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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 No. 74 Reporting – Actuarial Information

Dear Members of the Board:

The reports provided herein contain certain information for the County Employees Retirement System (CERS) non-hazardous insurance plan and hazardous insurance plan; the Kentucky Employees Retirement System (KERS) non-hazardous insurance plan and hazardous insurance plan; and the State Police Retirement System (SPRS) insurance plan in connection with the Governmental Accounting Standards Board (GASB) Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other than 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. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions".

Basis of Calculations

The liability calculations presented in the reports were performed for the purpose of satisfying the requirements of GASB No. 74 and are not applicable for other purposes, such as determining the plan's funding requirements. The plan's liability for other purposes may produce significantly different results.

The total OPEB liability, net OPEB liability, and sensitivity information are based on an actuarial valuation date of June 30, 2021. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2022 using generally accepted actuarial principles.

Assumptions

The discount rates used to calculate the total OPEB liability increased for each fund since the prior year (see further discussion on the calculation of the single discount rates later in this letter). There were no other material assumption changes and it is our opinion that these procedures are reasonable and appropriate, and comply with applicable requirements under GASB No. 74.

Plan Provisions

Senate Bill 209 passed during the 2022 legislative session and increased the insurance dollar contribution for members hired on or after July 1, 2003 by $5 for each year of service a member attains over certain thresholds, depending on a member's retirement eligibility requirement. This increase in the insurance dollar contribution does not increase by 1.5% annually and is only payable for non-Medicare retirees. Additionally, it is only payable when the member's applicable insurance fund is at least 90% funded. The increase is first payable January 1, 2023.

To model the financial impact of the requirement for the funds to be 90% funded, we have assumed the increase in the insurance dollar contribution is payable in all calendar years for the KERS hazardous plan, the CERS plans, and the SPRS plan, as they were above or approaching 90% funded as of the June 30, 2021 Actuarial Valuation. For the KERS non-hazardous insurance plan, we have assumed the increases begin in the year 2047, which is our best estimate of when the fund will begin approaching 90% funded.

Senate Bill 209 also allows members receiving the insurance dollar contribution to participate in a medical insurance reimbursement plan that would provide the reimbursement of premiums for health plans other than those administered by KPPA. In general, allowing members to receive reimbursement to participate in health plans other than those administered by KPPA would increase the utilization of the dollar benefit. The current election assumption for future members receiving the dollar insurance benefit is 100%, so there is no immediate change in the total OPEB liability for active members due to this benefit change. For current retirees and beneficiaries eligible for the dollar insurance benefit who have not yet elected coverage, we have assumed 50% would elect coverage under this benefit change.

The total OPEB liability as of June 30, 2022 is determined using these updated benefit provisions. There were no other plan provision changes that would materially impact the total OPEB liability and it is our opinion that these procedures are reasonable and appropriate, and comply with applicable requirements under GASB No. 74.

Implicit Employer Subsidy for Non-Medicare Retirees

The fully-insured premiums paid for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB No. 74 requires that the liability associated with this implicit subsidy be included in the calculation of the Total OPEB Liability.

Single Discount Rate

The following single discount rates were used to measure the total OPEB liability for the fiscal year ending June 30, 2022.

KERS Non-Hazardous	5.72%
KERS Hazardous	5.59%
CERS Non-Hazardous	5.70%
CERS Hazardous	5.61%
SPRS	5.69%

The single discount rates are based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.69%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2022. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the plan's actuarial determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the plan's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The projection of cash flows used to determine the single discount rate must include an assumption regarding actual employer contributions made each future year. 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.

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 position includes these 401(h) assets. Additionally, these member contributions and associated investment income and administrative expenses are included in the reconciliation of the fiduciary net position.

Additional Disclosures

This information is 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 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 fiscal year ending June 30, 2022.

To the best of our knowledge, this report is complete and accurate and is 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

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