

Actuarial Analysis Summary

AA Statement 1 of 1.

BR or Bill Ref.	HB 185	Actuarial Analysis Conducted For:	
Date:	2/3/2025	<input checked="" type="checkbox"/> KERS NH	<input type="checkbox"/> KERS Haz <input type="checkbox"/> SPRS <input type="checkbox"/> TRS
Actuary:	GRS	<input type="checkbox"/> CERS NH	<input type="checkbox"/> CERS Haz <input type="checkbox"/> LRP <input type="checkbox"/> 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:

Based upon the data available for the June 30, 2024 actuarial valuation, we estimate that the proposed legislation could have an immediate increase in the unfunded actuarial accrued liability of up to \$795,000 for the KERS non-hazardous funds. This increase is due to the potential additional service credit granted under the proposed legislation that would allow certain KERS members to retire earlier than previously eligible with an unreduced retirement benefit. However, there may be current or future KERS members that provide services to Kentucky River Community Care that would be granted service for the purpose of retirement eligibility determination under the proposed legislation that we are not able to identify at this time. The potential impact due to these members could be significantly more, but we are unable to quantify the impact at this time.

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*		N/A		N/A	
	Current	Proposed	Current	Proposed	Current	Proposed
Projected Employer Cost* (\$ in Millions)						
30-Yr Nominal \$	\$25,728	\$25,728	N/A	N/A	N/A	N/A
30-Yr Net Present Value \$	\$14,026	\$14,026	N/A	N/A	N/A	N/A
Proj. Normal Cost for New Hire	4.45% of pay	4.45% of pay	N/A	N/A	N/A	N/A

*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 Non-Hazardous		N/A		N/A	
	Current	Proposed	Current	Proposed	Current	Proposed
Projected UAL (\$ in Millions)						
Baseline (Year 1)	\$12,526	\$12,526	N/A	N/A	N/A	N/A
5 Years	\$10,820	\$10,820	N/A	N/A	N/A	N/A
10 Years	\$9,306	\$9,306	N/A	N/A	N/A	N/A
20 Years	\$4,767	\$4,767	N/A	N/A	N/A	N/A
30 Years	\$0	\$0	N/A	N/A	N/A	N/A
Projected Funding Ratio (%)						
Baseline (Year 1)	25%	25%	N/A	N/A	N/A	N/A
5 Years	35%	35%	N/A	N/A	N/A	N/A
10 Years	42%	42%	N/A	N/A	N/A	N/A
20 Years	67%	67%	N/A	N/A	N/A	N/A
30 Years	100%	100%	N/A	N/A	N/A	N/A

	Retiree Health Plan					
	KERS Non-Hazardous		N/A		N/A	
	Current	Proposed	Current	Proposed	Current	Proposed
Projected UAL (\$ in Millions)						
Baseline (Year 1)	\$383	\$383	N/A	N/A	N/A	N/A
5 Years	\$396	\$396	N/A	N/A	N/A	N/A
10 Years	\$497	\$497	N/A	N/A	N/A	N/A
20 Years	\$637	\$637	N/A	N/A	N/A	N/A
30 Years	\$0	\$0	N/A	N/A	N/A	N/A
Projected Funding Ratio (%)						
Baseline (Year 1)	82%	82%	N/A	N/A	N/A	N/A
5 Years	82%	82%	N/A	N/A	N/A	N/A
10 Years	78%	78%	N/A	N/A	N/A	N/A
20 Years	70%	70%	N/A	N/A	N/A	N/A
30 Years	100%	100%	N/A	N/A	N/A	N/A

Section III: Brief Summary of Bill

The proposed legislation provides that certain members who were employed to provide services for Kentucky River Community Care (KRCC) may use their period of employment, whether employed directly by KRCC or through a third-party entity, in which the member did not participate in the Kentucky Employees Retirement System, as service toward attaining the necessary years of service credit to qualify for a retirement allowance.

The credit for employment from KRCC may not be used to satisfy the minimum 15-year current service requirement for retirement eligibility under KRS 61.559(2)(c) and (d). This service credit also cannot be used toward the calculation of the member's retirement benefit. If an eligible member previously purchased non-qualified service, then the credit for employment from KRCC

may be used toward the minimum 20-year requirement to use the non-qualified service in determining the member's retirement allowance.

Section IV: Statement of Assumptions and Methods

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:

The additional service that would be earned under the proposed legislation for any member who has provided services to KRCC was not available at the time of this analysis. Therefore, we have relied on the membership data provided by KPPA for the June 30, 2024 actuarial valuation. GRS identified 11 inactive KERS members who we believe reasonably could have continued employment with KRCC and earned additional service under the proposed legislation. For the purposes of this analysis it was assumed members would be granted enough service under the proposed legislation to make them immediately eligible for retirement.

Section V: Comment from Actuary

The proposed legislation poses potential concerns for KPPA and GRS. The provisions of this proposed legislation are aimed toward members that provide services to Kentucky River Community Care; however, there are numerous other similarly situated employers and KERS members as KRCC and if this legislation were to be enacted, it would set precedent for those employers and their employees to request the same provisions be built into the plan for themselves. We would suggest consideration be given to the potential cost impact if this legislation were to apply to all employers and members who may be found in a similar situation since this legislation could establish a precedent, or status quo for such situations.

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

Please see attached.



February 3, 2025

Mr. Ryan Barrow
Executive Director
Kentucky Public Pensions Authority
1260 Louisville Road
Frankfort, KY 40601

Re: Actuarial Analysis of Proposed Legislation HB 185 (25 RS BR 488) and its Financial Impact on the Systems Maintained by KPPA

Dear Mr. Barrow:

We have reviewed the proposed legislation HB 185 (25 RS BR 488) and the purpose of this letter is to communicate the actuarial analysis of this proposed legislation in regards to the five Systems administered by the Kentucky Public Pensions Authority (KPPA).

Summary of Provisions of Proposed Legislation and Fiscal Impact

The proposed legislation provides that certain members who were employed to provide services for Kentucky River Community Care (KRCC) may use their period of employment, whether employed directly by KRCC or through a third-party entity, in which the member did not participate in the Kentucky Employees Retirement System, as service toward attaining the necessary years of service credit to qualify for a retirement allowance.

The credit for employment from KRCC may not be used to satisfy the minimum 15-year current service requirement for retirement eligibility under KRS 61.559(2)(c) and (d). This service credit also cannot be used toward the calculation of the member's retirement benefit. If an eligible member previously purchased non-qualified service, then the credit for employment from KRCC may be used toward the minimum 20-year requirement to use the non-qualified service in determining the member's retirement allowance.

Based upon the data available for the June 30, 2024 actuarial valuation, we estimate that the proposed legislation could have an immediate increase in the unfunded actuarial accrued liability of up to \$795,000 for the KERS non-hazardous funds. This increase is due to the potential additional service credit granted under the proposed legislation that would allow certain KERS members to retire earlier than previously eligible with an unreduced retirement benefit. However, there may be current or future KERS members that provide services to KRCC that would be granted service for the purpose of retirement eligibility determination under the proposed legislation that we are not able to identify at this time. The potential impact due to these members could be significantly more, but we are unable to quantify the impact at this time.

Comments Regarding the Proposed Legislation

The proposed legislation poses potential concerns for KPPA and GRS. The provisions of this proposed legislation are aimed toward members that provide services to Kentucky River Community Care; however, there are numerous other similarly situated employers and KERS members as KRCC and if this legislation were to be enacted, it would set precedent for those employers and their employees to request the same provisions be built into the plan for themselves. We would suggest consideration be given to the potential cost impact if this legislation were to apply to all employers and members who may be found in a similar situation since this legislation could establish a precedent, or status quo for such situations.

Basis of Calculations

The additional service that would be earned under the proposed legislation for any member who has provided services to KRCC was not available at the time of this analysis. Therefore, we have relied on the membership data provided by KPPA for the June 30, 2024 actuarial valuation. GRS identified 11 inactive KERS members who we believe reasonably could have continued employment with KRCC and earned additional service under the proposed legislation. All members met the following criteria and are summarized in Table 1 below.

- Members last reported employment with Kentucky River Community Care
- Participation date prior to September 1, 2008
- Obtained 15 years of eligibility service when last reported to KPPA
- Reported salary present in last year of reporting from KRCC
- Accrued vested retirement benefit under KERS

Table 1. Summary of KRCC Members Included in Analysis

Active Headcount	11
Average Age at July 1, 2024	56.4 years
Average Vesting Service at July 1, 2024	19.5 years
Average Accrued Annual Benefit	\$11,075

For the purposes of this analysis it was assumed members would be granted enough service under the proposed legislation to make them immediately eligible for retirement. Except where noted, the calculations are further based on the methods, assumptions, and plan provisions documented in the actuarial valuation as of June 30, 2024. 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.

We are not attorneys, and we cannot provide a legal opinion regarding the changes in this proposed legislation. Nothing in this letter should be construed as providing legal, investment or tax advice.

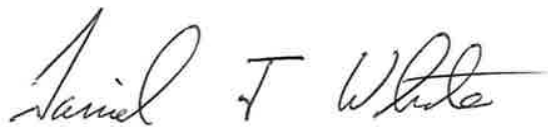


Mr. Ryan Barrow
February 3, 2025
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All three of the undersigned are members of the American Academy of Actuaries and meet all of the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. In addition, all 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,

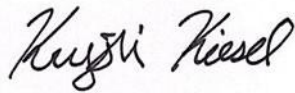
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