



December 1, 2025

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

Re: GASB No. 74 Reporting – Actuarial Information – County Employees Retirement System

Dear Members of the Board:

This report provided herein contains certain information for the **County Employees Retirement System (CERS)** 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, 2025. A separate report 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”.

The liability calculations presented in this report 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. This report may be provided to parties other than the Board of Trustees of the County Employees Retirement Systems only in its entirety and only with the permission of the Board. GRS is not responsible for unauthorized use of this report.

The total OPEB liability, net OPEB liability, and sensitivity information shown in this report are based on an actuarial valuation date of June 30, 2024. The total OPEB liability was rolled-forward from the valuation date to the plan’s fiscal year ending June 30, 2025, using generally accepted actuarial principles. GASB No. 74 requires the disclosure of a 10-year history of certain information in the Required Supplementary Information within the annual financial report. The exhibits provided in this report include the applicable information for historical years that were calculated in accordance with this accounting standard. Information disclosed for years prior to June 30, 2017 were prepared by the prior actuary.

Actuarial Assumptions

The discount rate used to calculate the total OPEB liability increased from 5.99% to 6.26% for the non-hazardous plan and from 6.02% to 6.24% for the hazardous plan (see further discussion on the calculation of the single discount rate later in this letter). The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2024 valuation process and was updated to better reflect the plan’s anticipated long-term healthcare cost increases. In general, the updated assumption is assuming higher future increases in pre-Medicare and Medicare healthcare costs.

The Total OPEB Liability as of June 30, 2025 is determined using these updated assumptions. 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. 74.

Plan Provisions

Senate Bill 10 passed during the 2025 legislative session and increased the insurance benefit for members who began participation on or after July 1, 2003 to \$40 a month for non-hazardous CERS service and \$50 a month for hazardous CERS service, effective January 1, 2026. These increases are only payable when a member is not eligible for Medicare benefits and only if they have met certain service thresholds at retirement. Additionally, this legislation increases the insurance member contribution rate for hazardous members from 1% of pay to 2% of pay, effective July 1, 2026, and extended the required member contribution to CERS members hired on or after July 1, 2003 but prior to September 1, 2008 for both funds.

There have been no other plan provision changes that would materially impact the total OPEB liability since June 30, 2024.

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

Single discount rates of 6.26% for the non-hazardous plan and 6.24% for the hazardous plan were used to measure the total OPEB liability for the fiscal year ending June 30, 2025. They are based on the expected rate of return on OPEB plan investments of 6.50% and a municipal bond rate of 5.20%, as reported in Bond Buyer's "20-Bond GO Index" as of June 30, 2025.

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 member contributions to a 401(h) subaccount are considered OPEB assets. 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 report 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, 2024" 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, 2025.

To the best of our knowledge, this report is complete and accurate and is in accordance with generally recognized actuarial practices and methods. All 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, all three 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,

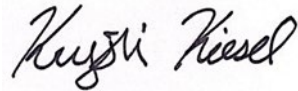
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