MSU Staff Who Participate in KY Employees Retirement System:

As you are likely aware, the Commonwealth of Kentucky has been grappling with a variety of state pension issues for several years now. Last week, the Kentucky General Assembly passed House Bill 358 which addresses the Kentucky Employee Retirement System (KERS) and its structure. The passage of HB 358 is still under consideration by the Governor and he has 10 days from last week with which to sign/endorse it.

Presently, MSU pays an employer contribution rate of 49 cents on top of every dollar of payroll for our non-hazardous duty employees in KERS. This amount was scheduled to rise to almost 84 cents on top of every dollar of payroll beginning July 1, 2019. The result of this drastic increase would have had severe financial consequences to all participating universities in Kentucky, and each university would have had a hard time making that steep of a payment. The new payment for MSU would have been over $3 million additional/new dollars.

One of the good aspects of HB 358 is that it does provide some temporary relief of the scheduled rate increase for one year. However, the bill will also require us to make some possible structural changes in our KERS participation, payments, and will change the status of some of our employees within the KERS state pension system.

Should the Governor sign the bill, we will likely have several campus informational sessions to explain the changes. However, in brief, the following is an outline of what our next 6-12 months might look like:

- Currently, all of our KERS employees are in a 'Tiered' structure that is contingent on when each was hired:

  Tier I: Employees hired prior to Sept. 1, 2008
  Tier II: Employees hired on or after to Sept. 1, 2008 and prior to January 1, 2014
  Tier III: Employees hired on or after January 1, 2014

- Over the course of the next few months MSU would have to pay for an actuarial study through KERS to determine whether it would be beneficial to remain in KERS and pay the 84 cents on each dollar of payroll (which will likely rise even more), or exit the pension system under the provisions of HB 358.

- Should our University decide to stay in the KERS system after July 1, 2020, then we would incur significant costs to do so. However, should we discontinue our participation with KERS, and based on the legislation, the following would likely happen:

  Employees hired after a set date would automatically be enrolled into our Optional Retirement Plan (ORP), similar to the option that our faculty and professional staff have currently.

Employees hired within the Tier III timeframe noted above would be automatically moved to our ORP and they would take their account balances from KERS with them. From that point onward, they would remain in our ORP as their retirement program.

Employees hired within the Tier I and II timeframe would likely have the option to remain in KERS, or the alternative to freeze their accounts and go into our ORP from that point onward. This would be a one-time irrevocable option which will likely have to be made within the next few months.

In addition to the above general outline, there are a number of other intricate items within this legislative bill that we will have to look at very closely and analyze what our best way forward would be.

Should the Governor sign the bill, over the course of the next few weeks we will be working to analyze its components internally, then we will be offering our staff who are participants in KERS several informational sessions to provide education on the various options and requirements that each may need to consider as they make an individual decision. From that point, we must conduct and pay for an actuarial study to see what our future payments might be. So, there is quite a process that may have to unfold over the next 6-12 months.

At the present time, we do not see any aspect of the legislative bill that would affect the accrued benefits and service time earned that Tier I and II employees have up to this point. Likewise, it seems that the bill has no bearing on our employees in KTRS, individuals currently in our ORP, or individuals in the KERS hazardous duty retirement plan (police officers).

Thank you and we will keep you informed as we know more.

Jay Morgan
President