

# EVOLUTION of Benefits

Legislative changes - how they have impacted the plans

Twenty years ago, KPPA operated simplistic single-tiered pension and insurance plans for each system. Today, we administer complex multi-tiered pension and insurance plans. During this same period, our membership has nearly doubled.

## BENEFIT TIERS

KPPA currently operates three different pension benefit tiers within our defined benefit plans. The Hybrid Cash Balance plan was established as a part of Senate Bill 2, enacted by the Kentucky General Assembly during 2013 Regular Session.

A member's tier depends on their initial participation date with a system operated by KPPA. Participation date is when the member began paying contributions and earning service credit. Please note this date may be different from when the member was hired. Participation date can change the level of pension and health insurance benefits to which the member is entitled, health insurance eligibility, and eligibility to purchase service.



**Members participating before September 1, 2008**

Tier 1 is a defined benefit plan because it uses a specific formula to determine benefits and the assets of the plan remain in a single investment pool.



**Members participating on or after September 1, 2008 through December 31, 2013**

In 2008, House Bill 1 was passed modifying the benefits for those hired on or after September 1, 2008. It still remained a Defined Benefit Plan but some restrictions were added.



**Members participating on or after January 1, 2014**

In 2013, Senate Bill 2 was passed and the plans were redesigned to operate as a Cash Balance Plan for members participating on or after January 1, 2014. This plan is a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan.

### Upside Sharing Interest

Upside Sharing Interest is additional interest credit that may be applied to a Tier 3 account. It is NOT guaranteed. The following conditions must be met before Upside Sharing Interest is credited to an account: 1. The system's Geometric Average Net Investment Return (GANIR) for the last five (5) years must exceed 4% and 2. The member must have been active and participating in the fiscal year.

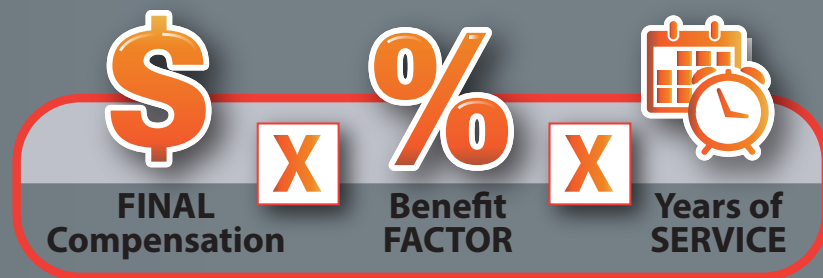
If the GANIR exceeds 4%, then the members account will be credited with 75% of the amount of the return over 4%. It is applied to the account balance as of June 30 of the previous year.

## Requirements for Retirement

Tier 1 (Before 9/1/08)		Tier 2 (9/1/08 - 12/31/13)		Tier 3 (After 1/1/14)	
Nonhazardous	Hazardous	Nonhazardous	Hazardous	Nonhazardous	Hazardous
<ul style="list-style-type: none"> <li>Age 65 or older with 1+ month of service credit.</li> <li>Any age with 27+ years of service credit.</li> </ul>	<ul style="list-style-type: none"> <li>Age 55 or older with 1+ month of service credit.</li> <li>Any age with 20+ years of service credit.</li> </ul>	<ul style="list-style-type: none"> <li>Age 65 or older with 5+ years of service credit.</li> <li>Rule of 87: Age 57+ if age plus service credit equals 87 years.</li> </ul>	<ul style="list-style-type: none"> <li>Age 60 or older with 5+ years of service credit.</li> <li>Any age with 25+ years of service credit.</li> </ul>	<ul style="list-style-type: none"> <li>Age 65 or older with 5+ years of service credit.</li> <li>Rule of 87: Age 57+ if age plus service credit equals 87 years.</li> </ul>	<ul style="list-style-type: none"> <li>Any age with 25+ years of service credit.</li> <li>Age 60 with 5+ years of service credit.</li> </ul>
<p><i>The requirements for a Reduced Benefit are:</i></p> <ul style="list-style-type: none"> <li>Prior to age 65 with at least 25 but less than 27 years of service credit.</li> <li>Age 55 with at least 5 years of service credit.</li> </ul>		<p><i>The requirements for a Reduced Benefit are:</i></p> <ul style="list-style-type: none"> <li>Age 50 with 15, but less than 20, years of service credit.</li> <li>Age 60+ with at least 10 years of service credit.</li> </ul>		<p><b>No reduced benefit options</b></p>	

## Calculating Benefits

Benefits for Tier 1 and 2 are calculated using a formula.



Tier 3 uses an Annuity Option with Upside Sharing

2019 Upside Sharing- (A-B) X 75% = C then C+B=D

System	A 5 Year Geometric Average Return (GANIR)	B Guarantee Rate	C Upside Sharing Interest	D Interest Rate Earned	Total Interest Credited To Members' Accounts (\$ in Millions)
KERS Nonhazardous	4.77%	4%	.58%	4.58%	\$3,004
KERS Hazardous	5.61%	4%	1.21%	5.21%	\$980
CERS Nonhazardous	5.51%	4%	1.13%	5.13%	\$6,360
CERS Hazardous	5.79%	4%	1.34%	5.34%	\$1,838
SPRS	5.05%	4%	.79%	4.79%	\$115

## Medical Insurance Coverage - Non Medicare and Medicare plans

Participation prior to 7/01/2003

House Bill 290 - Participation 7/01/2003 - 8/31/2008

House Bill 1 - Participation on or after 9/01/2008