AN ACT relating to the Kentucky Employees Retirement System and declaring an emergency.

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

➔Section 1. KRS 61.522 is amended to read as follows:

Notwithstanding any other provision of KRS 61.510 to 61.705 or 78.510 to 78.852 to the contrary:

(1) For purposes of this section:

(a) "Active member" means a member who is participating in the system;

(b) "Employer" means the governing body of a department, as defined by KRS 61.510, or a county as defined by KRS 78.510;

(c) "Employer's effective cessation date" means***:***

1. The last day of the system's plan year in the year in which the employer has elected to cease participation in the system, provided the employer has met the requirements of this section and has given the Kentucky Retirement Systems sufficient notice as provided by administrative regulations promulgated by the systems; ***or***

2. For employers making an election to cease participating under the provisions of subsection (8) of this section, it shall be June 30, 2020; and

(d) "Inactive member" means a member who is not participating with the system;

(2) Any employer participating in the Kentucky Employees Retirement System or the County Employees Retirement System on July 1, 2015, except as limited by subsection (6) of this section, may:

(a) Voluntarily cease participation in its respective retirement system subject to the requirements and restrictions of this section; ~~[or]~~

(b) Be required to involuntarily cease participation in the system under the provisions of this section if the board has determined the employer is no longer qualified to participate in a governmental plan or has failed to comply with the provisions of KRS 61.510 to 61.705 or 78.510 to 78.852;***or***

(c) Request an estimate of the cost of voluntarily ceasing participation in the system prior to officially making a request to cease participation in the system. For those Kentucky Employees Retirement System nonhazardous employers who are considering ceasing participating in the system under the provisions of subsection (8) of this section on June 30, 2020, the request for an estimate to voluntarily cease participating must be made prior to December 31, 2019, and the estimate shall be provided to that employer within sixty (60) days of the request, except that no estimate shall be required to be provided prior to January 31, 2020;

(3) (a) If an employer desires to voluntarily cease participation in the Kentucky Employees Retirement System or the County Employees Retirement System as provided by subsection (2)(a) of this section:

1. The employer shall adopt a resolution requesting to cease participation in the system and shall submit the resolution to the board for its approval***. The board shall not be able to deny a resolution to cease participation in the Kentucky Employees Retirement System for any employer who seeks to voluntarily cease participation in the system as provided by subsection (8) of this section***;
2. ***Except as provided by subsection (8)(d) of this section,*** the cessation of participation in the system shall apply to all employees of the employer;
3. The employer shall pay for all administrative costs of an actuarial study to be completed by the Kentucky Retirement Systems' consulting actuary and for any other administrative costs for discontinuing participation in the system as determined by the board and as provided by this section;
4. The employer shall provide an alternative retirement program for

employees who will no longer be covered by the system, which may include a voluntary defined contribution plan ***but, for effective cessation dates occurring on or after June 30, 2020, shall not include a defined benefit plan which by its nature can have an unfunded liability***;

5. If the alternative retirement program established by the employer meets the qualification requirements under 26 U.S.C. sec. 401(a) ***or 26 U.S.C. sec. 403(b)*** and is capable of accepting trustee-to-trustee transfers of both pre-tax and post-tax contributions, employees of the employer ceasing participation may***, except for those employees continuing to participate in the system as provided by subsection (8)(d)2. of this section,*** seek to transfer his or her account balance to the employer's qualified alternate retirement program within sixty (60) days of the employer's effective cessation date. An employee's election to transfer his or her account balance within sixty (60) days of the employer's effective cessation date is an irrevocable waiver of the right to obtain service credits in the system for the time worked for the employer ceasing participation; ~~[and]~~

6. The employer shall pay ***to the system*** by lump sum ***or in installments as provided by subsection (8) of this section if eligible,***~~[to the system]~~ the full actuarial cost***, except as provided by subsection (8)(g)4. of this section,*** of the benefits accrued by its current and former employees in the system as determined separately for the pension fund and the insurance fund by the actuarial study required by subparagraph 3. of this paragraph. ***If the employer makes an election for employees to continue to participate in the system as provided by subsection (8)(d)2. of this section, the cost shall also include the present value of future normal costs of those employees who will continue to participate in the***

system after the employer's effective cessation date. The full actuarial cost shall not include any employee who seeks a transfer of his or her account balance within sixty (60) days of the employer's effective cessation date as provided by subparagraph 5. of this paragraph. The actuarial cost shall be fixed, and the employer shall not be subject to any increases or subsequent adjustments, once the lump sum is paid ***or the installment payments have commenced; and***~~[.]~~

7. Kentucky Employees Retirement System employers ceasing participating under the provisions of subsection (8) of this section, who elect to pay their actuarial costs by lump-sum must make the full lump-sum payment by June 30, 2021, and shall pay interest on the principal amount beginning on July 1, 2020, equal to a rate of five and one-quarter percent (5.25%) per annum for pension costs and at a rate of six and one-quarter percent (6.25%) per annum for retiree health costs until the lump-sum payment is made. If the ceasing employer fails to make the full lump-sum payment by June 30, 2021, the ceasing employer shall make installments as provided by subsection (8)(g) of this section and the ceasing employer shall have the costs recalculated based upon making installment payments as provided by this section and shall be required to make up any missed installment payments as determined by the system;

(b) If the board determines an employer must involuntarily cease participation in the system as provided by subsection (2)(b) of this section:

1. The cessation of participation in the system shall apply to all employees of the employer;
2. The employer shall pay for all administrative costs of an actuarial study to be completed by the Kentucky Retirement Systems' consulting actuary

and for any other administrative costs for discontinuing participation in the system as determined by the board and as provided by this section; and

3. The employer shall pay by lump sum to the system the full actuarial cost of the benefits accrued by its current and former employees in the system as determined separately for the pension fund and the insurance fund by the actuarial study required by subparagraph 2. of this paragraph. The actuarial cost shall be fixed, and the employer shall not be subject to any increases or subsequent adjustments, once the lump sum is paid***.***~~[;]~~

An employer who ceases participation in the systems under this paragraph shall not establish or contribute to on behalf of its employees a defined benefit plan which by its nature can have an unfunded liability;

(4) Any employee hired on or after the employer's effective cessation date by an employer who has ceased participation in the system as provided by this section shall not, regardless of his or her membership date in the systems administered by Kentucky Retirement Systems, be eligible to participate in the Kentucky Employees Retirement System or the County Employees Retirement System through the employer that ceased participation for the duration of his or her employment with that employer;

(5) If an employer has ceased participation in the system as provided by this section:

(a) The rights of recipients and the vested rights of inactive members accrued as of the employer's effective cessation date shall not be impaired or reduced in any manner as a result of the employer ceasing participation in the system; and

(b) ***Except as provided by subsection (8)(d)2. of this section,*** employees of the employer ceasing participation shall accrue benefits through the employer's effective cessation date but shall not accrue any additional benefits in the

Kentucky Employees Retirement System or the County Employees Retirement System, including earning years of service credit through the ceased employer, after the employer's effective cessation date for as long as they remain employed by the employer. The day after the employer's effective cessation date, each employee described by this paragraph***, except as provided by subsection (8)(d)2. of this section,*** shall be considered an inactive member with respect to his or her employment with the employer that ceased participation and, subject to the provisions and limitations of KRS 61.510 to 61.705 and 78.510 to 78.852, shall:

1. Retain his or her accounts with the Kentucky Employees Retirement System or the County Employees Retirement System and have those accounts credited with interest in accordance with KRS 61.510 to 61.705 and 78.510 to 78.852;
2. Retain his or her vested rights in accordance with paragraph (a) of this subsection; and
3. Be eligible to take a refund of his or her accumulated account balance in accordance with KRS 61.625 or any other available distribution if eligible;

(6) (a) Kentucky Employees Retirement System employers who are county attorney offices, Commonwealth's attorney offices, local and district health departments governed by KRS Chapter 212, master commissioners, executive branch agencies whose employees are subject to KRS 18A.005 to 18A.200, state-administered retirement systems, state-supported universities and community colleges, property valuation administration offices, or employers in the legislative or judicial branch of Kentucky state government, shall not be eligible to voluntarily discontinue participation in the Kentucky Employees Retirement System***, except that:***

1. ***Any***~~[Unless the]~~ employer ***who*** is a nonstock nonprofit corporation organized under KRS Chapter 273 ***may voluntarily cease participation; and***

2. Local and district health departments governed by KRS Chapter 212, state-supported universities and community colleges, and the Kentucky Higher Education Student Loan Corporation may voluntarily cease participation in the Kentucky Employees Retirement System solely under the provisions and requirements of subsection (8) of this section.

(b) Only the employers in the County Employees Retirement System who are a nonstock nonprofit corporation organized under KRS Chapter 273 may voluntarily cease participation in the County Employees Retirement System;

(7) For purposes of this section, the full actuarial cost shall be determined by the Kentucky Retirement Systems' consulting actuary separately for the pension fund and the insurance fund using the assumptions and methodology established by the system specifically for determining the full actuarial cost of ceasing participation as of the employer's effective cessation date. For purposes of determining the full actuarial cost, the assumed rate of return used to calculate the cost shall be the lesser of the assumed rate of return utilized in the system's most recent actuarial valuation or the yield on a thirty (30) year United States treasury bond as of the employer's effective cessation date, but shall in no case be lower than***:***

(a) Except as provided by paragraphs (b) to (e) of this subsection, the assumed rate of return utilized in the system's most recent actuarial valuation minus three and one-half percent (3.5%)***;***

(b) Four and one-half percent (4.5%) for those Kentucky Employees Retirement System's employers who voluntarily cease participation under the provisions of subsection (8) of this section who pay the costs of ceasing

participation by lump-sum payment by June 30, 2021, and who do not make an election for their employees to continue to participate in the system after the employer's effective cessation date as provided by subsection (8)(d)3. of this section;

(c) Three and one-half percent (3.5%) for those Kentucky Employees Retirement System's employers who voluntarily cease participation under the provisions of subsection (8) of this section who pay the costs of ceasing participation by lump-sum payment by June 30, 2021, and who do make an election for employees to continue to participate in the system after the employer's effective cessation date as provided by subsection (8)(d)2. of this section;

(d) Three and one-half percent (3.5%) for those Kentucky Employees Retirement System's employers who voluntarily cease participation under the provisions of subsection (8) of this section who pay the costs of ceasing participation by installment payments who do not make an election for employees to continue to participate in the system after the employer's effective cessation date as provided by subsection (8)(d)3. of this section; or

(e) Three percent (3%) for those Kentucky Employees Retirement System's employers who voluntarily cease participation under the provisions of subsection (8) of this section who pay the costs of ceasing participation by installment payments and who do make an election for employees to continue to participate in the system after the employer's effective cessation date as provided by subsection (8)(d)2. of this section;

(8) *Notwithstanding the provisions of this section, any Kentucky Employees Retirement System employer who is eligible to voluntarily cease participating as provided by subsection (6) of this section, may, prior to May 1, 2020, elect to voluntarily cease participating in the systems for its nonhazardous employees by*

submitting a resolution in accordance with subsection (3)(a)1. of this section. If an employer makes an election to voluntarily cease participation by submitting a resolution as provided by this subsection:

(a) The board shall accept any election to cease participation on or before June 30, 2020, and the employer's effective cessation date shall be June 30, 2020. Prior to May 1, 2020, an employer may rescind a previously submitted election to cease participation;

(b) Nonhazardous employees hired on or after the employer's effective cessation date by an employer who has ceased participation in the system as provided by this section shall not, regardless of his or her membership date in the systems administered by Kentucky Retirement Systems, be eligible to participate in the Kentucky Employees Retirement System through the employer that ceased participation for the duration of his or her employment with that ceasing employer;

(c) Nonhazardous employees hired prior to the employer's effective cessation date, who began participating in the systems administered by Kentucky Retirement Systems on or after January 1, 2014, and who are participating in the hybrid cash balance plan as provided by KRS 61.597, shall continue to contribute and earn service credit in the systems through the employer's effective cessation date. After the employer's effective cessation date, the employee shall participate in the alternative retirement plan established by the employer as provided by subsection (3)(a)4. of this section. A nonhazardous employee covered by this paragraph who elects to transfer his or her account balance within sixty (60) days of the employer's effective cessation date as provided by subsection (3)(a)5. of this subsection, shall, notwithstanding KRS 61.597, receive a transfer of the employee's accumulated account balance, including the entire accumulated employer

credit, regardless of the employee's years of service credit;

(d) 1. *The employer shall in the resolution submitted in accordance with subsection (3)(a)1. of this section, make an election as to whether or not nonhazardous employees hired prior to the employer's effective cessation date, who began participating in the systems administered by Kentucky Retirement Systems prior to January 1, 2014, who are participating in the systems administered by Kentucky Retirement Systems through the employer, will continue to participate in the system after the employer's effective cessation date.*

2. *If the employer makes an election for the employees described by this paragraph to continue participating in the system after the employer's effective cessation date, these employees will continue to contribute and earn service credit in the systems for as long as they remain employed by the employer in a regular full-time position that is eligible to participate in the systems. Any costs for the present value of future normal costs of the employees covered by this subparagraph who will contribute and earn service in the system after the employer's effective cessation date shall be included in the cost calculation established by subsection (7) of this section.*

3. *If the employer does not make an election for the employees described by this paragraph to continue participating in the system after the employer's effective cessation date, these employees shall continue to contribute and earn service credit in the systems through the employer's effective cessation date. After the employer's effective cessation date, these employees shall participate in the alternative retirement plan established by the employer as provided by subsection (3)(a)4. of this section;*

(e) The cost of ceasing participating to an individual employer shall be equal to the cost determined under subsection (7) of this section and shall include the costs of those employees who continue to participate in the system as provided by paragraph (d)2. of this subsection;

(f) The employer may pay the full actuarial cost of ceasing participation by lump-sum payment or in installments as provided by paragraph (g) of this subsection;

(g) If the employer elects to pay the costs in installment payments, the cost of ceasing participation as provided by this subsection shall be financed by the systems using the following method:

1. Annual payments occurring on or after July 1, 2020, shall be a set dollar value and shall be paid in monthly installments. In fiscal year 2020-2021, the set dollar value shall be equal to the higher of the actual contributions paid by the employer in fiscal year 2019-2020 or the annualized average of the creditable compensation reported to the systems by the ceasing employer over the last sixty (60) months occurring prior to July 1, 2019, for which contributions were paid by the ceasing employer, and multiplying that value by an employer rate of forty-nine and forty-seven one-hundredths percent (49.47%). Annual payments, for fiscal years occurring on or after July 1, 2021, which shall be paid monthly, shall be increased by one and one-half percent (1.5%) annually and shall be paid until the cost as provided by subsection (7) of this section and as adjusted annually by subparagraphs 2. and 3. of this paragraph are paid in full or until an employer as described by subparagraph 4. of this paragraph has paid for thirty (30) years from the effective cessation date;

2. Interest shall be assigned to the principal amount annually beginning *on July 1, 2020, and for each July 1 thereafter, that is equal to a rate of five and one-quarter percent (5.25%) per annum for pension costs and at a rate of six and one-quarter percent (6.25%) per annum for retiree health costs;*

3. *If an employer is not projected by the systems to pay off the full actuarial costs to cease participation with interest as provided by subparagraph 2. of this paragraph at the conclusion of the thirty (30) year installment period from the employer's effective cessation date, and the employer makes an election for employees to continue to participate in the system after the employer's effective cessation date as provided by subsection (8)(d)2. of this section, then the systems shall adjust the base value for the first annual payments occurring on or after July 1, 2020, in order to keep the maximum period of installments to thirty (30) years; and*

4. *If an employer is not projected by the systems to pay off the full actuarial costs to cease participation with interest as provided by subparagraph 2. of this paragraph at the conclusion of the thirty (30) year installment period from the employer's effective cessation date, and the employer does not make an election for employees to continue to participate in the system after the employer's effective cessation date as provided by subsection (8)(d)3. of this section, the employer shall pay the amount determined by subparagraph 1. of this paragraph for thirty (30) years from the effective cessation date and no additional costs shall be billed to a ceasing employer after the conclusion of the thirty (30) year period nor shall the employer be subject to adjustments under subparagraph 3. of this paragraph. The system may request in future biennial executive branch budgets the additional funding*

needed on an annual basis to fully pay off the installments at the conclusion of the thirty (30) year period for the employers described by this paragraph and it is the intent of the General Assembly to pay the additional funding needed by appropriation in the biennial executive branch budget.

An employer ceasing participation who is making installment payments as provided by this paragraph may at any time pay off a portion of the remaining balance or the entire remaining balance and shall not be charged any interest for periods beyond the pay-off date for the balance that is paid off;

(h) Kentucky Employees Retirement System employers eligible to cease participation under the provisions of this subsection who do not make an election to cease participation in the system prior to May 1, 2020, shall be required to pay the full actuarially determined contributions established by KRS 61.565 and 61.702 for fiscal years occurring on or after July 1, 2020; and

(i) Kentucky Employees Retirement System employers who elect to cease participation in the system as provided by this subsection who are currently receiving general fund appropriations in the biennial executive branch budget to help pay employer contributions to the system shall continue to receive the same level of general fund appropriations to help pay the costs of ceasing participation until such time that the employer's full actuarial costs of ceasing participation are paid off.

(9) The Kentucky Retirement Systems shall promulgate administrative regulations pursuant to KRS Chapter 13A to administer this section; and

(10)[~~(9)~~] Any employer who voluntarily ceases participation, or who is required to involuntarily cease participation as provided in this section, shall hold the

Commonwealth ***and the Kentucky Retirement Systems, including board members and employees of the Kentucky Retirement Systems,*** harmless from damages, attorney's fees and costs from legal claims for any cause of action brought by any member or retired member of the departing employer.

(11) Notwithstanding any other provision of statute to the contrary, the provisions of KRS 61.510 to 61.705 and 78.510 to 78.852, and the administrative regulations promulgated thereunder, shall prevail regarding any question of participation in the systems of any employer or any employee of an employer who ceases participation in the Kentucky Employees Retirement System or the County Employees Retirement System.

➔Section 2. KRS 61.675 is amended to read as follows:

(1) The employer shall prepare the records and, from time to time, shall furnish the information the system may require in the discharge of its duties. Upon employment of an employee, the employer shall inform him of his duties and obligations in connection with the system as a condition of employment.

(2) The system may at any time conduct an audit of the employer in order to determine if the employer is complying with the provisions of KRS 16.505 to 16.652, 61.610 to 61.705, or 78.510 to 78.852. The system shall have access to and may examine all books, accounts, reports, correspondence files, and records of any employer. Every employer, employee, or agency reporting official of a department or county, as defined in KRS 78.510(3), having records in his possession or under his control, shall permit access to and examination of the records upon the request of the system.

(3) (a) Any agency participating in the Kentucky Employees Retirement System which is not an integral part of the executive branch of state government shall file the following at the retirement office on or before the tenth day of the month following the period being reported:

1. The employer and employee contributions required under KRS 61.560, 61.565, and 61.702;
2. The employer contributions and reimbursements for retiree health insurance premiums required under KRS 61.637; and
3. A record of all contributions to the system on the forms prescribed by the board.

(b) If the agency fails to file all contributions and reports on or before the tenth day of the month following the period being reported, interest on the delinquent contributions at the actuarial rate adopted by the board compounded annually, but not less than one thousand dollars ($1,000), shall be added to the amount due the system.

(4) If an employer who voluntarily ceases participation in the Kentucky Employees Retirement System as provided by subsection (8) of Section 1 of this Act elects to pay off the costs of ceasing participation by installment payments as provided by subsection (8)(g) of Section 1 of this Act and subsequently is delinquent in making installment payments for ninety (90) days or more:

(a) The board may file an action in the Franklin Circuit Court to collect any delinquent installment payments owed by the employer and to attach so much of the general fund appropriations of the delinquent employer as is necessary to achieve full compliance with the provisions of subsection (8) of Section 1 of this Act; and

(b) The systems shall notify the Finance and Administration Cabinet, and the Finance and Administration Cabinet may withhold or intercept from the ceasing employer a sufficient portion of any appropriated state funds not yet disbursed to the ceasing employer to satisfy the required installment payments to the system.

➔Section 3. KRS 18A.225 (Effective July 1, 2019) is amended to read as follows:

(1) (a) The term "employee" for purposes of this section means:

1. Any person, including an elected public official, who is regularly employed by any department, office, board, agency, or branch of state government; or by a public postsecondary educational institution; or by any city, urban-county, charter county, county, or consolidated local government, whose legislative body has opted to participate in the state-sponsored health insurance program pursuant to KRS 79.080; and who is either a contributing member to any one (1) of the retirement systems administered by the state, including but not limited to the Kentucky Retirement Systems, Kentucky Teachers' Retirement System, the Legislators' Retirement Plan, or the Judicial Retirement Plan; or is receiving a contractual contribution from the state toward a retirement plan; or, in the case of a public postsecondary education institution, is an individual participating in an optional retirement plan authorized by KRS 161.567***; or is eligible to participate in a retirement plan established by an employer who ceases participating in the Kentucky Employees Retirement System pursuant to Section 1 of this Act whose employees participated in the health insurance plans administered by the Personnel Cabinet prior to the employer's effective cessation date in the Kentucky Employees Retirement System***;

2. Any certified or classified employee of a local board of education;

3. Any elected member of a local board of education;

4. Any person who is a present or future recipient of a retirement allowance from the Kentucky Retirement Systems, Kentucky Teachers' Retirement System, the Legislators' Retirement Plan, the Judicial Retirement Plan, or the Kentucky Community and Technical College System's optional retirement plan authorized by KRS 161.567, except

that a person who is receiving a retirement allowance and who is age sixty-five (65) or older shall not be included, with the exception of persons covered under KRS 61.702(4)(c), unless he or she is actively employed pursuant to subparagraph 1. of this paragraph; and

5. Any eligible dependents and beneficiaries of participating employees and retirees who are entitled to participate in the state-sponsored health insurance program;

(b) The term "health benefit plan" for the purposes of this section means a health benefit plan as defined in KRS 304.17A-005;

(c) The term "insurer" for the purposes of this section means an insurer as defined in KRS 304.17A-005; and

(d) The term "managed care plan" for the purposes of this section means a managed care plan as defined in KRS 304.17A-500.

(2) (a) The secretary of the Finance and Administration Cabinet, upon the recommendation of the secretary of the Personnel Cabinet, shall procure, in compliance with the provisions of KRS 45A.080, 45A.085, and 45A.090, from one (1) or more insurers authorized to do business in this state, a group health benefit plan that may include but not be limited to health maintenance organization (HMO), preferred provider organization (PPO), point of service (POS), and exclusive provider organization (EPO) benefit plans encompassing all or any class or classes of employees. With the exception of employers governed by the provisions of KRS Chapters 16, 18A, and 151B, all employers of any class of employees or former employees shall enter into a contract with the Personnel Cabinet prior to including that group in the state health insurance group. The contracts shall include but not be limited to designating the entity responsible for filing any federal forms, adoption of policies required for proper plan administration, acceptance of the contractual

provisions with health insurance carriers or third-party administrators, and adoption of the payment and reimbursement methods necessary for efficient administration of the health insurance program. Health insurance coverage provided to state employees under this section shall, at a minimum, contain the same benefits as provided under Kentucky Kare Standard as of January 1, 1994, and shall include a mail-order drug option as provided in subsection (13) of this section. All employees and other persons for whom the health care coverage is provided or made available shall annually be given an option to elect health care coverage through a self-funded plan offered by the Commonwealth or, if a self-funded plan is not available, from a list of coverage options determined by the competitive bid process under the provisions of KRS 45A.080, 45A.085, and 45A.090 and made available during annual open enrollment.

(b) The policy or policies shall be approved by the commissioner of insurance and may contain the provisions the commissioner of insurance approves, whether or not otherwise permitted by the insurance laws.

(c) Any carrier bidding to offer health care coverage to employees shall agree to provide coverage to all members of the state group, including active employees and retirees and their eligible covered dependents and beneficiaries, within the county or counties specified in its bid. Except as provided in subsection (20) of this section, any carrier bidding to offer health care coverage to employees shall also agree to rate all employees as a single entity, except for those retirees whose former employers insure their active employees outside the state-sponsored health insurance program.

(d) Any carrier bidding to offer health care coverage to employees shall agree to provide enrollment, claims, and utilization data to the Commonwealth in a format specified by the Personnel Cabinet with the understanding that the data shall be owned by the Commonwealth; to provide data in an electronic form and within a time frame specified by the Personnel Cabinet; and to be subject to penalties for noncompliance with data reporting requirements as specified by the Personnel Cabinet. The Personnel Cabinet shall take strict precautions to protect the confidentiality of each individual employee; however, confidentiality assertions shall not relieve a carrier from the requirement of providing stipulated data to the Commonwealth.

(e) The Personnel Cabinet shall develop the necessary techniques and capabilities for timely analysis of data received from carriers and, to the extent possible, provide in the request-for-proposal specifics relating to data requirements, electronic reporting, and penalties for noncompliance. The Commonwealth shall own the enrollment, claims, and utilization data provided by each carrier and shall develop methods to protect the confidentiality of the individual. The Personnel Cabinet shall include in the October annual report submitted pursuant to the provisions of KRS 18A.226 to the Governor, the General Assembly, and the Chief Justice of the Supreme Court, an analysis of the financial stability of the program, which shall include but not be limited to loss ratios, methods of risk adjustment, measurements of carrier quality of service, prescription coverage and cost management, and statutorily required mandates. If state self-insurance was available as a carrier option, the report also shall provide a detailed financial analysis of the self-insurance fund including but not limited to loss ratios, reserves, and reinsurance agreements.

(f) If any agency participating in the state-sponsored employee health insurance program for its active employees terminates participation and there is a state appropriation for the employer's contribution for active employees' health insurance coverage, then neither the agency nor the employees shall receive the state-funded contribution after termination from the state-sponsored employee health insurance program.

(g) Any funds in flexible spending accounts that remain after all reimbursements have been processed shall be transferred to the credit of the state-sponsored health insurance plan's appropriation account.

(h) Each entity participating in the state-sponsored health insurance program shall provide an amount at least equal to the state contribution rate for the employer portion of the health insurance premium. For any participating entity that used the state payroll system, the employer contribution amount shall be equal to but not greater than the state contribution rate.

(3) The premiums may be paid by the policyholder:

(a) Wholly from funds contributed by the employee, by payroll deduction or otherwise;

(b) Wholly from funds contributed by any department, board, agency, public postsecondary education institution, or branch of state, city, urban-county, charter county, county, or consolidated local government; or

(c) Partly from each, except that any premium due for health care coverage or dental coverage, if any, in excess of the premium amount contributed by any department, board, agency, postsecondary education institution, or branch of state, city, urban-county, charter county, county, or consolidated local government for any other health care coverage shall be paid by the employee.

(4) If an employee moves his place of residence or employment out of the service area of an insurer offering a managed health care plan, under which he has elected coverage, into either the service area of another managed health care plan or into an area of the Commonwealth not within a managed health care plan service area, the employee shall be given an option, at the time of the move or transfer, to change his or her coverage to another health benefit plan.

(5) No payment of premium by any department, board, agency, public postsecondary

educational institution, or branch of state, city, urban-county, charter county, county, or consolidated local government shall constitute compensation to an insured employee for the purposes of any statute fixing or limiting the compensation of such an employee. Any premium or other expense incurred by any department, board, agency, public postsecondary educational institution, or branch of state, city, urban-county, charter county, county, or consolidated local government shall be considered a proper cost of administration.

(6) The policy or policies may contain the provisions with respect to the class or classes of employees covered, amounts of insurance or coverage for designated classes or groups of employees, policy options, terms of eligibility, and continuation of insurance or coverage after retirement.

(7) Group rates under this section shall be made available to the disabled child of an employee regardless of the child's age if the entire premium for the disabled child's coverage is paid by the state employee. A child shall be considered disabled if he has been determined to be eligible for federal Social Security disability benefits.

(8) The health care contract or contracts for employees shall be entered into for a period of not less than one (1) year.

(9) The secretary shall appoint thirty-two (32) persons to an Advisory Committee of State Health Insurance Subscribers to advise the secretary or his designee regarding the state-sponsored health insurance program for employees. The secretary shall appoint, from a list of names submitted by appointing authorities, members representing school districts from each of the seven (7) Supreme Court districts, members representing state government from each of the seven (7) Supreme Court districts, two (2) members representing retirees under age sixty-five (65), one (1) member representing local health departments, two (2) members representing the Kentucky Teachers' Retirement System, and three (3) members at large. The secretary shall also appoint two (2) members from a list of five (5) names submitted

by the Kentucky Education Association, two (2) members from a list of five (5) names submitted by the largest state employee organization of nonschool state employees, two (2) members from a list of five (5) names submitted by the Kentucky Association of Counties, two (2) members from a list of five (5) names submitted by the Kentucky League of Cities, and two (2) members from a list of names consisting of five (5) names submitted by each state employee organization that has two thousand (2,000) or more members on state payroll deduction. The advisory committee shall be appointed in January of each year and shall meet quarterly.

(10) Notwithstanding any other provision of law to the contrary, the policy or policies provided to employees pursuant to this section shall not provide coverage for obtaining or performing an abortion, nor shall any state funds be used for the purpose of obtaining or performing an abortion on behalf of employees or their dependents.

(11) Interruption of an established treatment regime with maintenance drugs shall be grounds for an insured to appeal a formulary change through the established appeal procedures approved by the Department of Insurance, if the physician supervising the treatment certifies that the change is not in the best interests of the patient.

(12) Any employee who is eligible for and elects to participate in the state health insurance program as a retiree, or the spouse or beneficiary of a retiree, under any one (1) of the state-sponsored retirement systems shall not be eligible to receive the state health insurance contribution toward health care coverage as a result of any other employment for which there is a public employer contribution. This does not preclude a retiree and an active employee spouse from using both contributions to the extent needed for purchase of one (1) state sponsored health insurance policy for that plan year.

(13) (a) The policies of health insurance coverage procured under subsection (2) of

this section shall include a mail-order drug option for maintenance drugs for state employees. Maintenance drugs may be dispensed by mail order in accordance with Kentucky law.

(b) A health insurer shall not discriminate against any retail pharmacy located within the geographic coverage area of the health benefit plan and that meets the terms and conditions for participation established by the insurer, including price, dispensing fee, and copay requirements of a mail-order option. The retail pharmacy shall not be required to dispense by mail.

(c) The mail-order option shall not permit the dispensing of a controlled substance classified in Schedule II.

(14) The policy or policies provided to state employees or their dependents pursuant to this section shall provide coverage for obtaining a hearing aid and acquiring hearing aid-related services for insured individuals under eighteen (18) years of age, subject to a cap of one thousand four hundred dollars ($1,400) every thirty-six (36) months pursuant to KRS 304.17A-132.

(15) Any policy provided to state employees or their dependents pursuant to this section shall provide coverage for the diagnosis and treatment of autism spectrum disorders consistent with KRS 304.17A-142.

(16) Any policy provided to state employees or their dependents pursuant to this section shall provide coverage for obtaining amino acid-based elemental formula pursuant to KRS 304.17A-258.

(17) If a state employee's residence and place of employment are in the same county, and if the hospital located within that county does not offer surgical services, intensive care services, obstetrical services, level II neonatal services, diagnostic cardiac catheterization services, and magnetic resonance imaging services, the employee may select a plan available in a contiguous county that does provide those services, and the state contribution for the plan shall be the amount available in the county

where the plan selected is located.

(18) If a state employee's residence and place of employment are each located in counties in which the hospitals do not offer surgical services, intensive care services, obstetrical services, level II neonatal services, diagnostic cardiac catheterization services, and magnetic resonance imaging services, the employee may select a plan available in a county contiguous to the county of residence that does provide those services, and the state contribution for the plan shall be the amount available in the county where the plan selected is located.

(19) The Personnel Cabinet is encouraged to study whether it is fair and reasonable and in the best interests of the state group to allow any carrier bidding to offer health care coverage under this section to submit bids that may vary county by county or by larger geographic areas.

(20) Notwithstanding any other provision of this section, the bid for proposals for health insurance coverage for calendar year 2004 shall include a bid scenario that reflects the statewide rating structure provided in calendar year 2003 and a bid scenario that allows for a regional rating structure that allows carriers to submit bids that may vary by region for a given product offering as described in this subsection:

(a) The regional rating bid scenario shall not include a request for bid on a statewide option;

(b) The Personnel Cabinet shall divide the state into geographical regions which shall be the same as the partnership regions designated by the Department for Medicaid Services for purposes of the Kentucky Health Care Partnership Program established pursuant to 907 KAR 1:705;

(c) The request for proposal shall require a carrier's bid to include every county within the region or regions for which the bid is submitted and include but not be restricted to a preferred provider organization (PPO) option;

(d) If the Personnel Cabinet accepts a carrier's bid, the cabinet shall award the carrier all of the counties included in its bid within the region. If the Personnel Cabinet deems the bids submitted in accordance with this subsection to be in the best interests of state employees in a region, the cabinet may award the contract for that region to no more than two (2) carriers; and

(e) Nothing in this subsection shall prohibit the Personnel Cabinet from including other requirements or criteria in the request for proposal.

(21) Any fully insured health benefit plan or self-insured plan issued or renewed on or after July 12, 2006, to public employees pursuant to this section which provides coverage for services rendered by a physician or osteopath duly licensed under KRS Chapter 311 that are within the scope of practice of an optometrist duly licensed under the provisions of KRS Chapter 320 shall provide the same payment of coverage to optometrists as allowed for those services rendered by physicians or osteopaths.

(22) Any fully insured health benefit plan or self-insured plan issued or renewed on or after July 12, 2006, to public employees pursuant to this section shall comply with the provisions of KRS 304.17A-270 and 304.17A-525.

(23) Any fully insured health benefit plan or self -insured plan issued or renewed on or after July 12, 2006, to public employees shall comply with KRS 304.17A-600 to 304.17A-633 pertaining to utilization review, KRS 205.593 and 304.17A-700 to 304.17A-730 pertaining to payment of claims, KRS 304.14-135 pertaining to uniform health insurance claim forms, KRS 304.17A-580 and 304.17A-641 pertaining to emergency medical care, KRS 304.99-123, and any administrative regulations promulgated thereunder.

(24) Any fully insured health benefit plan or self-insured plan issued or renewed on or after July 1, 2019, to public employees pursuant to this section shall comply with KRS 304.17A-138.

➔Section 4. KRS 18A.205 is amended to read as follows:

(1) The secretary of the Finance and Administration Cabinet, upon the recommendation of the secretary, may procure from one (1) or more life insurance companies, authorized to do business in this state, a policy or policies of group life insurance insuring the lives of all or any class or classes of public employees. The policy or policies shall be approved by the commissioner of insurance and may contain such provisions as the commissioner of insurance approves whether or not otherwise permitted by the insurance laws. It is intended that life insurance may be made available for public employees, except that the procuring is permissive.

(2) (a) As used in KRS 18A.205 to 18A.215, "public employee" shall mean a person who:

1. Is regularly employed by a public employer; and
2. Is also:
    a. A contributing member of any one (1) of the state-administered retirement systems;
    b. A retiree of a state-administered retirement system who is employed in a regular full-time position for purposes of retirement coverage, but who is not eligible to contribute to one (1) of the systems administered by Kentucky Retirement Systems pursuant to KRS 61.637(17);~~[or]~~
    c. An individual participating in an optional retirement plan authorized by KRS 161.567***; or***
    d. An individual eligible to participate in a retirement plan established by an employer who ceases participating in the Kentucky Employees Retirement System pursuant to Section 1 of this Act whose employees participated in the life insurance plans administered by the Personnel Cabinet prior to the employer's effective cessation date in the Kentucky Employees Retirement

System.

(b) Notwithstanding the definition of "public employee" in this subsection, any federally funded time-limited employee may receive insurance coverage.

(3) As used in this section and KRS 18A.210, "public employer" shall mean the following employers, if the employer has opted to participate in the state-sponsored group life insurance program:

(a) Any department, office, board, agency, commission, authority, or branch of state government;

(b) A public postsecondary educational institution;

(c) Any department, office, board, agency, commission, authority, or branch of a city, urban-county, charter county, county, unified local government, or consolidated local government; or

(d) Any certified or classified employee or elected member of a local board of education.

(4) As used in KRS 18A.205 to 18A.225, "premiums" shall mean premiums to be paid on any type of insurance authorized under KRS 18A.205 to 18A.225.

➔Section 5. A Kentucky Employees Retirement System employer ceasing participation under the provisions of subsection (8) of Section 1 of this Act, may finance the aggregate amount necessary to pay the full actuarial cost of ceasing participation, plus any associated transaction costs and the amount necessary to fund any required reserves. The financing may be undertaken by the issuance of bonds by the ceasing employer or its agency or instrumentality, through financing agreements with the Kentucky Asset/Liability Commission, or other available sources of funding. The sale of any bonds or entering into of any financing agreement or other source of funding may be by public or private negotiated sale.

➔Section 6. Notwithstanding any other provision of KRS 61.565 or 61.702, 2018 Ky. Acts ch. 169, Part IV, 5., and 2018 Ky. Acts ch. 203 to the contrary, the employer contribution rate from July 1, 2019, through June 30, 2020, shall be 49.47 percent, consisting of 41.06 percent for pension and 8.41 percent for health insurance for nonhazardous duty employees participating in the Kentucky Employees Retirement System who are employed by Mental Health/Mental Retardation Boards, Local and District Health Departments, domestic violence shelters, rape crisis centers, child advocacy centers, state-supported universities and community colleges, and any other agency eligible to voluntarily cease participating in the Kentucky Employees Retirement System pursuant to KRS 61.522.

➔Section 7. Notwithstanding any statute or common law principle to the contrary, no state funds, employee time, or other state resources shall be expended by any person or state government department, agency, office, or unit in support of any challenge to the constitutionality of this act.

➔Section 8. If any section, any subsection, or any provision of this Act is found by a court of competent jurisdiction in a final, unappealable order to be invalid or unconstitutional, the decision of the courts shall not affect or impair any of the remaining sections, subsections, or provisions of this Act.

➔Section 9. Whereas ensuring the financial health of quasi-governmental employers is vital to the future of Kentucky, an emergency is declared to exist, and this Act takes effect upon its passage and approval by the Governor or upon its otherwise becoming a law.

Kentucky Employees Retirement System (Non-Hazardous)

Summary of Financial Impact of Cessation Window Being Considered

($ in Millions)

Option 1. Hard Freeze at 4.50% Lump-Sum Payment

	Universities	Other Agencies	Total
Agency Cost[1]	$ 931	$ 1,930	$ 2,861
One - Year Extension of 49.47% Contribution Rate			$ 121
Cessation Cost Relief[2]	223	455	678
Present Value of Total Fiscal Cost			$ 799

Option 2. Soft Freeze at 3.50% Lump-Sum Payment

	Universities	Other Agencies	Total
Agency Cost[1]	$ 1,357	$ 2,759	$ 4,116
One - Year Extension of 49.47% Contribution Rate			$ 121
Cessation Cost Relief[2]	123	247	370
Present Value of Total Fiscal Cost			$ 491

Option 3. Hard Freeze at 3.50% Installment Payments[3]

	Universities	Other Agencies	Total
Agency Cost[1]	$ 1,025	$ 1,902	$ 2,927
One - Year Extension of 49.47% Contribution Rate			$ 121
Cessation Cost Relief[2]	129	483	612
Present Value of Total Fiscal Cost			$ 733

Option 4. Soft Freeze at 3.00% Installment Payment[4]

	Universities	Other Agencies	Total
Agency Cost[1]	$ 1,480	$ 3,006	$ 4,486
One - Year Extension of 49.47% Contribution Rate			$ 121
Cessation Cost Relief[2]	0	0	0
Present Value of Total Fiscal Cost			$ 121

Notes and Assumptions:

[1] Agency cost is determined based on the June 30, 2018 actuarial valuation and does not reflect the impact of recently adopted actuarial assumptions.

[2] Reduction in cost compared to current employer cessation provisions in State Statute as last amended by HB 351.

[3] The FY 2021 installment payment is equal to 49.47%, times the greater of: (1) the agency's FY 2020 payroll, or (2) the agency's last 60-month average of covered payroll reported to KRS. Future installment payments increase at the rate of 1.50% per year.

[4] The FY 2021 installment payment is equal to an amount that is greater than or equal to the amount payable under Scenario #3 and that will finance the agency's cessation cost over a period that does not exceed 30 years (unique to each agency). Future installment payments increase at the rate of 1.50% per year.

GRS

April 30, 2019

Kentucky Employees Retirement System (Non-Hazardous)
Information for the 2019 Governor's Pension Task Force
Exhibit 1: Summary of Cost Relief for Quasi Agencies
($ in Millions)

	Scenarios			
	(1)	(2)	(3)	(4)
Payment Type	Lump Sum		Installments[1]	
Discount Rate	4.50%	3.50%	3.50%	3.00%
Cessation Type	Hard Freeze	Soft Freeze	Hard Freeze	Soft Freeze
Payment Amount (% of payroll)	N/A	N/A	49.47%[2]	30-Years Max[3]

Present Value of Cost Relief Compared to Current Cessation Provisions

	(1)	(2)	(3)	(4)
Health Departments	$ 236	$ 119	$ 362	$ -
Non-P1 State Agencies	34	21	14	-
Regional Mental Health Units	185	107	107	-
Universities	223	123	129	-
Total Cost Relief of Cessation Window	$ 678	$ 370	$ 612	$ -
One-Year Extension of 49.47% Rate	121	121	121	121
Present Value of Cost Relief	**$ 799**	**$ 491**	**$ 733**	**$ 121**

The actuarial analysis for HB 358 assumed all employers would elect the hard freeze and pay the cost as a lump sum. If it was assumed that all employers would elect a hard freeze and the universities would pay a lump sum and all other agencies would pay installments for up to 30 years then the actuarial cost would be $827 million ($233M + $362M + $14M + $107M +$121M).

Annual Cost of Relief to be Paid by Remaining Participating Employers in System

	(1)	(2)	(3)	(4)
Health Departments	$ 19	$ 10	$ 30	$ -
Non-P1 State Agencies	3	1	1	-
Regional Mental Health Units	16	9	9	-
Universities	18	10	11	-
Total Subsidy due to Cessation Provisions	$ 56	$ 30	$ 51	$ -
Amortization of the 49.47% rate	8	8	8	8
Annual Cost of Subsidy[4] (payable July 1, 2022 - June 30, 2043)	**$ 64**	**$ 38**	**$ 59**	**$ 8**

This is the present value of the cost relief shown above, amortized over the funding period for KERS.

Notes and Assumptions:

Actuarial Analysis based on the census data and actuarial assumptions used to perform the June 30, 2018 actuarial valuation and assumes all eligible employers will elect to finance their actuarial cost under the proposed scenario.

Analysis includes results for both the retirement and insurance systems.

[1] The loan interest rate or "borrowing cost" is 5.25% for the pension plan and 6.25% for the insurance plan.

[2] The FY 2021 installment payment is equal to 49.47%, times the greater of: (1) the agency's FY 2020 payroll, or (2) the agency's last 60-month average of covered payroll reported to KRS. Future installment payments increase at the rate of 1.50% per year.

[3] The FY 2021 installment payment is equal to an amount (unique to each agency) that is greater than or equal to the amount payable under Scenario #3 and that will finance the agency's cessation cost over a period that does not exceed 30 years. Future installment payments increase at the rate of 1.50% per year.

[4] The $8 million annual payment is payable for two (2) additional years from the period of July 1, 2020 - June 30, 2022.

April 29, 2019

GRS

Kentucky Employees Retirement System (Non-Hazardous)
Information for the 2019 Governor's Pension Task Force
Exhibit 2: Actuarial Cost of Proposed Cessation Provisions
($ in Millions)

Current Statutes (Current Cessation Provisions as Last Amended by HB 351):

Discount Rate for Cessation Liability Calculation = 3.00%
Cessation Type = Hard Freeze
Payment Type = Lump Sum

This is the lump-sum payment that would be required from the agencies that cease participation in KERS based on current provisions.

		Employer Actuarial Cost			PV of
Agency Type	Agency Count	Current Benefit	T1/T2 Active Accruals	TOTAL	Employer Payment
(1)	(2)	(3)	(4)	(5)	(6)
Health Departments	60	$ 1,258	$ -	$ 1,258	$ 1,258
Non-P1 State Agencies	34	173	-	173	173
Regional Mental Health Units	11	954	-	954	954
Universities	8	1,154	-	1,154	1,154
Total[4]	**113**	**$ 3,539**	**$ -**	**$ 3,539**	**$ 3,539**

Scenario #1

Discount Rate for Cessation Liability Calculation = 4.50%
Cessation Type = Hard Freeze
Payment Type = Lump Sum

This is the lump-sum payment that would be required from the agencies that cease participation in KERS based on the alternative provisions.

		Employer Actuarial Cost			PV of	Present Value of Cost Relief	
Agency Type	Agency Count	Current Benefit	T1/T2 Active Accruals	TOTAL	Employer Payment	Discount Rate	Insufficient Installments
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Health Departments	60	$ 1,022	$ -	$ 1,022	$ 1,022	$ 236	$ -
Non-P1 State Agencies	34	139	-	139	139	34	-
Regional Mental Health Units	11	769	-	769	769	185	-
Universities	8	931	-	931	931	223	-
Total[4]	**113**	**$ 2,861**	**$ -**	**$ 2,861**	**$ 2,861**	**$ 678**	**$ -**

Present Value of Cost Relief $ 678
Annual Cost of Relief to be Financed by Remaining Employers $ 56

Scenario #2

Discount Rate for Cessation Liability Calculation = 3.50%
Cessation Type = Soft Freeze
Payment Type = Lump Sum

This is the lump-sum payment that would be required from the agencies that cease participation in KERS based on the alternative provisions. The cost relief is less than Scenario 1 because of the use of a lower discount rate.

		Employer Actuarial Cost			PV of	Present Value of Cost Relief	
Agency Type	Agency Count	Current Benefit	T1/T2 Active Accruals	TOTAL	Employer Payment	Discount Rate	Insufficient Installments
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Health Departments	60	$ 1,175	$ 234	$ 1,409	$ 1,409	$ 119	$ -
Non-P1 State Agencies	34	161	51	212	212	21	-
Regional Mental Health Units	11	888	250	1,138	1,138	107	-
Universities	8	1,080	277	1,357	1,357	123	-
Total[1]	**113**	**$ 3,304**	**$ 812**	**$ 4,116**	**$ 4,116**	**$ 370**	**$ -**

Present Value of Cost Relief $ 370
Annual Cost of Relief to be Financed by Remaining Employers $ 30

Notes and Assumptions:

Actuarial Analysis based on the census data and actuarial assumptions used to perform the June 30, 2018 actuarial valuation and assumes all eligible employers will elect to finance their actuarial cost under the proposed scenario.

Analysis includes results for both the retirement and insurance systems.

[1] For the purposes of this analysis five non-contributing agencies have been excluded, as they are not expected to withdraw from the system.

Kentucky Employees Retirement System (Non-Hazardous)
Information for the 2019 Governor's Pension Task Force
Exhibit 2: Actuarial Cost of Proposed Cessation Provisions
($ in Millions)

Current Statutes (Current Cessation Provisions as Last Amended by HB 351):

Discount Rate for Cessation Liability Calculation = 3.00%
Cessation Type = Hard Freeze
Payment Type = Lump Sum
This is the lump-sum payment that would be required from the agencies that cease participation in KERS based on current provisions.

Agency Type	Agency Count	Employer Actuarial Cost: Current Benefit	Employer Actuarial Cost: T1/T2 Active Accruals	Employer Actuarial Cost: TOTAL	PV of Employer Payment
(1)	(2)	(3)	(4)	(5)	(6)
Health Departments	60	$ 1,258	$ -	$ 1,258	$ 1,258
Non-P1 State Agencies	34	173	-	173	173
Regional Mental Health Units	11	954	-	954	954
Universities	8	1,154	-	1,154	1,154
Total[4]	**113**	**$ 3,539**	**$ -**	**$ 3,539**	**$ 3,539**

Scenario #3

Discount Rate for Cessation Liability Calculation = 3.50%
Cessation Type = Hard Freeze
Payment Type = Installments equal to 49.47% in FYE 2021, increasing 1.50% annually
This present value of the cost relief is $235M due to a lower discount rate, plus $377M due limiting all installments to a maximum of 30 years.

Agency Type	Agency Count	Employer Actuarial Cost: Current Benefit	Employer Actuarial Cost: T1/T2 Active Accruals	Employer Actuarial Cost: TOTAL	PV of Employer Installments	Present Value of Cost Relief: Discount Rate	Present Value of Cost Relief: Insufficient Installments
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Health Departments	60	$ 1,175	$ -	$ 1,175	$ 896	$ 83	$ 279
Non-P1 State Agencies	34	161	-	161	159	12	2
Regional Mental Health Units	11	888	-	888	847	66	41
Universities	8	1,080	-	1,080	1,025	74	55
Total[4]	**113**	**$ 3,304**	**$ -**	**$ 3,304**	**$ 2,927**	**$ 235**	**$ 377**
					Present Value of Cost Relief		**$ 612**
					Annual Cost of Relief to be Financed by Remaining Employers		**$ 51**

Scenario #4

Discount Rate for Cessation Liability Calculation = 3.00%
Cessation Type = Soft Freeze
Payment Type = Installments equal to payment (not less than 49.47%) sufficient to finance liability within 30 years, increasing 1.50% annually
There is no cost relief in this scenario because the actuarial cost is based on a 3.00% discount rate and the installment amount is increased such that each agency would completely finance their actuarial cost within 30 years.

Agency Type	Agency Count	Employer Actuarial Cost: Current Benefit	Employer Actuarial Cost: T1/T2 Active Accruals	Employer Actuarial Cost: TOTAL	PV of Employer Installments	Present Value of Cost Relief: Discount Rate	Present Value of Cost Relief: Insufficient Installments
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Health Departments	60	$ 1,258	$ 270	$ 1,528	$ 1,528	$ -	$ -
Non-P1 State Agencies	34	173	60	233	233	-	-
Regional Mental Health Units	11	954	291	1,245	1,245	-	-
Universities	8	1,154	326	1,480	1,480	-	-
Total[4]	**113**	**$ 3,539**	**$ 947**	**$ 4,486**	**$ 4,486**	**$ -**	**$ -**
					Present Value of Cost Relief		**$ -**
					Annual Cost of Relief to be Financed by Remaining Employers		**$ -**

Notes and Assumptions:

Actuarial Analysis based on the census data and actuarial assumptions used to perform the June 30, 2018 actuarial valuation and assumes all eligible employers will elect to finance their actuarial cost under the proposed scenario.
Analysis includes results for both the retirement and insurance systems.

[1] The loan interest rate or "borrowing cost" is 5.25% for the pension plan and 6.25% for the insurance plan under scenarios #3 and #4.

[2] Under Scenario #3, the FY 2021 installment payment is equal to 49.47%, times the greater of: (1) the agency's FY 2020 payroll, or (2) the agency's last 60-month average of covered payroll reported to KRS. Future installment payments increase at the rate of 1.50% per year.

[3] Under Scenario #4, the FY 2021 installment payment is equal to an amount (unique to each agency) that is greater than or equal to the amount payable under Scenario #3 and that will finance the agency's cessation cost over a period that does not exceed 30 years.
Future installment payments increase at the rate of 1.50% per year.

[4] For the purposes of this analysis five non-contributing agencies have been excluded, as they are not expected to withdraw from the system.

GRS

Kentucky Employees Retirement System (Non-Hazardous)
Information for the 2019 Governor's Pension Task Force
Exhibit 3: Distribution of Percentage of Actuarial Cost Financed by Agency in Scenario #3
Hard Freeze at 3.50% Discount Rate / Installments based on 49.47% of Payroll

	Quasi Employer Count						
Agency Type	Health Department	Non-P1 State Agency	RMH	University	All Agencies	Original Actuarial Cost ($ in millions)	PV of Unpaid Actuarial Cost ($ in millions)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Cost Entirely Financed	12	30	9	3	54	$ 1,440	$ -
95% - 100%	11	1	-	3	15	612	15
90% - 95%	5	-	-	1	6	98	8
85% - 90%	9	-	-	-	9	207	28
80% - 85%	4	-	1	-	5	119	21
75% - 80%	5	1	-	-	6	162	38
70% - 75%	7	-	-	-	7	204	55
65% - 70%	2	2	-	1	5	135	44
60% - 65%	-	-	-	-	-	-	-
55% - 60%	1	-	-	-	1	63	26
50% - 55%	2	-	1	-	3	136	64
Less than 50%	2	-	-	-	2	128	78
Total Count	60	34	11	8	113	$ 3,304	$ 377

Notes and Assumptions:

Actuarial Analysis based on the census data and actuarial assumptions used to perform the June 30, 2018 actuarial valuation and assumes all eligible employers will elect to finance their actuarial cost under the proposed scenario.

Analysis includes results for both the retirement and insurance systems.

- The loan interest rate or "borrowing cost" is 5.25% for the pension plan and 6.25% for the insurance plan under scenarios #3 and #4.
- Under Scenario #3, the FY 2021 installment payment is equal to 49.47%, times the greater of: (1) the agency's FY 2020 payroll, or (2) the agency's last 60-month average of covered payroll reported to KRS. Future installment payments increase at the rate of 1.50% per year.
- For the purposes of this analysis five non-contributing agencies have been excluded, as they are not expected to withdraw from the system.

GRS

April 29, 2019

Stay In + Pay

Lump Sum

1. all out
2. tier 1+2 in

Install Plan

A 30 year Pymt

1. all out
2. tier 1+2 in

B >30 year

1. all out - forgvn — This one has debt forgiveness
2. tier 1+2 in

Employer Choice Proposal Q&A

Q: What plans will be affected by this bill?

The only plan affected by this bill is the Kentucky Employees' Retirement System – Non-Hazardous (KERS-NH) plan. None of the other plans are affected.

Q: Do the current statutes allow employers to cease participation?

Yes, under limited circumstances.

Prior to 2015, employers were not allowed to cease participation in KERS. In 2015, during the Beshear Administration, a framework was adopted that allows certain KERS and County Employees' Retirement System (CERS) employers to voluntarily cease participation in their retirement system.

Under current statutory procedures for ceasing participation, the employer must pay its share of the unfunded liability in a lump sum. On a go-forward basis, employers are required to establish a fiscally responsible alternative retirement plan. Importantly, the current procedure protects all benefits earned through the date of cessation.

Only a few employers have taken advantage of current law and have ceased participation in the plans by making lump-sum payments.

Q: Why is there a need to modify the current statute?

In recent years, contribution rates have increased to unprecedented levels. That financial burden has caused more employers to consider leaving the KERS-NH system. However, most employers do not have the financial resources to make a lump-sum payment. Thus, there is a need to allow installment payments.

In the 2018, the General Assembly gave temporary relief to the quasi-governmental organizations by allowing them to continue making retirement contributions at the FY 2018 levels. Thus, for FY 2019, those organizations continued to make contributions at 49.47% of payroll rather than the 83.43% rate that applied to the other 230 participating employers. (That relief left KERS-NH with $132 million less than should have been contributed for FY 2019.) That relief expires at the end of the current fiscal year, that is, June 30, 2019.

Q: The KRS Board recently adopted revised actuarial assumptions recommended by the actuaries. How will the revised actuarial assumptions affect future contribution rates?

In 2017, the KERS Board adjusted the investment return and payroll assumptions for the KERS-NH. That resulted in higher contribution rates beginning in FY 2018.

In April of this year, as required by current law, the Board reevaluated the other actuarial assumptions, including life expectancy, retirement rates, employee turnover, changes in future compensation, etc. Applying the combined effect of more realistic actuarial assumptions to the FY 2018 calculations, the FY 2019 contribution rate for KERS-NH would have been approximately 4% higher. The effect of the assumption changes for KERS-NH will be implemented in the calculation of contribution rates for the next biennium. (Changes were made to the other plans as well – KERS-H, both CERS plans, and State Police plan.)

Q: Why are employers considering cessation from KERS-NH?

Because of rising costs, many employers currently benefitting from the contribution relief (which expires at the end of June) are desirous of ceasing participation in the KERS-NH to avoid the financially burdensome higher contribution rates for FY 2020.

Some would consider ceasing participation from KERS-NH, but they do not have the financial resources to pay a lump sum and, therefore, they cannot withdraw under current law. To withdraw, most of the quasi-governmental organizations need to have the option of paying their liability in installments.

Q: What is proposed?

The objective of the proposed law is to provide employers with options -- including options to pay with an installment obligation.

The proposal applies only to the KERS-NH quasi-governmental employers who were allowed the lower contribution rates for FY 2019. The proposal does not affect KERS-Hazardous, either of the CERS plans, the Teachers plan, the plan for legislators and judges, or the State Police plan.

Q: How will their pension liability be calculated.

To determine the amount of an employer's retirement liability, the actuaries will compute the unfunded liability associated with each employer's active and retired employees. This involves most of the actuarial assumptions used in the annual valuation. However, in this computation, the investment return assumption is replaced by a "discount" rate that varies according to the financial risk that KERS-NH will be assuming.

Obviously, the risk assumed by KERS-NH different depending upon whether the employer is making a lump sum payment or installments over a long period of time.

The higher the discount rate, the higher the risk being assumed by KERS-NH. From the employer's point of view, the lower the discount rate results in higher the payment required for cessation.

Here are the discount rates contained in the legislative proposal:

	Payment Type	
Cessation Type	Lump-Sum	Installments
Benefit accruals stop at effective date	**4.50%**	**3.50%**
Benefit accruals continue until actual retirement	**3.50%**	**3.00%**

Q: What options will the employers have?

The options in the bill allow employers to:

- Continue in KERS-NH and pay the full rate applicable to all other employers. (Status quo)
- Cease participation and pay the unfunded liability in a lump-sum or in installments.
- Keep current Tier 1 and Tier 2 employees in KERS-NH until they retire, or, beginning on the effective date, provide benefits on a go-forward basis in a new alternative retirement plan.

Q: What happens to benefits already earned?

It is important to emphasize that ALL benefits earned through the effective date by ALL active employees and retirees will NOT be affected. Those benefits will be delivered by KRS.

Q: What payments are required of the employers?

As already noted, exiting employers will have the option of (1) a lump-sum payment or (2) installment payments. Under either option, the payment will be the present value of future retirement liabilities as computed by the actuaries as of the effective date using the applicable discount rate.

The installment payment option assumes monthly payments. The initial annual payment will be the amount the employer is currently paying (as explained above, using 49.47% factor), with the total payment increasing by 1.5% each year for 30 years or until the liability is fully paid. Some employers will retire their obligation is less than 30 years and some will not. In any case, no payments will be made beyond 30 years, even if there is a remaining balance to be paid.

If Tier 1 and Tier 2 employees will stay in KERS-NH until they retire, the monthly installment payments will include the actuarially computed future normal cost of their employees.

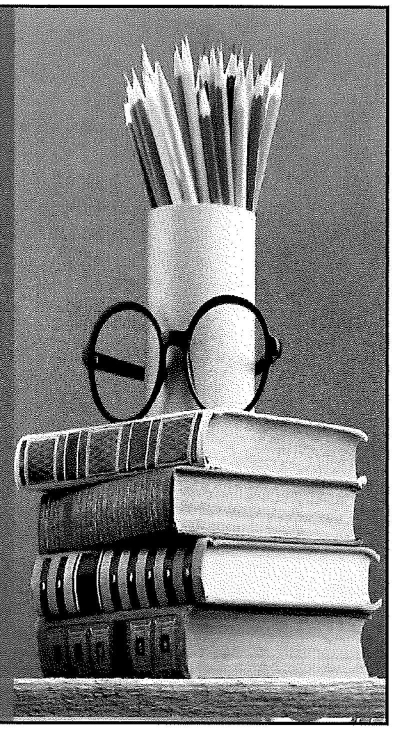
If an employer's retirement obligations cannot be retired in 30 years and the employer elects to have their employees continue in KERS-NH, the initial payment will be (1) the amount they are currently paying (as explained above using 49.47% factor) plus (2) an additional amount that will fully retire their retirement obligation. Because of the higher initial payment that increases by 1.5% each year for 30 years, these employers will fully retire their obligation 30 years. The obligation for their employees will be fully paid.

Q: What are the employer options?

<table>
<tr><th colspan="9">Seven KERS-NH employer options</th></tr>
<tr><th colspan="9">(In all cases, all benefits already earned will be retained.)</th></tr>
<tr><th>Options</th><th>Employer participation</th><th>Payment</th><th>Employee participation</th><th>Discount rate</th><th>Payment amount</th><th>Payments includes normal costs</th><th>Pay-off</th><th>Funding shortfall</th></tr>
<tr><td>1</td><td>Stay in KERS-NH</td><td colspan="7">Participation and contributions remain the same as they are today.</td></tr>
<tr><td>2</td><td rowspan="6">Exit KERS-NH</td><td rowspan="2">Lump-sum</td><td>All employees covered by new plan @ effective date</td><td>4.5%</td><td rowspan="2">To be computed</td><td></td><td>6/30/2021</td><td></td></tr>
<tr><td>3</td><td>Tier 1 & Tier 2 stay in KERS-NH</td><td>3.5%</td><td>Yes</td><td>6/30/2021</td><td></td></tr>
<tr><td>4</td><td rowspan="4">Installments</td><td rowspan="2">All employees covered by new plan @ effective date</td><td>3.5%</td><td rowspan="3">Current amount +1.5%/year</td><td></td><td>Less than 30 years</td><td></td></tr>
<tr><td>5</td><td>3.5%</td><td></td><td>More than 30 years</td><td>Yes</td></tr>
<tr><td>6</td><td rowspan="2">Tier 1 & Tier 2 stay in KERS-NH</td><td>3.0%</td><td>Yes</td><td>Less than 30 years</td><td></td></tr>
<tr><td>7</td><td>3.0%</td><td>Higher amount, +1.5%/year to pay off in 30 yrs.</td><td>Yes</td><td>More than 30 years</td><td></td></tr>
</table>

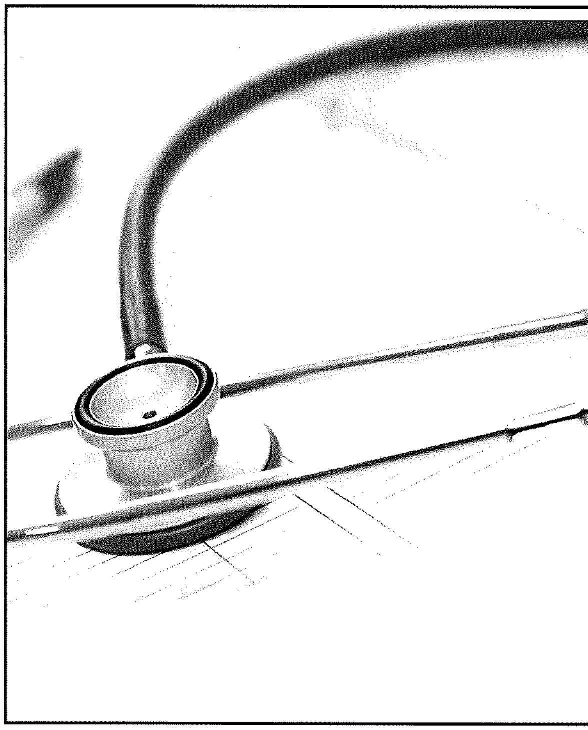
Universities and Quasi-governmental Organizations

Finding the best solutions
for each employer



The Challenge

- Different needs
- Different financial conditions
- Different employee demographics
- Some wish to stay in the system
- Some wish to exit the system
- Some have ability to buy out
- Some wish to pay in installments
- Some wish to exit completely
- Some wish to allow employees to stay
- ONE SIZE DOES NOT FIT ALL



The Solution

Provide one year cost relief to allow employers to determine which solution is best for their individual situation.

They can remain in the system and have one year to financially prepare.

They can opt-out with a lump sum option.

They can opt-out with installments that are phased-in for affordability.

They can move all employees to a new plan.

They can opt to leave Tier 1 and 2 employees in the current system.

The Proposal

- No employer is forced out of the pension system.
- Without action, each employer and its employees remain in KERS-NH
- Employers have one year to plan and budget.
- By June 30, 2020, an employer can opt-out with multiple options.

Lump Sum Payment options

- All employees exit and move to a new retirement plan on a go-forward basis. Assumed 4.5 percent rate of return.
- Employer exits KRS plan, but retains its Tier 1 and Tier 2 employees in KRS. There is an assumed 3.5 percent rate of return to account for the additional risk to KERS.
- Employers have until June 30, 2021 to make full payment and incur 5.25% interest on pension costs and 6.25% interest on health costs until fully paid.

Installment Payment options for 30 years or less

- All employees move to a new retirement plan on a go-forward basis. Assumed 3.5 percent rate of return. Employers pay higher of current 2019-2020 contribution or 60 month average multiplied by 49.47% plus 1.5% annual increase until fully paid.
- Tier 1 and Tier 2 employees remain and the assumed rate of return is 3.0 percent. All other provisions remain same so long as debt retired in 30 or less years.

Installment option for those needing more than 30 yrs

- All employees move to a new retirement plan on a go-forward basis. Assumed 3.5 percent rate of return. Employers pay higher of current 2019-2020 contribution or 60 month average multiplied by 49.47% plus 1.5% annual increase for a full 30 years.
- Tier 1 and Tier 2 employees remain and the assumed rate of return is 3.0 percent. Starting rate increased to ensure debt fully retired in 30 years.

Multiple options tailored for each employer's specific needs

Stay in plan

Employers pay full cost after one year, which is anticipated to increase for several years until finally going down in future decades.

Two lump sum options

Employers have two lump sum options: exit fully or leave Tier 1 and Tier 2 employees in KRS plans.

Two 30-year installment options

Employers have two installment options: exit fully or leave Tier 1 and Tier 2 employees in KERS plan, so long as debt retired in 30 years.

30-year max installment option

To exit at current rates plus a small 1.5% escalator, all employees must exit the plan.

30-year adjusted installment option

For those employers wishing to keep Tier 1 and Tier 2 employees in KRS, but exit the system, an adjusted 30-year payoff schedule will be created with 1.5% escalator.

Kentucky Employees Retirement System (Non-Hazardous)
Information for the 2019 Governor's Pension Task Force
Exhibit 3: Distribution of Percentage of Actuarial Cost Financed by Agency in Scenario #3
Hard Freeze at 3.50% Discount Rate / Installments based on 49.47% of Payroll

	Quasi Employer Count					Original Actuarial Cost	PV of Unpaid Actuarial Cost
Agency Type	Health Department	Non-P1 State Agency	RMH	University	All Agencies	($ in millions)	($ in millions)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Cost Entirely Financed	12	30	9	3	54	$ 1,440	$ -
95% - 100%	11	1	-	3	15	612	15
90% - 95%	5	-	-	1	6	98	8
85% - 90%	9	-	-	-	9	207	28
80% - 85%	4	-	1	-	5	119	21
75% - 80%	5	1	-	-	6	162	38
70% - 75%	7	-	-	-	7	204	55
65% - 70%	2	2	-	1	5	135	44
60% - 65%	-	-	-	-	-	-	-
55% - 60%	1	-	-	-	1	63	26
50% - 55%	2	-	1	-	3	136	64
Less than 50%	2	-	-	-	2	128	78
Total Count	60	34	11	8	113	$ 3,304	$ 377

Notes and Assumptions:

Actuarial Analysis based on the census data and actuarial assumptions used to perform the June 30, 2018 actuarial valuation and assumes all eligible employers will elect to finance their actuarial cost under the proposed scenario

Analysis includes results for both the retirement and insurance systems

- The loan interest rate or "borrowing cost" is 5.25% for the pension plan and 6.25% for the insurance plan under scenarios #3 and #4. Under Scenario #3, the FY 2021 installment payment is equal to 49.47%, times the greater of: (1) the agency's FY 2020 payroll, or (2) the agency's last 60-month average of covered payroll reported to KRS. Future installment payments increase at the rate of 1.50% per year.
- For the purposes of this analysis five non-contributing agencies have been excluded, as they are not expected to withdraw from the system.

GRS

April 29, 2019

Kentucky Employees Retirement System (Non-Hazardous)
Information for the 2019 Governor's Pension Task Force
Exhibit 4: Distribution of Initial Installment as a Percentage of Payroll (Scenario #4)
Soft Freeze at 3.00% Discount Rate / Required Contribution Rate as a % of Payroll

	Quasi Employer Count					Total FYE 2021 Contribution
Agency Type	Health Department	Non-P1 State Agency	RMH	University	All Agencies	($ in '000s)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Maintain Current 49.47%	1	25	-	2	28	$ 33,214
49.47% - 50%	-	1	-	-	1	132
50% - 55%	7	4	4	1	16	33,975
55% - 60%	4	1	3	1	9	36,611
60% - 65%	5	-	1	1	7	9,581
65% - 70%	6	-	1	2	9	59,182
70% - 75%	12	-	-	-	12	9,403
75% - 80%	8	2	1	-	11	18,589
80% - 85%	6	1	-	-	7	18,803
85% - 90%	4	-	-	-	4	8,547
90% - 95%	-	-	-	1	1	8,218
95% - 100%	-	-	1	-	1	3,566
100% - 105%	2	-	-	-	2	843
105% - 110%	1	-	-	-	1	4,400
110% - 115%	1	-	-	-	1	650
115%+	3	-	-	-	3	13,172
Total Count	60	34	11	8	113	$ 258,886

Notes and Assumptions:

Actuarial Analysis based on the census data and actuarial assumptions used to perform the June 30, 2018 actuarial valuation and assumes all eligible employers will elect to finance their actuarial cost under the proposed scenario

Analysis includes results for both the retirement and insurance systems.

[1] The loan interest rate or "borrowing cost" is 5.25% for the pension plan and 6.25% for the insurance plan under scenarios #3 and #4

[2] Under Scenario #4, the FY 2021 installment payment is equal to an amount (unique to each agency) that is greater than or equal to the amount payable under Scenario #3 and that will finance the agency's cessation cost over a period that does not exceed 30 years. Future installment payments increase at the rate of 1.50% per year.

[3] For the purposes of this analysis five non-contributing agencies have been excluded, as they are not expected to withdraw from the system.

GRS

April 29, 2019

Kentucky Employees Retirement System (Non-Hazardous)
Summary of Financial Impact of Cessation Window Being Considered
($ in Millions)

	Option 1. Hard Freeze at 4.50% Lump-Sum Payment			Option 2. Soft Freeze at 3.50% Lump-Sum Payment		
	Universities	Other Agencies	Total	Universities	Other Agencies	Total
Agency Cost[1]	$ 931	$ 1,930	$ 2,861	$ 1,357	$ 2,759	$ 4,116
One - Year Extension of 49.47% Contribution Rate			$ 121			$ 121
Cessation Cost Relief[2]	223	455	678	123	247	370
Present Value of Total Fiscal Cost			$ 799			$ 491

	Option 3. Hard Freeze at 3.50% Installment Payments[3]			Option 4. Soft Freeze at 3.00% Installment Payment[4]		
	Universities	Other Agencies	Total	Universities	Other Agencies	Total
Agency Cost[1]	$ 1,025	$ 1,902	$ 2,927	$ 1,480	$ 3,006	$ 4,486
One - Year Extension of 49.47% Contribution Rate			$ 121			$ 121
Cessation Cost Relief[2]	129	483	612	0	0	0
Present Value of Total Fiscal Cost			$ 733			$ 121

Notes and Assumptions:

[1] Agency cost is determined based on the June 30, 2018 actuarial valuation and does not reflect the impact of recently adopted actuarial assumptions.

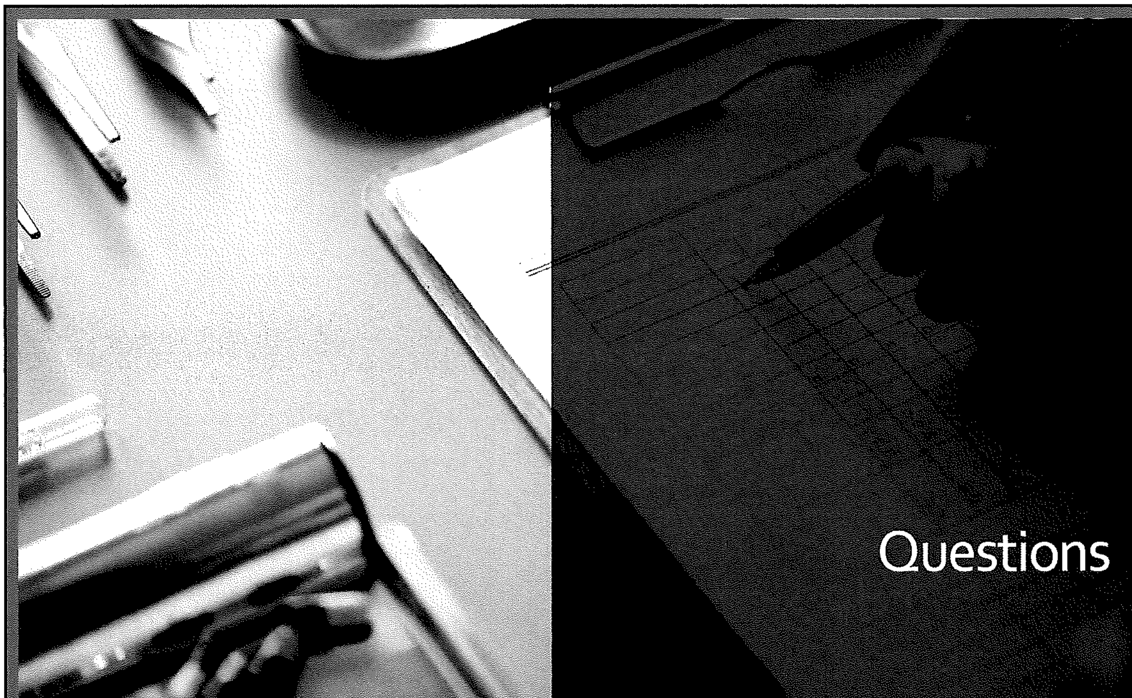
[2] Reduction in cost compared to current employer cessation provisions in State Statute as last amended by HB 351.

[3] The FY 2021 installment payment is equal to 49.47%, times the greater of: (1) the agency's FY 2020 payroll, or (2) the agency's last 60-month average of covered payroll reported to KRS. Future installment payments increase at the rate of 1.50% per year.

[4] The FY 2021 installment payment is equal to an amount that is greater than or equal to the amount payable under Scenario #3 and that will finance the agency's cessation cost over a period that does not exceed 30 years (unique to each agency). Future installment payments increase at the rate of 1.50% per year.

GRS

April 30, 2019



KERS Quasi-Govt. Employer Bill

Current Law:

- KRS 61.522 provides that certain KERS employers (mostly quasi-govt. agencies) and CERS employers (non-stock non-profit agencies) can voluntarily cease participation in the systems by paying the full actuarial costs to cease participating in a lump-sum payment (no financing period provided by the systems where the agency pays installments). If an agency chooses to voluntarily cease participation under the current statute, all employees stop participating in KERS on the employer's effective cessation date—meaning no future benefit accrual in KERS for any employee of that ceasing agency.
- Currently, several quasi-govt. agencies in KERS cannot opt out of KERS (primarily postsecondary institutions like state supported universities and community colleges and also health departments).
- Cost Calculation Under Current Law: The cost to cease participation is based upon the most recent valuation as of the cessation date and the assumed rate of return/discount rate to calculate the costs is the lesser of the assumed rate of return or the 30 year treasury rate, but not less than the assumed rate of return minus 3.5% (meaning the rate is currently based upon the 30 year treasury rate of roughly 3% for KERS).

Section 1: Amends KRS 61.522 (current statute for agency cessation) to provide a one-time window where KERS quasi-governmental agencies could voluntarily cease participating in KERS effective June 30, 2020, by paying the actuarial costs, by lump-sum or also in installments, under the following costs/provisions:

- KERS Employers Impacted: Regional universities/community colleges, local and district health departments, mental health/mental retardation boards, domestic violence shelters, rape crisis centers, child advocacy centers, and any other agency eligible to voluntarily cease participating in the Kentucky Employees Retirement System pursuant to KRS 61.522, who participates in the Kentucky Employees Retirement System. Of this listing, regional universities/community colleges and local and district health departments are the only agencies who cannot currently voluntarily cease participation in KERS.
- Employer Choices: KERS employers have the choice to voluntarily cease participation and pay the costs to do so or to stay in KERS and pay the full actuarially determined contribution rate for fiscal years occurring on or after July 1, 2020. If the employer chooses to cease participation, the ceasing employer will have the choice to:
    - Pay the costs of ceasing participation by lump-sum payments on in installments for up to 30 years (see installment payments below). An employer making a lump-sum payment must do so by June 30, 2021, and will be charged interest of 5.25% on pension costs and 6.25% of retiree health costs until the lump-sum is paid. If an agency fails to make the lump-sum payment by June 30, 2021, the systems will recalculate the costs and the employer will make installment payments to cease participation as otherwise provided by the bill; and
    - Allow Tier I and Tier II employees to continue to participating in KERS for their remaining employment with the ceasing employer provided the employer elects to do so and agrees to pay the additional costs for the employees to continue participating (not elected to do so means Tier I/II employees of the ceasing employer would not participate in KERS after June 30, 2020 through that employer).
- Cost calculation: Based upon most recent valuation at the time of cessation with a minimum: (a) 4.5% assumed rate of return/discount rate if the employer is paying by lump-sum and does not opt for their Tier I and Tier II employees to continue to participate after the employer ceases participation; (b) 3.5% assumed rate of return/discount rate if the employer is paying by lump-sum and does opt for their Tier I and Tier II

employees to continue to participate after the employer ceases participation; (c) 3.5% assumed rate of return/discount rate if the employer is paying by installments and does not opt for their Tier I and Tier II employees to continue to participate after the employer ceases participation; (d) 3.0% assumed rate of return/discount rate if the employer is paying by installments and does opt for their Tier I and Tier II employees to continue to participate after the employer ceases participation. For purposes of determining costs, all service for all employees/retirees whose current or last employer was the ceasing employer shall be assigned to the ceasing employer (same as current law).

- Installment Repayment:
  - Payback for installments for FY 2020-2021 (first year of installments) would be the higher of the amount of employer contributions paid in FY 2019-2020 or the amount determined by multiplying 49.47% (rate paid in FY 2019-2020 in bill via rate freeze) by the average annual wages reported to the system by the employer over the last 60 months prior to July 1, 2019 for which contributions were paid, and then in subsequent fiscal years increasing that value by 1.5% annually for up to 30 years.
  - If the employer cannot pay off the costs within 30 years and: (1) the employer does opt for their Tier I and Tier II employees to continue to participate after the employer ceases participation, the base amount in the FY 2020-2021 will be increased by the system so that the costs will be paid off over 30 years; or (2) the employer does not opt for their Tier I and Tier II employees to continue to participate after the employer ceases participation, then no additional costs shall be paid by the employer after 30 years and the systems may request additional state funding for these agencies so that with the combined employer/state funding all costs will be fully paid off over 30 years. The bill provides that it is the intent of the General Assembly to pay this additional cost for these agencies.
  - Interest on principal balance will be 5.25% for pension liabilities and 6.25% for retiree health liabilities while installment payments are made. Annual costs to cease participation shall be paid in equal monthly amounts. The bill also provides that employers who are receiving state General Fund appropriations to help pay the employer contributions to KERS and who cease participation under this bill will continue to receive the state appropriations to help pay the costs of ceasing participation until the costs are paid off.
- Process:
  - Preliminary cost estimate: The KERS agency may request a preliminary cost estimate prior to December 31, 2019, and systems must complete within 60 days of request except that no request shall be required to be provided prior to January 31, 2020.
  - Cessation: Agency must make irrevocable election prior to May 1, 2020 by agency resolution, but can rescind a previously submitted resolution prior to May 1, 2020. Effective cessation date is June 30, 2020 for those doing so during this window. KRS board would be required to approve any resolution submitted by an eligible KERS agency.
  - Ceasing institution must offer a defined contribution plan to employees who would no longer participate in KERS (impacts all future agencies ceasing participation).
- Impact on Employees for Agencies voluntarily ceasing participation in KERS:
  - Only nonhazardous impacted. No hazardous.
  - New Hires: New nonhazardous employees hired after June 30, 2020 (agency cessation date), participate in the employer's defined contribution plan.
  - Tier III Nonhazardous: After June 30, 2020 (agency cessation date), Tier III employees would participate in the employer's defined contribution plan.

- Tier I/II nonhazardous employees will continue to participate in KERS if the employer elects to do so and has agreed to pay the additional actuarial costs. If an employer does not make an election to do so, the employer's Tier I/II nonhazardous employees will not participate in KERS after June 30, 2020 and would instead participate in the employer's defined contribution plan.
- Under current law and for those employers ceasing participation under the provision of the bill, employees who will no longer participate in KERS may elect within 60 days to transfer their account balance to the agency defined contribution plan (for Tier III cash balance participants this would include employer credits and interest on those employer credits regardless of whether the employer is vested or not). The employee may leave their contributions/service with KRS as well.

- Other items: Current law provides that a ceasing employer must hold the Commonwealth harmless from legal claims resulting from an employer ceasing participation. Bill specifically notes that the employer shall hold the Kentucky Retirement Systems harmless, including staff and board members, from these claims.
- Section 2: Amends KRS 61.675 to provide in the case of a KERS ceasing employer who is delinquent in making installment payments under the provisions of Section 1 of this Act for 90 days or more: (1) KRS may file action in court to attach so much to the general fund of the employer that is necessary to bring the employer installment payments in compliance; and (2) that KRS shall notify the Finance & Adm. Cabinet of the delinquent payments and the cabinet may withhold or intercept from the ceasing employer undisbursed state appropriations otherwise payable to the employer in order to bring the employer payments in compliance.
- Section 3: Amends KRS 18A.225 to allow agencies who voluntarily cease participating in KERS as provided by Sections 1 of this Act who are current participating in the Kentucky Employees Health Plan (KEHP) to continue participating in the KEHP after ceasing participation.
- Section 4: Amends KRS 18A.205 to allow agencies who voluntarily cease participating in KERS as provided by Sections 1 of this Act who are current participating in the life insurance plans offered by the Ky. Personnel Cabinet to continue participating in the life insurance plans after ceasing participation.
- Section 5: Provide authorization to ceasing KERS employers to seek public/private financing for the costs associated with ceasing participation.
- Section 6: KERS NH employer rate reduced to 49.47% (from 83.43%) n FY 19-20 for those quasi-state agencies in KERS already receiving the lowered rate in FY 18-19.
- Section 7: Provide that no state funds or resources shall be expended in support of a challenge to the bill.
- Section 8: Include severability clause.
- Section 9: Emergency.