

November 19, 2018

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, 2018. 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, 2017. The total pension liability was rolled-forward from the valuation date to the plan’s fiscal year ending June 30, 2018 using generally accepted actuarial principles.

Assumptions

There have been no changes in actuarial assumptions since June 30, 2017.

Plan Provisions

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member’s final rate of pay to 75% of the member’s average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member’s final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension liability as of June 30, 2018 is determined using these updated benefit provisions.

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, 2018. These single discount rates are 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 State contributes the actuarially determined contribution rate in all future years (determined without regard to enactment of SB 151 in 2018, which is currently being reviewed by the State Supreme Court).

401(h) Subaccount

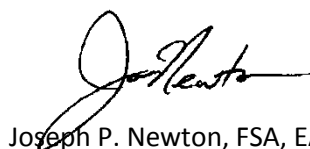
Based on guidance issued by GASB in connection with GASB Statement No. 74, the 1% of pay member contributions for Tier 2 and Tier 3 members to a 401(h) subaccount is considered as an OPEB asset. As a result, the reported fiduciary net positions as of June 30, 2017 and later are net of the 401(h) asset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

Additional Disclosures

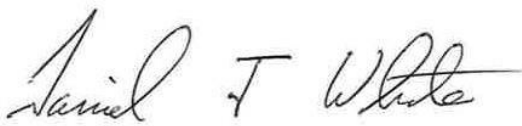
The reports are based upon information, furnished to us by the Retirement System, which includes benefit provisions, membership information, and financial data. We did not audit this data and information, but we did apply a number of tests and concluded that it was reasonable and consistent. GRS is not responsible for the accuracy or completeness of the information provided by the Retirement System. Please see the "Actuarial Valuation Report as of June 30, 2017" for additional discussion of the nature of actuarial calculation 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, 2018.

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