POLICE AND FIRE PENSION FUND TASK FORCE
INTERIM REPORT

DECEMBER 3, 2008

INTRODUCTION

LFUCG Police and Fire Pension Task Force was appointed by Vice Mayor Jim Gray on August 12, 2008. The membership of the Task Force, shown in full at Tab A, includes business leaders, human resources professionals, LFUCG government officials, and state legislators. Lexington attorney Bill Lear, a former LFUCG Commissioner of Law and state legislator, was selected to chair the Task Force.

The Task Force has met four times--September 22, October 8, October 22, and November 5. At its initial meeting, the Task Force accepted the following Mission Statement borrowed in substance from the Kentucky Blue Ribbon Commission on Pensions: "To study methods that would address the current unfunded liabilities of the LFUCG Police and Fire Pension Fund, at the same time committing to fulfill the promises made to current retirees and employees, and to responsibly plan for the future by ensuring appropriate levels of benefits for employees that have yet to come into the system."

Over the course of the four meetings, the Task Force has received presentations from the LFUCG Department of Law; the Pension Fund's actuary; Cavanaugh & Company; the director of Kentucky Retirement Systems; LFUCG Commissioners of Public Safety and Finance; and Mayor Newberry. The Task Force's work plan and meeting agendas are at Tab B. Minutes of the Task Force meetings are set forth at Tab C.

The Task Force expects to complete its work in time to present its recommendations to the LFUCG Council by mid-January. Proposed changes requiring statutory revisions should be presented to the Kentucky General Assembly by no later than February 1, 2009.

GOVERNING STATUTES

The statutory framework for the Police and Fire Pension Fund is codified in KRS 67A.360-570. These sections of KRS Chapter 67A, the controlling statute for urban county governments, were enacted in H.B. 520 adopted by the 1974 Kentucky General Assembly soon after approval of the LFUCG Charter by the voters of Lexington-Fayette County.

Over the intervening years, the governing statutes for the Pension Fund have been amended numerous times, often to expand, extend, or increase benefits. Bills mandating changes to the Pension Fund were adopted in the following legislative sessions: 1976; 1980; 1982; 1984; 1990; 1992; 1994; 1996; 2000; 2001; 2002; 2006. A summary of these legislative changes is found at Tab D.

The LFUCG Police and Fire Pension is the only "stand alone" fund of its kind in Kentucky. All other local police and fire personnel, including those in Louisville-Jefferson County, are members of the County Employees Retirement System ("CERS").

PENSION FUND BASICS

Governing Board - 12 members: Mayor; Commissioner of Public Safety; Commissioner of Finance; Director of Human Resources; two retired members of the Fund; Police Chief; Fire Chief; two active members of Police Department; two active members of Fire Department.

Current Retirees: 850

Active Participants:

Vested	132
Non-Vested	920

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UNFUNDED LIABILITY

I. Pension Fund.

The Unfunded Actuarial Liability ("UAL") of the Pension Fund as of July 1, 2008, was $246,624,318 (Tab E). The UAL has grown significantly in a relatively short period of time as reflected by the following table.

Date	UAL
July 1, 1997	$36,769,227
July 1, 2000	$44,535,251
July 1, 2002	$69,452,275
July 1, 2004	$91,225,548
July 1, 2006	$221,491,070

According to the Plan actuary and members of the Pension Fund Board, the dramatic increase in UAL in recent years is attributable to a number of factors, the most significant of which are:

- Benefit increases mandated by statute, particularly the elimination of the minimum retirement age (which was reduced from 50 to 46 in 1994 and then eliminated entirely in 2002), increases in the minimum retirement annuity, and elimination of the 75% of salary cap on annuities (Tab F).
- Decline in the performance of Fund investments.
- Significant increases in police and firefighter compensation since the advent of collective bargaining (Tab G).
- Increases in the number of police and fire personnel (Tab H).
- Increase in the assumed annual COLA from 2% to 3% by the actuary engaged beginning in 2006.

According to the 2008 Actuarial Report, LFUCG must contribute an amount equal to 16.86% of police and fire salaries to meet the "normal" requirements of the fund and an additional 29.77% to liquidate the UAL over a 23-year period, bringing the total required contribution to 46.63% of salary.

II. Retiree Medical Plan.

The Retiree Medical Plan is also mandated by KRS Chapter 67A, but is maintained outside of the Pension Plan and is funded by direct appropriations from the general fund of LFUCG. Effective this year, Government Accounting Standards Boards ("GASB") Statements require actuarial valuations of retiree medical plans. LFUCG provides to police and fire retirees the following medical benefit: a sum equal to the single premium for the plan coverage selected by the retiree, but not more than 100% of the urban county government's contribution to the health insurance component of the benefit pool for current urban county government employees; and, upon the death of a member due to occupational causes, the government pays 100% of the costs of family medical coverage for the member's surviving spouse and dependent children as long as they remain eligible for monthly retirement payments from the fund.

According to the Cavanaugh & Company report, as of July 1, 2008, the UAL associated with the Retiree Medical Benefit plan is $181,181,934 (Tab I).

DISABILITY RETIREMENTS

One perplexing issue to which the Task Force has directed special attention is the matter of disability retirements. According to information received by the Task Force, approximately 42% of all police and fire retirements are as the result of a disability. The comparable figure for the component of the County Employees Retirement System which includes police and fire personnel is approximately 8%.

This discrepancy has yet to be satisfactorily explained. Two potential causes which have been identified are: (i) more attractive LFUCG disability retirement benefits (see Tab J); and (ii) LFUCG departmental rules that require a finding of permanent disability with only a small percentage of functional disability. Over the past ten years, for example, the average disability rating LFUCG Pension Plan disability retirees has been 13%, the median has been 10%, and at least one retirement granted in 2008 was at a disability rating of 1%.

The Task Force will investigate this subject further before issuing its final report.

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POTENTIAL PLAN MODIFICATIONS

The Task Force has yet to make any recommendations concerning potential modifications to the Pension Fund. The only specific proposal received by the Task Force has been from Mayor Newberry. At the Task Force's last meeting, he presented a proposal to have benefits of new hires tied to the CERS pension and medical benefit package, COLA, and employee contribution rate. Two pages from the Mayor's presentation are attached at Tab K. A comparison of current LFUCG benefits and the recently-adopted CERS benefit package for new hires is at Tab L.

In formulating its final recommendations, the Task Force will be limited by judicial doctrines that typically prohibit reductions in retirement benefits to persons already in the government service. Although the statutes which govern the LFUCG Police and Fire Pension Fund do not contain the "inviolable contract" language found in statutes relating to state-administered pension funds, the modern trend in judicial decisions even absent such language is to construe benefits in existence at the time an employee renders service to be part of a contractual relationship which cannot be unilaterally modified by the government. Typical of this doctrine is the following statement from Public Employees Retirement Board of Nevada v. Washoe County, Nevada, 615 P.2d 972 (1980):

> "The modern and better reason view recognizes that employees accept their positions, perform their duties and contribute to the retirement fund in reliance upon the governmental employer's promise to pay retirement benefits . . . if certain conditions are met. By rendering services and making contributions, an employee acquires a limited vested right to pension benefits which may not be eliminated or substantially changed by unilateral action of the governmental employer to the detriment of the member."

The LFUCG Department of Law has advised the Task Force that it believes Kentucky courts would likely follow this line of reasoning.

The Task Force is currently awaiting a report from the actuary on the UAL impact of the Mayor's proposal. That report is expected to be received by the middle of December.

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TAB A

Pension Task Force

Dr.	Charles	Haywood	Former Dean, UK College of Business
Mr.	Chris	Bartley	LFUCG Fire
Mr.	Anthany	Beatty	University of Kentucky
Mr.	Luther	Deaton	Central Bank
Mr.	Robert	Hewett	Former President, Kentucky Utilities Company
Mr.	Greg	Kasden	Unified Trust Company, NA
Mr.	Bill	Lear	Stoll, Keenon & Ogden
Mr.	John	McCarty	McCarty-Strong Global
Mr.	Al	Mitchell	Retired LFUCG Fire
Mr.	P.G.	Peeples	Urban League
Mr.	Mike	Sweeney	LFUCG Police
Mr.	Jerry	Wright	Herren & Adams Attys.
Ms.	Paula	Hanson	Dean, Dorton & Ford
Ms.	Jeri	Isbell	Lexmark Int'l.
Ms.	Sylvia	Lovely	Ky League of Cities
Ms.	Ann	McBrayer	Kentucky Eagle Beer, Inc.
Rep.	Bill	Farmer	State Representative
Rep.	Charlie	Hoffman	State Representative
Rep.	Sannie	Overly	State Representative
Rep.	Kathy	Stein	State Representative
Rep.	Bob	Damron	State Representative
Rep.	Carl	Rollins	State Representative
Sen.	Tom	Buford	State Representative
Sen.	Julian	Carroll	State Senator
Rep.	Jesse	Crenshaw	State Representative
Rep.	Stan	Lee	State Representative
Rep.	Ruth Ann	Palumbo	State Representative
Rep.	Susan	Westrom	State Representative
Sen.	Alice	Forgy Kerr	State Senator

TAB B

LFUCG PENSION TASK FORCE
WORK PLAN

Phase I - Understanding the Issue

1. Current State of the Plan
   - Number of Participants
   - Future Participants
   - Benefits
   - Actuarial Status - Unfunded Liabilities/Projections
2. Legal Framework
   - Governing Statutes, Ordinances, Regulations
   - Pending Litigation
   - ERISA Application
3. Situations in Other Kentucky Cities and Counties

Phase II - Exploration of Potential Solutions

1. Kentucky's Response to its Pension Problems - HB 1 (2008 Special Session)
2. Action Taken by Other Municipalities across Kentucky and the U.S.
3. Public/Participant Input
4. Potential Changes to the LFUCG Plan

Phase III - Recommendations

1. LFUCG
2. Legislative (amendments to KRS)

LFUCG PENSION TASK FORCE
MEETING 1 AGENDA
SEPTEMBER 22, 2008, 10:00 A.M.

1. Introductions

   - Task Force Chair
   - Task Force Members
   - LFUCG Officials

2. Task Force Mission

   - Goals and Objectives
   - Work Plan

3. Pension Plan Legal Framework/Plan Basics

   - Governing Statutes, Ordinances, Regulations
   - Pending Litigation
   - Benefits
   - Cost Determinants

4. Current State of Plan

   - Number of Participants
   - Future Participants
   - Actuarial Reports - Unfunded Liability, Future Projections

5. Situations in Other Kentucky Cities and Counties

6. Future Meeting Schedule

7. Adjournment

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LFUCG PENSION TASK FORCE
MEETING 2 AGENDA
OCTOBER 8, 2008 - 3:00 P.M.

1. 2008 Actuary Report
   Cavanaugh Macdonald Consulting, LLC

2. The General Assembly's Response to Kentucky's Pension Crisis: CERS Before and After HB 1

   Mike Burnside, Executive Director
   Kentucky Retirement Systems

3. Inviolable Contract Issues
   LFUCG Law Department

4. Next Meeting

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LFUCG PENSION TASK FORCE
MEETING 3 AGENDA
OCTOBER 22, 2008, 3:00 P.M.

1. Disability Provisions and Experience
   - LFUCG Pension Plan
   - CERS
2. LFUCG Pension Board
   - COLA Considerations
   - Other matters affecting Unfunded Liability
3. LFUCG Budget Director
   - Addressing the Unfunded Liability

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LFUCG PENSION TASK FORCE
MEETING 4 AGENDA

NOVEMBER 5, 2008 3:00 P.M.

1. Recommendations for Changes to Plan
   - Administration
   - Task Force Members
   - Other Interested Persons

2. Report on Unfunded Liability for Health Insurance Premiums

TAB C

LFUCG PENSION TASK FORCE
Minutes of Meeting
September 22, 2008

Members Present:
Bill Lear, Chair, Attorney, Stoll Keenon & Ogden
Anthany Beatty, Retired Police and University of Kentucky
Al Mitchell, Retired Firefighter
Jerry Wright, Attorney
Jeri Isbell, Lexmark
Paula Hanson, Dean, Dorton Ford
Luther Deaton, Central Bank
P. G. Peeples, Sr., Urban League
Bob Hewett, Retired Kentucky Utilities and Fifth Third Bank
Charles Haywood, Retired University of Kentucky
Gregory Kasten, Unified Trust Company
Kathy W. Stein, Ky. General Assembly
Sannie Overly, Ky. General Assembly
Ann McBrayer, Ky. Eagle Inc./Chamber
Bill Farmer, Ky. General Assembly
Chris Bartley, Lexington Professional Firefighters
Mike Sweeney, Lexington Bluegrass FOP #4

Guests:
Tim Bennett, LFUCG Commissioner of Public Safety
Scott Brown, LFUCG
Susan Combs, LFUCG Police and Fire Pension Fund
Todd Green, Cavanaugh Macdonald Consulting
Julian Beard, LFUCG Councilmember
Ned Sheehy, LFUCG
Joe Ewalt, Ky. League of Cities, Representing Task Force Member Sylvia Lovely
Jamie Franklin, Representing Task Force Member Charlie Hoffman
Howard V. Langston, Retired Police Officer
Max Hellmueller, Retired Firefighter
Logan Askew, LFUCG Commissioner of Law
Ed Gardner, LFUCG Department of Law

Staff:
Rick Curtis, LFUCG Dept. of Public Safety
Carolyn Bailey, LFUCG Dept. of Public Safety
Sandra Burke, LFUCG Dept. of Law

The meeting was held in the Lower Level Conference Room of the Lexington Public Library, 140 East Main Street, Lexington, Kentucky. Task Force Chair Bill Lear called the meeting to order at 10:05 a.m.

Mr. Lear began the meeting by discussing goals and objectives of the Task Force. There is no formal statement of goals and objectives, however he suggested using the statement of the goals and objectives set forth in the published final report of the state blue ribbon commission that examined the Kentucky state pension plan in 2007.

That commission was created to study methods that would address the current unfunded liabilities of the Commonwealth retirement program exclusive of the judicial and legislative retirement system. At the center of this study was the commitment to fulfill the promises made to current retirees and employees and responsibly plan for the future by ensuring appropriate levels of benefits are available for employees that have yet to come into the systems.

Mr. Lear stated that when he has all of the members' email addresses, he will forward an email that he received from the LRC.

He advised that the work of this task force was not to entirely re-create the wheel. There was a huge amount of work done last year and this year at the state dealing with their problems which in some ways are similar to this situation although the magnitude was significantly greater. He will forward to all Task Force Members a summary of the legislation that was adopted by the General Assembly in special session this year comparing what was done with then existed in the various retirement system.

The work plan outlined divides this undertaking into three broad categories. Phase I is understanding the issue, the current state of the plan which includes number of participants, future participants, benefits, actuarial status, and the legal framework which how this pension plan is set up by law, governing statues, ordinances, and regulations. There is one pending lawsuit that is going to have impact on the plan.

Phase II is exploration of potential solutions. The Task Force will look at Kentucky's response, actions taken by other municipalities, and receive public and participant input. There will be discussion of potential changes in the LFUCG plan.

Phase III is recommendations. The Task Force will come to some conclusion as to exactly what needs to be done and how it needs be done.

Introduction of Attorney Ed Gardner – LFUCG Department of Law

Mr. Gardner discussed a plan summary. He explained that this plan is set up by statute created in 1974 and is now codified almost completely in KRS 67A.360 and sections that follow that. There are a couple of provisions that relates to retirees but is not under that set of statutes.

There are 850 current retirees. There are three types of retirement for Police and Fire sworn officers only: service retirement, occupational disability retirement, and non-occupational disability retirement.

Service retirement - Members are eligible after 20 years of service regardless of age. That consists of applicable years of service. There are provisions that a member can purchase time if they worked somewhere else in a government setting, or provisions for purchases up to 4 years unrelated to any particular previous stint. The annuity is calculated as 2.5% of the average salary times years of service. Unused sick leave may be added to the average annual salary for the purpose of calculating the annuity.

There are two different types of disability retirements. One is occupational disability which is basically when someone is injured as part of their duties on the job or related to their duties that would provide for a minimum annuity of 60% of the member's last rate of salary and maximum of 75%. There are medical examinations required and two doctors must state that the person is occupationally disabled

The other type of disability retirement is non-occupational disability for someone who becomes disabled but not a result of a work related injury. It is calculated as 2.5% of the average of the highest three years' annual salary with a minimum of 25% and a maximum of 75%.

If a retiree dies and leaves a surviving spouse or children, they do continue to receive benefits under the plan. There are also provisions for dependent parents. Percentages vary depending on who is getting the benefit. If there is no surviving spouse or child, then the estate or a designated beneficiary may get benefits.

Purchase of Service time is a way for employees to increase the numbers of years of creditable service towards a service of retirement. Prior time with LFUCG may be purchased if someone leaves and comes back as long as they do it within 90 days of being reemployed. That is calculated based on an actuarial basis. A member with 5 years service also has the option of purchasing up to 4 years of time. It can be paid for in various ways depending on the member's financial situation.

Retiring members are given the opportunity to participate in the Urban County Government health and dental insurance program. Under current statute, those who retired after July 1, 1999 and have continuous participation in the health insurance program are eligible to receive the insurance benefit. Group rates are made available for spouse and children. Upon death of an active member due to occupational causes LFUCG pays 100% of cost of family medical insurance coverage for an eligible surviving spouse and children. Funding for medical insurance benefits comes from the Lexington-Fayette Urban County Government general fund and not this fund.

There is a cost of living adjustment provided by statute for not less than 2% not more than 5% as a cost of living adjustment each year.

Introduction of Commissioner Logan Askew, LFUCG Department of Law

Contributions to the fund are required by state statute. The Board establishes a rate based on an actuarial study that is supposed to be done every couple of years. There is also a provision that talks about a contribution based on prior liability and that portion of the statute does not indicate whether it is the board or the city that makes that determination. A lawsuit was filed in 2003 over

that ambiguity of the statute to determine whether the board sets the entire contribution rate or only that part based on the actuarial study. That lawsuit is pending.

The plan is funded based on a percent of government contributions in the plan based on current salaries. The contribution rate based on the current report of the actuary is 46.75% of salaries. Prior to that the amount was 34.2%. The 46.75% represents current contributions plus the amount necessary to pickup the prior unfunded liability accumulated over the years based on a 23 year payout. There is estimated to be an unfunded liability in excess of $200 million. It is estimated that the current year liability from the time the lawsuit was filed to the present is going to be roughly $25 - $30 million dollars.

Board members are established by statute. There are twelve board members: the Mayor, Commissioner of Finance, Commissioner of Public Safety, Director of Human Resources, Chief of Police, Chief of Fire, two active police officers voted on by police officers, two active firefighters voted on by firefighters, and a retiree from police and a retiree from fire and those are voted on by the retirees.

Mr. Lear advised that the administration proposed in the FY 09 budget a bond issue for about $70 million. Council approved to go ahead and try to start making a dent in the unfunded liability. This will be a taxable bond.

Introduction of Todd Green of Cavanaugh Macdonald Consulting, LLC:

The last full evaluation done by Cavanaugh Macdonald Consulting was July 1, 2006. They are currently working on the 2008 evaluation and will be presenting those results to the Board next month. Mr. Green used the 2006 evaluation as his basis for the current status of the plan.

He referenced the informational handout and explained the formula called Basic Retirement Funding Equation. Contributions and Investment Income must always equal Benefits Paid and Expenses. In 2006 there were roughly 1,000 active members and 825 members in payment status meaning they are receiving a benefit. Active payroll is an important figure because that is how the benefit is calculated. As payroll increases, benefits increase and percentage of contributions typically increase. Payroll for LFUCG increased $17 million in two years, largely because of collective bargaining and new hires.

In 2006 roughly $27.5 million was paid to the retired members.

As of June 30, 2006, the plan had a total liability of $724 million. The break out of that is $465 million due to retirement benefits, $223 million due to current and future disability benefits, $9 million due to separation, and $27 million for death benefits.

Calculations are based on the youngest person working now, making it to retirement, and eventually dying -- around 60 – 70 years total. Every employee contributes 11% and if they don't make it to retirement they get that money back. Members can work 16 years, buy 4 and then retire. The vesting schedule is statutory, and members do not vest until they have 20 years of service credit.

Statutory Cost of Living Adjustments (COLAS) are provided with a minimum of 2% and a maximum of 5%. The most recent actuarial report is based on an average of 3% – not 2% which the prior actuary used. The Board sets the COLA rate annually

The average cost of living increase since 2000 has been about 3. The norm around the country is that COLAS are capped at 3% on high end. The recent amendments to the state retirement system benefits sets COLAS at 1.5%. Mr. Green will have an updated 2008 actuarial report at the next meeting.

Introduction of Joe Ewalt, Kentucky League of Cities:

The Board of the Kentucky Retirement Systems sets the rate for the cities and counties to pay on their hazardous duty employees and unlike Lexington there is no choice in the matter. There is no input on program, plan design, or ability to respond.

Mr. Ewalt referenced his handout and noted that from FY 04 to FY 06 cities' bill went up collectively $40 million, which is a 50% increase in 2 years. It dropped in FY 09 due to the health insurance experience the year before.

The hazardous duty benefits are better, and the requirement for years of service is shorter in recognition of the hazardous duty, risk of life, and strenuous nature of the duty. It costs more to give a better benefit. He noted that the handout charts are pre- House Bill 1 and are for informational purposes only.

The information about changes made by House Bill 1 should be available at the next meeting, but the dollar impact may or may not be available at that time.

An amount for total LFUCG insurance cost for police and fire retirees was requested and will be provided at the next meeting.

Conclusion:

Mr. Lear announced that if anyone needed or wanted any information and it was not on the work plan, to send an email request to him.

Next Meeting Date:
Wednesday, October 8, 2008
3:00 p.m. – 5:00 p.m.
Commerce Lexington
330 East Main Street, Suite 100
Lexington, Kentucky

The meeting was adjourned at 11:50 a.m.

LFUCG PENSION TASK FORCE
Minutes of Meeting
October 8, 2008

Members Present:
Bill Lear, Chair, Attorney, Stoll Keenon & Ogden
Mike Sweeney, Lexington Bluegrass FOP #4
Al Mitchell, Retired Firefighter
Jerry Wright, Attorney
Gregory Kasten, Unified Trust Company
Charles Haywood, Retired University of Kentucky
Bob Hewett, Retired Kentucky Utilities and Fifth Third Bank
Chris Bartley, Lexington Professional Firefighters
Bill Farmer, Ky. General Assembly
Carl Rollins, Ky. General Assembly
John McCarty, Task Force Member
Jeri Isbell, Lexmark
Anthany Beatty, Retired Police and University of Kentucky

Guests:
Scott Seymour, Aide to Councilmember Lane
Logan Askew, LFUCG Commissioner of Law
Ed Gardner, LFUCG Department of Law
Tim Bennett, LFUCG Commissioner of Public Safety
Todd Green, Cavanaugh Macdonald Consulting
Robert Hendricks, Chief, LFUCG Division of Fire and Emergency Services
Julian Beard, LFUCG Councilmember
Howard V. Langston, Retired Police Officer
Joe Ewalt, Ky. League of Cities, Representing Task Force Member Sylvia Lovely
Scott Brown, LFUCG Division of Finance
Susan Combs, LFUCG Police and Fire Pension Fund Secretary
Larry Ball, Retired Police Officer

Staff:
Rick Curtis, LFUCG Dept. of Public Safety
Carolyn Bailey, LFUCG Dept. of Public Safety

The meeting was held in the Conference Room at Commerce Lexington, 330 East Main Street, Suite 100, Lexington, Kentucky. Task Force Chair Bill Lear called the meeting to order at 3:00 p.m.

Mr. Lear began with a short recap of the last meeting and highlighted discussion topics on the task force mission, presentation of Cavanaugh Macdonald Consulting regarding the current state of the plan, presentation of the LFUCG Law Department regarding the pension plan legal framework, plan basics, governing statutes and ordinances, pending litigation, presentation by Joe Ewalt regarding pre-House Bill 1 information, and additional contribution to the plan by the Urban County Government.

Introduction of Todd Green of Cavanaugh Macdonald Consulting, LLC:

Mr. Green began with a power point presentation and valuation report handout. The presentation was similar to the previous one with updated numbers for 2008. In 2008 there were roughly 1,000 active members which is similar to two years ago. There was a slight increase in retirees.

As of 2008 there was $61 million in total payroll, two years ago there was $57 million. From 2004-2006 there was a substantial jump due to negotiated fluctuating pay increases.

The benefit payment amount that will get paid this year is roughly $31 million, a slight increase from the prior year. This can be caused by cost of living increases and older retirees being replaced by newer retirees with higher benefits because the benefit is calculated on higher pay than a retiree from several years ago.

As of this valuation date, there was an actuarial value of $418 million and a market value of $399 million. This is figured with the assumed rate of 8% over a five year period.

The plan has a total liability of approximately $791 million. About $513 million is due to retirement benefits and is the bulk of the liability. The amount for disability benefits is approximately $240 million for people who are currently disabled and for future anticipated disabilities. The remaining amounts are for death and separation.

As of this date there is $418 million in assets to cover current liabilities.
One thing important to note is that if the plan were completely funded and there was no unfunded liability, the plan would cost 17% employer contribution and 11% member portion. Mr. Green referenced the chart that shows a listing twice for the year 2004. One is based on 2% COLA increases which is information from the prior actuary and the other is 3% COLA increases based on this actuary information. The impact of going from 2% to 3% is significant.

This does not take into account the $70 million bond issue which will be included at some point in the future. A rough calculation determines it will reduce the annual cost of the plan approximately 7% which will help the unfunded liability.

Introduction of Mike Burnside, Executive Director of the Kentucky Retirement Systems

Mr. Burnside gave a presentation of CERS Hazardous Duty, the pension plan that all local police and fire departments in Kentucky belong to, with the exception of Lexington.

The figures he used in his presentation were as of 2007. The actuarial analysis for 2008 is not finished as of this date. CERS hazardous has 17,400 members. Of that number about 10,000 are

active and 5,200 are retirees or surviving beneficiaries. The remaining are inactives which are people that have ties in the system, have left active employment but have not drawn out retirement.

The funding level for CERS Hazardous for the pension side is 74.2%. Insurance is 31.2% funded ratio. Insurance benefits in the KRS system are guaranteed by inviolable contract and for a hazardous employee KRS pays the full premium for life for the employee and the family plan when they retire. That is guaranteed in the inviolable contact and is a huge expense for the system. The unfunded liability is $570 million on the pension side and $1.13 billion on the insurance side.

House Bill 1 had a significant set of changes for those employees hired after September 1, 2008. Some of the changes for those employees are retirement eligibility rules, determination of benefits, the factors and how to calculate benefits, and changes in the definition of who qualifies for hazardous duty service. Rules were also change regarding retired re-employed workers who have started drawing pension.

Prior to House Bill 1, hazardous duty employees contributed 8% of their salary to their pension. They contributed nothing to their health insurance benefits for retirement. House Bill 1 increased that to 9%. 8% goes to pension and 1% goes to a health insurance trust. That health insurance trust is non-vested, non-portable and non-refundable. It cannot be cashed out, you cannot take it with you, you cannot draw a benefit on it. It is paid by all employees who begin participating after September 1.

Prior to House Bill 1 the rules allowed a hazardous duty employee to retire with 20 years of service at any age. An example would be someone who started working at age 18 years, works 20 years, retires at age 38 then draws a full pension, full health insurance for them and their family and that employee lives for another 50 years. They paid into the system for 20 years, the employer paid for 20, but the employee will get a benefit for twice that amount of time.

The question became how can you keep people working longer and therefore paying into the system longer? This will help reduce the liability.

To calculate benefits, take the employee's final compensation, multiply it by a benefit factor, multiply it by years of service that they have in the system and that equals final compensation. Changes have been made to almost every part of that equation.

Prior to House Bill 1, when a retiree had a compensation time balance up to 240 hours, the employer would buy the comp time and that payment would count towards your average salary or would be calculated or included in your final compensation as would all other comp time benefits (block 50 payments) that you had drawn throughout your career. Those comp time benefits are no longer added.

Prior to House Bill 1, all hazardous duty employees received a 2.5% benefit factor. House Bill 1 changed this to 1.3% for the first 120 months of employment. After 25 years, the benefit factor increases to 2.5%.

A hazardous duty employee hired into the system after September 1, 2008, is limited to police, fire, EMTs, paramedics, and corrections officers who have frequent exposure to prisoners. The employee must have a high degree of danger or peril and physical condition and duties cannot be primarily administrative in nature. That will prevent some positions from being classified as hazardous.

House Bill 1 also limits the COLA to 1.5%, although it may be suspended or reduced by general assembly. If it is increased, then the necessary funding has to be appropriated.

After January 1, 2009, retirees will not be able to take partial lump sum payments.

Mr. Burnside was asked about the disability portion and he stated he would have someone come back and discuss disability if the task force wanted him to.

Introduction of Ed Gardner of the Department of Law

Mr. Gardner made some brief comments regarding inviolable contracts. Changes that would affect current employees would likely be challenged in court. It is most likely the court would rule against those changes.

Conclusion

Mr. Lear stated that at the next meeting he would like to hear from both the government and from those involved in the plan about any changes they would recommend for the plan.

Next Meeting Date:
Wednesday, October 22, 2008
3:00 p.m. – 5:00 p.m.
Commerce Lexington
330 East Main Street, Suite 100
Lexington, Kentucky

The meeting adjourned at 4:35 p.m.

LFUCG PENSION TASK FORCE
Minutes of Meeting
October 22, 2008

Members Present:
Bill Lear, Chair, Attorney, Stoll Keenon & Ogden
Al Mitchell, Retired Firefighter
Bill Farmer, Ky. General Assembly
Carl Rollins, Ky. General Assembly
Anthany Beatty, Retired Police and University of Kentucky
Bob Hewett, Retired Kentucky Utilities and Fifth Third Bank

Guests:
Scott Seymour, Aide to Councilmember Lane
Robert Hendricks, Chief, LFUCG Division of Fire and Emergency Services
Tim Bennett, LFUCG Commissioner of Public Safety
Tommy Puckett, Division of Police
William M. Tracy, Fire Department Pension Board Member
William K. Nuhn, Retired LFUCG Division of Fire
Kevin T. Williams, Lexington Professional Firefighters 526
Max C. Hellmueller, Retired LFUCG Division of Fire
Mike Burnside, Kentucky Retirement System
Gerri Miller, Kentucky Retirement System
Charlene Haydon, Kentucky Retirement System
Harry Winings, Retired LFUCG Division of Police
Logan Askew, LFUCG Commissioner of Law
Ed Gardner, LFUCG Department of Law
Kyna Koch, LFUCG Commissioner of Finance
Julian Beard, LFUCG Councilmember
Scott Brown, LFUCG Division of Finance
Susan Combs, LFUCG Police and Fire Pension Fund Secretary
Howard V. Langston, Retired Police Officer

Staff:
Rick Curtis, LFUCG Dept. of Public Safety
Carolyn Bailey, LFUCG Dept. of Public Safety

The meeting was held in the Conference Room at Commerce Lexington, 330 East Main Street, Suite 100, Lexington, Kentucky. Task Force Chair Bill Lear called the meeting to order at 3:00 p.m.

Mr. Lear began with a short recap of the last meetings and introduced topics for this meeting such as disability provisions, and that the fund needs to look closely at that. He stated that Gerri Miller, Chief Benefits Officer from Kentucky Retirement Systems will be giving information regarding the CERS hazardous components and COLA issues and the task force will be looking at comparisons. He also stated that the LFUCG Commissioner of Finance will discuss bond

issue and provide some insight on how to liquidate the unfunded liability from the perspective of the Urban County Government.

Introduction of Gerri Miller, Chief Benefits Officer, Kentucky Retirement Systems:
Ms. Miller began her presentation with introduction of others from her office, Mike Burnside who is the executive director of Kentucky Retirement Systems and Charlene Hayden who is the director of disability.

Changes have been made over the past several years with the state's disability program. Suggested changes by the actuaries were made in 2003. Changes were also made in 2008, but not just to the disability program. Currently there are 84,000 retiree accounts with the state. Out of those accounts, approximately 7,000 are disability recipients and of that 7,000 about 850 are from the hazardous group.

In order to apply for disability, the applicant has to have five years of service credit. If a condition was caused from in line of duty, the five year requirement is waived. The applicant must provide medical evidence that they cannot perform their job as of the last day of paid employment, that the condition will last at least for twelve months, is not self inflicted, and is not a result of an injury in the military. There are three licensed medical physicians that are contracted to review the applicant.

Two exceptions to the pre-existing condition clause are (1) if the condition the applicant is suffering with was substantially aggravated out of a work-related injury that they suffered and (2) if the applicant has sixteen years service.

The hazardous benefit factor for CERS is 2.5% for each year of service, the hazardous benefit factor for KERS is 2.49% and for state police it is 2.5%. There is no penalty is applied to the benefit payment.

For applicants whose participation date is August 2004 and after, the calculation is the higher of 25% of the final rate of pay or actual service times final compensation times the benefit factor. The definition of final rate of pay is twelve months of salary preceding the last day of paid employment.

Additional benefits for a line of duty individual include dependent child payments which are 10% of applicant's final rate of pay to each dependent child up to 40%. There is also a 100% contribution rate for medical insurance for the member himself and the family for life.

If it is not in the line of duty then the insurance has a three year approach. The health insurance is paid based on the number of years of hazardous duty that the member has in the system. Those with a participation date after July '03, the health insurance is now based on the flat dollar amount. If their participation date is from July '03 to September '08, they have to have ten years of actual service to be eligible for health insurance or they get no contribution for health insurance. If they have ten years of service they get a flat dollar amount of $15 per year of service for health insurance. In the event of their death the family would get a continued payment of $10 a month for health insurance for each year of service.

After 2008 the individual has to have fifteen years of service credit to be eligible for health insurance. The only exception to that is if someone is killed in the line of duty then the family would be eligible regardless of service credit.

When someone is approved for disability, a medical reviewer recommends a certain amount of time before the case comes up for review. Any additional new medical information is then reviewed. If a doctor makes a determination to discontinue benefits, then they would be stopped.

Introduction of Tim Bennett, LFUCG Commissioner of Public Safety:
Commissioner Bennett began his presentation with a handout referencing KRS Chapter 67A which is the governing authority on the entire pension system. If there is an occupational disability, the employee is guaranteed at least 60% of their current rate of pay so anyone from a 1% disability to 100% disability will receive at least 60%. Disability applications are reviewed by at least two physicians.

The disability cannot prevent the person from doing any duty of the job, regardless of current assignment.

In the state system, if an individual is able to work in a non hazardous duty job they can do that and it does not preclude them from also receiving hazardous duty disability benefits.

The state will pay 75% of an individual's health insurance benefit for life if the individual has fifteen years of service credit. A portion will be paid to the family based on the number of years in actual hazardous duty. If the individual has twenty or more years of hazardous duty service, it would be paid 100%. After 2003, the percentage changed and went to a flat dollar amount for each year of service. An individual has to have ten years of service to be eligible for health insurance. The only exception is if the person is injured in the line of duty, the year requirement is waived and the benefit would be 100%. It is treated as if the person had twenty years service.

The Urban County Government pays 100% insurance benefit for retirees. In the case of a death in the line of duty, health insurance is paid for the family.

The contribution rate for Urban County Government employees is 11%. Under the state plan, the employee contribution rate was 8% prior to September 2008 at which time it was raised to 9%.

Introduction of Pension Board Members:
Board members that were present and asked to come to the front for discussion were Tim Bennett, Commissioner of Public Safety, Kyna Koch, Commissioner of Finance, Chief Hendricks, LFUCG Division of Fire, and Mike Tracy, LFUCG firefighter. Former board members in the audience were also acknowledged.

The twelve Pension Board members are the Mayor, Commissioner of Public Safety, Commissioner of Finance, Director of Human Resources, Chief of Police, Fire Chief, two active police officers, who are selected by the active membership with the Division of Police, two active firefighters, who are selected by the active membership of the Division of Fire, one retired police officer who is again selected by the Police retirees and one retired firefighter.

One of the major reasons for a jump in the calculated unfunded liability between the early years and currently is that the former actuary used a 2% assumption as the annual COLA while the

current actuary uses 3%. Changing those numbers had a significant dollar impact on the calculated unfunded liability.

House Bill 1, the pension reform bill passed during the 2008 special Session, adopted an annual 1.5% COLA for all retirees.

For the Police and Fire Fund, the board to set the annual COLA at between 2% and 5%.

One thing that drives the unfunded liability is the return on investments. There are currently eight investment managers for different types of investments with an overall target asset allocation 40% of U.S. equities, 30% in fixed income, 20% international equities and 10% real estate. The board is currently considering whether to diversify into additional asset classes. There are no professional investment managers on the board.

Introduction of Kyna Koch, Commissioner of Finance:

There is a question whether bond issue for pensions are a good thing to do. 27% of the contribution toward the pension fund is already being spent. For all practical purposes LFUCG would be exchanging a portion of the unfunded liability to the Police and Fire retirement fund for liability in debt.

It can be considered 'disciplined spending.' If LFUCG sells a 20 or 30 year bond issue, future council will have to make that debt payment.

An additional significant cost to the government is the urban county government's contribution for health insurance for retirees. For FY09 that cost is projected at $2.6 million. This expense is in addition to the cost of pension benefits and is not paid by the retirement fund.. It is paid out of the government's general fund.

Conclusion:

Mr. Lear stated that at the next meeting there would be an 'open mike' session for suggested changes to the plan before deliberations begin.

Next Meeting Date:

Wednesday, November 5, 2008
3:00 p.m. – 5:00 p.m.
Commerce Lexington
330 East Main Street, Suite 100
Lexington, Kentucky

The meeting adjourned at 5:00 p.m.

LFUCG PENSION TASK FORCE
Minutes of Meeting
November 5, 2008

Members Present:
Bill Lear, Chair, Attorney, Stoll Keenon & Ogden
Bill Farmer, Ky. General Assembly
Chris Bartley, Lexington Professional Firefighters
Mike Sweeney, Lexington Bluegrass FOP #4
John McCarty, Task Force Member
Jeri Isbell, Lexmark
Paula Hanson, Dean, Dorton Ford
Bob Hewett, Retired Kentucky Utilities and Fifth Third Bank

Guests:
Mayor Jim Newberry
Tim Bennett, LFUCG Commissioner of Public Safety
Kyna Koch, LFUCG Commissioner of Finance
Scott Seymour, Aide to Councilmember Lane
Robert Hendricks, Chief, LFUCG Division of Fire and Emergency Services
Logan Askew, LFUCG Commissioner of Law
Joe Ewalt, Ky. League of Cities
Jamie Franklin for Rep. Charlie Hoffman

Staff:
Rick Curtis, LFUCG Dept. of Public Safety
Carolyn Bailey, LFUCG Dept. of Public Safety

The meeting was held in the Conference Room at Commerce Lexington, 330 East Main Street, Suite 100, Lexington, Kentucky. Task Force Chair Bill Lear called the meeting to order at 3:05 p.m.

Chairman Lear began the meeting with a recap of prior meetings and discussion of the current agenda.

Introduction of Kyna Koch, LFUCG Commissioner of Finance
This is the first year that LFUCG has been required by the governmental accounting standards to reflect a liability for health insurance for retirees. An actuary was hired to perform the analysis and has submitted a draft report. A final report will be provided to Task Force Members upon completion.

The estimated unfunded liability for health insurance for retirees is $181 million. That would translate annually into a contribution in excess of 22.56% of payroll or an additional $13.8 million to start working on the unfunded liability for health insurance. If you add that 22% to the 46% that the actuary recommended on the retirement benefit it becomes 68% of payroll just to take care of the total unfunded liability that we have right now.

This evaluation was done over a thirty year period. We are working with the Department of Law to see whether establishing a health insurance trust fund would be appropriate for us and how to deal with it.

Introduction of Mayor Jim Newberry

Mayor Newberry began by discussing the current problem. There are two actuarial issues that are creating problems. One is the retirement benefit issue which is $246 million unfunded liability, the other is the health insurance benefit issue which is $181 million.

It is projected that $16 million in new money from the general fund will be needed in FY2010 toward our current unfunded pension liability obligation. Based on actuary's reports, we would have to come up with an additional $6.5 million in general fund dollars if we establish a health insurance trust fund. Committing $22.5 million in new money would either cripple our ability to deliver basic services or require significant additional revenue.

Mayor Newberry discussed the proposed $70 million bond issue planned for the 3rd quarter of FY '09. The proceeds would be deposited into the retirement fund.

Mayor Newberry proposed having the retirement benefits for new hires, including health insurance benefits at retirement, mirror those recently adopted by the General Assembly for the County Employees Retirement System (CERS). Along with such a change in benefits, the employee contribution rate would be lowered from the current 11% to 9%. The new hires would be members of the existing LFUCG fund.

There should be a decrease in disability retirements if the benefit mirrors CERS, which has about an 8% disability retiree rate while LFUCG has 42%. This would result in a significant savings. COLAs would be capped at 1.5% for new hires when they retire, and the new hires would have an effective 2% pay raise from the standpoint their contribution would decrease from 11% to 9%.

Mayor Newberry said he would support a provision that would allow existing employees the option to contribute less and receive less retirement benefits to enable them to have more net pay.

Mr. Lear thanked Mayor Newberry for his presentation. He made reference to a point that Commissioner Koch presented regarding a bond issue being a forced commitment. It is a binding commitment on the government once the money goes in the plan.

Mr. Lear pointed out that several unfunded mandates have occurred since the late 1980s but there was no additional contribution to pay for those mandates, which resulted in increasing the unfunded liability.

Vice Mayor Gray thanked all of the Pension Fund Task Force members, members of the legislature and everyone who had been attending meetings.

The next meeting will be set at a later time due to a conflict with Mr. Lear's schedule for November 19.

The meeting adjourned at 5:00 p.m.

TAB D

SUMMARY OF GOVERNING LEGISLATION AND AMENDMENTS

1974 - HB 52	Establishes legislative framework and governing provisions for police and firemen's benefit fund in urban county governments.
1976 - HB 175	Establishes benefits for minor children of a deceased member who is not survived by a widow.
1980 - HB 375	Further articulates benefits for minor children.
1982 - HB 411	Part of an omnibus revision to all government pension plans to comply with changes in federal law.
HB 297	Changes the time for actuarial valuation reports from every five years to every three years.
1984 - SB 39	Provides for payment of certain pension fund expenses by the fund rather than the government.
1990 - HB 697	Increases member contributions from 8% to 10.5-11%; increases government contributions from 15% to 17%; increases membership of the Pension Fund Board from 9-11 with addition of the Commissioner of Public Safety and a retired member; provides COLA benefits for previous retirees; provides for annual review of condition of disability retiree; allows military veterans to purchase four years of service credit with a lump sum payment; allows purchase of service credit for unused sick leave; provides an election for reduced member benefits in conjunction with benefits payable to the members' survivors.
1992 - HB 212	Provides benefits to the surviving spouse of a member who dies prior to age 50.
1994 - HB 380	Reduces minimum retirement age from 50 to 46; reduces the minimum benefit for disability retirement from 75% to 60% plus one-half of the amount by which the member's percentage of disability exceeds 20% with an overall cap of 75%.
1996 - HB 747	Increases the minimum annual payment to any fund beneficiary up to the U.S. poverty level for 1996.
2000 - HB 636	Allows the purchase of four years of service credit by any member (not just veterans) and allows for installment rather than lump sum payment; eliminates the 75% of average wage cap on annuities; provides benefits to surviving spouses who get married to retired members after the retirement commences; increases the Pension Board to 12 members with the addition of a second retired member; reduces the timeframe for actuarial reports from every three years to every two years.

2001 - SB 20	Raises the minimum monthly annuity to $1,000; provides COLA for disability retirees.
2002 - SB 184	Provides that "salary" for determination of benefits includes special pay and hazardous duty pay; authorizes the Pension Board to hold a vote on whether to eliminate minimum retirement age and allow retirement with 20 years of service irrespective of age; provides COLA for those receiving the $1,000 minimum benefit; eliminates the provision that widow benefits are terminated upon remarriage with regard to a member who dies of occupational causes; mandates medical coverage for retirees.
2006 - SB 108	Provides purchase of service credit at any time rather than only in the first five years of service; codifies the result of the member vote which eliminated the minimum retirement age of 46; increases minimum monthly benefit from $1,000 to $1,250 retroactive to July 2005.

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TAB E

LEXINGTON FATYETTE URBAN COUNTY GOVERNMENT
POLICEMEN'S AND FIREFIGHTERS' RETIREMENT FUND
REPORT OF ACTUARY
ON THE VALUATION
PREPARED AS OF JULY 1, 2008

SECTION I – SUMMARY OF PRINCIPAL RESULTS

1. For convenience of reference, the principal results of the current and preceding valuations are summarized below.

Valuation Date	July 1, 2008	7/01/2006
Active members:		
Number	1,052	1,065
Annualized compensation	$ 61,368,960	$ 57,192,876
Retired members and beneficiaries:		
Number	848	825
Annual benefits	$ 31,250,416	$ 27,469,773
Assets:		
Market Value	$ 398,527,961	$ 370,945,480
Actuarial Value	418,311,038	373,314,278
Unfunded actuarial accrued liability	$ 246,624,318	$ 221,490,170
Amortization Period	23	23
Fiscal Year Ending	**June 30, 2010**	**June 30, 2008**
Government annual required contribution rate (ARC):		
Normal	16.86%	18.06%
Accrued liability	29.77	28.69
Total	46.63%	46.75%
Member contribution rate	11.00%	11.00%

LEXINGTON FATYETTE URBAN COUNTY GOVERNMENT
POLICEMEN'S AND FIREFIGHTERS' RETIREMENT FUND
REPORT OF ACTUARY
ON THE VALUATION
PREPARED AS OF JULY 1, 2006

SECTION I – SUMMARY OF PRINCIPAL RESULTS

1. For convenience of reference, the principal results of the current and preceding valuations are summarized below.

Valuation Date	July 1, 2006	July 1, 2004*
Active members:		
Number	1,065	933
Annualized compensation	$ 57,192,876	$ 40,316,319
Retired members and beneficiaries:		
Number	825	796
Annual benefits	$ 27,469,773	$ 24,564,480
Assets:		
Market Value	$ 370,945,480	$ 329,683,295
Actuarial Value	373,314,278	329,683,295
Unfunded actuarial accrued liability	$ 221,490,170	$ 91,225,548
Amortization Period	23 years	N/A
Fiscal Year Ending	**June 30, 2008**	**June 30, 2006**
Government annual required contribution rate (ARC):		
Normal	18.06%	13.91%
Accrued liability	28.69	16.76
Total	46.75%	30.67%
Member contribution rate	11.00%	11.00%

*Reported by prior actuarial firm.

TAB F

ITEMS THAT HAVE CHANGED OUR PENSION FUND SINCE 1999

POLICE AND FIRE PENSION FUND OF THE LEXINGTON FAYETTE URBAN COUNTY GOVERNMENT

OCT 22 2008

THE 1999 VALUATION RESULTS (selected items)

BASED ON A 3% COLA

CITY COST % OF PAYROLL	26.7%
UNFUNDED LIABILITIES	53,748,831
PAYROLL	37,020,940
FUNDED RATIO	83.6%

THE 2008 VALUATION RESULTS (selected items)

BASED ON A 3% COLA

CITY COST % OF PAYROLL	46.63%
UNFUNDED LIABILITIES	246,624,318
PAYROLL	61,368,960
FUNDED RATIO	62.9%

CHANGES TO THE KRS'S WHICH GOVERN OUR FUND

KRS – 67A-402 PURCHASE OF SERVICE CREDIT
CHANGED IN 2000

PRIOR TO 2000 A MEMBER HAD TO BE A MILITARY VETERAN TO PURCHASE SERVICE TIME. HAD TO BE PURCHASED WITHIN THE FIRST 5 YEARS OF EMPLOYMENT AND MUST PAY CASH NO PAYMENT PLAN.

NOW ANYBODY CAN PURCHASE UP TO FOUR YEARS OF TIME AS LONG AS THE MEMBER HAS 5 YEARS ON THE JOB. THIS AMOUNT CAN BE PUT ON PAYMENTS FOR UP TO 20 YEARS.

KRS-67A-410 SERVICE RETIREMENT
CHANGED IN 2002

PRIOR TO 2002 A MEMBER WITH 20 YEARS OF SERVICE COULD RETIRE AT ANY AGE BUT NOT DRAW AN ANNUITY UNTIL REACHING THE AGE OF 47.

NOW 20 IN AND OUT WITH NO AGE LIMIT. MEMBERS BEGIN DRAWING ANNUITIES UPON RETIREMENT.

KRS-67A-430 RATE OF RETIREMENT ANNUITY
CHANGED IN 2000, 2002, 2006

PRIOR TO 2000 THIS KRS WAS TIED TO THE UNITED STATES POVERTY GUIDELINES AND INCREASED WHEN NEEDED.

NOW MINIMIUM ANNUITY 1250.00 A MONTH.

KRS-67A-440 ,67A-450 AND 67A-460
CHANGED IN 2000,2002,2006

THESE KRS'S DEAL WITH VARIOUS ITEMS. THE COMMON CHANGE WAS IN THE SPOUSES BENEFIT.
PRIOR TO THESE CHANGES UPON THE DEATH OF A MEMBER THE SPOUSE WOULD LOSE ALL BENFITS UPON REMARRIAGE.

NOW THE SPOUSES RETAIN ALL BENEFITS AFTER REMARRIAGE.

KRS67A-492 SURVIVIORS BENEFITS
CHANGED IN 2000 AND AGAIN IN 2006

PRIOR TO 2000 THE SURVIVING SPOUSE HAD TO BE MARRIED TO THE MEMBER AT LEAST 6 MONTHS PRIOR TO RETIREMENT OR DEATH TO RECIVE BENEFITS.

NOW THE SURVIVING SPOUSE NEEDS TO EITHER BE MARRIED TO THE MEMBER 6 MONTHS PRIOR TO RETIREMENT OR AT LEAST 3 YEARS AFTER RETIREMENT.

KRS-67A-490 ESTATE BENEFIT NO DEPENDENTS
CHANGED 2006

PRIOR TO 2006 THIS WAS A $300.00 PAYMENT TO A DESIGNATED BENEFICIARY.

NOW IT IS A $1500.00 PAYMENT TO THE DESIGNATED BENEFICIARY.

KRS-67A-690 INCREASE IN RETIREMENT ANNUITY
CHANGED IN 2001

PRIOR TO 2001 SECTION (2) STATED A MEMBER ON A DISABILITY RETIREMENT WOULD RECIVE A FLAT 2% COLA COMPOUNDED UNTIL THE MEMBER REACHED RETIREMENT AGE (47).

NOW THE MEMBERS ON DISABILITY RETIREMENTS RECIVE THE SAME COLA'S AS SERVICE RETIREE'S REGARDLESS OF AGE.

JULY 1 ,2008

848 BENEFICIARIES

SERVICE RETIREMENTS	440	46%
DISABILIITIES	312	35%
DEPENDANTS	96	17%

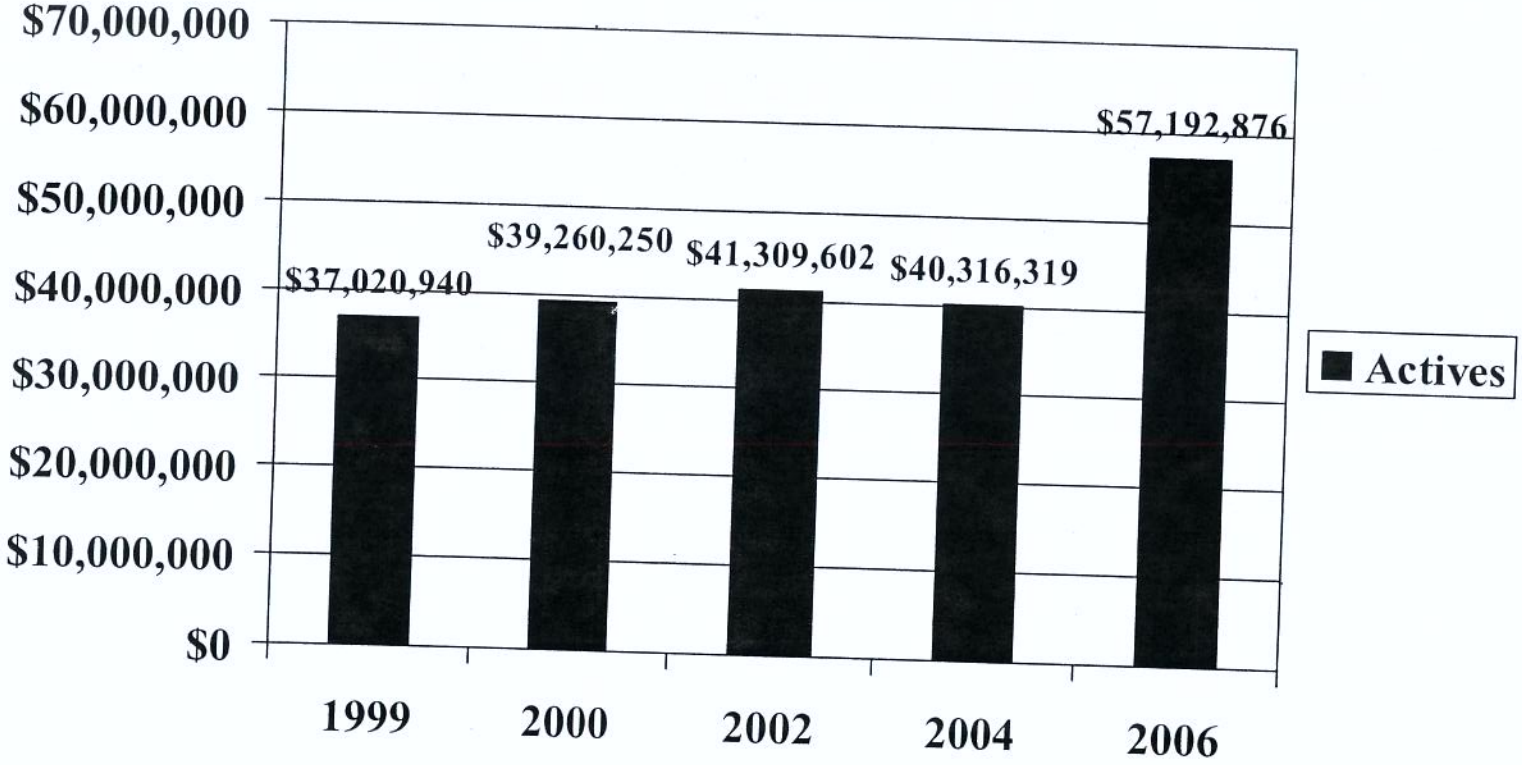
COLA'S

JUNE 2008	2.0%
JUNE 2007	5.0%
JUNE 2006	3.5%
JUNE 2005	2.3%
JUNE 2004	2.2%
JUNE 2003	3.0%
JUNE 2002	3.3%
JUNE 2001	3.2%
JUNE 2000	2.3%
JUNE 1999	3.0%
AVERAGE	2.98%

TAB G

LEXINGTON-FAYETTE
URBAN COUNTY GOVERNMENT
Lexington, Kentucky

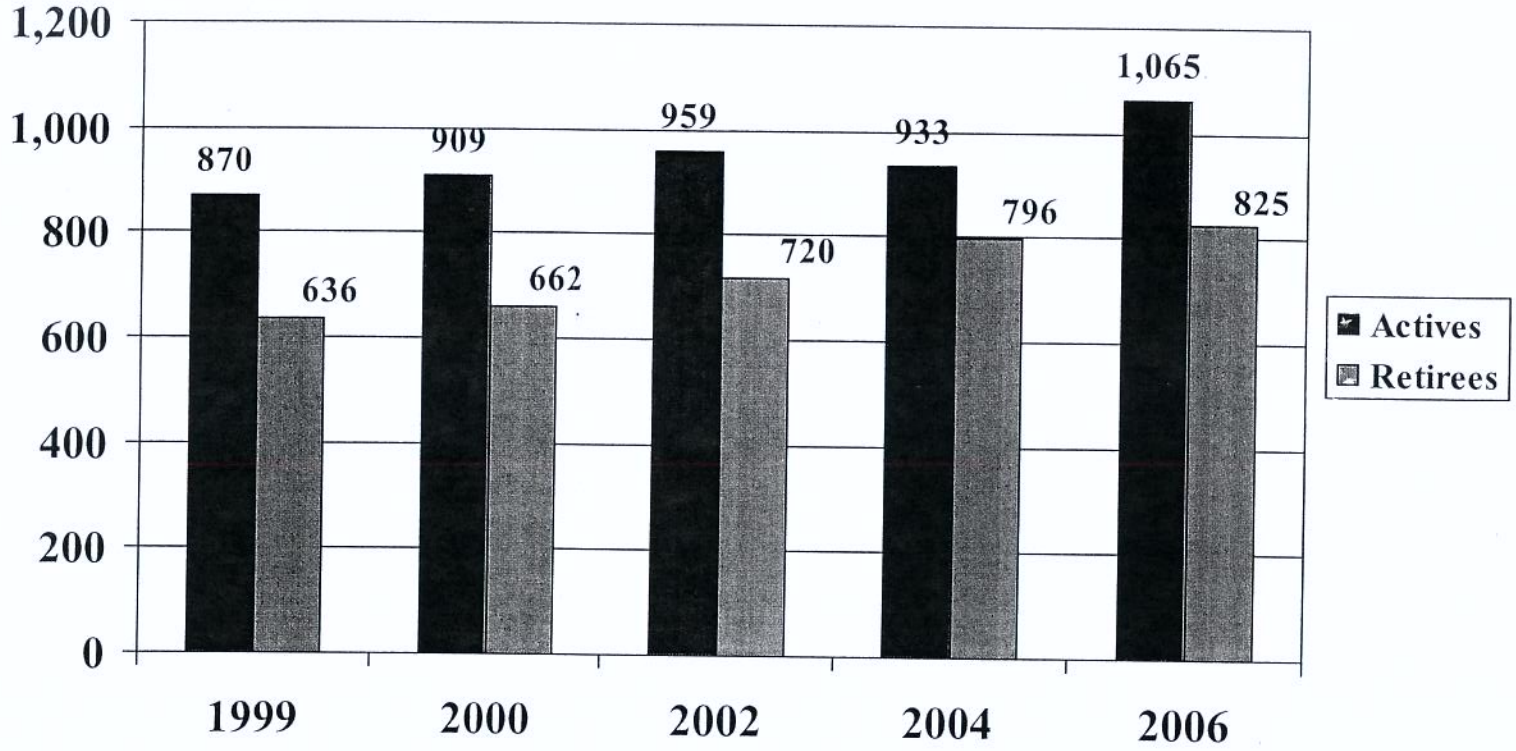
Active Payroll



TAB H

LEXINGTON-FAYETTE
URBAN COUNTY GOVERNMENT
Lexington, Kentucky

Census Data



TAB I

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
REPORT ON THE RETIREE MEDICAL VALUATION
PREPARED AS OF JULY 1, 2008

SECTION I - SUMMARY OF PRINCIPAL RESULTS

1. For convenience of reference, the principal results of the valuation are summarized below:

Valuation Date		July 1, 2008
Number		
Active Members		1,053
Retirees and Beneficiaries:		
Pre-65		670
Post-65		359
Sub-total		1,029
Total Members		2,082
Annual Payroll	$	61,409,904
Assets at Market Value	$	0
Unfunded Actuarial Accrued Liability	$	181,181,934
Amortization Period (Years)		30
Annual Required Contribution (ARC)		**June 30, 2009**
Annual Required Contribution:		
Normal	$	6,465,539
Accrued Liability*		7,390,007
Total	$	13,855,546
Annual Required Contribution (as a % of Projected Payroll)		
Normal		10.53%
Accrued Liability		12.03%
Total		22.56%
Discount Rate		4.50%

** Accrued liability is amortized as a level percent of payroll with payroll growth assumption of 3.00%.*

2. The valuation indicates that the Annual Required Contribution (ARC) required by GASB Statement 45 is 22.56% of annual active member payroll payable for the fiscal year ending June 30, 2009. The ARC for the fiscal year ending June 30, 2009 is estimated to be $13,855,546.

TAB J

Disability Benefits

	County Employees Retirement System Employees Hired On or After September 1, 2008	Current LFUCG Police and Fire Retirement Fund
Eligibility		
Occupational Disability	No prior service requirement	No prior service requirement
Non-Occupational Disability	5 years service requirement	5 years service requirement
Calculation of Benefits		
Occupational Disability	Greater of: Years service x ave. of final 3 years compensation x 2.5% or 25% of last rate of pay	60% of last rate of pay plus 1/2 of amount disability exceeds 20% up to 75% total benefit
Example	Years service = 8 Last rate of pay = $43,000 Ave. of last 3 years = $40,000 8 x $40,000 x 2.5% = $8,000/yr or **$43,000 x 25% = $10,750/yr**	Years service = 8 Last rate of pay = $43,000 Ave. of last 3 years = $40,000 Disability rating = 10% **$43,000 x 60% = $25,800/yr**
Health Insurance Benefit		
For Retiree	$15 for each year of service	Single premium amount up to amount provided for active employees
Beneficiaries upon Death of Retire	$10 for each year of service	100% of the cost of family coverage for spouse and dependent children
Disability Retirees		
% of disability to total retirees	7.9% as of 6/30/07 (359 disabilities out of a total of 4,542 retirees)	41.5% as of 6/30/08 (312 disabilities out of a total of 752 retirees)

TAB K

Urgent Legislative Needs

- Tie New Hires' Retirement Benefits to CERS
  - CERS sets the Kentucky market
  - Lexington should meet but not exceed market
  - Apply **only** to new hires
  - Keep new hires in PFRF
- Follow CERS Lead on New Hires' Health Benefits
- Follow CERS Lead on COLAs for New Hires
- Reduce New Hire Contribution from 11% to 9%

Benefits of Proposed Legislative Changes for New Hires

- Future Taxpayer Obligations Reduced
- CERS Retirement Benefits = Reduction in PFRF Disability Retirements
  - PFRF – 42% disability retirements
  - CERS – 8% disability retirements
- Cost of Health Benefits Capped
- COLAs Capped at 1.5% Unless Council Approves Greater Amount
- New Hires Receive 2% Effective Raise

TAB L

Service Retirement Benefits

	County Employees Retirement System Employees Hired On or After September 1, 2008	Current LFUCG Police and Fire Retirement Fund
Number of Years to be Vested	5 Years	20 Years
Age Requirement	Any age with 25 years service with no reduction in benefits Age 60 with 5 years service with no reduction in benefits Age 50 with 15 years service, but with reduced benefits (All of the above exclude purchased time)	Any age with 20 years service(including purchased time)
Benefit	10 years of service or less - 1.3% per year of service 10 to 20 years of service - 1.5% per year of service 20 to 25 years of service - 2.25% per year of service 25 years of service or more - 2.5% per year of service	2.5% per year of service
Annual Cost of Living Adjustment	1.5%	2% to 5% as determined by the board
Employee Contribution Rate	8% of pay toward retirement 1% of pay toward health insurance (nonrefundable)	11% of pay
Employee Contribution Refunds	Retirement contributions refundable plus 2.5 % interest per annum	Retirement contributions refundable with no interest