

Kentucky Retirement Systems

The ABCs of
KRS: Tier 3 Members



Plan Administration

KRS administers retirement benefits for over 386,000 state and local government employees

- These employees include state employees, state police officers, city and county employees, local agency employees, and nonteaching staff of local school boards and regional universities.



Kentucky
Employees
Retirement System
(KERS)

County Employees
Retirement System
(CERS)

State Police
Retirement System
(SPRS)

Plan Administration

A seventeen-member Board of Directors administers the Systems:

- Two elected by KERS members
- Three elected by CERS members
- One elected by SPRS members
- Ten appointed by the Governor
 - One must be knowledgeable about the pension requirements on local governments
 - Six must have at least 10 years of investment experience
 - One each from lists of nominees submitted by the KY League of Cities, the KY Association of Counties, and the KY School Boards Association
- The Secretary of the Kentucky Personnel Cabinet, ex officio

The Board appoints an Executive Director to act as the Chief Administrative Officer of the Board

KRS reports for budget purposes to the Kentucky General Assembly

Plan Funding

How are my retirement benefits funded?

Employee Contributions

- Rate is set by statute
- Rate cannot be adjusted by the employee
- Contributions are tax-deferred

Employer Contributions

- Rate determined by KRS Board of Directors
- Subject to approval by General Assembly

Investment Income

- The KRS Investment Committee has the authority to make investment decisions and hire external investment managers and consultants
- KRS utilizes internal investment staff, external investment managers, and independent investment consultants to conduct the investment program

Plan Funding

How are my retirement benefits funded?

2019-2020	Employee Contribution Rate *	Employer Contribution Rate
KERS Non-Hazardous	5%	83.43%
KERS Hazardous	8%	36.85%
CERS Non-Hazardous	5%	24.06%
CERS Hazardous	8%	39.58%
SPRS	8%	146.28%

* Tier 2 and Tier 3 participants contribute an additional 1% towards the KRS Insurance Fund

KRS Current Assets and Benefit Payments

As of June 30, 2019,
the market value of
KRS assets (pension
and insurance) was
\$18.1 billion

KRS pays over **\$2.0
billion** in pension
benefits each year

93.64% of benefit
payments are
delivered to Kentucky
residents and have a
significant impact on
the Kentucky economy

Member Accounts

How KRS Protects Your Information

Policies and processes

Member ID

- 6- or 7-digit number
- Used to maintain your account and file information
- Used on forms and letters

Personal Identification Number (PIN)

- 4-digit number
- Serves as added layer of security
- Required to obtain account information by phone

Member Accounts

Annual
Statement of
Account

- Available online

Interest on
Accounts

- Currently 4%

Member
Responsibilities

- Change of Address
- Beneficiary Updates

Accessing
Benefits Info

- Internet
 - Member Self Service (MSS):
Myretirement.ky.gov
 - KRS website: Kyret.ky.gov
- Telephone: 800-928-4646
- Mail
- Email: krs.mail@kyret.ky.gov
Email is not secure

What is Tier 3?

With statutory changes enacted in 2008 and 2013, the retirement eligibility and structure of retirement payments changed dramatically.

- KRS designates members in three distinct tiers, based on initial participation date:



Determination of Benefits

How is my monthly payment calculated?

The three (3) systems administered by the Kentucky Retirement Systems are qualified public defined benefit plans



A defined benefit plan pays benefits based on a formula

Hybrid Cash Balance Plan

How does it work?

A Cash Balance plan
is known as a hybrid
plan



It has characteristics
of both a defined
benefit plan and a
defined contribution
plan.

Hybrid Cash Balance Plan

How does it work?

Defined Contribution



The plan determines the value of benefits for each participant based on individual accounts

Defined Benefit



The assets of the plan remain in a single investment pool.



The plan uses a specific formula to determine benefits.

When Can I Retire?

Tier 3

Non-Hazardous Requirements for an Unreduced Benefit:

- **Age 65** or older (with more than 60 months of service)
- **Rule of 87:**
 - Must be at least age 57
 - Age plus service must equal 87 years at retirement

Rule of 87

Tier 3, Nonhazardous

Examples:

Age	Years of Service	Age + Service = 87
57	30 years	87
58	29 years	87
59	28 years	87
60	27 years	87
60.5	26.5 years	87

When Can I Retire?

Tier 3

Hazardous Requirements for an Unreduced Benefit:

- Age 60 or older (with more than 60 months of service)
- At least 25 years of service regardless of age

Determination of Benefits

How is my Account Balance Calculated?

Four components comprise a member's Accumulated Account Balance

**Member
Contribution**

**Employer
Pay Credit**

**Base
Interest**

**Upside
Sharing**

Determination of Benefits

Member Contribution

Tier 3 members contribute a set percentage of the creditable compensation each month to their own account.

- Nonhazardous Member Contribution: 5%
- Hazardous member Contribution: 8%

**** Tier 2 and Tier 3 participants contribute an additional 1% towards the KRS Insurance Fund**

Determination of Benefits

Employer Pay Credit

When KRS receives the employer contributions based on your creditable compensation, an Employer Pay Credit is deposited into the member's account.

- Nonhazardous Pay Credit: 4%
- Hazardous Pay Credit: 7.5%

Determination of Benefits

Base Interest

Your account earns a base of 4% annually on both the member contributions and the Employer Pay Credit balance.

Interest is credited to your account each June 30, based on your balance from the previous fiscal year.

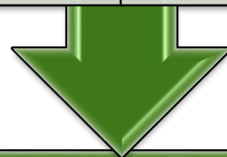
Determination of Benefits

Upside Sharing

Upside sharing Interest is the 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:

The system's geometric average net investment return for the last five years must exceed 4%.

The member must have been active and participating in the fiscal year.



If the net investment return exceeds 4%, then the member's 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.

Determination of Benefits

Upside Sharing Example

Geometric Average net return (assumed):	7.5%	
Minus Base Interest :	<u>(4.0 %)</u>	
Amount of return in excess of Base Interest=	3.5%	
Multiplied by 75 %	X 75 %	
	2.63%	=Upside Sharing Interest Credit
Add base interest	<u>4.0 %</u>	
Total Interest Paid	6.63%	

Determination of Benefits

Upside Sharing FY 2019

Breakdown of Interest

System	Base	Upside Sharing	Total
CERS Hazardous	4.00%	1.34%	5.34%
CERS Nonhazardous	4.00%	1.13%	5.13%
KERS Hazardous	4.00%	1.21%	5.21%
KERS Nonhazardous	4.00%	0.58%	4.58%
SPRS Hazardous	4.00%	0.79%	4.79%

Determination of Benefits

Actuarial Factors

The actuarial factors used to determine your benefit are based on your age at the time of retirement.

- Hazardous and Non-Hazardous plans use different actuarial factors.
- The factors are based on death tables and are subject to change.

Determination of Benefits

Actuarial Factors

Non-Hazardous Members		Hazardous Members	
Age at Retirement	Actuarial Factor	Age at Retirement	Actuarial Factor
57	175.163644	43	200.709276
60	167.346525	45	197.256200
62	162.142797	50	187.509206
65	153.762907	60	162.899727

The factors are based on death tables and are subject to change.

Retirement Formula

Tier 3 Participants- NonHazardous

John Doe works in a NonHazardous position for an agency participating in KERS

Retirement Date: 9/1/2044
57 Years old

Accumulated Account
Balance is \$176,667.55

30 years of Service Credit

Accumulated Account Balance *divided by* Age 57 Actuarial Factor *equals*
Monthly Life Annuity

$$\$176,667.55 \div 175.163644 = \$1,008.56$$

Retirement Payment Options:

Upon retirement, KRS provides various payment options.

- Carefully review the payment options.
- No changes can be made to the payment option or the designated beneficiary after the 1st day of the month the first check is issued.
- Test each option by assuming various contingencies and the likelihood of the contingencies occurring.
- For most payment options, an individual must be receiving a monthly retirement allowance to participate in the medical insurance program.

Retirement Payment Options:

The payment amounts below are examples only

Payment Options	Member Payment	(or) Beneficiary Payment
Annuity Option	\$1,500.11	\$0.00
Life with 10 years certain	\$1,432.19	\$1,432.19 (or) \$0.00
Life with 15 years certain	\$1,408.70	\$1,408.70 (or) \$0.00
Life with 20 years certain	\$1,378.87	\$1,378.87 (or) \$0.00
Survivorship 100%	\$1,321.32	\$1,321.32
Survivorship 66 2/3 %	\$1,362.28	\$908.23
Survivorship 50%	\$1,383.73	\$691.87
Pop-Up Option	\$1,310.14* (see Handbook)	\$1,310.14

John Doe can also reject all monthly payment options and request an actuarial refund of approximately \$73,344.41.

Years of Service

What gets counted towards my retirement?

Current Service

Must average 100 hours or more per month over a calendar or fiscal year, or 80 or hours per month for classified school board employees

Prior Service

Before July 1, 1956 in KERS.

Before July 1, 1958 in CERS or SPRS.

Purchased Service

6 types of service purchases

Benefits of Purchasing Service

Members purchase service to increase their monthly retirement benefit.

Carefully compare the cost of the service credit against the benefits of the purchase.

Compare estimates with and without eligible service purchases

Weigh the cost against the recovery of the investment

Purchasing Service

Types of Service Credit

Will not
change
participation
date:

- **Repayment of a Refund**

- Recontribution of funds refunded from previous participation plus interest
- Member must work for at least 6 months to validate the purchase

May change
participation
date

- **Omitted Service**
- **Omitted Service with Interest**

*Applies to refund buyback requests made on or after 1/1/14

Purchasing Service

Types of Service Credit

Purchases Involving Military Leave :

- **Military Omitted** - based on member and employer contributions not paid while on military leave
- **USERRA** - Allows a member to purchase military service in excess of 6 years if certain conditions are met
- **Decompression** - Up to 90 days between date of discharge and return to employment

Paying For A Service Purchase

Lump Sum Payment

- Federal law limits the use of after-tax money to purchase service by lump sum payment
 - IRC 415(c)

Installment Purchase of Service Agreement (IPS):

- Before Tax
- After Tax
 - Subject to IRC 415(c)

Rollover or Transfer from a Qualified Plan:

- Section 401(a)
- Section 401(k)
- Section 403(b)
- Section 457
- “Conduit” or “Rollover” IRA
- Traditional IRA

To initiate a rollover or transfer, Form 4170 must be completed and is available online or by request .

Installment Payment Plan (IPS)

A minimum service purchase cost of \$1,000 is required.

One year of installment payments is allowed for each \$1,000 in cost with a maximum of 5 years to pay off the cost.

An interest charge of 7.50% compounded annually is applied to the cost.

Accounts in Multiple Systems

What are the other State Administered Systems?

Kentucky
Employees
Retirement
System
(KERS)

County
Employees
Retirement
System
(CERS)

State
Police
Retirement
System
(SPRS)

Kentucky
Teachers
Retirement
System
(KTRS)

Legislators
Retirement
Plan(LRP)

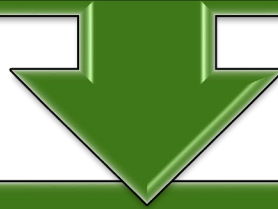
Judicial
Retirement
Plan (JRP)

Accounts in Multiple Systems

What if I have time in another Retirement System?

Members who have accounts in more than one state-administered retirement system in Kentucky

Accounts may be combined at the time of retirement to determine retirement eligibility and benefit amounts.



15 years KTRS + 15 years CERS = 30 total years service credit

Eligible for unreduced benefits based on a combined 30 years/Rule of 87.

The member would receive a check from each system based on the actual service in each system.

Medical Insurance Benefits

Will I get health insurance after I retire?

Tier 3

Employees must have 15 years of earned service credit

Nonhazardous Members will earn \$10 per month towards insurance for each year of earned service



Hazardous Members will earn \$15 per month towards insurance for each year of earned service



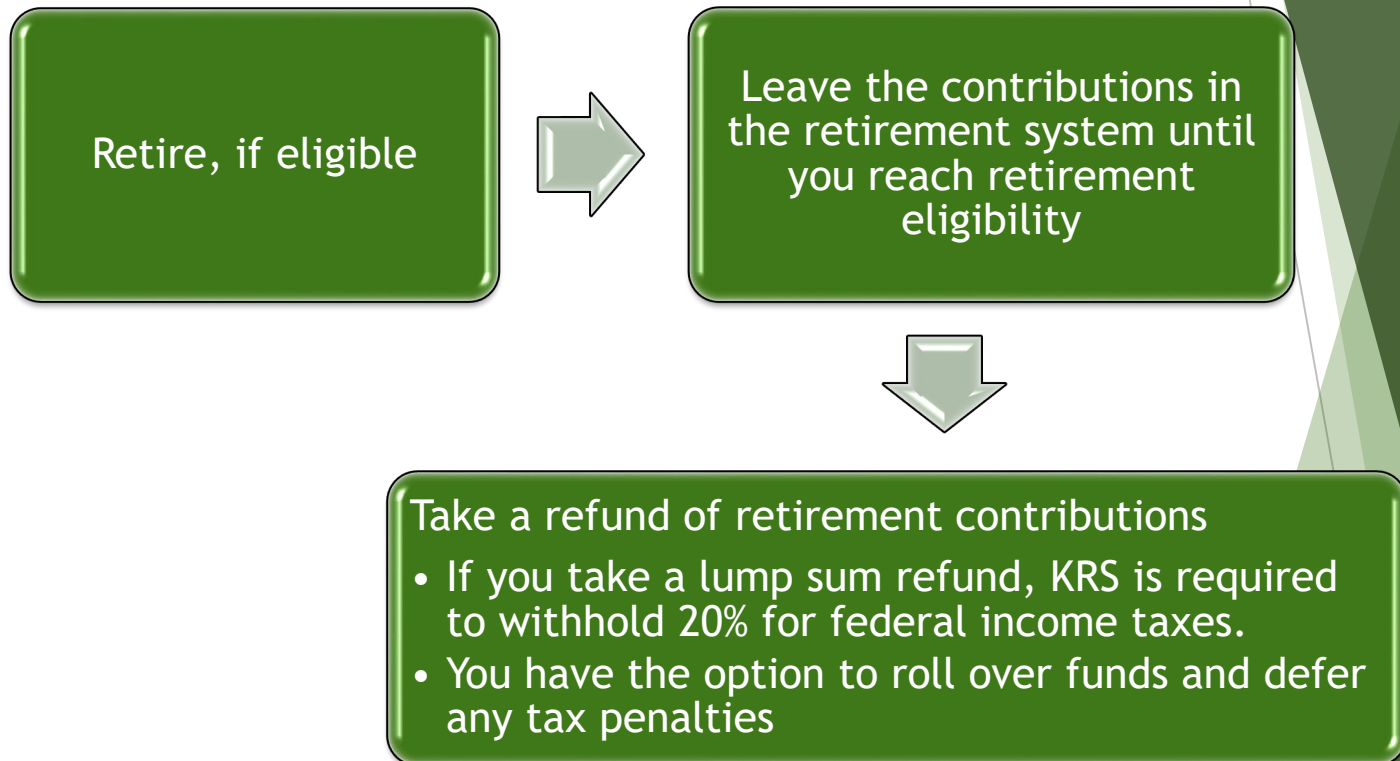
The \$10 contribution will be increased each year by the Cost of Living Adjustment (COLA)

2019/20 Nonhazardous Contribution is \$13.58

2019/20 Hazardous Contribution is \$20.37

Termination of Employment

What happens to my account if I terminate?



Termination of Employment

What happens to my account if I terminate?

Vested Refund - if over 60 months of service, you receive all member contributions, the employer pay credit, and all interest credited to both amounts.

Non-Vested Refund - if less than 60 months of service, you receive all member contributions and interest credited to the member balance.

If you take a non-vested refund, you are eligible to repurchase your service should you ever return to KRS participation.

If you take a vested refund, you are not eligible to participate in a KRS retirement plan in the future

Member Self Service

Did you know you
can access your
account information
online?

Simple Steps to manage your Retirement Account

- Go to MyRetirement.ky.gov
- Or from kyret.ky.gov, click MSS Login

Register

Self Service Registration

To register,
you need:

SSN

Date of
Birth

PIN #

Email
Address

The screenshot shows the 'SELF SERVICE' portal for the Kentucky Retirement Systems. The header includes the KRS logo and navigation links for 'Register' and 'Log In'. The main content area is titled 'Member Self Service' and features a login form with fields for 'User ID' and 'Password', a 'Save ID' checkbox, and a 'Login' button. Below the login form are links for 'Need to register?', 'Forgot User ID or Password?', and 'Employers log in here'. To the right, a green banner announces that the website is now mobile friendly. Below this, a section titled 'Use Member Services to:' lists options like viewing payment details and changing direct deposit information. Further right, an 'Online Calculators' section provides links to a 'Public Benefit Estimator', 'IPS Estimator', and 'Service Purchase Estimator'.

SELF SERVICE

Member Self Service [Register](#) [Log In](#)

Member Self Service

Log in to your account

User ID

Password

☐ Save ID
Consider unchecking if on shared device

Login

[Need to register?](#)

[Forgot User ID or Password?](#)

Note: The information contained in this site is available via a secure connection.

[Employers log in here »](#)

Our self-service website is now mobile friendly.
Same web address and same features with a new look that is easy to use from your smartphone or tablet. Log in using your current User ID and Password or register today to access your account online.

Use Member Services to:

- View your payment details
- Change your direct deposit information
- Request an income verification letter
- Check the status of correspondence

Looking for other START accounts?
To log in to other START accounts, click a link at the bottom of Login.

Online Calculators

- [Public Benefit Estimator »](#)
- [IPS Estimator »](#)
- [Service Purchase Estimator »](#)

Member Self Service

Contact Information

Change your contact information such as your mailing address, phone numbers and email address

Account Summary

View your service credit, contributions, and beneficiary information

Account History

See an overview of contributions and salary through the end of the previous fiscal year

Member Self Service

Account Balance Letter

Request an account balance letter showing your total service, contributions and beneficiary information

Member Correspondence

Check on the status of a request or see if a document has been filed to your account

Annual Statements

View or print your Annual Statement from 2011-2012 forward

KRS Online Resources

Kyret.ky.gov

News feeds

Follow retirement
legislation during the
legislative session

Comprehensive info on
benefits, insurance,
investments, etc.

Access forms, newsletters
and the member handbook

Facebook

[Facebook.com/kyretirement](https://www.facebook.com/kyretirement)

YouTube

[YouTube.com/kentuckyretire](https://www.youtube.com/kentuckyretire)

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