

Kentucky County Employees Retirement System

GASB No. 67 Accounting Valuation Report
As of June 30, 2019



December 9, 2019

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

Re: GASB 67 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. 67, “Financial Reporting for Pension Plans” for the fiscal year ending June 30, 2019. 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, 2018. The total pension liability was rolled-forward from the valuation date to the plan’s fiscal year ending June 30, 2019 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 plan provision changes since June 30, 2018. However, the Board of Trustees has adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled “Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018”. The Total Pension liability as of June 30, 2019 is determined using these updated assumptions. It is our opinion that this procedure is reasonable and appropriate, and complies 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, 2018" and the "2018 Actuarial Experience Study for the Period Ending June 30, 2018" 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, 2019.

A single discount rate of 6.25% was used for both the non-hazardous and hazardous system to measure the total pension liability for the fiscal year ending June 30, 2019. 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 assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018).

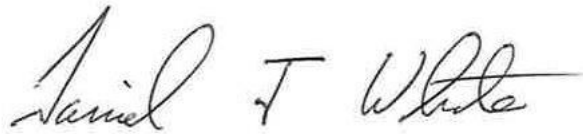
Based on guidance issued by GASB in connection with GASB Statement No. 74, the 1% of pay member contributions for Tier 2 and Tier 3 members to a 401(h) subaccount is considered as an OPEB asset. As a result, the reported fiduciary net positions as of June 30, 2017 and later are net of the 401(h) asset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



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



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



Janie Shaw, ASA, MAAA
Consultant and Actuary

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SECTION 1

EXHIBIT 1a

Schedule of the Employers' Net Pension Liability – CERS Non-Hazardous Plan (\$ 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 ¹	Net Pension Liability as a Percentage of Covered Employee Payroll
(1)	(2)	(3) = (1) - (2)	(4) = (2) / (1)	(5)	(6) = (3) / (5)	
2019	\$ 14,192,966	\$ 7,159,921	\$ 7,033,045	50.45%	\$ 2,424,796	290.05%
2018	13,109,268	7,018,963	6,090,305	53.54%	2,454,927	248.08%
2017	12,540,545	6,687,237	5,853,308	53.32%	2,376,290	246.32%
2016	11,065,013	6,141,395	4,923,618	55.50%	2,417,187	203.69%
2015	10,740,325	6,440,800	4,299,525	59.97%	2,296,716	187.20%
2014	9,772,522	6,528,146	3,244,376	66.80%	2,272,270	142.78%

Note:

¹ 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 – CERS Hazardous Plan (\$ 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 ¹	Net Pension Liability as a Percentage of Covered Employee Payroll
(1)	(2)	(3) = (1) - (2)	(4) = (2) / (1)	(5)	(6) = (3) / (5)	
2019	\$ 5,176,003	\$ 2,413,708	\$ 2,762,295	46.63%	\$ 553,541	499.02%
2018	4,766,794	2,348,337	2,418,457	49.26%	562,853	429.68%
2017	4,455,275	2,217,996	2,237,279	49.78%	526,559	424.89%
2016	3,726,115	2,010,174	1,715,941	53.95%	526,334	326.02%
2015	3,613,308	2,078,202	1,535,106	57.52%	483,641	317.41%
2014	3,288,826	2,087,002	1,201,824	63.46%	479,164	250.82%

Note:

¹ 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 – CERS Non-Hazardous Plan (\$ thousands)

Change in the Net Pension Liability	2019	2018	2017	2016	2015	2014
Total pension liability						
Service Cost	\$ 254,643	\$ 254,169	\$ 193,082	\$ 209,101	\$ 207,400	\$ 192,482
Interest	794,935	760,622	803,555	780,587	733,002	710,526
Benefit Changes	0	15,708	0	0	0	0
Difference between actual and expected experience	87,377	279,401	(208,015)	0	49,966	0
Assumption Changes	727,351	0	1,388,800	0	606,293	0
Benefit Payments	(780,608)	(741,177)	(701,891)	(665,000)	(628,858)	(597,136)
Net Change in Total Pension Liability	\$ 1,083,698	\$ 568,723	\$ 1,475,532	\$ 324,687	\$ 967,803	\$ 305,872
Total Pension Liability - Beginning	\$ 13,109,268	\$ 12,540,545	\$ 11,065,013	\$ 10,740,325	\$ 9,772,522	\$ 9,466,650
Total Pension Liability - Ending (a)	\$ 14,192,966	\$ 13,109,268	\$ 12,540,545	\$ 11,065,013	\$ 10,740,325	\$ 9,772,522
Plan Fiduciary Net Position¹						
Contributions - Employer	\$ 393,453	\$ 358,017	\$ 333,554	\$ 284,105	\$ 298,565	\$ 324,231
Contributions - Member ²	159,064	160,370	150,715	141,674	140,311	128,568
Refunds of contributions to members	(14,387)	(14,608)	(14,430)	(13,753)	(13,523)	(14,286)
Retirement benefits	(766,221)	(726,569)	(687,461)	(651,246)	(615,335)	(582,850)
Net Investment Income ²	390,664	573,829	825,900	(40,800)	110,568	895,530
Administrative Expense	(21,659)	(19,592)	(19,609)	(19,385)	(18,212)	(18,615)
Other	44 ⁴	361 ⁴	(42,827)	0	10,280	0
Net Change in Plan Fiduciary Net Position	\$ 140,958	\$ 331,808	\$ 545,843	\$ (299,405)	\$ (87,346)	\$ 732,578
Plan Fiduciary Net Position - Beginning	\$ 7,018,963	\$ 6,687,237	\$ 6,141,395	\$ 6,440,800	\$ 6,528,146	\$ 5,795,568
Prior Year Adjustment	-	(82)	-	-	-	-
Plan Fiduciary Net Position - Ending (b)	\$ 7,159,921	\$ 7,018,963	\$ 6,687,237	\$ 6,141,395	\$ 6,440,800	\$ 6,528,146
Net Pension Liability - Ending (a) - (b)	\$ 7,033,045	\$ 6,090,305	\$ 5,853,308	\$ 4,923,618	\$ 4,299,525	\$ 3,244,376
Plan Fiduciary Net Position as a Percentage	50.45%	53.54%	53.32%	55.50%	59.97%	66.80%
Covered Employee Payroll³	\$ 2,424,796	\$ 2,454,927	\$ 2,376,290	\$ 2,417,187	\$ 2,296,716	\$ 2,272,270
Net Pension Liability as a Percentage of Covered Employee Payroll	290.05%	248.08%	246.32%	203.69%	187.20%	142.78%

Notes:

¹ Does not include 401(h) assets for fiscal years 2017 and later

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

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

⁴ Northern Trust Settlement

EXHIBIT 2b

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

Change in the Net Pension Liability	2019	2018	2017	2016	2015	2014
Total pension liability						
Service Cost	\$ 77,426	\$ 81,103	\$ 58,343	\$ 66,249	\$ 71,934	\$ 66,761
Interest	289,741	270,694	270,860	262,886	247,008	238,665
Benefit Changes	0	2,172	0	0	0	0
Difference between actual and expected experience	27,364	205,882	92,588	0	41,935	0
Assumption Changes	276,541	0	536,667	0	166,849	0
Benefit Payments	(261,863)	(248,332)	(229,299)	(216,327)	(203,244)	(192,299)
Net Change in Total Pension Liability	\$ 409,209	\$ 311,519	\$ 729,159	\$ 112,807	\$ 324,482	\$ 113,127
Total Pension Liability - Beginning	\$ 4,766,794	\$ 4,455,275	\$ 3,726,115	\$ 3,613,308	\$ 3,288,826	\$ 3,175,699
Total Pension Liability - Ending (a)	\$ 5,176,003	\$ 4,766,794	\$ 4,455,275	\$ 3,726,115	\$ 3,613,308	\$ 3,288,826
Plan Fiduciary Net Position¹						
Contributions - Employer	\$ 138,053	\$ 127,660	\$ 115,947	\$ 105,713	\$ 108,071	\$ 115,240
Contributions - Member ²	58,661	61,089	60,101	52,972	47,692	43,722
Refunds of contributions to members	(2,854)	(4,214)	(2,315)	(2,879)	(3,111)	(2,664)
Retirement benefits	(259,009)	(244,118)	(226,984)	(213,448)	(200,134)	(189,635)
Net Investment Income ²	132,232	191,324	270,473	(9,020)	37,104	288,490
Administrative Expense	(1,726)	(1,504)	(1,421)	(1,366)	(1,288)	(1,721)
Other	14 ⁴	111 ⁴	(7,979)	0	2,865	0
Net Change in Plan Fiduciary Net Position	\$ 65,371	\$ 130,348	\$ 207,822	\$ (68,028)	\$ (8,801)	\$ 253,432
Plan Fiduciary Net Position - Beginning	\$ 2,348,337	\$ 2,217,996	\$ 2,010,174	\$ 2,078,202	\$ 2,087,002	\$ 1,833,570
Prior Year Adjustment	-	(7)	-	-	-	-
Plan Fiduciary Net Position - Ending (b)	\$ 2,413,708	\$ 2,348,337	\$ 2,217,996	\$ 2,010,174	\$ 2,078,202	\$ 2,087,002
Net Pension Liability - Ending (a) - (b)	\$ 2,762,295	\$ 2,418,457	\$ 2,237,279	\$ 1,715,941	\$ 1,535,106	\$ 1,201,824
Plan Fiduciary Net Position as a Percentage	46.63%	49.26%	49.78%	53.95%	57.52%	63.46%
Covered Employee Payroll³	\$ 553,541	\$ 562,853	\$ 526,559	\$ 526,334	\$ 483,641	\$ 479,164
Net Pension Liability as a Percentage of Covered Employee Payroll	499.02%	429.68%	424.89%	326.02%	317.41%	250.82%

Notes:

¹ Does not include 401(h) assets for fiscal years 2017 and later

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

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

⁴ Northern Trust Settlement

EXHIBIT 3a

Schedule of Employers' Contributions – CERS Non-Hazardous Plan (\$ thousands)

Fiscal Year Ending	Actuarially Determined Contribution ¹	Total Employer Contributions	Contribution Deficiency (Excess)	Covered Employee Payroll ²	Actual Contributions as a Percentage of Covered Payroll
2019	\$ 529,575	\$ 393,453	\$ 136,122	\$ 2,424,796	16.23%
2018	355,473	358,017	(2,544)	2,454,927	14.58%
2017	331,492	333,554	(2,062)	2,376,290	14.04%
2016	282,767	284,106	(1,339)	2,417,187	11.75%
2015	297,715	298,566	(851)	2,296,716	13.00%
2014	324,231	324,231	-	2,272,270	14.27%
2013	294,914	294,914	-	2,236,277	13.19%
2012	261,764	275,736	(13,972)	2,236,546	12.33%
2011	218,985	248,519	(29,534)	2,276,596	10.92%
2010	186,724	207,076	(20,352)	2,236,855	9.26%

Notes:

¹ Actuarially determined contribution rate for fiscal year ending 2019 is based on the contribution rate calculated with the June 30, 2017 actuarial valuation.

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

EXHIBIT 3b

Schedule of Employers' Contributions – CERS Hazardous Plan (\$ thousands)

Fiscal Year Ending	Actuarially Determined Contribution ¹	Total Employer Contributions	Contribution Deficiency (Excess)	Covered Employee Payroll ²	Actual Contributions as a Percentage of Covered Payroll
2019	\$ 197,559	\$ 138,053	\$ 59,506	\$ 553,541	24.94%
2018	124,953	127,660	(2,707)	562,853	22.68%
2017	114,316	115,947	(1,631)	526,559	22.02%
2016	104,952	105,713	(761)	526,334	20.08%
2015	107,514	108,071	(557)	483,641	22.35%
2014	115,240	115,240	-	479,164	24.05%
2013	120,140	120,140	-	461,673	26.02%
2012	83,589	89,329	(5,740)	464,229	19.24%
2011	78,796	85,078	(6,282)	466,964	18.22%
2010	76,391	82,887	(6,496)	466,549	17.77%

Notes:

¹ Actuarially determined contribution rate for fiscal year ending 2019 is based on the contribution rate calculated with the June 30, 2017 actuarial valuation.

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

Notes to Schedule of Employers' Contributions for FYE 2019

The actuarially determined contribution rates effective for fiscal year ending 2019 that are documented in the schedule on the previous pages was 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	CERS Non-Hazardous	CERS 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
Investment Return:	6.25%	6.25%
Inflation:	2.30%	2.30%
Salary Increases:	3.30% to 11.55%, varies by service	3.05% to 18.55%, 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)
Phase-In provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

EXHIBIT 4

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

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

1.00% Decrease (5.25%)	Current Discount Rate (6.25%)	1.00% Increase (7.25%)
\$ 8,796,344	\$ 7,033,045	\$ 5,563,352

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

1.00% Decrease (5.25%)	Current Discount Rate (6.25%)	1.00% Increase (7.25%)
\$ 3,453,489	\$ 2,762,295	\$ 2,195,616