# SB 1 Committee Substitute Overview

Senate State and Local Government Committee

Wednesday, February 28, 2018

# Highlights

- Moves KERS and KTRS to a thirty-year level dollar funding formula.
- Places all new non-hazardous employees, including teachers, into a hybrid cash balance plan with 0% guaranteed interest. Retains the 4% guaranteed investment growth for the Hazardous Duty Retirement hybrid cash balance plan.
- New non-hazardous employees in the KERS and CERS systems will have the ability to choose to participate in a 401a defined contribution account.
- Allows current public employees and teachers to continue in their defined benefit plan and retire when they choose.
- Ends “supersizing” of legislative retirement.
- Reduces retirement benefits for legislators participating in the defined benefit retirement plan.

# Legislative and Judicial Retirement

- Legislative and Judicial Retirement will remain a separate retirement system.
- Many Legislators will see a reduction in their retirement benefit by reducing the benefit factor from 2.75% to 1.97% for future time in the defined benefit plan. (Applies to members in the system prior to January 1, 2014, and not in cash balance plan).
- ***Ends the "supersizing" of legislative retirement benefits. After January 1, 2019, no salary reciprocity for non-legislative compensation.***
- Creates a path for current legislators to move to a 401a defined contribution plan for future benefits.

# TRS - Highlights

- Creates hybrid cash balance plan for new teachers.
- Plan designed to maintain TRS social security exemption.
- Participants include:
  - New TRS members, and
  - Members who have less than 5 years of service who may choose to roll over their accumulated contributions into the hybrid cash balance plan.
- School districts will contribute an additional 2% of pay for new members enrolled in the hybrid cash balance plan
- Investments will be managed by TRS within their defined benefit funds.
- Retirement age of 65 with 5 years of service or a Rule of 87 with minimum age of 57 (same as KERS NH cash balance plan).

# TRS – Hybrid Cash Balance

Benefits based upon account balance of:

- School Districts
  - 9.105% employee contribution;
  - 8% employer credit, and
  - Interest credit.
- Universities
  - 7.625% employee (5.410% paid by employee due to offset);
  - 4% employer credit, and
  - Interest credit.
- Interest credit will be 85% of the system's geometric 10-year net investment return.

# TRS – Hybrid Cash Balance Benefit Projection

# $717,069

- Account balance, in today's dollars, for a teacher in a hybrid cash balance plan assuming that teacher started at age 27 in Franklin County and worked 30 years to age 57, and using the TRS assumed rate of return with a 85% interest credit .

# $62,760

- Yearly annuitized benefit for that teacher and the annuity factors from KRS for a 57 year old KRS non-hazardous retiree.

# TRS - Current Teachers

- Teachers are **not** required to stay in the classroom longer. They can still retire with 27 years of service.
- Teachers with twenty years or more of service in the classroom, who choose to stay in the classroom longer than 27 years, will continue to receive a “high 3” enhancement at twenty-seven years (age 55) and a “3% benefit factor” for service beyond thirty years.
- Teachers with under twenty years of service, who choose to stay in the classroom longer than 27 years, will need 35 years of service and be at least age 60 upon retirement to receive a high 3 and 3% benefit factor.
- Caps sick leave conversion benefits at the amount of sick leave accumulated by December 31, 2018.
- ***Retains current TRS rehire rules but no second retirement account will be provided to reemployed retirees.***

# TRS - Retired Teachers

- ***COLA's for current and future retirees will be 1% a year until TRS is 90% funded.***

# KERS/CERS/SPRS - Hybrid Cash Balance Plan

- KERS NH/CERS NH cash balance members (Tier III) will no longer receive a 4% guaranteed return on their accounts. Members will instead be guaranteed they will never lose money in their accounts during a downturn in the stock market.
- The interest credited to each members' account will be 85% of the system's geometric 10-year net investment return. (Currently 4% floor with 75% of 5 year geometric return above 4%).
- Non-hazardous members will contribute 5% with a 4% employer pay credit. (Same as the current contribution levels.)
- Hazardous duty members will contribute 8% with a 7.5% employer contribution. (Same as the current contribution levels.)

# KERS/CERS/SPRS – 401a

- Establishes a new Tier IV with an optional 401(a) defined contribution plan. New employees are automatically enrolled into the hybrid cash balance plan, but will have ninety days to “opt in” to the 401(a) DC plan.
- The 401(a) benefits will be based upon account balance of:
  - 5% employee contribution;
  - 4% employer contribution, and
  - Return on investment.
- KRS will determine investment method. This could include KRS investments, contracting an investment program with an external vendor, or utilizing Kentucky Deferred Comp.
- Ensures an annuitization option for 401a account balances upon retirement.
- Creates a path for current employees to convert their future benefits into the 401a defined contribution plan.

# KERS/CERS/SPRS – Other Provisions

- ***Tier I members who began participating on or after July 1, 2003, but prior to Tier II start date of 9/1/2008, will contribute 1% of their pay towards their retiree health benefit. Same as Tier II,III,IV.***
- Caps service credit for accumulated sick leave by limiting service credited at retirement to the balance as of the as December 31, 2018.
- Non Hazardous retirees must have a one year break in service before rehire into a full time position. No second retirement accounts already in statute.
- Full time is defined as any position that average 100 hours or more per month over a calendar or fiscal year basis. Seasonal, interim, and temporary remain exempt from full-time status. Employer required to make normal cost contributions (both pension and retiree health) for any reemployed retiree.

# KERS/CERS/SPRS – Other Provisions

- $5,000 death benefit will not apply to members who began participating in KERS, CERS, or SPRS on or after January 1, 2014.
- ***Creditable Compensation excludes allowances paid on or after July 1, 2018.***
- High 3/High 5 calculation must be a complete 3 or 5 years (36 months or 60 months) of service for those retiring on or after the effective date of the legislation.

# KERS/CERS Hazardous/SPRS/ Certified Peace Officers

- Retired Member must have one month break before returning to work in any position with a participating employer in any system.
- After one month break, member may return to FT/PT employment with any employer participating in the systems/plans with no suspension of benefits.
- No second retirement account will be provided to these reemployed retirees.
- Employer required to make normal cost contributions (both pension and retiree health) for any reemployed retiree.