

**KENTUCKY JUDICIAL
RETIREMENT PLAN**

GASB DISCLOSURE REPORT

**AS OF
JULY 1, 2016**

CONTENTS

Introduction	1
Summary of Benefits	3
Actuarial Assumptions	7
Actuarial Methods	10
Actuarial Certification	11
GASB Statement No. 67	12
Statement of Changes in Fiduciary Net Position Under GASB Statement No. 67	12
Net Pension Liability Under GASB Statement No. 67	13
Schedule of Contributions Under GASB Statement No. 67.....	15
Additional Requirements Under GASB Statement No. 67	15
GASB Statement No. 68	16
Schedule of Changes in NPL, Deferrals, & Pension Expense.....	16
Pension Expense & Deferred Outflows/Inflows of Resources.....	17
GASB Statement No. 43	19
Schedule of Funding Progress Under GASB Statement No. 43	19
GASB Statement No. 45	20
Schedule of Employer Contributions Under GASB Statement No. 45	20
Determination of Annual OPEB Cost Under GASB Statement No. 45	20
Actuarial Asset Value	21
GASB Notes	22

An actuarial valuation of the Kentucky Judicial Retirement Plan (“KJRP”) was last performed as of July 1, 2015. The results shown in this report as of July 1, 2016 were developed using a “roll-forward” method that employs generally accepted actuarial techniques. The results in this report have been developed with full reliance on the July 1, 2015 Actuarial Valuation Report. **This report covers only the traditional defined benefit/OPEB tier of KJRP.**

Actuarial valuations are based on the integrity of employee data, plan asset data, plan provisions and an extensive set of assumptions regarding future events. There is necessary uncertainty with any actuarial calculation based on the accuracy of the data provided, the correct interpretation of plan provisions and the realization of the assumptions made. These results were based on participant data and asset information provided by The Kentucky Judicial Form Retirement System. This information was not audited but was reviewed for reasonableness.

Detailed explanations of the actuarial assumptions and methods used in the report are contained in later sections of this report. Also included in this report is a summary of provisions of the plan as we understand them.

Governmental Accounting Standards Board Statement 67 (“GASB 67”) and Statement 43 (“GASB 43”) establish financial reporting standards for defined benefit pension plans and other postemployment benefit (OPEB) plans sponsored by employers that are subject to governmental accounting standards. Governmental Accounting Standards Board Statement 68 (“GASB 68”) and Statement 45 (“GASB 45”) provide standards for reporting pension and OPEB expenditures and expense, and related liabilities and assets for such plans. The purpose of this report is to provide pertinent financial statement disclosure information for the fiscal year ending in 2016. Actuarial computations under Statements 67, 68, 43, and 45 are for purposes of fulfilling plan and employer governmental accounting requirements and may not be appropriate for other purposes. This report has been prepared on a basis consistent with our understanding of the statements and does not constitute legal, accounting, tax or investment advice.

Statement 68 sets forth a methodology for the calculation of the annual Pension Expense for the upcoming fiscal year. GASB 68 provides a method for reflecting prior gains and losses from asset and plan experience, as well as other areas including plan amendments. Amounts not reflected previously or in the upcoming year are reflected in the Deferred Outflows and Inflows of Resources shown.

Statement 45 sets forth a methodology to determine annual adjustments to the Annual Required Contribution (ARC), which is the contribution recommended pursuant to the appropriate actuarial valuation, to account for differences between amounts expensed and contributions actually made. Under GASB 45, the resulting adjusted amount is referred to as the Annual OPEB Cost (AOC) and the accumulated difference between the AOC and the actual contribution is referred to as the Net OPEB Obligation (NOO).

BPS&M does not have access to and is not providing information concerning liabilities other than benefits, such as for legal or accounting fees.

BPS&M is not aware of any significant events subsequent to the current year’s measurement date that could materially affect the information contained in this report.

We are not aware of any relationship between the plan or plan sponsor and BPS&M, LLC or our parent corporation, Wells Fargo Company (until September 30, 2016), which would impair or appear to impair our objectivity.

To the best of our knowledge, all information provided in this report is complete and accurate and disclosures for GASB purposes have been determined in accordance with generally accepted accounting principles.

Legislative Background

State statutes were amended in 2013 such that all participants entering KJRP on or after January 1, 2014 will be covered under a hybrid cash balance/OPEB tier; those entering before that date will continue to be covered under the traditional defined benefit/OPEB tier. The legislation making this change also restricted the availability of future cost-of-living adjustments (COLA's) to plan benefits.

Actuarial Soundness

A plan that has adopted a reasonable funding method, that adopts reasonable assumptions and which contributes at a rate at or above the recommended contribution rate (based on these reasonable methods and assumptions), could be considered to be actuarially sound.

In order to ensure KJRP is funded in an “actuarially sound manner”, we would recommend the following:

1. Reflect a 1.5% future COLA assumption when calculating the funding requirement for KJRP (only a minimal COLA, as described later in this report, is currently assumed), to the extent future cost-of-living increases are expected to occur, or intended to be provided.
2. Revise the actuarial funding method to amortize all past unfunded as well as new liabilities over a period not more than 30 years (we suggest shorter periods for various sources of new liability) and amortize future gains and losses over a period not more than 15 years. (Note that GASB 68 may require the expensing of liabilities at a faster pace than these amortization periods.)
3. Contribute at least the recommended contribution each year.

Deviations from these recommendations may result in an “actuarially unsound” approach to funding KJRP and may eventually result in KJRP becoming insolvent – that is, exhausting assets at which time all future benefits would be provided on a pay as you go basis.

Although the Actuarial Standards of Practice 4 “Measuring Pension Obligations” allows for plan liabilities to be calculated under a legally prescribed method, the statement goes on to say,

“If, in the actuary’s professional judgment, such an actuarial cost method or amortization method is significantly inconsistent with the plan accumulating adequate assets to make benefit payments when due, assuming that all actuarial assumptions will be realized and that the plan sponsor or other contributing entity will make contributions when due, the actuary should disclose this.”

It is our professional actuarial opinion that the current legally prescribed method, which requires contributions of normal cost plus interest on the unfunded liability plus 1% of the unfunded liability (per KRS 21.525) and which (per KRS 21.405) does not recognize cost of living increases effective after the most recent valuation (assuming future increases are expected), is inconsistent with the plan accumulating adequate assets to make benefit payments when due, assuming all actuarial assumptions are realized. The current method of amortizing unfunded liabilities will not result in the full amortization of those liabilities.

This summary is not a Summary Plan Description or a plan document. You should not rely solely on this summary in making a determination of eligibility of benefits. Liabilities and plan provisions are based on the plan data and provisions as of July 1, 2015. This report covers only the traditional defined benefit/OPEB tier of KJRP.

Source

Sections 21.345-21.580 of the Kentucky Revised Statutes.

Eligibility for Membership

District, Circuit, Court of Appeals and Supreme Court Judges may, within 30 days after taking office, elect to make monthly contributions, and thereby become eligible for membership in the plan. Individuals commencing participation on or after January 1, 2014 will participate in the hybrid plan.

Employee Contributions

Members entering the plan on or after September 1, 2008 must contribute 6% of their “official salary”. Members entering the plan prior to September 1, 2008 must contribute 5% of their “official salary”. Once a member has earned sufficient service credit to have accrued a benefit of 100% of final average compensation, then employee contributions shall cease.

Normal Retirement

Condition

Members who have completed at least 8 years of service and have attained age 65. However, the age 65 requirement shall be reduced by one year for each five years of service, and one year for each year beyond the years of service needed to accrue a benefit of 100% of final average compensation, but with total reduction not to reduce the age requirement below 60. The full accrued benefit will also be payable upon completion of 27 years of service.

For purposes of determining years of service for vesting only, years of service under other authorized state systems will count.

Benefit Formula

The monthly retirement income, payable for the member’s lifetime, is based on the following formula:

Members who first participated before July 1, 1978, 5% of final average compensation multiplied by years of service, so long as his service continues without interruption. In no event shall the monthly retirement benefit exceed 100% of final average compensation. (Final average compensation means the average monthly compensation of the member for the 60 months of service immediately preceding retirement date, except for retirements occurring on or before January 1, 2009 which shall use 36 months).

For an individual who first participated, or renewed former participation, between July 1, 1978 and June 30, 1980 the benefit shall be 4.15% of average compensation multiplied by years of service not to exceed 100% of average compensation.

For all other individuals, the benefit shall be 2.75% of average compensation multiplied by years of service not to exceed 100% of average compensation.

Early Retirement

Members who retire prior to normal retirement date with at least 8 years of service have two alternatives with regard to receiving retirement income as follows:

1. Upon reaching normal retirement age, the member may be vested with the right to receive a monthly service retirement allowance computed and payable on the basis of years of service and average salary for the 60 months prior to retirement, or
2. A member may elect to be paid, commencing as of the date of the election, a monthly service retirement allowance equivalent to the amount of monthly allowance that would have been paid had the member waited until reaching normal retirement age, but reduced in accordance with age at the time of election for each year under normal retirement age at the rate of 5% per year.

If the member has 27 or more years of service credit, there shall be no reduction for benefit commencement prior to normal retirement age. If the difference between the number of years of total governmental service and 27 is less than the difference between actual age and normal retirement age, the reduction shall be 5% for each year of service under 27.

Late Retirement

A judge may continue service past normal retirement age and will continue to accrue service credits, but cannot receive a benefit in excess of 100% of final average compensation.

Disability Benefit

Condition

No service requirement.

Benefit

Upon determination of disability, a member will be eligible to receive ½ of the monthly retirement income that would have been payable commencing at normal retirement date if this member had continued service until that date and then retired. In calculating the retirement income, average salary for the 5 years preceding disability will be used. When a disabled member reaches normal retirement date, the member may apply and start receiving the full amount of retirement income that would have been payable based upon the actual number of years of service and compensation, in lieu of the disability benefit.

Death Benefit

Upon the death of a member who at the time of death was receiving a retirement income (other than an actuarially reduced income), or was receiving a disability income, the surviving spouse (if married to the member at the time of retirement) is entitled to receive a monthly allowance equal to ½ of what the member was receiving for his/her lifetime.

If a member dies after retirement, and was at the time receiving an actuarially reduced allowance, or was not receiving an allowance, but had acquired a vested right to have received an allowance upon reaching normal retirement date, the surviving spouse (if married to the member at the time of retirement) is entitled to receive ½ of the monthly allowance the member would have received at normal retirement date for his/her lifetime.

If an active member dies before retirement and before reaching normal retirement age, without regard to length of service, the surviving spouse is entitled to receive a monthly allowance payable for his/her lifetime equal to ½ of the monthly retirement income the member would have received commencing at the member's normal retirement date as if the member had continued in service until that date and then retired, computed on the basis of final compensation at the time of death.

If a member dies before retirement and after reaching normal retirement date, the surviving spouse is entitled to receive a monthly allowance payable for his/her lifetime equal to ½ of the monthly allowance the member would have been entitled to on the basis of years of service, had the member retired on his date of death, computed on the basis of final compensation at the time of death.

If a member is not married at the time of death, any death benefits described above to which a surviving spouse would have been entitled will be payable to the children of the deceased member until such time as the youngest child attains age 21, or for the life of a disabled child. Also, a member may designate that survivor benefits shall go in part or in total to minor children instead of the spouse.

If cumulative payments to the member and/or beneficiary do not exceed the member's total contributions to this plan, then the excess of such contributions over cumulative plan benefits paid shall be paid as an additional death benefit.

Termination Benefit

If a Judge ceases to be a member of the plan other than by death or disability without having completed at least 8 years of service, then the amount of the member's accumulated contributions shall be returned to the member. If, thereafter, this individual again becomes a holder of an office qualifying for membership in this plan then this individual shall not be entitled to credit for the prior period of service unless, at the time he again participates in the plan, the amount previously refunded is repaid with interest.

Cost-of-Living Adjustment

Ad hoc cost-of-living adjustments (COLA's) have been granted as noted below:

Effective Date of Increase	Percentage Increase	Increase Applies To Benefits Based on Service Prior To
7/1/1986	5%	6/30/1980
7/1/1988	5%	6/30/1982
7/1/1989	5%	6/30/1982
7/1/1990	5%	6/30/1990
7/1/1991	5%	6/30/1991
7/1/1993	3%	6/30/1993
7/1/1994	5%	6/30/1994
7/1/1995	5%	6/30/1995
7/1/1996	None	N/A
7/1/1997	None	N/A
8/1/1998	2.3%	N/A
7/1/1999	1.6%	N/A
7/1/2000	2.2%	N/A
7/1/2001	3.4%	N/A
7/1/2002	2.85%	N/A
7/1/2003	1.6%	N/A
7/1/2004	2.3%	N/A
7/1/2005	2.7%	N/A
7/1/2006	3.4%	N/A
7/1/2007	3.2%	N/A
7/1/2008	2.8%	N/A
7/1/2009 and later*	1.5%	N/A

*COLA's were suspended for fiscal years beginning in 2012 and 2013; COLA's after 7/1/2013 are not reflected in this valuation. No further COLA's will be granted until the plan is 100% funded, unless a one-time COLA is 100% prefunded.

In addition, a provision for on-going cost-of-living adjustments is made by statute. Effective August 1, 1998 and each July 1 thereafter, a recipient of a monthly pension shall receive a cost-of-living adjustment keyed to the Consumer Price Index. This COLA is excluded from the inviolable contract and can be repealed by the General Assembly at any time. Beginning July 1, 2009, this cost-of-living adjustment will be 1.50% for all retirees who have been retired in excess of one year and prorated for those retired less than one year. No further COLA's will be granted until the plan is 100% funded, unless a one-time COLA is 100% prefunded.

The prior language relating to COLA adjustments remains in the statute. Under that provision, as of each July 1, (beginning July 1, 1983) the pension of each beneficiary shall be redetermined as the greater of the present pension, or a pension recomputed at a 1.5125% benefit rate and using the current 60-month average earnings of the office held by the retiree at the time of retirement (such recomputed pension subject to a maximum of 55% of that current average earnings), subject to a 4.0% COLA annually.

Pursuant to statutory requirements, COLA increases are not reflected in plan liabilities until actually granted, except for any anticipated COLA adjustments under the provision as in effect prior to August 1, 1998.

Medical Insurance Premium Supplement

Retired members, in addition to actual retirement benefits, will have a percentage of their (and their dependent's) medical insurance premium paid by the plan. The percentage will vary based on the numbers of years of service credit as follows:

<u>Years of Service Credit at Retirement</u>	<u>Percentage of Medical Insurance Premium Paid by the Plan</u>
20 or more	100%
15, but less than 20	75%
10, but less than 15	50%
4, but less than 10	25%
Less than 4	0%

The premium rates as of July 1, 2015:

	<u>Monthly Premium</u>
<i>Under age 65</i>	
Family coverage	\$1,701.04
Single coverage	699.28
Parent Plus coverage	995.34
Member and Spouse	1,528.34
<i>Age 65 or older</i>	
Medicare Advantage PPO	391.00

Premium rates are approved by the Board.

Funding Method

Accrued liability and normal cost calculated based on Entry Age Normal funding method. The required contribution is calculated based on KRS 21.525, which requires contributions of normal cost plus interest on the unfunded liability plus 1% of the unfunded liability.

Interest

7% per annum – this rate was selected by the Board of Trustees and BPS&M and the Fund Investment Manager believe this to be a reasonable long-term rate of return assumption.

The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at the current statutory contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2049. The long-term expected rate of return on pension plan investments was applied to periods of projected benefit payments through this date, and the municipal bond rate was used for the period thereafter to determine the total pension liability. The discount used to measure the total pension liability on the second bases was 7.00% for 34 years and 3.80% thereafter. This is equivalent to an average assumed rate of return of approximately 6.41%.

Mortality

Beginning July 1, 2015: RP-2000 Mortality Tables with white collar adjustment with Pre and Post Commencement Rates with projected mortality improvements after year 2000 under Projection Scale AA (male and female scales); i.e., full generational mortality.

Prior to July 1, 2015: IRS Mortality Tables without collar adjustment with Pre and Post Commencement Rates with projected mortality improvements after year 2000 under Projection Scale AA (male and female scales); i.e., full generational mortality.

Terminations

None assumed for Members other than District Judges; for District Judges, turnover assumed to be in accordance with Table T-3 from the Actuary's Pension Handbook. Specimen rates are as follows:

<u>Age</u>	<u>Rate of Termination</u>
20	.066
25	.053
30	.048
35	.045
40	.038
45	.032
50	.015
55	.003
60+	.000

Salary Increases

1% for the next five years, and 3.5% thereafter

Disability

None

Retirement Age

Retirements were assumed to occur as follow:

<u>Retirement Age</u>	<u>Percentage of Active Members Retiring</u>
NRA-5	16.67%
NRA-4	20.00%
NRA-3	25.00%
NRA-2	33.33%
NRA-1	50.00%
NRA	100.00%

NRA = Normal Retirement Age

In addition to these rates, an extra 20% rate is assumed at the age a member reaches 27 years of service credit.

Post-Retirement Death Benefit

Assumption is that 80% of the judges would be married at retirement and the husband would be 3 years older than the wife on average.

Pre-Retirement Death Benefit

Assumption is that 80% of the judges would be survived by a spouse upon death prior to retirement and that the husband would be 3 years older than the wife on average.

Cost-of-Living Adjustment

Pursuant to statutory requirements, COLA increases are not reflected in plan liabilities until actually granted, except for any anticipated COLA adjustments under the provision as in effect prior to August 1, 1998. For the purposes of the calculation of the Recommended Contribution, a full 1.5% annual COLA has been reflected.

Medical Insurance Premium Supplement

Medical premiums will increase for each year beyond the valuation date at the following rates:

Year 1	11%
Year 2	10%
Year 3	9%
Year 4	8%
Year 5	7%
Year 6	6%
Years 7+	5%

It was further assumed that coverage would be split among retirees as follows:

	% of Retirees	% With Spouse Coverage
<i>Pre-Medicare Coverage</i>		
Family	39%	N/A
Single	16%	N/A
Parent Plus	29%	N/A
Member and Spouse	16%	N/A
<i>Medicare Coverage</i>		
Medicare Advantage PPO	100%	75%

The assumed annual claims costs per subscriber as of July 1, 2015:

<u>Pre-65 Cost</u>	<u>Post-65 Cost</u>
\$ 15,961	\$ 8,211

Claims were adjusted downward 3% each year for aging for attained ages 55 to 65.

Retirees are assumed to contribute the difference between the premium rate and the portion of the premium paid by the Plan. Premium rates and Plan contributions are described in the Summary of Benefits.

Non-members

Judges electing not to participate are assumed to continue as non-members in the future.

Asset Valuation Method

The determination of the actuarial value of assets is as follows:

1. Investment gains/losses are determined for each year by comparing the expected value of assets based on the assumed interest assumption to the actual market value. Expected value of assets in each year shall be determined by projecting the market value of assets from the prior year using the assumed interest rate, plus contributions less benefit payments and plan expenses (adjusted with interest at the assumed rate). If the expected value of plan assets is different than the actual market value of plan assets then the difference is treated as a gain or loss for that year.
2. The amount of any gain or loss as determined above shall be recognized evenly over the subsequent five years.
3. The actuarial value of assets on any valuation date shall be equal to the market value of assets on that date adjusted as follows:
 - Reduced by 80% of a gain or increased by 80% of a loss from the preceding year
 - Reduced by 60% of a gain or increased by 60% of a loss from the 2nd preceding year
 - Reduced by 40% of a gain or increased by 40% of a loss from the 3rd preceding year
 - Reduced by 20% of a gain or increased by 20% of a loss from the 4th preceding year

This asset valuation method is used in both the determination of funding levels as well as for disclosure purposes under GASB Statement Nos. 43 and 45. The fair market value of assets is used for disclosure purposes under GASB Statement Nos. 67 and 68.

For purposes of GASB Statement Nos. 43, 45, 67, and 68, the market value of assets has been allocated between retirement related and medical premium supplement liabilities. This market value allocation is carried forward each year based on the following:

1. State and member contributions, as well as transfers for purchase of additional service, are allocated pro-rata reflecting the Annual Required Contribution for that year.
2. Benefits paid reflect actual benefits paid relative to retirement related benefits separately from medical premium supplements.
3. Preliminary assets are determined by adjusting beginning value for allocated State and member contributions and actual benefits paid.
4. Net investment return is allocated pro-rata based on the preliminary assets developed in the previous step.
5. Allocated assets as of the valuation date equal the preliminary balance plus the allocated share of investment income.

Actuarial value of assets is developed initially in total and then allocated between retirement related benefits and medical premium supplement benefits on a pro-rata basis reflecting allocated share of market value as of the valuation date.


The information contained in this document (including any attachments) is not intended by BPS&M to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer. The information and valuation results shown in this report are, to the best of our knowledge, complete and accurate and are based upon the following:

1. The liabilities used in this report are based on a roll forward of liabilities from the July 1, 2015 Actuarial Valuation Report.
2. Financial data as of June 30, 2016, submitted by The Kentucky Judicial Form Retirement System. This data was not audited by us but appears to be sufficient and reliable for purposes of the report.
3. Actuarial assumptions and methods as established either by statute or the Board. The actuarial assumptions currently adopted by the Board appear to be reasonable, both individually and in aggregate. However, exclusion of retiree cost-of-living adjustments that can be reasonably anticipated to occur in future years (or for which there is an intent to provide in future years) does not reflect our best estimate of expected experience under the plan. As such, the valuation results presented in this report, including GASB disclosure information, do not fully reflect the potential liability for future retiree cost-of-living adjustments.
4. For purposes of GASB 43, 45, 67, and 68 disclosures, assets were split between pension and retiree medical liabilities on the basis of accrued liability as of July 1, 2008 and have been brought forward each year from that date based on actual cash flows and a prorata allocation of investment return. This methodology, initiated by the prior actuary, was based on guidance from the plan's auditor.

We believe the information is sufficiently complete and reliable. This report provides actuarial advice and does not constitute legal, accounting, tax or investment advice.

The actuarial valuation summarized in this report has been performed utilizing generally accepted actuarial principles. The actuarial valuation is based on actuarial assumptions used in the July 1, 2015 report. It is our opinion that the results fully and fairly disclose the actuarial position of the plan on the valuation date. I am a consulting actuary for BPS&M, LLC, member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Certified by:



Alan C. Pennington, F.S.A., E.A., M.A.A.A.
Consulting Actuary/Principal

September 20, 2016

Date

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Statement of Changes in Fiduciary Net Position Under GASB Statement No. 67

	<u>June 30, 2016</u>
Additions	
Contributions:	
Employer	\$15,115,420
Employee	<u>1,638,036</u>
Total Contributions	16,753,456
Transfer In Payments	108,446
Investment Income	8,730,143
Other	<u>0</u>
Total Additions	25,592,045
Deductions	
Benefit Payments / Refunds	22,867,571
Administrative Expenses	0
Other	<u>0</u>
Total Deductions	<u>22,867,571</u>
Net Increase in Net Position	2,724,474
Net Position Restricted for Pensions	
Beginning of Year	<u>264,466,119</u>
End of Year	<u><u>\$267,190,593</u></u>

Net Pension Liability Under GASB Statement No. 67

Determination of Net Pension Liability

	<u>June 30, 2016</u>
Total Pension Liability (6.41%)	376,509,460
Plan Fiduciary Net Position	<u>(267,190,593)</u>
Net Pension Liability	<u><u>\$109,318,867</u></u>
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	 70.97%

Sensitivity of Net Pension Liability to Changes in the Discount Rate

	1% Decrease	Current Rate	1% Increase
	<u>(5.41%)</u>	<u>(6.41%)</u>	<u>(7.41%)</u>
Net Pension Liability	\$149,097,714	\$109,318,867	\$75,856,734

Schedule of Changes in the Net Pension Liability and Related Ratios (Dollar amounts in millions)

	fiscal year ending June 30									
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Total Pension Liability										
Service cost	\$5.0	\$5.0	\$4.8							
Interest	21.9	22.2	23.4							
Changes of benefit terms	0.0	0.0	0.0							
Differences between expected and actual experience	0.0	4.4	0.0							
Changes of assumptions	29.1	(4.4)	0.0							
Benefit Payments / Refunds	(21.8)	(22.3)	(22.9)							
Net Change in Total Pension Liability	\$34.2	\$4.9	\$5.3							
Total Pension Liability - beginning	332.1	366.3	371.2							
Total Pension Liability - ending (a)	\$366.3	\$371.2	\$376.5							
Plan Fiduciary Net Position										
Contributions - employer	\$10.8	\$15.1	\$15.1							
Contributions - employee	2.8	1.9	1.7							
Transfer In Payments	1.6	0.2	0.1							
Net investment income	33.2	25.6	8.7							
Benefit Payments / Refunds	(21.8)	(22.2)	(22.9)							
Administrative expenses	0.0	0.0	0.0							
Other	0.0	0.0	0.0							
Net Change in Plan Fiduciary Net Position	\$26.6	\$20.6	\$2.7							
Plan Fiduciary Net Position - beginning	217.3	243.9	264.5							
Plan Fiduciary Net Position - ending (b)	\$243.9	\$264.5	\$267.2							
Net Pension Liability - ending (a) - (b)	\$122.4	\$106.7	\$109.3							
Plan Fiduciary Net Position as a % of the Total Pension Liability	66.6%	71.3%	71.0%							
Covered-employee payroll	\$32.9	\$30.0	\$30.0							
Net Pension Liability as a % of covered-employee payroll	371.7%	355.7%	364.3%							
Discount Rate	6.15%	6.41%	6.41%							

Schedule of Contributions Under GASB Statement No. 67

	fiscal year ending June 30									
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Actuarially determined contribution	\$15.2	\$15.1	\$15.1							
Contributions in relation to the actuarially determined contribution	10.8	15.1	15.1							
Contribution deficiency (excess)	\$4.4	\$0.0	\$0.0							
Covered-employee payroll	\$32.9	\$30.0	\$30.0							
Contributions as a percentage of covered-employee payroll	32.8%	50.3%	50.3%							

Additional Requirements Under GASB Statement No. 67

GASB Statement No. 67 also requires a Statement of Fiduciary Net Position (which includes a breakdown of current assets by type) and additional investment information, including the annual money-weighted rate of return. In order to satisfy GASB Statement No. 67, these required pieces will need to be provided by The Kentucky Judicial Form Retirement System. BPS&M is prepared to assist the system as needed.

Schedule of Changes in NPL, Deferrals, & Pension Expense

	Increase (Decrease)			Deferred Pension Outflows of Resources	Deferred Pension Inflows of Resources	Pension Expense
	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a) - (b)			
Balances--at 06/30/15	<u>\$ 371,204,416</u>	<u>\$ 264,466,119</u>	<u>\$ 106,738,297</u>	<u>\$ 30,615,357</u>	<u>\$ 22,977,472</u>	
Changes for the Year:						
Service cost	4,746,022		4,746,022			4,746,022
Interest expense	23,426,593		23,426,593			23,426,593
Benefit changes						
Experience losses (gains)	-		-	-	-	1,824,643
Changes of assumptions	-		-	-	-	6,270,815
Contributions--State		15,115,420	(15,115,420)			
Contributions--Members		1,638,036	(1,638,036)			(1,638,036)
Transfer In Payments		108,446	(108,446)			
Net investment income		8,730,143	(8,730,143)			
Expected return on plan investments						(18,214,881)
Current expense of asset gain/loss						(4,316,659)
Non expensed asset gain/loss				7,587,790	-	
Refunds of contributions	-	-	-			
Benefits paid	(22,867,571)	(22,867,571)	-			
Plan administrative expenses		-	-			
Recognition of Prior Post-measurement Contribution				(15,115,379)		
Post-measurement Contribution				11,884,810		
Other changes		-	-			
Amortization of or change in beginning balances				(9,920,465)	(8,038,614)	
Net Changes	<u>5,305,044</u>	<u>2,724,474</u>	<u>2,580,570</u>	<u>(5,563,244)</u>	<u>(8,038,614)</u>	<u>12,098,498</u>
Balances--at 06/30/16	<u>\$ 376,509,460</u>	<u>\$ 267,190,593</u>	<u>\$ 109,318,867</u>	<u>\$ 25,052,112</u>	<u>\$ 14,938,858</u>	<u>\$ 12,098,498</u>

Pension Expense & Deferred Outflows/Inflows of Resources

For the year ended June 30, 2017, the recognized pension expense will be \$12,098,497. At June 30, 2017, The Kentucky Judicial Form Retirement System reported deferred outflows of resources and deferred inflows of resources in relation to pensions from the following sources:

	As of June 30, 2016		Recognized in Pension Expense	As of June 30, 2017		Remaining Amort. Period
	Deferred Outflows of Resources	Deferred Inflows of Resources		Deferred Outflows of Resources	Deferred Inflows of Resources	
Experience losses (gains)						
- 6/30/2015	2,576,397	-	1,824,643	751,753	-	0.412 years
subtotal	2,576,397	-	1,824,643	751,753	-	
Change of assumptions						
- 6/30/2014	12,923,581	-	8,095,822	4,827,759	-	0.596 years
- 6/30/2015	-	2,576,910	(1,825,007)	-	751,903	0.412 years
subtotal	12,923,581	2,576,910	6,270,815	4,827,759	751,903	
Net difference between projected and actual earnings on investments						
- 6/30/2014	-	13,361,594	(4,453,865)	-	8,907,729	2.000 years
- 6/30/2015	-	7,038,968	(1,759,742)	-	5,279,226	3.000 years
- 6/30/2016	9,484,738	-	1,896,948	7,587,791	-	4.000 years
subtotal	9,484,738	20,400,562	(4,316,659)	7,587,791	14,186,955	
Total	\$ 24,984,716	\$ 22,977,472	\$ 3,778,799	\$ 13,167,303	\$ 14,938,858	

Actual investment earnings above (or below) projected earnings are amortized over 5 years. Plan experience and changes of assumptions are amortized over the average remaining service period of actives and inactive (0 years of future service is assumed for inactive for this calculation).

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	510,950
2019	(4,316,659)
2020	137,206
2021	1,896,948
2022	-
Thereafter	-

In addition, Governmental Accounting Standards Board Statement 71 (“GASB 71”) requires contributions between the measurement date (July 1, 2016) and the disclosure date (June 30, 2017) for GASB 68 be reported as a deferred outflow of resources.

Schedule of Funding Progress Under GASB Statement No. 43

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
7/1/2007	\$ 42,990,926	\$ 44,137,011	\$ 1,146,085	97.4%	\$ 31,941,180	3.6%
7/1/2008	\$ 44,347,577	\$ 47,851,882	\$ 3,504,305	92.7%	\$ 31,224,444	11.2%
7/1/2009	\$ 43,816,525	\$ 39,816,215	\$ (4,000,310)	110.0%	\$ 29,886,624	-13.4%
7/1/2010	\$ 43,186,642	\$ 41,831,779	\$ (1,354,863)	103.2%	\$ 29,886,624	-4.5%
7/1/2011	\$ 41,791,088	\$ 43,643,278	\$ 1,852,190	95.8%	\$ 33,175,215	5.6%
7/1/2012	\$ 43,466,197	\$ 45,474,043	\$ 2,007,846	95.6%	\$ 33,175,215	6.1%
7/1/2013	\$ 46,552,166	\$ 53,732,181	\$ 7,180,015	86.6%	\$ 32,930,076	21.8%
7/1/2014	\$ 53,374,356	\$ 56,161,700	\$ 2,787,344	95.0%	\$ 32,930,076	8.5%
7/1/2015	\$ 61,046,752	\$ 61,195,047	\$ 148,295	99.8%	\$ 30,009,326	0.5%
7/1/2016	\$ 67,725,236	\$ 64,684,050	\$ (3,041,186)	104.7%	\$ 30,009,326	-10.1%

*7/1/2016 payroll estimated to remain level.

Schedule of Employer Contributions Under GASB Statement No. 45

Year Ended June 30	Annual Pension Cost	Percentage Contributed	OPEB Benefit Obligation
2009	\$ 838,352	99%	\$ 7,894
2010	\$ 838,269	99%	\$ 15,698
2011	\$ 695,621	44%	\$ 405,123
2012	\$ 691,499	48%	\$ 762,590
2013	\$ 885,169	69%	\$ 1,037,445
2014	\$ 882,259	72%	\$ 1,285,579
2015	\$ 1,260,868	101%	\$ 1,271,967
2016	\$ 1,261,012	101%	\$ 1,258,499

Determination of Annual OPEB Cost Under GASB Statement No. 45

Fiscal Yr Ending	Applicable Valuation Report Used	ARC	Interest on OPEB Obligation	ARC Adjustment	Amort. Factor	OPEB Cost	Contribution	Change in OPEB Obligation	OPEB Obligation Balance
6/30/2008	7/1/2005	\$ 460,348	\$ -	\$ -	12.594409	\$ 460,348	\$ 460,341	\$ 7	\$ 7
6/30/2009	7/1/2007	\$ 838,352	\$ 1	\$ 1	12.594409	\$ 838,352	\$ 830,465	\$ 7,887	\$ 7,894
6/30/2010	7/1/2007	\$ 838,352	\$ 553	\$ 636	12.409041	\$ 838,269	\$ 830,465	\$ 7,804	\$ 15,698
6/30/2011	7/1/2009	\$ 695,787	\$ 1,099	\$ 1,265	12.409041	\$ 695,621	\$ 306,196	\$ 389,425	\$ 405,123
6/30/2012	7/1/2009	\$ 695,787	\$ 28,359	\$ 32,647	12.409041	\$ 691,499	\$ 334,032	\$ 357,467	\$ 762,590
6/30/2013	7/1/2011	\$ 893,242	\$ 53,381	\$ 61,454	12.409041	\$ 885,169	\$ 610,313	\$ 274,856	\$ 1,037,445
6/30/2014	7/1/2011	\$ 893,242	\$ 72,621	\$ 83,604	12.409041	\$ 882,259	\$ 634,125	\$ 248,134	\$ 1,285,579
6/30/2015	7/1/2013	\$ 1,274,477	\$ 89,991	\$ 103,600	12.409041	\$ 1,260,868	\$ 1,274,480	\$ (13,612)	\$ 1,271,967
6/30/2016	7/1/2013	\$ 1,274,477	\$ 89,038	\$ 102,503	12.409041	\$ 1,261,012	\$ 1,274,480	\$ (13,468)	\$ 1,258,499

Determination of Actuarial Asset Value

	2015-16 Plan Year	2014-15 Plan Year	2013-14 Plan Year	2012-13 Plan Year
Interest Return Assumption	7.00%	7.00%	7.00%	7.00%
Market Value at Beginning of Year				
Amount	\$ 332,948,126	\$ 306,193,359	\$ 272,020,292	\$ 237,141,468
Interest to End of Year	23,306,369	21,433,535	19,041,420	16,599,903
Employer Contributions				
Amount	16,389,900	16,389,901	11,438,840	11,009,300
Interest to End of Year	573,647	573,647	400,359	385,326
Member Contributions				
Amount	1,776,150	2,020,278	2,920,311	2,338,304
Interest to End of Year	62,165	70,710	102,211	81,841
Transfers from KERS				
Amount	117,590	267,528	1,693,123	117,536
Interest to End of Year	4,116	9,363	59,259	4,114
Benefits Paid				
Amount	24,816,275	24,212,316	23,846,384	23,811,231
Interest to End of Year	940,950	918,050	904,175	902,843
Expected End of Year Assets	349,420,838	321,827,955	282,925,256	242,963,718
Market Value at End of Year	337,461,016	332,948,126	306,193,359	272,020,292
Investment Gain (Loss)	(11,959,822)	11,120,171	23,268,103	29,056,574
Adjustment Percentage	80%	60%	40%	20%
Actuarial Asset Value Adjustment	9,567,858	(6,672,103)	(9,307,241)	(5,811,315)
Actuarial Asset Value (Market Value plus Adjustment)	\$325,238,215			

	Retirement	Medical Supplement
Market Value at Beginning of Year	\$264,466,119	\$68,482,007
State Contributions	15,115,420	1,274,480
Member Contributions	1,638,036	138,114
Transfers In Payments	108,446	9,144
Distributions	22,867,571	1,948,704
Allocated Investment Return	8,730,143	2,315,382
Market Value at End of Year	\$267,190,593	\$70,270,423
Allocation of Actuarial Asset Value	\$257,512,979	\$67,725,236

Notes to GASB 43, 45, 67, and 68 Disclosures

1. Actuarial accrued liability is based on the projected unit credit funding method for actuarial valuations prior to July 1, 2013 and the entry age normal funding method thereafter.
2. Effective July 1, 2007, OPEB liabilities and allocated assets have been excluded from GASB 67 and 68 disclosures and established in GASB 43 and 45 disclosures.
3. Market value of assets as of July 1, 2007 was allocated between pension and OPEB obligations based on proportionate share of accrued liability on that date. Allocations in subsequent years are based on prior year allocated value adjusted for contributions and benefits paid during the year, with investment return (net of expenses) allocated proportionately between retirement and OPEB obligations. Actuarial value of assets is then allocated based on the market value share of retirement and OPEB obligations.
4. Actuarial value of assets is equal to cost value prior to 1990. 1990 through 2002 utilize market related value based on the average of the ratio of market to cost value over the prior five years applied to current cost value. 2003 and later use a 5-year asset smoothing method that is phased in from July 1, 2003 market value.
5. Information used in preparing these exhibits has been extracted from past valuation reports.
6. Interest on OPEB Obligation is based on assumed valuation interest assumption for the prior year. The interest rates for prior years are as follows: 7% through 1999 valuation; 8% for 2001 and 2003 valuations; 7.5% beginning with 2005 valuation; 7% beginning with 2009 valuation.

Note: Above statements are partially based on information furnished by the prior actuary.

7. The tables in this report account for liabilities and assets only for the traditional defined benefit/OPEB tier under the plan; liabilities and assets pertaining to the hybrid cash balance/OPEB tier are presented in a separate report.
8. Covered payroll reflects payroll for plan members as of the last actuarial valuation.
9. Fiscal years beginning prior to December 15, 1986 have not been included pursuant to paragraph 32 of GASB Statement No. 27.
10. ARC based on full actuarial report (odd numbered years) immediately prior to each biennium. ARC amount shown is for basic valuation without any future COLA reflected.
11. GASB 67 replaces GASB 25 effective for the fiscal year ending June 30, 2014. The valuation date, disclosure date, and measurement date all fall on the same date for purposes of GASB 67.
12. GASB 68 replaces GASB 27 effective for the fiscal year ending June 30, 2015. It is assumed the measurement date for GASB 68 will be 12 months before the disclosure date. For the year ending June 30, 2017, the measurement date is July 1, 2016 (the valuation date).

**KENTUCKY JUDICIAL RETIREMENT
PLAN – HYBRID TIER**

GASB DISCLOSURE REPORT

**AS OF
JULY 1, 2016**

Introduction	1
Summary of Benefits	3
Actuarial Assumptions	5
Actuarial Methods	8
Actuarial Certification	9
GASB Statement No. 67	10
Statement of Changes in Fiduciary Net Position Under GASB Statement No. 67	10
Net Pension Liability Under GASB Statement No. 67	11
Schedule of Contributions Under GASB Statement No. 67.....	13
Additional Requirements Under GASB Statement No. 67	13
GASB Statement No. 68	14
Schedule of Changes in NPL, Deferrals, & Pension Expense.....	14
Pension Expense & Deferred Outflows/Inflows of Resources.....	15
GASB Statement No. 43/45	16
Schedule of Funding Progress Under GASB Statement No. 43	16
Schedule of Employer Contributions Under GASB Statement No. 45	16
Determination of Annual OPEB Cost Under GASB Statement No. 45	16
Actuarial Asset Value	17
GASB Notes	18

An actuarial valuation of the Kentucky Judicial Retirement Plan - Hybrid Tier (“KJRP-HT”) was last performed as of July 1, 2015. The results shown in this report as of July 1, 2016 were developed using a “roll-forward” method that employs generally accepted actuarial techniques. The results in this report have been developed with full reliance on the July 1, 2015 Actuarial Valuation Report. **This report covers only the hybrid cash balance/OPEB tier of Kentucky Judicial Retirement Plan (“KJRP”).**

Actuarial valuations are based on the integrity of employee data, plan asset data, plan provisions and an extensive set of assumptions regarding future events. There is necessary uncertainty with any actuarial calculation based on the accuracy of the data provided, the correct interpretation of plan provisions and the realization of the assumptions made. These results were based on participant data and asset information provided by The Kentucky Judicial Form Retirement System. This information was not audited but was reviewed for reasonableness.

Detailed explanations of the actuarial assumptions and methods used in the report are contained in later sections of this report. Also included in this report is a summary of provisions of the plan as we understand them.

Governmental Accounting Standards Board Statement 67 (“GASB 67”) and Statement 43 (“GASB 43”) establish financial reporting standards for defined benefit pension plans and other postemployment benefit (OPEB) plans sponsored by employers that are subject to governmental accounting standards. Governmental Accounting Standards Board Statement 68 (“GASB 68”) and Statement 45 (“GASB 45”) provide standards for reporting pension and OPEB expenditures and expense, and related liabilities and assets for such plans. The purpose of this report is to provide pertinent financial statement disclosure information for the fiscal year ending in 2016. Actuarial computations under Statements 67, 68, 43, and 45 are for purposes of fulfilling plan and employer governmental accounting requirements and may not be appropriate for other purposes. This report has been prepared on a basis consistent with our understanding of the statements and does not constitute legal, accounting, tax or investment advice.

Statement 68 sets forth a methodology for the calculation of the annual Pension Expense for the upcoming fiscal year. GASB 68 provides a method for reflecting prior gains and losses from asset and plan experience, as well as other areas including plan amendments. Amounts not reflected previously or in the upcoming year are reflected in the Deferred Outflows and Inflows of Resources shown.

Statement 45 sets forth a methodology to determine annual adjustments to the Annual Required Contribution (ARC), which is the contribution recommended pursuant to the appropriate actuarial valuation, to account for differences between amounts expensed and contributions actually made. Under GASB 45, the resulting adjusted amount is referred to as the Annual OPEB Cost (AOC) and the accumulated difference between the AOC and the actual contribution is referred to as the Net OPEB Obligation (NOO).

BPS&M does not have access to and is not providing information concerning liabilities other than benefits, such as for legal or accounting fees.

BPS&M is not aware of any significant events subsequent to the current year’s measurement date that could materially affect the information contained in this report.

We are not aware of any relationship between the plan or plan sponsor and BPS&M, LLC or our parent corporation, Wells Fargo Company (until September 30, 2016), which would impair or appear to impair our objectivity.

To the best of our knowledge, all information provided in this report is complete and accurate and disclosures for GASB purposes have been determined in accordance with generally accepted accounting principles.

Legislative Background

State statutes were amended in 2013 such that all participants entering KJRP on or after January 1, 2014 will be covered under a hybrid cash balance/OPEB tier; those entering before that date will continue to be covered under the traditional defined benefit/OPEB tier. The legislation making this change also restricted the availability of future cost-of-living adjustments (COLA's) to plan benefits.

Actuarial Soundness

A plan that has adopted a reasonable funding method, that adopts reasonable assumptions and which contributes at a rate at or above the recommended contribution rate (based on these reasonable methods and assumptions), could be considered to be actuarially sound.

In order to ensure KJRP-HT is funded in an “actuarially sound manner”, we would recommend the following:

1. Revise the actuarial funding method to amortize all past unfunded as well as new liabilities over a period not more than 15 years and amortize future gains and losses over a period not more than 15 years. (Note that GASB 68 may require the expensing of liabilities at a faster pace than these amortization periods.)
2. Contribute at least the recommended contribution each year.

Deviations from these recommendations may result in an “actuarially unsound” approach to funding KJRP-HT and may eventually result in KJRP-HT becoming insolvent – that is, exhausting assets at which time all future benefits would be provided on a pay as you go basis.

Although the Actuarial Standards of Practice 4 “Measuring Pension Obligations” allows for plan liabilities to be calculated under a legally prescribed method, the statement goes on to say,

“If, in the actuary’s professional judgment, such an actuarial cost method or amortization method is significantly inconsistent with the plan accumulating adequate assets to make benefit payments when due, assuming that all actuarial assumptions will be realized and that the plan sponsor or other contributing entity will make contributions when due, the actuary should disclose this.”

It is our professional actuarial opinion that the current legally prescribed method, which requires contributions of normal cost plus interest on the unfunded liability plus 1% of the unfunded liability (per KRS 21.525), is inconsistent with the plan accumulating adequate assets to make benefit payments when due, assuming all actuarial assumptions are realized.

In addition, the total cost of the Medical Premium Supplement is approximately 0.75% of pay, compared to the required employee contribution of 1% of pay. As a result, members are paying approximately 0.25% of pay more than the benefits are expected to be worth.

This summary is not a Summary Plan Description or a plan document. You should not rely solely on this summary in making a determination of eligibility of benefits. Liabilities and plan provisions are based on the plan data and provisions as of July 1, 2015. This report covers only the hybrid cash balance/OPEB tier of KJRP.

Source

Sections 21.345-21.580 of the Kentucky Revised Statutes and 2013 Senate Bill 2

Eligibility for Membership

District, Circuit, Court of Appeals and Supreme Court Judges may, within 30 days after taking office, elect to make monthly contributions, and thereby become eligible for membership in the plan. Individuals commencing participation before January 1, 2014 became participants in the KJRP.

Hypothetical Member Accounts

The Hypothetical Member Account for each member is credited monthly with 9% of “creditable compensation” (including a 5% employee credit and a 4% state credit), as well as interest as described below. The Hypothetical Member Account balance on June 30 each year is equal to the sum of all prior contribution credits and all prior interest credits.

Employee Contributions

All members contribute 5% of their “creditable compensation” to help fund their pension benefit. Additionally, all members contribute 1% of their “creditable compensation” towards the retiree medical benefit.

State Contributions

The state contributes actuarially determined amounts to finance benefits.

Creditable Compensation

Creditable compensation is based on actual compensation received during each year.

Interest on Hypothetical Member Accounts

The Hypothetical Member Account will be credited with 4% annually. The credit will be applied on each June 30 based upon the Hypothetical Member Account balance from the preceding June 30. No interest credit is provided for contribution credits made in the current year.

Additionally, if the geometric average net investment return for the prior five years (or years since the effective date of the hybrid plan, if less) exceed 4%, members who were active and participating in the prior year will have their hypothetical accounts credited with 75% of the amount of the return over 4%. This additional interest credit is applied in the same method as the interest credit in the prior paragraph.

Normal Retirement

Condition

Members who have attained age 65 and completed at least 5 years of service. However, for members who are at least age 57, members may retire if age plus service equals 87 years.

Benefit

A member will receive their accumulated Hypothetical Account as either a lump sum or as one of a variety of annuity options, calculated by dividing their accumulated Hypothetical Account by an actuarial factor.

Early Retirement

A member who retires prior to normal retirement date with at least 5 years of service is eligible for a full refund of their accumulated Hypothetical Account as a lump sum.

Termination Benefit

If a judge ceases to be a member of the plan prior to having 5 years of service, the amount of the member’s accumulated contributions shall be returned to the member, including the member contributions and the interest applicable to this portion of the account. A member terminating with less than 5 years of service does not receive a refund of state contributions nor the interest applicable to this portion of the account.

Death Benefit

Upon the death of a member who at the time of death was receiving a retirement income, the named beneficiary shall receive survivor benefits based upon the form of retirement benefits being received.

If a member with at least 5 years of service dies before retirement, the named beneficiary is entitled to receive a full refund of the accumulated Hypothetical Member Account. If a member with less than 5 years of service dies before retirement, the named beneficiary is entitled to receive a refund of the member’s accumulated contributions, including the member contributions and the interest applicable to this portion of the account.

Medical Insurance Premium Supplement

Retired members with at least 15 years of service, in addition to actual retirement benefits, will receive a monthly medical insurance benefit of ten dollars per year of service.

The premium rates in effect as of July 1, 2015:

	<u>Monthly Premium</u>
<i>Under age 65</i>	
Family coverage	\$1,701.04
Single coverage	699.28
Parent Plus coverage	995.34
Member and Spouse	1,528.34
<i>Age 65 or older</i>	
Medicare Advantage PPO	391.00

Premium rates are approved by the Board.

Funding Method

Accrued liability and normal cost calculated based on Entry Age Normal funding method. The required contribution is calculated based on KRS 21.525, which requires contributions of normal cost plus interest on the unfunded liability plus 1% of the unfunded liability.

Discount Rate

4% per annum – this rate was selected by the Board of Trustees and BPS&M and the Fund Investment Manager believe this to be a reasonable long-term rate of return assumption.

Interest Crediting Rate

4% per annum

Mortality

RP-2000 Mortality Tables with white collar adjustment with Pre and Post Commencement Rates with projected mortality improvements after year 2000 under Projection Scale AA (male and female scales); i.e., full generational mortality.

Terminations

Table T-3 from the Actuary’s Pension Handbook. Specimen rates are as follows:

<u>Age</u>	<u>Rate of Termination</u>
20	.066
25	.053
30	.048
35	.045
40	.038
45	.032
50	.015
55	.003
60+	.000

Salary Increases

1% for the next five years, and 3.5% thereafter.

Disability

None

ACTUARIAL ASSUMPTIONS

Retirement Age

Retirements were assumed to occur as follow:

<u>Retirement Age</u>	<u>Percentage of Active Members Retiring</u>
NRA-5	16.67%
NRA-4	20.00%
NRA-3	25.00%
NRA-2	33.33%
NRA-1	50.00%
NRA	100.00%

NRA = Normal Retirement Age

In addition to these rates, an extra 20% rate is assumed at the age a member reaches 27 years of service credit.

Post-Retirement Death Benefit

Assumption is that 80% of the judges would be married at retirement and the husband would be 3 years older than the wife on average.

Pre-Retirement Death Benefit

Assumption is that 80% of the judges would be survived by a spouse upon death prior to retirement and that the husband would be 3 years older than the wife on average.

Form of Benefit

All participants are assumed to receive a lump sum.

Medical Insurance Premium Supplement

Medical premiums and claim costs will increase for each year beyond the valuation date at the following rates:

Year 1	11%
Year 2	10%
Year 3	9%
Year 4	8%
Year 5	7%
Year 6	6%
Years 7+	5%

ACTUARIAL ASSUMPTIONS

An annual COLA of 1.5% is applied to the monthly insurance benefit, beginning at retirement.

100% of eligible retirees are assumed to elect the benefit. It was further assumed that coverage would be split among retirees as follows:

	% of Retirees	% With Spouse Coverage
<i>Pre-Medicare Coverage</i>		
Family	39%	N/A
Single	16%	N/A
Parent Plus	29%	N/A
Member and Spouse	16%	N/A
<i>Medicare Coverage</i>		
Medicare Advantage PPO	100%	75%

The assumed annual claims costs per subscriber as of July 1, 2015:

<u>Pre-65 Cost</u>	<u>Post-65 Cost</u>
\$ 15,961	\$ 8,211

Claims were adjusted downward 3% each year for aging for attained ages 55 to 65.

Retirees are assumed to contribute the difference between the premium rate and the portion of the premium paid by the Plan. Premium rates and Plan contributions are described in the Summary of Benefits.

Non-members

Judges electing not to participate are assumed to continue as non-members in the future.

Asset Valuation Method

The determination of the actuarial value of assets is as follows:

1. Investment gains/losses are determined for each year by comparing the expected value of assets based on the assumed interest assumption to the actual market value. Expected value of assets in each year shall be determined by projecting the market value of assets from the prior year using the assumed interest rate, plus contributions less benefit payments and plan expenses (adjusted with interest at the assumed rate). If the expected value of plan assets is different than the actual market value of plan assets then the difference is treated as a gain or loss for that year.
2. The amount of any gain or loss as determined above shall be recognized evenly over the subsequent five years.
3. The actuarial value of assets on any valuation date shall be equal to the market value of assets on that date adjusted as follows:
 - Reduced by 80% of a gain or increased by 80% of a loss from the preceding year
 - Reduced by 60% of a gain or increased by 60% of a loss from the 2nd preceding year
 - Reduced by 40% of a gain or increased by 40% of a loss from the 3rd preceding year
 - Reduced by 20% of a gain or increased by 20% of a loss from the 4th preceding year

This asset valuation method is used in both the determination of funding levels as well as for disclosure purposes under GASB Statement Nos. 43 and 45. The fair market value of assets is used for disclosure purposes under GASB Statement Nos. 67 and 68.

For purposes of GASB Statement Nos. 43, 45, 67, and 68, the market value of assets has been allocated between retirement related and medical premium supplement liabilities. This market value allocation is carried forward each year based on the following:

1. State and member contributions, as well as transfers for purchase of additional service, are allocated pro-rata reflecting the Annual Required Contribution for that year.
2. Benefits paid reflect actual benefits paid relative to retirement related benefits separately from medical premium supplements.
3. Preliminary assets are determined by adjusting beginning value for allocated State and member contributions and actual benefits paid.
4. Net investment return is allocated pro-rata based on the preliminary assets developed in the previous step.
5. Allocated assets as of the valuation date equal the preliminary balance plus the allocated share of investment income.

Actuarial value of assets is developed initially in total and then allocated between retirement related benefits and medical premium supplement benefits on a pro-rata basis reflecting allocated share of market value as of the valuation date.

The information contained in this document (including any attachments) is not intended by BPS&M to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer. The information and valuation results shown in this report are, to the best of our knowledge, complete and accurate and are based upon the following:

1. The liabilities used in this report are based on a roll forward of liabilities from the July 1, 2015 Actuarial Valuation Report.
2. Financial data as of June 30, 2016, submitted by The Kentucky Judicial Form Retirement System. This data was not audited by us but appears to be sufficient and reliable for purposes of the report.
3. Actuarial assumptions and methods as established either by statute or the Board. The actuarial assumptions currently adopted by the Board appear to be reasonable, both individually and in aggregate.
4. For purposes of GASB 43, 45, 67, and 68 disclosures, assets were split between pension and retiree medical liabilities on the basis of the employee and employer contributions allocated to each part and a prorata allocation of investment return. This methodology was based on the process used to split assets in the traditional defined benefit plan between the pension and retiree medical components.

We believe the information is sufficiently complete and reliable. This report provides actuarial advice and does not constitute legal, accounting, tax or investment advice.

The actuarial valuation summarized in this report has been performed utilizing generally accepted actuarial principles. The actuarial valuation is based on actuarial assumptions used in the July 1, 2015 report. It is our opinion that the results fully and fairly disclose the actuarial position of the plan on the valuation date. I am a consulting actuary for BPS&M, LLC, member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Certified by:

Alan C. Pennington, F.S.A.
Alan C. Pennington, F.S.A., E.A., M.A.A.A.
Consulting Actuary/Principal

September 20, 2016
Date

Bryan, Pendleton, Swats & McAllister, LLC
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Brentwood, TN 37027
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Statement of Changes in Fiduciary Net Position Under GASB Statement No. 67

	<u>June 30, 2016</u>
Additions	
Contributions:	
Employer	\$71,356
Employee	99,064
Total Contributions	<u>170,420</u>
Transfer In Payments	0
Investment Income	4,104
Other	0
Total Additions	<u>174,524</u>
Deductions	
Benefit Payments / Refunds	0
Administrative Expenses	0
Other	0
Total Deductions	<u>0</u>
Net Increase in Net Position	174,524
Net Position Restricted for Pensions	
Beginning of Year	<u>90,516</u>
End of Year	<u><u>\$265,040</u></u>

Net Pension Liability Under GASB Statement No. 67

Determination of Net Pension Liability

	<u>June 30, 2016</u>
Total Pension Liability (4.00%)	261,651
Plan Fiduciary Net Position	<u>(265,040)</u>
Net Pension Liability	<u><u>(\$3,389)</u></u>
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	 101.30%

Sensitivity of Net Pension Liability to Changes in the Discount Rate

	1% Decrease	Current Rate	1% Increase
	(3.00%)	(4.00%)	(5.00%)
Net Pension Liability	<u>\$13,949</u>	<u>(\$3,389)</u>	<u>(\$19,536)</u>

Schedule of Changes in the Net Pension Liability and Related Ratios (Dollar amounts in thousands)

	fiscal year ending June 30									
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Total Pension Liability										
Service cost	\$0.0	\$166.6								
Interest	0.0	10.1								
Changes of benefit terms	85.0	0.0								
Differences between expected and actual experience	0.0	0.0								
Changes of assumptions	0.0	0.0								
Benefit Payments / Refunds	0.0	0.0								
Net Change in Total Pension Liability	\$85.0	\$176.7								
Total Pension Liability - beginning	0.0	85.0								
Total Pension Liability - ending (a)	\$85.0	\$261.7								
Plan Fiduciary Net Position										
Contributions - employer	\$42.3	\$71.3								
Contributions - employee	47.9	99.1								
Transfer In Payments	0.0	0.0								
Net investment income	0.3	4.1								
Benefit Payments / Refunds	0.0	0.0								
Administrative expenses	0.0	0.0								
Other	0.0	0.0								
Net Change in Plan Fiduciary Net Position	\$90.5	\$174.5								
Plan Fiduciary Net Position - beginning	0.0	90.5								
Plan Fiduciary Net Position - ending (b)	\$90.5	\$265.0								
Net Pension Liability - ending (a) - (b)	(\$5.5)	(\$3.3)								
Plan Fiduciary Net Position as a % of the Total Pension Liability	106.5%	101.3%								
Covered-employee payroll	\$1,936	\$1,936								
Net Pension Liability as a % of covered-employee payroll	-0.3%	-0.2%								
Discount Rate	4.00%	4.00%								

Schedule of Contributions Under GASB Statement No. 67

(Dollar amounts in thousands)

	fiscal year ending June 30									
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Actuarially determined contribution	\$42.3	\$71.3								
Contributions in relation to the actuarially determined contribution	42.3	71.3								
Contribution deficiency (excess)	\$0.0	\$0.0								
Covered-employee payroll	\$1,936	\$1,936								
Contributions as a percentage of covered-employee payroll	2.2%	3.7%								

Additional Requirements Under GASB Statement No. 67

GASB Statement No. 67 also requires a Statement of Fiduciary Net Position (which includes a breakdown of current assets by type) and additional investment information, including the annual money-weighted rate of return. In order to satisfy GASB Statement No. 67, these required pieces will need to be provided by The Kentucky Judicial Form Retirement System. BPS&M is prepared to assist the system as needed.

Schedule of Changes in NPL, Deferrals, & Pension Expense

	Increase (Decrease)			Deferred Pension Outflows of Resources	Deferred Pension Inflows of Resources	Pension Expense
	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a) - (b)			
Balances--at 06/30/15	\$ 84,979	\$ 90,516	\$ (5,537)	\$ 70,500	\$ -	
Changes for the Year:						
Service cost	166,609		166,609			166,609
Interest expense	10,063		10,063			10,063
Benefit changes	-		-			-
Experience losses (gains)	-		-	-	-	-
Changes of assumptions	-		-	-	-	-
Contributions--State		71,356	(71,356)			
Contributions--Members		99,064	(99,064)			(99,064)
Transfer In Payments		-	-			
Net investment income		4,104	(4,104)			
Expected return on plan investments						(7,030)
Current expense of asset gain/loss						890
Non expensed asset gain/loss				2,341	-	
Refunds of contributions	-	-	-			
Benefits paid	-	-	-			
Plan administrative expenses						
Recognition of Prior Post-measurement Contribution				(69,281)		
Post-measurement Contribution				69,281		
Other changes						
Amortization of or change in beginning balances				(305)	-	
Net Changes	<u>176,672</u>	<u>174,524</u>	<u>2,148</u>	<u>2,036</u>	<u>-</u>	<u>71,468</u>
Balances--at 06/30/16	\$ <u>261,651</u>	\$ <u>265,040</u>	\$ <u>(3,389)</u>	\$ <u>72,536</u>	\$ <u>-</u>	\$ <u>71,468</u>

Pension Expense & Deferred Outflows/Inflows of Resources

For the year ended June 30, 2017, the recognized pension expense will be \$71,468. At June 30, 2017, The Kentucky Judicial Form Retirement System reported deferred outflows of resources and deferred inflows of resources in relation to pensions from the following sources:

	As of June 30, 2016		Recognized in Pension Expense	As of June 30, 2017		Remaining Amort. Period
	Deferred Outflows of Resources	Deferred Inflows of Resources		Deferred Outflows of Resources	Deferred Inflows of Resources	
Net difference between projected and actual earnings on investments						
- 6/30/2015	1,219	-	305	914	-	3.000 years
- 6/30/2016	2,926	-	585	2,341	-	4.000 years
Total	<u>\$ 4,145</u>	<u>\$ -</u>	<u>\$ 890</u>	<u>\$ 3,255</u>	<u>\$ -</u>	

Actual investment earnings above (or below) projected earnings are amortized over 5 years. Plan experience and changes of assumptions are amortized over the average remaining service period of actives and inactive (0 years of future service is assumed for inactive for this calculation).

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	890
2019	890
2020	890
2021	585
2022	-
Thereafter	-

In addition, Governmental Accounting Standards Board Statement 71 ("GASB 71") requires contributions between the measurement date (July 1, 2016) and the disclosure date (June 30, 2017) for GASB 68 be reported as a deferred outflow of resources.

Schedule of Funding Progress Under GASB Statement No. 43

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
7/1/2015	\$ 10,754	\$ 8,995	\$ (1,759)	119.6%	\$ 1,935,756	-0.1%
7/1/2016	\$ 31,282	\$ 25,319	\$ (5,963)	123.6%	\$ 1,935,756	-0.3%

*7/1/2016 payroll estimated to remain level.

Schedule of Employer Contributions Under GASB Statement No. 45

Year Ended June 30	Annual Pension Cost	Percentage Contributed	OPEB Benefit Obligation
2015	\$ -	100%	\$ 0
2016	\$ -	100%	\$ 0

Determination of Annual OPEB Cost Under GASB Statement No. 45

Fiscal Yr Ending	Applicable Valuation Report Used	ARC	Interest on OPEB Obligation	ARC Adjustment	Amort. Factor	OPEB Cost	Contribution	Change in OPEB Obligation	OPEB Obligation Balance
6/30/2015		\$ -	\$ -	\$ -	17.292033	\$ -	\$ -	\$ -	\$ -
6/30/2016		\$ -	\$ -	\$ -	17.292033	\$ -	\$ -	\$ -	\$ -

Determination of Actuarial Asset Value

	2015-16 Plan Year	2014-15 Plan Year	2013-14 Plan Year	2012-13 Plan Year
Interest Return Assumption	4.00%	4.00%	4.00%	4.00%
Market Value at Beginning of Year				
Amount	\$ 101,127	\$ -	\$ -	\$ -
Interest to End of Year	4,045	-	-	-
Employer Contributions				
Amount	71,356	42,320	-	-
Interest to End of Year	1,427	846	-	-
Member Contributions				
Amount	118,876	58,494	-	-
Interest to End of Year	2,378	1,170	-	-
Transfers from KERS				
Amount	-	-	-	-
Interest to End of Year	-	-	-	-
Benefits Paid				
Amount	-	-	-	-
Interest to End of Year	-	-	-	-
Expected End of Year Assets	299,209	102,830	-	-
Market Value at End of Year	295,943	101,127	-	-
Investment Gain (Loss)	(3,266)	(1,703)	-	-
Adjustment Percentage	80%	60%	40%	20%
Actuarial Asset Value Adjustment	2,613	1,022	-	-
Actuarial Asset Value (Market Value plus Adjustment)	\$ 299,578			

	Retirement	Medical Supplement
Market Value at Beginning of Year	90,516	10,611
State Contributions	71,356	-
Member Contributions	99,064	19,812
Transfers In Payments	-	-
Distributions	-	-
Allocated Investment Return	4,104	480
Market Value at End of Year	265,040	30,903
Allocation of Actuarial Asset Value	268,296	31,282

Notes to GASB 43, 45, 67, and 68 Disclosures

1. The tables in this report account for liabilities and assets only for the hybrid cash balance/OPEB tier under the plan; liabilities and assets pertaining to the traditional defined benefit/OPEB tier are presented in a separate report.
2. Actuarial accrued liability is based on the entry age normal funding method.
3. OPEB liabilities and allocated assets have been excluded from GASB 67 and 68 disclosures and established in GASB 43 and 45 disclosures.
4. Market value of assets were split between pension and OPEB obligations based on the basis of the employee and employer contributions allocated to each part and a prorata allocation of investment return. Actuarial value of assets is then allocated based on the market value of retirement and OPEB assets.
5. Actuarial value of assets uses a 5-year asset smoothing method.
6. Information used in preparing these exhibits has been extracted from past valuation reports.
7. Covered payroll reflects payroll for plan members as of the last actuarial valuation.
8. ARC based on full actuarial report (odd numbered years) immediately prior to each biennium.
9. Interest on OPEB Obligation is based on assumed valuation interest assumption for the prior year, 4% beginning with 2015 valuation.
10. GASB 67 replaces GASB 25 effective for the fiscal year ending June 30, 2014. The valuation date, disclosure date, and measurement date all fall on the same date for purposes of GASB 67.
11. GASB 68 replaces GASB 27 effective for the fiscal year ending June 30, 2015. It is assumed the measurement date for GASB 68 will be 12 months before the disclosure date. For the year ending June 30, 2017, the measurement date is July 1, 2016 (the valuation date).