

AN ACT relating to public pension plan reporting.

Be it enacted by the General Assembly of the Commonwealth of Kentucky:

➔Section 1. KRS 6.350 is amended to read as follows:

- (1) A bill which would increase or decrease the benefits or increase or decrease participation in the benefits or change the actuarial accrued liability of any state-administered retirement system shall not be reported from a legislative committee of either house of the General Assembly for consideration by the full membership of that house unless the bill is accompanied by an actuarial analysis.
- (2) (a) An actuarial analysis required by this section must show the economic effect of the bill on the state-administered retirement system **over a twenty (20) year period**, including:
 1. An estimate of the effect on the **unfunded** actuarial accrued liabilities **and funding levels** of the affected systems; and
 2. A projection of the annual **employer costs**~~[cost]~~ to the systems of implementing the legislation **over the**~~[for at least]~~ twenty (20) **year period**~~[years]~~. The annual **employer** cost projection shall include the effect on the contributions of participating employers as a percentage of total payroll and in total dollars of contributions.
- (b) If a bill affects more than one (1) state-administered retirement system, the actuarial analysis shall project costs for each affected state-administered retirement system.
- (c) An actuarial analysis shall state the actuarial assumptions and methods of computation used in the analysis and shall state whether or not the bill or resolution, if enacted, would, in the opinion of the actuary, make the affected state-administered retirement system actuarially unsound or, in the case of a system already actuarially unsound, more unsound. Actuarial cost methods and assumptions that meet actuarial standards of practice established by the

Actuarial Standards Board shall be used in all cost projections.

- (d) An actuarial analysis required by this section shall be prepared by an actuary who is a fellow of the *Conference of Consulting Actuaries* ~~or Society of Actuaries,~~ a member of the American Academy of Actuaries ~~or an enrolled actuary under the Employees' Retirement Income Security Act of 1974~~.
- (3) (a) An actuary commissioned to make an actuarial analysis that is required by this section, or for the purpose of seeking appropriations for a state-administered retirement system, shall include in the analysis a complete definition of each actuarial term used in the analysis and, either in the analysis or in a separate actuarial valuation report made available as a public record, an enumeration and explanation of each actuarial assumption used to complete the actuarial analysis.
- (b) If the actuary commissioned to complete the actuarial analysis is relying upon assumptions that have not been previously established by the actuary in an actuarial valuation of the affected state-administered retirement system, the actuary shall clearly note and describe the new assumption and the basis for selecting the assumption.
- (4) The actuarial analysis required by this section shall be completed by the actuary retained by the affected state-administered retirement system. The state-administered retirement systems shall provide the analysis without cost to the General Assembly.
- (5) For purposes of this section, the term:
- (a) "State-administered retirement system" shall include:
1. (a) The Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System administered by the Kentucky Retirement Systems and established under the provisions of KRS 16.505 to 16.652, 61.510 to 61.705, and 78.510

to 78.852;

~~2.[(b)]~~ The Kentucky Teachers' Retirement System established under KRS 161.220 to 161.716;

~~3.[(c)]~~ The Judicial Retirement Plan established under KRS 21.345 to 21.580;~~[-and]~~

~~4.[(d)]~~ The Legislators' Retirement Plan established under KRS 6.500 to 6.577; and

(b) "Funding level" means the actuarial value of assets divided by the actuarially accrued liability expressed as a percentage.

→ Section 2. KRS 21.440 is amended to read as follows:

(1) **(a)** The investment committee for the judicial retirement fund shall at least once in every two (2) year period procure an actuarial valuation of the judicial retirement fund. The valuation shall, **at a minimum,** include:

1. A description of the actuarial assumptions used **in the actuarial valuation, which**~~[-and such assumptions]~~ shall be reasonably related to the experience of the fund and represent the actuary's best estimate of anticipated experience;

2. **A description of any funding methods utilized or required by state law in the development of the actuarial valuation results;**

3. **A description of any changes in actuarial assumptions and methods from the previous year actuarial valuation;**

4. **The actuarially recommended contribution rate for employers for the upcoming budget periods;**

5. **A twenty (20) year projection of the funding levels, unfunded liabilities, and actuarially recommended contribution rates for employers based upon the actuarial assumptions, funding methods, and experience of the system as of the valuation date; and**

6. A sensitivity analysis that evaluates the impact of changes in plan assumptions, including but not limited to the investment return assumption, payroll growth assumption, and medical inflation assumptions, on employer contribution rates, funding levels, and unfunded liabilities. [~~For the period July 15, 1990, to June 30, 1992, the assumed rate of investment return shall be set at one and one half (1-1/2) percentage points above the assumed rate of salary increase. Thereafter, this spread between investment and salary assumptions shall be reviewed and adjusted annually, based upon the most recent five (5) year experience of the fund.~~]
- (b) At least once in each five (5) year period, the board shall cause an actuarial investigation to be made of all the relevant experience under the retirement plan relative to the actuarial assumptions and funding methods previously adopted by the board. The actuarial investigation shall include at a minimum a summary of the changes in actuarial assumptions and funding methods recommended in the investigation and the projected impact of the recommended changes on funding levels, unfunded liabilities, and actuarially recommended contribution rates for employers over a twenty (20) year period.
- (c) Pursuant to the investigation, the board shall from time to time revise the actuarial tables previously adopted by the board and shall thereupon revise the bases of the rates of contributions required under KRS 21.345 to 21.580.
- (d) For any change in actuarial assumptions, funding methods, retiree health insurance premiums and subsidies, or any other decisions made by the board that impact system liabilities and actuarially recommended contribution rates for employers and that are not made in conjunction with the actuarial investigation required by paragraph (b) of this subsection, an

actuarial analysis shall be completed showing the projected impact of the changes on funding levels, unfunded liabilities, and actuarially recommended contribution rates for employers over a twenty (20) year period.

(e) A copy of the valuation, the five (5) year actuarial investigation, and any analysis required by this subsection, shall be forwarded electronically to the Legislative Research Commission within ten (10) days of receipt by the committee, and the Legislative Research Commission shall distribute the information received to the committee staff and co-chairs of any committee that has jurisdiction over the Judicial Form Retirement System.

(f) All the investigations and valuations shall be certified to the board by an actuary who shall be a fellow of the Conference of Consulting Actuaries or a member of the American Academy of Actuaries.

(2) (a) The board of trustees of the Judicial Form Retirement System shall annually procure an audit of the system and each of the funds therein. The audit shall be conducted in accordance with generally accepted auditing standards. Except as provided by paragraph (b) of this subsection, the board may select an independent certified public accountant or the Auditor of Public Accounts to perform the audit. If the audit is performed by an independent certified public accountant, the Auditor of Public Accounts shall not be required to perform an audit pursuant to KRS 43.050(2)(a), but may perform an audit at his discretion. The board shall make copies of the audit required by this section available for examination by any member or beneficiary in the office of the manager of the system and in such other places as may be necessary to make the audit available to all members and beneficiaries. A copy of the audit shall be sent to the Legislative Research Commission within ten (10) days of receipt by the committee.

- (b) Once every five (5) years, the Auditor of Public Accounts shall perform the audit described by this subsection, and the system shall reimburse the Auditor of Public Accounts for all costs of the audit. The Auditor of Public Accounts shall determine which fiscal year during the five (5) year period the audit prescribed by this paragraph will be completed.

→ Section 3. KRS 61.670 is amended to read as follows:

- (1) **(a)** As soon as practicable after its organization, the board shall adopt the actuarial tables necessary for the administration of the system and for the annual determination of **actuarial** assets and liabilities of the system.
- (b)** The board shall cause an actuarial valuation to be made annually. The valuation shall **at a minimum** include:
- 1.** A description of the actuarial assumptions used **in the actuarial valuation, which**~~and the assumptions~~ shall be reasonably related to the experience of the system and represent the actuary's best estimate of anticipated experience;~~[-]~~
 - 2.** **A description of any funding methods utilized or required by state law in the development of the actuarial valuation results;**
 - 3.** **A description of any changes in actuarial assumptions and methods from the previous year actuarial valuation;**
 - 4.** **The actuarially recommended contribution rate for employers for the upcoming budget periods;**
 - 5.** **A twenty (20) year projection of the funding levels, unfunded liabilities, and actuarially recommended contribution rates for employers based upon the actuarial assumptions, funding methods, and experience of the system as of the valuation date; and**
 - 6.** **A sensitivity analysis that evaluates the impact of changes in system assumptions, including but not limited to the investment return**

assumption, payroll growth assumption, and medical inflation rates, on employer contribution rates, funding levels, and unfunded liabilities.

- (c) At least once in each five (5)~~ten (10)~~ year period, the board shall cause an actuarial investigation to be made of all the experience under the retirement system relative to the actuarial assumptions and funding methods previously adopted by the board. The actuarial investigation shall include at a minimum a summary of the changes in actuarial assumptions and funding methods recommended in the investigation and the projected impact of the recommended changes on funding levels, unfunded liabilities, and actuarially recommended contribution rates for employers over a twenty (20) year period.
- (d) Pursuant to the actuarial investigation the board shall, from time to time, revise the actuarial tables previously adopted by the board and shall thereupon revise the bases of the rates of contributions required under KRS 61.510 to 61.692, KRS 16.505 to 16.652, and KRS 78.510 to 78.852.
- (e) For any change in actuarial assumptions, funding methods, retiree health insurance premiums and subsidies, or any other decisions made by the board that impact system liabilities and actuarially recommended contribution rates for employers and that are not made in conjunction with the actuarial investigation required by paragraph (c) of this subsection, an actuarial analysis shall be completed showing the projected impact of the changes on funding levels, unfunded liabilities, and actuarially recommended contribution rates for employers over a twenty (20) year period.
- (f) All actuarial~~the~~ investigations, analysis, and valuations shall be certified to the board by an actuary who shall be a fellow of the Conference of

Consulting Actuaries or a member of the American Academy of Actuaries ~~or a fellow of the Society of Actuaries~~.

- (2) A copy of each *five (5)*~~ten (10)~~ year actuarial investigation, *actuarial analysis*, and annual valuation, *required by subsection (1) of this section* shall be forwarded *electronically* to the Legislative Research Commission~~. The annual valuation shall be forwarded~~ no later than ten (10) days after receipt by the board, *and the Legislative Research Commission shall distribute the information received to the committee staff and co-chairs of any committee that has jurisdiction over the Kentucky Retirement Systems.*
- (3) The Legislative Research Commission *may*~~shall~~ employ an actuary with the same qualifications as the actuary employed by the board, and the board shall, free of charge, provide the actuary employed by the Commission with the same data provided to its own actuary, and any supplementary data he may require. The actuary employed by the Commission shall review the assumptions, determinations and recommendations of the board actuary, and legislative proposals related to the retirement systems, and report his findings to the Commission and to the board. The board shall pay fifty percent (50%) of the cost of the Commission's actuary, and the Commission shall pay the other fifty percent (50%).

➔Section 4. KRS 161.400 is amended to read as follows:

- (1) *(a)* The board of trustees shall designate as actuary a competent person who shall be a fellow of the Conference of Consulting Actuaries or a member of the American Academy of Actuaries. He shall be the technical adviser of the board on matters regarding the operation of the funds of the system and shall perform such other duties as are required in connection therewith.
- (b)* At least once in each *five (5)*~~six (6)~~ year period ~~after the first year of operation of the system~~, the actuary shall make an actuarial investigation into the actuarial assumptions *and funding methods* used, including but not

limited to mortality, investment rate of return, and service and compensation of the members and beneficiaries of the retirement system, relative to the actuarial assumptions and funding methods previously adopted by the board. The actuarial investigation shall include at a minimum a summary of the changes in actuarial assumptions and funding methods recommended in the investigation and the projected impact of the recommended changes on funding levels, unfunded liabilities, and actuarially recommended contribution rates for employers over a twenty (20) year period]; and make a valuation of the assets and liabilities of the funds of the system].

- (c) At least annually the actuary shall make an actuarial valuation of the retirement system. The valuation shall include:
1. A description of the actuarial assumptions used, and the assumptions shall be reasonably related to the experience of the system and represent the actuary's best estimate of anticipated experience;
 2. A description of any funding methods utilized or required by state law in the development of the actuarial valuation results;
 3. A description of any changes in actuarial assumptions and methods from the previous year actuarial valuation;
 4. The actuarially recommended contribution rate for employers for the upcoming budget periods;
 5. A twenty (20) year projection of the funding levels, unfunded liabilities, and actuarially recommended contribution rates for employers based upon the actuarial assumptions, funding methods, and experience of the system as of the valuation date; and
 6. A sensitivity analysis that evaluates the impact of changes in system assumptions, including but not limited to the investment return

assumption, payroll growth assumption, and medical inflation rates, on employer contribution rates, funding levels, and unfunded liabilities.

- (d) On the basis of the results of the valuations, the board of trustees shall make necessary changes in the retirement system within the provisions of law and shall recommend the contributions payable by the state within the limits specified in KRS 161.550.
- (e) For any change in actuarial assumptions, funding methods, retiree health insurance premiums and subsidies, or any other decisions made by the board that impact system liabilities and actuarially recommended contribution rates for employers and that are not made in conjunction with the actuarial investigation required by paragraph (b) of this subsection, an actuarial analysis shall be completed showing the projected impact of the changes on funding levels, unfunded liabilities, and actuarially recommended contribution rates for employers over a twenty (20) year period.
- (2) Actuarial factors and actuarial cost factor tables in use by the retirement system for all purposes shall be determined by the actuary of the retirement system and approved by the board of trustees by resolution and implemented without the necessity of an administrative regulation. The assets of the system shall be valued at market value, or at a modified market value determined by the board to be a prudent measure of asset value. ~~[Effective July 1, 1992, the spread between investment and salary assumptions shall be reviewed and adjusted at the time of actuarial valuation, based upon the most recent five (5) year experience of the system.]~~
- (3) A copy of each five (5) year actuarial investigation, actuarial analysis, and valuation required by subsection (1) of this section shall be forwarded electronically to the Legislative Research Commission no later than ten (10) days

after receipt by the board and the Legislative Research Commission shall distribute the information received to the committee staff and co-chairs of any committee that has jurisdiction over the Kentucky Teachers' Retirement System.

➔Section 5. KRS 48.040 is amended to read as follows:

- (1) On or before April 1 of each odd-numbered year, representatives designated by the Governor, the Chief Justice and the Legislative Research Commission for their respective branches shall propose drafts of uniform forms to be used by all budget units in submitting their budget estimates, requests and recommendations, and shall recommend to the Legislative Research Commission such rules and regulations deemed necessary for the preparation of such budget estimates, requests and recommendations.
- (2) On or before July 1 of each odd-numbered year, the Legislative Research Commission shall prescribe uniform forms, records and instructions to be used by branch budget units. Included in such forms shall be a section requiring budget units to identify the amount of funds to be spent on agency publications.
- (3)

(a) On or before August 15 of each odd-numbered year, each of the state-administered retirement systems as defined by subsection (5) of Section 1 of this Act shall submit to the state budget director's office and the Legislative Research Commission a preliminary projection of the actuarially required contribution rates payable for the budget biennium that begins in the following fiscal year.

(b) On or before December 31 of each odd-numbered year, the state-administered retirement systems as defined by subsection (5) of Section 1 of this Act shall submit revised projections to the state budget director's office and the Legislative Research Commission, based upon the most recently completed actuarial valuation, of the actuarially required contribution rates payable for the budget biennium that begins in the following fiscal year.

(c) The Legislative Research Commission shall distribute the information received under the provisions of this subsection to the committee staff and co-chairs of any committee that has jurisdiction over a state-administered retirement system.

- (4) On or before September 1 of each odd-numbered year, the Finance and Administration Cabinet shall supply each branch of government with at least three (3) complete sets of the prescribed uniform forms and instructions for the preparation of estimates and statements, and one (1) copy of the complete statement of the expenditures of each budget unit of the branch to aid each branch of government in preparing its estimates and statements.
- (4) Upon request, the Finance and Administration Cabinet shall provide such additional assistance to each branch of government as may be required.