MEMORANDUM REPORT

TO: Donna S. Early

FROM: Findley, Inc.

DATE: February 14, 2019

RE: Actuarial Analysis of Proposed Legislation 2019 HB 206

Findley, Inc. was asked to prepare an actuarial analysis in compliance with KRS 6.350 with regard to the recent proposed legislation (“2019 HB 206”) that makes changes to the Kentucky Judicial Retirement Plan (“KJRP”).

It is our understanding that 2019 HB 206 makes the following change(s) to KJRP:

> **HB 206** amends KRS 21.345 to include temporary service as a special Circuit Judge by an active District Court Judge in the definition of "service" for purposes of the Judicial Retirement Plan (JRP) provided the temporary service is equal to or greater than three consecutive months.

Comments

The proposal allows for temporary service as a special Circuit Judge of at least 3 months to be included in JRP service for active District Court Judges in the KJRP:

- While the proposed legislation would result in some increase in liability in KJRP, it is presumed that the number of Judges with additional temporary service is minimal and that the additional service added would likewise be minimal. Based on these assumptions, it appears **this provision will have no material impact on the liabilities in KJRP.**

In accordance with KRS 6.350(2)(c), we have the following opinion in regards to proposed legislation HB 206:

1. The estimated number of individuals affected is unknown, but would appear to only end up being a limited number.
2. Estimated change in benefit payments: There is potential for increase in benefit payments for those participants who would fall under these provisions, but the number of individuals where this would end up applying is estimated to be negligible.
3. There is no estimated change to employer contribution rates
4. There is no estimated change to administrative expenses.

Actuarially Sound

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

In order to ensure KJRP 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 KJRP and may eventually result in KJRP 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) and the assumption of no future COLAs 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. Alan is a member of the American Academy of Actuaries, Fellows of the Society of Actuaries, and a consulting actuary with Findley, Inc. who has met the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions herein. To the best of my 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. I am 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 this work.

Alan C. Pennington, F.S.A.

February 14, 2019
Date

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