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December 7, 2022

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, 2022. 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, 2021. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2022 using generally accepted actuarial principles.

Assumptions

There have been no changes in actuarial assumptions or methods since June 30, 2021.

Plan Provisions

House Bill 259 passed during the 2022 legislative session and will increase the benefits in the SPRS Tier 3 cash balance plan by allowing the conversion of unused sick leave in excess of 480 hours to cash balance pay credits at the end of each fiscal year. Similarly, House Bill 259 will also allow the conversion of an SPRS member's balance of unused sick leave to cash balance pay credits upon termination of employment. The total pension liability for the SPRS pension plan as of June 30, 2022 is determined using these updated benefit provisions. There have been no other plan provision changes that would materially impact the total pension liability since June 30, 2021.

House Bill 259 also provided meaningful salary increases effective July 1, 2022 for eligible State Troopers. Additionally, House Bill 1 passed during the 2022 legislative session and included a provision that provided an approximate 8% across-the-board salary increase effective July 1, 2022 for eligible State employees. While these salary increases may produce an actuarial loss with respect to the liability attributable to Tier 1 and Tier 2 active members (i.e. a higher total pension liability than expected based on current actuarial assumptions), there is not sufficient information available at this time to make a reasonable adjustment to the roll-forward Total Pension Liability to reflect these anticipated salary increases. It is our opinion that these procedures for determining the information contained in these reports are reasonable, 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 pension plan and SPRS pension plan, and a single discount rate of 6.25% was used for the KERS Hazardous pension plan, the CERS Non-Hazardous pension plan, and the CERS Hazardous pension plan to measure the total pension liability for the fiscal year ending June 30, 2022. These single discount rates were based on the expected rate of return on pension plan investments. 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.

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, future contributions are projected assuming that the entire actuarially determined employer contribution is received by each plan each future year, calculated in accordance with the current funding policy. The assumed future employer contributions for the CERS plans 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, 2021" for each system 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, 2022.

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

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

Janie Shaw, ASA, EA, MAAA
Consultant and Actuary