

**KENTUCKY RETIREMENT SYSTEMS
BOARD OF TRUSTEES
FUNDING POLICY**

Adopted: July 1, 2013
Amended: April 15, 2021

I. Introduction

- A. Adoption of Board Funding Policy: Pursuant to the provisions of Kentucky Revised Statutes (KRS) 61.645, the Board of Trustees (Board) of the Kentucky Retirement Systems (Systems) is permitted to adopt policies regarding the administration of the Systems as needed.

- B. Background. The Board administers two public employee retirement systems: the Kentucky Employees Retirement System (KERS) and the State Police Retirement System (SPRS)(hereinafter jointly referred to as “Plans”). KERS has a nonhazardous plan and a hazardous plan. SPRS contains only one plan offering retirement benefits consistent with the KERS hazardous plan. The Board also administers a health insurance trust fund for eligible members and beneficiaries of the Plans.

- C. Statement of Purpose of Board Funding Policy: Adoption of a formal policy defining priorities and guidelines for the funding of retirement and health insurance benefits is a best practice for public employee retirement systems. This Funding Policy outlines the Board’s goals and strategies for financing the Plans and health insurance trust fund it administers, including the principal goal of achieving a funded ratio¹ that is equal to or greater than one hundred percent (100%) for all Plans and the insurance trust fund. In the event that this Funding Policy conflicts with state or federal law, the law shall prevail.

II. Scope of authority

- A. The Kentucky General Assembly determines:
 - 1. The design of the Plans’ retirement and insurance benefits;
 - 2. Employee (member) contributions;
 - 3. The frequency and deadlines for the Board to conduct an actuarial valuation and recommend employer contributions;

¹ “Funded ratio” is defined as the actuarial value of assets of each Plan divided by each Plan’s actuarial accrued liability before adjustments for changes in benefits, actuarial methods, and/or actuarial assumptions.

4. A minimum frequency for the Board to cause an actuarial investigation to be made of all the experience under the Plans relative to the actuarial assumptions and funding methods previously adopted by the Board;
 5. Actuarial methods to be used in setting employer contributions; and
 6. Limits on employer contributions to the Plans administered by the Board.
- B. The Board has authority to establish, approve, and revise actuarial assumptions², and the Board has the authority over the investment of trust assets, including determining and approving the asset allocation, investment policies, and strategies for investment asset classes.

III. Funding goals

- A. The principal funding goal of the Board is to fully fund the long-term cost of retirement and health insurance benefits provided to the members and beneficiaries of the Plans by statute through disciplined and timely collection of required contributions and the prudent investment of assets.
- B. The Board's principal funding goal is to strive to have the funded ratio for all Plans and the health insurance fund to be equal to or greater than one hundred percent (100%).
- C. In order to achieve the principal funding goal, employee contributions, employer contributions, and net investment returns, when combined, should be sufficient to pay benefits to eligible members and beneficiaries of the Plans.
- D. The Board shall ensure full payment of employer contributions in compliance with Kentucky Revised Statutes 61.565, including the payment of normal cost contributions and actuarially accrued liability contributions.

IV. Benchmarks

- A. To achieve the previously outlined funding goals, the Board shall cause an actuarial valuation to be made annually in compliance with Kentucky Revised Statutes 61.670.
- B. Additionally, no fewer than every five (5) years, in compliance with Kentucky Revised Statutes 61.670, the Board shall cause an actuarial investigation to be made of all the experience under the Plans relative to the actuarial assumptions and funding methods previously adopted by the Board, and the Board shall make the appropriate revisions following this actuarial investigation.
- C. As required by Kentucky Revised Statutes 61.670, all actuarial investigations, analyses, and valuations shall be certified to the Board by an actuary who shall be a fellow of the

² However, the General Assembly provides oversight concerning the actuarial assumptions.

Conference of Consulting Actuaries or a member of the American Academy of Actuaries.

- D. The annual actuarial valuation conducted in accordance with Kentucky Revised Statutes 61.670 shall specify employer contributions to be paid by employers participating in the Systems, and such employer contributions shall be equal to the sum of the “normal cost contribution” and the “actuarially accrued liability contribution” as required by Kentucky Revised Statutes 61.565.
- E. Increases in benefits for members and beneficiaries of the Plans shall only be provided in accordance with Kentucky Revised Statutes 61.691.

V. Actuarial methods

Pursuant to Kentucky Revised Statutes 61.565, the Board shall use the following methods for the purpose of actuarial valuations and, accordingly, for determining employer contributions:

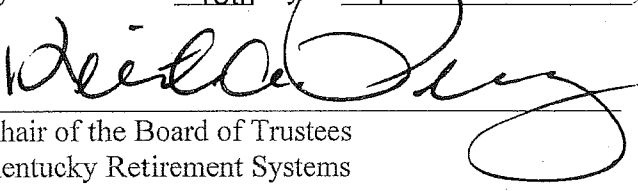
- A. Cost method: The cost method shall be the entry age normal cost funding method.
- B. Asset smoothing: Investment gains and losses shall be spread over a five (5) year period.
- C. Amortization policy: The actuarially accrued liability contribution shall be amortized as required by Kentucky Revised Statutes 61.565.

VI. Review of funding policy

This Funding Policy shall be reviewed no less frequently than every five (5) years, following the actuarial experience investigation conducted pursuant to Kentucky Revised Statutes 61.670, although it is the intent of the Board to review this Funding Policy more frequently. This Funding Policy may be amended at any time to reflect changes to the Systems’ enabling statutes, Board policies, or best practices for public employee retirement plans.

VII. Certification

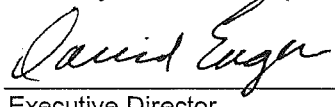
We, the Chair of the Board of Trustees of the Kentucky Retirement Systems, and the Chief Executive Officer of the Kentucky Retirement Systems, do hereby certify that this Funding Policy was amended and made effective by the Board of Trustees of the Kentucky Retirement Systems on the 15th day of April, 2021.



Chair of the Board of Trustees
Kentucky Retirement Systems

5.14.21

Date

Chief Executive Officer
Kentucky Retirement Systems


Executive Director
Kentucky Public Pensions Authority

Date
5/20/2021

Date