

Program Review and Investigations Committee



Local Defined-Benefit Pension Plans In Kentucky

June 11, 2015

House Bill 398 (1988)



- HB 398 closed local defined-benefit pension plans to new enrollees in 1988
 - First class cities and urban county governments given option to retain plans
- 30 remaining plans in 22 cities
 - 29 closed to new enrollees
 - Lexington-Fayette police and firefighter plan is open to new enrollees

Governing Statutes For Local Defined-Benefit Plans



- Nothing in statute to indicate state financial responsibility for local defined-benefit plans other than for the County Employees Retirement System
- By Kentucky statute, there is an inviolable contract between the city and employee for urban-county and first and second class employee plans

Requirements For All Plans



- Reporting (KRS 65.156)
 - Actuarial report at least once every 3 years to LRC
 - Most plans do reports but do not submit to LRC
- Actuarial Soundness (KRS 65.156(3))
 - City is to contribute what actuary states is “adequate to pay retiree and beneficiary payments until financial obligations...are fully satisfied.”

Requirements That Vary By City Classification, Type Of Employee



- Governing board set in statute for most plans
 - Second, Third, and Fourth Class police and firefighter plans
 - Active members-2 representatives, can be from same dept. if all active members are from that dept.
 - Retirees and beneficiaries-2 representatives; no contingency if all are from the same dept.

Recommendation 1



The General Assembly may wish to consider revising statutes related to the composition of governing boards of police and firefighter plans of second, third, and fourth class cities.

Requirements That Vary By City Classification, Type Of Employee



- Statute may also establish employee contributions, benefits, minimum service time and age for retirement, reporting to the city, cost-of-living adjustments, and who qualifies as a beneficiary of a retiree
 - Beneficiaries: depending on governing statute, can be surviving spouse, minor children, and/or dependent parents

29 Defined-Benefit Plans Closed To New Enrollees Have 1,093 Retirees & Beneficiaries



Ashland P&F	30 Glasgow P&F	2 Murray P&F (2011)	10
Ashland Employee	28 Hazard P&F	26 Newport Employee	25
Bowling Green P&F	43 Henderson Employee	9 Newport P&F	32
Corbin P&F (2011)	25 Henderson P&F	20 Owensboro Employee	38
Covington Employee	43 Hopkinsville P&F	28 Owensboro P&F	49
Covington P&F	72 Lexington-Fayette Employee	83 Paducah Employee	4
Danville P&F	13 Louisville Fire	183 Paducah P&F	61
Fort Thomas P&F	5 Louisville Police	151 Richmond P&F	8
Frankfort P&F	15 Madisonville P&F	29 Winchester P&F	8
Franklin Employee	20 Mayfield P&F (2010)	33 Total	1,093

Note: As of 2014 or 2013 unless noted. "P&F" indicates a plan for police and firefighters. Plans in blue have 1 active employee; other plans have no active employees.

Source: Actuarial reports of pension plans, annual financial reports of cities, and local officials.

Retirees And Beneficiaries By City Of Plans Closed To New Enrollees



<i>City</i>	<i>Number</i>	<i>Pct.</i>	<i>Cumulative Pct.</i>
Louisville	334	30.6 %	30.6%
Covington	115	10.5	41.1
Owensboro	87	8.0	49.0
Lexington-Fayette Employee	83	7.6	56.6
Paducah	65	5.9	62.6
Ashland	58	5.3	67.9
Newport	57	5.2	73.0
Bowling Green	43	3.9	77.1
Maryfield (2010)	33	3.0	80.1
<i>Fewer Than 30 Each: Henderson, Madisonville, Hopkinsville, Hazard, Corbin, (2011), Franklin,</i>	218	19.9	100.0

Plan Open To New Enrollees



- Lexington-Fayette County Police and Firemen
- As of 2014
 - 1,097 active members
 - 1,070 retirees and beneficiaries

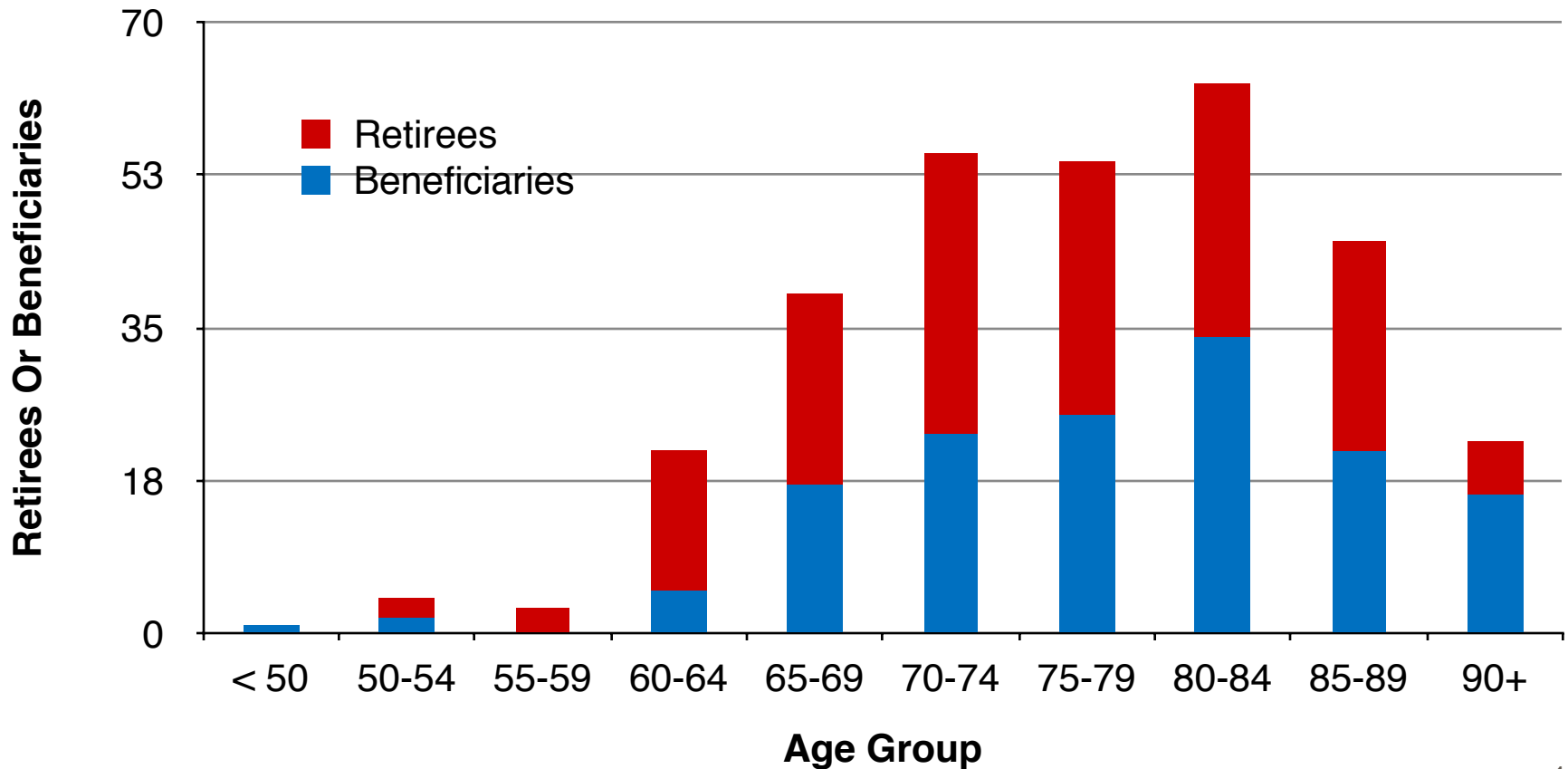
Average Age Of Retirees And Beneficiaries Of 14 Plans



<i>Plan</i>	<i>Age</i>	<i>Year</i>	<i>Plan</i>	<i>Age</i>	<i>Year</i>
Bowling Green P&F	76	2014	Murray P&F	73	2011
Corbin P&F	71	2011	Newport Employee	80	2014
Fort Thomas P&F	77	2013	Newport P&F	78	2014
Frankfort P&F	79	2013	Owensboro Employee	81	2014
Hopkinsville P&F	73	2012	Owensboro P&F	79	2014
Madisonville P&F	72	2013	Richmond P&F	81	2013
Mayfield P&F	63	2010			
Lexington –Fayette P&F	63	2013			

Note: These are the only plans for which information on age was reported.

Average Age Of Retirees And Beneficiaries For 12 Plans Closed To New Enrollees



Years range from 2010 to 2014.
Source: Actuarial reports.

Average Annual Pension Of Retirees And Beneficiaries



Paducah Employee	\$5,288	Louisville Police	\$15,380	Ashland P&F	\$19,414
Franklin Employee	5,751	Louisville Firefighters	15,899	Madisonville P&F	19,419
Fort Thomas P&F	6,675	Glasgow P&F	16,155	Lexington Employee	19,624
Newport Employee	9,751	Murray P&F (2011)	16,269	Covington P&F	19,985
Owensboro Employee	9,778	Mayfield P&F (2010)	16,991	Bowling Green P&F	20,743
Newport P&F	12,120	Corbin P&F (2011)	17,911	Henderson P&F	20,823
Winchester P&F	13,920	Henderson Employee	18,185	Frankfort P&F	21,704
Hopkinsville P&F	14,306	Hazard P&F	18,224	Paducah P&F	23,690
Covington Employee	14,506	Danville P&F	18,597	Ashland Employee	26,143
Richmond P&F	14,730	Owensboro P&F	18,928	Lexington-Fayette P&F	50,091

As of 2014 or 2013 unless noted. "P&F" indicates a plan for police and firefighters.

Source: Actuarial reports of plans and annual financial reports of cities.

Unfunded Liabilities And Funded Ratios Of Plans

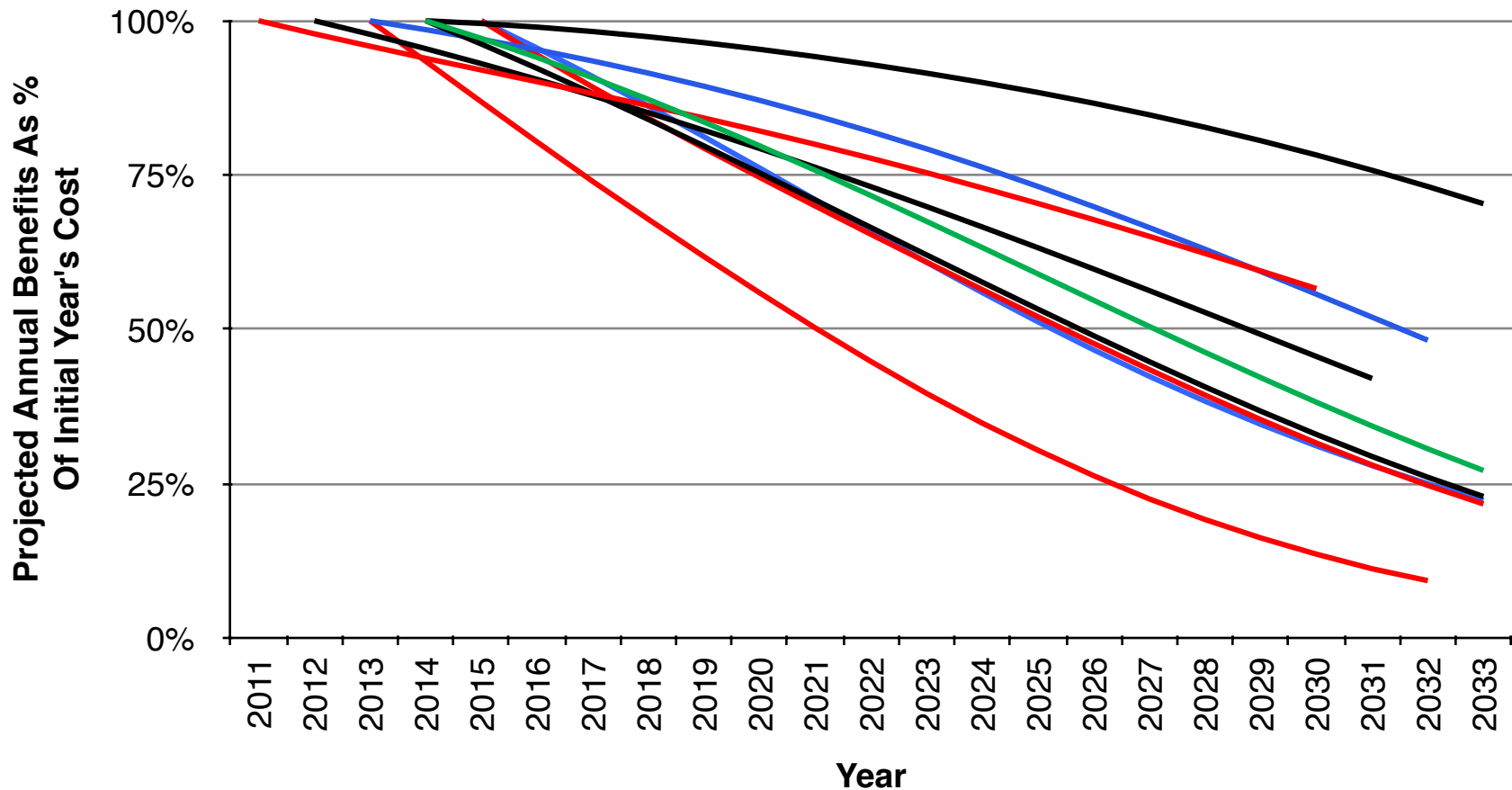


Lexington-Fayette	-\$18,857,760	258%	Louisville Police	\$9,507,174	42%
Frankfort P&F	-2,546,536	191	Louisville Fire	13,521,776	38
Owensboro Employee	-1,030,850	139	Owensboro P&F	4,748,076	36
Newport P&F	16,749	99	Danville P&F	1,848,897	30
Bowling Green P&F	212,256	97	Ashland Employee	5,460,455	30
Lexington-Fayette P&F	180,634,396	76	Hopkinsville P&F	2,894,834	26
Fort Thomas P&F	71,595	75	Hazard P&F	4,602,159	23
Covington P&F	2,637,495	75	Ashland P&F	3,606,960	17
Richmond P&F	272,571	70	Corbin P&F (2011)	5,222,970	12
Winchester P&F	656,028	69	Mayfield P&F (2010)	14,062,961	4
Newport Employee	562,077	67	Madisonville P&F	4,909,973	2
Covington Employee	1,619,009	65	Henderson Employee	1,466,196	0
Paducah P&F	3,840,121	65	Franklin Employee	1,455,926	0
Murray P&F (2011)	805,282	52	Henderson P&F	4,906,293	0
Paducah Employee	56,841	46	Glasgow P&F	Not reported	14 0

As of 2014 or 2013 unless noted. "P&F" indicates a plan for police and firefighters.

Source: Actuarial reports of plans and annual financial reports of cities.

Projected Benefits For Nine Plans Closed To New Enrollees



Police and firefighter plan unless indicated otherwise.

Source: Actuarial reports of plans.

Five Cities Have Issued Bonds To Finance Pension Liabilities



			<i>Annual</i>
Lexington-Fayette P&F	\$136,145,000 (3 bonds)	2009, 2010, 2012	\$5,365,000
<i>Covington: Employee, P&F</i>	<i>\$14,410,000</i>	<i>2004</i>	<i>\$1,038,111</i>
Newport: Employee, P&F	\$7,705,000	2007	\$583,375
<i>Owensboro P&F</i>	<i>\$4,100,000</i>	<i>2014</i>	<i>\$301,407</i>
Paducah P&F	\$6,100,000	2006	\$497,221

Source: City annual financial reports, local officials.

Cities' Actuarially Required Contribution & Pension Bond Payment As % Of General Fund Revenue (as of 2014 or 2013)



Bowling Green P&F	0.0	Henderson: Employee, P&F	2.1
Fort Thomas P&F	0.0	Franklin Employee	2.3
Frankfort P&F	0.0	Hopkinsville P&F	2.6
Lexington-Fayette Employee	0.0	Madisonville P&F	3.0
Richmond P&F	0.1	Paducah: Employee, P&F	1.4
Glasgow P&F*	0.3	Covington: Employee, P&F	0.9
Louisville: Fire, Police	0.8	Newport: Employee, P&F	0.3
Murray P&F	0.9	Ashland: Employee, P&F	3.5
Winchester P&F	1.0	Corbin P&F	4.8
Danville P&F	1.3	Hazard P&F	7.3
Owensboro: Employee, P&F	1.2	Mayfield P&F	9.7
		Lexington-Fayette P&F	9.4

*Benefits as % of general fund.
 Cities with bond payments.

Governing Statutes: Repealing A Plan



- At some point, plans closed to new enrollees will have no retirees and beneficiaries
 - Statute only covers repeal of Fourth Class police and firefighter plans (KRS 95.783). Provisions include
 - Repeal ordinance adopted by unanimous vote of city legislative body
 - Money appropriated to pension from general fund reverts to general fund

Recommendation 2



The General Assembly may wish to revise statutes governing local defined-benefit pension plans to establish procedures for the repeal of plans with no retirees and beneficiaries.

Governing Statutes: Reporting



- **For plans with few retirees and beneficiaries, it is feasible that the cost of the plan will be manageable regardless of the fund's actuarial status.**

Recommendation 3



The General Assembly may wish to consider revising the timing of actuarial reports as specified in KRS 65.156.