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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

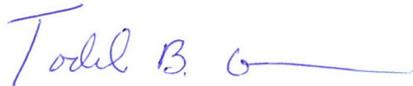
Prepared as of July 1, 2023



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,



Todd B. Green ASA, EA, FCA, MAAA
President



Beverly Bailey ASA, EA, FCA, MAAA
Senior Actuary

TBG:bvb



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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, 2023**

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, 2023	July 1, 2022
Active members:		
Number	1,114	1,131
Annualized compensation	\$ 94,259,858	\$ 86,046,356
Retired members and beneficiaries:		
Number	1,459	1421
Annual benefits	\$ 76,832,232	\$ 73,514,763
Assets:		
Market Value	\$ 888,918,670	\$ 841,988,481
Actuarial Value	928,640,216	908,680,885
Unfunded actuarial accrued liability	\$ 384,466,041	\$ 342,382,071
Amortization Period	20	21
Fiscal Years Ending	2025	2024
Employer contribution rate ¹		
Normal (Including Expenses)	15.04%	14.11%
Accrued liability	<u>32.31</u>	<u>28.62</u>
Total	47.35%	42.73%
Member contribution rate	12.00%	12.00%

¹Contribution rates reflect a phase-in of the cost of assumption changes over a three-year period.

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, 2023 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, 2023 are given in Section IV and further discussion of the contributions is set out in Section V.
7. Schedule E outlines the full set of actuarial assumptions and methods used in the current valuation. Various assumptions and methods were revised to reflect the results of the experience investigation for the five-year period ending June 30, 2021. **The valuation liabilities fully reflect the impact of all assumption changes. The Board approved a phase in of the increase in the required contributions due to the assumption changes over a three-year period.**
8. In our professional judgement, the funding policy produces a reasonable actuarial required contribution as defined in Actuarial Standard of Practice Number 4. Contributions are developed with the intent of being level as a percentage of covered payroll, assuming the number of active members remains stable. Furthermore, the funding policy is expected to accumulate sufficient assets to make all future benefit payments as they become due, if all assumptions are met.



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 1,114 active members with annualized compensation totaling \$94,259,858.
2. The following table shows the number of retired members and beneficiaries as of July 1, 2023 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, 2023**

GROUP	NUMBER*	ANNUAL RETIREMENT BENEFITS
Service Retirements	796	\$ 47,506,411
Disability Retirements	451	22,483,866
Beneficiaries of Deceased Members	<u>212</u>	<u>6,841,955</u>
Total	1,459	\$ 76,832,232

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, 2023, the total market value of assets amounted to \$888,918,670. The actuarial value of assets used for the current valuation was \$928,640,216. Schedule C shows the development of the actuarial value of assets as of July 1, 2023. 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, 2023. 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 \$1,567,661,017 of which \$949,256,411 is for the prospective benefits payable on account of present retired members and beneficiaries of deceased members, and \$618,404,606 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 \$928,640,216 as of July 1, 2023. The difference of \$639,020,801 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 26.51% of payroll are required under the entry age normal method. Of this amount, 12.00% is paid by the members and the remaining 14.51% is required by the Government.
4. Prospective normal contributions at the rate of 26.51% have a present value of \$254,554,760. When this amount is subtracted from \$639,020,801, which is the present value of the total future contributions to be made, there remains \$384,466,041 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 26.51%.
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 26.51% and the member contribution rate of 12.00%, or 14.51% of payroll.
5. The Government's administrative expensed load is equal 0.53% of payroll, which is included with the normal rate.
6. The annual accrued liability contribution rate is determined to be 32.31% of payroll. Contributions at this level would be sufficient to amortize the unfunded accrued liability over a 20 year period on a level dollar basis.
7. The phase-in employer contribution rate for the plan years ending June 30, 2025 is, therefore, 47.35% of payroll.
8. The total employer contribution rate without the phase-in would have been 52.94% of payroll.



The following table on the following page summarizes the employer contributions which were determined by the July 1, 2023 valuation and are recommended for use.

**ANNUAL REQUIRED CONTRIBUTION RATE
FOR PLAN YEARS ENDING JUNE 30, 2025**

CONTRIBUTION*	PERCENTAGE OF ACTIVE MEMBERS' COMPENSATION
Normal Rate (with Expenses)	15.04%
Accrued Liability	<u>32.31</u>
Total	47.35%

* Contribution rates reflect a phase-in of the cost of assumption changes over a three-year period.

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, 2023**

GROUP	NUMBER
Retired participants and beneficiaries currently receiving benefits	1,459
Terminated participants and beneficiaries entitled to benefits but not yet receiving benefits	0
Active Participants	<u>1,114</u>
Total	2,573



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)
7/01/2018	\$725,884,686	\$979,834,352	\$253,949,666	74.1%	\$78,063,051	325.3%
7/01/2019	756,269,783	1,018,818,817	262,549,034	74.2	81,651,049	321.6
7/01/2020	792,175,490	1,055,543,614	263,368,124	75.0	81,524,779	323.1
7/01/2021	867,161,620	1,091,091,443	223,929,823	79.5	79,312,644	282.3
7/01/2022	908,680,885	1,251,062,956	342,382,071	72.6	86,046,356	397.9
7/01/2023	928,640,216	1,313,106,257	384,466,041	70.7	94,259,858	407.9

3. Additional information as of July 1, 2023 follows:

Valuation date	July 1, 2023
Actuarial cost method	Entry age normal
Amortization period	Level dollar, closed
Remaining amortization period	20 years
Asset valuation method	Actuarial Related Value
Actuarial assumptions:	
Investment rate of return (includes inflation)	7.00%
Projected salary increases (includes inflation)	12.50% to 5.00%
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, 2022 to July 1, 2023 .

DETERMINATION OF ACTUARIAL (GAIN) / LOSS

A. Accrued Actuarial Liability (Gain) / Loss Analysis	
1. Actual Accrued Actuarial Liability as of July 1, 2022	\$1,251,062,956
2. Normal Cost (Including Expenses)	\$24,961,381
3. Interest on items 1 and 2 [(1+2) x 7.00%]	\$89,321,704
4. Benefit Payments (Including Expenses)	(\$75,828,146)
5. Interest on item [4 x 7.00% x .5]	(\$2,653,985)
6. Expected Accrued Actuarial Liability as of July 1, 2023 (1. + 2. + 3. + 4. + 5.)	<u>\$1,286,863,910</u>
7. Changes due to:	
a. Assumption changes	\$0
b. Plan amendments	\$0
c. Funding Method	\$0
d. Other	\$0
8. Actual Accrued Actuarial Liability as of July 1, 2023	<u>\$1,313,106,257</u>
9. Liability (Gain) / Loss [8. - 7 - 6.]	\$26,242,347
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, 2022	\$ 908,680,885
2. Interest on item [1 x 7.00%]	\$63,607,662
3. Contributions and Other Revenue	\$45,385,152
4. Interest on item [3 x 7.00% x .5]	\$1,588,480
5. Benefit Payments (Including Expenses)	(\$75,828,146)
6. Interest on item [5 x 7.00% x .5]	(\$2,653,985)
7. Expected Actuarial Value of Assets as of July 1, 2023	<u>\$940,780,048</u>
8. Actuarial Value of Assets as of July 1, 2023	<u>\$928,640,216</u>
9. Asset (Gain) / Loss	\$12,139,832
C. Total Actuarial (Gain) / Loss During 2022 / 2023 Plan Year (A.9 + B.9)	\$38,382,179



ANALYSIS OF (GAIN) / LOSS

1. Expected Unfunded Accrued Liability as of July 1, 2023 (Page 8: A.6 - B.7)		\$346,083,862
2. Change in Unfunded Accrued Liability During 2022/2023 Plan Year:		
a. Due to Salary	\$18,022,543	
b. Due to Investment Performance	\$12,139,832	
c. Due to Turnover	(\$927,570)	
d. Due to New Retirements	\$3,715,675	
e. Due to Disability Retirements	(\$2,291,432)	
f. Due to Data/Service Adjustments/Benefit Payments	(\$45,209)	
g. Due to New Members	\$2,262,508	
h. Due to Mortality	\$5,523,161	
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 2022/2023 Plan Year (Sum of changes in item 2)		\$38,382,179
4. Unfunded Accrued Liability as of July 1, 2023: (1. + 3.)		\$384,466,041
5. Comments on Change in Unfunded Accrued Liability Contribution Rate:		
<u>Salary/Service:</u> Actual average salary increase of 7.6% compared to expected increases of 5.6%		
<u>Investment Performance:</u> 5.63% actual vs. 7.00% 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>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		



SECTION VIII – RISK CONSIDERATIONS

A typical retirement plan faces many different risks, but the greatest risk is the inability to make benefit payments when due. If plan assets are depleted, benefits may not be paid which could create legal and litigation risk or the plan could become “pay as you go”. The term “risk” is most commonly associated with an outcome with undesirable results. However, in the actuarial world, risk can be translated as uncertainty. The actuarial valuation process uses many actuarial assumptions to project how future contributions and investment returns will meet the cash flow needs for future benefit payments. Of course, we know that actual experience will not unfold exactly as anticipated by the assumptions and that uncertainty, whether favorable or unfavorable, creates risk. ASOP 51 defines risk as the potential of actual future measurements to deviate from expected results due to actual experience that is different than the actuarial assumptions.

The various risk factors for a given plan can have a significant impact – positive or negative – on the actuarial projection of liability and contribution rates.

There are a number of risks inherent in the funding of a defined benefit plan. These include:

- economic risks, such as investment return and price inflation;
- demographic risks such as mortality, payroll growth, aging population including impact of baby boomers, and retirement ages;
- contribution risk, i.e., the potential for contribution rates to be too high for the plan sponsor/employer to pay and
- external risks such as the regulatory and political environment.

There is a direct correlation between healthy, well-funded retirement plans and consistent contributions equal to the full actuarial contribution rate each year. The Plan is primarily funded by member and employer contributions to the trust fund, together with the earnings on these accumulated contributions. These contributions fund benefit accruals for current active members and administrative expenses. The remainder of the contributions amortizes the unfunded actuarial accrued liability. The required contribution rate is the sum of the rates for the normal cost for the plan and the amortization of the unfunded actuarial accrued liability. The required contribution rate is sensitive to increases in the UAAL and periods of lower than expected returns would lead to much higher contribution rates as a percentage of payroll.

The other significant risk factor for the Plan is investment return because of the volatility of returns and the size of plan assets compared to payroll. A perusal of historical returns over 10-20 years reveals that the actual return each year is rarely close to the average return for the same period. This is to be expected, given the underlying capital market assumptions and the Plan’s asset allocation. To the extent market rates of interest affect the expected return on assets, there is a risk of change to the discount rate which determines the present value of liabilities and actuarial valuation results.

A key demographic risk for the Plan is improvements in mortality (longevity) greater than anticipated. While the actuarial assumptions reflect a margin for improvement in mortality experience these assumptions are refined every experience study, the risk arises because there is a possibility of some sudden shift, perhaps from a significant medical breakthrough that could quickly increase liabilities. Likewise, there is some possibility of a significant public health crisis that could result in a significant number of additional deaths in a short time period, which would also be significant, although more easily absorbed. While either of these events could happen, it represents a small probability and thus represents much less risk than the volatility associated with investment returns.

The following exhibits summarize some historical information that helps indicate how certain key risk metrics have changed over time. Many are due to the maturing of the retirement system.



**Historical Asset Volatility Ratios
(in 1,000's)**

As a retirement system matures, the size of the market value of assets increases relative to the covered payroll of active members, on which the Plan is funded. The size of the plan assets relative to covered payroll, sometimes referred to as the asset volatility ratio, is an important indicator of the contribution risk for the Plan. The higher this ratio, the more sensitive a plan's contribution rate is to investment return volatility. In other words, it will be harder to recover from investment losses with increased contributions.

Fiscal Year End	Market Value of Assets (\$ Thousands)	Covered Payroll (\$ Thousands)	Asset Volatility Ratio
2014	\$ 636,281	\$ 63,248	10.06
2015	634,716	62,103	10.22
2016	619,901	63,869	9.71
2017	695,183	73,559	9.45
2018	745,171	78,063	9.55
2019	766,781	81,651	9.39
2020	790,402	81,525	9.70
2021	995,270	79,313	12.55
2022	841,988	86,046	9.79
2023	888,919	94,260	9.43

The assets at June 30, 2023 are 9.43% of payroll, so underperforming the investment return assumption by 1.00% (i.e., earn 6.00% for one year) is equivalent to 9.43% of payroll. While the actual impact in the first year is mitigated by the asset smoothing method and amortization of the UAL, this illustrates the risk associated with volatile investment returns.



Historical Cash Flows
(in 1,000's)

Plans with negative cash flows will experience increased sensitivity to investment return volatility. Cash flows, for this purpose, are measured as contributions less benefit payments and administrative expenses. If the Plan has negative cash flows and then experiences returns below the assumed rate, there are fewer assets to be reinvested to earn the higher returns that typically follow. While any negative cash flow will produce such a result, it is typically a negative cash flow of more than 5% of MVA that may cause significant concerns. The Plan has negative cash flows which range from 2% to 4% for the prior ten years, so there is no immediate concern.

Fiscal Year End	Market Value of Assets (\$ Thousands)	Contributions (\$ Thousands)	Benefit Payments & Expenses (\$ Thousands)	Net Cash Flow (\$ Thousands)	Net Cash Flow as % of Market Value
2014	\$ 636,281	\$ 37,367	\$ 57,512	\$ (20,145)	(3.17)
2015	634,716	32,586	53,953	(21,366)	(3.37)
2016	619,901	34,328	56,432	(22,104)	(3.57)
2017	695,183	40,995	59,950	(18,955)	(2.73)
2018	745,171	38,335	62,529	(24,194)	(3.25)
2019	766,781	40,746	63,636	(22,890)	(2.99)
2020	790,402	43,532	66,257	(22,725)	(2.88)
2021	995,270	42,461	70,352	(27,891)	(2.80)
2022	841,988	46,961	74,480	(27,519)	(3.27)
2023	888,919	45,385	78,163	(32,778)	(3.69)



**Liability Maturity Measurement
(in 1,000's)**

Most public sector retirement systems have been in operation for many years. As a result, they have aging plan populations, and in some cases declining active populations, resulting in an increasing ratio of retirees to active members and a growing percentage of retiree liability. The retirement of the remaining baby boomers over the next decade is expected to further exacerbate the aging of the retirement system population. With more of the total liability residing with retirees, investment volatility has a greater impact on the funding of the system since it is more difficult to restore the system financially after losses occur when there is comparatively less payroll over which to spread costs. Below are two tables which demonstrate the ratio of the System's retiree liability compared to the total accrued liability and the ratio of the number of retirees and beneficiaries to the number of active members.

Fiscal Year End	Retiree Liability (\$ Thousands)	Total Actuarial Liability (\$ Thousands)	Retiree Percentage
2014	\$ 568,740	\$ 760,384	74.80%
2015	594,160	794,383	74.80%
2016	627,125	830,280	75.53%
2017	691,861	947,660	73.01%
2018	718,005	979,834	73.28%
2019	742,259	1,018,819	72.85%
2020	780,670	1,055,544	73.96%
2021	825,414	1,091,091	75.65%
2022	913,886	1,251,063	73.05%
2023	949,256	1,313,106	72.29%

Historical Member Statistics

Fiscal Year End	Active Count	Retiree Count	Active to Retiree Ratio
2014	1,097	1,070	1.03
2015	1,111	1,116	1.00
2016	1,123	1,161	0.97
2017	1,144	1,201	0.95
2018	1,180	1,232	0.96
2019	1,193	1,261	0.95
2020	1,162	1,301	0.89
2021	1,133	1,356	0.84
2022	1,131	1,422	0.80
2023	1,114	1,459	0.76



Liquidation Risk

Under the revised Actuarial Standards of Practice (ASOP) No. 4 effective for valuations after February 15, 2023, we must now include a low-default-risk obligation measure of the System's liability in our funding valuation report. This is an informational disclosure as described below and would not be appropriate for assessing the funding progress or health of the plan.

This measure uses the unit credit cost method and reflects all the assumptions and provisions of the funding valuation except that the discount rate is derived from considering low-default-risk fixed income securities. We considered the FTSE Pension Discount Curve based on market bond rates published by the Society of Actuaries as of June 30, 2023 and with the 30-year spot rate used for all durations beyond 30. Using these assumptions, we calculate a liability of approximately \$1,693.8 million.

This amount approximates the termination liability if the plan (or all covered employment) ended on the valuation date and all of the accrued benefits had to be paid with cash-flow matched bonds. This assurance of funded status and benefit security is typically more relevant for corporate plans than for governmental plans since governments rarely have the need or option to completely terminate a plan.



SCHEDULE A

DEVELOPMENT OF THE UNFUNDED ACTUARIAL ACCRUED LIABILITY

		July 1, 2023
(1)	Present value of prospective benefits:	
(a)	Present active members	\$ 618,404,606
(b)	Present retired members, beneficiaries and former members entitled to deferred vested benefits	<u>949,256,411</u>
(c)	Total	\$ 1,567,661,017
(2)	Present value of future Government and member normal contributions before expenses	<u>254,554,760</u>
(3)	Actuarial accrued liabilities 1(c) – (2)	\$ 1,313,106,257
(4)	Actuarial value of assets	<u>928,640,216</u>
(5)	Unfunded actuarial accrued liability (3) – (4)	\$ 384,466,041



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		\$ 949,256,411
Present value of prospective benefits payable on account of present active members		<u>\$ 618,404,606</u>
Total liabilities		<u>\$1,567,661,017</u>
<u>PRESENT AND PROSPECTIVE ASSETS</u>		
Actuarial value of assets		\$ 928,640,216
Present value of future contributions		
Government and member normal contributions	254,554,760	
Unfunded accrued liability contributions	<u>384,466,041</u>	
Total prospective contributions		\$ 639,020,801
Total assets		<u>\$1,567,661,017</u>



SCHEDULE C
Development of Actuarial Value of Assets

Valuation date June 30:	2022	2023	2024	2025	2026	2027
A. Actuarial Value Beginning of Year	\$ 867,161,620	\$ 908,680,885				
B. Market Value End of Year	841,988,481	888,918,670				
C. Market Value Beginning of Year	995,270,337	841,988,481				
D. Cash Flow						
D1. Contributions	\$ 46,919,404	\$ 45,329,099				
D2. Other Revenue	41,673	56,053				
D3. Benefit Payments	(71,638,929)	(75,333,043)				
D4. Administrative Expenses	(459,495)	(495,103)				
D5. Investment Expenses	(2,381,334)	(2,334,661)				
D6. Net	\$ (27,518,681)	\$ (32,777,655)				
E. Investment Income						
E1. Market Total: B.-C.-D6.	\$ (125,763,175)	\$ 79,707,844				
E2. Assumed Rate (Net of Investment Expenses)	7.50%	7.00%				
E3. Amount for Immediate Recognition	76,560,685	60,232,861				
E4. Amount for Phased-In Recognition	(202,323,860)	19,474,983				
F. Phased-In Recognition of Investment Income						
F1. Current Year: 0.20 * E4.	\$ (40,464,772)	\$ 3,894,997	\$ -	\$ -	\$ -	\$ -
F2. First Prior Year	34,368,904	(40,464,772)	3,894,997	-	-	-
F3. Second Prior Year	(2,645,018)	34,368,904	(40,464,772)	3,894,997	-	-
F4. Third Prior Year	(2,649,986)	(2,645,018)	34,368,904	(40,464,772)	3,894,997	-
F5. Fourth Prior Year	3,868,133	(2,649,986)	(2,645,018)	34,368,904	(40,464,772)	3,894,997
F6. Total Recognized Investment Gain	\$ (7,522,739)	\$ (7,495,875)	\$ (4,845,889)	\$ (2,200,871)	\$ (36,569,775)	\$ 3,894,997
G. Preliminary Actuarial Value End of Year A.+D6.+E3.+F6.	\$ 908,680,885	\$ 928,640,216				
H. Corridor						
H1. 80% of Market Value	\$ 673,590,785	\$ 711,134,936				
H2. 120% of Market Value	\$ 1,010,386,177	\$ 1,066,702,404				
I. Actuarial Value End of Year H. Not Less than H1. or Greater than H2	\$ 908,680,885	\$ 928,640,216				
J. Difference Between Market & Actuarial Values	\$ (66,692,404)	\$ (39,721,546)	\$ (34,875,657)	\$ (32,674,786)	\$ 3,894,993	\$ 4
K. Market Value of Assets Return	-13.08%	9.31%				
L. Actuarial Value of Assets Return	7.74%	5.64%				

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	11,830,235
Employer	33,498,864
Other	<u>56,053</u>
Total	45,385,152
Investment Income	<u>77,023,029</u>
TOTAL	122,408,181
<u>Disbursements for the Period</u>	
Benefit Payments	75,333,043
Administrative Expense	<u>495,103</u>
TOTAL	75,828,146
<u>Excess of Receipts over Disbursements</u>	46,580,035
<u>Reconciliation of Asset Balances</u>	
Market Value of Assets as of BOY	841,988,481
Adjustment to opening fund balance	350,154
Excess of Receipts over Disbursements	<u>46,580,035</u>
Market Value of Assets as of EOY	888,918,670
Rate of Return on Market Value of Assets	9.31%



SCHEDULE E

OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS

INVESTMENT RATE OF RETURN: 7.00% net of investment expenses, 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%	8.70	12.50%
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
5-19	3.50	1.45	5.00
20 or more	3.50	0.97	4.50

SEPARATIONS FROM ACTIVE SERVICE: For death rates, the PUB-2010 Safety Amount Weighted Employee mortality table projected generationally using Scale MP-2021. Representative values of the assumed annual rates of separation from active service are as follows:

<u>Disability Rates</u>		<u>Termination Rates</u>	
<u>Age</u>		<u>Service</u>	
		0	7.50%
22	0.01%	1	6.00
27	0.17	2	4.50
32	0.69	3	4.50
37	1.26	4	3.25
42	1.89	5	3.25
47	2.58	6	2.25
52	3.34	7	1.75
57	3.49	8	1.75
62	4.24	9 or more	1.00



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

Age	Hired Prior to July 1, 2013		Hired on or after July 1, 2013	
	First Eligible (20 Years)	Rate	First Eligible (25 Years)	Rate
41-49	20.0%	15.0%		
50-68	29.0	24.0	29.0%	24.0%
70	100.0	100.0	100.0	100.0

MORTALITY RATES:

Active participants	PUB 2010 (B) Safety Amount Weighted Employee Mortality for males and females. Projected generationally using MP-2021.
Disabled pensioners	PUB 2010 (B) Safety Amount Weighted Disabled Retiree Mortality with ages set forward 1 year for males, projected to 2021 using MP-2021.
Contingent Survivor pensioners	PUB 2010 (B) Safety Amount Weighted Contingent Survivor Mortality. Projected generationally using MP-2021.
Retired Healthy pensioners	PUB 2010 (B) Safety Amount Weighted Healthy Retiree Mortality Table. Projected generationally using MP-2021.

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 benefit amount is assumed to be 55.0% of the member's last rate of salary.

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

SICK LEAVE LOAD: 13.5% load on final average salary at retirement for cashed-in sick days.



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.

ADMINISTRATIVE EXPENSE LOAD: The amount to varies from year to year based on the prior year's actual administrative expenses.



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 7.00%), 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 March 14, 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 \$1,500.
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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 March 14, 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).
-------------	-----------------------------------------------------------------------------------------------------------------------------

Benefit	Annuity is 2½% of Average Salary multiplied by years of Total Service. The minimum monthly benefit is \$1,500.
---------	----------------------------------------------------------------------------------------------------------------

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 March 14, 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 \$1,500.

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 March 14, 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 March 14, 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 March 14, 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 March 14, 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 of 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 $1\frac{1}{2}\%$ 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 $\frac{1}{2}$ for the first minor child and by $\frac{1}{4}$ 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 or 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, 2023

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 Avg. Pay	21 54,648	23 56,874									44 55,812
25 to 29 Avg. Pay	17 55,327	106 62,426	37 69,591	3 61,187							163 63,289
30 to 34 Avg. Pay	8 55,048	71 60,869	154 73,562	18 80,850	1 83,965						252 69,960
35 to 39 Avg. Pay	2 56,180	26 61,431	95 70,478	72 82,721	13 92,583						208 74,829
40 to 44 Avg. Pay	2 60,709	2 65,225	31 71,933	45 81,096	95 97,455	32 103,917					207 90,409
45 to 49 Avg. Pay			1 79,123	16 85,054	40 97,035	57 108,521	11 122,674				125 102,852
50 to 54 Avg. Pay				10 86,386	22 95,573	26 93,632	26 113,572	5 129,000			89 101,110
55 to 59 Avg. Pay				1 78,560	8 91,106	7 106,922	7 122,162	1 148,645			24 106,652
60 to 64 Avg. Pay						2 90,450					2 90,450
65 to 69 Avg. Pay											
70 & up Avg. Pay											
Total Avg. Pay	50 55,247	228 61,292	318 72,037	165 82,105	179 96,417	124 103,829	44 117,214	6 132,274			1,114 80,141



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	186	\$ 7,639,390	\$ 41,072
51 – 55	210	11,140,372	53,049
56 – 60	213	12,249,214	57,508
61 – 65	179	11,019,431	61,561
66 – 70	153	9,464,083	61,857
71 – 75	197	10,529,111	53,447
76 – 80	157	7,516,674	47,877
Over 80	<u>164</u>	<u>7,273,958</u>	<u>44,353</u>
Total	1,459	\$ 76,832,233	\$ 52,661