SESSION 2008

KLC

County Employees Retirement System (CERS)

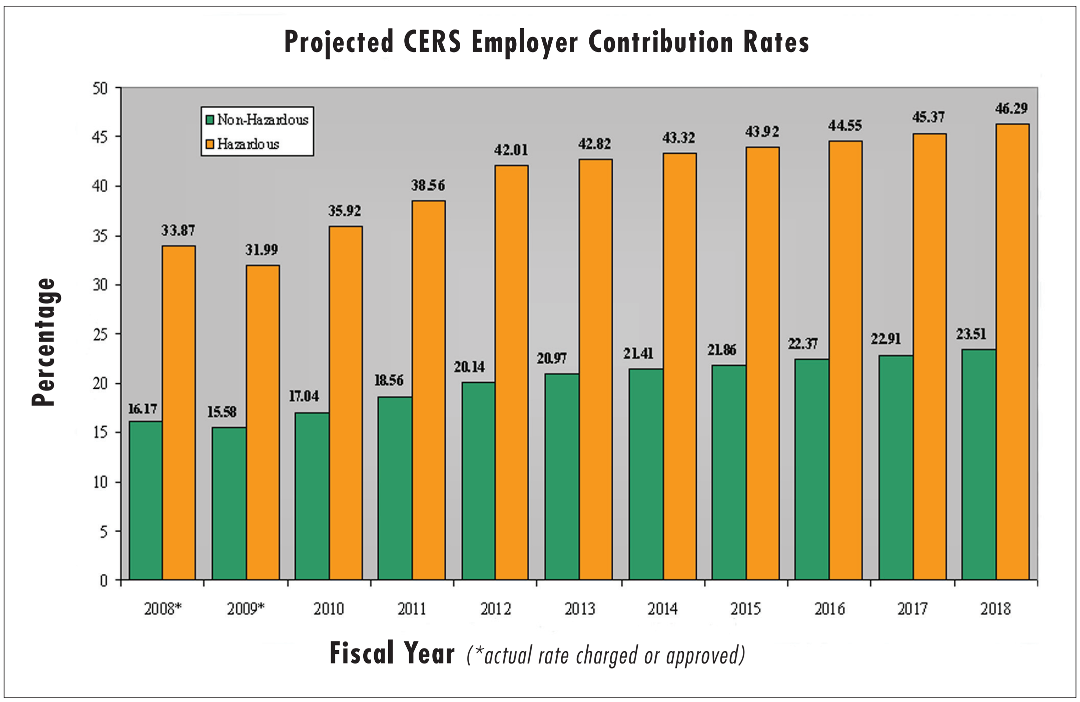
www.klc.org

Member Fact Sheet

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. Each year, the KRS Board of Trustees determines how much the city has to pay into the system, which includes required cost of living adjustments.

CERS costs are reaching levels that are unsustainable and are projected to increase even more. In Fiscal Year 2008 cities must pay an amount equal to about 33 percent of a hazardous duty employee's (police and fire employees) salary to CERS, an increase of 5 percent from the previous year. Unless reforms are made cities will pay over 46 percent of a hazardous duty employee's salary to CERS by FY 2018. *See chart.*

For more information about CERS contact Jerry Deaton at jdeaton@klc.org or 1-800-876-4552.



If a city pays a firefighter $35,000 in FY 2008, the city must also send an additional $11,900 to CERS for that employee's retirement benefit. By FY 2018 the city would have to pay an additional $16,100 to CERS for the firefighter even if his or her salary remains the same. These costs do not include their current healthcare costs and only pay for future retirement benefits.

What is driving the cost increase?

The health insurance coverage provided to retirees is the main cost-driver for local governments with employees in CERS. The plan generously provides 100 percent single health insurance for non-hazardous duty employees and 100 percent family health insurance for hazardous duty employees and beneficiaries until age 65 (for employees hired before July 1, 2003).

The Kentucky Retirement Systems has an inviolable contract to provide retiree health insurance benefits that are equal to those provided for active state employees, to all members of CERS (entering

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before FY 2004). 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.

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.

How is this affecting Kentucky cities?

The unaffordable benefit costs are leaving cities with much less funding for the services and projects that citizens demand.

Last year Owensboro eliminated 20 positions and evaluated selling city assets to cover CERS cost increases, Covington cut 11 employees to free up funds just to pay for pension payments now and the City of Florence raised their insurance premium tax from 5% to 8% and raised their payroll tax from 1.25% to 2.0% to fund future CERS costs.

Is your city reducing services, cutting personnel or raising taxes to manage CERS payments? Help us spread the word on the CERS crisis by sharing your city's story with KLC.

Contact Sarah Razor at 1-800-876-4552 or srazor@klc.org.

What will it take to fix the system?

KLC is working diligently to find the answers to the CERS crisis that cities need to avoid cutting services or personnel. There are many legal and political obstacles to changing benefits for current state and local government employees and retirees, but KLC supports the following changes as a good start toward a healthier and more affordable benefit plan.

- Maintain the defined benefit pension for state and local government employees.
- Seek legislation that would define the "full funding" standard to be used by the KRS in calculating employer contribution rates for member agencies (for example, full funding = 80 percent).
- Change the current five-year phase-in of higher CERS employer contribution rates for health insurance to a minimum 10 year phase-in.
- Create a defined benefit pension tier for new state and local government employees setting the retirement threshold at an age/service combination of 75 for hazardous duty personnel and 85 for non-hazardous duty.
- The negative impact of the current unfunded cost of living adjustment (COLA) for retirees should be reduced by either raising employee contributions and/or fixing the COLA at a minimum of 1.5 percent annually not to exceed the Consumer Price Index.

What can I do to support CERS reforms?

Please tell your legislator that your city cannot afford increases in CERS contributions and that you support the reforms that KLC is recommending. Also, stay current on what's happening with the CERS crisis by checking out www.klc.org and carefully review 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.