

Retirement Projections: GF Impact

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**As of the June 30, 2022
Actuarial Valuations**

PROJECTED COSTS → *Systems Evaluated*

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- The Commonwealth provides pension and retiree health benefits for state/local govt. employees and retirees through six state administered retirement systems.
 - Kentucky Employees Retirement System (KERS)
 - KERS & SPRS are administered by the Kentucky Retirement Systems Board.*
 - State Police Retirement System (SPRS)
 - County Employees Retirement System (CERS)
 - Administered by the County Employees Retirement System Board.*
 - Note: KERS & CERS include both non-hazardous/hazardous duty benefit and contribution structures.*
 - Teachers' Retirement System (TRS)
 - Note: TRS includes both university/non-university (teachers) benefit and contribution structures.*
 - Legislators' Retirement Plan (LRP)
 - Administered under one entity known as the Judicial Form Retirement System (JFRS)*
 - Judicial Retirement Plan (JRP)
- All funds have a pension and retiree health fund. TRS also has a life insurance fund.

PURPOSE OF REVIEW

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- Evaluate long-term trends in projections.
 - State law requires systems to provide 30-yr. projections in each valuation
 - 2023 valuations will finalize upcoming budget requests and will include:
 - ✦ Actuarial experience from FY 23 (i.e. investment return)
 - ✦ Any adjustments to actuarial assumptions based upon required statutory review (i.e. changes to the investment return assumption).
- Understand individual system interaction within the budget.
 - Retirement costs to the state budget are comprised almost entirely by 2 retirement systems: KERS nonhazardous & TRS (roughly 95% of GF contributions).
 - Costs include contributions to fund pensions, retiree health, and life insurance (TRS)
- Approximate General Fund (GF) cost for applicable systems.
 - Not a perfect science, particularly as it relates to KERS, CERS, & SPRS

Remember they are only projections and are subject to change

ACTUARIAL → Actuarial Stat Trends

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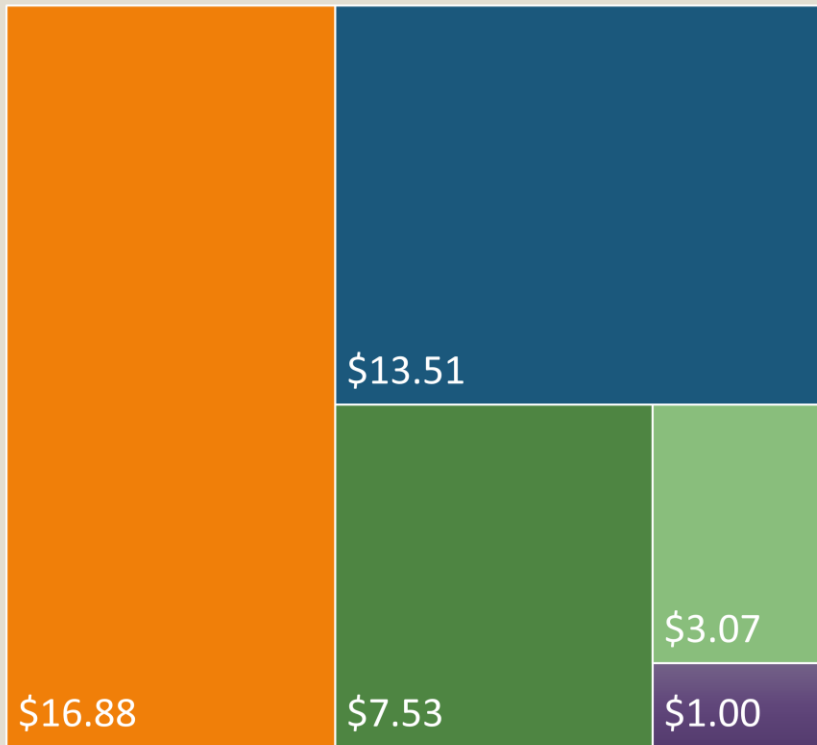
		PENSION					RETIREE HEALTH				
		2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
KERS NONHAZ	UL \$ B	\$13.656	\$14.260	\$14.026	\$13.585	\$13.511	\$1.548	\$1.742	\$1.469	\$1.283	\$0.374
	Level %	12.9%🔴	13.4%🟢	14.2%🟢	16.8%🟢	18.5%🟢	36.4%🟢	36.3%🔴	42.7%🟢	50.2%🟢	79.1%🟢
KERS HAZ	UL \$ B	\$0.513	\$0.555	\$0.574	\$0.513	\$0.484	(\$0.118)	(\$0.099)	(\$0.111)	(\$0.151)	(\$0.251)
	Level %	55.5%🟢	54.8%🔴	55.3%🟢	60.4%🟢	63.2%🟢	130.0%🟢	123.1%🔴	126.0%🟢	135.5%🟢	172.2%🟢
SPRS	UL \$ B	\$0.721	\$0.763	\$0.757	\$0.730	\$0.507	\$0.075	\$0.079	\$0.069	\$0.049	(\$0.001)
	Level %	27.1%🟢	27.0%🔴	28.1%🟢	30.7%🟢	52.5%🟢	71.6%🟢	71.3%🔴	75.0%🟢	82.0%🟢	100.6%🟢
CERS NONHAZ	UL \$ B	\$6.241	\$7.307	\$7.390	\$7.179	\$7.525	\$0.721	\$1.045	\$0.731	\$0.503	(\$0.768)
	Level %	52.7%🔴	49.1%🔴	49.4%🟢	51.8%🟢	52.0%🟢	76.7%🟢	70.7%🔴	78.5%🟢	85.4%🟢	132.1%🟢
CERS HAZ	UL \$ B	\$2.471	\$2.870	\$2.983	\$3.001	\$3.073	\$0.428	\$0.419	\$0.379	\$0.276	(\$0.016)
	Level %	48.4%🟢	45.3%🔴	45.1%🔴	46.7%🟢	47.6%🟢	74.6%🟢	75.8%🟢	78.2%🟢	84.3%🟢	101.0%🟢
TRS	UL \$ B	\$14.300	\$14.523	\$14.786	\$16.957	\$16.880	\$2.127	\$1.691	\$1.057	\$1.384	\$1.368
	Level %	57.7%🟢	58.1%🟢	58.4%🟢	57.2%🔴	58.8%🟢	36.3%🟢	46.0%🟢	61.7%🟢	60.0%🔴	63.7%🟢
LRP	UL \$ B		\$0.0004		(\$0.006)			(\$0.027)		(\$0.041)	
	Level %		99.4%🟢		108.9%🟢			237.4%🟢		362.6%🟢	
JRP	UL \$ B		\$0.058		\$0.020			(\$0.041)		(\$0.068)	
	Level %		84.2%🟢		94.7%🟢			186.9%🟢		272.5%🟢	

ACTUARIAL → Pension Trends

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Pension UL in billions of \$

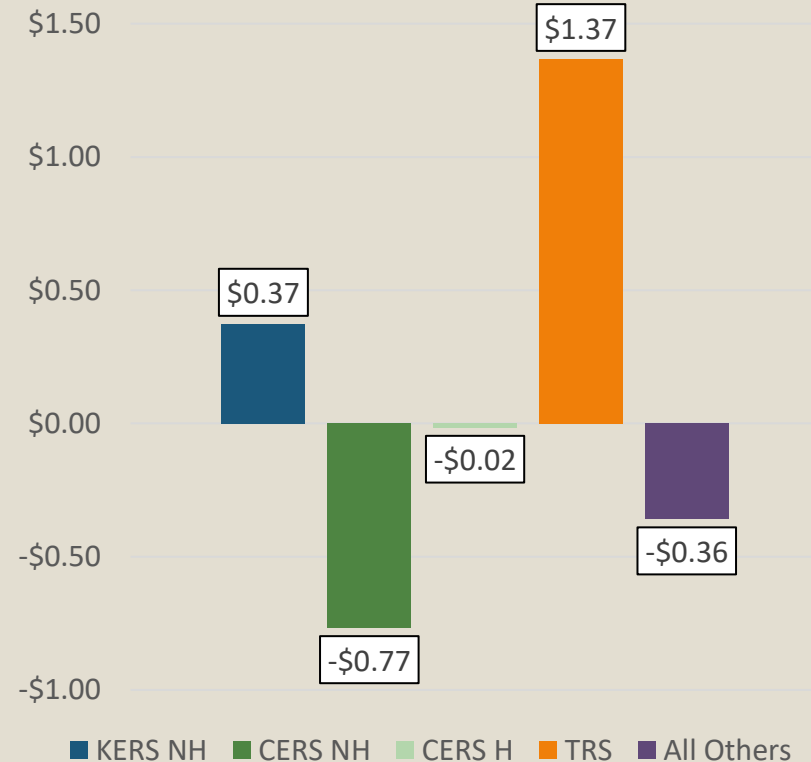
(combined all systems--\$42 billion)



■ KERS NH ■ CERS NH ■ CERS H ■ TRS ■ All Others

Retiree Health UL in billions of \$

(combined all systems—\$0.6 billion)



■ KERS NH ■ CERS NH ■ CERS H ■ TRS ■ All Others

Note: All Other includes KERS H, SPRS, JRP, & LRP

EMPLOYER COSTS → *Data Overview*

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- The data on the following slides show projected costs (to FY 2050):
 - Total Employer Costs - costs to all participating employers by system and in total from all fund sources (general fund, federal funds, etc.)
 - Total General Fund (GF) - costs by system and in total (all systems) from General Fund (GF).
- Projections of total employer costs based upon actuarial data provided by systems using most recent actuarial valuation, assumptions, and experience (June 30, 2022 except for LRP/JRP which is 2021).
- The % of total costs paid by the General Fund varies by system and the makeup of the employers in that system.
 - For LRP/JRP – Employer costs are fully paid by GF sources. However, current projections are essentially zero for these funds in the future.
 - For TRS – The system determines or requests set state appropriations (all GF) including: (1) on behalf payments in the KDE budget to provide funding for the fixed employer rate for certified school employees in TRS; and (2) additional direct appropriations above the fixed rate to TRS to fully meet the actuarially determined contribution for all employers.
 - For KERS, CERS, SPRS – the assumption about future GF costs is based upon FY 24 budgeted values (see next slide)

ESTIMATED GEN. FUND COSTS → KRS/CERS Plans

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NOTE: The ACTUAL % of total employer costs paid by the General Fund with regards to KERS, CERS, and SPRS plans is not fixed and has/will vary from year to year.

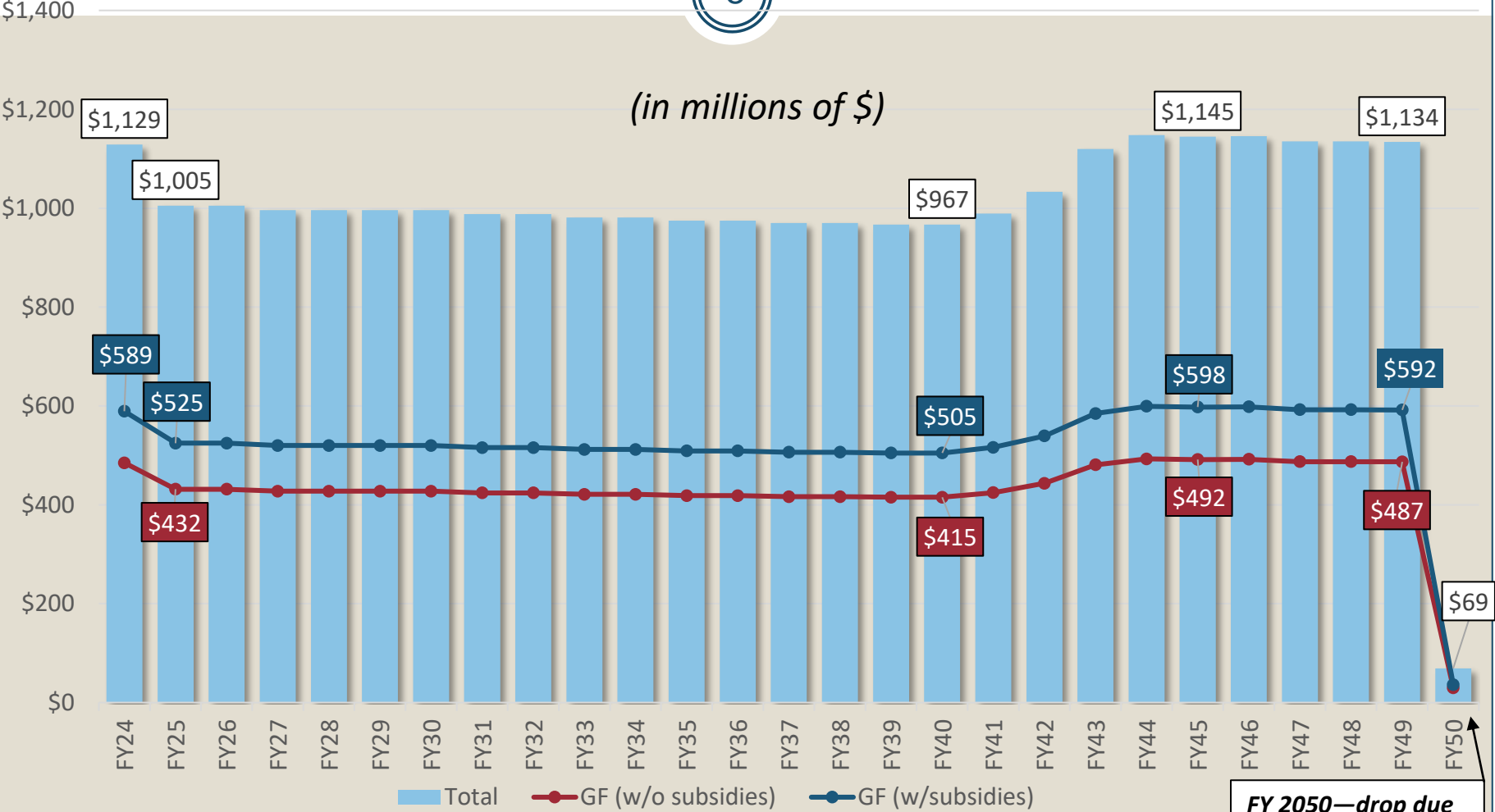
While total employer contributions (all funds and sources) is readily available, neither LRC staff or KPPA has the exact breakdown of general fund dollars received.

➤ For the purposes of this presentation, projected General Fund costs are based on the following assumptions:

- KERS NH:
 - State Agencies: Based upon HB 8, roughly 82.3% of the UL payment are billed to state agencies and funding for these agencies is estimated at roughly 52% GF (across all 3 state budgets).
 - Quasi-state Agencies: Health Departments, CMHCs, regional universities cover the remaining 18% of UL. Many are receiving direct appropriations in the executive branch budget to help pay for retirement costs to KERS NH and total \$106.4 million in FY 24.
 - For purposes of the total projected employer rate to KERS NH from all employers, staff have estimated that if subsidies continue at current levels for quasi-state agencies, funds received in KERS NH will be comprised of roughly 52% General Fund sources. If those subsidies are not provided, the GF projection is estimated at 43% of all future costs for all KERS NH employers. The data will show both scenarios.
- KERS H – The GF accounts for the majority of employer costs. Staff has assumed 89% paid by GF.
- SPRS: includes 1 state agency and staff has assumed that 100% of employer costs are paid by GF sources.
- CERS: Circuit clerks and support staff participate in CERS NH and employer costs are paid by the Judicial Branch in the Judicial Branch budget, which primarily comes from GF sources. Circuit Clerks are the only CERS agency with a direct GF impact. Staff have estimated that of the total CERS projected employer costs in dollars, 2.2% of projected costs for this system will come from GF sources to fund circuit clerks and their support staff.

These assumptions are based on additional payroll data provided by KPPA and input received from various LRC staff. Values do not include Direct Appropriations above the ADC that have been provided in recent budgets for KERS/SPRS.

KERS NH EMPLOYER COSTS → *Projections*



FY 2050—drop due to UL being paid off

For reference purposes: FY 2000 and FY 2010, total employer contributions equaled \$192 million and \$238 million respectively.

EMPLOYER COSTS → TRS

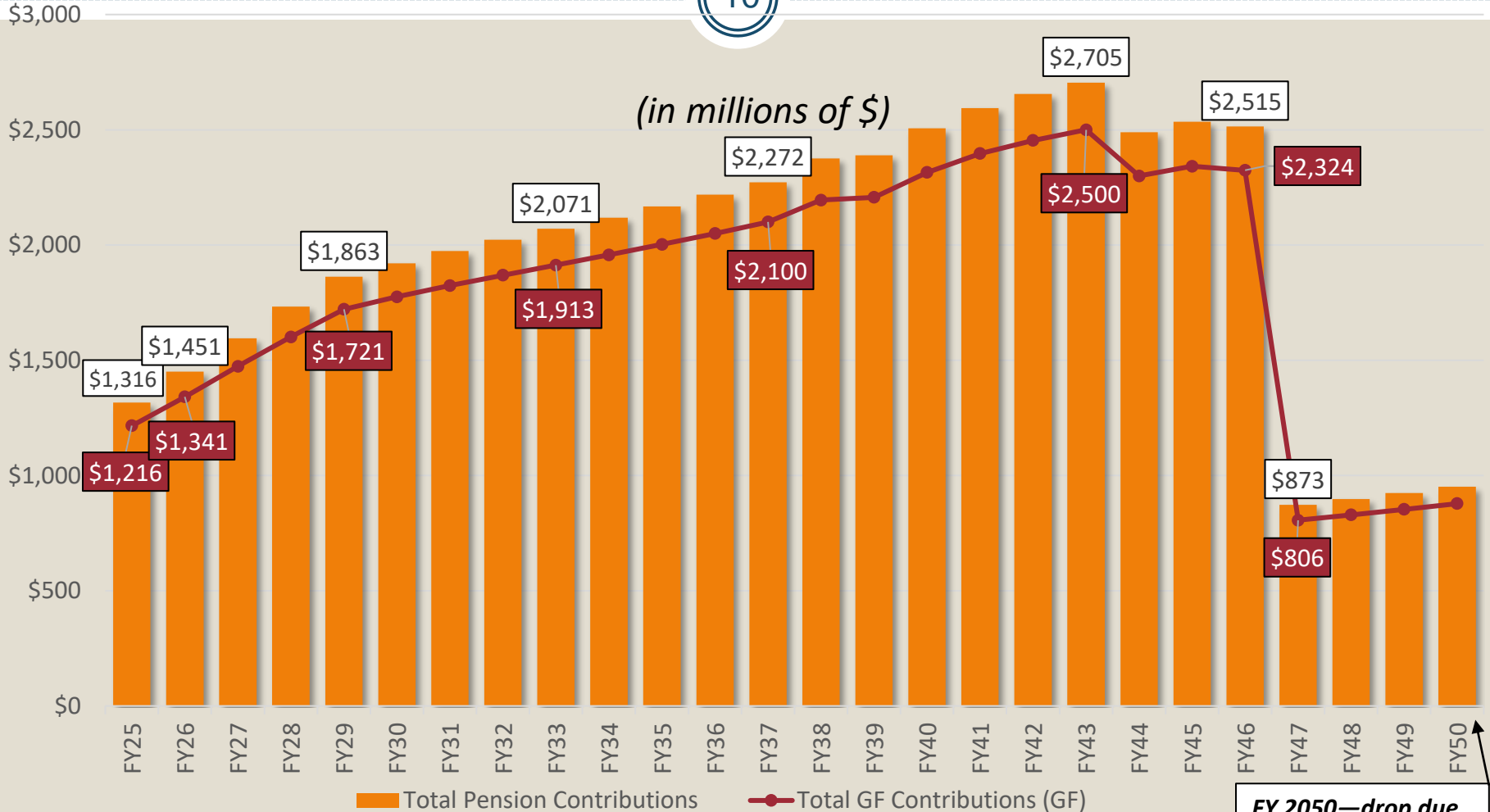
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- TRS provided projected state (GF) costs for the pension, life, health insurance funds.
- The increased cost of assumption changes from 2021 are being smoothed into pension costs over 5 years.
- TRS retiree health fund:
 - Being funded by statutory employee/employer contributions and specific state funding. This statutory rate is above the ADC.
 - The retiree health fund is projected to be fully funded by 2030.
 - TRS has estimated the state's costs will continue as currently provided.

TRS EMPLOYER COSTS → *Pension Only*

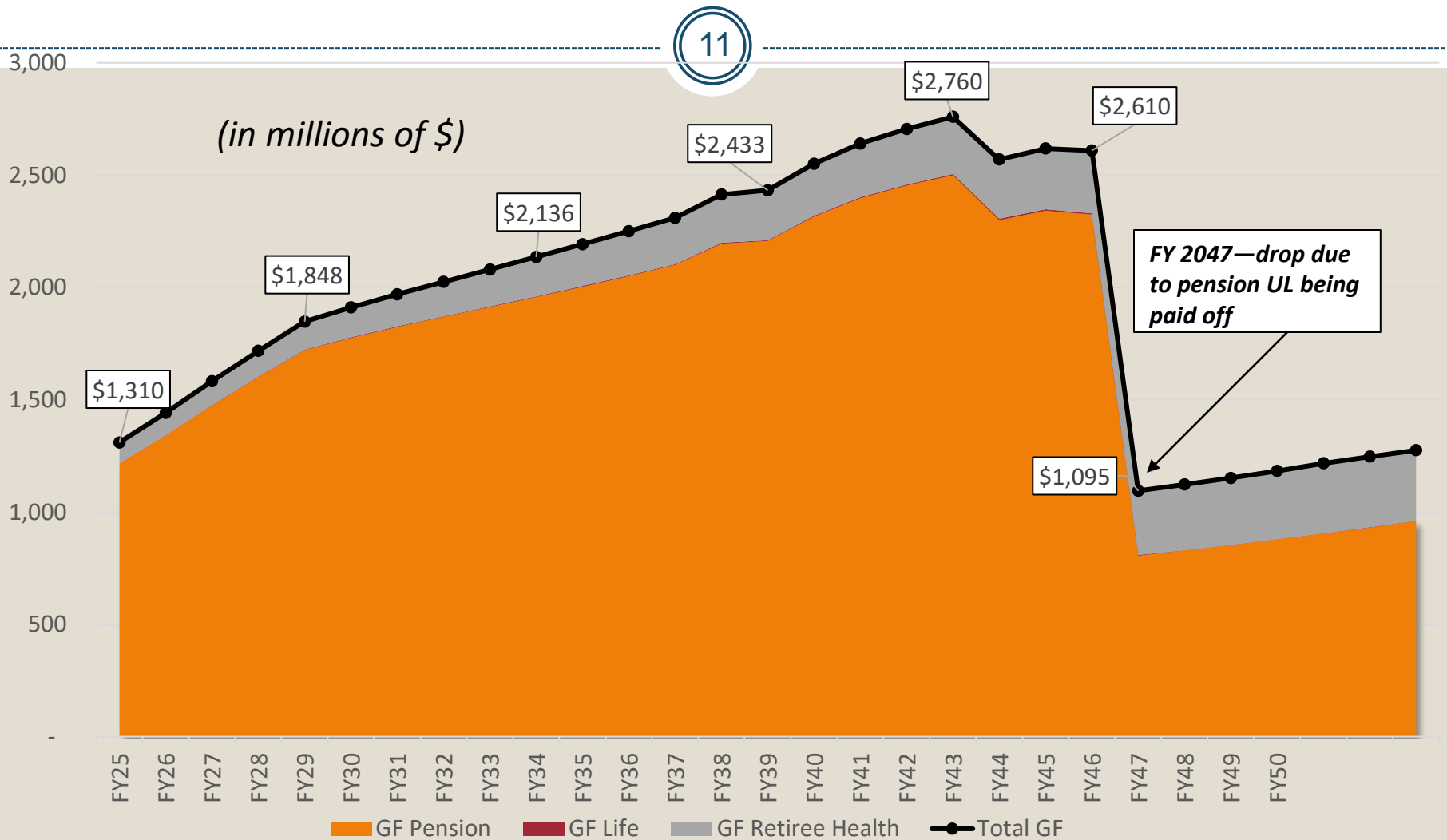
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FY 2050—drop due to UL being paid off

For reference purposes: FY 00 and FY 10, total employer contributions to the pension funds equaled \$311 million and \$341 million respectively.

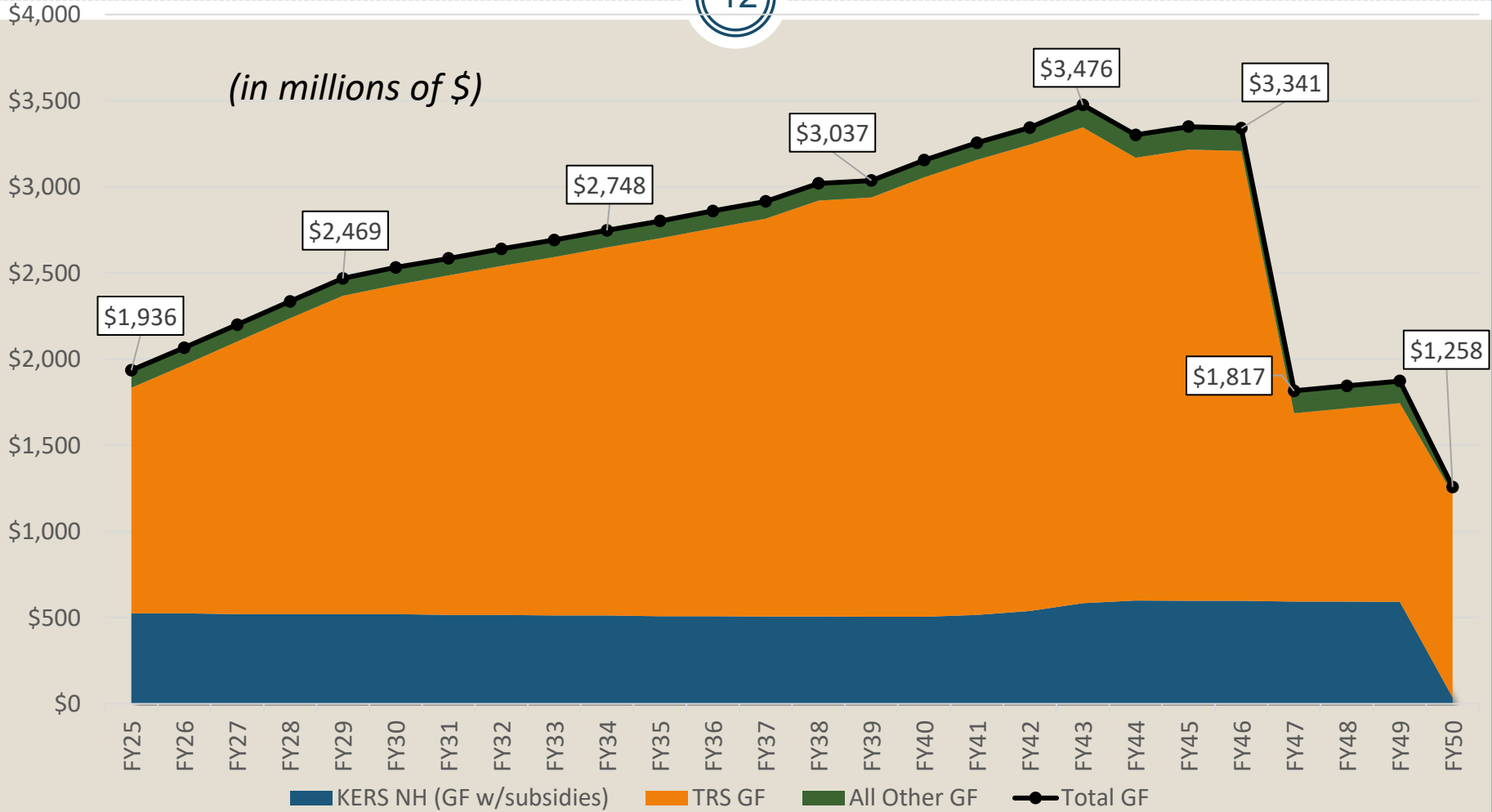
TRS GF COSTS → Pension, Life, Retiree Health



GF ESTIMATED COSTS → All Systems

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(in millions of \$)



■ KERS NH (GF w/subsidies)
 ■ TRS GF
 ■ All Other GF
 ● Total GF