

**Approved Changes to the Kentucky Retirement Systems (KRS)
Affecting the County Employees Retirement System (CERS)**

Item	Current Law	SB 2 Final Version
Plan for new participants	<p><u>Defined benefit plan</u> Benefit is based upon a calculation multiplying average compensation, years of service, and a benefit factor.</p> <ul style="list-style-type: none"> • Non-hazardous: <ul style="list-style-type: none"> ○ Average compensation of the last five years prior to retirement (“last five”). ○ Benefit factor ranges from 1.1% to 2.0% based on years of service. ○ Unreduced benefit if (1) age and years of service equal 87, with minimum age of 57, or (2) age 65 with at least five years of service credit. • Hazardous: <ul style="list-style-type: none"> ○ Average compensation of the three years with the highest compensation (“high three”). ○ Benefit factor ranges from 1.3% to 2.5% based on years or service. ○ Unreduced benefit if (1) any age with 25 years of service or (2) age 60 with at least five years of service credit. 	<p><u>Hybrid cash balance plan</u> Benefit is based upon an account balance.</p> <ul style="list-style-type: none"> • Non-hazardous: <ul style="list-style-type: none"> ○ Employee contributes 5% of pay to pension account. ○ Employer contributes 4% of pay to pension account. • Hazardous: <ul style="list-style-type: none"> ○ Employee contributes 8% of pay to pension account. ○ Employer contributes 7.5% of pay to pension account. • Accounts are guaranteed a 4% annual investment credit. • Active employee accounts also receive 75% of the five-year smoothed investment returns above 4%. • Upon retirement, employees may purchase an annuity based on the contents of their account. The annuity would be based on the current mortality and investment assumptions used by KRS at the time of retirement. • The same retirement eligibility requirements would apply. • Effective for all new hires on or after January 1, 2014.
Cost of living adjustments (COLAs)	1.5% automatic annual COLA unless suspended by General Assembly.	<p>Eliminates annual COLAs for all plan participants except in the following instances:</p> <ul style="list-style-type: none"> • The KRS Board determines that assets are greater than 100 percent of the actuarial liabilities and legislation authorizes the use of surplus funds for the COLA; or • The General Assembly fully prefunds the COLA or directs the payment of funds in the year the COLA is provided. <p>The KRS Board is required to advise the General Assembly prior to each biennium about the following:</p> <ul style="list-style-type: none"> • If surplus funds are available to fund a COLA without damaging the actuarial soundness of the systems; and • The amount of funds necessary to prefund an annual 1.5% COLA over the biennium.

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Amortization period for payment of unfunded liabilities	Unfunded liabilities are being paid off over the amortization period that began in 2007. By FY 2015, the amortization period will be 24 years.	Resets the amortization period to a new 30-year period beginning with FY 2015. Resetting the amortization will reduce the amount required to be paid for actuarial liabilities each year.
Reemployment after retirement	<ul style="list-style-type: none"> • Requires three-month break in service, except one-month break for retired hazardous to hazardous full-time employment. • No second retirement account is created. • Employer pays employer contributions and reimburses KRS for costs of retiree's health care if the employee elects KRS health coverage. 	No changes to existing law.
Spiking of pensions	Employer pays regular contributions on additional salary earned.	Except in the case of a "bona fide promotion or career advancement" for the employee, employers pay the full actuarial cost of increases in compensation greater than 10 percent earned by the employee during the last five fiscal years of employment.
Inviolable contract	Covers almost all benefits except COLAs and specific retiree health benefits.	Same for current participants; for new participants, employee contribution rates may be raised, non-accrued benefits may be reduced and retirement eligibility requirements may be changed.
KRS Board Composition	<p>9-member board:</p> <ul style="list-style-type: none"> • Five elected by plan participants: <ul style="list-style-type: none"> ○ 2 KERS ○ 2 CERS ○ 1 SPRS • Four appointed by the Governor: <ul style="list-style-type: none"> ○ 2 with at least 10 years of investment experience ○ 1 knowledgeable about the impact of pensions on local governments ○ Secretary of Kentucky Personnel Cabinet 	<p>13-member board:</p> <ul style="list-style-type: none"> • Six elected by plan participants: <ul style="list-style-type: none"> ○ 2 KERS ○ 3 CERS ○ 1 SPRS • Seven appointed by the Governor: <ul style="list-style-type: none"> ○ 2 with at least 10 years of investment experience ○ 1 knowledgeable about the impact of pensions on local governments ○ 1 from a list of three from the Kentucky League of Cities ○ 1 from a list of three from the Kentucky Association of Counties ○ 1 from a list of three from the Kentucky School Boards Association ○ Secretary of Kentucky Personnel Cabinet

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Transparency	Various statutory requirements regarding transparency and posting of information online.	Same but require KRS to post information that is easily available and understood by the public regarding its financial and actuarial condition on its Web site.
Oversight board	No existing law.	<p>Creates a 13-member Public Pension Oversight Board to review, analyze and provide oversight for the General Assembly on the benefits, administration, investments, funding, laws/regulations and any legislative proposals relating to the Kentucky Retirement Systems. Membership includes:</p> <ul style="list-style-type: none"> • 2 legislators appointed by the Speaker of the House • 2 legislators appointed by the President of the Senate • 1 legislator appointed by the House Minority Leader • 1 legislator appointed by the Senate Minority Floor Leader • 1 chartered financial analyst (CFA) with at least 10 years of investment experience or someone with at least 10 years of retirement experience appointed by the Speaker of the House • 1 chartered financial analyst (CFA) with at least 10 years of investment experience or someone with at least 10 years of retirement experience appointed by the President of the Senate • State Budget Director or designee • Auditor of Public Accounts or designee • Attorney General or designee • 1 chartered financial analyst (CFA) with at least 10 years of investment experience appointed by the Governor • 1 person with at least 10 years of retirement experience appointed by the Governor