COMMONWEALTH OF KENTUCKY
SUPREME COURT OF KENTUCKY
2018-SC-419

MATTHEW G. BEVIN, in his official capacity as Governor of the Commonwealth of Kentucky, *et al.* **APPELLANT**

V. **FRANKLIN CIRCUIT COURT NO. 18-CI-379, 18-CI-414**

COMMONWEATH OF KENTUCKY *ex rel.* ANDY BESHEAR, ATTORNEY GENERAL, *et al.* **APPELLEES**

BRIEF FOR APPELLEE – BOARD OF TRUSTEES TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY

Respectfully submitted,

By: Robert B. Barnes

Robert B. Barnes, General Counsel
Teachers' Retirement System of the State of Kentucky
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CERTIFICATE OF SERVICE

The undersigned does hereby certify that copies of this Brief were served upon the following named individuals by mailing same, postage prepaid, on this the 10th day of September 2018: Hon. Sam Givens, Clerk, Kentucky Court of Appeals, 360 Democrat Drive, Frankfort, KY 40601; Hon. Phillip J. Shepherd, Judge, 222 St. Clair Street, Frankfort, KY 40601; M. Stephen Pitt, S. Chad Meredith and Matthew F. Kuhn, Office of the Governor, 700 Capital Avenue, Suite 101, Frankfort, KY 40601; Hon. Andy Beshear, J. Michael Brown, La Tasha Buckner, S. Travis Mayo, Marc G. Farris, and Samuel Flynn, Office of the Attorney General, 700 Capital Avenue, Suite 118, Frankfort, KY 40601; Jeffrey Walther and Victoria Dickson, Walther, Gay & Mack, 163 E. Main Street, Suite 200, Lexington, KY 40588; David Leightty and Alison Messex, Priddy, Cutler, Naake, Meade, 2303 River Road, Suite 300, Louisville, KY 40206; David Fleenor and Vaughn Murphy, Office of the Senate President, Capital Annex, Room 236, Frankfort, KY 40601; Eric Lycan, Office of the Speaker, Capital Annex, Room 332, Frankfort, KY 40601; Mark Blackwell, Katherine Rupinen, and Joseph Bowman, Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601.

Robert B. Barnes

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I. STATEMENT CONCERNING ORAL ARGUMENT

The Board of Trustees of Teachers' Retirement System of the State of Kentucky [hereinafter referred to as "TRS"] shall engage in oral argument if the Court believes it would be helpful to this Court in deciding the issues presented.

II. COUNTERSTATEMENT OF POINTS AND AUTHORITIES

III. COUNTERSTATEMENT OF THE CASE

After review of the Appellant's Statement of the Case, Teachers' Retirement System of the State of Kentucky (TRS) provides the following select counterstatements without commenting on each statement made by the appellant regarding how pension systems operate:

The Appellant's brief on pages 7 through 9 begins a discussion of the "creation and history" of TRS with legislation passed in 1978. While the statutory inviolable contract is correctly identified as having been enacted that year, the history of TRS begins with its enactment by the Kentucky General Assembly in 1938 and operations beginning in 1940.

Page 16 of the Appellant's brief references "level-dollar funding (analogous to a mortgage payment) over a 30-Year amortization period starting in 2021 is established…" The legislation at issue begins level-dollar funding in 2021, but it also resets the 30-year amortization period to begin July 1, 2018.

The Appellant states on pages 8 and 9 that benefits provided to members of the retirement system have been reduced or eliminated, citing, in part, the repeal of KRS 161.705. While KRS 161.705 was repealed in 1992, the contents of that statute were moved at the same time to KRS 161.420(7), which still is in statute.

On page 20, the Appellant asserts that "SB 151 does not affect the inviolable contract rights of a single public school teacher in Kentucky." This is correct because no public school district presently offers service credit under KRS 161.623 to its retiring TRS members; instead, salary credit under KRS 161.155 is given. As such, Executive Secretary Gary L. Harbin said in his affidavit that Senate Bill 151's amendment to KRS 161.623 currently does not affect any employees of public school districts. [Appendix, Exhibit A]

Prospectively, it should be noted that while it is recognized that the benefits of KRS 161.155 are excluded from KRS 161.714's Inviolable Contract, eliminating the ability for employers to offer the benefits under KRS 161.623 is within the range of statutes covered by KRS 161.714 (*i.e.,* "KRS 161.220 to KRS 161.710") and is for this Court to determine whether such a cap on sick leave as service credit violates the Inviolable Contract.

Finally, with regard to the process by which SB 151 was enacted, TRS implements the policies that are set forth in statute and does not address how those statutes are created beyond the statutory duty to obtain an evaluation from the independent actuary as directed by legislative staff.

TRS received a copy of the House Committee Substitute 1 to SB 151 via an email sent at approximately 3:40 p.m. on March 29, 2018. However, it was a few hours later that TRS became aware of the receipt of the email. Upon becoming aware of the email, TRS forwarded it to the independent actuary to complete an actuarial analysis. TRS received the actuarial analysis performed by the independent actuary on April 13, 2018 and forwarded it to the Legislative Research Commission that same day. [Appendix, Exhibit B]

IV. ARGUMENT

While TRS continues to review SB 151 for its potential impact on active, contributing members, the legislation does not change the benefits of members of TRS who are currently receiving a retirement annuity. The impact on current, active, contributing members of TRS is as follows:

1. SB 151 limits both the use of unused sick leave as service credit under KRS 161.623 and the use of unused sick leave as salary credit under KRS 161.155 to the amount accumulated as of December 31, 2018.

2. SB 151 prohibits beginning a second retirement account for members who retire and are re-employed on or after January 1, 2019.

3. SB 151 allows current members with less than five (5) years of service at the time approval from the Internal Revenue Service is obtained to opt voluntarily into the cash balance plan.

The change in benefits that SB 151 makes for current, active members that is a subject of this appeal is the amendment of KRS 161.623 to cap the amount of sick leave that may be utilized as service credit for retirement calculation purposes.

This appeal is based, in part, on allegations regarding the validity of the process by which SB 151 was enacted. These allegations are questions of law for this Court to decide. This appeal also includes allegations that SB 151 violates Section 19 of the Kentucky Constitution and the TRS statutory inviolable contract set forth in KRS 161.714. TRS admitted in its Answer to the Complaint, and this Court may note, that KRS 161.623 is within the range of statutes covered by KRS 161.714 (*i.e.,* "KRS 161.220 to KRS 161.710"). Whether a cap on sick leave as service credit is a violation of Section 19 of the Kentucky Constitution and the inviolable contract is a question of law for this Court to decide. TRS has consistently taken the position that, pursuant to KRS 161.250(1), the retirement system is mandated to implement KRS 161.155 and 161.220 through 161.714, inclusive of any amendments made to these statutory provisions via SB 151 unless otherwise ordered by a court of competent jurisdiction. TRS's position is supported by Kentucky law, as it is well established that duly adopted legislation is entitled to a presumption of validity. Hayes v. State Property and Buildings Commission, 731 S.W.2d 797, 799 (Ky. 1987) *See also* Federal Communications Commission v. Beach Communications, Inc., 508 U.S. 307, 113 S.Ct. 2096, 124 L.Ed.2d 211, 61 U.S.L.W. 4526 (1993). Further, in Kentucky, a statute carries with it the presumption of constitutionality.

Walters v. Bindner, 435 S.W.2d 464, 467 (Ky. 1968); American Trucking Association, Inc. v. Commonwealth, Transportation Cabinet, 676 S.W.2d 785, 789 (Ky. 1984). In light of the foregoing legal precedents, TRS continues to prepare to implement the statutes as amended by SB 151; however, TRS awaits this Court's determination whether the implementation is to take effect.

CONCLUSION

The Board of Trustees of the Teachers' Retirement System of the State of Kentucky, in accordance with KRS 161.250(1), is charged with implementing and carrying out the provisions of KRS 161.155 and 161.220 through 161.714, inclusive of any amendments made to these statutory provisions by Senate Bill 151. The Board of Trustees of the Teachers' Retirement System of the State of Kentucky shall await this Court's order before implementing the provisions of Senate Bill 151.

Respectfully submitted,

COMMONWEALTH OF KENTUCKY
TEACHERS' RETIREMENT SYSTEM
OF THE STATE OF KENTUCKY

Robert B. Barnes

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APPENDIX

Exhibits:

A. Affidavit of Gary L. Harbin, Executive Secretary of the Teachers' Retirement System of the State of Kentucky filed in Franklin Circuit Court, Division I, Civil Action No. 18-CI-379.

B. Actuarial Analysis of the impact of SB 151, as amended by HCS 1, on Teachers' Retirement System prepared on April 13, 2018 by Edward J. Koebel, independent actuary for the retirement system and provided to the Legislative Research Commission.

COMMONWEALTH OF KENTUCKY
FRANKLIN CIRCUIT COURT
DIVISION I
CIVIL ACTION NO. 18-CI-379

COMMOMWEALTH OF KENTUCKY, et al. PLAINTIFFS

v.

AFFIDAVIT OF GARY L. HARBIN, EXECUTIVE SECRETARY OF THE TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY

MATTHEW G. BEVIN, et al. DEFENDANTS

* * * * * * * * * * *

Gary L. Harbin, being first duly sworn, states as follows:

1. I am the executive secretary for the Board of Trustees of the Teachers' Retirement System of the State of Kentucky (TRS) in Frankfort, Kentucky. In that capacity and in accordance with KRS 161.340(1), I serve as the chief administrative officer of TRS, and have personal knowledge of the facts and matters in this affidavit.

2. To the best of my knowledge, Senate Bill 151, which was passed during the 2018 session of the General Assembly and signed by Governor Bevin (Senate Bill 151), affects current active TRS members in three ways:

    a. Senate Bill 151 limits both the use of unused sick leave as service credit under KRS 161.623 and the use of unused sick leave as salary credit under KRS 161.155 to the amount accumulated as of December 31, 2018;

    b. Senate Bill 151 prohibits beginning a second retirement account for members who retire and are re-employed on or after January 1, 2019; and

    c. Senate Bill 151 permits current members with less than 5 years of service to voluntarily opt into the cash balance plan once approval from the Internal Revenue Service (IRS) is obtained.

3. Senate Bill 151 does not affect or limit TRS members' use of unused sick leave that has been accumulated prior to January 1, 2019.

4. Senate Bill 151 does not affect current retired TRS members' retirement allowance in any way.

5. Senate Bill 151 does not affect current active or retired TRS members' past accrued retirement benefits in any way, with the exception that it permits current members with less than 5 years of service to voluntarily opt into the cash balance plan once approval from the IRS is obtained.

6. Under Senate Bill 151, individuals who become members of TRS on or after January 1, 2019 will participate in a hybrid cash balance plan. I am aware that the Jefferson County Teachers Association (JCTA) has publicly stated that the hybrid cash balance plan "will allow TRS to remain an ageless plan and avoids negatively impacting the performance of the existing [defined benefits] members' investment funds." I also am aware that JCTA has publicly stated that the hybrid cash balance plan "will have no negative impact on the current [defined benefits] plan and will actually help sustain it." To the best of my knowledge, I have no basis to disagree with these public statements by JCTA about the hybrid cash balance plan.

7. Under Senate Bill 151, funding for the TRS pension fund will be moved to a level dollar amortization method. I am aware that JCTA has publicly stated that this change "should increase the rate at which the funding level of TRS increases." To the best of my knowledge, I have no basis to disagree with this public statement by JCTA about the level dollar amortization method increasing the rate at which the funded level of TRS increases, at least through the next twenty years. This is the result of the level dollar amortization method providing more funding for TRS in the earlier years than the level percentage amortization method.

8. I am aware that JCTA has publicly stated that Senate Bill 151 "more clearly and explicitly requires the state to pay the full ARC every year for TRS." To the best of my knowledge, I have no basis to disagree with this public statement by JCTA about funding the TRS pension fund.

9. I have reviewed the Complaint filed in the above-referenced action (Complaint). The Complaint does not mention Senate Bill 151's amendment to active current TRS members' ability to use unused sick leave as salary credit under KRS 161.155. The Complaint does not mention Senate Bill 151's prohibition of beginning a second retirement account for members who retire and are re-employed on or after January 1, 2019. The Complaint does not mention the hybrid cash balance plan that those who become TRS members on or after January 1, 2019 will receive. The Complaint also does not mention Senate Bill 151's amendments imposing a level dollar amortization method or the ability of current members with less than 5 years of service to voluntary opt into the cash balance plan once approval from the IRS is obtained.

10. The only aspect of Senate Bill 151 that the Complaint mentions that affects current active TRS members is Senate Bill 151's amendment to KRS 161.623.

11. KRS 161.623 allows TRS members to use unused sick leave as service credit under certain circumstances. Whether TRS members can use unused sick leave as service credit depends upon, among other things, whether the public school district or other employer of TRS members has opted to allow its employees to use unused sick leave as service credit. The public school district or other employer of TRS members has discretion over whether TRS members can use unused sick leave as service credit. If a TRS member uses unused sick leave as service credit, he or she cannot use unused sick leave as salary credit.

12. Exhibit A, attached hereto and incorporated by this reference, is a true and correct summary of TRS's official records. It shows that 1,379 TRS retirees from January 1, 2008, to the present have used unused sick leave as service credit under KRS 161.623.

13. Exhibit A also identifies the 19 employers of those 1,379 TRS retirees who have used unused sick leave as service credit since January 1, 2008.

14. Since January 1, 2008, no public school district has chosen to offer service credit to its retiring TRS members for unused sick leave under KRS 161.623. Instead, during that period, all public school districts have chosen to offer retiring TRS members salary credit for their unused sick leave under KRS 161.155.

15. At present, Senate Bill 151's amendment to KRS 161.623 does not affect any employees of public school districts.

16. Among TRS employers, only public school districts and their cooperatives are permitted to compensate retiring employees for unused sick leave as salary credit under KRS 161.155 in lieu of sick leave as service credit under KRS 161.623.

17. Of all TRS members, about 96 percent are employees of public school districts. Thus, Senate Bill 151's amendment to KRS 161.623 currently affects approximately 4 percent of TRS members, none of whom are employees of public school districts.

GARY L. HARBIN

STATE OF KENTUCKY)
) ss.
COUNTY OF FRANKLIN)

Subscribed and sworn to before me by Gary L. Harbin on this 21 day of May 2018.

NOTARY PUBLIC

My commission expires 9-24-2019

Exhibit A

Teachers' Retirement System of the State of Kentucky

Number of Retirees who Received Sick Leave as Service Credit

Employer	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	Total
Career and Technical Education	2	10	14	13	12	17	15	16	12	20	10	0	141
Council on Postsecondary Education	0	1	1	0	0	0	0	0	1	1	0	0	4
Department of Corrections	0	0	0	0	0	0	1	0	0	0	0	0	1
Eastern Kentucky University	8	29	21	24	34	21	48	25	40	32	29	0	311
Education Professional Standards Board	1	2	0	2	2	1	0	1	0	0	0	0	9
Kentucky Community & Technical College System	6	22	13	20	18	27	28	23	26	22	23	0	228
Kentucky Department of Education (Administration)	8	11	7	18	10	7	7	9	12	5	5	0	99
Kentucky Educational Development Corporation	0	0	1	0	0	0	1	0	0	0	0	0	2
Kentucky School Boards Association	0	1	1	0	0	0	2	0	1	0	2	0	7
Kentucky School for the Blind	2	2	2	4	4	2	2	6	2	0	2	1	29
Kentucky School for the Deaf	1	1	8	4	4	2	2	5	2	3	3	0	35
Kentucky State University	7	6	9	6	6	14	18	10	0	0	0	0	76
Legislative Research Commission	0	0	0	0	0	1	0	0	0	0	0	0	1
Morehead State University	5	17	15	11	9	22	6	25	9	19	22	0	160
Murray State University	0	0	0	0	8	10	16	13	14	20	15	0	96
Office of Secretary of Workforce Development	0	0	1	0	0	1	1	0	0	0	0	0	3
Office of Vocational Rehabilitation	3	11	5	12	7	13	2	3	5	5	7	0	73
Teachers' Retirement System of the State of Kentucky	1	1	1	0	2	0	1	1	1	1	2	0	11
Western Kentucky University	3	9	4	13	8	9	7	9	12	12	7	0	93
Totals	47	123	103	127	124	147	157	146	137	140	127	1	1,379

TEACHERS' RETIREMENT SYSTEM
of the State of Kentucky

GARY L. HARBIN , CPA
Executive Secretw y

ROBERT B. BARNES, JD
Deputy Executive Secretwy
Operatiol ls a nd Gel le ra/ Counsel

J. ERIC WAMPLER, JD
De puty Executive Secret w y
Fil la nce al ld Administration

April 13, 2018

Katie Carney
Legislative Research Commission
Capitol Annex
Frankfort, KY 40601

RE: BR 1644 SB 151 HCS 1
AA Statement 2 of 4

Dear Katie:

Attached is the actuarial analysis from the independent actuary for the Teachers' Retirement System of the State of Kentucky for Senate Bill 151 as amended by HCS 1.

Please let us know if you have any questions.

Sincerely,

Robert B. Barnes
Deputy Executive Secretary and
General Counsel

Attachment

April 13, 2018

Mr. Robert B. Barnes

Deputy Executive Secretary and General
Counsel Kentucky Teachers' Retirement
System

479 Versailles Road

Frankfort, KY 40601-3800

Actuarial Impact - 18 RS SB 151/HCS 1 - Impact on Pension Plan

Dear Beau:

We have prepared an actuarial analysis of the impact of 18 RS SB 151/HCS 1 (HCS 1) on the Teachers' Retirement System of the State of Kentucky (TRS). This actuarial analysis relates to the pension plan only. HCS 1 introduces a new tier of benefits for active members hired on or after January 1, 2019 and changes actuarial funding, participation requirements and actuarial assumptions. The major provisions of HCS 1, based on our interpretation without a summary of changes, are summarized below and the estimated cost impacts are provided in the attached Exhibits.

Section I - Benefit Provisions for New Members on or after January 1, 2019

All new members hired on or after January 1, 2019 will accrue retirement benefits based on a hybrid cash balance plan under a new tier within TRS.

The retirement benefit determined in the hybrid cash balance plan will be based upon a member's accumulated account balance calculated as follows:

1. Non-University members shall contribute 9.105% of monthly salary and University members shall contribute 7.625% of monthlysalary.
2. An employer pay credit equal to 8.00% for Non-University members and 4.00% for University members, for each month the employee is contributing, will be credited to the member's notional account balance.
3. Regular interest will be added annually as of June 30 to the contributing member's accumulated account balance.

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a) Regular interest shall be determined by multiplying the member's accumulated account balance on June 30 of the <u>preceding</u> fiscal year by a percentage equal to 85% of system's geometric average net investment return over the last 10 fiscal years, but in no case less than0%.
b) System's geometric average net investment return shall be the annual average geometric investment return, net of administrative and investment fees and expenses, over the last I O fiscal years as of the date of regular interest.

4. Once a member meets the service retirement eligibilities (age 65 with 5 years of service or age 57 with age and service total of at least 87), the member may elect to receive a monthly lifetime retirement allowance by annuitizing the accumulated account balance based on the actuarial assumptions and methods adopted by the TRS Board in effect on the member's retirement date.
   a) The member may elect to receive an actuarial equivalent benefit under one of the optional forms of payment as established by the TRS Board,
   b) Or the member may instead take a refund of the accumulated account balance.
5.' Upon termination of employment with less than five years of service, the member shall forfeit the accumulated employer credit and shall only receive a refund of his or her accumulated contributions with regular interest.
6. Upon termination of employment with five or more years of service, the member shall receive a full refund of his or her accumulated account balance.

For new members after January 1, 2019, there will be no sick leave credit for retirement purposes, and no service purchases unless the member is called to active duty deployment while working. However, under this new plan, some disability and death benefits will continue to new members hired on or after January **1,** 2019 in a similar manner as current members.

<u>Section II - Benefit Provisions for Current Members as of January 1, 2019</u>

<u>Sick Leave</u>
For all members, the level of sick leave for retirement purposes will be frozen at December 31, 2018.

<u>Hybrid Cash Balance Options</u>
For active members with less than 5 years of service as of January 1, 2019, the member will have an option to participate in the DB Plan or the new Hybrid Cash Balance plan. If the member opts into the hybrid cash balance, their accumulated employee contributions will be transferred to the new plan.

Section III - Contribution Requirements

Employee Contribution Rates

Active members will continue to contribute the same percentage of salary to the pension and retiree health plans. The table below shows the contribution requirements:

Item	Non-University	University
Pension	9.105%	7.625%
Retiree Health	3.750%	2.775%
Total	12.855%	10.400%

Employer Contributions

According to HCS 1, for all members, employers will pay a fixed base statutory contribution rate of 16.105% of pay for non-university employers and 13.650% of pay for universities to fund pension, retiree health benefits and life insurance. The table below shows the statutory contribution rates.

Item	Non-University	University
Pension	12.305%	10.825%
Retiree Health	3.750%	2.775%
Life Insurance	0.050%	0.050%
Total	16.105%	13.650%

Effective January 1, 2019, school districts will pay an additional 2% of pay for new members participating in the Hybrid Cash Balance Plan.

Since the school districts will be making direct contributions to the pension fund, the school districts will be required, similar to Universities, under Government Accounting Standards Board No. 68, to recognize its portion of the plan's net pension liability on their financial statements.

The State will continue to make direct contributions to TRS for amortization payments for past benefit improvements, such as ad hoc COLAs, the cost for including sick leave payments in pension 1:1 calculations and its portion of the "shared solution" for retiree health funding.

Section IV - Actuarial Funding

Beginning July 1, 2020, each employer shall pay the additional contribution required to fund TRS on an actuarially sound basis. While fixed based statutory employer contribution rates will still be provided by employers and/or the State, the determination of the Actuarially Determined Contribution (ADC) will be calculated as follows:

- Normal cost plus an amortization payment for the Unfunded Accrued Liability (UAL),
- Normal cost determined using the Entry Age Normal cost method as a percentage of payroll,
- UAL payment methodology will be as follows:
  - Closed 30-year period beginning June 30, 2018
  - Phase into level dollar amortization asfollows:
    - The level percentage of payroll amortization method in the 2018 actuarial valuation with a payroll growth assumption of two and six hundred twenty-five thousandths percent (2.625%);
    - The level percentage of payroll amortization method in the 2019 actuarial valuation with a payroll growth assumption of one and seventy-five hundredths percent (1.75%);
    - The level percentage of payroll amortization method in the 2020 actuarial valuation with a payroll growth assumption of eight hundred seventy-five thousandth percent (0.875%); and
    - The level dollar amortization method in the 2021 actuarial valuation and for each valuation occurring thereafter.
  - The UAL payment above the fixed base statutory employer rate will be set as a dollar amount and will be prorated to each employer based upon the employer's share of the total payroll for fiscal years 2015-2017. The state will pay this cost for local school districts.
- 5-year smoothing of assets

Section V - Actuarial Assumptions

The projections for the proposed legislation use the June 30, 2017 actuarial valuation of TRS as a baseline. Below are additional or alternative actuarial assumptions that are used in the determination of this legislation:

- We have assumed a Regular Interest Credit assumption of 6.50%, approximately 85% (as set by HCS 1) of the assumed investment return assumption of 7.50% for all years for the Hybrid Cash Balance Plan.
- We have assumed that the actuarially determined contribution will be made for each year of the projection.

- We have revised assumed retirement rates for members of the new tier based on the new retirement eligibility requirements. We have not revised assumed retirement rates due to freezing sick leave accruals. Actual retirement patterns occurring in the future that are different from those assumed, will impact the ultimate cost of HCS 1. In addition, other assumptions, such as rates of termination and disability that were determined based on actual experience under the current plan would likely change under HCS 1 further impacting the ultimate cost of disability significantly.

- For those active members who have 2 years of service or less as of January 1, 2019, we have assumed they will make an election to participate in the Hybrid Cash Balance Plan. This assumption is our estimate of the number of active members with less than five years of service who may opt into the hybrid cash balance Plan and not remain in the current DB plan. The difference in liability for active members with low service is negligible, so we believe this is a reasonable assumption.

- The benefit provisions proposed in HCS 1 will no longer be subject to the inviolable contract rules of the current plan, and will be subject to future changes. This actuarial analysis has been prepared assuming that no future changes will occur. Any changes to benefits or underlying assumptions will impact the ultimate cost of the legislation.

Section VII - Conclusion

In the upcoming June 30, 2018 actuarial valuation before HCS 1, there will be 26 years remaining on the amortization period to pay off the Unfunded Accrued Liability. HCS 1 resets this amortization period from 26 years to 30 years as of June 30, 2018, providing an annual savings of approximately $65 million per year during the twenty-year projection period shown in Exhibits 1 and 2. There will be a subsequent cost associated with adding four years of amortization payments not shown in Exhibit 2.

As shown in Exhibit 2, after the first year, there is a cost for the next nine years of the twenty- year projection due to the phase in to the level dollar amortization methodology, but long-term generates subsequent savings. The decrease in benefits for current and new active members eventually leads to savings in the employer contributions after the first ten years.

Projections are designed to identify anticipated trends rather than predicting some future state of events. The projections are based on TRS' estimated financial status on June 30, 2017, and project future events using one set of assumptions out of a range of many possibilities. The projections do not predict TRS' financial condition or its ability to pay benefits in the future and do not provide any guarantee of future financial soundness of the DB Plan. Over time, a defined benefit plan's total cost will depend on a number of factors, including the amount of benefits paid, the number of people paid benefits, the duration of the benefit payments, plan expenses, and the amount of earnings on assets invested to pay benefits. These amounts and other variables are uncertain at the time the projections were made. Because actual experience will not unfold exactly as expected, actual results can be expected to differ from the projections. To the extent that actual experience deviates significantly from the assumptions, results could be significantly better or significantly worse that indicated in this study.

The undersigned, Edward J. Koebel, is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

If you have any questions, please do not hesitate to contact us.

Sincerely,

Edward J. Koebel, EA, FCA,
MAAA Principal and Consulting
Actuaty

Cathy Turcot
Principal and Managing Director