CERS FACT SHEET

Kentucky League of Cities

February 2009

CERS Background

- The County Employees Retirement System (CERS), a part of the Kentucky Retirement Systems (KRS), provides retirement benefits to most city employees.
- CERS is a defined-benefit contribution retirement plan funded only by local governments and their employees.
- The health insurance coverage provided to retirees is the main cost-driver for local governments with employees in CERS.
- KRS has an inviolable contract with members entering before FY 2004 to provide retiree health insurance benefits that are equal to all active state employees. This means the health insurance benefit cannot be changed or reduced for local government employees who were hired before FY 2004 unless benefits are reduced for all active state employees.

Retirement Costs Cripple City Budgets

The top legislative priority for the Kentucky League of Cities is to achieve reform to the County Employees Retirement System (CERS) that would immediately impact employer contribution rates and make the retirement system more solvent in the future.

Why is this important to cities?

In November the KRS Board of Trustees announced the new employer contribution rates for members of the County Employees Retirement System (CERS) for next fiscal year. **KLC estimates that the new CERS rates will increase city costs by around $30 million next fiscal year.** Local governments will contribute 17.37 percent of non-hazardous duty employees' salaries to the retirement system and 35.61 percent for hazardous duty employees in FY10. The employer contributions are in addition to salary costs and only pay for future retirement healthcare costs and pensions; they do not cover any current benefits, such as health or dental insurance. This means that starting July 1, cities and counties will be paying nearly 21 percent more for hazardous duty employees (police and fire) and 29 percent more for non-hazardous than they are this fiscal year. These rates only promise to go higher in the immediate future in the absence of legislative action.

The only options cities have to pay for the looming cost increases are to either raise taxes or reduce the number of employees and the services that they provide. The unaffordable benefit costs are leaving cities with much less funding for the services and projects that citizens demand.

Kentucky's cities are in need of lasting changes to the retirement system that will make employer contribution rates more affordable in the short term.

By the numbers

If a city pays a police officer covered under hazardous duty $35,000 this fiscal year, the city must send an additional $10,325 to CERS for that employee's retirement benefit. Next year, the new hazardous duty rates will require the city to pay $12,464, a 21 percent increase, to CERS for the same police officer even if his or her salary remains the same. By FY 2013 the contribution will be more than $16,000 with no salary changes, which is almost half of the employee's annual salary. These costs do not include their current healthcare or overtime costs. These amounts only pay for future retirement benefits.

For more information about CERS and other legislative issues please contact J.D. Chaney at jchaney@klc.org or 1-800-876-4552.

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CERS Solutions in the 2009 Legislative Session

House Bill 1 in the 2008 Special Session brought about some important changes for the public pension system, but CERS members largely will not benefit from the reform's fiscal impact for years to come. In order to maintain the services that citizens want and demand cities need immediate relief from rapidly increasing retirement costs.

HB 117: Extending the phase-in to 10 Years

KLC supports House Bill 117, sponsored by Rep. Mike Cherry (D - Princeton), that extends the phase-in period to 10 years for reaching the full actuarially required contribution (ARC). This legislation establishes a less aggressive but actuarially sound schedule for funding retiree health insurance benefits that will soften the blow of increasing retirement costs.

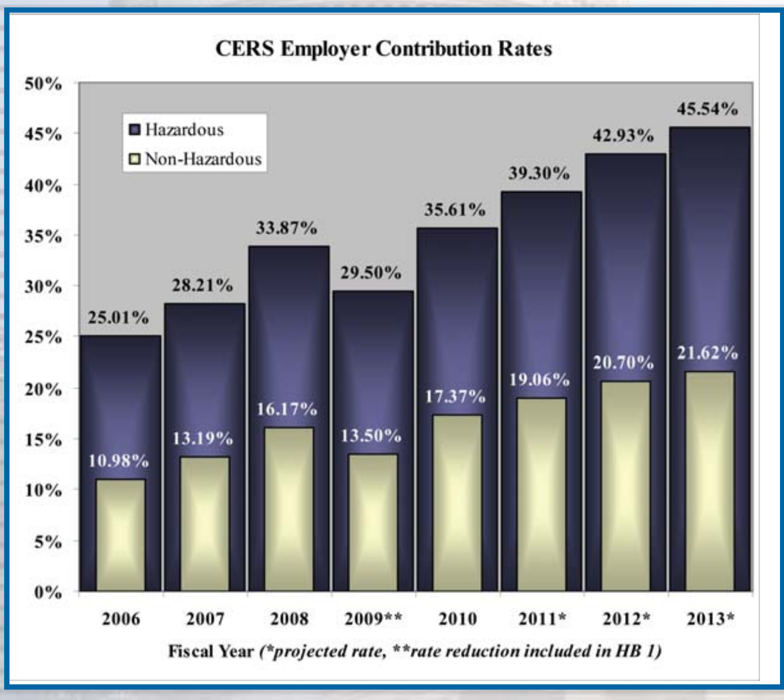
Actuaries with the Kentucky Retirement Systems have determined a 10-year extended phase-in period is fiscally sound and would provide about $37.5 million in savings to the agencies participating in CERS next fiscal year. For instance, in FY 2010 local governments will be paying 17.37 percent for non-hazardous and 35.61 percent for hazardous because of the five-year phase-in. Those rates are significantly higher than the current rates of 13.5 and 29.5 that were included in HB 1. Moving to a 10-year phase-in would set the rates at 16.16 percent and 32.97 percent, respectively. Using the KRS figures, KLC estimates cities would save approximately $11 million in FY 2010. You can calculate exactly how much the 10 year phase-in would save your city with KLC's CERS Contribution Calculator at www.klc.org.

Other needed reforms

Extending the phase-in is only one component of comprehensive pension reform. Rates are currently projected to be over 22 percent (non-hazardous) and 46 percent (hazardous) by FY 2014, which are about double what they were in FY 2006. Even with the extended phase-in, cities would still face an estimated $19 million increase in employer contributions in FY10 without additional legislation during the 2009 session.

In addition to HB 117, KLC seeks legislation that would:

- Define a "full funding" standard to be used by KRS in calculating employer contribution rates for member agencies. An 80-85 percent full funding standard is generally accepted by actuaries as adequate to meet retirement liabilities.
- Maintain the defined benefit pension for state and local government employees.



What can I do to achieve CERS reforms?

Please talk to your legislator today about how the anticipated increases in CERS contributions will affect your city's budget. Let them know that you support HB 117 and the additional reforms recommended above.

You can stay current on what's happening with the CERS crisis by checking out **www.klc.org** and carefully reviewing KLC's *Legislative Bulletin* for real-time updates and calls to action. Your prompt response to the calls to action is absolutely essential for successful CERS reforms.

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