

November 19, 2018

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

Re: GASB 74 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. 74, “Financial Reporting for Postemployment Benefit Plans Other than 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. 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 plans’ 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, 2017. The total OPEB 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. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The Total OPEB liability as of June 30, 2018 is determined using these updated benefit provisions.

Implicit Employer Subsidy for non-Medicare retirees

The fully-insured premiums KRS pays 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 74 requires that the liability associated with this implicit subsidy be included in the calculation of the Total OPEB Liability.

Discount Rates

The following single discount rates were used to measure the total OPEB liability as of June 30, 2017.

KERS Non-Hazardous	5.86%
KERS Hazardous	5.88%
CERS Non-Hazardous	5.85%
CERS Hazardous	5.97%
SPRS	6.02%

The single discount rates are based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (25 years as of June 30, 2018) and the actuarial assumptions and methods adopted by the Board of Trustees. These projected contributions are determined without regard to the enactment of SB 151 in 2018, which is currently being reviewed by the State Supreme Court. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the System's actuarial determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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 position includes these 401(h) assets. Additionally, these member contributions and associated investment income are included in the reconciliation of the fiduciary net position.

Additional Disclosures

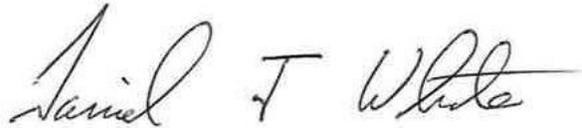
The reports are based upon information, furnished to us by the Retirement System, which includes benefit provisions, membership information, and financial data. We did not audit this data and information, but we did apply a number of tests and concluded that it was reasonable and consistent. GRS is not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



Mehdi Riazi, FSA, EA, MAAA
Consultant and Actuary