P: 469.524.0000 | www.grsconsulting.com

December 3, 2020

Board of Trustees
Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, KY 40601

Re: GASB 67 Reporting – Actuarial Information

Dear Members of the Board:

The reports provided herein contain certain information for the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS), and the State Police Retirement System (SPRS) in connection with the Governmental Accounting Standards Board (GASB) Statement No. 67, "Financial Reporting for Pension Plans" for the fiscal year ending June 30, 2020. Separate reports will be provided at a later date with additional accounting information determined in accordance with GASB Statement No. 68, "Accounting and Financial Reporting for Pensions".

Basis of Calculations

The liability calculations presented in the reports were performed for the purpose of satisfying the requirements of GASB No. 67 and are not applicable for other purposes, such as determining the plans' funding requirements. The plan's liability for other purposes may produce significantly different results.

The total pension liability, net pension liability, and sensitivity information are based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2020 using generally accepted actuarial principles.

Assumptions

There have been no changes in actuarial assumptions since June 30, 2019.

Plan Provisions

House Bill 1 passed during the 2019 Special Legislative Session and allowed certain agencies in the KERS Non-Hazardous plan to elect to cease participating in the System as of June 30, 2020 under different provisions than were previously established. Senate Bill 249 passed during the 2020 Legislative Session delayed the effective date of cessation for these provisions to June 30, 2021. Since each employer's election is unknown at this time, we did not make any adjustment to the Total Pension Liability to reflect this legislation.

Senate Bill 249 also changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate, 20-year amortization bases. This change does not impact the calculation of Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020.

Additionally, House Bill 271 passed during the 2020 Legislative Session and removed provisions that reduce the monthly payment to a surviving spouse of a member whose death was due to a duty-related injury upon remarriage of the spouse. It also increased benefits for a very small number of beneficiaries. This did not have a material (or measurable) impact on the liability of the plans and therefore, we did not make any adjustment to the Total Pension Liability to reflect this legislation. There were no other material plan provision changes and it is our opinion that these procedures are reasonable and appropriate, and comply with applicable requirements under GASB No. 67.

Discount Rates

A single discount rate of 5.25% was used for the KERS Non-Hazardous Fund and SPRS and a single discount rate of 6.25% was used for the KERS Hazardous Fund, the CERS Non-Hazardous Fund and the CERS Hazardous Fund to measure the total pension liability for the fiscal year ending June 30, 2020. These single discount rates were based on the expected rate of return on pension plan investments for each system. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan's fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability for each system.

The projection of cash flows used to determine the single discount rate must include an assumption regarding actual employer contributions made each future year. Except where noted below, the future contributions are projected assuming that each participating employer in the System contribute the actuarially determined employer contribution rate each future year calculated in accordance with the current funding policy, as most recently revised by Senate Bill 249, passed during the 2020 Legislative Session. This includes the phase-in provisions from House Bill 362 (passed in 2018) that applies to the CERS Funds as well as the provisions from Senate Bill 249 (passed in 2020) which kept CERS contributions level for fiscal year ending 2021.

If there is a pattern of legislation that has a resulting effect of employers making contributions less than the actuarially determined rate, we may be required to project contributions that are reflective of recent actual contribution efforts regardless of the stated funding policy (as required by paragraph 42 of GASB Statement No. 67). Legislation has been enacted three times (for FY 18/19, FY 19/20, and FY 20/21) that allowed certain employers (referred to as "Quasi" agencies) in the KERS Non-Hazardous Fund to contribute 41.06% of pay into the retirement fund, which is significantly less than the actuarially determined contribution rate. We believe this constitutes a pattern and as such, the projection for the KERS Non-Hazardous Fund assumes these Quasi agencies contribute no more than 41.06% of pay throughout the entire projection.

401(h) Subaccount

Based on guidance issued by GASB in connection with GASB Statement No. 74, the 1% of pay member contributions for Tier 2 and Tier 3 members to a 401(h) subaccount is considered as an OPEB asset. As a result, the reported fiduciary net positions as of June 30, 2017 and later are net of the 401(h) asset balance.

Additional Disclosures

The reports are based upon information, furnished to us by the Retirement System, which includes benefit provisions, membership information, and financial data. We did not audit this data and information, but we did apply a number of tests and concluded that it was reasonable and consistent. GRS is not responsible for the accuracy or completeness of the information provided by the Retirement System. Please see the "Actuarial Valuation Report as of June 30, 2019" for additional discussion of the nature of the actuarial calculations and more information related to participant data, economic and demographic assumptions, and benefit provisions. These reports should be considered together as a complete report for KRS's fiscal year ending June 30, 2020.

To the best of our knowledge, the reports are complete and accurate and are in accordance with generally recognized actuarial practices and methods. Mr. Newton and Mr. White are Enrolled Actuaries. All three of the undersigned are independent actuaries and consultants and members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. They are also experienced in performing valuations for large public retirement system. This communication shall not be construed to provide tax advice, legal advice or investment advice.

Sincerely,

Gabriel, Roeder, Smith & Co.

Joseph P. Newton, FSA, EA, MAAA
Pension Market Leader and Actuary

Daniel J. White, FSA, EA, MAAA
Senior Consultant and Actuary

Janie Shaw, ASA, MAAA
Consultant and Actuary