MEMORANDUM REPORT

TO: Donna S. Early

FROM: Findley, Inc.

DATE: January 24, 2020

RE: KLRP - Actuarial Analysis of 2020 SB 6 GA

AA Statement 1 of 1

Findley, Inc. was asked to prepare an actuarial analysis in compliance with KRS 6.350 with regard to the recent proposed legislation ("2020 SB 6") that makes changes to the Traditional Defined Benefit plan in the Kentucky Legislators Retirement Plan ("KLRP"). This bill makes no changes to the Hybrid Defined Benefit plan or the OPEB plans.

It is our understanding that 2020 SB 6 makes the following change to KLRP:

- Only non-legislative salary earned prior to July 1, 2020 will be recognized in determining final compensation for inclusion in the benefit formula for a KLRP member who participated in KLRP on or after June 20, 2005 and before January 1, 2014.

Comments

- Benefit amounts for retirees that have had benefits increased due to non-legislative pay will not be impacted by this change.
- Current valuation assumptions apply a 40% loading factor to capture the potential impact of non-legislative pay. This factor is applied to active liability, active normal cost and terminated vested liability. For purposes of the revised projections, effective July 1, 2020, this loading factor will no longer be applied. Terminated members with non-legislative pay will need to have their benefits adjusted to reflect non-legislative pay earned through 2019, if applicable. However, we do not currently have information as to current terminated members who might require an adjustment and for purposes of our study we have assumed there is no one to which this applies or if it does apply the aggregate impact would be minimal. It is assumed future non-legislative pay for active members will have no material impact (since it would have to be earned prior to July 1, 2020).

Assumptions

Future results will vary from projections to the extent future experience varies from the assumptions used in the projections. The longer the period of the forecast, the more variation is likely to occur and the less likely future results will match projections.

1. Except as mentioned herein, all data, assets and assumptions are consistent with the assumptions and methods used for the July 1, 2019 valuation report.
2. Future experience assumptions are consistent with the July 1, 2019 valuation assumptions.
3. The KLRP Traditional Defined Benefit plan is closed to new entrants.

4. Since the changes under 2020 SB 6 are effective July 1, 2020, the first year impacted by a valuation recognizing the changes is July 1, 2021.
5. It is assumed that 100% of the recommended contribution will be made for each year in the forecast.
6. In accordance with KRS 21.405, this study does not recognize cost of living increases effective after the most recent valuation date.
7. Certain changes under 2020 SB 6, may or may not be allowed under state law. Whether or not all changes under 2020 SB 6 are permissible is a legal issue, and we provide no opinion in this regard. For purposes of the attached projections, we have assumed such changes are allowable.
8. This report provides actuarial advice and does not constitute legal advice.

Definitions

Accrued Liability – based on the methods and assumptions used, the amount of assets that would be needed to satisfy future projected benefit payments based on service as of the valuation date.

Normal Cost – cost of benefits earned in the year following the valuation for current active members

Actuarial Asset Value – A smoothed asset value which smoothes in asset gains and losses over a 5 year period (for purposes of this study). For projection years 5 or more years in the future, the actuarial and market value would be the same (assuming assets earn the 6.5% rate of return which is assumed). As the Plan has experienced consistent gains over the past few years, the current Actuarial Asset Value is smaller than the market value since all prior gains have not yet been recognized.

Current – projections reflecting current rules and regulations, without regard to 2020 SB 6

Proposed – projections reflecting 2020 SB 6

Conclusions

Because the plan is approaching a fully funded position, 2020 SB 6 has no impact to forecasted contributions since there is no expected unfunded liability under the set of assumptions used. 2020 SB 6 reduces the pension Accrued Liability by approximately $6.7M as of July 1, 2020.

In accordance with KRS 6.350(2)(c), we have the following opinion in regards to 2020 SB 6:

1. The estimated number of individuals affected is 92, the count of active and terminated vested participants in the plan eligible for salary reciprocity as of July 1, 2019.
2. Benefit payments for current retirees are not affected by the bill. Benefit payments for active and terminated vested participants are projected to decrease, in aggregate, by approximately 40%. The potential decrease for individual active and terminated vested participants depends on the amount of non-legislative pay earned after July 1, 2020 that would have been eligible to increase their benefit in KLRP.
3. There is no estimated change to employer contribution rates.
4. There is a minimal to no estimated change to administrative expenses.

Forecast results are sensitive to the assumptions used. For example, using a different assumption as to future investment returns can produce materially different results. Let us know if you would like for us to perform any sensitivity analysis.

Actuarially Sound

KRS 6.350 requires 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. Contributing 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 as currently written) 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 Matthew Widick. Matthew is a member of the American Academy of Actuaries, a Fellow 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.

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January 24, 2020
Date

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Kentucky Legislators Retirement Plan
Cost Projections - SB 6
Prepared by Findley, Inc.
January 24, 2020
Pension Plan Only (pre-2014 Legacy only)

Year Beginning July 1	Contribution ($M) Current	Contribution ($M) Proposed	Contribution (%) Current	Contribution (%) Proposed	Accrued Liability ($M) Current	Accrued Liability ($M) Proposed	Unfunded Liability ($M) Current	Unfunded Liability ($M) Proposed	Funded Ratio (Assets/Liabilities) Current	Funded Ratio (Assets/Liabilities) Proposed
2019	$ 1.2	$ 1.2	48.1%	48.1%	$ 71.6	$ 71.6	$ 0.4	$ 0.4	99%	99%
2020	$ 0.3	$ 0.3	26.6%	26.6%	$ 70.0	$ 63.3	$ (2.4)	$ (9.5)	103%	115%
2021	$ 0.3	$ 0.3	32.7%	32.7%	$ 68.3	$ 61.5	$ (4.8)	$ (12.5)	107%	120%
2022	$ 0.0	$ 0.0	0.0%	0.0%	$ 66.4	$ 59.6	$ (6.7)	$ (14.9)	110%	125%
2023	$ 0.0	$ 0.0	0.0%	0.0%	$ 64.5	$ 57.7	$ (7.9)	$ (16.7)	112%	129%
2024	$ 0.0	$ 0.0	0.0%	0.0%	$ 62.5	$ 55.7	$ (8.3)	$ (17.7)	113%	132%
2025	$ 0.0	$ 0.0	0.0%	0.0%	$ 60.5	$ 53.7	$ (8.7)	$ (18.8)	114%	135%
2026	$ 0.0	$ 0.0	0.0%	0.0%	$ 58.4	$ 51.6	$ (9.2)	$ (19.9)	116%	139%
2027	$ 0.0	$ 0.0	0.0%	0.0%	$ 56.3	$ 49.6	$ (9.7)	$ (21.2)	117%	143%
2028	$ 0.0	$ 0.0	0.0%	0.0%	$ 54.1	$ 47.5	$ (10.2)	$ (22.5)	119%	147%
2029	$ 0.0	$ 0.0	0.0%	0.0%	$ 52.0	$ 45.4	$ (10.9)	$ (24.0)	121%	153%
2030	$ 0.0	$ 0.0	0.0%	0.0%	$ 49.7	$ 43.3	$ (11.5)	$ (25.5)	123%	159%
2031	$ 0.0	$ 0.0	0.0%	0.0%	$ 47.6	$ 41.2	$ (12.2)	$ (27.1)	126%	166%
2032	$ 0.0	$ 0.0	0.0%	0.0%	$ 45.4	$ 39.1	$ (13.0)	$ (28.9)	129%	174%
2033	$ 0.0	$ 0.0	0.0%	0.0%	$ 43.2	$ 37.1	$ (13.8)	$ (30.7)	132%	183%
2034	$ 0.0	$ 0.0	0.0%	0.0%	$ 41.0	$ 35.1	$ (14.6)	$ (32.7)	136%	193%
2035	$ 0.0	$ 0.0	0.0%	0.0%	$ 38.9	$ 33.1	$ (15.6)	$ (34.8)	140%	205%
2036	$ 0.0	$ 0.0	0.0%	0.0%	$ 36.7	$ 31.1	$ (16.5)	$ (37.0)	145%	219%
2037	$ 0.0	$ 0.0	0.0%	0.0%	$ 34.6	$ 29.2	$ (17.6)	$ (39.4)	151%	235%
2038	$ 0.0	$ 0.0	0.0%	0.0%	$ 32.5	$ 27.3	$ (18.7)	$ (42.0)	158%	254%
2039	$ 0.0	$ 0.0	0.0%	0.0%	$ 30.4	$ 25.4	$ (19.9)	$ (44.7)	165%	276%
Sum of Contributions	$ 1.8	$ 1.8								

Assumes 6.5% future asset returns beginning July 1, 2019 in the Traditional Defined Benefit plan.
Assumes 100% of the recommended contribution is contributed each year.
Unfunded Liability is calculated as Accrued Liability minus the Actuarial Assets Value.
Funded Ratio is calculated as Actuarial Value of Assets divided by Accrued Liability.
Contribution(%) is calculated as the Contribution($) divided by total payroll in the Traditional plan.