

## MEMORANDUM REPORT

**TO:** Donna S. Early  
**FROM:** Findley, Inc.  
**DATE:** February 14, 2019  
**RE:** Actuarial Analysis of Proposed Legislation 2019 HB 229  
**AA Statement 1 and 2 of 4**

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Findley, Inc. was asked to prepare an actuarial analysis in compliance with KRS 6.350 with regard to the recent proposed legislation (“2019 HB 229”) that makes changes to the Kentucky Legislators Retirement Plan (“KLRP”), and the Kentucky Judicial Retirement Plan (“KJRP”).

It is our understanding that 2019 HB 229 makes the following change(s) to KLRP and KJRP:

**HB 229** amends KRS 16.601 and 61.621 to provide that payments to the surviving spouse of a member of the state-administered retirement systems who dies in the line of duty shall not be reduced upon remarriage. It also provides that surviving spouses of a member who died in the line of duty who subsequently remarried shall have their benefit increased to the amount specified by KRS 16.601 and 61.621.

### **Comments**

This proposal removes language that would reduce payments to a surviving spouse should they remarry and add language to reinstate benefits to a surviving spouse that had been reduced due to remarriage. This would presumably apply to the KJRP and the KLRP:

- It is our understanding that neither KJRP nor KLRP currently reduces benefits to surviving spouses upon remarriage. As such, it appears **this provision will have no impact on the liabilities in either KJRP or KLRP.**

In accordance with KRS 6.350(2)(c), we have the following opinion in regards to proposed legislation HB 229:

1. The estimated number of individuals affected is none.
2. There is no change in benefit payments anticipated.
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 KLRP and/or KJRP actuarially unsound or, if already actuarially unsound, if such changes would make KLRP and/or 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 KLRP and/or KJRP.

In order to ensure KLRP and/or 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 KLRP and/or KJRP and may eventually result in KLRP and/or 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.*

Alan C. Pennington  
Fellow, Society of Actuaries  
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February 14, 2019

Date



# KENTUCKY RETIREMENT SYSTEMS

David L. Eager, Executive Director

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March 4, 2019

Ms. Katie Carney  
Office of Fiscal Statement Review  
Legislative Research Commission  
Capitol Annex, Room 104  
Frankfort, KY 40601

**RE: House Bill 229 (2019 RS BR 1064)**  
**AA Statement Required by KRS 6.350**  
**AA Statement 3 of 4**

Dear Ms. Carney:

House Bill 229 (2019 RS BR 1064) amends KRS 16.601 and 61.621 to provide that payments to the surviving spouse of a member of the state-administered retirement systems who dies in the line of duty shall not be reduced upon remarriage. The bill also provides that surviving spouses of a member who died in the line of duty who subsequently remarried shall have their benefit increased to the amount specified by KRS 16.601 and 61.621.

Kentucky Retirement Systems staff members have examined House Bill 229 (2019 RS BR 1064). We have determined that the bill will increase benefits for a very small group of KRS members: specifically, the surviving spouses of members who die in the line of duty and remarry. However, only three (3) of the 35 spouse beneficiaries currently in the Systems have already remarried and would see their benefits increase upon the effective date of this bill. This increase would have an insignificant impact on the financial status of the Systems.

The bill will not increase or decrease the participation in benefits in any of the retirement systems administered by KRS. House Bill 229 (2019 RS BR 1064) will not increase or decrease the unfunded actuarial liability of any of the retirement systems administered by KRS.

In accordance with KRS 6.350 (2)(c), Kentucky Retirement Systems certifies the following:

1. The estimated number of individuals affected as of June 30, 2018 are 35 surviving spouses of members who died in the line of duty, and any future surviving spouses who remarry. Currently, three (3) surviving spouses have remarried and would see their benefits increase upon the effective date of the bill;
2. There would be an increase in benefit payments for the surviving spouses of members who died in the line of duty and remarry;
3. There is no estimated change to employer costs; and

4. There is no estimated change to administrative expenses.

We have not requested any further actuarial analysis of House Bill 229 (2019 RS BR 1064) by the Systems' independent actuary.

Please let me know if you have any questions regarding our analysis of House Bill 229 (2019 RS BR 1064).

Sincerely,

A handwritten signature in black ink that reads "David Eager". The signature is written in a cursive, flowing style.

David L. Eager  
Executive Director  
Kentucky Retirement Systems