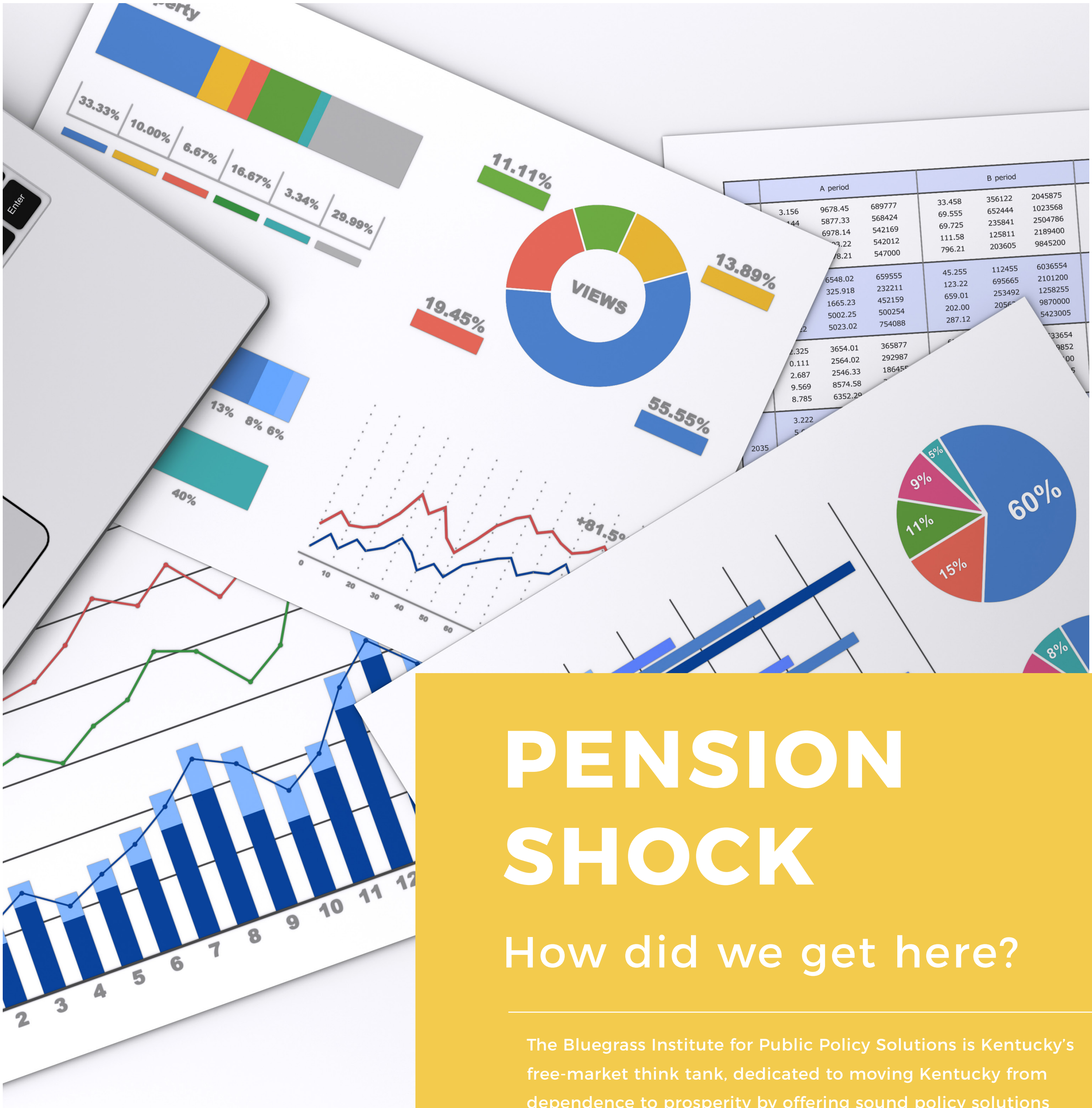

PENSION SHOCK

How did we get here?

The Bluegrass Institute for Public Policy Solutions is Kentucky's free-market think tank, dedicated to moving Kentucky from dependence to prosperity by offering sound policy solutions grounded in capitalism, individual liberty, personal responsibility and government transparency. Founded in 2003, the institute is a 501 (c) 3 non-profit educational organization.

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PENSION SHOCK

HOW DID WE GET HERE?

Introduction

For much of the past decade, the Bluegrass Institute for Public Policy Solutions has led from the forefront of pension reform in the commonwealth of Kentucky.

"Future Shock,"[1] the institute's groundbreaking four-part series released in 2011 and 2012, warned that without meaningful reforms, the pension liability would engulf Kentucky's entire economy.

In a column published by the Bluegrass Institute on March 26, 2013, the late Lowell Reese, an esteemed journalist, publisher and former Chamber of Commerce executive, urged policymakers to take seriously the need to address the commonwealth's deepening pension crisis. **"The soaring cost of public employee pensions in Kentucky has become a major societal issue," said Reese, who authored the "Future Shock" series. "The standard of living of all Kentuckians is at stake."** [2]

The ensuing years, which included Reese – who had been exposed to Agent Orange while fighting communism as a platoon leader in the jungles of southeast Asia – leaving us to finish this pension reform work, proved him an accurate prophet.

Pension costs consume nearly 15 percent[3] of Kentucky's latest biennial budget passed in April by the General Assembly. Legislators passed an accompanying bill that purports to raise nearly a half-billion worth of new revenue by levying sales taxes[4] on previously exempt products and services in order to fund increasing pension payments.

The $3.3 billion worth of pension expenditures in this year's budget are resources not available for other important services, including educating Kentucky's children, **improving the state's infrastructure or hiring more law enforcement personnel to keep our communities safe.**
If that was the end of the story, it would be cause enough for concern. Unfortunately, the news only gets worse.

Even with record amounts of funding placed into the systems along with tax increases to prop up those expenditures, the liabilities of the state's retirement systems continue to increase while their funding levels continue to decline.

When Reese made his statement, the six state pension plans, which are under the umbrella of the Kentucky Retirement Systems (KRS) and the Teachers' Retirement System (TRS), carried a combined unfunded liability of around $31 billion. That number has nearly doubled today, in part because of new government reporting requirements and more realistic assessments regarding the plans' expected investment performance.

The alarming rapidity with which the systems' funding levels have declined should add a sense of urgency regarding the need to confront these liabilities. In 2000, the commonwealth's pension debt was a meager $960 million, five of Kentucky's six public pension systems were running generous surpluses and the Bluegrass State's pension system was among the nation's strongest.

Recent reports indicate the Kentucky Employees Retirement System (KERS) – the largest plan for nonteaching state workers – is now less than 14 percent funded,[5] meaning the system's assets cover less than 14 percent of the benefits owed to its members. This is a far cry from the system's healthy 139.5 percent funding level in 2000 when pension experts nationwide deemed KERS one of the healthiest government-run pension plans in the nation. Only 14 short years later, the Center for Retirement Research at Boston College called KERS the most underfunded U.S. state pension plan.[6]

Urgent reforms also are needed for the TRS, which, while appearing to be in much-better shape with its 56 percent funding level,[7] is still in dire straits, having fallen from an 82.5 percent funding level[8] in 2000 and now facing the reality that it's lacking more than 40 percent of the assets needed to cover its obligation to its members.

What happens if drastic steps toward meaningful reform don't occur?

Defenders of the status quo, including beneficiaries' and retirees' groups, along with union leaders, often don't accept how dire Kentucky's pension situation is and the urgent need for reform. Their version of reform primarily centers on raising taxes and placing pension benefits as the commonwealth's highest priority, without seemingly much genuine regard for other policy needs.

They may be getting their way, as legislators, afraid of offending state workers and teachers, who together form Kentucky's largest single voting bloc, demonstrated their willingness not only to put records amounts of taxpayer dollars into the commonwealth's sinking retirement systems as part of the biennial fiscal 2019-2021 General Fund budget, but hurriedly enacted those previously mentioned sales-tax increases in a somewhat arbitrary manner.

These tax hikes on selected businesses reveal lawmakers seemed more willing to increase the burden for funding the commonwealth's increasing pension liability on small businesses rather than risk offending current public workers, teachers and their union leaders by freezing benefits at current accrual rates, asking beneficiaries to pay more and offering more reasonable benefits in the future.

Further rating agency downgrades resulting in increased borrowing costs for the state when issuing municipal bonds offer another serious consequence of not heeding the urgent need for meaningful reforms. Following an earlier downgrade[9] by Moody's on July 20, 2017, Standard and Poor's downgraded[10] Kentucky's debt on May 18, 2018 – even after the two-year budget containing more pension funding and legislation raising nearly a half-billion dollars in new taxes was passed.

In order to understand where Kentucky – and many other states also facing steep declines in their public retirement systems – need to go from here, it's vital that we comprehend how we arrived at a $60 billion unfunded liability and that the truth be told and understood.

While the 19th century Spanish philosopher George Santayana likely wasn't thinking about the arbitrary and wrongheaded decisions leading to 21st century state retirement systems sliding into dire straits, his comment that "those who cannot remember the past are condemned to repeat it" seems nonetheless extremely appropriate, considering our goal with this first in our "Pension Shock" series is to point to key developments throughout the history of our pension system that we believe have been largely unknown or ignored.[14]

While some policymakers, union leaders and beneficiaries' representatives show little appetite for understanding how Kentucky arrived in its current predicament, we believe it's unrealistic to try and build a structure offering solutions without a solid foundation, which, in this case, involves confronting past decisions that Bluegrass State taxpayers are paying more for today than ever before. Perhaps the redeeming factor to arise from the pain of such confrontation will be that we neither forget nor repeat such history.

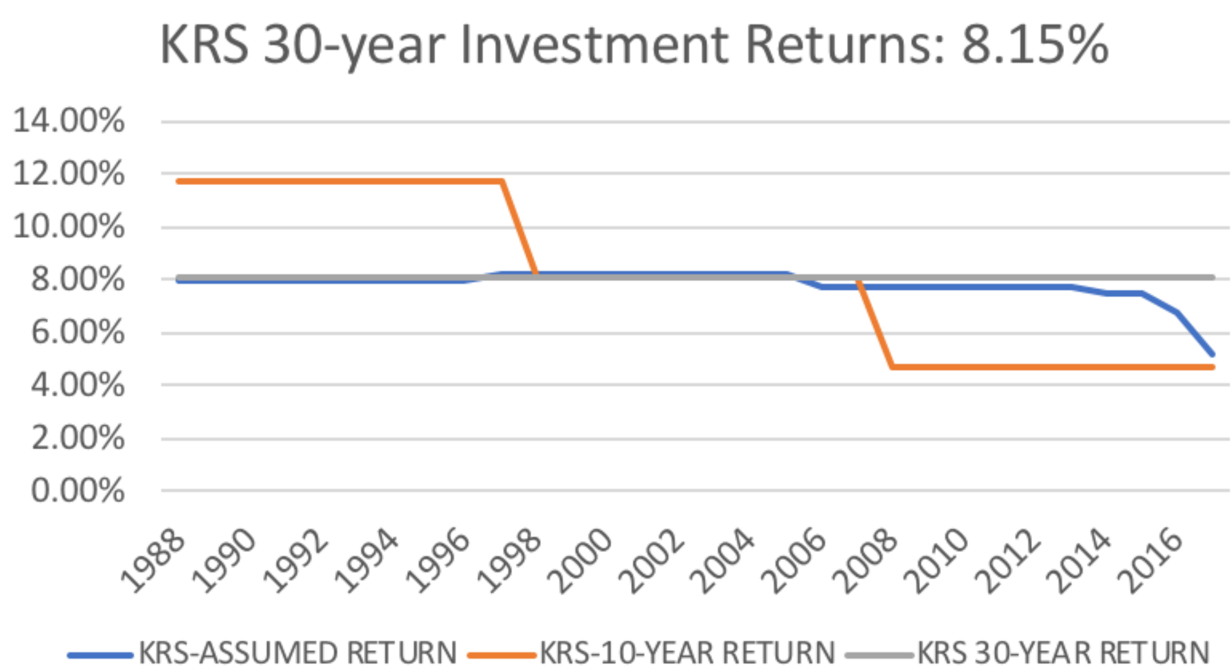
It's the benefits, stupid!

Through rigorous analysis of credible data and the uncovering of startling facts gleaned from research and obtained via open records requests, the Bluegrass Institute Pension Reform Team has unearthed the true cause of Kentucky's pension crisis, which differs greatly from the typical culprits – funding deficiencies and poor investment returns – blamed by the media, politicians and state employee unions.

While the Great Recession, which began at the end of 2007, certainly did result in lower investment returns for a few years in most portfolios – including those belonging to the commonwealth's retirement system – the overall health of portfolios, whether they belong to individuals or pension plans, isn't determined by a handful of years.

However, defenders of the status quo often point to smaller and less-revealing periods of time in an attempt to defend their claims that poor investment returns are a primary contributor to Kentucky's current pension liability. From a cynical point of view, such limited views could be considered calculated attempts to avoid any discussion about the need for changing the process by which benefits are awarded.

Conclusions regarding investment performance are reached by analyzing a long period of time and cycles of market gain and loss. Considering, for example, that KRS and TRS investments have significantly outperformed expectations by reaping returns of more than 8 percent over a 30-year period[11] means the primary problems contributing to the retirement systems' decline must be found elsewhere.



Also, along with the record amounts of funding designated for the state's pension plans during the current budget, there are myriad indications that funding is not the primary cause of Kentucky's pension woes. For instance, the County Employees Retirement System (CERS), which operates under the KRS umbrella and serves local workers in the system, is required by state law to annually pay 100 percent of the Actuarially Required Contribution (ARC) to cover its beneficiaries, yet the system isn't even 60 percent funded. In fact, the CERS funding level is experiencing rapid declines, having dropped from 110.7 percent to 52.8 percent between 2000[12] and 2016[13] , again despite receiving employers' full ARC payments.

While funding and investment returns certainly are critical elements to healthy pension systems, they are only two of the Kentucky pension systems' three-legged stool. Implementing effective and lasting reform will require the truth be told and understood about the third leg of that stool: benefits. A closer look reveals that the process by which benefits have been awarded to Kentucky's public employees during the past 30 years is the primary cause of the commonwealth's pension crisis.

Unfortunately, public employee union leaders and anti-reform legislators have been untruthful when discussing the true cause of the pension crisis with their constituents. Instead of being honest about the pension predicament, including how the process of awarding benefits is the chief culprit, they instead attempt to use Kentucky's pension woes to gain and retain power and influence, primarily through their resistance to change. The result is that common sense and reasonable reforms to save and put these systems on a sustainable course for the future have been marginalized or ignored altogether.

However, maintaining the status quo, resulting in the combined liability of Kentucky's public pension systems growing from $960 million in 2000 to around $60 billion today, and funding levels dropping precipitously – with KERS nearing insolvency – isn't a wise or viable option. Rather, it would be highly irresponsible, considering the pension crisis is the most looming threat to Kentucky's economy in decades and is crowding out funding for education, public safety, healthcare and infrastructure.

Finally, those on all sides of the pension reform issue, though they might disagree, should treat each other with dignity and respect while working toward solutions. The increasing amount of debate and discussion surrounding this issue should focus on data and facts – the truth, in other words – rather than harmful, emotional rhetoric that will only serve to exacerbate problems and stand in the way of finding and reaching solutions.

BENEFITS GRANTED WITHOUT KNOWING THE COST

Since this analysis focuses on what we believe is the primary contributor to Kentucky's pension crisis, namely the process by which benefits are determined and awarded, here are some general statements regarding what we believe regarding the evidence we've uncovered:

Arbitrary and illegal benefit enhancements are regularly awarded retroactively to workers and retirees.

Despite the fact that many illegal benefit enhancements have been awarded, these should not be clawed back from employees or retirees. However, a structural change in the awarding of future benefits must happen immediately.

Many benefit enhancements have been awarded without a statutorily-required cost analysis to determine the monetary impact on the pension system prior to being approved.

Actuaries were complicit in enabling the practices that contributed to this crisis. At best, they accepted without question data from the systems that obviously was inaccurate. At worst, they provided cover for legislators and employees by working with them to falsely hide the true cost of decisions being made regarding benefits.

"Future is foggy for state pensions" was the title of a disturbing report on the front page of the November 29, 1999, edition of the Lexington Herald-Leader. The article reveals that at least some state policymakers knew about the need to reform the structure of benefits propped up by several years of unusually high investment returns, which, in turn, had produced large amounts of cash. (The complete article can be found in Attachment A of this analysis. Note: The diminished quality is due to the fact that this article was located on microfiche.)

At the time of that article, the TRS was 97.3 percent funded while the KERS non-hazardous funding level was even healthier at 121.9 percent. The economy was strong, riding the wave of a stock-market performance producing abnormally high gains for pension portfolios. According to the Herald-Leader report, strong investment returns grew Kentucky Retirement Systems' assets from $3.2 billion in fiscal 1988-89 to $12.8 billion only a decade later.

Such growth in investment returns effectively masked the serious structural weaknesses of the benefit-awarding process, which would become all-too-evident a few years later when that same economy came to a screeching halt and the bubble that had carried the stock market to historically record gains would burst loudly and quickly.

The subtitle of the Herald-Leader report surely brings this point home: "Benefits are improving but with unknown effects." The truth is, Kentucky is now facing the consequences of the "unknown effects" of those generous benefits.

Taking advantage of the systems becoming flush with cash due to the aberrantly prosperous investment returns for a period of time, the Kentucky Education Association and other state employee groups requested numerous unfunded benefit enhancements for both current workers and retirees. They sought these higher benefits without proper prefunding – a key for defined-benefit systems to avoid unfunded liabilities – or perhaps even more important, without having a clue as to what these augmentations would cost. These types of unfunded, and oftentimes retroactive, benefit increases began the demise of the once-healthy and well-funded pension systems.

Since its inception in 2015, the Bluegrass Institute Pension Reform Team has focused on benefit enhancements conferred in the final years of the 20th century. It turns out we weren't the only ones concerned about the long-term impact of those increases. Gov. Paul Patton's administration, in power during that time, expressed concerns about the boost in benefits nearly before the ink had dried on their approval by the legislature.

The Herald-Leader reports the Patton administration was raising questions in 1999 regarding the impact that the cost of the pension system would have on his ability to "fund new, long-term programs in the 2000-2002 budget," and how the governor was seeking "a better handle on how recent retirement changes will figure into the financial outlook for the state."

As these benefit increases were being debated with even more sought by the unions and their public-worker constituents, serious concerns abounded about their ultimate cost, as well as the impact they would have on other services citizens expect government to provide.

It's telling that the Patton administration was concerned about the eventual cost of such large pension benefit enhancements even with the state's retirement funds were flush with cash and, in many cases, more than fully funded.

"If we continue to piecemeal these kinds of changes in benefits that impact the financial condition of these funds without looking seriously at what the long-term impacts are of those changes, we could really be impacting the long-term financial health of the system," Crit Luallen, Patton's cabinet secretary, said, as reported by the Herald-Leader.

Despite the systems' high funding levels at the time, Luallen and the Patton administration were right to be troubled not only about the enhancement of pension benefits in the years just before the page turned to the new century, but also because state employees were seeking to drive benefits even higher.

WHAT THE RESEARCH FOUND

The Herald-Leader's report, which outlines both the benefit enhancements obtained in 1996 and 1998 as well as the planned new increases on top of those, offers a fairly comprehensive view of the different elements used to increase public retirement checks, not just in those final years of the 20th century but throughout the history of Kentucky's retirement systems:

- **Increasing retroactively to the first year of service the benefit factor used to calculate employee's pension income.**
- **Enhanced final compensation by changing salary determination to the highest three rather than highest five years of salary.**
- **Spiking of benefits by colluding with employers to get double-digit raises during the final year of work in order to drive up retirement compensation.**
- **Ad hoc cost-of-living adjustments (COLAs).**
- **Adding employee allowances such as those related to uniform, equipment or other gear to final compensation amounts.**
- **Prospective benefit guarantees, meaning future unearned benefits cannot be changed.**

FUNDING YEAR	KERS N-H RETURN	BENEFIT FACTOR	FUNDING LEVEL
1985	28.65%	1.65%	84.60%
1986	23.34%	1.85%	86.60%
1987	12.26%	1.85%	91.30%
1988	1.34%	1.91%	91.60%
1989	13.15%	1.97%	91.60%
1990	11.67%	1.97%	87.50%
1991	8.24%	1.97%	83.60%
1992	11.67%	1.97%	93.20%
1993	12.36%	1.97%	95.60%
1994	1.82%	1.97%	93.70%
1995	18.99%	1.97%	92.10%
1996	17.63%	1.97%	98.80%
1997	24.16%	1.97%	106.80%
1998	20.76%	1.97%	115.00%
1999	14.27%	2.2%/2.00%	121.90%
2000	6.42%	2.2%-HIGH 3/2.00%	139.50%
2001	-5.42%	2.2%-HIGH 3/2.00%	125.80%
2002	-4.31%	2.2%-HIGH 3/2.00%	120.42%
2003	4.25%	2.2%-HIGH 3/2.00%	97.41%
2004	13.29%	2.2%-HIGH 3/2.00%	85.12%
2005	9.25%	2.2%-HIGH 3/2.00%	73.61%
2006	9.68%	2.2%-HIGH 3/2.00%	59.97%
2007	15.27%	2.2%-HIGH 3/2.00%	56.89%
2008	-4.22%	2.2%-HIGH 3/2.00%	52.50%
2009	-17.23%	2.00%	45.00%
2010	15.76%	2.00%	38.30%
2011	18.75%	2.00%	33.33%
2012	0.01%	2.00%	27.30%
2013	10.82%	2.00%	23.20%
2014	15.55%	2.00%	20.99%
2015	2.01%	2.00%	19.02%
2016	-0.52%	2.00%	15.97%
2017	13.47%	2.00%	13.62%

Annualized Return: 8.15%

*Employees hired after Jan. 1, 2014, are part of the Tier 3 cash balance plan.

While there is a desire among some, particularly beneficiaries and their political enablers in the legislature, to avoid discussing the history of Kentucky's public pension systems, we believe it's vitally important to understand how legislation passed 20 years ago can, even today, be "impacting the long-term financial health of the system," as former Cabinet Secretary Luallen stated in the Herald-Leader report on November 29, 1999.

It's vital to understand, for instance, how passage of Senate Bill 142 (SB 142)[15] in 1998 contributed to the rapid decline[16] in KERS funding levels. This legislation:

- **Raised the benefit factor for all KERS non-hazardous employees from 1.97 percent to 2 percent, applied it retroactively to all years of service and left in place an expectation that prospective benefit accrual rates would never fall below 2 percent;**
- **Created a 10-year window during which pension amounts received by members eligible for retirement and who went ahead and retired during that decade would be determined based on their highest three years of salary instead of the previous highest five years of pay;**
- **Awarded employees who retired during that 10-year window an even-higher benefit factor of 2.2 percent that would apply to every year of service retroactively[17] – even those years previous to the 10-year window.**

Thus, a KERS member who earned a 1.25 percent benefit factor in 1960, when the compensation formula was based on the highest five years of salary, and who later retired between 1998 and 2008 received a 2.2 percent benefit factor based on the enhanced high-three formula for service rendered between 38 and 48 years earlier. These benefit enhancements were not funded with either employee or employer payroll contributions but were enacted with no additional funding[18] for two years. Worse, they totally disrupted the KERS's defined benefit system by enhancing benefits awarded – and more properly funded – at lower levels in previous years with, again, no additional funding for those enhancements.

It doesn't appear that the actuaries working for Kentucky's retirement systems and who served as the primary advisers for the General Assembly when SB 142 was debated and passed offered much beyond lip service, if that, to slow this gravy train filled with shiny new expensive benefits. In fact, it was just the opposite.

Herald-Leader reporters Jack Brammer and Bill Estep write that an in-house group created by Patton following passage of SB 142 in 1998 to "determine the impact of four pension changes the legislature approved in 1996 and 1998 … concluded that they are financially sound and that pension benefits for state employees are 'relatively generous' compared to those of other states."

Yet it was Luallen's fears that won out over actuaries' unfounded optimism. KERS's funding level began dropping not long after that Herald-Leader report and continues to decline even in the present, where the system is barely 14 percent funded. No wonder, as Brammer and Estep report, "the administration plans to hire an outside consultant for comprehensive study of Kentucky's state-employee retirement system."

LAW REQUIRING COST ANALYSIS IGNORED FOR DECADES

Nearly all benefit enhancements throughout the history of Kentucky's public pension systems were granted while ignoring statutory requirements that independent cost analyses be conducted prior to legislative votes approving changes in benefits. Thus state legislators approved numerous enhancements with little idea as to their actual cost or impact on the state budget and taxpayers.

KRS 6.350, implemented in 1980, states: "A bill which would increase or decrease the benefits … of any state-administered retirement system shall not be reported from a legislative committee … for consideration by the full membership of the House unless the bill is accompanied by an actuarial analysis."[19]

The Bluegrass Institute cited the statute in an open records request filed on March 21, 2016, with the Legislative Research Commission (LRC), seeking copies of actuarial analyses for each of the numerous benefit enhancements granted during the past 30 years. The response from the LRC's general counsel shockingly stated that "the lack of actuarial analyses has no impact on the validity of enacted legislation. In recognition that actuarial analyses are procedural rather than substantive, the Supreme Court of Kentucky found that the failure of the General Assembly to obtain an actuarial analysis under KRS 6.350 does not invalidate a law thus passed."

In our response to the LRC on March 31, 2016, we made the following comments:

"The purpose of the actuarial analysis is to determine the cost of legislation that creates new benefits or enhances existing benefits before it is enacted. The data produced by an actuarial analysis allows legislators to make informed decisions and to fully understand the financial implications of the legislation under consideration. The failure to perform an actuarial analysis makes it impossible to prefund new or enhanced benefits because the cost of new benefits has yet to be determined.

"The failure to prefund benefits creates unfunded liabilities and contradicts standard actuarial funding procedures. Consequently, the failure to comply with KRS 6.350 allows uninformed legislators to confer unfunded benefits creating unfunded liabilities at an indeterminate cost to the commonwealth and taxpayers.

"The benefits in our open records request would not have been awarded if the legislature had followed basic statutory requirements and standard actuarial funding procedures, and our pension system would be fully funded." (Correspondence between the Bluegrass Institute and LRC general counsel can be found in Attachment B of this analysis.)

In dismissing the failure of the General Assembly to follow KRS 6.350, the LRC's general counsel essentially claims that legislators can pass laws placing an enormous future burden on the citizens of Kentucky without being required to follow a commonsense state statute requiring them to quantify and budget the future costs. And they have done so several times since 1980, including:

- **Increasing the CERS non-hazardous benefit factor from 1.6 percent to 1.65 percent which took effect on July 1, 1984; from 1.65 percent to 1.85 percent in 1986; from 1.85 percent to 2 percent in 1988; and from 2 percent to 2.2 percent in 1990.**

- **Increasing the KERS non-hazardous benefit factor from 1.6 percent to 1.65 percent, which took effect on July 1, 1984; from 1.65 percent to 1.85 percent in 1986; from 1.85 percent to 1.91 percent in 1988; from 1.91 percent to 1.97 percent in 1990; and from 1.97 percent to 2.2 percent in 1999.**

- **Increasing the TRS benefit factor from 2 percent to 2.5 percent, which took effect on July 1, 1983, use of the "high 3" final compensation benefit calculation for members who are at least 55 years old with a minimum of 27 years of service, and the 3 percent benefit factor for service in excess of 30 years.**

- **All COLA increases for KRS and TRS beneficiaries and retirees.**

- **All enhancements to KRS or TRS health insurance benefits.**

The LRC eventually supplied us with a single independent actuarial analysis related to a benefit enhancement (Attachment C). Ironically, it involved an increase in the benefit multiplier used in determining the income to be received in retirement by KERS retirees as part of SB 142 passed in 1998 and examined earlier in this report for its shocking impact on the system's funding levels. Remarkably, the actuary discouraged legislators from approving the benefit enhancements in SB 142. Among his comments:

- **Raised the benefit factor for all KERS non-hazardous employees from 1.97 percent to 2 percent, applied it retroactively to all years of service and left in place an expectation that prospective benefit accrual rates would never fall below 2 percent.**

- **Created a 10-year window during which pension amounts received by members eligible for retirement and who went ahead and retired during that decade would be determined based on their highest three years of salary instead of the previous highest five years of pay.**

- **Awarded employees who retired during that 10-year window an even-higher benefit factor of 2.2 percent that would apply to every year of service retroactively – even those years previous to the 10-year window.**

> ***Despite the warnings from the lone independent actuarial analysis done since passage of KRS 6.350 that the arbitrary, unfunded benefit enhancements contained in SB 142 did not represent an effective use of public dollars, would result in spendable income for retirees exceeding pre-retirement spendable income and cost taxpayers nearly $280 million over the next 30 years, the Kentucky House of Representatives voted 93-0[20] in favor of the bill and its fattened benefits.***

CONCLUSION

However, like is the case with many past profligate spending bills, most of the legislators received the political benefits of SB 142 reaped from overjoyed state workers who hit the taxpayer-funded jackpot but are no longer in the General Assembly as the bills come due. It's now left up to current and future leaders to do their best to clean up the costly mess left behind.

The short-term thinking of those who believe the answer to Kentucky's pension crisis is simply to continue to raise taxes and increase funding is that no only do tax hikes increase the burden on Kentucky workers, but, even worse, without structural reform, the additional dollars that higher taxes may bring will not ultimately solve the problem.

There must be a structural reform of the benefits before additional funding – wherever it's found – will significantly address one of the nation's largest state pension liability.

While we will address such structural reforms in a future release as part of this "Pension Shock" series of policy reports, understanding how past practices of ignoring cost controls and accountability measures – such as refusing to obtain independent analyses of proposed benefit enhancements – are affecting our ability to once again make Kentucky's pensions systems sustainable, as this report shows, are vital to ensuring we don't repeat the past.

The Bluegrass Institute Pension Reform Team is comprised of Dr. William F. Smith, M.D., director; Aaron Ammerman, investment analyst; and Jim Waters, president and CEO of the Bluegrass Institute for Public Policy Solutions, Kentucky's first and only free-market think tank.

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ATTACHMENT A

Business Monday **Pride of Louisa a shrine to commerce, country music**

LEXINGTON
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Monday, November 29, 1999 www.kentucky.com Metro Final Edition • 50¢

Jake had little to do but "supervise" things yesterday as his owner, Will Pettit of Mercer County, unloaded tobacco in Lexington at Big Burley No. 2 on South Broadway.

Future is foggy for state pensions

Benefits are improving, but with unknown effects

By Jack Brammer and Bill Estep
HERALD-LEADER STAFF WRITERS

FRANKFORT — The potential cost of state-employee pensions is raising questions in the Patton administration as the governor looks for money for new programs.

Some officials are concerned that lawmakers have approved a number of pension improvements in recent years without studying the long-term financial impact.

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See **RETIRE, A8**

Foster care

center

RETIRE: Healthy stocks decreasing state's costs

From Page One

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The bills:

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- Allowed longtime state employees to buy five years of service time toward their retirement. That could allow many to retire and begin drawing a pension at a younger age.

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The measures did not apply to teachers and retired teachers, who have a separate pension plan.

A matter of determining costs

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Under that measure, the retirement system can use costs from only the most recent year to calculate how much the state must pay to fund the raises in the next two-year budget.

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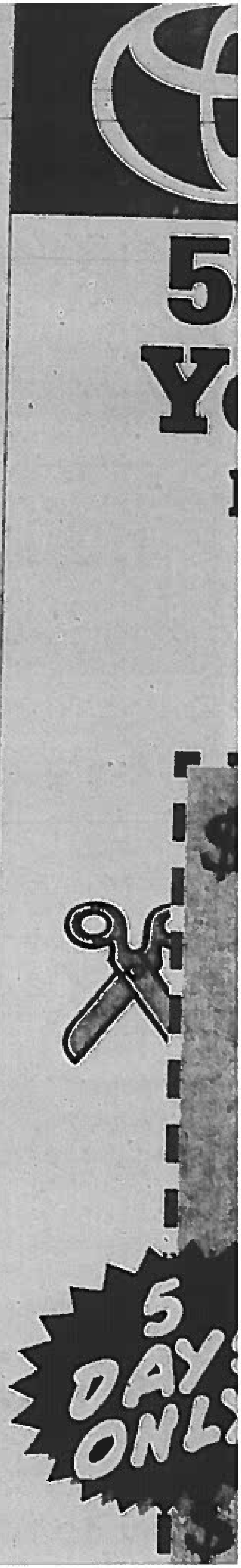

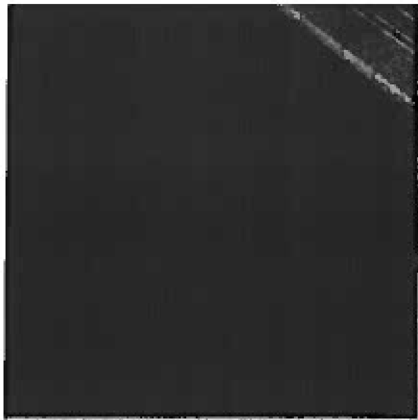

JANET WORNE/STAFF

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What review boards do

The state's 146 foster care review boards make recommendations to the courts and to social workers about what should happen to a child in state custody, based on what they read in case files. Sometimes, they agree with the decision made by judges or state officials. When they don't, their recommendations are considered.

This budget year, the state's foster care review board volunteers:

- Held 1,006 meetings.
- Reviewed 7,221 cases.
- Conducted 17,298 total reviews.

Board members needed

New foster care review board volunteers are needed to review cases of children placed in foster care because of abuse or neglect. Across the state, boards meet at least once a month for about two hours, depending on the number of cases to be reviewed. To volunteer, call (800) 928-2350.

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If future cost-of-living raises are not recognized as a liability, it ensures the state's payments "will steadily increase over time," Gagel wrote.

Gagel projected that 3 percent annual inflation allowances would add more than $50 million a year to the state's pension cost for non-hazardous employees by 2006.

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That's because the bill exempts the raises from the non-voidable contract between employees and the state.

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So far, it has.

The assets of Kentucky Retirement Systems, buoyed by strong investment gains, grew from $3.2 billion in fiscal year 1988-89 to $12.8 billion 10 years later, said Bill Hanes, deputy commissioner of the system.

The system, which administers plans for state and county employees and state police, is more than 115 percent funded, Hanes said.

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As a result, the board of the retirement system recently recommended a cut in taxpayers' contribution rate for employee pensions, from 8.03 percent of payroll to 5.89 percent.

That will reduce state General Fund payments to the retirement system for state employees by an estimated $50 million over the next two-year budget, Hanes said.

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The retirement system's actuary said in 1998 that boosting retirement benefits could add to health-insurance costs if it leads significant numbers of employees to retire younger.

Health-care costs have created concerns for state retirement systems nationwide, financial advisors told Patton's study group last summer.

The board of the retirement system has scheduled an increase over 20 years in the state's contribution to fully fund the health-insurance benefit, Hanes said.

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The group recommended that if the state adds or increases benefits in the future, the true costs should be covered by the state at the time the benefit starts.

Lexington Herald-Leader (KY)

November 29, 1999

FUTURE IS FOGGY FOR STATE PENSIONS BENEFITS ARE IMPROVING, BUT WITH UNKNOWN EFFECTS

Author: Jack Brammer and Bill Estep, Herald-Leader Staff Writers
Section: Main News
Page: A1

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Record Number: 9911290487

ATTACHMENT B

BLUEGRASS INSTITUTE

March 31, 2016

Morgain M. Sprague, General Counsel
Legislative Research Commission
State Capitol
700 Capitol Avenue
Frankfort, KY 40601

Dear Mr. Sprague:

Thank you for your response to our open records request.

While I appreciate your enthusiasm of and commitment to the legislative process, I strongly disagree with your opinion that the statutory requirement to perform an actuarial analysis for legislation that enhances state pension benefits is procedural and therefore optional.

KRS 6.350 specifically states than an actuarial analysis “shall” be prepared by an actuary prior to reporting such legislation to the full membership of either the House of Representatives or the Kentucky Senate, indicating that the actuarial analysis is required.

The purpose of the actuarial analysis is to determine the cost of legislation that creates new benefits or enhances existing benefits before it is enacted. The data produced by an actuarial analysis allows legislators to make informed decisions and to fully understand the financial implications of the legislation under consideration. The failure to perform an actuarial analysis makes it impossible to prefund new or enhanced benefits because the cost of new benefits has yet to be determined.

The failure to prefund benefits creates unfunded liabilities and contradicts standard actuarial funding procedures. Consequently, the failure to comply with KRS 6.350 allows uninformed legislators to confer unfunded benefits creating unfunded liabilities at an indeterminate cost to the commonwealth and its taxpayers.

The benefits enumerated in our open-records request would not have been awarded if the legislature had followed basic statutory requirements and standard actuarial funding procedures, and our pension systems would be fully funded.

The Supreme Court decision referenced in your letter is based upon the premise that the failure to obtain an actuarial analysis prior to enhancing pension benefits has no constitutional implications, but the debt incurred as a result of this failure violates the constitutional "debt limit" provision (section 49) and the constitutional "tax to discharge debt" provision (section 50).

Legislators awarding benefit enhancements also violated section 57 of the Constitution, which prohibits them from voting on any bill that creates a conflict of interest upon "pain of expulsion."

Unencumbered by the restrictions imposed by pesky statutes and the Constitution, legislators awarded virtually unlimited pension benefits to state employees in exchange for campaign donations and unwavering political support.

Just a few of the results of this generosity are as follows:

- Benefits that were designed to fluctuate with investment yields and other actuarial assumptions go up but never down.

- Benefit enhancements are applied retroactively and guaranteed prospectively in active defiance of the applicable actuarial funding strategy.

- Ad hoc cost-of-living allowances (COLAs) are awarded with complete disregard to legitimate cost-of-living metrics.

In summary:

- Failure to obtain an actuarial analysis for all new benefits and benefit enhancements is a clear violation of KRS 6.350.

- Failure to prefund these benefits creates unfunded liabilities and violates standard actuarial funding procedures.

- The debt accrued by adding new benefits or enhancing benefits without prefunding violates sections 49 and 50 of the Kentucky Constitution. Section 26 of the Kentucky Constitution voids all laws that are contrary to any section of the Constitution, thereby invalidating every pension enhancement that has ever been awarded without prefunding and an actuarial analysis, or by legislators with a conflict of interest.

Again, thank you for your prompt response. We will continue to move forward to bring true reform to the commonwealth's public pension systems.

Sincerely,

James R. Waters, President
Bluegrass Institute for Public Policy Solutions
P.O. Box 11706
Lexington, KY 40577
jwaters@freedomkentucky.com
(270) 320-4376

ATTACHMENT B

BLUEGRASS INSTITUTE

March 21, 2016

David A. Byerman, Director
Legislative Research Commission
700 Capitol Avenue
Room 300 Capitol Building
Frankfort, KY 40601

Mr. Byerman:

Pursuant to KRS 6.350, which requires an actuarial analysis for any bill before the Kentucky General Assembly that increases benefits for any state-administered retirement system, we request the actuarial analysis for each of the following benefit enhancements:

1. CERS non-hazardous benefit factor increases from 1.60% to 1.65%, from 1.65% to 1.85%, from 1.85% to 2.00%, and from 2.00% to 2.20%
2. KERS non-hazardous benefit factor increases from 1.60% to 1.65%, from 1.65% to 1.85%, from 1.85% to 1.91%, from 1.91% to 1.97%, and from 1.97% to 2.20%.
3. KTRS benefit factor increase from 2.0% to 2.5%, the use of the "high 3" final compensation benefit calculation for members at least 55 years old with 27 years of service, and the 3% benefit factor for service in excess of 30 years.
4. All cost of-living allowances for KRS and KTRS since 1980.
5. All enhancements to the KRS or KTRS health insurance benefit since 1980.

We also make the following requests related to funding standards and inviolability:

6. A description or copy of the pre-funding (actuarial advanced funding) standards for each of the state's retirement plans.
7. A signed, fully executed, legally enforceable copy of the inviolable contract for each plan.

Pursuant to the state open records law section KRS 61.870 to 61.884 and 61.991, we request access to and an **<u>electronic</u>** copy of the above information.

If your office or direct reports do not maintain these public records, please let me know who does and include the proper custodian's name and address.

As provided by the open records law, I will expect your response within three (3) business days. If you choose to deny this request, please provide a written explanation for the denial including a reference to the specific statutory exemption(s) upon which you rely.

Please feel free to contact me at the snail mail address, email address or phone number contained below.

Thank you for your assistance.

Sincerely,

James R. Waters, President
Bluegrass Institute for Public Policy Solutions
P.O. Box 11706
Lexington, KY 40577
jwaters@freedomkentucky.com
(270) 320-4376

ATTACHMENT B

LEGISLATIVE RESEARCH COMMISSION

State Capitol **700 Capitol Avenue** **Frankfort KY 40601**

502-564-8100

Capitol Fax 502-564-2922
Annex Fax 502-564-6543
lrc.ky.gov

David A. Byerman
Director

March 28, 2016

James R. Waters, President
Bluegrass Institute for Public Policy Solutions
P.O. Box 11706
Lexington, KY 40577
Email: jwaters@freedomkentucky.com

Re: Open Records Request

Dear Mr. Waters:

I received your open records request dated March 21, 2016 requesting the following:

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To the extent your requests in items 1 to 5 concern "benefit enhancements" enacted by the General Assembly, those requests do not identify a particular piece of legislation by session date or bill number, and thus do not "precisely describe [] public records . . . " or provide adequate information for the records to be readily identifiable. KRS 61.872. Additionally, your request in item 5 uses a term “enhancement” in relation to “health insurance benefit” since 1980, but does not provide any context for what that term might mean in regard to the state health insurance plan(s) and thus does not precisely describe a public record for this reason as well. Also, note that many changes to retiree health insurance benefits are directly tied to changes made in the Kentucky Employees Health Plan administered by the state Personnel Cabinet, and thus the General Assembly and the Legislative Research Commission (LRC) are not the official custodians of any records related to that administrative action. Further, please note that many of the documents that you have requested may not exist, especially given that your requests date to 1980. Regardless, the lack of actuarial analysis has no impact on the validity of enacted legislation. In recognition that actuarial analyses are procedural rather than substantive, the Supreme Court of Kentucky found that the failure of the General Assembly to obtain an actuarial analysis under KRS 6.350 does not invalidate a law thus passed. *See Board of Trustees of Judicial Form Retirement System v. Attorney General of Com.* 132 S.W.3d 770 (2003). Finally, your requests in items 6 and 7 are references to existing sections of the Kentucky Revised Statutes, which speak for themselves.

If you are able to provide enough specificity to identify the requested records, or reasonably lead to the identification thereof, please note that the LRC will need additional time to compile those records. As you know, the General Assembly is convened in the 2016 Regular Session with the final legislative day currently scheduled for April 12, 2016. All staff who are familiar with the documents that would be responsive to your request, if any, are designated to assisting with the budgeting process. If you will provide a more specific request, I will notify you of what records exist, if any, on or about April 25, 2016. Please do not hesitate to contact me with any questions or concerns. In the meantime I encourage you to review the publications available on the LRC public website that may provide you some of the information that you seek. Specifically, the Public Pension Oversight Board 2014 Report, along with the 2014 and 2015 Interim meeting minutes, Investment Rates of Return, Governance, and Policies of the Kentucky Retirement Systems and the Kentucky Teachers’ Retirement System (2008), and the Report of the Special Committee on Teacher Retirement (1986). Additionally, the websites of the Kentucky Retirement Systems and the Kentucky Teachers’ Retirement System contain a wealth of documents that might relate to your requests.

I look forward to speaking with you soon. Thank you for your request.

Sincerely,
s/Morgain M. Sprague
General Counsel

ATTACHMENT C SB 142/CA

KENTUCKY RETIREMENT SYSTEMS
98 RS SB 142/SCS - 10 year sunset with participation thru 1/1/99 ... ACTUARIAL COST ANALYSIS PLUS IMPACT OF FUNDING AT LESS THAN ACTUARIALLY COMPUTED AMOUNT

I. PROPOSED REVISION

(1) Under this proposal, the benefit multiplier for KERS nonhazardous members would be increased to 2.00% effective February 1, 1999 for any member participating as of January 1, 1998 who continues to participate through January 1, 1999. In addition, there would be a temporary additional improvement in the benefit multiplier for KERS nonhazardous members with 20 years of service who were participating in one of the state administered retirement systems as of January 1, 1998 and continue to participate until January 1, 1999. This temporary improvement would be effective February 1, 1999 and continue through January 31, 2009. The amount of the benefit multiplier under the temporary improvement would be 2.20%.

(2) KRS 61.705(1) would be amended to increase the amount of the lump sum death benefit payable to the beneficiary of a deceased retired member from the current level of $2,500 to $5,000.

II. COMMENTS RELATIVE TO PROPOSED REVISION

Retirement Fund Comments

(1) The increase in benefit multiplier to 2.00% would affect all KERS nonhazardous members and is easily estimated. The impact on the retirement fund of the temporary 2.20% rate would be a function of how many members ultimately benefit from the temporary increase in the multiplier. Many members would not be eligible before the temporary benefit would sunset out of existence, and others may not elect to retire early to take advantage of it. It is likely however, that there will be an acceleration of retirements due to the temporary benefit. This acceleration will likely occur at both the beginning and end of the sunset period. The impact of this retirement acceleration on overall retirement patterns is not determinable at the present time.

The effect of delaying the rate change to February 1, 1999 from the earlier effective dates considered is expected to have no real impact on the ultimate cost impact. The ultimate cost impact should be virtually identical to that estimated for the earlier version of this proposed legislation.

2.2% benefit is too high

Additionally, any change in the benefit level raises the issue of an appropriate target level of benefits for "career" employees retiring under the system. Before any change in benefit structure, a spendable income analysis should be developed to compare current retirement benefit levels for career employees versus pre-retirement spendable income levels. Any increase in the benefit levels should reflect a true need for such an increase in order to meet a real shortfall in retirement benefits. Without such an analysis, it is unclear whether any shortfall exists. If the benefit level is raised to too high a level, there is a real danger that benefits after retirement in terms of spendable income could exceed pre-retirement spendable income, which is not a desired result in sound pension plan design, nor would it be an effective use of taxpayer dollars. I would strongly advise that such an analysis be undertaken before any increase in benefit levels is considered.

In estimating the cost impact of this proposal, the current valuation assumptions as to retirement age were used. If benefits are increased, it could have an impact on retirement ages in the future. However, any such change in retirement patterns may only show up after several years of experience. For purposes of the cost estimate presented in this memorandum, no change in long term retirement patterns was assumed.

(2) No specific comments.

Insurance Fund Comments

(1) There is no apparent cost impact to the insurance fund under this proposal, since members eligible for the temporary benefit rate improvement have already accrued a medical premium level of 100%. To the extent that retirements may be accelerated due to this temporary benefit, there will be some impact on the insurance fund since medical benefits will start sooner. However, unless retirement patterns are significantly altered by this benefit, there will be no material immediate impact on the insurance fund. Long range impact could be an increasing trend in insurance fund costs if a significant number of members retire at earlier ages than would have been the case without the benefit increase. Whether or not that actually happens will only be borne out by actual plan experience in the years after such a benefit improvement is made. However, based on our current valuation assumptions, there would be no immediate impact on the insurance fund for this proposed benefit improvement.

(2) No impact on the insurance fund.

III. ESTIMATED IMPACT ON FUNDING COSTS

Proposed Change	Non-Hazardous		Hazardous		
	KERS	CERS	KERS	CERS	SPRS
(1) Raise KERS nonhaz rate to 2.00% effective 2/1/99, plus 2.20% rate for those retiring 2/1/1999 through 1/31/2009 with 20 or more years of service	0.66%	N/A	N/A	N/A	N/A
(2) Raise post retirement death benefit to $5,000	0.10%	0.12%	0.09%	0.06%	0.08%

IV. IMPACT OF FUNDING AT LESS THAN ACTUARIALLY COMPUTED RATE

We have been asked to evaluate the impact of zero funding for this benefit improvement over each of the next two years for KERS nonhazardous, KERS hazardous and State Police combined. CERS funding has not been considered in this analysis. It has been assumed that the funding for this benefit improvement will be spread among the three systems based on the actuarially computed cost for each system in proportion to the total actuarially computed cost for all three combined. After two years, it has been assumed that the funding will be at the actuarially computed rate. As such, there will be a shortfall at the end of the two year period from the amount that would have been contributed under the full actuarial cost of the benefit improvement.

The dollar amount of the actuarially computed cost has been based on the payroll information from the 1997 valuation. The following table shows the actuarially computed contribution level as compared to the potential funding for this benefit improvement. Also shown is the expected asset shortfall at the end of the two years, the

$ 9,312,000/yr
x 30 years
$279,360,000

increase in the employer contribution rate as a result of that shortfall, and the short term impact of funded position assuming experience over the next two years consistent with actuarial assumptions.

	KERS Nonhazardous	KERS Hazardous	State Police
Actuarially Computed Annual Contribution Amount	$9,182,000	$102,000	$28,000
Anticipated Annual Funding	0	0	0
Asset Shortfall at End of Two Years	19,911,000	220,000	61,000
Increase in Employer Funding Rate as a Result of Asset Shortfall	0.08%	0.01%	0.01%
Decrease in Funded Percentage as a Result of Asset Shortfall	0.6%	0.1%	0.1%

The short term impact is not significant. But the greater impact is the precedent which would be set to fund benefits at less than the actuarially computed level. ***The long term impact of this precedent could be disastrous to the funded position of the retirement system.***

V. ACTUARIAL CERTIFICATION

Calculations of the estimated cost impact as summarized in Section III have been based on the same actuarial assumptions and methods as used in the June 30, 1997 actuarial valuation, unless otherwise stated. This statement is intended to provide an estimate of the cost impact of proposed revisions noted in Section I, and does not necessarily address the appropriateness of making such revision.

Stephen A. Gagel
Stephen A. Gagel, F.S.A.
William M. Mercer, Incorporated

2/18/98
Date

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COMMONWEALTH OF KENTUCKY
STATE FISCAL NOTE STATEMENT

GENERAL ASSEMBLY
1998 REGULAR SESSION

LEGISLATIVE RESEARCH COMMISSION
1996-97 INTERIM

MEASURE

(X) 98 BR No. 1215

(X) Senate Bill No. 142/GA

() Resolution No. ______

() Amendment No. ______

SUBJECT/TITLE An Act relating to retirement

SPONSOR Senator Fred Bradley

NOTE SUMMARY

Fiscal Analysis: X Impact ____ No Impact X Indeterminable Impact

Level(s) of Impact: X State ____ Local ____ Federal

Budget Unit(s) Impact ______

Fund(s) Impact: X General X Road X Federal
X Restricted Agency (Type) X (Other)

FISCAL SUMMARY

Fiscal Estimates	1997-98	1998-99	1999-2000	Future Annual Rate of Change
Revenues (+/-)				
Expenditures (+/-)		Indeterminable	Indeterminable	
Net Effect		Indeterminable	Indeterminable	

MEASURE'S PURPOSE:
SB 142/GA increases the benefit multiplier from 1.97% to 2%, effective February 1, 1999, for Kentucky Employees Retirement System (KERS) members who were participating in one of the state-administered retirement systems as of January 1, 1998 and continues to participate through January 1, 1999. The benefit multiplier is increased to 2.2% for a KERS member whose date of retirement is between February 1, 1999 and January 31, 2009, and who has at least 20 years of service credit in one of the state-administered retirement systems as of January 1, 1998 and continues to participate through January 1, 1999. The funding for the increases in the benefit multiplier is required to be provided from existing funds of the retirement allowance account. The death benefit is increased from $2,500 to $5,000 for retired members of the Kentucky Employees Retirement System, County Employees Retirement System, or the State Police Retirement System who had a minimum of 48 months of service.

PROVISION/MECHANICS:
Amend KRS 61.595 to increase the benefit multiplier and require funding to be provided from existing funds of the retirement allowance account and amend KRS 61.705 to increase the death benefit.

FISCAL EXPLANATION:
To quantify the fiscal impact of SB 142/GA, several assumptions are made and two views are presented. It is assumed that funding for the increase in the multiplier and the death benefit will not be provided in FB 1998-2000 but the benefit improvements will be considered in future actuarially determined costs to the systems. This will have an impact on future contribution requirements which is presented below along with an analysis of the impact to the funding level of the KERS nonhazardous, KERS hazardous, and the SPRS. The funding estimates provided

by the actuary are based upon the same assumptions and methods used in the June 30, 1997 actuarial valuation and are dependent upon the number of people who take advantage of the temporary increase in the benefit multiplier. The projected payroll was calculated using the average increase for the last three biennium.

The level of funding for the three systems is displayed from the June 30, 1997 Annual Actuarial Valuation Report and a projected level is listed for June 30, 2000. The projected level of funding is adjusted for the estimated future impact of the benefit improvements included in SB 142/GA.

Overall Funding Level Impact from SB 142/GA

	KERS Non hazardous	KERS Hazardous	SPRS
6/30/97 Percent Funded	106.4%	118.3%	109.3%
6/30/2000 Projected Percent Funded	105.7%	112.7%	108.9%
Impact of SB 142/GA	.6%	.1%	.1%
Revised 6/30/2000 Level	105.1%	112.6%	108.8%

The impact to the future employer contribution rates is shown below assuming that the benefit increases will be included in future actuarial valuations and calculations. The projected change does not anticipate any other impacts to the retirement systems that may occur such as economic or legislative changes. The projected increase in the employer rate is multiplied by the projected salaries for the respective system to determine the increase in funding generated by the increase in the employer contribution rates.

Employer Contribution Rate Impact from SB 142/GA

	KERS Non hazardous	KERS Hazardous	SPRS
Change in multiplier	.66%		
Increase in Death Benefit	.10%	.09%	.08%
Impact of delaying funding	.08%	.01%	.01%
Total Impact of SB 142/GA	.84%	.10%	.09%
Additional Funds Generated	$11,013,000	$93,400	$33,600

It is estimated that 50% of the employer contributions would come from the General Fund, 11% would come from Federal Funds, 23% would be come from the Road Fund, 6.5% would come from Restricted Funds, and 9.5% would come from other funds. This estimate is based upon the source of funds expended for the employer contributions in FY 1996-97.

DATA SOURCE(S) Actuarial Analysis, Payroll Disbursement

NOTE NO. 166 **PREPARER** Karen Hilborn Crabtree **REVIEW** **DATE** 2/24/98

LRC 98-BR1215GA

COMMONWEALTH OF KENTUCKY
STATE FISCAL NOTE STATEMENT

GENERAL ASSEMBLY
1998 REGULAR SESSION

LEGISLATIVE RESEARCH COMMISSION
1996-97 INTERIM

MEASURE

(X) 98 BR No. 1215 (X) Senate Bill No. 142/SCS 2

() Resolution No. ______ () Amendment No. ______

SUBJECT/TITLE An Act relating to retirement

SPONSOR Senator Fred Bradley

NOTE SUMMARY

Fiscal Analysis: X Impact ____ No Impact X Indeterminable Impact

Level(s) of Impact: X State ____ Local ____ Federal

Budget Unit(s) Impact ______

Fund(s) Impact: X General X Road X Federal
X Restricted Agency (Type) X (Other)

FISCAL SUMMARY

Fiscal Estimates	1997-98	1998-99	1999-2000	Future Annual Rate of Change
Revenues (+/-)				
Expenditures (+/-)		Indeterminable	Indeterminable	
Net Effect		Indeterminable	Indeterminable	

MEASURE'S PURPOSE:
SB 142/SCS increases the benefit multiplier from 1.97% to 2%, effective February 1, 1999, for Kentucky Employees Retirement System (KERS) members who were participating in one of the state-administered retirement systems as of January 1, 1998 and continues to participate through January 1, 1999. The benefit multiplier is increased to 2.2% for a KERS member whose date of retirement is between February 1, 1999 and January 31, 2009, and who has at least 20 years of service credit in one of the state-administered retirement systems as of January 1, 1998 and continues to participate through January 1, 1999. The funding for the increases in the benefit multiplier is required to be provided from existing funds of the retirement allowance account. The death benefit is increased from $2,500 to $5,000 for retired members of the Kentucky Employees Retirement System, County Employees Retirement System, or the State Police Retirement System who had a minimum of 48 months of service.

PROVISION/MECHANICS:
Amend KRS 61.595 to increase the benefit multiplier and require funding to be provided from existing funds of the retirement allowance account and amend KRS 61.705 to increase the death benefit.

FISCAL EXPLANATION:
To quantify the fiscal impact of SB 142/SCS 2, several assumptions are made and two views are presented. It is assumed that funding for the increase in the multiplier and the death benefit will not be provided in FB 1998-2000 but the benefit improvements will be considered in future actuarially determined costs to the systems. This will have an impact on future contribution requirements which is presented below along with an analysis of the impact

to the funding level of the KERS nonhazardous, KERS hazardous, and the SPRS. The funding estimates provided by the actuary are based upon the same assumptions and methods used in the June 30, 1997 actuarial valuation and are dependent upon the number of people who take advantage of the temporary increase in the benefit multiplier. The projected payroll was calculated using the average increase for the last three biennium.

The level of funding for the three systems is displayed from the June 30, 1997 Annual Actuarial Valuation Report and a projected level is listed for June 30, 2000. The projected level of funding is adjusted for the estimated future impact of the benefit improvements included in SB 142/SCS 2.

Overall Funding Level Impact from SB 142/SCS 2

	KERS Non hazardous	KERS Hazardous	SPRS
6/30/97 Percent Funded	106.4%	118.3%	109.3%
6/30/2000 Projected Percent Funded	105.7%	112.7%	108.9%
Impact of SB 142/SCS 2	.6%	.1%	.1%
Revised 6/30/2000 Level	105.1%	112.6%	108.8%

The impact to the future employer contribution rates is shown below assuming that the benefit increases will be included in future actuarial valuations and calculations. The projected change does not anticipate any other impacts to the retirement systems that may occur such as economic or legislative changes. The projected increase in the employer rate is multiplied by the projected salaries for the respective system to determine the increase in funding generated by the increase in the employer contribution rates.

Employer Contribution Rate Impact from SB 142/SCS 2

	KERS Non hazardous	KERS Hazardous	SPRS
Change in multiplier	.66%		
Increase in Death Benefit	.10%	.09%	.08%
Impact of delaying funding	.08%	.01%	.01%
Total Impact of SB 142/SCS 2	.84%	.10%	.09%
Additional Funds Generated	$11,013,000	$93,400	$33,600

It is estimated that 50% of the employer contributions would come from the General Fund, 11% would come from Federal Funds, 23% would be come from the Road Fund, 6.5% would come from Restricted Funds, and 9.5% would come from other funds. This estimate is based upon the source of funds expended for the employer contributions in FY 1996-97.

DATA SOURCE(S) Actuarial Analysis, Payroll Disbursement

NOTE NO. 166 PREPARER Karen Hilborn Crabtree REVIEW JF DATE 2/22/98