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**LEXINGTON-FAYETTE
URBAN COUNTY GOVERNMENT**
Lexington, Kentucky

**Policemen's & Firefighters'
Retirement Fund**



Report on the Valuation of the Lexington-Fayette Urban County Government Policemen's and Firefighters' Retirement Fund

Prepared as of July 1, 2018





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December 7, 2018

Board of Trustees

Lexington-Fayette Urban County Government Policemen's and Firefighters' Pension Plan

Lexington-Fayette Urban County Government

200 East Main Street

Lexington, KY 40507

Dear Members of the Board:

We are pleased to submit herewith the results of the actuarial valuation of the Lexington-Fayette Urban County Government Policemen's and Firefighters' Pension Plan prepared as of July 1, 2018. The purpose of this report is to provide a summary of the funded status of the Plan as of July 1, 2018 and to recommend contribution rates. A separate report will be issued for reporting accounting information under GASB 67. The Lexington-Fayette County Government is solely responsible for the accuracy and comprehensiveness of the data.

The promised benefits of the Plan reflecting the changes in HB 430 are included in the actuarially calculated contribution rates which are developed using the entry age normal cost method. Actuarial value of plan assets is used for actuarial valuation purposes. The assumptions used for this valuation were developed in the experience study for the six-year period ending June 30, 2016 except for the investment rate of return. This valuation uses 7.50% as the investment rate of return. Gains and losses are reflected in the unfunded accrued liability that is being amortized over a closed period on a level dollar basis. The actuarially determined employer contribution rate is 38.99% of payroll for the plan year ending June 30, 2020. The assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the Plan and to reasonable expectations of anticipated experience under the Plan.

This is to certify that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the Plan and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the Plan. The investment return assumption, which was set by the Board, is a prescribed assumption defined by Actuarial Standard of Practice No. 27 (ASOP 27). Details and discussion regarding the return assumption are shown in the report of the experience study for the six-year period ending June 30, 2016.

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Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

We trust that the report will meet the approval of the Board and will furnish the desired information concerning the financial condition of the Plan. The undersigned are members of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

A handwritten signature in blue ink that reads 'Todd B. Green' followed by a horizontal flourish.

Todd B. Green ASA, FCA, MAAA
Principal & Consulting Actuary

A handwritten signature in blue ink that reads 'Beverly Bailey' in a cursive style.

Beverly Bailey ASA, EA, FCA, MAAA
Senior Actuary

TBG:cc



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**LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
POLICEMEN'S AND FIREFIGHTERS' RETIREMENT FUND
REPORT OF ACTUARY
ON THE VALUATION
PREPARED AS OF JULY 1, 2018**

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, 2018	July 1, 2017
Active members:		
Number	1,180	1,144
Annualized compensation	\$ 78,063,051	\$ 73,559,366
Retired members and beneficiaries:		
Number	1,232	1,201
Annual benefits	\$ 59,805,952	\$ 57,493,477
Assets:		
Market Value	\$ 745,170,974	\$ 695,183,216
Actuarial Value	725,884,686	686,133,702
Unfunded actuarial accrued liability	\$ 253,949,666	\$ 261,525,982
Amortization Period	25	26
Fiscal Years Ending	2020	2019*
Actuarially determined contribution rate (ADC):		
Normal	11.84%	11.27%
Accrued liability	<u>27.15</u>	<u>26.26</u>
Total	38.99%	37.53%
Member contribution rate	12.00%	12.00%

* The full funding rate, reflecting the results of the experience study, is 39.20% for the fiscal year ending 2019. This amount was phased in over a two year period. The actuarially determined contribution rate was equal to 37.53% (the average of 35.85% and 39.20%). The actuarially determined contribution for the fiscal year ending 2020 is unadjusted.



2. The major benefit and contribution provisions of the Plan as reflected in the valuation are summarized in Schedule G. The actual cost-of-living allowances granted through July 1, 2018 were reflected in the valuation.
3. The development of the actuarial value of assets is shown in Schedule C. Schedule E of this report outlines the full set of actuarial assumptions and methods used in the valuation.
4. The entry age normal actuarial cost method was used to prepare the valuation. Schedule F contains a brief description of the actuarial cost method. The cost method produces a contribution rate equal to the sum of the normal contribution rate and the actuarially accrued liability contribution rate which is sufficient to amortize the unfunded actuarially accrued liability over 30 years beginning July 1, 2013 on a level dollar basis. Effective July 1, 2013, and for each fiscal year thereafter, the Government contribution shall not be less than \$20 million unless the Plan is 100% funded.
5. Any member who has at least five years of service as a member of the fund may purchase up to four years of service. The amount required to purchase service is based on an actuarial formula.
6. Comments on the valuation results as of July 1, 2018 are given in Section IV and further discussion of the contributions is set out in Section V.
7. The assumptions used for this valuation were developed in the experience study for the six-year period ending June 30, 2016 except for the investment rate of return. The investment return assumption, which was set by the Board, is a prescribed assumption defined by Actuarial Standard of Practice No. 27 (ASOP 27). Details and discussion regarding the return assumption are shown in the report of the experience study for the six-year period ending June 30, 2016.



SECTION II – MEMBERSHIP DATA

1. Data regarding the membership of the Plan for use as a basis of the valuation were furnished by the Government. The valuation included 1,180 active members with annualized compensation totaling \$78,063,051.
2. The following table shows the number of retired members and beneficiaries as of July 1, 2018 together with the amount of their annual retirement benefits payable under the Plan as of that date.

THE NUMBER AND ANNUAL BENEFITS OF RETIRED MEMBERS AND BENEFICIARIES AS OF JULY 1, 2018

GROUP	NUMBER	ANNUAL RETIREMENT BENEFITS
Service Retirements	652	\$ 36,481,889
Disability Retirements	404	18,233,235
Beneficiaries of Deceased Members	<u>176</u>	<u>5,090,828</u>
Total	1,232	\$ 59,805,952

3. Table 1 of Schedule H shows the distribution by age and years of membership service of the number of active members included in the valuation, while Table 2 shows the number and annual benefits of retired members and beneficiaries included in the valuation, distributed by age.

SECTION III – ASSETS

As of July 1, 2018, the total market value of assets amounted to \$745,170,974. The actuarial value of assets used for the current valuation was \$725,884,686. Schedule C shows the development of the actuarial value of assets as of July 1, 2018. Schedule D shows the Summary of Receipts and Disbursements.



SECTION IV – COMMENTS ON VALUATION

1. Schedule B of this report contains the valuation balance sheet which shows the present and prospective assets and liabilities of the Plan as of July 1, 2018. The valuation was prepared in accordance with the actuarial assumptions set forth in Schedule E and the actuarial cost method which is described in Schedule F.
2. The valuation balance sheet shows that the Plan has total prospective liabilities of \$1,130,985,164 of which \$718,004,795 is for the prospective benefits payable on account of present retired members and beneficiaries of deceased members, and \$412,980,369 is for the prospective benefits payable on account of present active members. Against these liabilities, the Plan has a total present actuarial value of assets of \$725,884,686 as of July 1, 2018. The difference of \$405,100,478 between the total liabilities and the total present assets represents the present value of future contributions.
3. The contributions to the Plan consist of normal contributions and accrued liability contributions. The valuation indicates that normal contributions at the rate of 23.84% of payroll are required under the entry age normal method. Of this amount, 12.00% is paid by the members and the remaining 11.84% is required by the Government.
4. Prospective normal contributions at the rate of 23.84% have a present value of \$151,150,812. When this amount is subtracted from \$405,100,478, which is the present value of the total future contributions to be made, there remains \$253,949,666 as the amount of unfunded accrued liability contributions. The development of the unfunded accrued liability is shown in Schedule A.



SECTION V – CONTRIBUTIONS PAYABLE

1. Under Section 67A.520 of the law governing the Fund, the Government shall make current contributions to the Fund on an actuarially funded basis equal to the sum of the normal contribution rate and the actuarially accrued contribution rate that will be sufficient to amortize the total unfunded actuarial accrued liability over a period of thirty years beginning July 1, 2013 using the level-dollar amortization method.
2. The normal contribution rate is calculated as the level percentage of payroll which, if applied for the average new member during the entire period of his anticipated covered service, would be required to meet the cost of all benefits payable on his behalf. On the basis of the valuation, the normal contribution rate was determined to be 23.84%.
3. Each member shall contribute an amount equal to 12.00% of current salary.
4. The Government's normal contribution rate is equal to the difference between the normal contribution rate of 23.84% and the member contribution rate of 12.00%, or 11.84% of payroll.
5. The annual accrued liability contribution rate is determined to be 27.15% of payroll. Contributions at this level would be sufficient to amortize the unfunded accrued liability over a 25 year period on a level dollar basis.
6. The actuarially determined employer contribution rate for the plan years ending June 30, 2020 is, therefore, 38.99% of payroll.
7. The following table on the following page summarizes the employer contributions which were determined by the July 1, 2018 valuation and are recommended for use.



**ANNUAL REQUIRED CONTRIBUTION RATE
FOR PLAN YEARS ENDING JUNE 30, 2020**

CONTRIBUTION	PERCENTAGE OF ACTIVE MEMBERS' COMPENSATION
Normal	11.84%
Accrued Liability	<u>27.15</u>
Total*	38.99%

SECTION VI – OTHER DISCLOSURES

1. The information required under the Governmental Accounting Standards (GASB) Statements No. 67 and 68 for the Plan and the City will be issued in separate reports. We are providing the following information for informational purposes only.

**NUMBER OF ACTIVE AND RETIRED PARTICIPANTS
AS OF JULY 1, 2018**

GROUP	NUMBER
Retired participants and beneficiaries currently receiving benefits	1,232
Terminated participants and beneficiaries entitled to benefits but not yet receiving benefits	0
Active Participants	<u>1,180</u>
Total	2,412



2. Another such item is the schedule of funding progress as shown below.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/01/2013	\$533,892,554	\$738,343,325	\$204,450,771	72.3%	\$62,455,725	327.4%
7/01/2014	579,749,633	760,384,029	180,634,396	76.2	63,248,485	285.6
7/01/2015	623,184,562	794,383,474	171,198,912	78.4	62,102,632	275.7
7/01/2016	645,681,282	830,279,771	184,598,489	77.8	63,869,423	289.0
7/01/2017	686,133,702	947,659,684	261,525,982	72.4	73,559,366	355.5
7/01/2018	725,884,686	979,834,352	253,949,666	74.1	78,063,051	325.3

3. Additional information as of July 1, 2018 follows:

Valuation date	July 1, 2018
Actuarial cost method	Entry age normal
Amortization period	Level dollar, closed
Remaining amortization period	25 years
Asset valuation method	Actuarial Related Value
Actuarial assumptions:	
Investment rate of return (includes inflation)	7.50%
Projected salary increases (includes inflation)	9.50% to 3.50%
Inflation	2.75%
Cost-of-living adjustments	Refer to Schedule G



SECTION VII – EXPERIENCE

The following table shows the change in the accrued actuarial liability and the actuarial value of assets from July 1, 2017 to July 1, 2018 .

DETERMINATION OF ACTUARIAL (GAIN) / LOSS

A. Accrued Actuarial Liability (Gain) / Loss Analysis	
1. Actual Accrued Actuarial Liability as of July 1, 2017	\$947,659,684
2. Normal Cost	\$17,943,676
3. Interest on items 1 and 2 [(1+2) x 7.5%]	\$72,420,252
4. Benefit Payments	(\$59,050,010)
5. Interest on item [4 x 7.5% x .5]	(\$2,214,375)
6. Expected Accrued Actuarial Liability as of July 1, 2018 (1. + 2. + 3. + 4. + 5.)	<u>\$976,759,227</u>
7. Changes due to:	
a. Assumption changes	\$1,738,504
b. Plan amendments	\$0
c. Funding Method	\$0
d. Other	\$0
8. Actual Accrued Actuarial Liability as of July 1, 2018	<u>\$979,834,352</u>
9. Liability (Gain) / Loss [8. - 7 - 6.]	\$1,336,621
10 Items Affecting Calculation of Accrued Actuarial Liability:	
a. Plan provisions reflected in the accrued liability (see Schedule G)	
b. Actuarial assumptions and methods used to determine actuarial accrued liability (see Schedule E and Schedule F)	
B. Asset (Gain) / Loss Analysis	
1. Actuarial Value of Assets as of July 1, 2017	\$686,133,702
2. Interest on item [1 x 7.5%]	\$51,460,028
3. Contributions and Other Revenue	\$38,335,168
4. Interest on item [2 x 7.5% x .5]	\$1,437,569
5. Benefit Payments	(\$59,050,010)
6. Interest on item [5 x 7.5% x .5]	(\$2,214,375)
7. Expected Actuarial Value of Assets as of July 1, 2018	<u>\$716,102,082</u>
8. Actuarial Value of Assets as of July 1, 2018	<u>\$725,884,686</u>
9. Asset (Gain) / Loss	(\$9,782,604)
C. Total Actuarial (Gain) / Loss During 2017 / 2018 Plan Year (A.9 + B.9)	(\$8,445,983)



ANALYSIS OF (GAIN) / LOSS

1. Expected Unfunded Accrued Liability as of July 1, 2018: (Page 8: A.6 - B.7)		\$260,657,145
2. Change in Unfunded Accrued Liability During 2017/2018 Plan Year:		
a. Due to Salary	(\$5,476,716)	
b. Due to Investment Performance	(\$9,782,604)	
c. Due to Turnover	\$498,495	
d. Due to New Retirements	\$5,971,679	
e. Due to Disability Retirements	(\$1,958,178)	
f. Due to Data/Service Adjustments/Benefit Payments	\$2,892,063	
g. Due to New Members	\$892,722	
h. Due to Mortality	\$255,060	
i. Other	\$0	
j. Due to Assumption Changes	\$0	
k. Due to Method Changes	\$0	
l. Due to Plan Changes	\$0	
3. Total (Gain) / Loss During the 2017/2018 Plan Year (Sum of changes in item 2)		(\$6,707,479)
4. Unfunded Accrued Liability as of July 1, 2018: (1. + 3.)		\$253,949,666
5. Comments on Change in Unfunded Accrued Liability Contribution Rate:		
<u>Salary/Service:</u> Actual average salary increase of 2.7% compared to expected increases of 6.2%		
<u>Investment Performance:</u> 9.0% actual vs. 7.5% expected return on the actuarial value of assets.		
<u>Turnover:</u> Net effect on the valuation liabilities of actual deaths, terminations of employment and disabilities different from what was anticipated in the aggregate by the assumptions related to those events.		
<u>New retirements:</u> Net effect of differences in expected vs. actual numbers of, and benefits for, new retirements and refund of employee contributions.		
<u>Due to Differences and Timing of Contributions:</u> Due to the one year lag of when the required contribution is determined and when it is deposited into the fund.		
<u>Data/Service Adjustments:</u> Effect of service adjustments, data adjustments, and the difference between actual and expected benefit payments.		
<u>Assumption Changes:</u> None.		
<u>Method Changes:</u> None		
<u>Plan Changes:</u> None		



SCHEDULE A

DEVELOPMENT OF THE UNFUNDED ACTUARIAL ACCRUED LIABILITY

		July 1, 2018
(1)	Present value of prospective benefits:	
(a)	Present active members	\$ 412,980,369
(b)	Present retired members, beneficiaries and former members entitled to deferred vested benefits	<u>718,004,795</u>
(c)	Total	\$ 1,130,985,164
(2)	Present value of future Government and member normal contributions before expenses	<u>151,150,812</u>
(3)	Actuarial accrued liabilities 1(c) – (2)	\$ 979,834,352
(4)	Actuarial value of assets	<u>725,884,686</u>
(5)	Unfunded actuarial accrued liability (3) – (4)	\$ 253,949,666



SCHEDULE B
VALUATION BALANCE SHEET

<u>ACTUARIAL LIABILITIES</u>		
Present value of prospective benefits payable on account of present retired members, beneficiaries of deceased members, and terminated members entitled to deferred benefits		\$ 718,004,795
Present value of prospective benefits payable on account of present active members		<u>\$ 412,980,369</u>
Total liabilities		<u>\$1,130,985,164</u>
<u>PRESENT AND PROSPECTIVE ASSETS</u>		
Actuarial value of assets		\$ 725,884,686
Present value of future contributions		
Government and member normal contributions	151,150,812	
Unfunded accrued liability contributions	<u>253,949,666</u>	
Total prospective contributions		\$ 405,100,478
Total assets		<u>\$1,130,985,164</u>



SCHEDULE C
Development of Actuarial Value of Assets

Valuation date June 30:	2017	2018	2019	2020	2021	2022
A. Actuarial Value Beginning of Year	\$ 645,681,282	\$ 686,133,702				
B. Market Value End of Year	695,183,216	745,170,974				
C. Market Value Beginning of Year	619,901,142	695,183,216				
D. Cash Flow						
D1. Contributions	\$ 40,854,410	\$ 38,326,772				
D2. Other Revenue	141,051	8,396				
D3. Benefit Payments	(56,718,545)	(59,050,010)				
D4. Administrative Expenses	(226,211)	(306,716)				
D5. Investment Expenses	<u>(3,005,555)</u>	<u>(3,172,768)</u>				
D6. Net	\$ <u>(18,954,850)</u>	\$ <u>(24,194,326)</u>				
E. Investment Income						
E1. Market Total: B.-C.-D6.	\$ 94,236,924	\$ 74,182,084				
E2. Assumed Rate (Net of Expenses)	7.50%	7.50%				
E3. Amount for Immediate Recognition	49,134,736	54,841,419				
E4. Amount for Phased-In Recognition	45,102,188	19,340,665				
F. Phased-In Recognition of Investment Income						
F1. Current Year: 0.20 * E4.	\$ 9,020,438	\$ 3,868,133	\$ -	\$ -	\$ -	\$ -
F2. First Prior Year	(8,534,428)	9,020,438	3,868,133	-	-	-
F3. Second Prior Year	(6,178,693)	(8,534,428)	9,020,438	3,868,133	-	-
F4. Third Prior Year	10,928,441	(6,178,693)	(8,534,428)	9,020,438	3,868,133	-
F5. Fourth Prior Year	<u>5,036,776</u>	<u>10,928,441</u>	<u>(6,178,693)</u>	<u>(8,534,428)</u>	<u>9,020,438</u>	<u>3,868,133</u>
F6. Total Recognized Investment Gain	\$ <u>10,272,534</u>	\$ <u>9,103,891</u>	\$ <u>(1,824,550)</u>	\$ <u>4,354,143</u>	\$ <u>12,888,571</u>	\$ <u>3,868,133</u>
G. Preliminary Actuarial Value End of Year A.+D6.+E3.+F6.	\$ 686,133,702	\$ 725,884,686				
H. Corridor						
I1. 80% of Market Value	\$ 556,146,573	\$ 596,136,779				
I2. 120% of Market Value	\$ 834,219,859	\$ 894,205,169				
I. Actuarial Value End of Year H. Not Less than I1. or Greater than I2	\$ 686,133,702	\$ 725,884,686				
J. Difference Between Market & Actuarial Values	\$ 9,049,514	\$ 19,286,288	\$ 21,110,846	\$ 16,756,704	\$ 3,868,133	\$ -
K. Market Value of Assets Return	14.87%	10.32%				
L. Actuarial Value of Assets Return	8.81%	8.95%				

The Actuarial Valuation of Assets recognizes assumed investment income (line E3) fully each year. Differences between actual and assumed investment income (line E4) are phased in over a closed 5 year period. During periods when investment performance exceeds the assumed rate, Actuarial Value of Assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, Actuarial Value of Assets will tend to be greater than market value. If assumed rates are exactly realized for 5 consecutive years, actuarial value will become equal to market value.



SCHEDULE D

SUMMARY OF RECEIPTS AND DISBURSEMENTS

<u>Receipts for the Period</u>	
Contributions:	
Members	10,750,008
Employer	27,576,764
Other	<u>8,396</u>
Total	38,335,168
Investment Income	<u>71,009,316</u>
TOTAL	109,344,484
<u>Disbursements for the Period</u>	
Benefit Payments	59,050,010
Administrative Expense	<u>306,716</u>
TOTAL	59,356,726
<u>Excess of Receipts over Disbursements</u>	49,987,758
<u>Reconciliation of Asset Balances</u>	
Market Value of Assets as of BOY	695,183,216
Adjustment to opening fund balance	0
Excess of Receipts over Disbursements	<u>49,987,758</u>
Market Value of Assets as of EOY	745,170,974
Rate of Return on Market Value of Assets	10.32%



SCHEDULE E

OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS

INVESTMENT RATE OF RETURN: 7.50% per year, compounded annually.

SALARY INCREASES: Representative values of the assumed annual rates of salary increases are as follows:

<u>Service</u>	<u>Wage Inflation</u>	<u>Merit Component</u>	<u>Total Rate</u>
0	3.50%	5.80%	9.50%
1	3.50	4.35	8.00
2	3.50	3.38	7.00
3	3.50	2.42	6.00
4	3.50	1.93	5.50
5-11	3.50	1.45	5.00
12 or more	3.50	0.00	3.50

SEPARATIONS FROM ACTIVE SERVICE: For death rates, the RP-2000 Combined Table projected to the valuation date with scale BB was used. Representative values of the assumed annual rates of separation from active service are as follows:

<u>Age</u>	<u>Annual Rate of</u>		
	<u>Disability</u>	<u>Death</u>	
		<u>Male</u>	<u>Female</u>
20	0.01%	0.03%	0.02%
25	0.01	0.04	0.02
30	0.55	0.04	0.03
35	1.21	0.08	0.05
40	1.91	0.11	0.07
45	2.71	0.15	0.11
50	3.67	0.21	0.17
55	4.77	0.36	0.27



Annual Rate of Termination	
<u>Service</u>	<u>Rate</u>
0	6.00%
1	5.00
2	4.00
3	4.00
4	2.25
5	2.25
6	2.25
7	2.25
8 or more	1.00

SERVICE RETIREMENT: Representative annual rates of assumed service retirement are as follows:

Hired Prior to July 1, 2013		Hired on or after July 1, 2013	
<u>Service</u>	<u>Rate</u>	<u>Service</u>	<u>Rate</u>
20	15.0%		
21	16.0		
22	17.0		
23	18.0		
24	19.0		
25	20.0	25	30.0%
26	30.0	26	30.0
27	30.0	27	30.0
28	30.0	28	30.0
29	30.0	29	30.0
30	100.0	30	100.0



DEATHS AFTER RETIREMENT: The RP-2000 Combined Mortality Table projected to the valuation date using scale BB for the period following service retirement, for beneficiaries of deceased members, and for disabled lives. The assumed rates of mortality provide a margin for future mortality improvements.

OCCUPATIONAL VS. NON OCCUPATIONAL DEATH: 20% of all deaths are assumed to be due to occupational causes.

OCCUPATIONAL VS. NON OCCUPATIONAL DISABILITY: 95% of disabilities are assumed to be due to occupational causes. For occupational disabilities the average benefit percentage is assumed to be 50.0%.

PERCENT MARRIED: 75% of employees who die before retirement are assumed to be married with the husband 3 years older than the wife.

ASSETS: Actuarial value, as developed in Schedule C. The actuarial value of assets recognizes a portion of the difference between the market value of assets and the expected actuarial value of assets, based on the assumed valuation rate of return. The amount recognized each year is 20% of the difference between market value and expected actuarial value. The actuarial value of assets cannot be more than 120% or less than 80% of the market value of assets.

VALUATION METHOD: Entry age normal actuarial cost method. See Schedule F for a brief description of this method.

AVERAGE DISABILITY IMPAIRMENT PERCENTAGE: 12.50%



SCHEDULE F

ACTUARIAL COST METHOD

1. The valuation is prepared on the projected benefit basis, under which the present value, at the interest rate assumed to be earned in the future (currently 7.50%), of each member's expected benefits at retirement or death is determined, based on age, service and sex. The calculations take into account the probability of a member's death or termination of employment prior to becoming eligible for a benefit, as well as the possibility of his terminating with a service, disability or survivor's benefit. The present value of the expected benefits payable on account of the active members is added to the present value of the expected future payments to retired members and beneficiaries to obtain the present value of all expected benefits payable from the Plan on account of the present group of members and beneficiaries.
2. The employer contributions required to support the benefits of the Plan are determined following a level funding approach and consist of a normal contribution and an accrued liability contribution.
3. The normal contribution is determined using the entry age normal actuarial cost method. Under this method, a calculation is made to determine the level percentage of payroll which, if applied for the average new member during the entire period of his anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on his behalf.
4. The unfunded accrued liability is determined by subtracting the present value of prospective employer normal contributions and member contributions, together with the current actuarial value of assets held, from the present value of expected benefits to be paid from the Plan.



SCHEDULE G

**SUMMARY OF MAIN PLAN PROVISIONS
AS INTERPRETED FOR VALUATION PURPOSES**

Member	Sworn members of the Lexington-Fayette Urban County Government Division of Police and Division of Fire and Emergency Services.
Membership Service	Service rendered on or after the date of establishment of the fund or the fund of a city existing within the boundaries of the government immediately prior to the establishment of the urban-county government.
Total Service	Prior service, membership service, and service credit purchased by a member as provided in KRS 67A.402.
Average Salary	The highest average salary of the member for any three consecutive years of service.
Retirement Annuity	
Hired prior to July 1, 2013 and for retirements commencing prior to July 1, 2013	

Eligibility	Anytime after completion of 20 years of Total Service (including service purchased up to 4 years).
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Benefit	Annuity is 2½% of Average Salary multiplied by years of Total Service. The minimum monthly benefit is \$1,250.
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Upon the death of a retired member whose marriage was in effect at least six months before retirement or one year prior to death, the surviving spouse shall receive an annuity equal to 60% of the member's final annuity or final rate of pay, whichever is greater, unless the retired member elected an alternative actuarial equivalent form at the time of retirement of either a joint and 75% or and joint and 100% survivor payment form.

Hired prior to July 1, 2013 and for retirements commencing on or after July 1, 2013

Eligibility	Anytime after obtaining age 41 and the completion of 20 years of Total Service (including service purchased up to 4 years).
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Benefit	Annuity is 2½% of Average Salary multiplied by years of Total Service. The minimum monthly benefit is \$1,250.
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Upon the death of a retired member whose marriage was in effect at least six months before retirement or one year prior to death, the surviving spouse shall receive an annuity equal to 60% of the member's final annuity or final rate of pay, whichever is greater, unless the retired



member elected an alternative actuarial equivalent form at the time of retirement of either a joint and 75% or and joint and 100% survivor payment form.

Hired on or after July 1, 2013

Eligibility

Anytime after obtaining age 50 and the completion of 25 years of Total Service.

Benefit

Annuity is 2.25% of Average Salary multiplied by years of Total Service. The minimum monthly benefit is \$1,250.

Upon the death of a retired member whose marriage was in effect at least six months before retirement or one year prior to death, the surviving spouse shall receive an annuity equal to 60% of the member's final annuity or final rate of pay, whichever is greater, unless the retired member elected an alternative actuarial equivalent form at the time of retirement of either a joint and 75% or and joint and 100% survivor payment form.

Occupational Disability Benefit

Eligibility

No requirements.

Occur Prior to July 1, 2013

Benefit

Annuity equal to a minimum of 60% of member's last rate of salary, increased above the 60% minimum by $\frac{1}{2}$ the amount by which the member's percentage of disability exceeds 20%, but not greater than 75%. The member's percentage of disability shall be the average of the impairment rating determined by two physicians selected by the Board using the American Medical Association "Guide to the Evaluation of Permanent Impairment". If a member is eligible for a service retirement annuity and the amount of the service retirement annuity exceeds the amount of the disability benefit, then the member may elect to receive an additional service retirement annuity equal to this difference.

Upon the death of a retired member whose marriage was in effect at least six months before retirement or one year prior to death, the surviving spouse shall receive an annuity equal to 60% of the member's final annuity or final rate of pay, whichever is greater, unless the retired member elected an alternative actuarial equivalent form at the time of retirement of either a joint and 75% or and joint and 100% survivor payment form.



In addition, any minor children will receive benefits as provided under the occupational death benefit provisions.

Occur on or after July 1, 2013

Benefit

Annuity equal to a minimum of 50% of member's last rate of salary. If the member's percentage of disability exceeds 20% then the amount is equal to 60% of the member's last rate of salary plus $\frac{1}{2}$ the amount by which the member's percentage of disability exceeds 20%, but not greater than 75%. The member's percentage of disability shall be the average of the impairment rating determined by two physicians selected by the Board using the American Medical Association "Guide to the Evaluation of Permanent Impairment". If a member is eligible for a service retirement annuity and the amount of the service retirement annuity exceeds the amount of the disability benefit, then the member may elect to receive an additional service retirement annuity equal to this difference.

Upon the death of a retired member whose marriage was in effect at least six months before retirement or one year prior to death, the surviving spouse shall receive an annuity equal to 60% of the member's final annuity or final rate of pay, whichever is greater, unless the retired member elected an alternative actuarial equivalent form at the time of retirement of either a joint and 75% or and joint and 100% survivor payment form.

In addition, any minor children will receive benefits as provided under the occupational death benefit provisions.

Non-Occupational Disability Benefit

Hired prior to July 1, 2013

Eligibility

5 years of Total Service.

Benefit

$2\frac{1}{2}\%$ of Average Salary times years of Total Service subject to a minimum payment of 25% of Average Salary and a maximum payment of 75% of Average Salary.

Upon the death of a retired member whose marriage was in effect at least six months before retirement or one year prior to death, the surviving spouse shall receive an annuity equal to 60% of the member's final annuity or final rate of pay, whichever is greater, unless the retired member elected an alternative actuarial equivalent form at the time of retirement of either a joint and 75% or and joint and 100% survivor payment form.



In addition, any minor children will receive benefits provided under the non-occupational death benefit provisions.

Hired on or after July 1, 2013

Eligibility

5 years of Total Service.

Benefit

2.25% of Average Salary times years of Total Service subject to a minimum payment of 22.5% of Average Salary and a maximum payment of 67.5% of Average Salary.

Upon the death of a retired member whose marriage was in effect at least six months before retirement or one year prior to death, the surviving spouse shall receive an annuity equal to 60% of the member's final annuity or final rate of pay, whichever is greater, unless the retired member elected an alternative actuarial equivalent form at the time of retirement of either a joint and 75% or and joint and 100% survivor payment form.

In addition, any minor children will receive benefits provided under the non-occupational death benefit provisions.

Termination Benefit

If a member is terminated with less than 20 years of total service credit, he is entitled to a return of his accumulated contributions, without interest.

Occupational Death Benefit

Eligibility

No requirements.

Benefit

Surviving Spouse receives immediate annuity equal to 75% of the member's last rate of salary until death or remarriage.

In addition, 10% of the member's last rate of salary is payable for each minor child until each child attains age 18 (age 23 if involved in educational activities). Maximum total income is 100% of final rate of salary.

If no surviving spouse or upon remarriage, then minor children will receive a benefit based on the following schedule:

One minor child	50% of Salary
Two minor children	65% of Salary
Three or more minor children	75% of Salary



Non-Occupational Death Benefit

Eligibility 5 Years of Total Service, married 6 months prior to death.

Benefit Surviving spouse received immediate annuity equal to 1½% of the Average Salary multiplied by years of Total Service, until death or remarriage. The minimum benefit is 15% of Average Salary. In addition, this annuity is increased by ½ for the first minor child and by ¼ for each additional child. Maximum total income is 75% of Average Salary.

If no surviving spouse or upon remarriage, then minor children will receive a benefit based on the following schedule:

One minor child	50% of Salary
Two minor children	65% of Salary
Three of more minor children	75% of Salary

Member Contributions

Prior to July 1, 2013, active members contribute 11% of current salary. Effective July 1, 2013 active member contributions will increase from 11% to 12%.

Employer Contributions

The government shall make current contributions to the fund on an actuarially funded basis. Such contributions shall be equal to the sum of:

- (1) An amount resulting from the application of a rate percent of salaries of active members determined under the entry age normal cost funding method, and
- (2) An amount sufficient to amortize the total unfunded liability actuarial accrued liability for the fund over a period of thirty years, using the level dollar amortization method, for a period beginning July 1, 2013 and ending June 30, 2043.

The total contribution of the government shall be at least \$20,000,000 until the actuarial funding level is at least 100%.



Post Retirement Cost-of-Living Increases

COLAs will be granted on the following schedule for both current and future retirees commencing upon the earlier of a member turning age 50 or being retired for five years until the Plan, utilizing the current COLA provisions, is 85% funded. At that time, COLA's will be granted each year by an amount, determined by the Board, of not less than 2.00% nor more than 5.00% compounded annually. In addition, those receiving a pension over \$100,000 will not be eligible to receive a COLA until the later of the proposed conditions or January 1, 2016.

Above \$100,000	1.0%
\$75,000 to \$99,000	1.0%
\$50,000 to \$74,999	1.5%
\$40,000 to \$49,999	1.5%
\$35,000 to \$39,999	2.0%
\$30,000 to \$34,999	2.0%
Under \$30,000	2.0%



SCHEDULE H

TABLE 1

DISTRIBUTION OF ACTIVE MEMBERS BY AGE AND SERVICE GROUPS

AS OF JULY 1, 2018

Attained Age	Completed Years of Service										Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	> 40	
Under 25	25	20	1								46
Avg. Pay	39,071	45,088	12,019								41,099
25 to 29	41	143	20								204
Avg. Pay	37,862	46,699	50,431								45,289
30 to 34	18	89	84	12							203
Avg. Pay	34,754	47,622	54,234	64,175							50,195
35 to 39	4	35	56	109	35						239
Avg. Pay	32,004	48,449	55,793	67,787	75,266						62,641
40 to 44		2	20	55	98	30					205
Avg. Pay		51,543	57,436	69,216	79,030	82,971					74,599
45 to 49			11	27	56	76	16				186
Avg. Pay			59,861	69,447	71,151	86,743	99,242				79,023
50 to 54			1	13	21	24	13				72
Avg. Pay			57,794	70,589	75,310	84,013	115,945				84,452
55 to 59					6	8	5				19
Avg. Pay					79,461	86,071	105,502				89,097
60 to 64					1		1	1			3
Avg. Pay					55,581		107,661	86,456			83,232
65 to 69				2	1						3
Avg. Pay				63,267	68,956						65,163
70 & up											
Avg. Pay											
Total	88	289	193	218	218	138	35	1			1,180
Avg. Pay	37,304	47,117	54,744	68,280	75,902	85,409	106,581	86,456			63,136



TABLE 2
NUMBER OF RETIRED MEMBERS AND BENEFICIARIES
AND THEIR BENEFITS BY AGE

<u>Attained Age</u>	<u>Number of Members</u>	<u>Total Annual Benefits</u>	<u>Average Annual Benefit</u>
50 & Under	184	\$ 7,158,473	\$ 38,905
51 – 55	163	8,450,553	51,844
56 – 60	161	9,185,135	57,051
61 – 65	146	8,414,860	57,636
66 – 70	195	10,006,873	51,317
71 – 75	167	7,579,323	45,385
76 – 80	119	5,346,182	44,926
Over 80	<u>97</u>	<u>3,664,552</u>	<u>37,779</u>
Total	1,232	\$ 59,805,950	\$ 48,544