employer contribution to fund pension and
25 life insurance benefits specified by paragraph (a) of this subsection and
26 subsection (3) of this section.

27 (d) For purposes of this subsection, the normal cost contribution shall be

1 computed as a percentage of payroll and shall be an annual amount that is
2 sufficient when combined with employee contributions to fund pension and
3 life insurance benefits earned during the year, including costs for members
4 participating in the hybrid cash balance plan.

5 (e) For purposes of this subsection, the actuarially accrued liability contribution
6 shall be an annual amount that is sufficient to amortize the total unfunded
7 actuarially accrued liability over a closed period of thirty (30) years using:

- 8 1. The level percentage of payroll amortization method in the 2019~~[2018]~~
9 actuarial valuation with a payroll growth assumption of **three percent**
10 **(3%)**~~[two and six hundred twenty five thousandths percent (2.625%)];~~
- 11 2. The level percentage of payroll amortization method in the 2020~~[2019]~~
12 actuarial valuation with a payroll growth assumption of **two and one-**
13 **half percent (2.5%)**~~[one and seventy five hundredths percent (1.75%)];~~
- 14 3. The level percentage of payroll amortization method in the 2021~~[2020]~~
15 actuarial valuation with a payroll growth assumption of **two percent**
16 **(2%)**~~[eight hundred seventy five thousandths percent (0.875%)]; [and]~~
- 17 4. **The level percentage of payroll amortization method in the 2022**
18 **actuarial valuation with a payroll growth assumption of one and one-**
19 **half percent (1.5%);**
- 20 5. **The level percentage of payroll amortization method in the 2023**
21 **actuarial valuation with a payroll growth assumption of one percent**
22 **(1.0%);**
- 23 6. **The level percentage of payroll amortization method in the 2024**
24 **actuarial valuation with a payroll growth assumption of one-half**
25 **percent (0.5%); and**
- 26 7. The level dollar amortization method in the 2025~~[2021]~~ actuarial
27 valuation and for each valuation occurring thereafter.

1 ~~[The amortization period shall be reset to a new thirty (30) year closed period~~
2 ~~beginning with the 2018 actuarial valuation.]~~

3 (f) Effective with the 2018 actuarial valuation, which determines the employer
4 rates payable on or after July 1, 2020, the employer contributions computed
5 under this section shall be determined using:

- 6 1. The entry age normal cost funding method;
- 7 2. An asset smoothing method that smooths gains and losses over a five (5)
8 year period; and
- 9 3. Other funding methods and assumptions established by the board in
10 accordance with KRS 161.400.

11 (2) In addition to the required contributions in subsection (1) of this section, the state
12 shall contribute annually to the Kentucky Teachers' Retirement System a percentage
13 of the total salaries of the state-funded and federally funded members it employs to
14 pay the cost of health insurance coverage for retirees who are not eligible for
15 Medicare and who retire on or after July 1, 2010, less the amounts that are
16 otherwise required to be paid by the retirees under KRS 161.675. The Kentucky
17 Teachers' Retirement System may also request an additional amount necessary to
18 ensure payment of medical insurance costs through fiscal year 2015-2016 which
19 shall not be subject to the limitations of paragraph (c) of this subsection. The board
20 shall deposit funds in the medical insurance fund unless the board of trustees has
21 established a trust fund under 26 U.S.C. sec. 115 for this purpose. In this case, the
22 board may deposit the employer contribution in that trust fund. This contribution
23 shall be known as the state medical insurance fund stabilization contribution. The
24 percentage to be contributed by the state under this subsection:

- 25 (a) Shall be determined by the retirement system's actuary for each biennial
26 budget period;
- 27 (b) May be suspended or adjusted by the General Assembly if in its judgment the

1 welfare of the Commonwealth so demands; and

2 (c) Shall not exceed the lesser of the actual benefit cost for retirees not eligible for
3 Medicare who retire on or after July 1, 2010, or the amount contributed by
4 employers under subsection (3) of this section.

5 (3) Effective ~~July~~January 1, 2019, all employers who employ nonuniversity members
6 shall make a contribution for each payroll on behalf of their active employees who
7 participate in the Teachers' Retirement System in an amount equal to:

8 (a) Three percent (3%) of payroll of those active employees. The contribution
9 specified by this paragraph that is paid on or after January 1, 2019, shall be
10 used to fund retiree health benefits; and

11 (b) Two percent (2%) of payroll for those members who participate in the hybrid
12 cash balance plan as provided by KRS 161.235. The amount of funding
13 provided by this paragraph shall be used to offset any additional costs paid
14 under subsection (1)(b) of this section.

15 (4) In the event an annual appropriation for the amounts specified by subsection
16 (1)(a)1. of this section is less than the amount of these requirements, the state shall
17 make up the deficit in the next biennium budget appropriation to the retirement
18 system. Employer contributions to the retirement system are for the exclusive
19 purpose of providing benefits to members and annuitants and these contributions
20 shall be considered deferred compensation to the members.

21 ➔Section 2. KRS 161.400 is repealed and reenacted to read as follows:

22 (1) (a) The board of trustees shall designate as actuary a competent person who shall
23 be a fellow of the Conference of Consulting Actuaries or a member of the
24 American Academy of Actuaries. He shall be the technical adviser of the
25 board on matters regarding the operation of the funds of the system and shall
26 perform such other duties as are required in connection therewith.

27 (b) At least once in each five (5) year period, the actuary shall make an actuarial

1 investigation into the actuarial assumptions and funding methods used,
2 including but not limited to mortality, investment rate of return, and service
3 and compensation of the members and beneficiaries of the retirement system,
4 relative to the actuarial assumptions and funding methods previously adopted
5 by the board. The actuarial investigation shall include at a minimum a
6 summary of the changes in actuarial assumptions and funding methods
7 recommended in the investigation and the projected impact of the
8 recommended changes on funding levels, unfunded liabilities, and actuarially
9 recommended contribution rates for employers over a twenty (20) year period.

10 (c) At least annually the actuary shall make an actuarial valuation of the
11 retirement system. The valuation shall include:

- 12 1. A description of the actuarial assumptions used, and the assumptions
13 shall be reasonably related to the experience of the system and represent
14 the actuary's best estimate of anticipated experience;
- 15 2. A description of any funding methods utilized or required by state law in
16 the development of the actuarial valuation results;
- 17 3. A description of any changes in actuarial assumptions and methods from
18 the previous year's actuarial valuation;
- 19 4. The actuarially recommended contribution rate for employers for the
20 upcoming budget periods;
- 21 5. A twenty (20) year projection of the funding levels, unfunded liabilities,
22 and actuarially recommended contribution rates for employers based
23 upon the actuarial assumptions, funding methods, and experience of the
24 system as of the valuation date; and
- 25 6. A sensitivity analysis that evaluates the impact of changes in system
26 assumptions, including but not limited to the investment return
27 assumption, payroll growth assumption, and medical inflation rates, on

1 employer contribution rates, funding levels, and unfunded liabilities.

2 (d) On the basis of the results of the valuations, the board of trustees shall make
3 necessary changes in the retirement system within the provisions of law and
4 shall establish the contributions payable by employers and the state specified
5 in KRS 161.550.

6 (e) For any change in actuarial assumptions, funding methods, retiree health
7 insurance premiums and subsidies, or any other decisions made by the board
8 that impact system liabilities and actuarially recommended contribution rates
9 for employers and that are not made in conjunction with the actuarial
10 investigation required by paragraph (b) of this subsection, an actuarial analysis
11 shall be completed showing the projected impact of the changes on funding
12 levels, unfunded liabilities, and actuarially recommended contribution rates
13 for employers over a twenty (20) year period.

14 (2) Actuarial factors and actuarial cost factor tables in use by the retirement system for
15 all purposes shall be determined by the actuary of the retirement system and
16 approved by the board of trustees by resolution and implemented without the
17 necessity of an administrative regulation.

18 (3) A copy of each five (5) year actuarial investigation, actuarial analysis, and valuation
19 required by subsection (1) of this section shall be forwarded electronically to the
20 Legislative Research Commission no later than ten (10) days after receipt by the
21 board, and the Legislative Research Commission shall distribute the information
22 received to the committee staff and co-chairs of any committee that has jurisdiction
23 over the Kentucky Teachers' Retirement System. The actuarial valuation required by
24 subsection (1)(c) of this section shall be submitted no later than November 15
25 following the close of the fiscal year.

26 ➔SECTION 3. A NEW SECTION OF KRS 78.510 TO 78.852 IS CREATED TO
27 READ AS FOLLOWS:

1 Notwithstanding any other provision of KRS Chapter 61 or 78 to the contrary, the
2 employer contribution established by the Kentucky Retirement Systems board for the
3 County Employees Retirement System that are payable on or after July 1, 2018, and
4 until June 30, 2028, for the pension and health insurance funds, including the normal
5 cost contribution and the actuarially accrued liability contribution for each fund, shall
6 not increase by more than twelve percent (12%) in terms of projected dollars paid by
7 participating employers over the prior fiscal year as determined by the system's
8 consulting actuary.

9 ➔Section 4. The provisions of Section 3 of this Act shall be retroactive back to
10 July 1, 2018.

11 ➔Section 5. If any section, any subsection, or any provision of this Act is found
12 by a court of competent jurisdiction in a final, unappealable order to be invalid or
13 unconstitutional, the decision of the courts shall not affect or impair any of the remaining
14 sections, subsections, or provisions of this Act.