

CHAPTER 126

(HB 694)

AN ACT relating to Teachers' Retirement System benefit funding.

Be it enacted by the General Assembly of the Commonwealth of Kentucky:

➔SECTION 1. A NEW SECTION OF KRS 161.220 TO 161.716 IS CREATED TO READ AS FOLLOWS:

(1) *As used in this section:*

- (a) *"Funding level" means the actuarial value of assets divided by the actuarially accrued liability expressed as a percentage that is determined and reported by the retirement system's actuary in the retirement system's annual actuarial valuation for the medical insurance fund;*
- (b) *"Medical insurance fund" means all contributions and amounts included in the funds established in subsection (5) of Section 2 of this Act and KRS 161.677; and*
- (c) *"State accumulation fund" means the fund established in subsection (3) of Section 2 of this Act.*

(2) *Except as provided in subsection (3) of this section, when the medical insurance fund has reached an actuarial funding level of at least one hundred percent (100%) as determined by the annual actuarial valuation, the employer contributions for retiree health benefits as provided in subsections (1)(a)2., (b)2., (c)2., (d)3., and (e)3. and (3) of Section 4 of this Act shall be deposited into the state accumulation fund to help pay down the unfunded liabilities of pension annuities instead of being deposited into the medical insurance fund. Deposits to the state accumulation fund shall occur on and after the beginning of the fiscal year following the annual actuarial valuation in which the criteria of this subsection are first met.*

(3) *After reaching an actuarial funding level of at least one hundred percent (100%), if the actuarial funding level of the medical insurance fund falls below ninety-five percent (95%) as determined by the annual actuarial valuation, the employer contributions for retiree health benefits as provided in subsections (1)(a)2., (b)2., (c)2., (d)3., and (e)3. and (3) of Section 4 of this Act shall be deposited into the medical insurance fund instead of the state accumulation fund. Deposits to the medical insurance fund shall occur on and after the beginning of the fiscal year following the annual actuarial valuation in which the criteria of this subsection are met and shall continue until the actuarial funding level of the medical insurance fund is at least one hundred percent (100%). When the medical insurance fund regains an actuarial funding level of at least one hundred percent (100%), the provisions of subsection (2) of this section shall apply.*

➔Section 2. KRS 161.420 is amended to read as follows:

All of the assets of the retirement system are for the exclusive purpose of providing benefits to members and annuitants and defraying reasonable expenses of administering the system. The board of trustees shall be the trustee of all funds of the system and shall have full power and responsibility for administering the funds. All the assets of the retirement system shall be credited according to the purpose for which they are held to one (1) of the following funds:

- (1) The expense fund shall consist of the funds set aside from year to year by the board of trustees to defray the expenses of the administration of the retirement system. Each fiscal year an amount not greater than four percent (4%) of the dividends and interest income earned from investments during the immediate past fiscal year shall be set aside into the expense fund or expended for the administration of the retirement system;
- (2) (a) The teachers' savings fund shall consist of:
 - 1. The contributions paid by members of the retirement system into this fund and regular interest assigned by the board of trustees from the guarantee fund; and
 - 2. For individuals who become members of the Teachers' Retirement System on or after January 1, 2022, who are participating in the supplemental benefit component, the employer contributions paid into the supplemental benefit component and regular interest on those contributions as provided by KRS 161.635 and 161.636 that is assigned by the board of trustees from the guarantee fund.

For individuals who become members on or after January 1, 2022, the system shall account for funds in the teachers' savings fund attributable to the nonuniversity members foundational benefit component,

nonuniversity members supplemental benefit component, university members foundational benefit component, and university members supplemental benefit component.

- (b) A member may not borrow any amount of his or her accumulated account balance in the teachers' savings fund, or any regular interest earned thereon.
 - (c) The accumulated contributions or accumulated account balance of a member which are returned to him or her upon his or her withdrawal or paid to his or her estate or designated beneficiary in the event of his or her death shall be paid from the teachers' savings fund.
 - (d) Any accumulated account balance in the teachers' savings fund forfeited by a failure of a teacher or his or her estate to claim these contributions shall be transferred from this fund to the guarantee fund.
 - (e) Except as provided by paragraph (f) of this subsection, the accumulated account balance of a member in the teachers' savings fund shall be transferred from this fund to the allowance reserve fund in the event of retirement by reason of service or disability.
 - (f) For an individual who becomes a member of the Teachers' Retirement System on or after January 1, 2022, who is participating in the supplemental benefit component who elects to annuitize his or her accumulated account balance in the supplemental benefit component as prescribed by KRS 161.635(5)(a) or (b) or 161.636(5)(a) or (b), the member's accumulated account balance in the supplemental benefit component shall be transferred from this fund to the allowance reserve fund;
- (3) The state accumulation fund shall consist of funds paid by employers and appropriated by the state for the purpose of providing *pension* annuities and survivor benefits, including any sums appropriated for meeting unfunded liabilities ***of pension annuities and any sums that are directed to pay down the unfunded liabilities of pension annuities as provided in Section 1 of this Act***, together with regular interest assigned by the board of trustees from the guarantee fund. At the time of retirement or death of a member there shall be transferred from the state accumulation fund to the allowance reserve fund an amount which together with the sum transferred from the teachers' savings fund will be sufficient to provide the member a retirement allowance and provide for benefits under KRS 161.520 and 161.525. There shall also be transferred from the state accumulation fund to the teachers' savings fund, the amount needed to fund the mandatory employer contributions required by KRS 161.635 and 161.636;
- (4) The allowance reserve fund shall be the fund from which shall be paid all retirement allowances and benefits provided under KRS 161.520 and 161.525. In addition, whenever a change in the status of a member results in an obligation on this fund, there shall be transferred to this fund from the teachers' savings fund and the state accumulation fund, the amounts as may be held in those funds for the account or benefit of the member;
- (5) (a) The medical insurance fund, which is an account established according to 26 U.S.C. sec. 401(h), shall consist of amounts accumulated for the purpose of providing benefits as provided in KRS 161.675, including:
- 1. The member contributions required by KRS 161.540(1)(a)2., (b)2., (c)3., and (d)3.;
 - 2. The employer contribution required by KRS 161.550(1)(a)2., (b)2., (c)2., (d)3., and (e)3. and (3), ***except as provided in Section 1 of this Act***;
 - 3. State appropriations as set forth in KRS 161.550(2), unless the contributions are made to a trust fund under 26 U.S.C. sec. 115 established by the board for this purpose; and
 - 4. Interest income from the investments of the fund from contributions received by the fund under subparagraphs 1. to 3. of this paragraph, and from income earned on those investments.
- (b) All claims for benefits under KRS 161.675 shall be paid from this fund or from any trust fund under 26 U.S.C. sec. 115 as established by the board for this purpose. Any amounts deposited to the fund that are not required to meet current costs shall be maintained as a reserve in the fund for these benefits. The board shall take the necessary and appropriate steps, including promulgating administrative regulations and procedures to maintain the status of the medical insurance fund as an account subject to 26 U.S.C. sec. 401(h);
- (6) The guarantee fund shall be maintained to facilitate the crediting of uniform interest on the amounts of the other funds, except the expense fund, to finance operating expenses directly related to investment management services, and to provide a contingent fund out of which special requirements of any of the other funds may be covered. All income, interest, and dividends derived from the authorized deposits and investments shall be paid into the guarantee fund. Any funds received from gifts and bequests, which the board is hereby authorized

to accept and expend without limitation in a manner either expressed by the donor or deemed to be in the best interest of the membership, shall be credited to the guarantee fund. Any funds transferred from the teachers' savings fund by reason of lack of claimant or because of a surplus in any fund and any other moneys whose disposition is not otherwise provided for, shall also be credited to the guarantee fund. The interest allowed by the board of trustees to each of the other funds shall be paid to these funds from the guarantee fund. Any deficit occurring in any fund that would not be automatically covered shall be met by the payments from the guarantee fund to that fund;

- (7) The school employee annuity fund shall consist of those funds voluntarily contributed under the provisions of Section 403(b) of the Internal Revenue Code by a member of the Teachers' Retirement System with accounts that existed on or after July 1, 1996. The contributions shall not be picked up as provided in KRS 161.540(2). Separate member accounts shall be maintained for each member. The board of trustees may promulgate administrative regulations **in accordance with**~~[pursuant to]~~ KRS Chapter 13A to manage this program;
- (8) The supplemental retirement benefit fund shall consist of those funds contributed by the employer for the purpose of constituting a qualified government excess benefit plan as described in Section 415 of the Internal Revenue Code for accounts that existed on or after July 1, 1996. The board of trustees shall promulgate administrative regulations **in accordance with**~~[pursuant to]~~ KRS Chapter 13A to administer this program;
- (9) The life insurance benefit fund shall consist of amounts accumulated for the purpose of providing benefits provided under KRS 161.655. The board of trustees may allocate to this fund a percentage of the employer and state contributions as provided under KRS 161.550. The allocation to this fund will be in an amount that the actuary determines necessary to fund the obligation of providing the benefits provided under KRS 161.655; and
- (10) The stabilization reserve account shall consist of amounts in two (2) separate accounts:
 - (a) One (1) that includes employer contributions as provided by KRS 161.550(1)(d)1. and 2. that exceeds the combined actuarially required employer contribution for the foundational benefit component and the mandatory employer contribution to the supplemental benefit component as provided by KRS 161.633 and 161.635 for those individuals who become nonuniversity members on or after January 1, 2022; and
 - (b) One (1) that includes employer contributions as provided by KRS 161.550(1)(e)1. and 2. that exceeds the combined actuarially required employer contribution for the foundational benefit component and the mandatory employer contribution to the supplemental benefit component as provided by KRS 161.634 and 161.636 for those individuals who become university members on or after January 1, 2022.

Notwithstanding any other statute to the contrary, funds in these accounts shall only be used to pay off the unfunded liability of the pension and life insurance funds.

➔Section 3. KRS 161.540 is amended to read as follows:

- (1) (a) Each individual who becomes a contributing nonuniversity member prior to January 1, 2022, shall contribute to the retirement system twelve and eight hundred fifty-five thousandths percent (12.855%) of annual compensation, of which:
 - 1. Nine and one hundred five thousandths percent (9.105%) of annual compensation shall be used to fund pension benefits; and
 - 2. Three and three-quarters percent (3.75%) of annual compensation shall be used to fund retiree health benefits.
- (b) Each individual who becomes a contributing university member prior to January 1, 2022, shall contribute to the retirement system ten and four-tenths percent (10.4%) of annual compensation, of which:
 - 1. Seven and six hundred twenty-five thousandths percent (7.625%) of annual compensation shall be used to fund pension benefits; and
 - 2. Two and seven hundred seventy-five thousandths percent (2.775%) of annual compensation shall be used to fund retiree health benefits.
- (c) Each individual who becomes a contributing nonuniversity member on or after January 1, 2022, shall contribute to the retirement system fourteen and three-quarters percent (14.75%) of annual compensation, of which:

1. Nine percent (9%) of annual compensation shall be used to fund pension benefits in the foundational benefit component as described by KRS 161.633. The contribution provided by this subparagraph shall not be used to fund the supplemental benefit account as provided by KRS 161.635;
 2. Two percent (2%) of annual compensation shall fund the required employee contribution in the supplemental benefit component in KRS 161.635, except that the board may direct these contributions on a prospective basis into the pension and life insurance funds to contain costs of the foundational benefit component within the provisions of KRS 161.633; and
 3. Three and three-quarters percent (3.75%) of annual compensation shall be used to fund retiree health benefits.
- (d) Each individual who becomes a contributing university member on or after January 1, 2022, shall contribute to the retirement system nine and seven hundred seventy-five thousandths percent (9.775%) of annual compensation, of which:
1. Five percent (5%) of annual compensation shall be used to fund pension benefits in the foundational benefit component as described by KRS 161.634. The contribution provided by this subparagraph shall not be used to fund the supplemental benefit account as provided by KRS 161.636;
 2. Two percent (2%) of annual compensation shall fund the required employee contribution in the supplemental benefit component in KRS 161.636, except that the board may direct these contributions on a prospective basis into the pension and life insurance funds to contain costs of the foundational benefit component within the provisions of KRS 161.634; and
 3. Two and seven hundred and seventy-five thousandths percent (2.775%) of annual compensation shall be used to fund retiree health benefits.
- (e) When the ***funds established to actuarially fund pension annuities and the*** medical insurance fund established under KRS 161.420~~[(5)]~~ ***become fully funded***~~[achieves a sufficient prefunded status]~~ as determined by the ***annual actuarial valuation***~~[Retirement System's actuary]~~, the board of trustees shall recommend to the General Assembly that the contributions required under paragraph (a)2., (b)2., (c)3., or (d)3. of this subsection shall, in an actuarially accountable manner, be either decreased, suspended, or eliminated.
- (f) Payments authorized by statute that are made to retiring members, who became members of the system before July 1, 2008, for not more than sixty (60) days of unused accrued annual leave shall, subject to KRS 161.220(10), be considered as part of the member's annual compensation, and shall be used only for the member's final year of active service. Notwithstanding the provisions of this subsection or any other statute to the contrary, for retirement calculation purposes, members may only be credited for payment of annual leave under the following conditions:
1. Payment by an employer for annual leave shall be equally available to all members serving under contracts requiring the same number of worked days and greater; and
 2. At least two (2) members of the employer shall receive payment for annual leave.
- (g) The contribution of members shall not exceed the applicable percentages on annual compensation as set forth in this section or as where otherwise limited by statute. When a member retires, if it is determined that he or she has made contributions on a salary in excess of the amount to be included for the purpose of calculating his or her final average salary, any excess contribution shall be refunded in a lump sum to the member's employer for distribution to the member.
- (2) Each public board, institution, or agency listed in KRS 161.220(4) shall, solely for the purpose of compliance with Section 414(h) of the United States Internal Revenue Code, pick up the member contributions required by this section for all compensation earned after August 1, 1982, and the contributions so picked up shall be treated as employer contributions in determining tax treatment under the United States Internal Revenue Code and KRS 141.010. The picked-up member contribution shall satisfy all obligations to the retirement system satisfied prior to August 1, 1982, by the member contribution, and the picked-up member contribution shall be in lieu of a member contribution. Each employer shall pay these picked-up member contributions from the same source of funds which is used to pay earnings to the member. The member shall have no option to receive the contributed amounts directly instead of having them paid by the employer to the system. Member

contributions picked-up after August 1, 1982, shall be treated for all purposes of KRS 161.220 to 161.714 in the same manner and to the same extent as member contributions made prior to August 1, 1982.

➔ Section 4. KRS 161.550 is amended to read as follows:

- (1) Each employer, except as provided ~~in~~^{under} KRS 161.555 **and Section 1 of this Act**, shall contribute annually to the Teachers' Retirement System a permanent employer contribution rate on behalf of each employee it employs equal to:
 - (a) Thirteen and one hundred five thousandths percent (13.105%) of the total annual compensation of nonuniversity members who become members prior to July 1, 2008. Of this permanent employer contribution rate:
 1. Twelve and three hundred fifty-five thousandths percent (12.355%) of the total annual compensation shall be used to fund pension and life insurance benefits; and
 2. **Except as provided in Section 1 of this Act**, three-quarters of a percent (0.75%) of annual compensation shall be used to provide funding to the medical insurance fund as provided under KRS 161.420(5). If the board of trustees establishes a trust fund under 26 U.S.C. sec. 115, the board may deposit the employer contribution provided in this subparagraph in that trust fund **except as provided in Section 1 of this Act**;
 - (b) Fourteen and one hundred five thousandths percent (14.105%) of the total annual compensation of nonuniversity members who become members on or after July 1, 2008, but prior to January 1, 2022. Of this permanent employer contribution rate:
 1. Thirteen and three hundred fifty-five thousandths percent (13.355%) of the total annual compensation shall be used to fund pension and life insurance benefits; and
 2. **Except as provided in Section 1 of this Act**, three-quarters of a percent (0.75%) of annual compensation shall be used to provide funding to the medical insurance fund as provided under KRS 161.420(5). If the board of trustees establishes a trust fund under 26 U.S.C. sec. 115, the board may deposit the employer contribution provided in this subparagraph in that trust fund **except as provided in Section 1 of this Act**;
 - (c) Thirteen and sixty-five hundredths percent (13.65%) of the total annual compensation of university members who become members prior to January 1, 2022. Of this permanent employer contribution rate:
 1. Ten and eight hundred seventy-five thousandths percent (10.875%) of the total annual compensation shall be used to fund pension and life insurance benefits; and
 2. **Except as provided in Section 1 of this Act**, two and seven hundred seventy-five thousandths percent (2.775%) of annual compensation shall be used to provide funding to the medical insurance fund as provided under KRS 161.420(5). If the board of trustees establishes a trust fund under 26 U.S.C. sec. 115, the board may deposit the employer contribution provided in this subparagraph in that trust fund **except as provided in Section 1 of this Act**;
 - (d) Ten and three-quarters percent (10.75%) of the total annual compensation of nonuniversity members who become members on or after January 1, 2022. Of this permanent employer contribution rate:
 1. Eight percent (8%) of the total annual compensation shall be used to fund pension and life insurance benefits. The contribution provided by this subparagraph shall not be used to fund the supplemental benefit account as provided by KRS 161.635;
 2. Two percent (2%) of the total annual compensation shall be used to fund the mandatory employer contribution of the supplemental benefit component, except that the board may direct these contributions on a prospective basis into the pension and life insurance funds to contain costs within the provisions of KRS 161.633; and
 3. **Except as provided in Section 1 of this Act**, three-quarters of one percent (0.75%) of annual compensation shall be used to provide funding to the medical insurance fund as provided under KRS 161.420(5). If the board of trustees establishes a trust fund under 26 U.S.C. sec. 115, the board may deposit the employer contribution provided in this subdivision in that trust fund **except as provided in Section 1 of this Act**; and

- (e) Nine and seven hundred seventy-five thousandths percent (9.775%) of total annual compensation of university members who become members on or after January 1, 2022. Of this permanent employer contribution rate:
1. Five and seven hundred seventy-five thousandths percent (5.775%) of the total annual compensation shall be used to fund pension and life insurance benefits. The contribution provided by this subparagraph shall not be used to fund the supplemental benefit account as provided by KRS 161.636;
 2. Two percent (2%) of the total annual compensation shall be used to fund the mandatory employer contribution of the supplemental benefit component, except that the board may direct these contributions on a prospective basis into the pension and life insurance funds to contain costs within the provisions of KRS 161.634; and
 3. ***Except as provided in Section 1 of this Act***, two percent (2%) of annual compensation shall be used to provide funding to the medical insurance fund as provided under KRS 161.420(5). If the board of trustees establishes a trust fund under 26 U.S.C. sec. 115, the board may deposit the employer contribution provided in this subparagraph in that trust fund ***except as provided in Section 1 of this Act***.
- (2) In addition to the required contributions in subsection (1) of this section, the state shall contribute annually to the Teachers' Retirement System a percentage of the total salaries of the state-funded and federally funded members it employs to pay the cost of health insurance coverage for retirees who are not eligible for Medicare and who retire on or after July 1, 2010, less the amounts that are otherwise required to be paid by the retirees under KRS 161.675. The board shall deposit funds in the medical insurance fund unless the board of trustees has established a trust fund under 26 U.S.C. sec. 115 for this purpose. In this case, the board may deposit the employer contribution in that trust fund. This contribution shall be known as the state medical insurance fund stabilization contribution. The percentage to be contributed by the state under this subsection:
- (a) Shall be determined by the retirement system's actuary for each biennial budget period;
 - (b) May be suspended or adjusted by the General Assembly if in its judgment the welfare of the Commonwealth so demands; and
 - (c) Shall not exceed the lesser of the actual benefit cost for retirees not eligible for Medicare who retire on or after July 1, 2010, or the amount contributed by employers under subsection (3) of this section.
- (3) All employers who employ nonuniversity members shall make a contribution for each payroll on behalf of their active employees who participate in the Teachers' Retirement System in an amount equal to three percent (3%) of payroll of those active employees. ***Except as provided in Section 1 of this Act***, the contribution specified by this subsection shall be used to fund retiree health benefits.
- (4) When ~~the funds established to actuarially fund pension annuities and~~ the medical insurance fund established under KRS 161.420(5) ~~become fully funded~~~~[achieves a sufficient prefunded status]~~ as determined by the ~~annual actuarial valuation~~~~[Teachers' Retirement System's actuary]~~, the board of trustees shall recommend to the General Assembly that the contributions required under subsections (1)(c)2. and (e)3. and (3) of this section shall, in an actuarially accountable manner, be either decreased, suspended, or eliminated. The decrease, suspension, or elimination in contributions required under subsection (1)(c)2. of this section shall not exceed two and twenty-five thousandths percent (2.025%) of annual compensation. The decrease, suspension, or elimination in contributions required under subsection (1)(e)3. of this section shall not exceed one and twenty-five hundredths percent (1.25%) of annual compensation.
- (5) Each employer shall remit the required employer contributions to the retirement system under the terms and conditions specified for member contributions under KRS 161.560. The state shall provide annual appropriations based upon estimated funds needed to meet the requirements of KRS 161.155, 161.168, 161.507(4), 161.515, 161.545, 161.553, 161.605, 161.612, and 161.620(1), (3), (5), (6), and (7). In the event an annual appropriation is less than the amount of these requirements, the state shall make up the deficit in the next biennium budget appropriation to the retirement system. Employer contributions to the retirement system are for the exclusive purpose of providing benefits to members and annuitants and these contributions shall be considered deferred compensation to the members. This subsection shall not apply to costs applicable to individuals who become members on or after January 1, 2022.

➔Section 5. KRS 161.675 is amended to read as follows:

- (1) The board of trustees shall arrange by appropriate contract or on a self-insured basis to provide a broad program of group hospital and medical insurance for present and future eligible recipients of a retirement allowance from the Teachers' Retirement System. The board of trustees may also arrange to provide health insurance coverage through an insurer licensed pursuant to Subtitle 38 of KRS Chapter 304 and offering a managed care plan as defined in KRS 304.17A-500 as an alternative to group hospital and medical insurance for persons eligible for hospital and medical benefits under this section. The board of trustees may authorize eligible recipients of a retirement allowance from the Teachers' Retirement System who are less than age sixty-five (65) to be included in the state-sponsored health insurance that is provided to active teachers and state employees under KRS 18A.225. Members who are sixty-five (65) or older and retired for service shall not be eligible to participate in the state employee health insurance program as described in KRS 18A.225.
- (2) (a) The coverage provided shall be as set forth in the contracts and the administrative regulations of the board of trustees. The board of trustees may change the levels of coverage and eligibility conditions to meet the changing needs of the annuitants and, when necessary, to contain the expenses of the insurance program within the funds available to finance the insurance program, except as provided by paragraph (b) of this subsection. The contracts and administrative regulations shall provide for but not be limited to hospital room and board, surgical procedures, doctors' care in the hospital, and miscellaneous hospital costs. An annuitant whose effective date of retirement is July 1, 1974, and thereafter, must have a minimum of five (5) years' creditable Kentucky service in the Teachers' Retirement System or five (5) years of combined creditable service in the state-administered retirement systems if the member is retiring under the reciprocity provisions of KRS 61.680, 61.702, and 78.5536. An annuitant shall not elect coverage through more than one (1) of the state-administered retirement systems. The board of trustees shall offer coverage to the disabled child of an annuitant regardless of the disabled child's age if the annuitant pays the entire premium for the disabled child's coverage. A child shall be considered disabled if he **or she** has been determined to be eligible for federal Social Security disability benefits.
- (b) Individuals who become members of the Kentucky Teachers' Retirement System on or after July 1, 2008, shall not be eligible for benefits under this section unless the member has at least fifteen (15) or more years of service credited under KRS 161.500 or another state-administered retirement system.
- (3) All expenses for benefits under this section shall be paid from the funding provisions contained in KRS 161.420(5), from a trust fund established by the board under 26 U.S.C. sec. 115, premium charges received from the annuitants and the spouses, and from funds that may be appropriated or allocated by statute.
- (4) (a) The board of trustees shall determine the amount of health insurance supplement payments that the Teachers' Retirement System will provide to assist eligible annuitants in paying the cost of their health insurance, based on the funds available in the medical insurance fund and any trust fund established by the board for this purpose under 26 U.S.C. sec. 115. The board of trustees shall establish the maximum monthly amounts of health insurance supplement payments that will be made by the Kentucky Teachers' Retirement System for eligible annuitants. The board of trustees shall annually establish the percentage of the maximum monthly health insurance supplement payment that will be made, based on age and years of service credit of eligible recipients of a retirement allowance. Monthly health insurance supplement payments made by the retirement system may not exceed the amount of the single coverage insurance premium chosen by the eligible annuitants. In order to qualify for health insurance supplements, the annuitant must agree to pay the difference between the insurance premium and the applicable supplement payment, by payroll deduction from his **or her** retirement allowance, or by a payment method approved by the retirement system.
- (b) **1.** The board shall, effective July 1, 2010, have the authority to charge retired members who are not paying the Standard Medicare Part B premium an amount equal to the Standard Medicare Part B premium in addition to any other payments determined by the board to be necessary to contain costs within the available funding. If the board determines that retired members who are not paying the Standard Medicare Part B premium should pay the equivalent of the Standard Medicare Part B premium, the board shall phase in the premium according to the following schedule:

July 1, 2010.....	Thirty-three percent (33%)
July 1, 2011.....	Sixty-seven percent (67%)
July 1, 2012, and thereafter.....	One hundred percent (100%)

2. ***If the board requires retired members to pay the charges specified in subparagraph 1. of this paragraph, the amount payable shall not be reduced by the board until the funds established to actuarially fund pension annuities and the medical insurance fund established under Section 2 of this Act each achieve an actuarial funding level of at least one hundred percent (100%).***
 3. Nothing in this paragraph shall limit the board's authority to change the levels of coverage, eligibility conditions, or levels of health insurance supplement for retirees in order to contain costs within available funding.
- (c) The board of trustees may offer, on a full-cost basis, health care insurance coverage provided by the retirement system to spouses and dependents of eligible annuitants not otherwise eligible for regular coverage. Recipients of a retirement allowance from the retirement system must agree to pay the cost of this coverage by payroll deduction from their retirement allowance or by a payment method approved by the retirement system.
 - (d) The board of trustees shall offer, on a full-cost basis, health insurance coverage provided by the retirement system to the disabled child of an annuitant, regardless of the age of the disabled child. A child shall be considered disabled for purposes of this section if the child has been determined to be eligible for federal Social Security disability benefits.
- (5) The board of trustees is empowered to require the annuitant and the annuitant's spouse to pay a premium charge to assist in the financing of the hospital and medical insurance program. The board of trustees is empowered to pay the expenses for insurance coverage from the medical insurance fund, from any trust fund established by the board for this purpose under 26 U.S.C. sec. 115, from the premium charges received from the annuitants and the spouses, and from funds that may be appropriated or allocated by statute. The board may provide insurance coverage by making payment to insurance carriers including health insurance plans that are available to active and retired state employees and active teachers, institutions, and individuals for services performed, or the board of trustees may elect to provide insurance on a "self-insurance" basis or a combination of these provisions.
 - (6) The board of trustees may approve health insurance supplement payments to eligible annuitants who are less than sixty-five (65) years of age, as reimbursement for hospital and medical insurance premiums made by annuitants for their individual coverage. Eligible annuitants or recipients are those annuitants who are not eligible for Medicare and who do not reside in Kentucky or in an area outside of Kentucky where comparable coverage is available. The reimbursement payments shall not exceed the minimum supplement payment that would have been made had the annuitant lived in Kentucky. Eligible annuitants or recipients shall submit proof of payment to the retirement system for hospital and medical insurance that they have obtained. Reimbursement payments shall be made on a quarterly basis.
 - (7) Contracts negotiated may include the provision that a stated amount of hospital cost or period of hospitalization shall incur no obligation on the part of the insurance carrier or the retirement system or any trust fund established for this purpose by the board.
 - (8) The board of trustees is empowered to promulgate administrative regulations to assure efficient operation of the hospital and medical insurance program.
 - (9) Premiums paid for hospital and medical insurance coverage procured under authority of this section shall be exempt from any premium tax which might otherwise be required under KRS Chapter 136. The payment of premiums by the medical insurance fund or another trust fund established by the board for this purpose shall not constitute taxable income to an insured recipient.
 - (10) In the event that a member is providing services on less than a full-time basis under KRS 161.605, the retirement system may pay the full cost of the member's health insurance coverage for the full fiscal year that the member is providing those services, at the conclusion of which, the retirement system may then bill the active employer and the active employer shall reimburse the retirement system for the cost of the health insurance coverage incurred by the retirement system on a pro rata basis for the time that the member was employed by the active employer.

Veto Overridden March 27, 2025.