KEA SUMMARY OF SB 1 PROPOSED CHANGES

Following is a list of proposed changes to the County Employees' Retirement System (CERS), in which all education support professionals participate, and also proposed changes to the Teachers' Retirement System (TRS) that are included in the provisions of SB1, Senate Committee Substitute 1. A short description of each proposed change is followed by the relevant section number and page numbers of the bill.

CERS is one of the pension systems managed by Kentucky Retirement Systems (KRS). Education support professionals employed in public schools all across Kentucky participate in this system. There are currently three "tiers" of benefits within CERS; the tier that applies to each person depends entirely on the date of initial participation in the system. Kentucky school districts already directly budget for and contribute the employer portion for each CERS participant. Local school districts also directly budget for and directly pay the employer portion of health insurance coverage for all ESPs employed in each district.

PROPOSED CHANGES TO CERS SET OUT IN SB1 Senate Committee Substitute 1:

- New employees that start employment after January 1, 2019 will have an optional defined contribution plan (401a) (creating a new Tier IV) (Section 12, pages 28 to 32)

- Participants who retire after January 1, 2019, must have five complete fiscal years that each contain twelve months of service credit; if not, one or more additional years must be added until the number of months in the final compensation calculation is at least sixty months. (Section 14, page 44)

- Amends sick leave program. For CERS members retiring after January 1, 2019, accumulated sick leave may be added to service credit but may not be used to determine eligibility to receive a retirement allowance. (Section 17, pages 66 to 71)

- Changes the calculation of employer contributions to CERS to level funding over a closed 30-year period. (Section 18, pages 71 to 74)

- For all participants who retire on or after January 1, 2019: Cannot return to work in a KRS participating position without a 3 month break in service. If a 3 month break in service is not met the retirement stops. After 3 months the employee can return to full-time employment in a KRS participating position, but pension payments are suspended for 12 months following their retirement. Part time reemployment in a participating position will not suspend pension payments. (Section 28, pages 121 to 130)

- $5,000 death benefit is eliminated for any CERS employee that was hired after January 1, 2014. (Section 31, pages 148 to 149)

- Eliminates the inviolable contract for all CERS and other changes that become effective on or after July 1, 2018, and allows the General Assembly to amend, reduce, or suspend benefits as they see fit. (Section 34, page 152)

TRS is a stand-alone system and IS NOT managed by the Kentucky Retirement Systems. Teachers and other certified staff employed in public schools all across Kentucky participate in this system. For the purposes of payments to TRS and for the employer portion of health insurance coverage, the "employer" of all certified personnel in local school districts has always been the Commonwealth of Kentucky. Although local school districts carry those costs on their books as required by accounting rules, local school districts do not actually budget for or make payments to TRS on behalf of participants that they employ, nor do they budget for or make payments to the Kentucky Employees' Health Plan (KEHP) for certified employees; that money comes out of the state budget. However, changes proposed in the governor's Executive Branch budget will potentially shift actual pension and health insurance costs to local districts, imposing new financial burdens on districts that simply cannot afford those payments.

PROPOSED CHANGES TO TRS SET OUT IN SB 1 Senate Committee Substitute 1:

- Creates a new "hybrid cash balance plan" benefit tier for teachers hired on or after January 1, 2019. Teachers with less than 5 years of experience may make an irrevocable election to roll their existing TRS contributions into the hybrid cash balance plan. (Section 43, pages 170 to 174)

- Teachers who participate in the hybrid cash balance plan will contribute 9.105% of payroll, the employer will contribute 8%, and interest credit will be applied depending entirely on the performance of the investments. There is no guaranteed rate of return on investments. Investments will continue to be held by TRS. (Section 43, pages 170 to 174)

- Retirement age for the new hybrid cash balance participants will be increased to age 65 with 5 years of service, or the "Rule of 87" (age + years of service =87). The rule of 87 has a minimum age requirement of age 57 plus 30 years of service to be eligible to retire. (Section 43, pages 170 to 174)

- Limits the amount of sick leave payments that can be applied to retirement as the amount accrued on December 31, 2018. Teachers can continue to accrue unused sick leave and may be paid for up to 30% of the entire accumulated amount upon retirement; however, only that portion of the payment attributable to sick leave accrued by December 31, 2018 will be included in the teacher's final annual compensation. (Section 44, pages 179-180; Section 74, pages 262 to 264)

- Retains the "high 3" (retirement based on the highest 3 years of compensation) based on 27 years of service and age 55 for those TRS participants who accumulate 20 or more years of service as of July 31, 2018. For those with less than 20 years of service by July 31, 2018, they may qualify for the "high 3" only if they reach age 60 and have at least 35 years of service at the time they retire. (Section 45, page 185)

- Teachers hired after January 1, 2019 will not be eligible to purchase any service credit, except for active duty military employment. For example: a new female teacher hired in August of 2019 is pregnant. When the baby is born, she misses 30 days of work due to maternity leave. She is not paid for 20 of those days because she only had 10 sick days allotted to her for the year. Normally, at the end of the year, that teacher would be able to purchase the retirement credit for those 20 days, thus giving her an entire year's service credit. Under SB 1, she would not be allowed to purchase the missing days, so will only be credited with a partial year of service in TRS. (Section 51, pages 203 to 206; Section 53, pages 206 to 208)

- Eliminates the death benefit for beneficiaries of those in TRS who retired with disability and for those who become participants after January 1, 2019. (Sections 55 and 56, pages 214 to 215)

- Requires the TRS Board to increase the employee contribution for retiree health care if any of the following occur: (1) the fund falls below 25% funded according to any future actuarial valuation; (2) the fund falls for 3 consecutive valuations, regardless of whether it meets the 25% threshold or not; (3) the fund suffers a drop in the funding level of more than 10% over 2 consecutive valuations, also regardless of whether it meets the 25% threshold. If increases occur, they shall not be more than 1% of pay annually. (Section 57, pages 215 to 217)

- Allows the TRS board to grant a 3% multiplier for years in excess of 30, but only if a participant has accumulated 20 years of service as of July 31, 2018; allows a 3% multiplier for other current participants for years in excess of 35 years of service and is at least 60 years old. (Section 73, pages 255 to 256)

- For current TRS retirees and TRS participants who will retire before July 1, 2019, reduces from 1.5% annually to 1% annually the cost of living allowance (COLA). The reduction will become effective July 1, 2019 and will remain in place until TRS reaches a funding level of 90%. (Section 73, pages 258 to 260)

- TRS participants who retire after July 1, 2019 will receive a reduced COLA for at least 12 years from the date of retirement or until TRS reaches a funding level of 90%, whichever first occurs. (Section 73, page 259)

- COLA provisions will not apply to any teacher hired on or after January 1, 2019. (Section 73, page 262)

- Eliminates the $2,000 pre-retirement life insurance benefit/$5,000 post-retirement life insurance benefit for teachers hired after January 1, 2019. (Section 76, page 265)

- The General Assembly reserves the right to amend, reduce, or suspend any changes made effective on or after July 1, 2018 to the inviolable contract for teachers as well as excluding all new employees from an inviolable contract provisions except for account balance in hybrid cash balance plan. (Section 80, pages 278 to 279)

ADDITIONAL CONCERNS/CONSIDERATIONS:

- This bill again misrepresents the work of classified and certified school employees. Classified employees work is qualified in HOURS. Certified employees are qualified in DAYS. We continue to have concerns about classified reemployment using the term “days” rather than “hours.”

- School districts will pay an additional 2% contribution for new employees enrolled in the hybrid cash balance plan.