

MEMORANDUM REPORT

TO: Donna S. Early
FROM: Findley, Inc.
DATE: February 5, 2020
RE: Actuarial Analysis of Proposed Legislation 2020 HB 194 GA
AA Statement 1 and 2 of 4

Findley, Inc. was asked to prepare an actuarial analysis in compliance with KRS 6.350 with regard to the recent proposed legislation (“2020 HB 194, with Floor Amendment 1”) that makes changes to the Kentucky Legislators Retirement Plan (“KLRP”), and the Kentucky Judicial Retirement Plan (“KJRP”).

It is our understanding that 2020 HB 194, with Floor Amendment 1 makes the following change(s) to KLRP and KJRP:

- KRS 6.350(2)(a)(2) increases the number of years an actuarial analysis is to project annual employer costs to the systems with implementation of legislation. The projection of costs is to be over a 30 year period versus the current legal requirement of 20 years.
- KRS 6.350(2) is amended to require authorization before any state-administered retirement system or its consulting actuary begins completion of an actuarial analysis required by KRS 6.350, as follows:
 1. If the General Assembly is not in session, the Speaker of the House of Representatives for bills pre-filed by House members or the President of the Senate for bills pre-filed by Senate members must authorize the commencement of work on any actuarial analysis. Authorization shall be made on a standardized form established by the director of the Legislative Research Commission.
 2. If the General Assembly is in session, the director of the Legislative Research Commission or his or her designee notifies the state-administered retirement system that a filed bill has been posted in committee under the rules of the House or will be on a Senate committee agenda for a certain date.
- KRS 6.350(4) is amended to require actuarial analysis of proposed legislation to be presented in a uniform format as established by the Legislative Research Commission (LRC), including certain front page and summary of relevant data from the analysis including but not limited to:
 1. Total nominal dollar savings or costs over the 30 year period
 2. Net present value of saving or costs over 30 year period, and
 3. Estimated change in the normal cost, if applicable.

It is also our understanding that 2020 HB 194, with Floor Amendment 1 is not changing the number of years that costs are required to be projected in regular bi-annual actuarial valuation reporting.

Comments

2020 HB 194, with Floor Amendment 1 does not make any changes to the benefits provided by the current KLRP or KJRP programs. Therefore, there would be no impact to the projected unfunded actuarial accrued liabilities or funding levels of those systems.

The impact of 2020 HB 194, with Floor Amendment 1, if any, would be to the estimated administrative expenses with providing any requested actuarial analysis of future proposed legislation. It is my opinion that any additional cost of a 30 year projection versus a 20 year projection as well as the requested format changes would be minimal to none. Because of how we have designed our current 20 year projection model, a one-time adjustment to increase our model to produce a 30 year projection, that we can then use for all future actuarial analysis that we produce, would be minimal. I estimate no more than a couple thousand dollars.

Additionally, the provisions added with Amendment 1 that require approval before work begins on any Actuarial Analysis could reduce administrative expenses to some extent. The amount of the reduction in expenses would depend on the amount of analysis work that is eliminated by this provision that would otherwise be completed.

In accordance with KRS 6.350(2)(c), we have the following opinion in regards to proposed legislation 2020 HB 194, with Floor Amendment 1:

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. Estimated change to regular annual administrative expenses is no more than \$2,000. Actuarial analysis fees for proposed bills would be eliminated to the extent a bill does not receive authorization to have an actuarial analysis performed.

Professional Qualifications

This report has been prepared under the supervision of Wesley J. Wickenheiser. Wes 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.



Wesley J. Wickenheiser
Fellow, Society of Actuaries
Enrollment No. 17-06598
Phone 502.253.4625

February 5, 2020
Date

February 6, 2020

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

**RE: House Bill 194 (2020 RS BR 1052) GA
AA Statement Required by KRS 6.350
AA Statement 3 of 4**

Dear Ms. Carney:

House Bill 194 (2020 RS BR 1052) **GA** amends Kentucky Revised Statute 6.350 to establish additional requirements for the completion of the actuarial analysis required for bills pertaining to state-administered retirement systems. The additional requirements are to project the annual employer costs to the systems of implementing the legislation over a 30 year period rather than 20 years; to complete the analysis in a format established by the Legislative Research Commission, and to require the front page of the analysis to include summary information.

In addition, the bill provides that when the General Assembly is not in session and a pension bill has been pre-filed, the Legislative Research Commission (LRC) shall not transmit the request for an actuarial analysis unless authorized by the House Speaker or President of the Senate; and the bill provides that when the General Assembly is in session and a pension bill is filed, the retirement systems or its actuary shall not begin completion of an actuarial analysis on the bill until the LRC director or his or her designee notifies the system that the bill has been posted in committee or will be on a Senate committee agenda.

Kentucky Retirement Systems staff members have examined House Bill 194 (2020 RS BR 1052) **GA**. We have determined that the bill will not increase or decrease benefits or the participation in benefits in any of the retirement systems administered by Kentucky Retirement Systems. Furthermore, House Bill 194 (2020 RS BR 1052) **GA** will not change the actuarial liability of any of the retirement systems administered by Kentucky Retirement Systems.

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, 2019 are 132,144 active; 140,130 inactive; and 114,437 retired members in the plans administered by Kentucky Retirement Systems;
2. There is no estimated change in benefit payments;
3. There is no estimated change to employer costs; and

4. There is a possible change to administrative expenses because the Systems would not incur the expense of performing an actuarial analysis on pre-filed bills when the General Assembly is not in session, or on bills filed during a Session until the bill has been posted in committee or will be on a Senate committee agenda. Depending on the complexity and length of time required to complete the analysis this could save the Systems approximately \$210 to \$385 per hour in current rates for each analysis that would have otherwise been performed.

We have not requested any further actuarial analysis of House Bill 194 (2020 RS BR 1052) **GA** by the Systems' independent actuary.

Please let me know if you have any questions regarding our analysis of House Bill 194 (2020 RS BR 1052) **GA**.

Sincerely,

A handwritten signature in black ink that reads "David Eager". The signature is written in a cursive style with a large, prominent "D" and "E".

David L. Eager
Executive Director
Kentucky Retirement Systems

TEACHERS' RETIREMENT SYSTEM OF KENTUCKY



SERVING KENTUCKY TEACHERS SINCE

March 18, 2020

Katie Carney
Office of Special Projects
Legislative Research Commission
Capitol Annex, Room 39
Frankfort, KY 40601

RE: 20 RS HB 194 GA
AA Statement 4 of 4

Dear Ms. Carney:

20 RS HB 194 GA, an Act relating to relating to actuarial analysis on retirement bills, would amend KRS 6.350 to require of actuarial analyses as follows: to provide 30, rather than 20, year projections; to be provided in a format established by the Legislative Research Commission; and to include on the front page a summary of specific relevant data from the analysis.

TRS has examined 20 RS HB 194 GA and determined that it would not increase or decrease retirement benefits, or increase or decrease participation in benefits, or negatively change the actuarial liability of the system.

As 20 RS HB 194 GA does not increase or decrease retirement benefits, or increase or decrease participation in benefits, or negatively change the actuarial liability of the system, TRS has not requested any further actuarial analysis of this bill by its independent actuary.

Even though this bill does not require an actuarial analysis for the foregoing reasons, TRS provides the following information:

1. There are over 140,000 TRS accounts.
2. There is no change in benefits.
3. There is no change to employer costs.
4. There could be a slight decrease in administrative expenses as TRS may perform fewer actuarial analyses to the extent that the retirement system does not receive authorization to complete analyses on certain bills.

Please let me know if you have any questions regarding this analysis.

Sincerely,



Robert B. Barnes
Deputy Executive Secretary of Operations and
General Counsel