

**PROPOSED POLICY REVISION –
KCTCS BOARD OF REGENTS POLICY 3.7
KCTCS RETIREMENT PLAN POLICIES**

**ACTION
Agenda Item K-2
March 13, 2009**

Recommendation

That the KCTCS Board of Regents approve the proposed revision of *KCTCS Board of Regents 3.7 KCTCS Retirement Plan Policies*.

Rationale

- Responds to the impact of the Governmental Accounting Standards Board's Statement (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which established new accounting standards for reporting post-retirement benefits.
- Significantly reduces future liabilities, enabling KCTCS to utilize its resources more effectively by making changes in line with other agencies and institutions in the public sector.
- For employees hired with an effective date on or after July 1, 2009, a five year vesting period (60 months) of continuous service is established for 403(b) retirement plan participants to be eligible to receive the employee's accrued benefits derived from employer contributions.
- For employees hired with an effective date on or after July 1, 2009, retiree health benefits will no longer be available to 403 (b) plan retirees.
- Updates are shown in the paragraphs related to the *Omnibus Budget Reconciliation Act of 1993* (OBRA) to keep them current.

Background

Previous KCTCS Board of Regents research, analysis, and discussion have included:

- Mercer Benefits Valuation Report, July 2006.
- Benefits Study, Fall 2008.
- At the September 2008 Board meeting, the Finance, Technology, and Human Resources Committee requested that recommendations regarding employee benefits (*for new appointments only*) be presented for the Board's consideration at the December 4-5, 2008, Board meeting.
- Analysis of Retirement Plans, November 2008.
- The proposed revision was an Information Item at the December 2008 Board meeting.

STRIKETHROUGH VERSION

3.7 Kentucky Community and Technical College System Retirement Plan Policies

3.7.1 Retirement Plans

KCTCS provides employees with the option to join a Defined Benefit Plan or a Defined Contribution 403 (b) Plan. The Defined Benefit Plan includes either the Kentucky Teachers Retirement System (KTRS) or the Kentucky Employees Retirement System (KERS). The election to join a retirement plan must be made within 30 days of regular full-time employment. Participation in a KCTCS retirement plan is mandatory for regular full-time employees and a condition of employment.

3.7.2 Defined Benefit Plans

KTRS is a defined benefit plan for employees employed in selected education-related organizations working in a position that requires certification or a degree from a four-year college or university. KERS is a defined benefit plan for non-instructional employees working in a position with a state university that does not require a degree or certification. The rates for contributions and multipliers for retirement annuities are defined by state statute. An irrevocable, one-time election is made to enter either plan. The employee must remain in that retirement system as long as they are in a position that is covered under that retirement system.

3.7.3 Defined Contribution 403 (b) Plan

Employees that enroll in a defined contribution plan make an irrevocable, one-time salary reduction (pre-tax) agreement when entering the plan. The employee may not withdraw from the KCTCS Defined Contribution 403 (b) Plan as long as that employee remains eligible for plan participation.

3.7.3.1 Contributions as a Percent of Annual Salary

By the Participant	By the Institution	Total
5%	10%	15%

KCTCS, or its designate, will withhold the contribution of the participant from regular salary payments, add its contribution, and remit the combined sum to the retirement plan carrier selected by the participant for the purchase of retirement benefits. Retirement contributions are made on the participant’s salary. Retirement benefits purchased with the combined participant and KCTCS contributions shall become the property of individual participants immediately upon

purchase. There is no vesting period. All benefits are for the sole purpose of providing retirement benefits, or death benefits, or both. Participants cannot access their retirement accounts until they separate from service with KCTCS except to use their retirement account as collateral on a 403(b) loan, if allowed, from their 403(b) carrier.

An employee hired with an effective date on or after July 1, 2009 shall be subject to a vesting schedule for employer contributions. An employee must work a total of five years (60 months) of continuous service to be able to complete the vesting period and be eligible to receive the employee's accrued benefits derived from employer contributions.

In addition to other applicable limitations stated in the plan, and notwithstanding any other provisions of the KCTCS retirement policies to the contrary, the annual compensation of each employee taken into account under the plan shall not exceed the Omnibus Budget Reconciliation Act of 1993 (OBRA '93) annual maximum includable compensation limit.

The OBRA '93 annual limit is ~~\$150,000 (currently \$160,000)~~, as adjusted by the Commissioner of the Internal Revenue Service for increases in the cost of living in accordance with section 401 (a) (17) (B) of the Internal Revenue Code. The cost-of-living adjustment in effect for a calendar year applies to any period, beginning in such the calendar year over which compensation is determined. This is the determination period. The determination period may not exceed 12 months. If a determination period consists of fewer than 12 months, the OBRA '93 annual limit will be multiplied by a fraction, the numerator of which is the number of months in the determination period, and the denominator, which is 12.

Any reference in this plan to the limitation under section 401 (a) (17) of the Code shall mean the OBRA '93 annual maximum includable compensation limit stated in this provision. The KCTCS Retirement Plan Year is deemed to begin July 1 of a calendar year and end June 30 of the next calendar year.

If compensation for any prior determination period is taken into account in determining an employee's benefits accruing in the current plan year, the compensation for that prior determination period is subject to the OBRA '93 annual limit in effect for that prior determination period. ~~For this purpose, the OBRA '93 annual compensation limit is \$160,000 (indexed from \$150,000) for the first day of the first plan year beginning on or after January 1, 1998.~~

If by applying the above-stated percentages there would be a violation of federal or state laws, as a result of the employee or employer contributions or both, these percentages shall not be applied to the extent of violating applicable laws. In these cases, the amount of the employer contribution that cannot be forwarded to a retirement plan carrier shall be paid to the employee as a temporary salary increase for the balance of the calendar year.

3.7.3.2 Investments

The participant must advise the retirement plan carrier which investment options have been chosen. If two or more options are selected with a retirement carrier, the part of the retirement contribution that is to be allocated to each option shall be specified. A participant may change the investment options by contacting the retirement carrier.

3.7.3.3 Termination of Contributions

Contributions on behalf of a participant in the Retirement Plan shall terminate upon cessation of regular full-time employment or retirement.

3.7.3.4 Retirement Date

Retirement is authorized when the combination of the employee's age and years of regular full-time service (with a minimum of 15 years of continuous service at the time of retirement) equals or exceeds the number 75. Regular part-time service will be counted on a pro rate basis. Employees that are retiring must provide written notification through normal administrative channels to their appropriate Chancellor or Vice President at least three months in advance of the desired retirement date.

3.7.3.5 Sick Leave Conversion

Former UKCCS employees that were employed by the University of Kentucky prior to July 1, 1995, will receive a payment for unused sick leave if the accrued balance is at least 66 days. The first 22 days will be at full pay and the remaining days will be paid at the rate of the KCTCS retirement contribution rate which is currently 10%.

3.7.3.6 Retirement Benefits

Each participant is entitled at retirement to activate any retirement benefits that have been accrued under the KCTCS retirement plan in accordance with the rules established by the retirement plan carriers. In addition to lump sum or partial lump sum provisions, there will be both annuitized and non-annuitized methods of withdrawal. There may be variances in the retirement withdrawal options among the carriers. All retirement plan carriers do not offer the same withdrawal options.

3.7.3.7 Periods of Service

As used in the defined contribution retirement plan, "period of service" means the number of years of full-time employment, plus credit allowed for part-time employment, plus periods in an approved leave of absence status. Employees can earn only one year of service per calendar year, regardless of any extra part-time employment above the normal 37.5-hour work week within KCTCS.

3.7.3.8 Contributions During a Leave

Contributions shall be made only on the actual salary the employee is paid through the KCTCS payroll. Contributions will not be increased for partial salaries. This includes sabbatical leave.

3.7.3.9 Purchase of Service Credit

The Defined Contribution 403 (b) Plan does not have a feature that allows the purchase of service from prior service in military, public employment, or higher education positions. This feature is common in defined benefit plans, but is not used in a defined contribution plan.

3.7.4 Conversion of Health Insurance Upon Retirement

3.7.4.1 Defined Contribution Plan 403 (b) Plan Retirees

Employees that meet the retirement criteria will continue to receive a contribution toward the cost of their health insurance plan. Employees under age 65 will remain on a regular health insurance plan until age 65, while employees that retire and are eligible for Medicare will be placed on a Medicare ~~Supplement~~ eligible health insurance plan.

An employee hired with an effective date on or after July 1, 2009, who retires under the provisions of KCTCS Board of Regents Policy 3.7 is not eligible for participation in a KCTCS sponsored retiree health plan.

Employees that retire from the Community Colleges under UK benefits at the time of retirement will receive their health insurance credit per UK policy and participate in the UK health plans. Any Community College employee that has retired under the UK benefits will be ineligible for the health insurance credit available through employment under the KCTCS personnel system.

3.7.4.2 KTRS/KERS

Requirements for health insurance coverage in retirement are established by state statute. Employees should contact the appropriate retirement system office for details.

9-16-98	8-15-03 3-13-09	<u>9-16-98; 8-15-03; 3-13-09</u>
_____ Date Approved by KCTCS Board of Regents	_____ Date of Last Review	_____ Date of Last Revision <i>(Include all dates in chronological order)</i>
(SIGNED)	8-15-03 3-13-09	(SIGNED) 8-15- 033-13-09
_____ Chair, Board of Regents	_____ Date	_____ President, KCTCS
		_____ Date

AS IT WILL APPEAR VERSION

3.7 Kentucky Community and Technical College System Retirement Plan Policies

3.7.1 Retirement Plans

KCTCS provides employees with the option to join a Defined Benefit Plan or a Defined Contribution 403 (b) Plan. The Defined Benefit Plan includes either the Kentucky Teachers Retirement System (KTRS) or the Kentucky Employees Retirement System (KERS). The election to join a retirement plan must be made within 30 days of regular full-time employment. Participation in a KCTCS retirement plan is mandatory for regular full-time employees and a condition of employment.

3.7.2 Defined Benefit Plans

KTRS is a defined benefit plan for employees employed in selected education-related organizations working in a position that requires certification or a degree from a four-year college or university. KERS is a defined benefit plan for non-instructional employees working in a position with a state university that does not require a degree or certification. The rates for contributions and multipliers for retirement annuities are defined by state statute. An irrevocable, one-time election is made to enter either plan. The employee must remain in that retirement system as long as they are in a position that is covered under that retirement system.

3.7.3 Defined Contribution 403 (b) Plan

Employees that enroll in a defined contribution plan make an irrevocable, one-time salary reduction (pre-tax) agreement when entering the plan. The employee may not withdraw from the KCTCS Defined Contribution 403 (b) Plan as long as that employee remains eligible for plan participation.

3.7.3.1 Contributions as a Percent of Annual Salary

By the Participant	By the Institution	Total
5%	10%	15%

KCTCS, or its designate, will withhold the contribution of the participant from regular salary payments, add its contribution, and remit the combined sum to the retirement plan carrier selected by the participant for the purchase of retirement benefits. Retirement contributions are made on the participant’s salary. Retirement benefits purchased with the combined participant

and KCTCS contributions shall become the property of individual participants immediately upon purchase. There is no vesting period. All benefits are for the sole purpose of providing retirement benefits, or death benefits, or both. Participants cannot access their retirement accounts until they separate from service with KCTCS except to use their retirement account as collateral on a 403(b) loan, if allowed, from their 403(b) carrier.

An employee hired with an effective date on or after July 1, 2009 shall be subject to a vesting schedule for employer contributions. An employee must work a total of five years (60 months) of continuous service to be able to complete the vesting period and be eligible to receive the employee's accrued benefits derived from employer contributions.

In addition to other applicable limitations stated in the plan, and notwithstanding any other provisions of the KCTCS retirement policies to the contrary, the annual compensation of each employee taken into account under the plan shall not exceed the Omnibus Budget Reconciliation Act of 1993 (OBRA '93) annual maximum includable compensation limit.

The OBRA '93 annual limit is adjusted by the Commissioner of the Internal Revenue Service for increases in the cost of living in accordance with section 401 (a) (17) (B) of the Internal Revenue Code. The cost-of-living adjustment in effect for a calendar year applies to any period, beginning in such calendar year over which compensation is determined. This is the determination period. The determination period may not exceed 12 months. If a determination period consists of fewer than 12 months, the OBRA '93 annual limit will be multiplied by a fraction, the numerator of which is the number of months in the determination period, and the denominator, which is 12.

Any reference in this plan to the limitation under section 401 (a) (17) of the Code shall mean the OBRA '93 annual maximum includable compensation limit stated in this provision. The KCTCS Retirement Plan Year is deemed to begin July 1 of a calendar year and end June 30 of the next calendar year.

If compensation for any prior determination period is taken into account in determining an employee's benefits accruing in the current plan year, the compensation for that prior determination period is subject to the OBRA '93 annual limit in effect for that prior determination period.

If by applying the above-stated percentages there would be a violation of federal or state laws, as a result of the employee or employer contributions or both, these percentages shall not be applied to the extent of violating applicable laws. In these cases, the amount of the employer contribution that cannot be forwarded to a retirement plan carrier shall be paid to the employee as a temporary salary increase for the balance of the calendar year.

3.7.3.2 Investments

The participant must advise the retirement plan carrier which investment options have been chosen. If two or more options are selected with a retirement carrier, the part of the retirement contribution that is to be allocated to each option shall be specified. A participant may change the investment options by contacting the retirement carrier.

3.7.3.3 Termination of Contributions

Contributions on behalf of a participant in the Retirement Plan shall terminate upon cessation of regular full-time employment or retirement.

3.7.3.4 Retirement Date

Retirement is authorized when the combination of the employee's age and years of regular full-time service (with a minimum of 15 years of continuous service at the time of retirement) equals or exceeds the number 75. Regular part-time service will be counted on a pro rate basis. Employees that are retiring must provide written notification through normal administrative channels to their appropriate Chancellor or Vice President at least three months in advance of the desired retirement date.

3.7.3.5 Sick Leave Conversion

Former UKCCS employees that were employed by the University of Kentucky prior to July 1, 1995, will receive a payment for unused sick leave if the accrued balance is at least 66 days. The first 22 days will be at full pay and the remaining days will be paid at the rate of the KCTCS retirement contribution rate which is currently 10%.

3.7.3.6 Retirement Benefits

Each participant is entitled at retirement to activate any retirement benefits that have been accrued under the KCTCS retirement plan in accordance with the rules established by the retirement plan carriers. In addition to lump sum or partial lump sum provisions, there will be both annuitized and non-annuitized methods of withdrawal. There may be variances in the retirement withdrawal options among the carriers. All retirement plan carriers do not offer the same withdrawal options.

3.7.3.7 Periods of Service

As used in the defined contribution retirement plan, "period of service" means the number of years of full-time employment, plus credit allowed for part-time employment, plus periods in an approved leave of absence status. Employees can earn only one year of service per calendar year, regardless of any extra part-time employment above the normal 37.5-hour work week within KCTCS.

3.7.3.8 Contributions During a Leave

Contributions shall be made only on the actual salary the employee is paid through the KCTCS payroll. Contributions will not be increased for partial salaries. This includes sabbatical leave.

3.7.3.9 Purchase of Service Credit

The Defined Contribution 403 (b) Plan does not have a feature that allows the purchase of service from prior service in military, public employment, or higher education positions. This feature is common in defined benefit plans, but is not used in a defined contribution plan.

3.7.4 Conversion of Health Insurance Upon Retirement

3.7.4.1 Defined Contribution Plan 403 (b) Plan Retirees

Employees that meet the retirement criteria will continue to receive a contribution toward the cost of their health insurance plan. Employees under age 65 will remain on a regular health insurance plan until age 65, while employees that retire and are eligible for Medicare will be placed on a Medicare eligible health insurance plan.

An employee hired with an effective date on or after July 1, 2009, who retires under the provisions of KCTCS Board of Regents Policy 3.7 is not eligible for participation in a KCTCS sponsored retiree health plan.

Employees that retire from the Community Colleges under UK benefits at the time of retirement will receive their health insurance credit per UK policy and participate in the UK health plans. Any Community College employee that has retired under the UK benefits will be ineligible for the health insurance credit available through employment under the KCTCS personnel system.

