

# Kentucky Employees Retirement System

GASB No. 67 Accounting Valuation Report  
As of June 30, 2020





December 3, 2020

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

**Re: GASB 67 Reporting – Actuarial Information – Kentucky Employees Retirement System**

Dear Members of the Board:

This report provided herein contains certain information for the Kentucky Employees Retirement System (KERS) in connection with the Governmental Accounting Standards Board (GASB) Statement No. 67, “Financial Reporting for Pension Plans” for the fiscal year ending June 30, 2020. A separate report 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”.

The liability calculations presented in this report 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 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 Kentucky Retirement Systems only in its entirety and only with the permission of the Board.

The total pension liability, net pension liability, and sensitivity information shown in this report are based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled-forward from the valuation date to the plan’s fiscal year ending June 30, 2020 using generally accepted actuarial principles. GASB 67 requires Kentucky Retirement Systems to disclose a 10-year history of certain information in the Required Supplementary Information within their comprehensive 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 KRS’s prior actuary.

There have been no assumption changes since June 30, 2019. House Bill 1 passed during the 2019 Special Legislative Session and allowed certain agencies in the Non-Hazardous plan to elect to cease participating in the System 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. Since each employer’s election is unknown at this time, we did not make any adjustment to the Total Pension Liability to reflect this legislation.

Senate Bill 249 also changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020.

Additionally, House Bill 271 passed during the 2020 Legislative Session and removed provisions that reduce the monthly payment to a surviving spouse of a member whose death was due to a duty-related injury upon remarriage of the spouse. It also increased benefits for a very small number of beneficiaries. This did not have a material (or measurable) impact on the liability of the plans and therefore, we did not make any adjustment to the Total Pension Liability to reflect 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.

This report is based upon information, furnished to us by the Retirement System, 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 the Retirement System. Please see the "Actuarial Valuation Report as of June 30, 2019" 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 KRS's fiscal year ending June 30, 2020.

Single discount rates of 5.25% for the non-hazardous system and 6.25% for the hazardous system were used to measure the total pension liability for the fiscal year ending June 30, 2020. This single discount rate was based on the expected rate of return on pension plan investments for each system. 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 for each system.

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, the future contributions are projected assuming that each participating employer in the System contribute the actuarially determined employer contribution rate each future year calculated in accordance with the current funding policy, as most recently revised by Senate Bill 249, passed during the 2020 Legislative Session.

If there is a pattern of legislation that has a resulting effect of employers making contributions less than the actuarially determined rate, we may be required to project contributions that are reflective of recent actual contribution efforts regardless of the stated funding policy (as required by paragraph 42 of GASB Statement No. 67). Legislation has been enacted three times (for FY 18/19, FY 19/20, and FY 20/21) that allowed certain employers (referred to as "Quasi" agencies) in the KERS Non-Hazardous Fund to contribute 41.06% of pay into the retirement fund, which is significantly less than the actuarially determined contribution rate. We believe this constitutes a pattern and as such, the projection for the KERS Non-Hazardous Fund assumes these Quasi agencies contribute no more than 41.06% of pay throughout the entire projection.

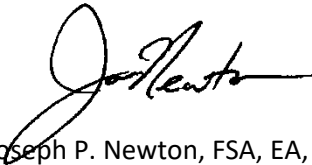


Based on guidance issued by GASB in connection with GASB Statement No. 74, the 1% of pay member contributions for Tier 2 and Tier 3 members to a 401(h) subaccount is considered as an OPEB asset. As a result, the reported fiduciary net positions as of June 30, 2017 and later are net of the 401(h) asset balance.

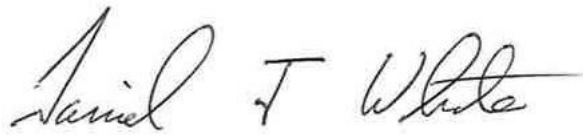
To the best of our knowledge, this report is complete and accurate and is in accordance with generally recognized actuarial practices and methods. Mr. Newton and Mr. White are Enrolled Actuaries. All three of the undersigned are independent actuaries and consultants and members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. They are also experienced in performing valuations for large public retirement system. This communication shall not be construed to provide tax advice, legal advice or investment advice.

Sincerely,

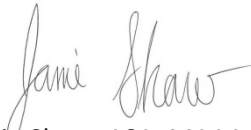
**Gabriel Roeder Smith & Co.**



Joseph P. Newton, FSA, EA, MAAA  
Pension Market Leader and Actuary



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



Jamie Shaw, ASA, MAAA  
Consultant and Actuary



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**SECTION 1**

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## EXHIBIT 1a

### Schedule of the Employers' Net Pension Liability – KERS Non-Hazardous Plan (\$ in thousands)

Fiscal Year Ending June 30,	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	Covered Employee Payroll <sup>1</sup>	Net Pension Liability as a Percentage of Covered Employee Payroll
(1)	(2)	(3) = (1) - (2)	(4) = (2) / (1)	(5)	(6) = (3) / (5)	
2020	\$ 16,472,733	\$ 2,308,080	\$ 14,164,653	14.01%	\$ 1,476,156	959.56%
2019	16,356,674	2,233,672	14,123,002	13.66%	1,485,854	950.50%
2018	15,608,221	2,004,446	13,603,775	12.84%	1,509,955	900.94%
2017	15,445,206	2,056,870	13,388,336	13.32%	1,602,396	835.52%
2016	13,379,781	1,980,292	11,399,489	14.80%	1,631,025	698.92%
2015	12,359,673	2,327,783	10,031,890	18.83%	1,544,234	649.64%
2014	11,550,110	2,578,291	8,971,819	22.32%	1,577,496	568.74%

Note:

<sup>1</sup> Based on derived compensation using the provided employer contribution information for fiscal years 2017 and later.



## EXHIBIT 1b

### Schedule of the Employers' Net Pension Liability – KERS Hazardous Plan (\$ in thousands)

Fiscal Year Ending June 30,	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	Covered Employee Payroll <sup>1</sup>	Net Pension Liability as a Percentage of Covered Employee Payroll
(1)	(2)	(3) = (1) - (2)	(4) = (2) / (1)	(5)	(6) = (3) / (5)	
2020	\$ 1,251,027	\$ 690,350	\$ 560,677	55.18%	\$ 171,840	326.28%
2019	1,227,226	680,932	546,294	55.49%	160,600	340.16%
2018	1,150,610	645,485	505,125	56.10%	152,936	330.29%
2017	1,098,630	601,529	497,101	54.75%	178,511	278.47%
2016	919,517	527,879	391,638	57.41%	158,828	246.58%
2015	895,433	552,468	342,965	61.70%	128,680	266.53%
2014	816,850	561,484	255,366	68.74%	129,076	197.84%

Note:

<sup>1</sup> Based on derived compensation using the provided employer contribution information for fiscal years 2017 and later.





## EXHIBIT 2a

### Schedule of the Employers' Net Pension Liability – KERS Non-Hazardous Plan (\$ in thousands)

Change in the Net Pension Liability	2020	2019	2018	2017	2016	2015	2014
<b>Total pension liability</b>							
Service Cost	\$ 179,702	\$ 184,988	\$ 195,681	\$ 143,858	\$ 139,631	\$ 143,847	\$ 133,361
Interest	832,178	793,163	785,123	870,725	891,897	859,509	853,653
Benefit Changes	0	0	9,624	0	0	0	0
Difference between actual and expected experience	115,515	70,529	153,565	(134,379)	0	30,958	0
Assumption Changes	0	700,464	0	2,145,530	923,999	694,592	0
Benefit Payments	(1,011,336)	(1,000,691)	(980,978)	(960,309)	(935,419)	(919,343)	(903,564)
<b>Net Change in Total Pension Liability</b>	<b>\$ 116,059</b>	<b>\$ 748,453</b>	<b>\$ 163,015</b>	<b>\$ 2,065,425</b>	<b>\$ 1,020,108</b>	<b>\$ 809,563</b>	<b>\$ 83,450</b>
<b>Total Pension Liability - Beginning</b>	<b>\$ 16,356,674</b>	<b>\$ 15,608,221</b>	<b>\$ 15,445,206</b>	<b>\$ 13,379,781</b>	<b>\$ 12,359,673</b>	<b>\$ 11,550,110</b>	<b>\$ 11,466,660</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 16,472,733</b>	<b>\$ 16,356,674</b>	<b>\$ 15,608,221</b>	<b>\$ 15,445,206</b>	<b>\$ 13,379,781</b>	<b>\$ 12,359,673</b>	<b>\$ 11,550,110</b>
<b>Plan Fiduciary Net Position<sup>1</sup></b>							
Contributions - Employer	\$ 948,592	\$ 1,035,462	\$ 689,143	\$ 757,121	\$ 513,084	\$ 521,691	\$ 296,836
Contributions - Member <sup>2</sup>	96,594	93,759	104,972	100,543	106,495	104,606	97,487
Refunds of contributions to members	(11,523)	(12,342)	(13,603)	(11,819)	(12,130)	(13,552)	(13,627)
Retirement benefits	(999,813)	(988,349)	(967,375)	(948,490)	(923,288)	(905,791)	(889,937)
Net Investment Income <sup>2</sup>	52,499	112,371	144,881	220,985	(20,663)	44,570	337,923
Administrative Expense	(11,941)	(11,712)	(10,692)	(10,957)	(10,989)	(10,474)	(11,145)
Other	0	37 <sup>5</sup>	301 <sup>5</sup>	(30,805) <sup>4</sup>	0	8,442	0
<b>Net Change in Plan Fiduciary Net Position</b>	<b>\$ 74,408</b>	<b>\$ 229,226</b>	<b>\$ (52,373)</b>	<b>\$ 76,578</b>	<b>\$ (347,491)</b>	<b>\$ (250,508)</b>	<b>\$ (182,463)</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>\$ 2,233,672</b>	<b>\$ 2,004,446</b>	<b>\$ 2,056,870</b>	<b>\$ 1,980,292</b>	<b>\$ 2,327,783</b>	<b>\$ 2,578,291</b>	<b>\$ 2,760,754</b>
Prior Year Adjustment	-	-	(51)	-	-	-	-
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 2,308,080</b>	<b>\$ 2,233,672</b>	<b>\$ 2,004,446</b>	<b>\$ 2,056,870</b>	<b>\$ 1,980,292</b>	<b>\$ 2,327,783</b>	<b>\$ 2,578,291</b>
<b>Net Pension Liability - Ending (a) - (b)</b>	<b>\$ 14,164,653</b>	<b>\$ 14,123,002</b>	<b>\$ 13,603,775</b>	<b>\$ 13,388,336</b>	<b>\$ 11,399,489</b>	<b>\$ 10,031,890</b>	<b>\$ 8,971,819</b>
<b>Plan Fiduciary Net Position as a Percentage</b>	<b>14.01%</b>	<b>13.66%</b>	<b>12.84%</b>	<b>13.32%</b>	<b>14.80%</b>	<b>18.83%</b>	<b>22.32%</b>
<b>Covered Employee Payroll<sup>3</sup></b>	<b>\$ 1,476,156</b>	<b>\$ 1,485,854</b>	<b>\$ 1,509,955</b>	<b>\$ 1,602,396</b>	<b>\$ 1,631,025</b>	<b>\$ 1,544,234</b>	<b>\$ 1,577,496</b>
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	<b>959.56%</b>	<b>950.50%</b>	<b>900.94%</b>	<b>835.52%</b>	<b>698.92%</b>	<b>649.64%</b>	<b>568.74%</b>

Notes:

<sup>1</sup> Does not include 401(h) assets for fiscal years 2017 and later

<sup>2</sup> Does not include 401(h) contributions and investment income on 401(h) contributions for fiscal years 2017 and later

<sup>3</sup> Based on derived compensation using the provided employer contribution information for fiscal years 2017 and later

<sup>4</sup> Adjustment due to 401(h) plan asset balance that is considered an OPEB asset under GASB 74 for fiscal years 2017 and later

<sup>5</sup> Northern Trust Settlement



## EXHIBIT 2b

### Schedule of the Employers' Net Pension Liability – KERS Hazardous Plan (\$ in thousands)

Change in the Net Pension Liability	2020	2019	2018	2017	2016	2015	2014
<b>Total pension liability</b>							
Service Cost	\$ 25,568	\$ 27,117	\$ 28,641	\$ 21,081	\$ 20,751	\$ 18,729	\$ 16,880
Interest	74,357	69,657	66,536	66,589	64,851	61,005	59,594
Benefit Changes	0	0	705	0	0	0	0
Difference between actual and expected experience	(1,095)	1,395	24,215	26,902	0	6,067	0
Assumption Changes	0	50,658	0	127,878	0	52,165	0
Benefit Payments	(75,029)	(72,211)	(68,117)	(63,338)	(61,518)	(59,383)	(57,151)
<b>Net Change in Total Pension Liability</b>	<b>\$ 23,801</b>	<b>\$ 76,616</b>	<b>\$ 51,980</b>	<b>\$ 179,112</b>	<b>\$ 24,084</b>	<b>\$ 78,583</b>	<b>\$ 19,323</b>
<b>Total Pension Liability - Beginning</b>	<b>\$ 1,227,226</b>	<b>\$ 1,150,610</b>	<b>\$ 1,098,630</b>	<b>\$ 919,517</b>	<b>\$ 895,433</b>	<b>\$ 816,850</b>	<b>\$ 797,527</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 1,251,027</b>	<b>\$ 1,227,226</b>	<b>\$ 1,150,610</b>	<b>\$ 1,098,630</b>	<b>\$ 919,517</b>	<b>\$ 895,433</b>	<b>\$ 816,850</b>
<b>Plan Fiduciary Net Position<sup>1</sup></b>							
Contributions - Employer	\$ 59,115	\$ 55,259	\$ 43,661	\$ 52,974	\$ 23,759	\$ 28,536	\$ 11,670
Contributions - Member <sup>2</sup>	19,769	17,118	17,891	17,524	15,739	13,207	12,546
Refunds of contributions to members	(3,168)	(2,684)	(2,501)	(2,106)	(2,211)	(2,610)	(2,830)
Retirement benefits	(71,861)	(69,527)	(65,616)	(61,231)	(59,306)	(56,773)	(54,320)
Net Investment Income <sup>2</sup>	6,739	36,380	51,467	70,994	(1,653)	8,701	80,724
Administrative Expense	(1,176)	(1,103)	(975)	(919)	(916)	(844)	(897)
Other	0	4 <sup>5</sup>	33 <sup>5</sup>	(3,586) <sup>4</sup>	0	767	0
<b>Net Change in Plan Fiduciary Net Position</b>	<b>\$ 9,418</b>	<b>\$ 35,447</b>	<b>\$ 43,960</b>	<b>\$ 73,650</b>	<b>\$ (24,588)</b>	<b>\$ (9,016)</b>	<b>\$ 46,893</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>\$ 680,932</b>	<b>\$ 645,485</b>	<b>\$ 601,529</b>	<b>\$ 527,879</b>	<b>\$ 552,468</b>	<b>\$ 561,484</b>	<b>\$ 514,591</b>
Prior Year Adjustment	-	-	(4)	-	-	-	-
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 690,350</b>	<b>\$ 680,932</b>	<b>\$ 645,485</b>	<b>\$ 601,529</b>	<b>\$ 527,879</b>	<b>\$ 552,468</b>	<b>\$ 561,484</b>
<b>Net Pension Liability - Ending (a) - (b)</b>	<b>\$ 560,677</b>	<b>\$ 546,294</b>	<b>\$ 505,125</b>	<b>\$ 497,101</b>	<b>\$ 391,638</b>	<b>\$ 342,965</b>	<b>\$ 255,366</b>
<b>Plan Fiduciary Net Position as a Percentage</b>	<b>55.18%</b>	<b>55.49%</b>	<b>56.10%</b>	<b>54.75%</b>	<b>57.41%</b>	<b>61.70%</b>	<b>68.74%</b>
<b>Covered Employee Payroll<sup>3</sup></b>	<b>\$ 171,840</b>	<b>\$ 160,600</b>	<b>\$ 152,936</b>	<b>\$ 178,511</b>	<b>\$ 158,828</b>	<b>\$ 128,680</b>	<b>\$ 129,076</b>
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	<b>326.28%</b>	<b>340.16%</b>	<b>330.29%</b>	<b>278.47%</b>	<b>246.58%</b>	<b>266.53%</b>	<b>197.84%</b>

Notes:

<sup>1</sup> Does not include 401(h) assets for fiscal years 2017 and later

<sup>2</sup> Does not include 401(h) contributions and investment income on 401(h) contributions for fiscal years 2017 and later

<sup>3</sup> Based on derived compensation using the provided employer contribution information for fiscal years 2017 and later

<sup>4</sup> Adjustment due to 401(h) plan asset balance that is considered an OPEB asset under GASB 74 for fiscal years 2017 and later

<sup>5</sup> Northern Trust Settlement



## EXHIBIT 3a

### Schedule of Employers' Contributions – KERS Non-Hazardous Plan (\$ in thousands)

Fiscal Year Ending	Actuarially Determined Contribution <sup>1</sup>	Total Employer Contributions	Contribution Deficiency (Excess)	Covered Employee Payroll <sup>2</sup>	Actual Contributions as a Percentage of Covered Payroll
2020	\$ 1,048,513	\$ 948,592	\$ 99,921	\$ 1,476,156	64.26%
2019	1,055,402	1,035,462	19,940	1,485,854	69.69%
2018	633,879	689,143	(55,264)	1,509,955	45.64%
2017	623,813	757,121	(133,308)	1,602,396	47.25%
2016	512,670	513,084	(414)	1,631,025	31.46%
2015	520,948	521,691	(743)	1,544,234	33.78%
2014	520,765	296,836	223,929	1,577,496	18.82%
2013	485,396	280,874	204,522	1,644,409	17.08%
2012	441,094	214,786	226,308	1,644,897	13.06%
2011	381,915	193,754	188,161	1,731,633	11.19%

**Notes:**

<sup>1</sup> Actuarially determined contribution rate for fiscal year ending 2020 is based on the contribution rate calculated with the June 30, 2017 actuarial valuation.

<sup>2</sup> Based on derived compensation using the provided employer contribution information for fiscal years 2017 and later



## EXHIBIT 3b

### Schedule of Employers' Contributions – KERS Hazardous Plan (\$ in thousands)

Fiscal Year Ending	Actuarially Determined Contribution <sup>1</sup>	Total Employer Contributions	Contribution Deficiency (Excess)	Covered Employee Payroll <sup>2</sup>	Actual Contributions as a Percentage of Covered Payroll
2020	\$ 59,096	\$ 59,115	\$ (19)	\$ 171,840	34.40%
2019	55,230	55,259	(29)	160,600	34.41%
2018	31,321	43,661	(12,340)	152,936	28.55%
2017	37,630	52,974	(15,344)	178,511	29.68%
2016	23,690	23,759	(69)	158,828	14.96%
2015	28,374	28,536	(162)	128,680	22.18%
2014	13,570	11,670	1,900	129,076	9.04%
2013	21,502	27,334	(5,832)	131,015	20.86%
2012	20,265	20,809	(544)	131,977	15.77%
2011	20,605	19,141	1,464	133,054	14.39%

Notes:

<sup>1</sup> Actuarially determined contribution rate for fiscal year ending 2020 is based on the contribution rate calculated with the June 30, 2017 actuarial valuation.

<sup>2</sup> Based on derived compensation using the provided employer contribution information for fiscal years 2017 and later



## Notes to Schedule of Employers' Contributions for FYE 2020

The actuarially determined contribution rates effective for fiscal year ending 2020 that are documented in the schedule on the previous pages were calculated as of June 30, 2017. Based on the June 30, 2017 actuarial valuation report, the actuarial methods and assumptions used to calculate these contribution rates are below:

Item	KERS Non-Hazardous	KERS Hazardous
Determined by the Actuarial Valuation as of:	June 30, 2017	June 30, 2017
Actuarial Cost Method:	Entry Age Normal	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization Method:	Level Percent of Pay	Level Percent of Pay
Amortization Period:	26 Years, Closed	26 Years, Closed
Payroll Growth Rate	0.00%	0.00%
Investment Return:	5.25%	6.25%
Inflation:	2.30%	2.30%
Salary Increases:	3.55% to 15.55%, varies by service	3.55% to 19.55%, varies by service
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

## EXHIBIT 4

### Sensitivity of the Net Pension Liability to Changes in the Discount Rate (\$ in thousands)

**Table 1. Sensitivity of the Net Pension Liability to Changes in the Discount Rate for KERS (Non-Hazardous)**

1.00% Decrease (4.25%)	Current Discount Rate (5.25%)	1.00% Increase (6.25%)
\$ 16,223,729	\$ 14,164,653	\$ 12,472,483

**Table 2. Sensitivity of the Net Pension Liability to Changes in the Discount Rate for KERS (Hazardous)**

1.00% Decrease (5.25%)	Current Discount Rate (6.25%)	1.00% Increase (7.25%)
\$ 717,449	\$ 560,677	\$ 433,056