

SUMMARY OF 2018 SB 1

401(a) Money Purchase Plan

SB 1 creates, as of January 1, 2019, a new benefit tier within the Kentucky Employees Retirement System (KERS), known as the **401(a) Money Purchase Plan**. The plan is a defined contribution plan and will provide a monthly retirement benefit to a vested retiree based upon the member's accumulated account balance. The accumulated account balance represents the member's contribution, a state contribution of 4.00%, and investment returns on both the member and state contribution. In lieu of a retirement benefit, the vested retiree may elect to receive a lump-sum payment of the actuarial equivalent of the retirement benefit, or a refund of his or her account balance. The refund is available to the non-vested member. (See SB 1, Section 12.)

All members of the Judicial Retirement Plan (JRP) and the Legislators Retirement Plan (LRP) are eligible for participation in the KERS 401(a) Money Purchase Plan on or after January 1, 2019. Participation requires the member to make an irrevocable election. The date the election is made, the member's account in the Defined Benefit Plan or the Hybrid Cash Balance Plan within JRP or LRP stays constant, his or her membership is terminated in JRP or LRP, and the member becomes a participant in the KERS 401(a) plan. Eligibility for participation by a JRP or LRP member requires a favorable private letter ruling from the Internal Revenue Service. (See SB 1, Section 7.)

Defined Benefit Plan Members -- LRP

The formula for determining a retirement benefit is Final Compensation *times* Service Credit Rate *times* Years of Service. In the benefit formula, the service credit rate of 2.75% shall apply to years of service earned prior to January 1, 2019, and the service credit rate of 1.97% shall apply to years of service earned after January 1, 2019. (See SB 1, Section 3.)

In determining final compensation, a component in the benefit formula, only creditable compensation earned for service while a member of the General Assembly is recognized. On January 1, 2019, all LRP retirement benefits shall be recalculated utilizing legislative salary, and the recalculated benefit shall be payable beginning January 1, 2019. (See SB 1, Section 4.)

Hybrid Cash Balance (HCB) Plan Members – JRP and LRP

Beginning June 30, interest applied to an HCB accumulated account balance will be 85% of the respective plan's geometric investment return average. This changes the current interest calculation of 4.00%, plus 75% of the difference between the geometric average and 4.00%. (See SB 1, Section 9.)

Spiking and Retired/Re-Employed – JRP and LRP

Sections 2, 6 and 28 address these matters. JRP and LRP benefit calculations are based on actual member circumstances upon retirement and a member's complete and final pension record; thus, a summary of these various issues is impracticable.