

# Actuarial Analysis Summary

## AA Statement 1 of 1

**BR or Bill Ref.** HB 20 (24 RS BR 1051)  
**Date:** 1/8/2024  
**Actuary:** GRS

**Actuarial Analysis Conducted For:**  
 KERS NH    KERS Haz    SPRS    TRS  
 CERS NH    CERS Haz    LRP    JRP

### Section I: Executive Summary

In the opinion of the actuary, this bill would make the affected state-administered retirement system(s) actuarially:

MORE SOUND    LESS SOUND    NO IMPACT

If actuarially **MORE SOUND OR LESS SOUND**, please summarize the factors leading to the actuary's opinion:

**The \$227 million, \$17 million, and \$17 million, appropriations to the KERS Non-Hazardous, KERS Hazardous, and SPRS pension funds, respectively, are sufficient and appropriate to fund a one-time 2.0% COLA at July 1, 2024. As a result, this proposed legislation does not have an impact on the on-going employer contribution requirement for either the KERS pension funds or the SPRS pension fund.**

Does this bill increase or decrease employer costs?    INCREASE    DECREASE    NO IMPACT

Does this bill increase or decrease benefits?    INCREASE    DECREASE    NO IMPACT

Does this bill increase or decrease benefit participation?    INCREASE    DECREASE    NO IMPACT

If the bill impacts employer costs, benefits, or benefit participation, please explain and estimate the impact in Sections II and VI.

### Section II: Financial Projections

|  | Combined Pension and Retiree Health Plan |              |                 |              |               |               |
|--|--|--------------|-----------------|--------------|---------------|---------------|
|  | KERS Non-Hazardous*                      |              | KERS Hazardous* |              | SPRS*         |               |
|  | Current                                  | Proposed     | Current         | Proposed     | Current       | Proposed      |
| <b>Projected Employer Cost* (\$ in Millions)</b> |  |              |                 |              |               |               |
| 30-Yr Nominal \$                                 | \$26,974                                 | \$26,974     | \$1,372         | \$1,372      | \$1,340       | \$1,340       |
| 30-Yr Net Present Value \$                       | \$14,531                                 | \$14,531     | \$672           | \$672        | 693           | 693           |
| Proj. Normal Cost for New Hire                   | 4.22% of pay                             | 4.22% of pay | 6.66% of pay    | 6.66% of pay | 17.84% of pay | 17.84% of pay |

\*Projected costs are for all employers and all fund sources for entire 30-year period.  
 Proj. normal cost is the normal cost for new hires after subtracting employee contributions.

|                                       | Pension Plan           |          |                    |          |         |          |
|---------------------------------------|------------------------|----------|--------------------|----------|---------|----------|
|                                       | KERS<br>Non-Hazardous* |          | KERS<br>Hazardous* |          | SPRS    |          |
|                                       | Current                | Proposed | Current            | Proposed | Current | Proposed |
| <b>Projected UAL (\$ in Millions)</b> |                        |          |                    |          |         |          |
| Baseline (Year 1)                     | \$12,752               | \$12,752 | \$472              | \$472    | \$502   | \$502    |
| 5 Years                               | \$11,525               | \$11,525 | \$424              | \$424    | \$462   | \$462    |
| 10 Years                              | \$10,012               | \$10,012 | \$337              | \$337    | \$424   | \$424    |
| 20 Years                              | \$5,484                | \$5,484  | \$232              | \$232    | \$312   | \$312    |
| 30 Years                              | \$0                    | \$0      | \$0                | \$0      | \$0     | \$0      |
| <b>Projected Funding Ratio (%)</b>    |                        |          |                    |          |         |          |
| Baseline (Year 1)                     | 22%                    | 22%      | 65%                | 65%      | 54%     | 54%      |
| 5 Years                               | 28%                    | 28%      | 72%                | 72%      | 59%     | 59%      |
| 10 Years                              | 34%                    | 34%      | 77%                | 77%      | 62%     | 62%      |
| 20 Years                              | 58%                    | 58%      | 89%                | 89%      | 73%     | 73%      |
| 30 Years                              | 100%                   | 100%     | 100%               | 100%     | 100%    | 100%     |

|                                       | Retiree Health Plan    |          |                    |           |         |          |
|---------------------------------------|------------------------|----------|--------------------|-----------|---------|----------|
|                                       | KERS<br>Non-Hazardous* |          | KERS<br>Hazardous* |           | SPRS    |          |
|                                       | Current                | Proposed | Current            | Proposed  | Current | Proposed |
| <b>Projected UAL (\$ in Millions)</b> |                        |          |                    |           |         |          |
| Baseline (Year 1)                     | \$344                  | \$344    | \$(256)            | \$(256)   | \$(1)   | \$(1)    |
| 5 Years                               | \$328                  | \$328    | \$(320)            | \$(320)   | \$(8)   | \$(8)    |
| 10 Years                              | \$439                  | \$439    | \$(422)            | \$(422)   | \$0     | \$0      |
| 20 Years                              | \$727                  | \$727    | \$(763)            | \$(763)   | \$21    | \$21     |
| 30 Years                              | \$0                    | \$0      | \$(1,406)          | \$(1,406) | \$0     | \$0      |
| <b>Projected Funding Ratio (%)</b>    |                        |          |                    |           |         |          |
| Baseline (Year 1)                     | 82%                    | 82%      | 170%               | 170%      | 100%    | 100%     |
| 5 Years                               | 84%                    | 84%      | 185%               | 185%      | 103%    | 103%     |
| 10 Years                              | 78%                    | 78%      | 214%               | 214%      | 100%    | 100%     |
| 20 Years                              | 60%                    | 60%      | 305%               | 305%      | 89%     | 89%      |
| 30 Years                              | 100%                   | 100%     | 424%               | 424%      | 100%    | 100%     |

\* if necessary or plan administers more than one plan/system.

### Section III: Brief Summary of Bill

The proposed legislation provides a one-time 2.0% increase to all monthly retirement allowances paid from the KERS pension funds and the SPRS pension fund as of July 1, 2024. The proposed legislation further appropriates \$227 million to the KERS Non-Hazardous pension fund, \$17 million to the KERS Hazardous pension fund, and \$17 million to the SPRS pension fund in fiscal year 2024/2025 designed to fully finance this benefit increase.

## **Section IV: Statement of Assumptions and Methods**

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Did the analysis rely solely upon the same assumptions & methods previously established and utilized by the actuary in the retirement system's most recent actuarial valuation?

**YES**    **NO**

**If NO**, please describe each new assumption or method utilized, the basis for selecting the revised assumption or method, and whether each new assumption or method increased or decreased projected employer costs:

N/A

## **Section V: Comment from Actuary**

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Please see attached.

## **Section VI: Detailed Actuarial Analysis and Projections** *(May be attached as Appendix)*

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N/A.



January 8, 2024

Mr. David Eager  
Executive Director  
Kentucky Public Pensions Authority  
1260 Louisville Road  
Frankfort, KY 40601

**Re: Actuarial Analysis of HB 20 – 2.0% COLA to Retirees in KERS (Non-Hazardous and Hazardous) and SPRS on July 1, 2024**

Dear Mr. Eager:

The purpose of this letter is to communicate the actuarial analysis of HB 20 (24 RS BR 1051) which appropriates general fund monies to the Kentucky Employees Retirement Fund (KERS) Non-Hazardous and Hazardous Fund, and the State Police Retirement System (SPRS) such that retirees in these State Systems receive a 2.0% Cost of Living Adjustment (COLA) to their monthly retirement allowances.

The appropriation amounts of \$227 million, \$17 million, and \$17 million that are specified in Sections 1., 2. and 3., respectively, of the proposed legislation are sufficient to pre-fund the benefit increase.

As a result, there will be no impact to the on-going employer contribution requirement for the pension funds if this proposed legislation were enacted. Below is a table with a summary of the average benefit and the average increase for each fund.

| <b>Pension Fund</b> | <b>Number of Retirees and Beneficiaries</b> | <b>Average Monthly Benefit</b> | <b>Average Benefit Increase</b> |
|---------------------|---|--------------------------------|---------------------------------|
| KERS Non-Hazardous  | 48,409                                      | \$1,694                        | \$34                            |
| KERS Hazardous      | 4,887                                       | \$1,277                        | \$26                            |
| SPRS                | 1,697                                       | \$3,108                        | \$62                            |

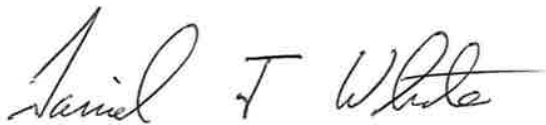
**Basis of Calculations**

GRS based the calculations and analysis in this letter on the member and financial data provided by KPPA for use in performing the actuarial valuation as of June 30, 2023. Our calculations are based

upon assumptions regarding future events, which may or may not materialize. Depending on actual plan experience, actual results could deviate significantly.

All three of the undersigned are members of the American Academy of Actuaries and meet all of the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. In addition, all three are independent of KPPA and are experienced in performing valuations for large public retirement systems. This communication shall not be construed to provide tax advice, legal advice or investment advice.

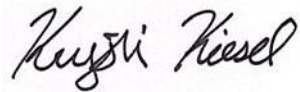
Sincerely,  
**Gabriel, Roeder, Smith & Company**



Daniel J. White, FSA, EA, MAAA  
Senior Consultant



Janie Shaw, ASA, EA, MAAA  
Consultant



Krysti Kiesel, ASA, MAAA  
Consultant