



December 2, 2021

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 Insurance Plan for members in 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. 74, “Financial Reporting for Postemployment Benefit Plans Other than 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. 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, 2020. The total OPEB 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 each fund (CERS Non-Hazardous fund, CERS Hazardous fund, KERS Non-Hazardous fund, KERS Hazardous fund, and SPRS) before being aggregated together.

Assumptions

The discount rates used to calculate the total OPEB liability within each fund changes since the prior year (see further discussion on the calculation of the single discount rates later in this letter). The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2020 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 healthcare costs. 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 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 OPEB 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 OPEB 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 the KERS Non-Hazardous fund 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 OPEB 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. 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

In accordance with paragraph 48 of GASB Statement No. 74, a single discount rate of 5.18% was used for the reporting and disclosure of the Insurance plan. Note, this is the equivalent discount rate that produces the same total OPEB liability as the individual single discount rate assumptions used by each individual fund to measure the total OPEB liability for the fiscal year ending June 30, 2021. The single discount rates for each individual fund are based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 1.92%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2021.

Single Discount Rates used to calculate Total OPEB Liability within each fund

CERS Non-Hazardous	5.20%
CERS Hazardous	5.05%
KERS Non-Hazardous	5.26%
KERS Hazardous	5.01%
SPRS	5.20%



Separate contribution rates are determined and separate assets are maintained for each fund. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each fund's fiduciary net position and future contributions were projected separately and were 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 fund. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the fund's actuarially determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the fund'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 each participating employer in each 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 the CERS funds 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 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

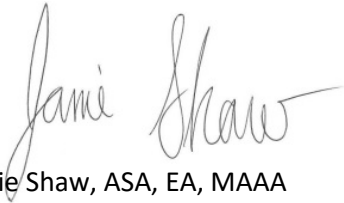
This information is based upon information, furnished to us by the Kentucky Public Pensions Authority (KPPA), which includes benefit provisions, membership information, and financial data. We did not audit this data and information, but we did apply a number of tests and concluded that it was reasonable 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, 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 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. 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 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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