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December 2, 2021

Board of Trustees
Kentucky Public Pensions Authority
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 County Employees Retirement System (CERS), the Kentucky Employees Retirement System (KERS), 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, 2021. 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 plans' 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, 2020. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2021 using generally accepted actuarial principles. This information was determined separately for the non-hazardous and hazardous funds within CERS and KERS before being aggregated together.

Assumptions

There have been no changes in actuarial assumptions or methods since June 30, 2020.

Plan Provisions

Senate Bill 169 passed during the 2021 legislative session and increased the disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of a duty-related disability. The total pension liability as of June 30, 2021 is determined using these updated benefit provisions.

Additionally, House Bill 8 passed during the 2021 legislative session and changed how employer contributions are allocated and collected from the participating employers in the KERS Non-Hazardous Fund. This change does not impact the calculation of the total pension liability and only impacts the allocation of required contributions amongst the participating employers.

Further, House Bill 1 passed during the 2019 special legislative session and allowed certain agencies in the KERS Non-Hazardous Fund to elect to cease participating in KERS as of June 30, 2020 under different provisions than were previously established. Senate Bill 249 passed during the 2020 legislative session and delayed the effective date of cessation for these provisions to June 30, 2021. Only one employer elected to cease participation under these provisions and freeze benefit accruals for their current employees. As such, there is no material impact on the total pension liability due to 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

In accordance with paragraph 40 of GASB Statement No. 67, a single discount rate of 6.25% and 5.33% was used for the reporting and disclosure of the CERS and KERS pension plans, respectively. For CERS, the single discount rate of 6.25% is based on the 6.25% discount rate used for both the non-hazardous fund and the hazardous fund to measure the total pension liability for the fiscal year ending June 30, 2021. For KERS, the single discount rate of 5.33% is the equivalent discount rate that produces the same total pension liability as the individual single discount rate assumptions used by the non-hazardous pension fund and hazardous pension fund to measure the total pension liability for the fiscal year ending June 30, 2021 (5.25% for the non-hazardous pension fund and 6.25% for the hazardous pension fund). For SPRS, the single discount rate of 5.25% is equal to the expected rate of return on pension plan investments for the plan.

The single discount rates for all individual funds are based on the expected rate of return on pension plan investments for each fund. Separate contribution rates are determined and separate assets are maintained for the non-hazardous and hazardous funds within CERS and KERS. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension funds' fiduciary net position and future contributions were separately projected and were each sufficient to finance all the future benefit payments of the current fund 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 fund.

The projection of cash flows used to determine the single discount rate for each fund must include an assumption regarding actual employer contributions made each future year. Future contributions are projected assuming that each participating employer in each pension fund contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy, as most recently revised by House Bill 8, passed during the 2021 legislative session. The assumed future employer contributions for CERS reflect the provisions of House Bill 362 (passed during the 2018 legislative session) which limit the increases to the employer contribution rates to 12% over the prior fiscal year through June 30, 2028.

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 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

These reports are based upon information, furnished to us by the Kentucky Public Pensions Authority (KPPA), 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 KPPA. Please see the "Actuarial Valuation Report as of June 30, 2020" 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 the fiscal year ending June 30, 2021.

To the best of our knowledge, these reports are complete and accurate and are in accordance with generally recognized actuarial practices and methods. Both of the undersigned are Enrolled Actuaries, members of the American Academy of Actuaries and meet all of the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. In addition, both are independent of KPPA and are experienced in performing valuations for large public retirement systems. This communication shall not be construed to provide tax advice, legal advice or investment advice.

Sincerely,

Gabriel, Roeder, Smith & Company

Janie Shaw, ASA, EA, MAAA
Consultant and Actuary

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