

December 9, 2019

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

Re: GASB 67 Reporting – Actuarial Information

Dear Members of the Board:

The reports provided herein contain certain information for the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS), and the State Police Retirement System (SPRS) 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. Separate reports 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”.

Basis of Calculations

The liability calculations presented in the reports 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.

The total pension liability, net pension liability, and sensitivity information 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.

Assumptions

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.

Plan Provisions

House Bill 1 passed during the 2019 Special Legislative Session and allows certain employers in the KERS Non-Hazardous plan to elect to cease participating in the System as of June 30, 2020. Since each employer’s election is unknown at this time and the legislation was enacted after the June 30, 2019 measurement date, we did not make any adjustments to the Total Pension Liability to reflect this legislation. There have been no other plan provision changes since June 30, 2018, and therefore, no benefit changes have been reflected in the Total Pension liability.

Discount Rates

A single discount rate of 5.25% was used for the non-hazardous KERS system and the SPRS system and a single discount rate of 6.25% was used for the hazardous KERS system, the non-hazardous CERS system and the hazardous CERS system to measure the total pension liability for the fiscal year ending June 30, 2019. These single discount rates were 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 each fund receives the employer required contributions each future year as determined by the current funding policy established in Statute, which includes the phase-in provisions from House Bill 362 (passed in 2018) that applies to the CERS Systems.

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 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.

Additional Disclosures

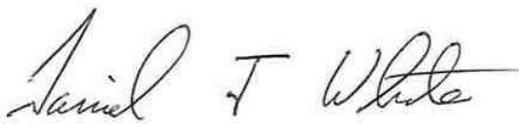
The reports are based upon information, furnished to us by the Retirement System, which includes benefit provisions, membership information, and financial data. We did not audit this data and information, but we did apply a number of tests and concluded that it was reasonable and consistent. GRS is not 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.

To the best of our knowledge, the reports are complete and accurate and are 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