

MEMORANDUM REPORT

TO: Donna S. Early
FROM: BPS&M, LLC
DATE: January 27, 2016
RE: Actuarial Analysis of Proposed Legislation 2016 HB 255/BR 930
AA Statement 1 of 1

BPS&M, LLC was asked to prepare an actuarial analysis in compliance with KRS 6.350 with regard to the recent proposed legislation (“2016 HB 255” BR 930) that makes changes to the Kentucky Legislators Retirement Plan (“KLRP”).

It is our understanding that 2016 HB 255 makes the following change(s) to KLRP:

1. Amend KRS 6.505 to close the Legislators' Retirement Plan to new members effective August 1, 2016; prohibit current legislators from participating in the Legislators' Retirement Plan on or after August 1, 2016; provide that current and future legislators shall only participate in the Kentucky Employees Retirement System (KERS) for any service to the General Assembly occurring on or after August 1, 2016.

Comments.

Item 1, transfer participation for current and future legislators from KLRP to KERS:

- While the proposed legislation would transfer participation from KLRP to KERS, it is our understanding that the benefit structure would not change for these members. While there would be a decrease in the liability and funding in KLRP there would be a corresponding increase in liability and funding in KERS so that **this provision would not have any material impact on the overall long-term cost to the Commonwealth required to fund benefits for current and future members.**

Actuarially Sound

KRS 6.350 requires us to comment on whether the proposed changes would make KLRP actuarially unsound or, if already actuarially unsound, if such changes would make KLRP “more unsound”.

A plan that has adopted a reasonable funding method, uses reasonable assumptions and contributes at a rate at or above the recommended contribution rate (based on these reasonable methods and assumptions), could be considered to be actuarially sound. Whether or not the changes reflected in this study are or are not adopted, will not necessarily impact the “actuarial soundness” of KLRP.

In order to ensure KLRP is funded in an “actuarially sound manner”, we would recommend:

1. Revise the actuarial funding method to amortize all past unfunded as well as new liabilities over a period not more than 30 years (in accordance with currently applicable Governmental Accounting Standards 67 and 68) and amortize future gains and losses over a period not more than 15 years.
2. Contribute at least the minimum recommended contribution each year.

Deviations from these recommendations could result in an “actuarially unsound” approach to funding KLRP and may eventually result in KLRP becoming insolvent – that is, exhausting assets at which time all future benefits would be made on a pay as you go basis.

Although the Actuarial Standards of Practice 4 “Measuring Pension Obligations” allows for plan liabilities to be calculated under a legally prescribed method, the statement goes on to say,

“If, in the actuary’s professional judgment, such an actuarial cost method or amortization method is significantly inconsistent with the plan accumulating adequate assets to make benefit payments when due, assuming that all actuarial assumptions will be realized and that the plan sponsor or other contributing entity will make contributions when due, the actuary should disclose this.”

It is our professional actuarial opinion that the current legally prescribed method which requires contributions of normal cost plus interest on the unfunded liability plus 1% of the unfunded liability (per KRS 21.525) is inconsistent with the plan accumulating adequate assets to make benefit payments when due, assuming all actuarial assumptions are realized.

Professional Qualifications

This report has been prepared under the supervision of Alan C. Pennington and David L. Shaub. Both are members of the American Academy of Actuaries, Fellows of the Society of Actuaries, and consulting actuaries with Bryan, Pendleton, Swats and McAllister, LLC who have met the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions herein. To the best of our knowledge this report has been prepared in accordance with generally accepted actuarial standards, including the overall appropriateness of the analysis, assumptions, and results and conforms to appropriate Standards of Practice as promulgated from time to time by the Actuarial Standards Board, which standards form the basis for the actuarial report. We are not aware of any direct or material indirect financial interest or relationship, including investment management or other services that could create, or appear to create, a conflict of interest that would impair the objectivity of our work.



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